



## **ANNUAL REPORT 2010**

UNLOCKING ECONOMIC OPPORTUNITIES





## CONTENTS

Strategic Positioning	3
Report of the Chairman of the Board of Trustees	5
Report of the Chief Executive Officer	9
Trustees' Report on Performance Information	15
Report on Corporate Governance	37
Report of the Board Investment Committee	41
Report of the Audit Committee	45
Report of the Finance and Risk Management Committee	49
Report of the Human Capital and Remuneration Committee	53
Report of the Procurement Committee	56
Profiles of the Board of Trustees	59
Profiles of the Executive Committee	64
Annual Financial Statements	67
Funding Products and Services	116
Investee Stories	124
Codes of Good Practice	136
Glossary of Terms	137

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**“ To the Executive, management team and staff of the NEF, we commend and thank you for your efforts in helping us achieve our historic accomplishments in the course to bring about economic inclusivity in our country. ”**

*Ms Philisiwe Buthelezi (Chief Executive Officer)*



## STRATEGIC POSITIONING

### Strategic Role and Positioning

The NEF's role is to support Broad-Based Black Economic Empowerment (BB-BEE). As the debate concerning what constitutes meaningful and sustainable BB-BEE evolves, the NEF anticipates future funding and investment requirements to help black individuals, communities and businesses achieve each element of the Codes of Good Practice. These include a focus on preferential procurement, broadening the reach of black equity ownership, transformation in management and staff and preventing the dilution of black shareholding.

The NEF differentiates itself not only with a focused mandate for BB-BEE, but by also assuming a predominantly equity-based risk to maximise the Empowerment Dividend. Reward should balance the risk with the application of sound commercial decisions to support national priorities and government policy such as the Accelerated and Shared Growth Initiative for South Africa (AsgiSA) or targeted investments through the dti's Industrial Policy Framework (IPF). The work of the NEF therefore straddles and complements other Development Finance Institutions (DFIs) by allowing the organisations to work in close collaboration in the promotion of BB-BEE.

With them, the NEF can enhance other DFIs and their mandates by sharing its specialist sector expertise and knowledge of BB-BEE.

### Mandate

Established by the National Empowerment Fund Act No 105 of 1998, the NEF is a driver and a thought-leader in promoting and facilitating black economic participation through the provision of financial and non-financial support to black empowered businesses, as well as by promoting a culture of savings and investment among black people.

### Vision

Our vision is to become the leading provider of **innovative transformation solutions** for an economically inclusive South Africa.

### Values

- Service excellence
- Result orientated
- Innovation and continuous improvement
- Ownership and accountability
- Recognition and reward
- Respect, empathy and fairness
- Honesty and integrity
- Open and honest communication
- People development

### The NEF implements its mandate in three ways:

1

#### Asset Management

By structuring accessible retail savings products for black people through its Asset Management Division, which is a custodian of certain equity allocations in State-Allocated Investments (SAIs), the NEF aims to foster a culture of savings and investment among its beneficiaries.

2

#### Fund Management

As a facilitator of the Codes of Good Practice of the Broad-Based Black Economic Empowerment Act (the Codes), to support the pillars of black enterprise by providing finance and financial solutions across a range of sectors through its Fund Management division.

3

#### Strategic Projects Fund

As a leader in venture capital finance which allows entrepreneurs to participate in projects that are at an early stage within sectors identified by the RSA government as key drivers to the economic growth of South Africa. The fund also provides project finance and private equity in these projects once they are regarded bankable.



“ We need a new generation of black entrepreneurs who add genuine value to the economy and who are creators of wealth. ”

*Mr Ronnie Ntuli (Chairman, Board of Trustees)*

## REPORT OF THE CHAIRMAN OF THE BOARD OF TRUSTEES

Historically, South Africa's economy was designed primarily around a minority white population, who enjoyed unbridled political and economic power until the advent of democracy in 1994 which redressed the equality of political power for all of South Africa's citizens. Presently, the quest for economic transformation seeks not only the active and meaningful inclusion of the black majority in the economy of South Africa, but indeed, to grow and expand the very economic base for the benefit of all South Africans. This, I submit, is the single-minded strategic objective that has continued to inform the past and the newly constituted Board of the National Empowerment Fund (NEF) in fulfilling its legislative mandate of growing black economic participation. It is our view that the integration of only a part of the majority into a small economic mainstream, much as it is urgent, inalienable and mandatory, is untenable and unsustainable in the long term unless it is predicated on organic expansion and growth of the economy.

In this context, Broad-Based Black Economic Empowerment (BB-BEE), which remains an imperative, must be seen as a component of the broader strategic objective of economic transformation, which, in accordance with the policy of the government of South Africa, must rest upon the following four key objectives:

1. Economic growth and associated economic transformation must be sustainable, both commercially and environmentally.
2. Investment into economic growth must create quality and sustainable jobs. There should be a strong bias towards labour intensive investments, emphasising small business development and human resource development. Investment must contribute towards both growth and development in the economy.
3. Growth must be based on the ability to export and compete on the world market.
4. Empowerment of the historically disadvantaged citizens must be a continuous thrust of all economic programmes.

As an integrated and coherent socio-economic strategy that directly contributes to economic development in South Africa, as well as the pursuit for significant decreases in income inequalities, BB-BEE is the task of all contributors to the economy.

Moreover, South Africa is challenged with chronic skills gaps delineated along racial lines, which makes it all the more difficult for black people to gain access to meaningful skilled employment and to realise their full potential and contribute effectively as citizens. These factors constitute an ominous and untenable reality which, at least in the medium term, constitutes a risk for the stability of our nascent democracy.

What we must appreciate, a mere 16 years after the arrival of democracy, is that we are still at the beginning of a country. Our democracy is still in the throes of its birth, and the strategic choices we make as a nation must be calculated to shape a solid future whose architecture we are privileged to be crafting today.

The advent of the global financial crisis marked a decade after the Asian market collapse. Both these events led to the unwinding of a number of BEE transactions and BEE investment companies and thus eroded massive so called "wealth" in the hands of black people. This has forced the NEF and other institutions to reconsider the manner in which BEE is being implemented and to ask pertinent questions about the effectiveness and sustainability of the current model. The crisis has also given us cause to reflect on how the NEF views entrepreneurship, which calls on us to address specific imperatives like:

- Additional focus on expansionary BEE where new capacity is created in the economy instead of replacement capital transactions that do not contribute to the economic growth and the creation of much needed jobs;
- An enhanced focus on the development of true entrepreneurship to ensure that black people effectively establish, own and operate businesses. BEE policy should create the platform for black people to build sustainable businesses and become leading players in their chosen industry sectors;
- The need to harness BEE policies to ensure the development of South Africa's human capital around new economic capacity, in an inclusive manner thereby creating the platform for all black South Africans to participate in the mainstream of the economy. The overarching objective should be to build critical skills and competencies including depth of expertise amongst black people.

Black people should take advantage of the opportunities provided by preferential procurement and enterprise development but, in essence, must start and grow new businesses through the identification of commercial opportunities in the form of gaps in the economy.

REPORTS



When the Codes of Good Practice (the Codes) were conceptualised as an instrument for implementing BB-BEE, it was envisaged that equity ownership and management control would be used as key levers to champion the economic participation of other black people through the other pillars of the Codes such as employment equity, skills development and preferential procurement. The preferential procurement lever increases market access and potentially addresses one of the primary hurdles for black entrepreneurs. In doing this, black business becomes diversified through decreasing exclusive reliance on the public sector and mandates that black owners become hands-on-operational in the business. The NEF, which to date has approved transactions worth in excess of R1.8 billion for start-up, expansion and equity acquisition by black entrepreneurs, is an important driver of this strategic objective.

For its part, the NEF has long been aware that true transformation lies in the need to grow the economy, with black people at the centre of this new trajectory.

It is for this reason that over the past year the NEF's Strategic Projects Fund (SPF), which is aligned to the Accelerated and Shared Growth Initiative for South Africa (AsgiSA) and the dti's Industrial Policy Action Plan (IPAP) has been hard at work to give expression to this objective.

SPF was established with a mandate to increase the participation by black people in early stage projects that are aligned to Government's priority economic sectors, which include tourism, mining, minerals beneficiation, agri-processing, renewable energy, business process outsourcing and infrastructure projects. A successful implementation of the Fund will see the NEF take the lead in the following opportunities:

- Expansion and creation of new industrial and manufacturing capacity in South Africa driven by BB-BEE,
- Investment in economically depressed areas or poverty nodes, and principally in rural areas,
- Warehousing of equity for the future benefit of BB-BEE in national strategic projects and increase the participation of BB-BEE in these projects,
- Increase export earning potential for South Africa,
- Reduce South Africa's dependency on imports.

## Report of the Chairman of the Board of Trustees (Continued)

The SPF transactions, together with the Fund Management transactions that were approved and disbursed by the NEF during the year under review, have the potential to bring together in a consolidated initiative the contribution to sustainable economic growth, BB-BEE and job creation, as well as human capital development, export revenue and environmental sustainability, principles which are central to the NEF's Memorandum of Agreement with the dti, and are analogous to the policy of the Government of South Africa.

These achievements rank in equal merit to the accomplishments realised by the Rural and Community Development Fund, which facilitates the participation by rural communities in the mainstream of the economy by funding local black-empowered and community enterprises for the purpose of achieving sustainable enterprise development, social programmes and skills transfer.

As a Board we believe that the NEF has the necessary credibility and the institutional maturity to become a catalyst in the quest for true economic transformation through the initiation and support of projects of all sizes, an ideal that must embody the pursuit for economic development and inclusivity.

Ultimately, the South African dream must be founded, I believe, on the crucible of patriotic entrepreneurship, that ability to imagine a world of new possibilities and thus to create new businesses, new technologies and new geographies for national growth and development. This requires a paradigm shift and the ability to see the gaps, whether these are in ICT, transportation, manufacturing, energy, in food security or any other sector of the economy.

We need a new generation of black entrepreneurs who add genuine value to the economy and who are creators of wealth. Gone must be the era of vendors whose entrepreneurial vocation is to obtain shares in existing white-owned businesses and passively watch and wait for their appreciation in value without operational involvement and contribution to economic growth or transformation. Entrepreneurs are the people that the NEF wishes to partner with in growing South Africa's economy, in growing the empowerment dividend. This is the beginning of a country.

We journey into the future grateful for the benefit of the wisdom of the Minister of Trade and Industry, the Portfolio Committee on Trade and Industry, past and present members of the Board of Trustees, as well as the Executive and staff of the NEF.



**Mr Ronnie Ntuli**  
Chairman, Board of Trustees  
March 2010

REPORTS

**“When we talk of transformation, we cannot ignore the economy. We are convinced that the material conditions that necessitated the promulgation of laws such as the Broad-Based Black Economic Empowerment (BB-BEE) Act, Employment Equity Act and the Labour Relations Act have not yet been fully addressed.”**

*H.E. President Jacob Zuma*



**“ I am especially satisfied with the current performance result of 41% women’s participation in funded transactions, which is a notable achievement for the year.**

*Ms Philisiwe Buthelezi (Chief Executive Officer)*

**”**

## REPORT OF THE CHIEF EXECUTIVE OFFICER

### Unlocking Economic Opportunities

The Executive management of the National Empowerment Fund (NEF) takes particular pride in tabling this Annual Report 2010, which records the most illustrious financial year in the short history of the organisation to date, since operational inception in 2004.

The theme of this report is *Unlocking Economic Opportunities*, a declaration that asserts the mandate of the NEF, which is to bridge the economic divide as a driver and a thought-leader in promoting and facilitating black economic participation. This is accomplished through the provision of financial and non-financial support to black empowered businesses, as well as by promoting a culture of savings and investment among black people, the objectives whose implementation are chronicled in detail in this publication.

### Broadening Black Economic Participation

In light of the global financial crisis and the slowdown in lending by the major banks, development finance played an increasingly important role in servicing market failures and in growing and enabling sustainable black economic participation in the economy. Sustainability is therefore an important objective for both the NEF and its investees. To this end, the NEF has placed increasing focus on the sustainability of its balance sheet and has also taken active steps to mitigate the impact of the economic downturn on investees through the focus on both financial and non-financial activities.

An important component of the NEF's support involves the provision of non-financial services. In response to the constraints facing some black entrepreneurs, such as the challenge in producing top-quality business plans and the lack of accurate and reliable financial information, the NEF launched a comprehensive online Business Planner tool, which is available for free to the public on the NEF's website, [www.nefcorp.co.za](http://www.nefcorp.co.za).

The tool is designed to assist applicants in initiating, improving and refining the quality of their business plans, including completion of financial projections through an interactive, step-by-step question-and-answer process available in four languages besides English.

Through its Post-Investment Business Unit the NEF monitors the performance of its growing number of investees for risk, and provides ongoing business support when required, which includes free mentorship and business-coaching to its existing clients. The business mentors are deployed across the country and possess a wide spectrum of business expertise, which proved invaluable to NEF investees at the height of the global economic downturn.

For the first time in its history, the NEF restructured 27 transactions worth R24 million, where up to 30% of the outstanding debt was re-structured into a deferred payment on the loan. This provided immediate cash-flow relief to investees and was done in order to encourage SME sustainability during this difficult economic climate. The NEF performed a groundbreaking 290 site visits to its investees and provided mentorship support to investees to the value of R4.1 million, at no cost, since funding had been made available through the SWEEP programme for this purpose.

In choosing financial structures that remove pressure on investees' cash-flows and by providing continuous business and technical support through mentorship programmes, businesses are given the opportunity to focus on key operational outputs that will sustain growth. This increases the imperative on the NEF to focus on **sustainable investment** which entails improving the quality of deals that the NEF is able to secure as well as continuously improving the robustness of the NEF's investment appraisal process. We have emphasised the importance of reducing the turnaround time on all operational outputs, but at the same time extending the due diligence process to incorporate focus on entrepreneurial strength. This required that the NEF capacitate the organisation with talented and knowledgeable personnel, and complement this with continuous formal and informal learning, in order to deepen the skills of our investment professionals to enable them to identify and appraise viable investment prospects more effectively.

In fulfilling this mandate to provide innovative financial solutions to black-empowered entrepreneurs, the NEF achieved the highest level of investment activity in its history, with annual approvals of R749 million (up 51% from 2009) and disbursements of R549 million (up 81% from 2009). Cumulatively, this brings the NEF to a total value approved since inception of 228 transactions worth R1.804 billion, and 205 transaction disbursements of R1.527 billion.

The Strategic Projects Fund, which specifically focuses on investment in priority growth sectors as defined by ASGI-SA and IPAP, has invested a total of R46.5 million during the year under review, bringing the total investments by this fund to R52.5 million since inception in transactions expected to be worth R615 million at equity closure.

REPORTS

**“ We are recovering from a very harsh global economic recession. It is hard to believe that the deadly combination of poor regulation and unethical behaviour by a few people in a few countries could do so much damage. ”**

*The Hon. Minister of Trade and Industry,  
Dr Rob Davies, MP*

The geographic spread of investments and contribution towards increased economic activity across all provinces, particularly in the areas of regional economic disadvantage, continues to be a key focus area for the NEF. In order to facilitate greater reach the NEF will be extending its geographic presence through the establishment of strategic partnerships with provincial institutions and agencies. Targets in terms of geographic spread are set to attempt to match the respective provinces relative contribution to national Gross Domestic Product (GDP).

I am especially satisfied with the current performance result of 41% (2009: 31%) women's participation in funded transactions, which is a notable achievement for the year. This was achieved against a target and Key Performance Indicator (KPI) for women's participation of 40% of the BEE ownership level supported in each transaction.

Further, for the year under review the NEF created 2 351 new jobs and supported an additional 2 034 existing jobs (2009: 294 new jobs and 398 existing jobs), bringing the total number of jobs created since inception to date to 20 535, which is also a KPI directly aligned to our mandate and hence closely monitored.

#### Driving the Codes of Good Practice

As a driver of the Codes of Good Practice for Broad-Based Black Economic Empowerment, the NEF has developed finance products ranging from R250 000 up to R75 million for black entrepreneurs. Due to this broad range, we receive a vast number of applications from aspirant black entrepreneurs who would typically not be successful in raising funds from commercial funders. While the NEF places precedence on commercial viability, our mandate also focuses on softer measures in assessing applications for funding, and these include development indicators such as: levels of black management and operational involvement; risk sharing by entrepreneurs; black women empowerment; community involvement; black ownership (which must comply with NEF product criteria); job creation, and the geographic location of the business.

These measures form part of the developmental ethos which the NEF has adopted as the underlying theme of its funding strategy, and together constitute a methodology by which we evaluate the impact of our work. This methodology, in NEF parlance, is referred to as the EMPOWERMENT DIVIDEND.

As the custodian of hope for entry into business, as a funder with a soul, the NEF funds a diverse range of business imperatives across all sectors of the economy. Our suite of products is aimed specifically at black entrepreneurs wanting to start new businesses as well as supporting existing black-owned businesses with expansion capital.

#### Investor Education

The rollout of the Investor Education Programme to promote investment, savings and meaningful economic participation among black people plays a dual role in also educating our intended target market about the NEF's product offering. The main objective of the campaign is to educate members of the public about the importance of investment and savings activity, the types of instruments available, and about where to access specific information on these. It is presented to audiences of around 200 people at a time through facilitators in local languages and by using an education manual which is left with the participant.

The Investor Education Programme was launched in the latter part of the year under review in the Northern Cape, and will be rolled out through the entire country. Seventy-four investor education seminars have been planned in all nine provinces over a two year period.

#### NEF Asonge Share Scheme

September 2009 marked the successful conclusion of the NEF Asonge Share Scheme with the issue of 1 112 412 Asonge MTN bonus shares worth a total of R139 million to 82 000 Asonge MTN shareholders. The high level of investor loyalty (95% of investors remained invested throughout the scheme) completed with the overall return of 69% earned by investors, is testimony to the success of the scheme. The NEF is actively working with government on securing transfer of the remaining State Allocated Investments in order to roll out additional offers of a similar nature.

#### Alignment to ASGI-SA and IPAP

The NEF's priority sectors are set in terms of the alignment of the NEF strategy to that of the dti, IPAP and ASGI-SA, which have been identified as arts and culture, tourism, textiles, agro-processing, automotive, chemicals, ICT and aerospace, film industry, exports, business process outsourcing and beneficiation. Also constituting a key target for the NEF is the area of construction, given the need for a transformation agenda in the sector, and its standing as a national infrastructure development priority. Further to this, the NEF focuses on transactions that illustrate active participation by black shareholders which address the seven key elements of Broad-Based Black Economic Empowerment (BB-BEE), namely: ownership; management control; employment equity; skills development; preferential procurement; enterprise development and socio-economic development.

#### Accountability

Fundamental to all activities is the imperative to manage risk in order to ensure accountability to stakeholders and the sustainability of operations. To this end, the NEF performs risk assessments on a quarterly basis as outlined in the Report of the Risk Management Committee. As an organisation that is run in accordance to international best practice and the principles of good corporate governance, the NEF is committed to the maintenance of financial discipline, which is supported by the audit opinion received.

#### Driving thought-leadership on BB-BEE

The merits of BB-BEE continue to be debated in South African society. As a driver and custodian of BB-BEE in the economy, the NEF seeks to be at the forefront of this debate, shaping and entrenching BB-BEE on the national agenda. To this end, the NEF hosted a thought-leadership roundtable to define the course for an inclusive economy. The NEF Vision 2020 BB-BEE Summit was hosted on 24 May 2010 and welcomed 611 delegates to hear and participate in debates to shape the future thinking around BB-BEE. Sector discussions were hosted by chairpersons expert in their relevant sectors and the challenges and progress made in the transformation of each sector were openly debated and the results thereof fed back through report back

to the plenary sessions. The NEF will be following up on and discussing key targeted initiatives identified in certain sectors through follow up engagements with the sector chairpersons and delegates.

The NEF is passionate about building an economically empowered nation that will provide meaningful opportunities for all our country's people, and we are committed to providing both the financial and non-financial business support necessary to growing black participation in the economy.

In the experience of the NEF as a key player in development finance, we are aware that some of the challenges and market failures that have impeded sustainable black economic participation include:

- Over-valuation of businesses in BEE acquisition transactions leading to unsustainable acquisition financing structures,
- The high rate of early-stage business failures that can be caused by incompatible funding structures,
- Fronting in the forms of contract management agencies,
- Effective equity interest in conglomerate group structures equally weighted to direct equity interests,
- Broad-based scoring not advantaging black-owned and black-controlled businesses,
- Finance leveraging experiences with banks that have an aversion for equity and/or quasi-equity without an understanding of cash flow financing,
- In the SME sector, challenges typically include equity contributions, management skills, access to new markets and business planning,
- Another key market-failure relates to ongoing passive investment applications without direct operational involvement by BEE partners,
- The absence of post investment monitoring and mentorship,
- Mandate focus results in higher risk appetite for investment in all sectors and stages of business, resulting in a level of impairments commensurate with this risk.

Some of the most meaningful interventions have included adopting the role of a corporate advisor, and implementing a robust and extensive due-diligence methodology. Accordingly, the NEF unpacks intermediary structures and utilises various funding structures to support the success of the business venture, and is not rigid in its approach. Best practice also instructs that greater emphasis be placed on BEE ownership in terms of the NEF Empowerment Dividend matrix.

REPORTS

**“ The critics must accept that the exclusion of a large section of our community from productive participation in the economic life of our society is a significant hindrance to our collective prosperity. ”**

*Deputy President, Mr Kgalema Motlanthe, MP  
(Inaugural Meeting: BB-BEE Advisory Council)*

Other measures include the following:

- Where possible the NEF partners with commercial banks but this is proving difficult especially where debate starts around the sharing of security and the structuring of the mix of debt and equity investment instruments.
- As earlier outlined the development and implementation of non-financial support at the application and pre-investment stage, as well as the creation of a business-planner toolkit, have proven invaluable.
- The implementation of a specialist mentorship network, nationwide and across all sectors, has also helped to mitigate against the ever-present risk of business failure, especially in the early stages.
- The NEF unpacks the shareholding and management structures in order to guard against supporting passive investment structures and to ensure competent, experienced and skilled operational involvement among investors.
- The NEF has also conducted research into distressed sectors and substantiated restructuring of invested funding for distressed sector companies.

The combined impact of economic contraction, tighter credit markets, and a reduction in company valuations has had a negative impact on BEE equity transactions. Many of the transactions were concluded before the economic crisis, as is evidenced by a record of R96 billion in reported BEE transactions for the 2007 calendar year, at the height of the equity market boom, in terms of the SAVCA KPMG Private Equity Survey.

Existing BEE transactions were impacted by the fact that BEE parties may have overpaid for the underlying shares. In addition, the transactions were typically heavily geared resulting in financial structures coming under pressure due to increased debt-service costs as interest rates spiked. The problem was further compounded by the fact that many target companies held back on declaring dividends, which are typically used to service debt, due to cash-flow constraints at the operational level. These factors, combined with the fall in equity market valuations, placed many BEE transactions and indeed BEE investment firms at the brink of collapse. In some instances, transactions had to be re-priced by vendors and/or additional facilitation provided by vendors.

The BEE deal flow activity in terms of new deals also saw a major contraction in 2008, with many BEE deals being put on hold as sellers struggled to come to terms with the reduction in company valuations. The price expectation gaps between sellers, as well as the absence of bank financing, resulted in many BEE transactions being abandoned.

Research conducted by **Who Owns Whom** reveals that BEE equity ownership on the JSE amounted to approximately R240bn in September 2008. This represents an estimated 5% of the JSE's market capitalisation at the time. The leading sectors are mining and quarrying, financial services, real estate, manufacturing, transportation and communication, as well as business services. Whilst significant progress has been made in equity ownership transformation, it is estimated that about **R425 billion in additional investment is required to meet the ownership target of 25% for JSE listed companies.**

The current state of BEE transactions presents us with an opportunity to evaluate how effective the implementation of the policy has been up to now. Many BEE firms currently operate on a similar model to private equity firms. The typical BEE firm seeks to acquire minority equity stakes in a number of unrelated businesses with operational involvement by BEE parties limited to participation at board and shareholders meetings. It must also be considered that BEE parties typically make limited, if any, financial contribution to the transactions they invest in. This effectively means that BEE investors have little at risk and essentially have "free options" in respect of their investments. This situation also does not contribute to the deepening of genuine entrepreneurial skills and operational management competencies amongst BEE parties.

Whilst broad-based participation in BEE equity ownership transactions is important, it is arguably even more important that BEE transactions are structured with a bias towards supporting black people that are operational in the investee companies. Of necessity, BEE models should provide for BEE parties to be the operational champion in the target companies, driving operational performance and transformation.

Models could include:

- management buy-outs led by black managers within a particular company. This means that black managers manage and control the acquired business;
- management buy-ins in terms of which a group of black managers from outside a particular company acquire control of the business;
- supporting BEE groups that have identified particular industry sectors and who have geared themselves to acquire significant, if not controlling, interests in companies operating in that particular sector with a view to becoming operation players in those sectors.

Depending on the skills and capacity of the BEE groups, these models would require a degree of partnership with vendors and existing white managers to ensure business continuity and management skills transfer. **BEE, we propose, and as strongly argued by the NEF's Board Chairman, Mr Ronnie Ntuli, in this Annual Report, should also increasingly focus on the creation of new businesses by black entrepreneurs.** This could be done through leveraging the preferential procurement opportunities available to black businesses, as well as leveraging the support of established white-owned businesses through the Enterprise Development element of the codes. In the experience of the NEF, the leveraging of the franchise model is also an important opportunity to introduce black entrepreneurs into the mainstream of the economy.

These models could:

- facilitate a more equitable distribution of opportunities to black entrepreneurs;
- facilitate greater alignment between the skills set of the BEE group and the business of the target companies;
- ensure that BEE parties effectively own and manage businesses, thereby contributing to the development of true entrepreneurship and deepening of management skills amongst BEE parties;
- encourage BEE groups to be more focused in their investment strategies;
- provide funders with mechanisms in terms of which returns can be shared with BEE parties based on actual performance in the underlying company, and lastly,
- ensure that BEE contributes to the economic growth of South Africa.

#### Brand Building

During the year under review, marketing activity has focused on stakeholder engagements and the launch of the business plan toolkit and mentorship programmes around the country. The NEF has also participated in various conferences and exhibitions, thereby increasing our visibility and building brand awareness. Market research demonstrates that public awareness of the NEF brand is at 16 %. With this in mind the NEF has set itself a target of 20% in terms of broad awareness for the 2010/11

financial year and the marketing and communication strategy has been crafted around this target.

The Advertising Value Estimate of media coverage in broadcast and print media during the 2009/10 financial year was R11 million against a target set of R10 million.

#### Appreciation

In the year just concluded, the NEF family was torn between the surge of emotions that are characteristic of both the end of an era, and the dawn of a new epoch. The NEF bid farewell to the Board of Trustees in November 2009 and a new Board of Trustees has been instituted. Our heartfelt appreciation is extended to the outgoing members of the Board of Trustees for their stewardship, guidance and insight, which was fundamental to help grow the Empowerment Dividend over the past five years.

We welcome and look forward to the continued guidance from the Chairman and the incoming Board of Trustees, whose sterling track-record and wealth of acumen, precede them.

To the Executive, management team and staff of the NEF, we commend and thank you for your efforts in helping us achieve our historic accomplishments in the course to bring about economic inclusivity in our country. We are thankful to the Hon. Minister Dr Rob Davies, Hon. Deputy Minister Ms Maria Ntuli, Hon. Deputy Minister Ms Thandi Tobias-Pokolo, the Director-General of the dti Mr Tshediso Matona and his staff, our Government and Parliament for all of the guidance and support received.

Our especial gratitude goes to the NEF's investees and investors for daring to dream of economic growth and empowerment.



**Ms Philisiwe Buthelezi**  
Chief Executive Officer

REPORTS

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Moving from BEE to BB-BEE was an outstanding move with the inclusion of other spheres of the Empowerment Dividend. Even with the introduction of the 7 codes of good practice, there is still a leaning towards other aspects of the codes and some are neglected. I believe all of the codes should be implemented and viewed equally.

*Lindi Mdaki (Rural and Community Development Fund)*

”

## TRUSTEES' REPORT ON PERFORMANCE INFORMATION

### 1. Overview of the financial year under review

The NEF has achieved unprecedented results in terms of the number and value of approvals and disbursements for the year.

#### 1.1 Performance Highlights

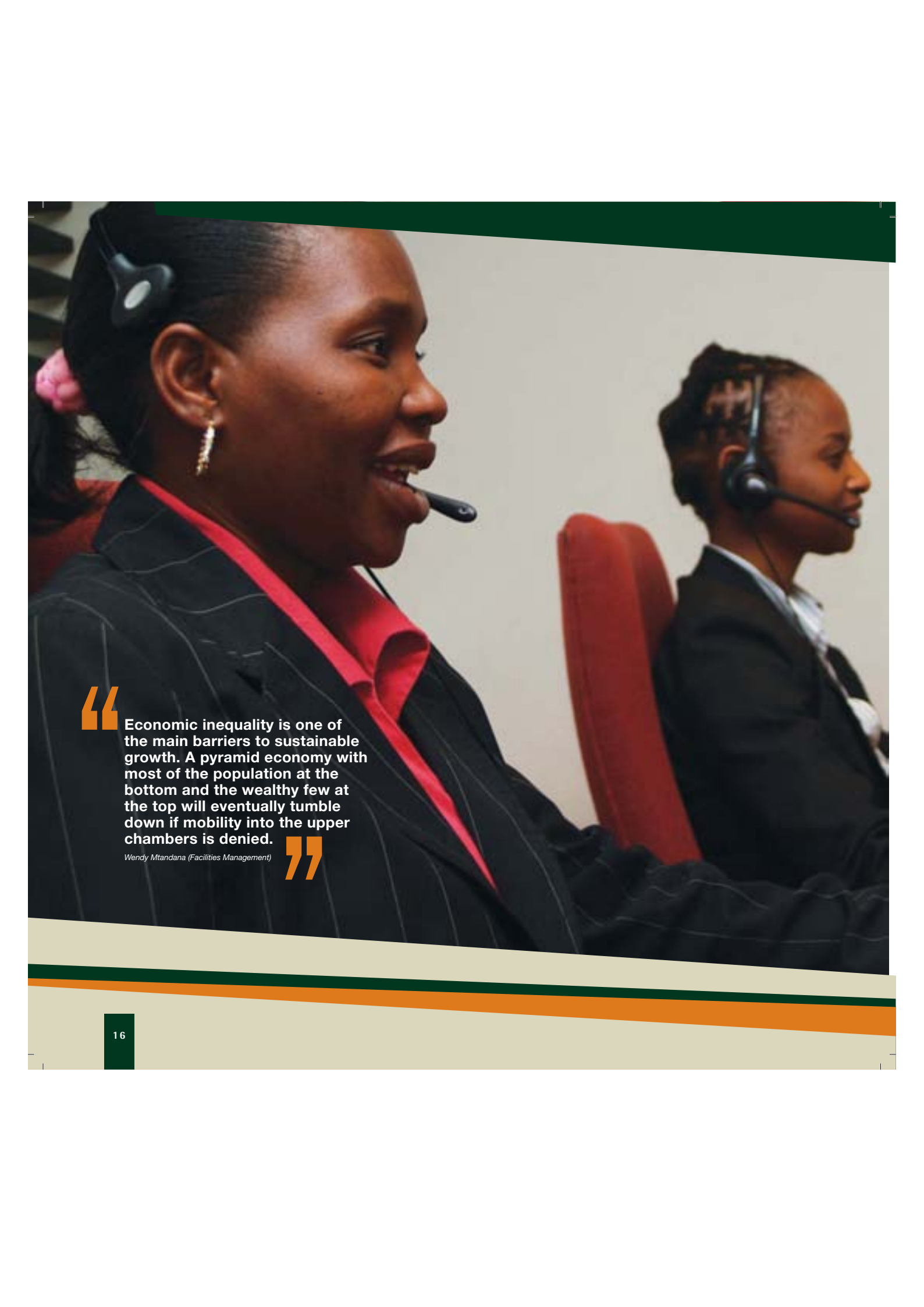
Notable high-level achievements for the NEF during the 2009/10 financial year include:

- The approval of a total R749 million in transactions (2009: R495 million), and the disbursement of 48 (2009: 43) new transactions worth R549 million (2009: R279 million) by the organisation.
- The Fund Management Division has approved a total of 54 new transactions worth R685 million (2009: 46 new transactions worth R495 million). This is achieved against the targets for the year of 77 approvals worth R560 million (2009: 74 approvals worth R687 million).
- The Fund Management Division has disbursed 44 new transactions worth R502 million (2009: 93 disbursements worth R279 million). This is achieved against a target of 67 disbursements worth R490 million (2009: 69 disbursements worth R525 million).
- The Strategic Projects Fund has invested a total of R46.5 million during the year under review, bringing the total invested by this fund to R52.5 million since inception in transactions expected to be currently worth R615 million to the NEF at equity closure. The unit has 10 projects in the pipeline and is currently working on active projects. This was achieved against a budget set-aside for transactions worth R460 million for 2009/10 financial year.
- Transactions included in work in progress total 86 deals worth R2 323 million (2009: 50 deals worth R1 077 million) as indicated in Figure 4.
- This brings the NEF to a total value approved since inception of 228 transactions worth R1 804 million and 208 transactions of disbursements of R1 527 million. The organisation is fast approaching the approval of deals worth R2 billion. In addition, the NEF's R1 527 million invested portfolio has leveraged a further R2 787 million worth of third party funding for investees.
- The successful conclusion of the NEF Asonge Share Scheme with the issue in September 2009 of 1 112 412 Asonge MTN bonus shares worth a total of R139 million to 82 000 Asonge MTN shareholders was another milestone in the NEF's history. One bonus share was issued for every 10 Asonge shares

held, thus rewarding investors for holding onto their shares and in so doing, encouraging a culture of savings and yielding an overall return of 69% over the life of the scheme.

- The launch of the Mentorship Panel consisting of 70 mentors around the country, conducting 290 site visits, recovering R8.1 million on transactions at the legal collections stage, restructuring 27 investee companies and investing more than R4.1 million in mentorship to investee companies. The main objectives of the mentorship services programme are:
  - a. To assist in the development and maintenance of sustainable businesses, which will in turn contribute to the sustainable growth of the economy in accordance with AsgiSA and IPAP.
  - b. Assistance in due diligence for new deals and further advances on existing deals.
  - c. Turn around management.
- The national rollout of the NEF's Business Planner toolkit. The Business Planner tool is an online software tool that has been developed to enable entrepreneurs to be able to write their own business plans and financial projections. The tool is accessible free of charge to all entrepreneurs (not only entrepreneurs wanting to apply for funding from NEF) to develop their business plans in an easy and user-friendly manner. The tool prompts the development of the business plan through the answering of questions which will eventually culminate in a completed business plan. The tool is web-based which makes it easily accessible and also provides the functionality to store the business plan in a secure environment. It further allows repeated access to the business plan to revise the information contained therein which allows one to continuously update the business plan and financial projections to reflect changes within both the macro and micro environments.
- The initiation of the Investor Education programme which will be rolled out in all nine provinces of the Republic, with a total of 74 seminars and educational interactions per province. The investor education programme started in the Northern Cape in March 2010 and will end in 2012 in Gauteng Province.

REPORTS

A photograph of two women in a call center environment. They are both wearing black headsets with microphones and are seated in red office chairs. The woman in the foreground is wearing a black pinstripe blazer over a red collared shirt and is smiling. The woman in the background is also wearing a black blazer and is looking forward. The background is a plain, light-colored wall.

**“Economic inequality is one of the main barriers to sustainable growth. A pyramid economy with most of the population at the bottom and the wealthy few at the top will eventually tumble down if mobility into the upper chambers is denied.”**

*Wendy Mtandana (Facilities Management)*

Table 1: NEF Investment Performance: Approved deals

YEAR	NEF APPROVED DEALS					
	Value Approved in Period	Target Value of Approvals for Period	Cumulative Value Approved	Number Approved	Target Number of Approvals for Period	Cumulative Number Approved
Apr 03 – Mar 04	R5m		R5m	1		1
Apr 04 – Mar 05	R30m		R35m	16		17
Apr 05 – Mar 06	R357m		R393m	54		71
Apr 06 – Mar 07	R205m		R578m	23		94
Apr 07 – Mar 08	R128m	R587	R726m	23	75	121
Apr 08 – Mar 09	R329m	R687m	R1 055m	46	74	167
Apr 09 – Mar 10 FMD*	R685m	R560m	R1 740m	54	77	221
Apr 09 – Mar 10 SPF**	R64.2m	R460m*	R1 804m	7	-	228

\* This is the budget set-aside for total transaction value.

• Fund Management Division

• Strategic Projects Fund

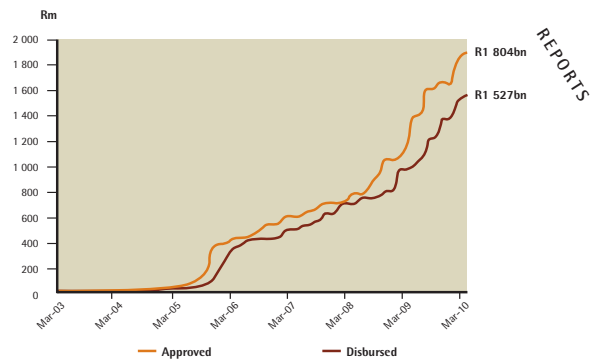
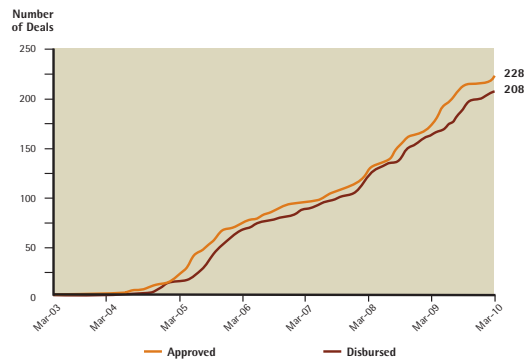


Table 2: Investment Performance: Disbursed deals

YEAR	NEF DISBURSED DEALS					
	Value Disbursed in Period	Target Value for Disbursements for Period	Cumulative Value Disbursed	Number Disbursed in Period	Target Number of Disbursements for Period	Cumulative Number Disbursed
Apr 03 – Mar 04	R5m		R5m	1		1
Apr 04 – Mar 05	R20m		R25m	10		11
Apr 05 – Mar 06	R251m		R277m	52		63
Apr 06 – Mar 07	R219m		R496m	23		86
Apr 07 – Mar 08	R203m	R450m	R699m	31	60	117
Apr 08 – Mar 09	R279m	R525m	R978m	43	69	160
Apr 09 – Mar 10 FMD	R502m	R490m	R1 480m	44	67	204
Apr 09 – Mar 10 SPF	R46.5m**	R460m*	R 1 527m	4	-	208

\* This is the budget set-aside for transactions.

\*\* SPF transactions expected to be currently worth R 615 million to the NEF at equity closure.



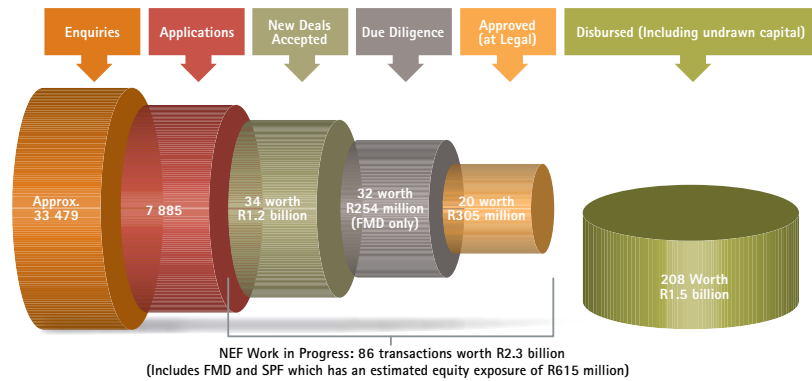


Figure 3: NEF Invested Process Report: Consolidated

	New Deals Accepted	Due Diligence	Approved	Work in Progress	Disbursed (Including undrawn capital)
31 March 2010 Totals	NEF - Work in Progress				NEF Disbursed
	34 Worth R1 213m	32 Worth R254m	20 Worth R305m	86 Worth R2 323m	208 Worth R1 526bn
iMbewu Fund	iMbewu Fund - Work in Progress				iMbewu Fund Disbursed
	8 Worth R28m	21 Worth R95m	10 Worth R32m	39 Worth R155m	156 Worth R457m
Umntho Fund	Umntho Fund - Work in Progress				Umntho Fund Disbursed
	16 Worth R375m	11 Worth R159m	3 Worth R209m	30 Worth R743m	49 Worth R1 025m
Strategic Projects Fund	Strategic Projects Fund - Work in Progress				Strategic Projects Fund Disbursed
	10 Worth R810m	Current estimated equity exposure R615m	7 Worth 64m	17 Worth R1 425m	4 Worth R46.5m

Figure 4: NEF Invested Process Report: By Fund

### 1.2. Key milestones and events

Alongside the achievements against core Key Performance Indicators noted above, other operational key milestones and events for the NEF over the year include:

- Screening 939 of the 1 201 applications received and dealing with 3 206 enquiries;
- Marketing and communication have managed various events including:
  - a. Business Planner and Mentorship Launch (9 events)
  - b. Public Presentations (17 events)
  - c. Eyethu Sonke le BEE (9 events)
  - d. Motlana Forums (7 events) (This is an internal event to which the NEF invites various experts to address NEF staff on current business and economic issues.)
  - e. Four editions of the internal newsletter published;
- The completion of the brand audit in June 2009;
- Achieved an Average Value Estimate of media coverage in broadcast and print media during the 2009/10 financial year of R11.1 million against a target of R10 million;
- The rollout of the Eyethu Sonke le BB-BEE initiative in conjunction with the dti which sought to obtain experiential feedback from the public on the successes and failures of BB-BEE;
- The NEF has made 36 appointments and received 15 resignations (only eight of which were professional staff), resulting in a total staff complement of 117;
- The development of a finance strategy, incorporating a risk bearing capacity model, resulting in capital allocations by fund with targeted return expectations and impairment thresholds;
- The appointment of a new Board of Trustees on 15 December 2009 following the conclusion of the term of the previous Board;
- The development of enhanced reporting capabilities within the NEF Enterprise Resource Planning system – Project Siyasebenza.

### 2. The NEF's approach to performance management

The NEF is mandated through the NEF Act to fulfil the following core objectives:

- Promote and support business ventures pioneered and run by black people.
- Promote the understanding of equity ownership among black people.
- Provide black people with direct and indirect opportunities to acquire share interests in state-owned and private business enterprises.
- Encourage and promote investments, savings and meaningful economic participation among black people.

In order to achieve its mandate through the measurement of the successful implementation of these objectives, the NEF has identified a number of organisation-wide key performance areas which are linked to specific and measurable key performance indicators. These are allocated and measured against targets for each of the NEF's core business units.

The NEF measures and assesses its impact not only on the basis of financial return, but in accordance with what is referred to as the Empowerment Dividend which is the social impact of the NEF's investment activities that has to manifest itself in measurable results over and above only financial return.

The NEF's Fund Management Division and the Strategic Projects Fund, as core investment divisions, are both drivers of the NEF's Empowerment Dividend. Since the NEF, as an agency of the dti, is tasked with the mandate for the successful implementation of BB-BEE, the overall BB-BEE score as calculated in terms of the BB-BEE Codes of Good Practice is thus used as a principal measure of the contribution that the black empowered business under consideration for funding is going to make to the furthering of BB-BEE.

This score and subsequent progress in meeting BB-BEE targets in the transaction are evaluated at the date that funding is approved as well as subsequent to this through the post investment monitoring function of the NEF.

Overall targets in respect of BB-BEE are not specifically set for the year as this score is used in order for these transactions to qualify for the minimum eligibility criteria that are in place against each specific product offering detailed as follows:

#### iMBEWU FUND

The iMbewu Entrepreneurship Finance product provides risk capital to new businesses and to early stage businesses owned and managed by black people meeting the following criteria:

- BEE applicant should be actively involved in the business.
- Minimum black ownership of 50.1%.
- Industry experience in consortium i.e. from BEE party or non-BEE partners.
- Participation in the NEF mentorship programme is obligatory.
- Capital structure should be sustainable. NEF to provide shortfall in equity/ quasi-equity capital.
- Sustainable business model.
- Business should employ a minimum of 5 people.
- Maximum NEF funding of R5m.
- The NEF investment horizon is 5 to 7 years.

“Decent work is based on the efforts of personal dignity, on democracies that deliver for people, and economic growth that expands opportunities for productive jobs and enterprise development. Decent work also underpins the principle that the purpose of creating work and wealth is to eradicate poverty.”

*The Hon. Minister of Economic Development,  
Ebrahim Patel, (Budget Vote 27 March 2010)*

iMbewu's **Procurement Finance** product is a debt product aimed at financing working capital requirements associated with procurement contracts. The product enables BEE groups to access preferential procurement opportunities whilst simultaneously providing mechanisms aimed at mitigating NEF investment risk.

The criteria of the Procurement Finance product would be as follows:

- Primarily short to medium term debt.
- Repayment terms matched to contract terms.
- NEF funding generally limited to R10m.
- Active BEE management participation.
- Minimum black ownership of 50.1%.
- Industry knowledge resides within the borrower's management structure.
- NEF will seek to co-finance with commercial banks to mitigate risk.
- NEF reserves the right to oblige applicant to participate in the NEF mentorship programme.

The iMbewu **Franchise Finance** product is geared towards enabling black people to leverage the infrastructure available within the franchise industry in order to gain access to economic opportunities whilst reducing investment risk.

The criteria of the product are:

- NEF has a preference to fund franchises with an established track record.
- Active management participation by BEE parties.
- Minimum BEE shareholding of 50.1%.
- Transactions will be structured with sustainable capital structure.
- NEF funding to bridge a shortfall in equity.
- BEE party to have pre-qualified with franchisor.
- NEF funding generally limited to R5m.
- The NEF investment horizon is 5 to 7 years.

#### RURAL AND COMMUNITY DEVELOPMENT FUND

The Rural and Community Development Fund facilitates community involvement in projects by supporting the BB-BEE Act objectives of empowering local and rural communities. In accordance with the BB-BEE Act, it aims to increase the extent to which workers, cooperatives and other collective enterprises own and manage business enterprises.

Criteria for the Rural and Community Development Fund include:

- The project and financial structure should be commercially sustainable.
- Minimum shareholding by the community shareholders of 25.1%.
- Involvement of strategic or technical partner.
- Skills transfer to community representatives enabling operational involvement by the community.
- Location of the project in rural/underdeveloped areas of the country.
- Job creation.
- Women empowerment.
- Active presence of black investors at board level.
- NEF will invest using debt, equity and quasi-equity instruments.
- NEF funding generally limited to R50m.
- The NEF investment horizon is 7 to 10 years.

#### UMNOTHO FUND (previously called Corporate Fund)

##### Acquisition Finance

This product is for BEE applicants seeking to buy equity in existing businesses and provides funding from R2m to R75m. Criteria for the product includes:

- Focus on medium to large companies.
- Focus on partnerships with existing management teams and other equity investors.
- Minimum BEE ownership of 25.1% post NEF investment.

- Active BEE management and operational participation.
- BEE financial contribution determined on a case by case basis.
- Investment instruments to include debt, equity and mezzanine finance.
- NEF reserves the right to oblige applicant to participate in the NEF mentorship programme.
- Typical investment horizon of 4 to 7 years.
- Security to include personal suretyships.

#### Project Finance

This product provides capital of R5m to R75m per project for BEE seeking to participate in medium sized greenfields projects.

Criteria for this product includes:

- Minimum 25.1% BEE shareholding.
- Investment instruments to include debt, equity and mezzanine finance in support of BEE.
- BEE specific financial contribution assessed on a case by case basis.
- NEF exposure to the project will generally not exceed 50% of total project costs.
- Proven management experience within consortium.
- Active BEE involvement in investee companies.
- Debt funding raised from the market to match equity funding provided by NEF and other project sponsors.
- NEF funding limited to R75m.
- NEF investment horizon is 5 to 10 years.
- Security to include personal suretyships.

#### Expansion Capital

NEF will provide funding of R5m to R75m to entities that are already black empowered, but seek expansion capital to grow the business.

Criteria for this product includes:

- Investment instruments to include debt, equity and mezzanine finance in support of BEE.
- Existing BEE shareholding should be minimum of 50.1%.
- Pricing based on instrument, risk matrix, security package etc.
- Typical investment horizon of 4 to 7 years.
- Active BEE involvement in investee companies.
- Security to include personal suretyship.

#### Capital Markets

This product invests in BEE enterprises, particularly those owned by black women, that seek to list on the JSE, or its junior, AltX market. The Umnotho Fund will also help listed BEE companies to raise additional capital for expansion.

All other key features are similar to those of the Acquisition Finance product.

#### Liquidity and Warehousing

This product assists BEE shareholders who need to sell a portion or all of their shares (as minority stakes in unlisted firms are hard to sell). Also acquires and temporarily warehouses these shares before on-selling them to new BEE shareholders, and refinances BEE shareholdings where existing financing structures are costly and/or inefficient.

Criteria for this product includes:

- BEE groups should have been invested in the target company for at least three years prior to offering the shares to NEF for on-selling to other BEE groups in the case of disinvestment by the BEE groups.
- The valuation of the underlying shares should be acceptable to NEF.
- New BEE groups to either be proposed by exiting BEE shareholders or selected in consultation with the NEF.
- New BEE groups should be acceptable to the target company shareholders.
- Active BEE involvement in investee company governance structures.
- In the case of refinancing, NEF will generally not be providing refinancing in respect of a BEE shareholding that is "out of the money".

All other key features are similar to the Acquisition Finance product

#### Strategic Projects Finance

The strategic project finance will facilitate the feasibility assessment and ensuing acquisition of equity in strategic projects where the NEF assumes the role of BEE partner.

The NEF will warehouse equity on behalf of BEE participants with the aim of driving transformation within national projects of a strategic nature.

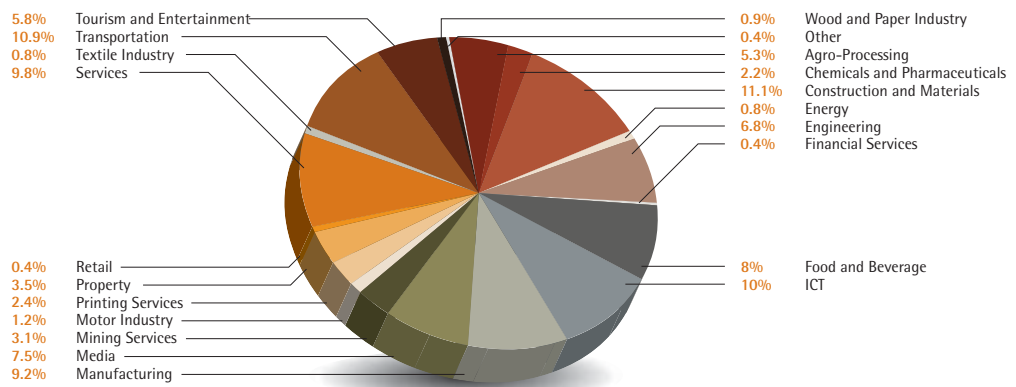


Figure 5: NEF investment by sector

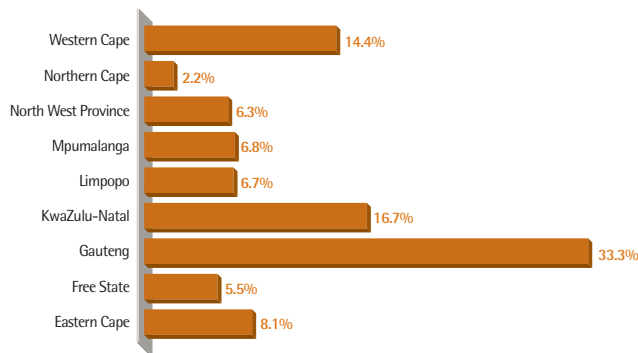


Figure 6: GDP Contribution by Province

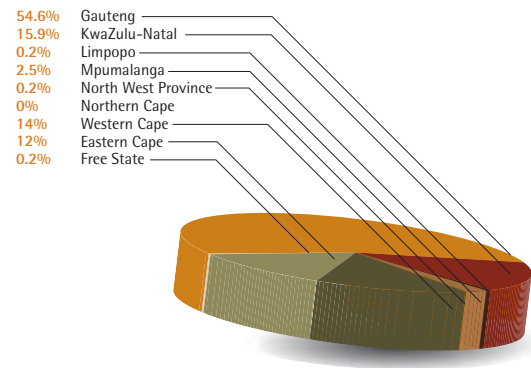


Figure 7: NEF investment by province

The elements of the Empowerment Dividend are then further measured as follows:

- **Participation by black women** – the NEF emphasises the empowerment of women by providing for an additional weighting for black women participation. The target and KPI for women's participation is 40% of the BEE ownership level supported in each transaction. *The current performance result of 41% (2009: 31%) women's participation is a notable achievement for the year.*
- **Job Creation** – Contribution towards employment creation and the number of jobs created per Rand invested or jobs sustained through investment in expansion type activities. Targets in terms of job creation and job spend are not specifically set for the year though the results are monitored by business stage and against industry sector reported job investment levels and costs and higher job yielding transactions are supported at the outset. *For the year under review the NEF created 2 351 new jobs and supported an additional 2 034 existing jobs (2009: 294 new jobs and 398 existing jobs).*
- **Investment in Priority Growth Sectors** – The number of investments facilitating black ownership and control of existing and new enterprises in the priority sectors of the economy as identified by the AsgiSA and the National Industrial Policy Framework (NIPF) and Industrial Policy Action Plan (IPAP). *The current invested portfolio as presented in Figure 5 alongside demonstrates the alignment to the above policies.*
- **Geographic Spread** – Geographic spread of investments and contribution towards increased economic activity across all provinces, particularly in areas of regional economic disadvantage. Targets in terms of geographic spread are set to attempt to surpass the respective provinces relative contribution to national Gross Domestic Product (GDP). *The current invested portfolio in Figure 6 alongside demonstrates the provincial investment representation by value against the respective provincial contributions to GDP.*
- **Investment Return** – The real return that each Fund realises on capital employed, after the impairment ratios experienced for that fund, as a combined measure of debt, equity and quasi equity invested. Investment return targets aim to achieve a real return of the equivalent of the risk free rate of return of 8% for iMbewu Fund and at least a 15% IRR for Umnotho Fund and Strategic Projects Fund. *For the year under review, the iMbewu Fund achieved a return on loans advanced of 7% and the Umnotho Fund 10% (2009: iMbewu 13% and Umnotho Fund 11%) before impairment provisions. These are early stage indicators of the results against targeted IRRs but are eliminated against the impairments raised thus far.*

The measurement of the Empowerment Dividend will be enhanced through the Empowerment Dividend balanced scorecard which will measure the NEF's performance against the key elements of the Empowerment Dividend for the 2010/11 year and comprehensive targets will be set against the elements thereof for future years. The results achieved against detailed core KPI's within the Empowerment Dividend and operational KPI's are presented in the following section.

REPORTS

“ We want a transformed economy that will be characterised by high growth rates, low levels of unemployment and the enhancement of economic participation by the majority of South Africans. Broad-Based Black Economic Empowerment (BB-BEE) is therefore an integral part of every economic policy that government has put in place. ”

H.E. President Jacob Zuma

### 3. Performance results achieved against targets

#### 3.1 Performance against target: Empowerment Dividend

Key Performance Area	Elements of the Empowerment Dividend	Annual Targets/Outputs to be delivered by 31 March 2010	Result Achieved for the year to 31 March 2010	Comments
1. Promote and support business ventures pioneered and run by black enterprises.	<ul style="list-style-type: none"> <li>• BB-BEE score</li> <li>• Women's participation</li> <li>• Job creation</li> <li>• SME development</li> <li>• Regional development</li> <li>• Sector spread</li> </ul>	1.1. FMD Target: Approve total of 77 deals worth R560 million. 1.2. SPF: Budget set aside of R460 million	1.1. FMD approved total of 54 deals worth R685 million. 1.2. SPF approved 7 deals worth R64.2 million.  Total approved for the NEF: 61 transactions worth R749 million.	FMD exceeded its financial target, but with a lower number of transactions (and hence average), which was symptomatic of the effects of the economic downturn over the year. Less transactions of a commercially sustainable level were encountered in the application process.  SPF deals are currently worth R615 million at equity closure.
		1.3. FMD: Disburse a total of 67 deals worth R490 million. 1.4. SPF: Budget set aside of R460 million.	1.3. FMD : Disbursed total 44 deals worth R502.4 million. 1.4. SPF disbursed 4 transactions worth R46.5 million.  Total disbursed by the NEF is therefore R549 million.	A lower than targeted average disbursement value for FMD was also as a result of the lower volumes of transactions in the market as a result of the effects of the economic downturn.  SPF deals are currently worth R615 million at equity closure.
2. Contribute to the participation of black women in the economy.	Women's participation.	Maximise women's participation in transactions to at least 40%.	41% of the shareholders in the transactions supported are women.	This KPI has been met and marginally exceeded for the first year in the NEF's history.
3. Contribute to the creation of employment opportunities for black people.	Job creation.	3.1. Create employment opportunities through investment in black enterprises.	The NEF has contributed to the creation of 4 385 jobs (2 034 existing jobs and 2 351 new jobs).	Since inception the NEF has contributed to the creation of 20 535 jobs (13 115 existing jobs and 7 420 new jobs). It currently costs the NEF R72 000 on average to create each new job.
4. Entrench BEE rights in early stage projects by identifying, initiating, scoping and developing projects aligned to the AsgiSA strategy and IPAP.	Investment in priority growth sectors/sector specific support.	Identify strategic projects in which the NEF can invest.	The Strategic Projects Fund has invested R46.5 million in seed capital in the sectors of tourism, energy, mineral resources in transactions potentially worth R615 million to the NEF.	The supported projects fall within the project stages of pre-feasibility, feasibility and equity investment stages as part of the establishment of this portfolio. Future tendencies will be to focus on pre-feasibility stages.

## Trustees' Report on Performance Information (Continued)

5. Ensure geographic spread of investments across all provinces.	Geographic spread.	Maximise regional development as measured against regional contribution to GDP.	The NEF's invested portfolio by value: Eastern Cape 12% Free State 0.2% Gauteng 54.6% KwaZulu-Natal 15.9% Limpopo 0.2% Mpumalanga 2.5% North West Province 0.2% Northern Cape 0% Western Cape 14.4%	Regional contribution to GDP by province: Eastern Cape 8.1% Free State 5.5% Gauteng 33.3% KwaZulu-Natal 16.7% Limpopo 6.7% Mpumalanga 6.8% North West Province 6.3% Northern Cape 0.0% Western Cape 14.5%
7. Investment return.	Portfolio return.	Contain impairment and write-off provisions to 25% of the loans portfolio.  Target portfolio returns as follows: iMbewu real return (8%) and Umnotho Fund 18%.  Target impairment levels for each fund: <35%	iMbewu Fund achieved a return on loans advanced of 7% and the Umnotho Fund 10% before impairment provisions.  Total loans and preference shares impairment and write-off ratio of 24% (Loans 27%; Preference shares 9%)  Loans impairment and write-off ratio for iMbewu is 29%.  Loans impairment and write-off ratio for Rural and Community Development Fund is 4%.  Umnotho Fund impairment rate is 24%.  There is zero impairment for Strategic Projects Fund.	The target for portfolio returns has been set in anticipation of establishing a sustainable investment fund going forward.  The NEF recognises that the target real return (after impairments) has not been met, but that it is important to work towards these targets in order to ensure the funds' sustainability.  The overall impairment target has been achieved however the NEF recognises that there are areas of concern, especially with the loan portfolio.  Systems and mechanisms have been put in place to monitor loan repayments going forward.

REPORTS

### 3.2. Performance against targets: Core Operations

The intent of the Trustees' Report has been to report on high level strategic issues and an attempt has been made to aggregate performance to the organisational level and not at business unit level. It has been however attempted to separate the key performance areas according to the relevant business unit, and have grouped these to the relevant strategic objectives, in order to demonstrate how these are linked.

Please note that the table for performance against target for operations is not an exhaustive list of the key performance areas listed in the business plan for 2009/10, as these were done by department.

Key Performance Area	Annual Targets/Outputs to be delivered by 31 March 2010	Key Performance Indicator (targets at business unit level)	Result Achieved as at 31 March 2010	Comments
Asset Management Division				
8. Secure transfer of SOCEs for the creation of products for on sale to black people.	8.1. Secure transfer of 10% equity in SAFCOL.		SAFCOL  A Trust Deed for the transfer of SAFCOL shares to NEF is due to be signed by NEF and DPE following preparatory research in an effort to gain understanding of the Forestry sector for the transfer of the SAFCOL shares onto the NEF's balance sheet. This included an allocation strategy that was submitted to the DPE for the transfer of the SAFCOL shares. Allocation strategy approved by Stakeholders.	The conclusion of this KPI is now subject to the resolution of the Department of Public Enterprises.
	8.2. Secure transfer of equity in Telkom, Gidani and ACSA.		Gidani  An allocation strategy for utilising dividends from Gidani shares was sent to <b>the dti</b> which seeks to provide a mechanism for Gidani to operate beyond the expiry of National Lottery licence.  The strategy will apply the following 3 mechanisms: <ul style="list-style-type: none"> <li>• Enhancement of black public share offers distribution network.</li> <li>• The provision of access to communications technologies in rural areas.</li> <li>• Provision of bursaries and scholarship funding in support skills development in the ICT sector.</li> </ul>	The conclusion of this KPI is now subject to the execution of the transfer by <b>the dti</b> .  The NEF has been unable to achieve progress with Telkom and ACSA shares even though attempts have been made to secure these.

“ The objectives of the NEF are to finance and support business enterprises owned and managed by black entrepreneurs, as well as to promote savings and investment schemes for black people and, in so doing, to develop an understanding of equity ownership and a culture of savings amongst its beneficiaries. ”

Moemise Motsepe (Marketing and Communications)

## Trustees' Report on Performance Information (Continued)

9.	Encourage and promote savings, investments and meaningful economic participation by previously disadvantaged individuals.	9.1. Develop and implement investor relations strategy for Bonus Event for Asonge.		<p>Investor relations marketing campaign to the Asonge shareholders was developed and implemented in the months of August and September 2009.</p> <p>A total of 82 285 holders (individuals and groups) were allocated bonus shares - Africans - 42%; Coloureds 9%, Indians 39%.</p> <p>BEE verification undertaken and the results of the 647 sample groups (654 688 shares) tested were as follows: Stop trades were placed on 2 categories of groups (22 non-compliant, 278 non-responsive).</p>	The achievement of this KPI saw the conclusion of the NEF Asonge Share scheme to a broad base of black investors and the achievement of a return for investors of 69% over the period of the scheme. Those investors whose eligibility is being queried will be given the opportunity to prove their status prior to the withdrawal of their allocated shares.
10.	Promote the universal understanding of equity ownership among previously disadvantaged individuals.	10.1. Implementation of Investor Education Campaign.		<p>The Investor Education Programme was launched in March 2010 in the Northern Cape and will be rolled out through the entire country.</p> <p>74 Investor Education seminars have been planned in all 9 provinces over a 2 year period.</p>	This campaign aims to educate members of the public about investment and savings activity and instruments and where to access specific information. It is undertaken to audiences of around 200 people at a time through facilitators in local languages and by using an education manual which is left with the participant.
11.	Be an industry leader in pioneering new products that address market failures in the BEE environment.	11.1. Introduce Retail Integration Programme.		Developed a retail sector integration product concept document which aims to unlock ownership value in entities that are supported by customers and create a culture of saving by using equity as a saving instrument.	Following introduction of this concept to the NEF by an entrepreneur, the NEF has attempted to obtain interest in the proposed product from retail chain stores. At this stage no firm interest has been forthcoming.
		11.2. Conceptualise, design and model an Enterprise Development strategy and business plan.		A Placement memorandum has been drafted and legal counsel has been engaged on structuring aspects.	The next step in this regard is the roll out of this funding model proposal.
Pre-Investment Unit					
12.	Increase public confidence and demand for the NEF's products and services.	12.1. Marketing plan approved and implemented.		<p>Marketing activity has focused on stakeholder engagements and the launch of the business plan toolkit and mentorship programmes.</p> <p>Average Value Estimate of media coverage in broadcast and print media during the 2009/10 financial year of was R11 million against a target set of R10 million.</p>	Please note that this annual target is the responsibility of Marketing and Communications but is listed here for the sake of completeness.

REPORTS

Key Performance Area	Annual Targets/Outputs to be delivered by 31 March 2010	Key Performance Indicator (targets at business unit level)	Result Achieved as at 31 March 2010	Comments
	12.2. Number of enquiries received.		3 206 enquiries handled until the end of Q4.	No targets have been set for the number of enquiries as this KPI is driven by demand.
		2 Annual satisfaction surveys rating 80% or more.  All applications received must be processed within 3 weeks.  Acknowledgement letter to be sent within 2 days once application is captured.	2 surveys conducted in June and December, with excellent satisfaction rating.  All applications are processed and responded to within the required timelines.	
		Complaints must be less than 5%.	Complaints have been below 5% during all 4 quarters:  Q1: Complaints = 1.5% of applications  Q2: Complaints = 1% of applications  Q3: Complaints = 0.9% of applications  Q4: Complaints = 3% of applications	
		Present and approve a minimum of 20 deals for the year.	Total of 30 deals were presented to FMD by the NEF's Pre-Investment Unit.	
		Have road shows in 8 provinces for the year.  Attend at least 8 conferences during the year and present about the NEF.	16 provincial engagements were held during the year.	
13. Provide the tools to support entrepreneurship.	13.1. Launch the business plan toolkit and mentorship programme.		Business planning toolkit and mentorship programme launched in all 9 provinces during the 2nd Quarter of 2009/10.	There were 5 839 registered users of the business plan toolkit and 144 completed business plans as at 31 March 2010.

## Trustees' Report on Performance Information (Continued)

Post-Investment Unit				
14. Encourage Investee sustainability in the Fund Management Portfolio.	14.1. 206 site visits. 14.2. Provide mentorship, coaching and technical support to the value of R4 million.		The NEF performed 290 site visits and provided mentorship support to investees to the value of R4.1 million	The positive impact of this intervention was evidence in the impairment plus write off threshold of 25% for the year not being breached (contained to 24%). This is despite the heavy effect of the economic downturn on the portfolio, especially in the transport sector wherefrom 30% of the provision arose.
		158 reports on Investees	Total of 187 reports completed.	
15. Maximise financial sustainability of the NEF.	15.1. Work-out recoveries: Credit control (collections): R51 498 325		Collected a total of R8.1 million on transactions at the legal collections stage.	The result achieved must be considered against the write offs for the year of R65 million, representing an 11% collection rate on legal collections.
	Maintain financial discipline.  (This is an organisational target managed across the business and not only by Post-Investment)		Operational costs were 10% below budget and project costs 51% below budget. The Asongwe Share Scheme closed off at 23% below budget over the life of the scheme (two years).	This is an organisation-wide strategic objective and is not specific to Post-Investment Unit (PIOU) alone, although it has been listed as a target under PIU.  The operational budget was set in anticipation of a headcount of 140 being reached at financial year end whereas a staff complement of 117 was achieved.  The project budget included budget for a revised SME strategy which was not fully approved by the Board of Trustees and rolled over to the new financial year. Without accounting for the SME strategy the project costs would have been 24% below budget for the year.
		Portfolio Management Committee Meetings	Total of 12 PMC meetings held throughout the year.	These are internal meetings to manage portfolio performance.
		Valuations to inform impairments exercise.	Valuations have been performed and impairments levels have been calculated.	
		Portfolio risk management: Update risk rating tool 4 times per annum	4 risk reports completed.	
		Training on CRM and Loan Management System - 12 training sessions per annum	12 training sessions completed.	This is internal training conducted to ensure that Post-Investment staff are able to use the new CRM effectively.

REPORTS

Key Performance Area	Annual Targets/Outputs to be delivered by 31 March 2010	Key Performance Indicator (targets at business unit level)	Result Achieved as at 31 March 2010	Comments
		Sector presentation, portfolio feedback and lessons learnt. 10 presentations per annum.	6 presentations held.	
16. Strengthen operational efficiencies and improve deal turnaround time.	16.1. Project Siyasebenza (CRM system) operational and used effectively.		Phase 1 of the system has been implemented and has contributed to an overall improvement rate increase to 5% of transaction applications, up from 3% in 2009 as well as streamlined the disbursement process.	
17. Maintain excellent monitoring and governance processes across the organisation.	17.1. Unqualified audit.		Q2: Unqualified audit opinion achieved for year ending 31 March 2009 with all year end reporting submission deadlines being met.	
	17.2. Implement fraud prevention plan.		The Fraud prevention plan is in place and operationally effective in reporting suspicious behaviour through to the Risk Management Committee.	
18. Manage organisational risk.	18.1. Implement risk management framework.		Risk assessments completed on a quarterly basis and reported in Risk Management Committee.	
19. Ensure stakeholder satisfaction by complying with legal and stakeholder requirements.	19.1. Develop an Assurance Compliance Plan.		Compliance framework and compliance risk assessment completed. Compliance risk management plans in process of being developed for specific legislation based on compliance risk assessment.	Formalised compliance process to ensure adherence to legislation is being implemented.
20. Maximise human capital readiness and teamwork.	20.1. Ensure the organisation is adequately staffed and that productivity is enabled.		NEF has achieved staff numbers of 117 vs. a target of 140. Many of the planned positions are at an advanced stage of finalisation. A total of 8 professional staff resignations took place during the year demonstrating that staff retention programmes are effective.  During 2009/2010 approximately 65 employees received training and funding for academic and training courses to the value of R413 373.	The effectiveness of training and staff productivity is monitored as part of the NEF Performance Management system.  The NEF achieved an overall performance score of 3.8 out of a total of 5 for the year. This performance score, coupled with the necessary assessed criteria, resulted in the NEF being categorised as a High Performing Organisation for the year.

## Trustees' Report on Performance Information (Continued)

Strategic Projects Fund				
4. (Repeated here for sake of completeness) Entrench BEE rights in early stage projects by identifying, initiating, scoping and developing projects aligned to the AsgiSA strategy and IPAP.	Identify strategic projects in which the NEF can invest.		The Strategic Projects Fund has invested R46.5 million in seed capital in the sectors of tourism, energy, mineral resources.	
		Identification of at least 10 potential projects.	Identified at least 11 projects.	
		Completion of 3 scoping exercises.	7 projects have gone through the screening process and have been accepted for presentation to EXCO IC.	
		Produce an analytical report on focus sector opportunities.	Research has been concluded on the following sectors: Renewable energy focusing on REFIT and carbon credits; Mining permitting process and key issues; crude steel and pig iron markets; titanium and zirconium research; solica applications research; honey farming scoping study.	
		At least one ground breaking Pre-feasibility study or one Bankable Feasibility Study.	A pre-feasibility study for Rare Metals Industry has been concluded.	
		Enter into at least 2 new JDA's.	Four projects have had project development agreements concluded, project development plan executed. Project development is therefore in progress.	
		Financial closure of at least one project.	Financial closure has been attained on the Renu Energy deal.	
		Disbursement of funds for at least one project.	Confirmed disbursement for the current year is R46.5 million and from date of inception is R52.5 million.	
		Appointment of a Senior investment associate.	An Investment Associate has been appointed. Plans are in place to recruit an additional Investment Associate. Two senior investment associates have been recruited who will start on 1 July 2010.	

REPORTS

Key Performance Area	Annual Targets/Outputs to be delivered by 31 March 2010	Key Performance Indicator (targets at business unit level)	Result Achieved as at 31 March 2010	Comments
Systems and Processes (Targets were set at business unit level)				
		Development and implementation of working financial models that have not been breached to be completed for iMbewu, Umnotho Fund and Rural and Community Development Fund.  Provide to the various committees for approval.	iMbewu fund model was still in progress as at 31 March. The model has now been finalised and will be presented to the relevant committees for approval.	
			The Umnotho Fund model is complete and was approved by the CIO.	
		Review and finalise Investment Committee Report templates.	iMbewu and Rural Community templates are in place.	
		Improvement of deal leads times.	On average the lead time for iMbewu Fund is three months.  Currently lead time for Rural and Community Development Fund ranges between 3 to 6 months.  Lead times for Umnotho Fund are generally up to 12 weeks for all approval and a further 8 weeks for legal documentation. All lead times depend on the complexity of the transactions.	

### 3.3. Overall Performance of the NEF

The NEF has concluded the 2009/10 formal NEF organisational performance review against the KPI's established in the 2009/10 business plan. In support of this process, management undertook staff performance reviews on the basis of performance contracts entered into during the course of the financial year.

Staff performance was then reviewed and scored against their respective KPA's/KPI's which led to the supporting information required to motivate the awarding of performance bonuses for staff to the HCRC and then to the Board of Trustees. This process involved the presentation of the various department's overall performance as well as individual performance.

Ultimately, staff performance was rated 3.82 (on a scale of 1 to 5 with 5 being the highest score) which is indicative of overall KPI's being met and in some instances exceeded as reported above.

#### 4. Financial results against budget

Operations	Actual R000's	Budget R000's
Revenue	434 936	330 000
Operating Expenses	129 728	144 348
Investment Impairments	195 380	100 000
Asonge expenditure	27 736 *	12 000
Other projects	13 229	27 150
<b>Net Surplus</b>	<b>198 965</b>	<b>119 884</b>
Headcount – staff numbers	117	140
Investment Disbursements	423 494 *	490 000
Capital Transfers received	311 642	311 600

\* Expenditure for Asonge within overall budget.

\* Difference to disbursements reported of R506 million represents undrawn portions of disbursed investments.

##### 4.1. Income

Financial results for the year present a surplus for the year of R199 million (2009: R104 million). This surplus is largely represented by the reversal of a provision of R121 million raised in the 2009 financial year in anticipation of the NEF Asonge Share Scheme bonus share award. Surplus for the year thus comprises of interest earned on cash balances.

In addition, interest income on the proceeds of the Asonge Share Scheme were not budgeted for due to the approval for retention of these proceeds by the National Treasury not yet being received as disclosed in note 33 of the annual financial statements. After adjusting for these two items, income would have been aligned to budget.

Revenue is further made up of:

- Grants received – the NEF's voted transfer of R116 m for the year was received from **the dti** in order to subsidise overheads.
- Interest from banks – for the year interest received is based on a bank balance of over R1.7 billion at an average interest rate of 8% (2009: 11%). Interest recorded for funds under asset management is in respect of the Asonge cash balance (R1.1 billion), also at an average rate of 8%.
- Interest from Investments – actual interest raised during the year on loans advanced to investees.

##### 4.2. Operating Expenses

Operationally the NEF ended the year on a head count of 117 versus a budget of 140 on a phase in basis. This largely accounted for the below budget operating expenses, coupled with close containment of professional fees, travel expenditure and entertainment expenses.

Operating costs largely comprise:

- Personnel costs – below budget results due to annual increases awarded being lower than the budget amount of 10%. There are also 23 vacant positions for the year which are in the process of being filled.
- Professional fees – actual for the year is well within the budget, especially in the areas of internal audit where two planned audits are being deferred to early in the new financial year, and legal costs and specialist consulting.
- Marketing – Marketing and Communications activities for the year met budget.
- Building costs – on budget.
- Administration – under budget for the year as a result of savings, in amongst others, travel costs, entertainment and general office expenses.

The variance in the impairment provision for the year as compared to the budget for impairments for the year is largely represented by a single transaction exposure that was not budgeted for. This single exposure materialised as a result of a corporate restructuring event triggered by senior lenders which resulted in a dilution to minority shareholders, including the NEF. Though the NEF does not view this matter as closed at this stage, full provision against this equity exposure has been made.

##### 4.3. Commentary on the Portfolio

###### Collections

Total % Receipts to Total Instalments Per Fund	YTD Instalment R000's	YTD Receipt R000's	%
Umntho Fund	78 510	60 842	74%
IMbewu Fund	29 474	19 521	65%
Rural and Community Development Fund	859	237	28%
Strategic Projects Fund	-	-	0%
<b>Total</b>	<b>108 843</b>	<b>80 330</b>	<b>74%</b>

REPORTS

A collection rate of 74% was achieved in the 2009/10 financial year. This percentage represents payments received from investees against loan instalments raised. The collection rate is attributable to the implementation of the new credit control procedures as well as restructuring on most of the transport sector deals.

#### Restructuring of loans

The economic downturn, which was a result of the global financial crisis, placed enormous stress on the operations of the NEF's investees. In recognition of the level of distress experienced by its investees, the NEF initiated research, which included modelling and structuring exercises, to determine the impact the NEF could achieve through some level of intervention. The result was a programmatic intervention in the form of a loan restructuring exercise.

A total of 27 loans were restructured through the portfolio management committee, and approved by the NEF Executive committee and Board of Trustees. This initiative is as a result of a need to assist investees in meeting their obligations to the NEF, to ensure their viability and sustainability of businesses, as well as to provide relief to investees in view of the economic downturn.

#### Impairments and write-offs

A net provision of 20% (2009: 16%) of the NEF's originated loan and preference share book of R1 134 million has been provided for as impaired as at 31 March 2010. Sixty-nine percent of this impairment provision is attributable to the transport, media and construction sectors which were sectors most affected by the economic downturn. In addition 5% of the loans advanced have been written off in the current year.

The year on year effective percentage of write-offs has decreased (9% in 2009 to 5% in 2010) which is attributable to both a reduction in the value of the write-offs (R56 million in 2010: R74 million in 2009) as well as the overall growth in the loans portfolio. This trend should be led by an easing impairment provision which is clearly not the case in that the impairment provision before write-offs has increased to 20% in 2010 from 16% in 2009. However, if the current year impairment provision is adjusted for by the value of a single large transaction provision that was raised totalling R50 million, the current year impairment provision would be 15%, similar in average to 2009.

A further R24 million was impaired with respect to the unlisted equity portfolio which represents 28.5% of the fair value of this portfolio, also due to the single large exposure to the transport sector transaction.

#### 5. Interpretation of results

South African business was not immune to the effects of the global economic downturn, which resulted from the financial crisis exhibited over this financial year. The effect was compounded by the reluctance of banks to provide financing, especially in the form of working capital, coupled with foreclosures on banking clients and higher write offs and impairments (in some cases doubling), which impacted on the ability of small business to operate.

In an effort to encourage **SME sustainability**, the NEF has implemented various measures to assist SMEs in distress. Some of these measures include the restructuring of debt which has provided immediate cash flow relief to NEF investees, the establishment of new processes to evaluate and approve SME applications, as well as non-financial support in the form of Mentorship\* and the rollout of the NEF's Business Planner toolkit. The NEF's Post-Investment Unit will continue to monitor the performance of investees on an ongoing basis in order to assess the impact of the mentorship programme and to identify problem areas for investees.

It has been clear to the Trustees and Executive of the NEF over the year that despite having achieved the current credible levels of capitalisation and best ever fund management approval and disbursement results, the need for a greater reach and penetration is required in order to rapidly expand the impact being felt of the mandate of the NEF amongst its beneficiaries. This need is directly linked to the importance of now designing a finance strategy that supports a **sustainable investment fund** with associated lower average impairments. This context of sustainability is a key theme for the NEF's strategy over at least the next three years. Portfolio impairments are inextricably linked to the **quality of deals** that the NEF is able to secure, which is in turn dependent on deepening the skills of investment professionals and increasing the scope of the NEF's due diligence process to include a robust entrepreneur assessment. It is clear that enhanced entrepreneurial assessment is required **since it is materialising as the single most important criteria for a commercially sustainable business** and the NEF will seek to obtain expert advice in developing this assessment model.

*\*The Mentorship Programme is a post-investment intervention targeted at existing investees, who may be experiencing an array of challenges. In order to encourage the sustainability of these businesses, the NEF has assigned business mentors to provide guidance and transfer skills.*

Mentorship and portfolio support is required to support businesses and will be provided through the NEF's Post-Investment Unit. In order to ensure as wide a reach as possible, the NEF will be streamlining the mentorship process, deepening the specialisation of the panel and extending the geographic representation of the panel.

The NEF has experienced increased **financial risk associated with the lack of own contribution** and the lack of collateral by investees, and is therefore NEF considering greater equity investment in small black-owned businesses. The NEF is currently exploring the option of providing a funding instrument that is flexible with no immediate return requirement such as an "equity" investment component. This is in the early stages of development, and even though the current thinking is provided in the Fund Management Division strategy, it is subject to refinement.

The merits of BB-BEE continues to be debated in South African society. As catalyser of BB-BEE in the economy, the NEF seeks to be at the forefront of this debate, shaping and entrenching BB-BEE on the national agenda. To this end, the National Empowerment Fund hosted a BB-BEE summit to define the course for an inclusive economy on 24 May 2010. The event, which was billed as the NEF BB-BEE Vision 2020, sought to achieve the following objectives:

- An assessment of the advancement of BEE vis-à-vis targets established at inception;
- The identification of milestones and best practice attained over the years.
- Determine the value and worth of empowerment listed companies on the JSE.
- Entrench BB-BEE discourse on the national agenda.
- Provide a platform for the private and the public sectors to showcase commitment to BB-BEE.
- Contribute towards the outputs of the BB-BEE Advisory Council.
- Address the policy vacuum and strengthen alignment to the BEE Codes of Good Practice.
- BEE Milestones (progress to date).
- Challenges in transforming the various sectors of the economy.
- Develop recommendations/solutions.
- Develop a Vision 2020 (what should each sector and the economy have accomplished in 2010).

The event was the culmination of the Eyethu Sonke le BB-BEE initiative which was held in conjunction with **the dti**. Feedback from the session will be provided to the BEE Advisory Council, amongst others, in order to encourage economic transformation within South Africa.

## 6. Challenges and obstacles encountered during the year

In addition to the challenges which resulted due to the global financial crisis, the NEF has observed a number of obstacles impeding the performance of investees, and indeed business performance in general in South Africa.

These include:

- Enterprise Development and Preferential Procurement activities and initiatives to be more aggressively implemented and monitored.
- The development of SMEs in rural and peri-urban communities needs to be emphasised.
- The speed at which one opens up a business in South Africa is too slow due to infrastructure and regulatory requirements.
- Lack of access to finance as commercial financial institutions are not willing to fund in high risk sectors without adequate security.
- Capital and labour costs for a starting business are relatively high for a developing country like South Africa.
- Lack of business skills and experience from existing SMEs.

The NEF's direct response to these challenges has been through non-financial support in the form of mentorship services and the launch of the business planning toolkit. The NEF will further respond collectively with government, through its involvements in various task teams and forums with **the dti** and other government initiatives, set up in response to governments output priorities.



Mr Ronnie Ntuli  
Board Chairman



Ms Philisiwe Buthelezi  
Chief Executive Officer

REPORTS



## REPORT ON CORPORATE GOVERNANCE

### Introduction

Corporate governance involves the establishment of structures and processes, with appropriate checks and balances, that enable Trustees to discharge their legal responsibilities. The NEF prides itself on its corporate governance structures and its governance framework, which ensure that the organisation is managed in compliance with and within the tenets of best practice governance, as well as legislative and regulatory frameworks.

### Legislative framework

The NEF's legislative foundation is the National Empowerment Fund Act No. 105 of 1998, and the organisation is further guided by the principles embodied in the Report on Corporate Governance for South Africa 2002 (King II Report), as well as the Protocol on Corporate Governance in the Public Sector 2002. The Public Finance Management Act No.1 of 1999 (PFMA) and National Treasury Regulations published in terms thereof, serve as the authority for the NEF's financial reporting requirements.

### Corporate Governance Structures

The organisation's sole shareholder is the Government of the Republic of South Africa, represented by the Department of Trade and Industry (**dti**), which serves as its Executive Authority in terms of the PFMA.

Through the NEF Act the President of the Republic of South Africa is entrusted with the responsibility to appoint a Board of Trustees that is in turn responsible for the appointment of the Chief Executive Officer, with the approval of the Minister of Trade and Industry.

### The dti

A process is currently underway to conclude a new Memorandum of Agreement between the **dti** and the NEF, which is aimed at governing the relationship between the shareholder and the organisation, and spells out shareholder expectations with regard to delivery against mandate. The current Shareholder Compact was concluded in 2008 and expired on 31 March 2010.

### The Board of Trustees

The current year saw a change in guard in terms of the Board of Trustees, whose extended term expired on 15 December 2009, having been first appointed on 01 November 2005. A new Board of Trustees was appointed with effect from 16 December 2009 and the Chairman of the Board and three Trustees who represent the shareholder (Departments of Trade and Industry, Public Enterprises and National Treasury) were

retained for the purpose of continuity and institutional memory. The duration of the new Board's term will be three years, up to 2012.

Testimony to the caliber and stature of the individuals that have been entrusted with the strategic governance of the NEF is borne by the Trustees' profiles which are contained elsewhere in this report. It is the NEF's belief that the collective expertise housed in the Board of Trustees will contribute significantly in achieving delivery against the organisation's mandate, while maintaining the highest standard of corporate governance.

### Role and function of the Board

In addition to the provisions of the NEF Act, the duties, powers and authority of the Board of Trustees is encoded in a Charter that is approved by the Board and is reviewed on an annual basis.

Amongst other responsibilities that the Board is required to discharge and in addition to the fiduciary duties that are dictated by common law, is the establishment of an Ethics Policy that guides the manner in which the Board and all staff at the NEF conduct themselves. Of paramount importance is the policy principle and approach that the Trustees have adopted, which states that the NEF will not provide funding to its Trustees and their immediate families. This policy has been resolutely upheld over the years, and continues to safeguard against potential situations of conflict of interests.

### Remuneration of the Board

The remuneration framework for independent non-executive Trustees and Board Committee members is based on the remuneration policies that the organisation has adopted and for which approval was received from the shareholder. Full disclosure of emoluments is contained on page 110 of the Annual Financial Statements.

### Attendance of the Board

During the period under review the Board convened nine Board meetings, which included five special meetings convened to deal with urgent matters. The Trustees' attendance at those meetings is reflected below and includes information in relation to the Trustees whose term expired on 15 December 2009.

REPORTS

The attendance record of the members of the Board of Trustees was as follows:

Member	30.04.09	24.06.09 #	31.07.09	24.08.09 #	18.09.09 #	23.09.09 #	29.10.09	19.02.10	11.03.10 #
Ronnie Ntuli	√	√	Apology	√	√	√	√	√	√
Philisiwe Buthelezi	√	√	√	√	√	√	√	√	√
Avril Halstead	√	√	√	√	√	√	√	√	Apology
Thando Mhlambiso *	√	√	Apology	√	√	√	√	-	-
Nomonde Mesatywa *	Apology	√	Apology	√	Apology	Apology	√	-	-
Lloyd McPatie **	Apology	√	√	√	√	Apology	Apology	√	Apology
Kabelo Scitshiro *	√	√	√	√	Apology	√	√	-	-
Angie Makwetla *	-	-	-	-	-	-	-	√	√
Allon Raiz *	-	-	-	-	-	-	-	√	√
Kugan Thaver *	-	-	-	-	-	-	-	√	Apology
Nomalanga Mosala *	-	-	-	-	-	-	-	√	√
Nolitha Fakude *	-	-	-	-	-	-	-	Apology	√
Rakesh Garach *	-	-	-	-	-	-	-	√	√
Zukiswa Ntlangula *	-	-	-	-	-	-	-	√	√
Thabiso Tlelai *	-	-	-	-	-	-	-	√	√
Andrew Wright *	-	-	-	-	-	-	-	√	√
Jaqueline Molisane ##	-	-	-	-	-	-	-	-	-

\* Term ended on 15 December 2009

\*\* New Trustee - Appointed 20 July 2010

• Appointed on 16 December 2009

•• Resigned 3 May 2010

# Special meeting

## Appointed 3 May 2010

### Board Committees

Section 17 (5) (a) of the NEF Act provides that the Board may delegate some of its responsibilities to Board Committees and the Chief Executive Officer. To this end, the Board has established four Committees, namely the Audit Committee, Board Investment Committee, Human Capital and Remuneration Committee as well as a Finance and Risk Management Committee.

The members of the above-mentioned Committees are appointed by the Board and their Chairpersons are members of the Board of Trustees. The exception to the latter statement is that the Chairman of the Audit Committee was a non-Trustee member until 19 February 2010, when a new Chairman of the Audit Committee was appointed. The previous Chairperson, however, had a standing invitation to all Board meetings to enable effective reporting from the Audit Committee.

Committee Charters that are recommended by the Committees and approved by the Board govern the activities of the Committees and meetings thereof are convened quarterly prior to Board meetings.

The Chairpersons of all the Board Committees have provided separate reports hereunder, wherein their activities have been highlighted.

### Executive Committee

An Executive Committee which separates its business into Investments and Operations, deals with the daily operations of the organisation. Comprising of the Chief Executive Officer, Chief Investment Officer, Chief Financial Officer, Chief Operating Officer and Corporate Services Executive. The Executive Committees co-opt the relevant Heads of Departments as members thereof.

The Executive Investment Committee meets on a weekly basis to assess and decide on transactions that are within its delegated authority, while the Executive Operations Committee is convened on a fortnightly basis. Both Committees are able to meet outside of their agreed time intervals, on a needs basis.

### Management Committee

A Management Committee, that has been established by the Executive, and comprises of the organisation's senior management, deals with operational issues and refers them to the Executive Committee for consideration and approval. Policies and procedures are some of the outputs that are conceptualised and interrogated by this Committee for recommendation to the Executive Committee.

### Secretariat

The Board and Executive are provided with strategic and administrative support by a Secretariat that comprises a team of individuals qualified and experienced in corporate governance, compliance and business administration.

Amongst other responsibilities, the Secretariat provides counsel to the Board and Executive on issues relating to corporate governance and compliance and ensures that all administrative requirements in terms of meeting governance are adhered to.



**Ms Thandi Zide**  
Trust Secretary



*Mr Thabiso Tlelai*  
*(Chairperson of the Board Investment Committee)*

## REPORT OF THE BOARD INVESTMENT COMMITTEE

The Board of Trustees of the National Empowerment Fund established an Investment Committee (the "BIC") in order to assist the Board to, amongst other matters, evaluate, approve or decline investment proposals that would otherwise be considered by the Board, to consider investment valuations and investment policies and to monitor the performance of the investment portfolio.

The 2009/10 financial year was characterised by a challenging operating environment for financial institutions due to the lagging effects of the global credit crisis. The South African economy was impacted by the global recessionary environment and contracted by 4.5% in the first six months of 2009, followed by a 0.9% growth in the third quarter. The SA credit markets also became more risk averse and applied stricter lending criteria whilst companies and consumers focused on reducing their exposure to debt. These conditions had an impact on the NEF in terms of the financial sustainability of some of its investees on the one hand, and on the dealflow experienced by the NEF on the other hand. Whilst it became more difficult to conclude acquisition finance transactions due to expectation gaps between buyers and sellers, NEF saw more opportunities to participate in greenfields projects and expansionary BEE transactions.

The NEF, however, also had to implement a debt-restructuring programme during the year to assist NEF investees that were adversely impacted by the effects of the global credit crisis. The rationale of the programme was to assist the financial sustainability of NEF investees and to protect job opportunities that may arise due to business failures. The programme which was approved by the Board IC involved a combination of instruments including the restructuring of loan repayments, reduction in interest rates, conversion of debt to equity and provision of additional working capital. The NEF interventions were guided by the commercial merits of each investee company.

During the period under review, the NEF Executive Committee tabled 16 transactions worth an aggregate of R770 million to the BIC for consideration and approval. The BIC approved 13 transactions, referred two projects back to management for additional review and declined one project. The improved success rate indicates that the organisation's risk management processes are deepening and that there is congruence between management and the BIC regarding the types of projects that would qualify for NEF funding in line with the strategic objectives of the NEF. The NEF Fund Management Division approved 61 projects worth R685 million which includes transactions approved at management level. This represents a 38% increase in approval values over the previous year and represents the highest approval values to date.

The NEF Fund Management Division also achieved its highest value to date in terms of capital invested during the year of R502 million (including undrawn capital) in 44 new investment projects. By number, more than 53% of the investments were to

projects below R3 million. The industries supported by the NEF during the year under review are diverse, with the major sectors being media (19.8%), engineering services (14.8%), general services (10.7%); property (10.2%); ICT (9.9%) and food and beverage (9.9%).


The focus of the NEF during the year under review was on expansionary empowerment in order to ensure that the organisation contributes to job creation and economic growth. The investment projects supported during the year are categorised into the following products by value – rural and community development projects (19%); project finance (19.7%); expansion capital (28.8%); franchise finance (11.7%); entrepreneurship finance (11.5%) and acquisition finance (9.3%). The NEF interventions during the year under review created or maintained approximately 4 385 job opportunities.

The projects supported included the provision of equity and debt financing to a black engineering firm. The equity funding by the NEF supported a fresh issue of shares at the operating company level and effectively resulted in the black shareholders and managers securing control of the business. The funding package is earmarked to support the expansion of the business which is well positioned to benefit from opportunities in the energy sector.

The NEF supported a number of rural development projects including the provision of debt and equity funding to a tourism project in the Jozini area in northern KwaZulu-Natal. The project will allow approximately 22 000 local community beneficiaries to acquire equity in a new hotel development on the shores of Lake Jozini. The NEF investment is in support of the local community with the rest of the funding provided by local entrepreneurs and strategic partners.

The NEF also played a pivotal role in the provision of equity funding in support of broad-based black empowerment groups in the establishment of a new pay-television bouquet of channels. The project creates new capacity in our economy, including new job opportunities, and will contribute directly to the liberalisation of the pay-TV sector, thereby offering choice to consumers. The project also leverages local and international best practice and allows the NEF to be at the centre of cutting edge digital innovation.

REPORTS



“BEE is a necessary tool to ensure full participation of black South Africans in the economy of the country, but there should be a mix of leadership qualities and technical know-how when it comes to equity ownership to ensure a meaningful role in the company.”

*Portia Maseogane (Asset Management)*

## Report of the Board Investment Committee (Continued)

The NEF also provided funding to a number of franchise businesses. Other projects included the provision of quasi-equity and debt funding to a black-women-owned business involved in the wholesale and distribution of Liquid Petroleum Gas (LPG) products. NEF also provided expansion capital to a black-owned printing business to finance the acquisition of state-of-the-art equipment to enable the business to expand its product range into higher-margin printing services.

The NEF also instituted a number of non-financial service programmes. These included the launch of the NEF's online business planning tool as well as the establishment of a mentorship panel. The business planner includes a financial model and is a step-by-step guide to aspiring entrepreneurs on how to develop a bankable business plan. The mentorship panel consists of highly skilled and experienced mentors located across the country that provide a range of support services to NEF investees.

### Board Investment Committee Members:

The Membership Board Investment Committee was as follows:

T. Mhlambiso (*Trustee and Outgoing Chairperson*)\*  
 P. Buthelezi (*CEO - ex officio*)  
 L. Bakoro (*Member*)  
 C. Fernandez (*Member*) \*\*  
 N. Mesatywa (*Trustee*)\*  
 K. Thaver (*Member/Trustee*)  
 T. Tlhelai (*Trustee and Chairperson*) •  
 L. McPatie (*Trustee*) ##  
 N. Mosala (*Trustee*) •  
 A. Raiz (*Trustee*) •  
 J. Molisane (*Trustee*) #

“...We must be hands on.  
 The further you are from your  
 business, the further you are  
 from your money. We must  
 dirty our hands and learn  
 to be entrepreneurs...”

Dr Matthews Phosa (NEF BB-BEE)  
 Vision 2020 Seminar 24 May 2010

REPORTS

The attendance record of the members of the Board Investment Committee was as follows:

Member	29.05.09	19.06.09	23.07.09	01.09.09	26.11.09	16.03.10
Thando Mhlambiso *	✓	✓	✓	✓	✓	-
Philisiwe Buthelezi	✓	✓	Apology	✓	✓	✓
Lindiwe Bakoro	✓	✓	✓	Apology	Apology	Apology
Cora Fernandez **	Apology	Apology	✓	✓	✓	✓
Nomonde Mesatywa *	✓	Apology	Apology	✓	Apology	-
Kugan Thaver	✓	Apology	✓	Apology	Apology	Apology
Thabiso Tlhelai •	-	-	-	-	-	✓
Lloyd McPatie ##	-	-	-	-	-	✓
Nomalanga Mosala •	-	-	-	-	-	✓
Allon Raiz •	-	-	-	-	-	✓
Jacqui Molisane #	-	-	-	-	-	-

\* Term ended on 15 December 2009

• Appointed on 19 February 2010

# Appointed on 3 May 2010

## Appointed on 19 February 2009 and resigned 3 May 2010

\*\* Resigned on 17 June 2010



Mr Thabiso Tlhelai  
 Chairperson of the Board Investment Committee



*Mr Rakesh Garach  
(Chairperson of the Audit Committee)*

## REPORT OF THE AUDIT COMMITTEE

We are pleased to present our report for the financial year ended 31 March 2010

### Audit Committee members and attendance

The Audit Committee, consisting of the members listed below, met four times during the year under review to undertake its responsibilities.

R. Garach (*Trustee and Chairperson*) \*  
 Z. Ntlangula (*Trustee*) \*  
 A. Coombe (*Member and Outgoing Chairperson*)  
 R. Nicholls (*Member*) \*\*  
 L. McPatie (*Trustee*) •  
 P. Buthelezi (*CEO – ex officio*)

The attendance of members at meetings for the period under review was as follows:

Member	Profession/Position	27.05.2009	15.07.2009	15.02.2009	12.03.2010
Rakesh Garach (Chairman) *	Chartered Accountant	-	-	-	✓
Zukiswa Ntlangula *	Attorney	-	-	-	✓
Anthony Coombe	Chartered Accountant	✓	✓	✓	✓
Nick Nicholls **	Chartered Accountant	✓	✓	✓	✓
Lloyd McPatie •	Management Accountant	✓	✓	✓	Apology
Philisiwe Buthelezi	CEO	✓	✓	Apology	✓

\* Appointed 19 February 2010

\*\* Term ended 31 July 2010

• Resigned 3 May 2010

The Chief Financial Officer (executive trustee), the Risk and Compliance Manager and the Internal Audit Manager, as well as the internal and external audit firms, are standing attendees at each meeting and the Audit Committee has direct access to these attendees in the fulfillment of the Audit Committee's respective responsibilities.

### Audit Committee responsibility

The Audit Committee reports that it has complied with its responsibilities arising from section 51(1)(a)(ii) of the Public Finance Management Act and Treasury Regulations 3.1.13 and 27(1), which include the following roles and responsibilities of the Audit Committee:

- Control and direct a system of internal audit and review the effectiveness and activities thereof including its annual work programme, coordination with the external auditors, the reporting of significant investigations and the responses of management to specific recommendations;
- Review the effectiveness of the internal control systems;
- Review the risk areas of the NEF's operations to be covered in the scope of the internal and external audits based on the regular conduct of a risk assessment and risk management strategy adopted by management and the Board of Trustees;
- Review the adequacy and reliability of the financial information provided to management, the Board of Trustees and other users thereof;
- Review any accounting and auditing concerns identified as a result of internal and external audits;
- Review the NEF's compliance with legal and regulatory provisions.

The Audit Committee has prepared appropriate terms of reference, which have been adopted by the Board of Trustees. The Audit Committee has regulated its affairs in compliance with these terms and has discharged all responsibilities contained therein and has reported quarterly in this regard to the Board of Trustees.

### Effectiveness of Internal Control

The report and conclusion from the Internal Audit findings for the year presented an overall finding that the key controls implemented by Management to address the general controls environment in the areas covered in the internal audit coverage plan was acceptable. This finding provided assurance that the risk areas included in the internal audit plan were being managed and controlled through an adequate framework of internal control, which is designed to provide cost-effective assurance that assets are safeguarded and that liabilities and working capital are effectively managed, but also that improvements are needed in certain key control areas.

REPORTS



In our opinion, based on discussions with Management and the Internal and External Auditors, the audit findings reported in the current year are a fair representation of the internal control environment at the NEF and have been adequately responded to by Management. Where undertakings have been made to address control weaknesses, these will be followed up on a quarterly basis by the Audit Committee through a tracking register.

A separate risk management committee monitors and oversees the assessment and mitigation of risk on a prioritised basis throughout the Trust. The Internal Auditors used this risk control framework to prepare their audit coverage plans and to undertake audit work in the higher prioritised risk areas identified.

In line with the core objectives of the Trust, the Internal Audit Function has progressed from an outsourced to a co-sourced arrangement. We are satisfied that this process is appropriately empowering the insourced Internal Audit employees.

#### Management of the Financial Function

The financial function at the NEF is adequately staffed by suitably experienced and qualified personnel. Further, senior staff and management of the financial function under the executive management of the Chief Financial Officer (who is also an executive trustee), demonstrate ability to appropriately lead the finance portfolio. Steps have been taken to recruit additional depth into the senior staff and management levels in the department and the effectiveness of this will be monitored by the Audit Committee.

#### Quality of Management Reports

During the financial year under review quarterly management reports have been further enhanced by including performance information related to core business activities. The Audit Committee is satisfied with the content and quality of quarterly management reports prepared and issued by Management and the Board of Trustees.

#### Evaluation of Annual Financial Statements

The Audit Committee has

- reviewed and discussed with the External Auditors and Management the audited annual financial statements to be included in the annual report;
- reviewed the external auditors management letter and Management's responses thereto;
- reviewed the appropriateness of accounting policies and practices; and
- reviewed significant adjustments resulting from the audit.

The Audit Committee has discussed, concurs with and accepts the conclusions of the External Auditors on the annual financial statements, read together with the report of the External Auditors and has recommended these to the Board of Trustees for acceptance.



**Mr Rakesh Garach**  
Chairperson of the Audit Committee

“One of the major lessons the global recession taught us was that the South African economy, despite the consistent growth it experienced before the recession, was not as resilient to exogenous shocks as a number of other key developing countries.”

*The Hon. Minister of Trade and Industry, Dr Rob Davies (Budget Vote Debate, May 2010)*



*Mr Kugan Thaver  
(Chairperson of the Finance and Risk Management Committee)*

## REPORT OF THE FINANCE AND RISK MANAGEMENT COMMITTEE

### Market Overview

In the current era of global integration, South Africa's economic fortunes and prospects are entwined with those of both the industrial nations of the world and developing nations such as China and India. Recent events over the last year have highlighted the fragility of economies, especially when fiscal and household debt levels come under pressure. Global risks, like the world itself, are now interconnected, and shocks and vulnerabilities are truly global. The impact of economic conditions in Eurozone countries is being felt by countries such as South Africa, who are exporting to these markets.

### Risk Management

The NEF's mandate requires it to operate in a much riskier segment of the market. It is therefore critical that the NEF has a clear and focused approach to risk management. The NEF has, as a result, chosen to use an Enterprise-Wide Risk Management (ERM) approach vs. a silo approach to risk management. ERM looks at risks within and across all business lines and activities of the organisation to consider how one area of the organisation may affect the risks of other business unit and the enterprise as a whole.

The release of the King III Report on Corporate Governance has placed risk management as a cornerstone of corporate governance. Greater emphasis is placed on boards to ensure that they are satisfied with the management of risk.

The NEF is currently completing a gap analysis against King III requirements on risk management to assess adherence to King III and, where appropriate, relevant action plans will be drafted to deal with any identified gaps.

### Finance and Risk Management Committee (FRMC)

The NEF Board of Trustees is accountable for risk management. To assist with this process, the Board has established a separate FRMC that reports directly to the Board. The FRMC operates pursuant to the provisions of the NEF Delegation of Authority and the charter of the FRMC.

The FRMC oversees all credit, market, treasury and operational risk management activities, as well as co-ordinating corporate oversight units. The FRMC is largely constituted by the Executive Management of the NEF to ensure that management takes ownership of the risks of the organisation. In addition, the committee is chaired by a Non-executive Trustee and the Audit Committee is represented by its chairperson.

### The FRMC:

- Reviews procedures for identifying and managing risks.
- Ensures that Executive management have effectively identified key risk and that they are adequately managed.
- Establishes and maintains an understanding of risks that need to be managed.
- Considers the control environment directed towards the proper management of risk including reviewing internal auditor's conclusions for audits conducted over specific risk areas.
- Considers the results/reports of the combined assurance efforts by all assurance providers and to ensure that appropriate action is taken to address identified areas for improvement.
- Ensures that management identify all relevant legislation that need to be adhered to and that adequate measures are in place to adhere to legislation.
- Receives updates on investigations into theft, fraud etc.
- Reviews any other matters that fall within the ambit of its charter.
- Reports to the Board of Trustees on overall risk management and the extent of any action taken by management to address areas identified for improvement.
- Oversight and review over the budgetary process.
- Reviews quarterly management accounts.
- Reviews Treasury management processes.

With the appointment of the new Board in December 2009, the Board representation to this committee has been strengthened with the committee now consisting of three non-executive board members vs. one member in the past. The role of the committee with regard to portfolio oversight is currently also being re-examined.

REPORTS



### **Risk Management Framework**

The NEF has a Risk Management framework in place which provides guidance on the risk management process to be followed.

The key elements of the Risk Management framework are:

- Policies.
- Structures.
- Processes (how we identify, assess, address and report on our risks).
- Standards for risk management at the NEF.

### **Risk management awareness**

Risk management awareness sessions are continuously held with management and staff to inculcate a risk management culture at the NEF.

### **Fraud Prevention Plan**

An approved Fraud Prevention plan is in place. The plan indicates the fraud risks identified, measures in place to mitigate against fraud risks and the fraud risk management strategy of the NEF.

### **Disaster Recovery Plan**

An approved disaster recovery plan is in place. Certain elements of the plan were tested during the current year.

### **Delegation of Authority Framework**

An approved Delegation of Authority framework is in place and is currently being re-examined to determine if it caters for the growth in operations.

### **Risk Assessment**

Operational risk assessments have been completed for all areas within the NEF and key strategic risks have been identified. Risk registers are updated on a quarterly basis in terms of any changes and/or progress made on actions identified. The updated strategic risk registers are submitted to the FRMC and the Board on a quarterly basis.

### **Risk Appetite**

The results of the risk appetite exercise have been used to calculate the Risk Bearing Capacity ("RBC") of the NEF. The RBC is defined as *"the financial loss that can be borne in the medium term without changing strategic plans or financing requirements, also defined as an acceptable amount of financial impairment that can be retained without a significant impact on the business within a finite time horizon"*. The RBC will help determine the

level of risk that the NEF is willing to accept without impacting on the NEF's future sustainability. In addition, various scenario planning and stress testing has been done on the NEF Statement of Financial Position to assist with planning.

#### Investment Portfolio

Risk management of the invested portfolio is a key focus of the FRMC. To this extent it has closely considered the risk management initiatives put in place by management on the current investment portfolio. A post-investment unit is in place to closely monitor and manage the portfolio. The post-investment unit has visited all investees during the March 2010 financial year. The results of the post-investment visits are reported to the Post-investment Management Committee on a monthly basis and summarised results reported to the FRMC on a quarterly basis. In addition, various initiatives i.e. restructuring of loans in distress, appointment of mentorship panel etc, have been put in place to assist clients who are struggling under current economic conditions.

The new Board has requested for FRMC to focus on and strengthen the monitoring of the portfolio. The role and mandate of the FRMC is currently being re-examined to include additional focus on portfolio oversight.

#### Compliance with laws and regulation

A compliance process is in place to ensure that all legislation that impacts on the NEF's operations are complied with. A compliance register has been prepared and is currently being monitored.

#### Finance and Risk Management Committee members:

The Committee was able to convene two meetings during the reporting period and the membership was as follows:

K.Seitshiro (*Trustee and Outgoing Chairperson*) \*  
 P. Buthelezi (*CEO - ex officio*)  
 A. Coombe (*Member*) \*\*  
 C. Clarke (*COO - Executive*) #  
 F. Gillion (*CIO - Executive*)  
 M. Mia (*Manager Risk and Compliance - Management*)  
 P. Pillay (*Human Resources Manager - Management*) •  
 A. Wright (*CFO - Executive Trustee*)  
 K. Thaver (*Trustee and Chairperson*) \*\*  
 A. Halstead (*Trustee*) \*\*  
 R. Garach (*Trustee*) \*\*

**“ It is clear that some sectors of the economy are still suffering, even though overall we are beginning to grow fairly well again. ”**

*The Hon. Minister of Trade and Industry,  
 Dr Rob Davies*

REPORTS

The attendance of members at meetings for the period under review was as follows:

Member	25.06.2009	14.10.2009
Kabelo Seitshiro *	✓	✓
Philisiwe Buthelezi	✓	Apology
Anthony Coombe **	✓	✓
Colin Clarke #	✓	✓
Frencel Gillion	✓	✓
Muhammed Mia	✓	✓
Prabashnee Pillay •	✓	✓
Andrew Wright	✓	✓
Kugan Thaver **		
Avril Halstead **		
Rakesh Garach **		

\* Term ended on 15 December 2009

\*\* Outgoing Audit Committee Chairperson and hence FRMC member until 19 February 2010

• HR Manager attending until the appointment of the Corporate Services Executive

\*\* Appointed on 19 February 2010

# Resigned 31 May 2010



**Mr Kugan Thaver**

Chairperson of the Finance and Risk Management Committee



*Ms Avril Halstead  
(Chairperson of the Human Capital and Remuneration Committee)*

## REPORT OF THE HUMAN CAPITAL AND REMUNERATION COMMITTEE

The Human Capital and Remuneration Committee ("HCRC") is a committee of the Board of Trustees. The primary purpose of the HCRC is to review, consider and make recommendations to the Board, on the human capital policies, procedures and structures that regulate the relationship between the NEF as the employer and its staff. The Committee sees its role as influencing and supporting the Human Capital Management Strategy of the NEF as well as overseeing and monitoring the level and remuneration structure of Executives and staff to ensure that the organisation's employees are fairly rewarded for their individual contributions to the organisation's overall performance. This is delivered within the mandate of its Charter as approved by the Board of Trustees and in accordance with the NEF's Delegation of Authority.

The year under review was fulfilling, rewarding and challenging with several initiatives having been concluded or being underway.

The Committee enjoys membership of representatives that bring a broad range of expertise and experience in human resources and other related fields, who are appointed by the Board on recommendation from the Executive and the Committee.

The Committee continued to provide oversight over the staff composition and its alignment in terms of its representivity with the country's demographics. The Committee also oversaw the implementation of the retention strategies that had been approved in the previous year. It was pleasing to see positive results in this regard, evidenced by the low turnover of staff, the accelerated implementation of the recruitment plan as well as the retention of 100% of participants on the NEF's Long Term Incentive Scheme.

### Performance for the Financial Year ended 31 March 2010

The Committee played a significant role in assisting the Executive with the appointment of the Corporate Services Executive whose main focus was to fulfil the function of providing leadership in the HR and Facilities Departments.

Globally organisations are dealing with staff attraction and retention issues and the NEF was not unique in this regard. The Committee continuously dealt with issues related to attraction and retention strategies, thereby leading to a significant decrease in the turnover rate within the organisation. Particular importance was placed on having the NEF's reward principles directly linked to performance and the achievement of stretch targets.

### Successes and highlights

Other successes and highlights in the last financial year include:

- Operating costs remaining within budget with some savings being reported where budgeted positions were not filled prior to year end;
- 50% of the year's overhead was spent on staff costs, compared to 54% in 2009 demonstrating that the NEF is each year achieving greater operational efficiency. Due to the level of investment in staff resources each year, much focus was placed on high calibre staff attraction, retention and well being;
- To streamline the attraction and retention process, competency profiles were created for all core positions and were utilised during the hiring process. This resulted in improvement in the attraction of talent particularly into core and key future positions. This recruitment drive enhanced employment equity statistics in terms of race and gender;
- The year also saw a reduction in the attrition rate by 5% compared to the 2008/2009 financial year. This achievement can be attributed to:
  - An increase in internal opportunities which created career progression for staff members;
  - Successful implementation of the Long Term Incentive and Retention Scheme; and
  - An improved reward market data analysis.
- The NEF's recruitment policy supports the principles and spirit of the Employment Equity Act and the organisation prides itself in having an employment profile that is closely linked to the country's demographics profile;

REPORTS



## Report of the Human Capital and Remuneration Committee (Continued)

- The NEF made significant progress in building core competencies and skills. As an academy of excellence involved in the implementation of a unique mandate, training and development has continuously focused on supporting employees to complete various qualifications ranging from academic qualifications, technical knowledge enhancement and leadership capability improvement;
- The National Empowerment Fund partners with KAELO as part of the Employees Assistance programme which provides support to employees and their immediate family members. Through KAELO, employees have access 24/7 to private and confidential support and counselling.

### Membership and Attendance

The membership of the HCRC is as follows:

Ms Avril Halstead (Chairperson and Trustee)  
 Ms Barbara Lombard (Member) \*  
 Adv Mike Marcus (Member)  
 Ms Angie Makwetla (Trustee) \*

During the year under review, the attendance record of the members of the HCRC was as follows:

Member	23.04.09	29.04.09	19.08.09	14.10.09
Avril Halstead	√	√	√	√
Barbara Lombard *	√	√	√	√
Adv. Mike Marcus	√	√	√	√
Ms Angie Makwetla *	-	-	-	-

- \* Ms Lombard resigned from the HCRC with effect from 15 October 2009
- \* Ms Makwetla was appointed to the HCRC on 19 February 2010, following her appointment to the Board of Trustees

REPORTS

**“ We will lead. Our people want government, business, labour and social organisations to work together to create a better economic future. ”**

*The Hon. Minister of Finance, Mr Pravin Gordhan  
 (Budget Speech 2010)*



**Ms Avril Halstead**

Chairperson of the Human Capital and Remuneration Committee

## REPORT OF THE PROCUREMENT COMMITTEE

The Procurement Committee (PC) is a sub-committee of the Executive Committee – Operations. The PC is established in terms of the NEF Supply Chain Management Policy to monitor and evaluate the NEF procurement activities and public tender processes so as to ensure that they comply with the NEF Supply Chain Management Policy and Supply Chain Management Regulations of the National Treasury.

The membership of the PC is made up of management representation as follows by appointment of the Chief Executive Officer:

Mr Andrew Wright	- Chairperson ( <i>CFO</i> )
Ms Hlengiwe Makhathini	- Deputy Chairperson ( <i>Umnotho Fund Manager</i> )
Mr Nhlanhla Nyembe	- Member ( <i>iMbewu Fund Manager</i> )
Mr Donovan Chimhandamba	- Member ( <i>Head: Strategic Projects Fund</i> )
Mr Mziwabantu Dayimani	- Member ( <i>Senior Legal Advisor</i> )
Ms Fatima Ebrahim	- Member ( <i>ASM: Projects Manager</i> )
Mr Selvan Naicker	- Member ( <i>Finance Manager</i> )
Mr Moemise Motsepe	- Member ( <i>Corporate Communications Manager</i> )
Ms Prabashnee Pillay	- Member ( <i>HR Manager</i> )
Ms Kedibone Mboweni	- Secretary ( <i>Head of Supply Chain Management</i> )

The committee met 16 times over the financial year to 31 March 2010.

Over and above procurement process compliance monitoring, the PC heard submissions for 7 public tenders (Request for Proposals – RFP), 6 requests for quotations (RFQ) and 18 procurement process submissions which it evaluated against the process set out in the NEF Supply Chain Management Policy, the National Treasury Supply Chain Management Regulations and Preferential Procurement Policy Framework Act and relevant practice notes.

**Table 3: Number of Public Tenders issued and considered**

FY 2009/10 Description	Tender Number
Legal Counsel Panel	RFP: NEF 01/2008
Mentorship Panel	RFP: NEF 05/2008
Public Investor Education	RFP: NEF 03/2008
Travel Management Services	RFP: NEF 01/2009
Marketing & Communication Agency	RFP: NEF 02/2009
Additional Mentorship Panel	RFP: NEF 03/2009
Purchasing of Office Automation	RFP: NEF 04/2008

The NEF, by virtue of its mandate to support and promote enterprises owned and managed by black people, focuses its efforts to identify and procure from businesses that have high levels of black ownership and whose owners are operationally involved in the management of the businesses. Further, the emphasis on developing black-owned emerging businesses in targeted sectors as part of the NEF Supply Chain Management Policy is underpinned by specific targets set in this regard in the annual business plan of the Supply Chain Management Department, under the direction of the Head of Supply Chain Management.

The Procurement Committee is tasked with monitoring progress against Broad-Based Black Economic Empowerment procurement targets and is especially pleased to report on the excellent results achieved where targets have been surpassed. Notwithstanding these results, the NEF is placing even more emphasis on supporting emerging black empowered businesses entering additional sectors that have been identified for the need for transformation, such as the ICT sector.

**Table 4: Broad-Based Black Economic Empowerment Procurement Targets and Results**

BEE Level	Below Level 4 Contribution	Below Level 4 Contribution	Level 4 Contribution and above	Level 4 Contribution and above
Target	-	-	60%	-
Value	8.68%	R5 591 335	91%	R58 778 534
Number	27%	79	73%	217

Of the Level 4 entities measured above, the following black ownership levels can be reported as having been supported through procurement activities at the NEF:

**Table 5: BEE Ownership levels reported within Level 4 and above contribution**

BEE Status - Ownership	Number of suppliers	Percentage by number	Percentage by value	Amount
1. 75.1% - 100%	*95	54%	30%	R 11 644 166
2. 50.1 - 75%	*37	21%	32%	R 12 143 965
3. 25.1 - 50%	*44	25%	37%	R 14 273 833

It is also important to note that as part of the NEF SME development programme within the Supply Chain Management Department, 90% of the above black-owned businesses are businesses that report turnovers less than R35 million per annum as reported below:

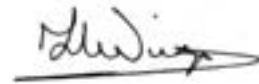
**Table 6: Black-owned suppliers by size**

Supplier by Size	EME <sup>1</sup> (Less R5 Mil)	QSE <sup>2</sup> (>R5 Mil <R35 Mil)	Large (Above 35 Mil)
Number of suppliers	153	15	8
Value	R 21 890 907	R 12 336 552	R 3 834 556
Percentage by value	58%	32%	10%
Percentage by number	87%	9%	4%

<sup>1</sup> EME: Exempt Micro Enterprise

<sup>2</sup> QSE: Qualifying Small Enterprise

Supply Chain Management practice has been maintained at the highest levels of good governance and the Procurement Committee is able to report that no procurement irregularities were identified in the financial year ending 31 March 2010.



**Mr Andrew Wright – CFO**  
Chairperson of the Procurement Committee

REPORTS

“

BEE is a necessary tool to ensure full participation of black South Africans in the economy of the country, but there should be a mix of leadership qualities and technical know-how when it comes to equity ownership to ensure a meaningful role in the company.

”

*Thuli Ndllovu (Umnatho Fund)*

## PROFILES OF THE BOARD OF TRUSTEES



Mr Ronnie Ntuli – Board Chairman

Mr Ntuli is founder and Chairman of Thelo Group, an independent investment company with interests in the aviation and resources sectors, and is also CEO of Incwala Resources, a R13.5 billion resources investment company focusing primarily on the Platinum Group Metals sector. Preceding his role at Thelo Group, in partnership with one of Africa's largest banking groups, Mr Ntuli founded Andisa Capital, a diversified financial services group with interests in private equity, stockbroking, capital markets, corporate finance and treasury solutions, of which he was CEO.

Mr Ntuli is Chairman of the NEF. He is also Deputy Chairman of Comair Limited, a company listed on the JSE Securities Exchange with investments in the Aviation and Travel sectors and operates airlines such as British Airways and Kulula. He is a member of the Honorary International Investor Council (HIIC) for the President of the Federal Republic of Nigeria. The HIIC is a body of leading international business-people that advises the President and members of the federal government on how

Nigeria can encourage further investment in the country. Mr Ntuli is a former President of the Johannesburg Chamber of Commerce and Industry and he is a member of a number of boards and public sector committees. He holds an LLB from the University of Edinburgh.



Ms Philisiwe Buthelezi – CEO

Ms Buthelezi holds an MBA (Corporate Finance), MSc (Economics: thesis not defended), and was appointed Chief Executive Officer in July 2005, bringing a diverse knowledge of banking, capital markets and international investment in South Africa. Her experiences encompass both private and public sector activities and provide the NEF with unparalleled understanding of the environment in which the organisation operates. Prior to joining the NEF, Ms Buthelezi worked for a French investment bank in London, held responsibility for Risk Management Control at the South African Reserve Bank and worked in the Treasury division at Standard Corporate and Merchant Bank. She was employed by **the dti** to promote European investment in South Africa. In 2002 she returned to South Africa to become the Chief Director of the Black Economic

Empowerment Unit of **the dti**, which developed the Government's Broad-Based Black Economic Empowerment strategy, the BB-BEE Act and the Codes of Good Practice. Ms Buthelezi is Chairman of Group Five and also serves on the Boards of Mvelaphanda Resources and Afripalm Resources.



Ms Nolitha Fakude

Ms Fakude holds a BA Honours (Psychology) and a Senior Executive Programme (SEP) from Harvard Business School. She is an executive director responsible for world wide Human Resources, Corporate Affairs and global Government Relations at Sasol Limited. Prior to joining Sasol, Ms Fakude was a Group Executive at Nedbank limited responsible for Corporate Affairs, Strategy and Transformation. She has served as a managing director of the Black Management Forum (BMF), as well as its national president. She has extensive experience in retail, having held various positions, including that of Group Human Resources and Head Corporate Affairs at Woolworths. Ms Fakude has served on various boards, including Harmony Gold Mines, Woolworths Holdings and BMF Investment

PROFILES

Company. She is a patron for WHEAT (Women's Hope: Education and Education Trust). She currently serves on the Sasol Limited board, Sasol Mining, Sasol Synfuels, Sasol OIL as well as Sasol Solvents boards.

Among some of her honorary accolades are the 2004 Most Influential Businesswomen by Financial Mail, Impala Platinum Young Entrepreneur Award, National Honour by the Golden Key Society and University of Johannesburg.



**Mr Rakesh Garach**

Mr Garach is a Chartered Accountant. He has previously served as a Chief Operating Officer for Deutsche Bank in South Africa, as part of the BEE transaction completed with Utajiri Investments. Mr Garach is one of the founding shareholders of Utajiri Investments, established to participate as an equity leader in Black Economic Empowerment initiatives in the Financial Services Industry. He served as a senior partner within Assurance Services at Ernst and Young (Johannesburg). He was appointed to the board of Peu Investment

Group and he was Vice President at CITIBANK (South Africa), Mr Garach gained enormous international experience while at Ernst and Young, having served at the offices in London and Amsterdam. He currently serves as a board member for HOSKEN Consolidated Investment Ltd, KZN Growth Fund Managers, Gauteng Partnership Fund and he chairs the Audit and Risk Committee of HCL. He further serves on the audit committees of the Financial Sector Charter.



**Ms Avril Halstead**

Ms Halstead holds an MBA, MA in Advanced Organisational Consulting and B.Comm Honours. She is a Chief Director with the National Treasury where she is responsible for oversight over State-Owned Enterprises. In this position she has led the design and implementation of financial structures for recapitalising state-owned enterprises, including Eskom, SAA and Denel.

She was instrumental in the unbundling and listing of Vodacom. Prior to joining the National Treasury, she served as a consultant at McKinsey and Company, the Nelson Mandela Foundation,

and Kerzner International, after having worked at Old Mutual as the Project Manager responsible for developing the concept for a BEE Investment Vehicle and at Wipcapital as a Financial Risk Management Advisor.



**Ms Matlhodi Angelina Makwetla**

Ms Makwetla holds a BA (Social Work) degree from the University of the North, a Management Certificate from Arthur D Little Management School in Cambridge, Massachusetts, and an SMME Management Certificate from Galilee College in Israel. She has extensive work and business experience, including the Randfontein Town Council, Market Research Africa and IBM. Ms Makwetla then ventured into entrepreneurship starting with a computer training centre, followed by Makwetla and Associates, a company specialising in Public Relations, event management, community development, sponsorship procurement and disability equity management. She sits on various boards which include Trans Caledon Tunnel Authority (TCTA) as a director, Business Women's Association Soweto (BWA), Thusanang

## Profiles of the Board of Trustees (Continued)

Women's Club (Soweto), Dr Sam Motsuenyane Rural Development Foundation and Education Africa. Ms Makwetla is also Chairman of Boipelo Community Development Foundation. She is a former trustee of the Market Theatre Foundation, founder of the Concerned Professional Women's Forum (CPWF), past vice-chairperson of the Human Rights Commission Trust, past court member for the Gauteng Consumer Affairs Court, past board member for NAFHOLD, the investment arm of NAFCOC. She has received various awards and recognition, including Shoprite/Checkers Woman of the Year Award (Media and Communications category), Visionary Leadership Award by the Soweto branch of the BWA, and Top Emerging SMME Empowerment Company by Impumelelo Top Companies, a recognition endorsed by the dti.



**Ms Jacqueline Mabohlale Molisane**

Ms Molisane holds a BA Honours in Economics and currently holds the position of Financial Analyst with the Department of Public Enterprises (DPE). She performs in-depth

financial and commercial analysis on the State Owned Enterprises (SOE) such as Eskom, PBMR and Broadband Infraco.

As a Financial Analyst, Ms Molisane focuses providing strategic advice on SOE performance; assessing SOE transactions such as acquisitions, mergers and disposals and securing the necessary funds for the SOE. She formed an integral part of the team tasked with securing funding from the World Bank and the African Development Bank.

Ms Molisane has more than eight years of experience in the Financial Markets specialising in Equities. As a qualified Equities Dealer, she traded across all sectors of the JSE (Johannesburg Stock Exchange) at local and international investment banks.

She worked as a portfolio manager at Investec Securities 'private clients division' where she managed investments of high net worth individuals providing equity trading, non-discretionary investment advice, asset selection and allocation and portfolio modeling and management. She then moved on to HSBC Bank and assumed a role as an Institutional Equity Trader executing and managing equity orders for the biggest asset managers both locally and internationally.

In 2004 Ms Molisane moved to Deutsche Bank where she was a Senior Associate and worked with asset managers and hedge funds as an Equity Sales Trader. She has worked as an investment consultant at a Venture Capital Fund where she is responsible for deal structuring, negotiation and implementation.



**Ms Nomalanga Mosala**

Ms Mosala holds a Human Resources Management Diploma from the Institute of Personnel Management. She has served in various leadership roles, these include vice-chairperson of the National Forestry Council (Water Affairs and Forestry), a member contractor working group in the development of the Forestry Charter, a member of Forest Governance Learning Group, Chairperson of Women in Water and Forestry and adjudicator Women in Forestry and Sanitation.

She is the founder and Chairperson of Nomalanga Farms (Pty) Ltd. She further worked as a Fund Manager for the Industrial Development Corporation and Director of Kgorong Management (Pty) Ltd a position in which she successfully secured contracts with IL Holdings Ramanas, IL Holdings Satco, IL Holdings/Global Forest Products, North West Provincial Government Office: the Premier's Office. She has extensive research experience and has completed assignments for Department: Foreign Affairs (ICT Master Plan), Moses Kotane Municipal Council

PROFILES

(LED Strategy, implementation and support), and Kgatleng River Municipal Council (LED Strategy). Among the awards and recognition received by Ms Mosala is the Female Farmer of the Year Export Top Producer 2008 by the Department: Agriculture and Environmental Affairs (KZN).



**Ms Zukiswa Ntlangula**

Ms Ntlangula is a qualified Attorney and Conveyancer and holds a BJuris, LLB, Masters Diploma in Human Resources. She is the founder and director of Ntlangula Inc, a Property, Commercial and Corporate law firm based in Rivonia. She was admitted to practice as an Attorney in 1995, offering legal advice to banks, development corporations and private business entities. She has served in the Commercial Department at Bowman Gilfillan Inc, Deloitte Consulting SA as a Change Management Consultant, and Thebe Investment Corporation as Group Company Secretary where she was instrumental in facilitating the implementation of some of the King II recommendations on corporate governance. Her combined experience

as an Attorney and Management Consultant has enabled her to lead and contribute on various assignments in the private and public sector. In 2007 she was appointed by the Gauteng Department of Economic Development for the restructuring of some of its statutory Boards.

She currently serves as a Board Member of the Gauteng Gambling Board and serves on its Audit and Risk Management Committee. She is also a member of the Steering Committee of the International Association of Gambling Regulators (IAGR), where she represents the interests of the South African Gambling Regulatory Institutions.



**Mr Allon Raiz**

Mr Raiz holds a B.Comm (Honours) in Marketing and is the founder and CEO of Raizcorp, a privately-held, profit-generating business incubator supporting in excess of 200 businesses. He is an author, a radio show host, and has written and hosted a primetime reality TV show all in the field of entrepreneurship. Mr Raiz is the co-founder of Entrepreneurs Organisation South Africa and

Rural Roots. He sits on the advisory and judging boards of numerous local and international NGOs and entrepreneurial awards.

He is an accomplished international speaker and is currently completing a doctorate in Entrepreneurial Studies and Innovation. Mr Raiz's passion, focus and interest on the development of entrepreneurs attracted the attention of the World Economic Forum which, on 11 March 2008, awarded him as a Young Global Leader.



**Mr Kugan Thaver**

Mr Thaver is a qualified Chartered Accountant, holds a Bachelor of Accounting Science Honours (with CTA) from the University of South Africa. He is currently employed by the Industrial Development Corporation (South Africa) as Head of the Transportation and Financial Services Strategic Business Unit.

He has previously served as Senior Account Manager in the Mining and Empowerment SBUs. Among the major empowerment transactions

## Profiles of the Board of Trustees (Continued)

for which he was a team leader are Incwala, Aquarius, Goldfields, Paracon, Don Group, ERPM and First Rand. Other internal responsibilities that he is charged with at the IDC are member of the Internal Audit Committee, and IDC Taxation Committee, Chairman of Herdsman's, Director of Incwala Resources and Tinga Game Reserve.



**Mr Thabiso Tlelai**

Mr Tlelai holds a Bachelor of Commerce degree from the University of Memorial of Newfoundland in Canada. Mr Tlelai has been self employed all his working life and his experience covers a wide variety of business sectors.

He is CEO of The Don Group, a JSE-listed company assuming the Group's leadership in early 2000 following his acquisition of the controlling shareholding. The Don is South Africa's largest suite hotel group and was voted 2nd place in the Top Empowerment Company Awards by Financial Mail in 2006.

He is a director of Basil Read Group a JSE-listed construction company, founder and director of Amabubesi Investments (Proprietary) Limited

an investment banking group, director and shareholder of Sobita Investments (Pty) Ltd and owner of Lengau Hotel in Bloemfontein and Lakeside and Victoria Hotels in Maseru. He is on the MATCH Advisory Council, a member of the Ministerial appointed Advisory Council to FIFA. He won the Special Free State Premier Excellence Award in 2008 and was the Bloemfontein of the year nominee in 2002. He was formerly a board member of South African Tourism (SAT) and Chairman of the Audit and Risk Committee, a board member of Free State Tourism, Chairman of the board of Tourism Business Council of South Africa (TBCSA) and Founding Member of the Tourism Grading Council of South Africa (TGCSA) established by Act of Parliament.

He was Chairman of the Free State Premier Economic Advisory Council and lectured at the Richard Branson Institute of Entrepreneurs.



**Mr Andrew Wright - CFO**

Mr Wright holds a B.Compt (UNISA) and he completed articles in auditing and accounting with BDO Spencer Steward in Parktown, Johannesburg in 1995. He is admitted as a

fellow of ICSA and ACCA (in the UK) and is also a member of Texas Society of Certified Public Accountants in the United States. His career experience includes investment banking, private equity and venture capital fund management as well as development finance in the public sector. He joined the National Empowerment Fund in 2004, to assist in the roll out and implementation of its approved business plan.

Mr Wright was later appointed Chief Financial Officer and thereafter, in 2006 as Chief Operating Officer, responsible for strategic and business planning and performance measurement of the organisation. He returned to the portfolio of Chief Financial Officer in 2008. Mr. Wright was appointed to the Board of Trustees in December 2009.

**“We journey into the future grateful for the benefit of the wisdom of the Minister of Trade and Industry, the Portfolio Committee on Trade and Industry, past and present members of the Board of Trustees, as well as the Executive and staff of the NEF.”**

*Mr Ronnie Ntuli (Chairman, Board of Trustees)*

PROFILES

## PROFILES OF THE EXECUTIVE COMMITTEE



**Ms Philisiwe Buthelezi**  
Chief Executive Officer  
MBA (Corporate Finance), MSc (Economics; thesis not defended)

Ms Buthelezi was appointed Chief Executive Officer in July 2005, bringing a diverse knowledge of banking, capital markets and international investment in South Africa. Her experiences encompass both private and public sector activities and provide the NEF with unparalleled understanding of the environment in which the organisation operates.

Prior to joining the NEF, Ms Buthelezi worked for a french investment bank in London, held responsibility for Risk Management Control at the South African Reserve Bank and worked in the Treasury division at Standard Corporate and Merchant Bank. She was employed by **the dti** to promote European investment in South Africa. In 2002 she returned to South Africa to become the Chief Director of the Black Economic Empowerment Unit of **the dti**, which developed the Government's Broad-Based Black Economic Empowerment strategy, the BB-BEE Act and the Codes of Good Practice. Ms Buthelezi is Chairman of Group Five and also serves on the Boards of Mvelaphanda Resources and Afripalm Resources.



**Mr Andrew Wright**  
Chief Financial Officer  
B.Compt (UNISA), FCCA (UK), FCIS (SA), CPA (TS)

Mr Wright's career experience includes investment banking, private equity and venture capital fund management as well as development finance in the public sector. He joined the National Empowerment Fund in 2004 to assist in the roll out and implementation of its approved business plan.

Mr Wright was later appointed Chief Financial Officer and thereafter, in 2006 as Chief Operating Officer, responsible for strategic and business planning and performance measurement of the organisation. He returned to the portfolio of Chief Financial Officer in 2008. Mr Wright was appointed to the Board of Trustees in December 2009.



**Mr Frencl Gillion**  
Chief Investment Officer  
B.Com (Hons) CA (SA)

Mr Gillion is a qualified chartered accountant with more than 13 years' experience in finance and banking in areas such as corporate finance, project finance and private equity. His experience was gained in both private sector and development finance institutions. He joined the NEF from Actis Private Equity where he was an investment manager in its BEE Fund. He previously held the position of Head: Corporate Finance at DBSA where he managed the DBSA's BEE investment portfolio as well as its Private Equity Fund of Funds Portfolio. Before then Mr Gillion was Head: Public Finance at African Merchant Bank (AMB). The division was responsible for providing corporate finance advice on numerous privatisation mandates.

Mr Gillion started his career with the IDC where he gained valuable investment experience in a broad range of economic sectors. He is currently a member of the Board of the South African Venture Capitalists Association (SAVCA).



**Ms Barbara L. Lombard**  
Corporate Services Executive

Born and brought up in Soweto, Johannesburg, Ms Lombard started her career as a Nursing Sister and then proceeded to study Industrial Relations - Wits Business School, Telecommunications Network Engineering - Matthew Bolton (UK) and Executive Development Programme - New York.

She has been an HR Practitioner for the last 20 years, having had the opportunity to work as an Industrial Relations Officer, Resourcing Specialist, HR Development Specialist, Talent Management and HR Generalist. In 2001 Ms Lombard moved out of HR, to manage a division of Technical/Engineering Specialists looking after some of the top 100 Companies Network Services.

Ms Lombard has had good exposure working for global companies within SA and outside of SA, including Alexander Forbes, JP Morgan, Telkom SA, British Telecoms, De Beers Consolidated Mines, Barclays Bank and Standard Chartered Bank. She is also a Non-Executive director for the Johannesburg Theatre.



**“ The establishment and promotion of a savings and investment culture amongst all black people, supported by clear and accessible savings and investment products, is key to assisting South Africans to move to full participation in the first economy. ”**

*Deidre Steeneveldt (Strategy and Planning)*

## CONTENTS

Approval of the Financial Statements	68
Report of the Independent Auditors	69
Statement of Financial Position	70
Statement of Financial Performance	71
Cash Flow Statement	72
Statement of Changes in Net Assets	73
Notes to the Annual Financial Statements	75
Administration	115

“ I would like to urge that because our collective future depends on the proper implementation of BEE, we should actively guard against its abuse or the making of mistakes in its implementation. ”

*Deputy President, Mr Kgalema Motlanthe, MP (Inaugural Meeting of BB-BEE Advisory Council)*



### Approval of the Financial Statements

The Trustees are responsible for the preparation, integrity and fair presentations of the report on performance information and the annual financial statements of the National Empowerment Fund. The financial statements presented on page 80 to 123 have been prepared in accordance with Generally Recognised Accounting Practice and South African Statements of Generally Accepted Accounting Practice and include amounts based on judgments and estimates made by management. The Trustees also prepared the other information included in the Annual Report and are responsible for both its accuracy and its consistency with the financial statements.

The going concern basis has been adopted in preparing the financial statements. The Trustees have no reason to believe that the Trust will not be a going concern in the foreseeable future based on forecasts and available cash resources. These financial statements support the viability of the Trust.

The report on performance information and the annual financial statements have been audited by the independent auditors, PricewaterhouseCoopers Inc, which was given

unrestricted access to all financial records and related data, including minutes of all meetings of the Trustees and Committees of the Board. The Trustees believe that all representations made to the independent auditors are valid and appropriate.

The annual financial statements, as set out, have been approved by the Board of Trustees and is hereby signed on its behalf.

**Ms Philisiwe Buthelezi**  
Chief Executive Officer  
Date: 31 July 2010

**Mr Andrew Wright**  
Chief Financial Officer  
Date: 31 July 2010

### Independent Auditor's Report for the Year Ended 31 March 2010

We have audited the annual financial statements of the National Empowerment Fund Trust, which comprise the statement of financial position as at 31 March 2010, and the statements of financial performance, changes in net assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 80 to 123.

#### Trustees' Responsibility for the Financial Statements

The Trust's trustees are responsible for the preparation and fair presentation of these financial statements in accordance with South African Statements of Generally Recognised Accounting Practice (GRAP) and in the manner required by the Public Finance Management Act, No 1 of 1999, as amended, and by the National Empowerment Fund Act, No 105 of 1998. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and General Notice 1570 of 2009 issued in the Government Gazette No 32758 of 27 November 2009. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the National Empowerment Fund Trust as at 31 March 2010, and its financial performance and its cash flows for the year then ended in accordance with South African Statements of Generally Recognised Accounting Practice (GRAP) and in the manner required by the Public Finance Management Act, No 1 of 1999, as amended, and by the National Empowerment Fund Act, No 105 of 1998.

#### Additional matters

We draw attention to the matters below. Our opinion is not modified in respect of these matters.

#### Report on other legal and regulatory requirements

In terms of the Public Audit Act of South Africa and General notice 1570 of 2009, issued in Government Gazette No. 32758 of 27 November 2009 we report that no significant exceptions have been identified on the report on predetermined objectives, compliance with the PFMA and the National Empowerment Fund Act and financial management (internal control).

#### Internal control

We considered internal control relevant to our audit of the financial statements and the report on predetermined objectives and compliance with the PFMA and National Empowerment Fund Act, but not for the purposes of expressing an opinion on the effectiveness of internal control. No significant matters have been noted.

*PricewaterhouseCoopers Inc.*

PricewaterhouseCoopers Inc

Director: Roy Harichunder

Registered Auditor

Pretoria

31 July 2010

NATIONAL EMPOWERMENT FUND TRUST  
REGISTRATION NUMBER: IT 10145/00

Statement of Financial Position  
as at 31 March 2010

		2010	2009
	Notes	R000's	R000's
<b>ASSETS</b>			
<b>Non-current assets</b>		<b>2 150 986</b>	<b>1 949 810</b>
Property and equipment	7	8 005	4 371
Intangible assets	8	5 278	7 088
Investments in associates	9	56 004	45 776
Investments available-for-sale	10	1 183 392	1 203 989
Originated loans and preference shares	11	898 304	688 586
Investments held-to-maturity	12	-	-
Investments at fair value through profit & loss	13	3	-
<b>Current assets</b>		<b>2 849 265</b>	<b>2 688 358</b>
Investments held-for-trade	14	50 182	60 186
Trade and other receivables	15	10 740	23 984
Cash and cash equivalents	17	2 788 343	2 604 188
<b>TOTAL ASSETS</b>		<b>5 000 251</b>	<b>4 638 168</b>
<b>CAPITAL AND LIABILITIES</b>			
<b>Capital and reserves</b>		<b>4 958 935</b>	<b>4 486 544</b>
Trust capital	18	2 468 431	2 156 789
Fair value reserves	19	1 050 381	1 088 596
Accumulated surplus		1 440 123	1 241 159
<b>Current liabilities</b>		<b>41 316</b>	<b>151 624</b>
Trade and other payables	21	41 316	29 460
Provisions	22	-	121 994
Finance lease liability	20	-	170
<b>TOTAL CAPITAL AND LIABILITIES</b>		<b>5 000 251</b>	<b>4 638 168</b>

Statement of Financial Performance  
for the year ended 31 March 2010

		2010	2009
	Notes	R000's	R000's
Revenue	5	434 936	416 276
Other Income		123 268	66
Transfers received from the dti to fund operations	23	116 000	-
Sundry income	6	7 268	66
Administration expenses		(142 957)	(108 340)
Net operating expenditure	25	(19 689)	(108 274)
Finance income		63 214	171 005
Interest received from originated loans and preference shares		106 594	103 015
Impairment of originated loans and preference shares	11.3	(171 269)	(89 077)
Net (loss)/income from originated loans and preference shares		(64 675)	13 938
Interest received on cash & cash equivalents		127 889	157 067
(Loss)/Income from investments		(25 966)	20 554
Dividends received		5 535	5 861
Loss on disposal of investments		(22)	-
Interest on investments held to maturity		-	1 895
Impairment - investments held-to-maturity		-	(1 895)
Impairment - investments available-for-sale	11.3	(24 111)	-
Fair value gains/(losses)		(7 368)	14 693
- Investments held-for-trade	14	(7 098)	387
- Investments at fair value through profit and loss	13	(10 497)	-
- Investments in associates	9	10 227	14 306
Income from asset management		181 406	20 758
Dividends from allocated investments		1 422	20 195
Interest received on cash proceeds of share offers		77 495	130 138
Income/(expenditure) on share offers		102 488	(129 575)
- Fair Value of investment disposals	10	130 224	-
- Less share offer costs	24	(27 736)	(129 575)
<b>SURPLUS FOR THE YEAR</b>	<b>25.1</b>	<b>198 964</b>	<b>104 043</b>

NATIONAL EMPOWERMENT FUND TRUST  
REGISTRATION NUMBER: IT 10145/00

**Cash Flow Statement**  
**for the year ended 31 March 2010**

		2010	2009
	Notes	R000's	R000's
<b>Cash flows from operating activities</b>	<b>28.1</b>	<b>(2 609)</b>	<b>(119 365)</b>
Cash receipts from transfers and revenue		123 243	(6 990)
Cash paid to suppliers and employees		(125 852)	(112 375)
<b>Cash flows from investing activities</b>		<b>(124 878)</b>	<b>92 864</b>
Additions to property, plant and equipment	7	(5 871)	(2 099)
Additions to intangible assets	8	(1 370)	(5 428)
Investment disbursements	28.2	(423 495)	(291 200)
Dividends received		25 459	26 056
Interest receipts		200 152	287 205
Repayments on Originated Loans		88 601	78 330
Share offer cash expense		(11 236)	-
Proceeds from sale of investments		2 882	-
<b>Net cash flows from financing activities</b>		<b>311 642</b>	<b>312 932</b>
Increase in trust capital	18	311 642	312 932
<b>Increase in cash and cash equivalents</b>		<b>184 155</b>	<b>286 431</b>
<b>Cash and cash equivalents at beginning of the year</b>		<b>2 604 188</b>	<b>2 317 757</b>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR</b>	<b>17</b>	<b>2 788 343</b>	<b>2 604 188</b>

The only significant non-cash flow item for the year relates to the MTN Bonus share offer (refer to note 26.4)

**Statement of Changes in Net Assets  
for the year ended 31 March 2010**

	Trust capital	Fair value reserves	Accumulated surplus	Total
	R000's	R000's	R000's	R000's
<b>Balance at 31 March 2008</b>	<b>1 843 857</b>	<b>1 289 434</b>	<b>1 137 116</b>	<b>4 270 407</b>
Trust capital introduced	312 932	-	-	312 932
Fair value gains/(losses) - investments available for sale	-	(200 838)	-	(200 838)
Surplus for the year *	-	-	104 043	104 043
<b>Balance as at 31 March 2009</b>	<b>2 156 789</b>	<b>1 088 596</b>	<b>1 241 159</b>	<b>4 486 544</b>
Trust capital introduced	311 642	-	-	311 642
Fair value gains/(losses) - investments available for sale	-	92 009	-	92 009
Fair value derecognition on disposal of MTN shares transferred to Statement of Financial Performance	-	(130 224)	-	(130 224)
Surplus for the year *	-	-	198 964	198 964
<b>BALANCE AT 31 MARCH 2010</b>	<b>2 468 431</b>	<b>1 050 381</b>	<b>1 440 123</b>	<b>4 958 935</b>

The fair value reserve is a non-distributable reserve comprising the fair value adjustment on available for sale investments in terms of IAS 39 (AC 133)

\* The retention of the surplus reported for the years ending 31 March 2008, 31 March 2009 and 31 March 2010 is still subject to National Treasury approval in terms of an application made by the Trust in terms of S 53(3) of the PFMA. The total of the application is made up as follows:

Surplus for the year ending	R000's
31 March 2008	951 814
31 March 2009	104 043
31 March 2010	198 965
<b>TOTAL SURPLUS</b>	<b>1 254 822</b>

“...We also have a duty as BEE practitioners to try and locate BEE ideologically and politically within an area where it is not seen as narrowly but as distributive, but where we can locate it within the strategy for grown and industrialisation of the economy...as it was originally intended...”

Mr Sandile Zungu (NEF BB-BEE Vision 2020 Seminar 24 May 2010)



**NATIONAL EMPOWERMENT FUND TRUST**  
**REGISTRATION NUMBER: IT 10145/00**

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**for the year ended 31 March 2010**

**1. NATURE OF BUSINESS**

The Trust was established through the National Empowerment Fund Act (Act 105 of 1998), to provide access to funding for black entrepreneurs and black empowered businesses through the Fund Management Division. In addition, the promotion of investment and savings activities is undertaken by designing and offering retail investment products through the Asset Management Division, which are offered for subscription by black investors. The NEF also has a Strategic Project Fund which provides funding for the mining and energy sectors amongst others.

The Trust operates as an agency of the Department of Trade and Industry (**the dti**) to which it reports as its Executive Authority under the auspices of the PFMA.

**2. ACCOUNTING POLICIES**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied unless otherwise stated.

**2.1 Basis of preparation**

The financial statements have been prepared on the historical cost basis, apart from certain financial instruments that are carried at fair value, in accordance with zStandards of Generally Recognised Accounting Practices (GRAP) and directive 5. The equivalent GAAP Statements would be as follows:

**Standard**

GRAP 1:	Presentation of financial statements	IAS 1 (AC 101): Presentation of financial statements
GRAP 2:	Cash flow statements	IAS 7 (AC 118): Statement of Cash Flows
GRAP 3:	Accounting policies, changes in accounting estimates and errors	IAS 8 (AC 103): Accounting policies, changes in accounting estimates and errors
GRAP 4:	The Effects of Changes in Foreign Exchange Rates	IAS 21 (AC112): The Effects of Changes in Foreign Exchange Rates
GRAP 5:	Borrowing Costs	IAS 23 (AC114): Borrowing Costs
GRAP 6:	Consolidated and Separate Financial Statements	IAS 27 (AC 132): Consolidated and Separate Financial Statements
GRAP 7:	Investments in Associates	IAS 28 (AC 110): Investments in Associates
GRAP 8:	Investments in Joint Ventures	IAS 31 (AC 119): Interests in Joint Ventures
GRAP 9:	Revenue from Exchange Transactions	IAS 18 (AC 111): Revenue
GRAP 10:	Financial Reporting in Hyperinflationary Economies	IAS 29 (AC 124): Financial Reporting in Hyperinflationary Economies
GRAP 11:	Construction Contracts	IAS 11 (AC 109): Construction Contracts
GRAP 12:	Inventories	IAS 2 (AC 108): Inventories
GRAP 13:	Leases	IAS 13 (AC 105): Leases
GRAP 14:	Events After the Reporting Date	IAS 14 (AC 107): Events after the Reporting Period
GRAP 16:	Investment Property	IAS 40 (AC 135): Investment Property
GRAP 17:	Property, Plant and Equipment	IAS 16 (AC 123): Property, Plant and Equipment
GRAP 19:	Provisions, Contingent Liabilities and Contingent Assets	IAS 37 (AC 130): Provisions, Contingent Liabilities and Contingent Assets
GRAP 100:	Non-current Assets Held for Sale and Discontinued Operations	IFRS5 (AC 142): Non-current Assets Held for Sale and Discontinued Operations
GRAP 101:	Agriculture	IAS 41 (AC 137): Agriculture
GRAP 102:	Intangible Assets	IAS 38 (AC 129): Intangible Assets

**NATIONAL EMPOWERMENT FUND TRUST**  
**REGISTRATION NUMBER: IT 10145/00**

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**for the year ended 31 March 2010 (Continued)**

The recognition and measurement principles in the above GRAP and GAAP Statements do not differ or result in material differences in items presented and disclosed in the financial statements. Where a GRAP standard has not been released then the appropriate GAAP statement is applied. The application of GRAP versus GAAP is also considered in line with the current pending application to have the Trust reclassified from a PFMA Schedule 3A entity in which case GRAP would no longer apply. The implementation of GRAP has resulted in the following significant changes in the presentation of the financial statements:

**i. Terminology differences:**

Standard of GRAP	Replaced Statement of GAAP
Statement of Financial Performance	Statement of Comprehensive Income
Cash Flow Statement	Statement of Cash Flows
Statement of Changes in Net Assets	Statement of Changes in Equity
Net assets	Equity
Surplus/deficit for the period	Profit/loss for the period
Accumulated surplus/deficit	Retained earnings
Contributions from owners	Share capital
Reporting date	Balance sheet date

**ii. The cash flow statement is prepared in accordance with the direct method in terms of GRAP 2.**

**iii. Specific information where relevant would be presented separately on the Statement of Financial Position or in the notes, such as:**

- Receivables from non-exchange transactions, including taxes and transfers;
- Taxes and transfers payable;
- Trade and other payables from non-exchange transactions.
- Gross carrying value of retired, temporarily idle and fully depreciated Property and Equipment.

**iv. Amount and nature of any restrictions on cash balances where relevant must be disclosed.**

Paragraphs 14 of GRAP 1 has been implemented as reflected in Note 25.1 as the budget and the financial statements have not been prepared on the same accounting basis since the budget is prepared on a cash basis and the financial statements have been prepared on an accrual basis.

In view of the specialised nature of the entity and specific disclosure requirements in terms of GAAP (in particular financial instruments), the financial statements have been prepared using GAAP terminology, where GRAP terminology above does not apply.

**v. Adoption of new GAAP standards and interpretations effective for the current year:**

**(a) Standards, amendment and interpretations effective for financial years commencing from 1 January 2009**

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2009 and have been adopted by the Trust:

- Amendment to IFRS 7 (AC 144) - *Financial Instruments - Disclosure* (effective 1 January 2009)  
The amendment sets out new disclosure requirements for financial instruments which have been applied in the financial statements as far as applicable and practicable.
- IAS 1 (AC 101) - *Presentation of Financial Statements* - revised (effective 1 January 2009)  
The standard sets new requirements for the format of the financial statements. Although the standard affects the presentation of the financial statements, there was no quantitative impact since the Trust applies GRAP 1 in this regard.
- IAS 23 (AC 114) - *Borrowing Costs* - revised (effective 1 January 2009)  
The standard requires that all borrowing costs related to the acquisition or construction of qualifying assets be capitalised. The previous standard allowed the expensing of such borrowing costs. There was no impact on the current year financial statements as the Trust did not acquire any qualifying assets and the Trust applies GRAP 5 in this regard.
- Amendment to IAS 32 (AC 125) - *Financial Instruments - Presentation*, and IAS 1 (AC101) - *Presentation of Financial Statements - relating to puttable instruments* (effective 1 January 2009)  
The amendment sets out new requirements for puttable financial instruments, but has no impact as the Trust has not issued puttable financial instruments.
- IFRIC 15 (AC 448) - *Agreements for the Construction of Real Estate* (effective 1 January 2009)  
The interpretation defines the scope of IAS 11 Construction Contracts. There was no impact on the current year financial statements as no contracts for the construction of real estate was entered into during the current financial year.

**(b) Standards, amendments and interpretations early adopted by the Trust**

There were no standards, amendments and interpretations to published standards that have been published and are mandatory for the Trust's accounting periods beginning after 31 March 2010 or later periods, which the Trust has early adopted.

**(c) Standards, amendments and interpretations effective from years commencing 1 January 2009 but which are not relevant.**

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2009 but they are not relevant to the Trust's operations:

- Amendments to IFRS 1 (AC 138) - *First-Time Adoption of International Financial Reporting Standards* and IAS 27 (AC 132) - *Consolidated and Separate Financial Statements: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate* (effective 1 January 2009) The amendment allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements.
- Amendment to IFRS 2 (AC 139) - *Share-Based Payments* (effective 1 January 2009)  
The amendment sets out new requirements for non-vesting conditions relating to share-based payments. There is no relevance to the Trust since the Trust does not enter into share-based payments.
- IFRS 8 (AC 145) - *Operating Segments* (effective 1 January 2009)  
The standard sets out new requirements for operating segment disclosure, but has no impact as the company is not listed and therefore not required to comply. This statement will be superseded by GRAP 18 when it is released.

**(d) Standards, amendments and interpretations to published standards that are not yet effective and have not been early adopted by the Trust.**

The following standards, amendments and interpretations to published standards have been published and are mandatory for the Trust's accounting periods beginning on or after 1 April 2010 or later periods, and have not been early adopted by the Trust:

- IFRS 3 (AC 140) - *Business Combinations* - revised (effective 1 July 2009)  
The standard sets out new requirements for business combinations. The scope of the impact on the financial statements cannot be readily determined at the present time as this would depend on the number and nature of transactions entered into during future financial years.

NATIONAL EMPOWERMENT FUND TRUST  
REGISTRATION NUMBER: IT 10145/00

NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 March 2010 (Continued)

- IFRS 9 (AC 146) - Financial Instruments (effective 1 January 2013)  
The standard sets out new requirements for financial instruments, simplifying the categorisation between investments held at amortised cost and those held at fair value. The impact on the financial statements will relate mainly to the recognition of fair value gains. At this time management has not performed a detailed review of the potential impact as IFRS 9 may still be subject to significant revision before the effective date.
  - Amendment to IAS 24 (AC 126) - *Related party disclosures* (effective 1 January 2011)  
The amendment clarifies the definition of a related party and the disclosure requirements. The standard does not apply as in terms of GRAP international public accounting standards (IPSOS 20) will be used by the Trust.
  - IAS 27 (AC 132) - *Consolidated and Separate Financial Statements* - revised (effective 1 July 2009)  
The standard sets out new requirements for consolidation of subsidiaries with the biggest impact relating to equity transactions with minorities and the related recognition and derecognition of goodwill which will no longer be recognised in profit and loss. The impact on the financial statements cannot be readily determined at the present time as this would depend on the number and nature of transactions entered into in the future and the superceding of this statement by GRAP 6.
  - Amendment to IAS 39 (AC 133) - *Financial Instruments - Recognition and Measurement* (effective 1 July 2009)  
The amendment sets out new requirements for eligible hedging instruments, and it is expected to have only a limited impact on the Trust's operations but which will be assessed against GRAP 104 when the latter is released.
- (e) Revisions and amendments that will have little or no effect on the Trust:**
- Amendment to IFRS 2 (AC 139) - *Share-based payments - Group cash-settled share-based payment transactions* (effective 1 January 2010)  
The amendment sets out new requirements for the recognition of share-based payments when the employees of subsidiaries receive share-based payments related to the holding company's equity instruments. There will be no impact on the Trust's financial statements.
  - Amendments to IAS 32 (AC125) - *Financial instruments: Presentation on classification of rights issues* (effective 1 February 2010)  
The amendment sets out requirements for the recognition of rights issues that are denominated in a currency other than the issuer's functional currency. This is expected to have no impact as the Trust does not currently have foreign shareholders.
- (f) Interpretations to existing standards that are not yet effective and not relevant for the Trust's operations.**
- The following interpretations to existing standards have been published and are mandatory for the Trust's accounting periods beginning on or after 1 January 2009 or later periods but are not relevant for the Trust's operations:
- IFRIC 17 (AC450) - *Distribution of Non-cash Assets to Owners* (effective 1 July 2009)  
The interpretation sets requirements for the measurement of distribution of non-cash assets to owners. This is expected to have minimal impact.
  - IFRIC 18 (AC 451) - *Transfer of assets from customers* (effective 1 July 2009)  
The interpretation sets out requirements for the accounting treatment when assets are received from customers in order to provide subsequent services to them. This is expected to have minimal impact.
  - IFRIC 19 - *Extinguishing Financial Liabilities with Equity Instruments* (effective 1 July 2010)  
The interpretation sets requirements for the measurement of extinguishing financial liabilities with equity instruments and the related profit or loss which will be based on the fair value of the equity instruments. This is expected to have limited to no impact on the Trust financial statements.

## 2.2 Consolidation

### (a) Joint Ventures

GRAP 8 exempts venture capital organisations from equity accounting investments in joint ventures, if they upon initial recognition, decide to designate the investment at fair value through profit and loss. As a venture capital organisation, the Trust has elected to apply this exemption and accordingly all such investments are not equity accounted but designated as investments at fair value through profit and loss in terms of IAS39 (AC 133).

### (b) Associates

Associates are all entities over which the Trust has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

GRAP 7 exempts venture capital organisations from equity accounting investments in associates, if they upon initial recognition, decide to designate the investment at fair value through profit and loss. As a venture capital organisation, the Trust has elected to apply this exemption and accordingly all such investments are not equity accounted but designated as investments at fair value through profit and loss in terms of IAS39 (AC 133).

## 2.3 Revenue recognition

Revenue is recognised when it is probable that future economic benefits will flow to the enterprise and these benefits can be measured reliably. It is probable that future economic benefits will flow to the Trust and when specific criteria have been met for each of the Trust activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies related to the transaction have been resolved.

Revenue is comprised of dividends received, interest received and Parliament voted transfers.

Interest is recognised on a time-apportioned basis using the effective interest rate method. When a receivable is impaired, the Trust reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

Dividends are recognised when the right to receive payment has been established.

## 2.4 Property and equipment

Property and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Trust and if the cost of the item can be reliably measured. All repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to reduce the cost of assets to their residual values over their estimated useful lives as follows:

Computer equipment and intangibles	33.30%
Leasehold improvements	20%
Audio visual equipment	33.33%
Motor vehicles	25%
Office equipment	20% - 40%
Furniture and fittings	16.67%
Paintings	2%

NATIONAL EMPOWERMENT FUND TRUST  
REGISTRATION NUMBER: IT 10145/00

NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 March 2010 (Continued)

The assets' residual values and useful lives are reviewed and adjusted, if appropriate, at each reporting date. Should residual values or useful lives be adjusted, the adjustment is accounted for and disclosed as a change in accounting estimate.

Assets under R2 000 are written off on purchase.

An asset's carrying amount is written down to its recoverable amount if the assets' carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amounts and are included in the income statement, under the 'other gains/losses' line.

2.5 Impairment of non-financial assets

The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

Property and equipment and other non-current assets, including intangible assets, are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets with indefinite useful lives are reviewed for impairment at each reporting date regardless of indication of impairment or not. An impairment loss is recognised in the Statement of Financial Performance for the amount by which the carrying amount of the asset exceeds its recoverable amount, that is, the higher of the asset's net selling price and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the units. The impairment loss is allocated to reduce the carrying amount of the assets of the unit in the following order:

- first, to reduce the carrying amount of any goodwill allocated to the cash-generating unit and
- then, to the other assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

2.6 Intangible assets

Acquired computer software is capitalised on the basis of cost incurred to acquire and bring to use the specific software purchased in order to distinguish from any internally generated assets which are not capitalised and is amortised on a straight-line basis over the expected useful lives of the assets, usually 3 to 5 years. Intangible assets with an indefinite useful life are not amortised. The useful lives of intangible assets that are not being amortised are reviewed annually to determine whether events and circumstances continue to support an indefinite useful life assessment for those assets.

2.7 Cash and cash equivalents

Cash and cash equivalents are carried at amortised cost at balance sheet date. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks and other short-term highly liquid investments with original maturities.

2.8 Financial assets

The Trust classifies financial assets in the following categories: investments at fair value through profit and loss; originated loans and preference shares; investments held-to-maturity; and investments available-for-sale. Management determines the classification of investments at initial recognition.

**(a) Originated loans**

Originated loans are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after balance sheet date. These are classified as non-current. They arise when the Trust provides money, goods and/or services directly to a debtor with no intention of trading the originated loan.

**(b) Investments held-to-maturity**

Investments held-to-maturity are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Trust has the positive intention and ability to hold to maturity. These assets are classified as non-current unless the maturity date is less than 12 months after reporting date.

**(c) Investments carried at fair value through profit and loss.**

This category has two subcategories: financial assets held-for-trading and those designated at fair value through profit and loss on inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated. Assets in this category are classified as current assets except for investments in associates designated at fair value through profit and loss which are classified as non-current.

Financial assets are designated as fair value through profit and loss in instances where: (i) they meet the definition of held for trading in that they are principally held with the intention to earn a return or (ii) they represent assets that are managed with reference to performance assessed against the Strategic Projects Fund investment strategy, and the basis on which their performance is reported to key internal and external stakeholders is at fair value.

**(d) Available-for-sale investments**

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any other category. These are included in non-current assets unless management intends to dispose of the investment within 12 months of the reporting date.

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to the needs of liquidity or changes in interest rates, exchange rates or equity prices or non-derivatives that are not classified in any other category.

Dividend income is recognised when the rights to receive payment has been established and interest income is recognised on a time apportionment basis using the effective interest rate method and is recognised in profit and loss as part of other income.

**(e) Embedded derivative financial instruments**

The Trust has invested in instruments which in some instances contain embedded derivatives. These derivatives are part of the equity exit and conversion mechanisms used by the NEF. In such instances where an embedded derivative is identified, these are treated and disclosed as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract; the terms of the embedded derivative are the same as those of a stand alone derivative; and the combined contract is not recognised at fair value with any gains or losses from the change in fair value being recognised in the statement of financial performance (profit and loss). Upon identification and separate disclosure, the host contracts are accounted for and measured applying the rules of the relevant category of that financial instrument with the embedded derivative portion being recognised at fair value through profit and loss (held for trading).

**(f) Trade and other receivables**

Trade and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

**NATIONAL EMPOWERMENT FUND TRUST**  
**REGISTRATION NUMBER: IT 10145/00**

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**for the year ended 31 March 2010 (Continued)**

**(g) Preference shares**

Preference shares are initially measured at fair value using the present value of the preference shares at initial recognition, and are subsequently measured at amortised cost, using the effective interest rate method.

**Recognition and de-recognition**

Regular way purchases and sales of financial assets at fair value through profit and loss, held-to-maturity and available-for-sale are recognised on trade date, which is the date on which the Trust commits to purchase or sell the asset. Loans are recognised when cash is advanced to the borrowers. Financial assets are initially recognised at fair value including transaction costs, except financial assets at fair value through profit and loss that are initially recognised at fair value with transaction costs being expensed on date of recognition. Financial assets are derecognised when the right to receive cash flows from the financial assets have expired or where the Trust has transferred substantially all risks and rewards of ownership.

**Measurement**

Available-for-sale financial assets and investments at fair value through profit and loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest rate method. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit and loss category are included in the Statement of Financial Performance in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the Statement of Financial Performance.

**Fair Value**

The fair values of listed investments in active markets are based on current prices.

For unlisted securities and financial assets which are not traded, the Trust establishes fair value by using enterprise valuation techniques. These include the use of equity based valuations derived out of enterprise valuations on discounted price earnings multiples less non-current liabilities. The latest company earnings as reported in their financial statements, comparable to other similar sector companies are used to perform the valuations. These valuation techniques are commonly used by market participants and based on South African Venture Capital Association guidelines.

**Fair value estimation – Day 1 profit**

The Trust relies on enterprise value calculations when it evaluates associates fair valued through profit and loss as well as to investments available for sale on behalf of funding applications. To some extent there is claimed discount on enterprise value built into valuation methodologies that the Trust accepts in these equity purchase transactions, however the Trust does not factor these into the fair value of equity investments in associates in the form of a Day 1 profit. These implied discounts would only relate to investments in associates which are classified as fair valued through profit and loss and would only relate to acquisitions in their first year whose fair values closely match costs of equity investment. Any implied First day profits would be immaterial since equity acquisitions are subscribed for at par value and at most would be 10% to 15% of the par value of such equity.

## 2.9 Impairment of financial assets

### (a) Assets carried at amortised cost

The Trust assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the assets (a loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Trust about, amongst others, the following loss events:

- i. significant financial difficulty of the issuer or obligated party;
- ii. a breach of contract, such as a default or delinquency in interest or principal payments;
- iii. the granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- iv. it becomes probable that the borrower will encounter financial difficulties or become bankrupt; or
- v. the disappearance of an active market for that financial asset because of financial difficulties; or
- vi. observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
  - adverse changes in the payment status of borrowers in the group; or
  - national or local economic conditions that correlate with defaults by borrowers.

The Trust first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Trust determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the assets in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the Statement of Financial Performance. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Trust may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a financial asset reflects the cash flows that may result from foreclosure less the cost of obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar risk characteristics (i.e. on the basis of the Trust's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows of such assets and are indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

**NATIONAL EMPOWERMENT FUND TRUST**  
**REGISTRATION NUMBER: IT 10145/00**

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**for the year ended 31 March 2010 (Continued)**

Estimates of changes in future cash flows for a group of assets reflect and are consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Trust to reduce any differences between loss estimates and actual loss experience.

When a loan becomes uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are recognised as bad debts recovered in the Statement of Financial Performance.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. The amount of the reversal is recognised in the Statement of Financial Performance.

**(b) Available for sale investments**

Available for sale investments are evaluated each year for impairment against any significant adverse changes that would have affected the investment in the market, legal, technological and economic environment. This evidence is captured through internal reporting generated by the Post Investment Department which is completed on a bi-annual basis for each investment. This reporting includes a financial evaluation of actual operating cash flows against budget and where these are seen to have permanently deteriorated, then the investment's recoverable amount is set to its fair value less cost to sell, based on the fair value methodologies disclosed in note 2.8. The difference between the carrying amount and the recoverable amount, being the impairment loss, is recognised immediately in profit and loss.

**(c) Renegotiated originated loans**

Originated loans that have been subject to impairment losses and whose settlement terms have been formally and legally renegotiated are reset in terms of the assessment of the objective evidence for impairment losses. Renegotiated loans are subject to ongoing review to determine whether they should thereafter be considered as impaired or past due following their reset.

**2.10 Off setting**

The Trust offsets assets and liabilities if, and only if, the Trust:

- has a legally enforceable right to set off the recognised amounts; and
- intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

**2.11 Leases**

Leases, where the significant portion of the risk and rewards of ownership are retained by the lessor, are classified as operating leases. Payments made under operating leases (net of any incentive received from the lessor) are charged to the Statement of Financial Performance on the straight-line basis over the period of the lease.

Leases, where the Trust has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the lease equipment and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in finance lease liabilities. The interest element of the finance cost is charged to the Statement of Financial Performance over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term.

#### 2.12 Employee benefits

##### a) Pension obligations

The Trust contributes to a provident fund, which is a defined contribution plan, on a monthly basis. A defined contribution plan is one under which the Trust pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further contributions when the fund does not hold sufficient assets to pay all benefits relating to employee service in the current and prior periods. The regular contributions constitute the net periodic costs for the year in which they are due, and are included in staff costs. Short - employee benefits are recognised as an expense in the accounting period when the services are rendered.

##### b) Bonus plan

The Trust recognises a liability and an expense for bonuses. The Trust recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

#### 2.13 Provisions

Provisions are recognised when the Trust has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation, and is measured at management's best estimate of the amount that would be required to settle or transfer the liability at balance sheet date. Long-term provisions are discounted to net present value, with the relevant increase in the provision due to the passage of time being recognised as an interest expense.

#### 2.14 Trade Payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate.

### 3. FINANCIAL RISK MANAGEMENT

#### 3.1 Credit risk

Credit risk arises from cash and cash equivalents, deposits with banks and also comprises the potential loss on financing due to counterparty default on the advancing of Originated Loans as well as any trade and other receivables arising out of investment activities of the Trust.

The risk of default on Originated Loans is actively managed especially through the fully established Post Investment Department, responsible for the ongoing performance monitoring of the Originated Loans portfolio.

For banks, only the three National Treasury approved banks in use by the Trust are used for cash and call deposits and these are split between the banks as follows.

**NATIONAL EMPOWERMENT FUND TRUST**  
**REGISTRATION NUMBER: IT 10145/00**

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**for the year ended 31 March 2010 (Continued)**

Cash Balances as at 31 March 2010

Bank	Credit Ratings	Closing balances
		R000's
Standard Bank	AA+	780 188
First National Bank	A-2	741 915
South Africa Reserve bank	BAA	856 643
Rand Merchant Bank	A-2	409 594
<b>TOTAL CASH HELD WITH BANKS</b>		<b>2 788 341</b>

The Trust's maximum exposure to credit risk is represented by the carrying amount of all the financial assets determined to be exposed to credit risk (net of impairment losses where relevant).

The impairment methodology utilised by the Trust results in originated loans that are in excess of 60 days in arrears ie, two repayment instalments in arrears, being subjected to a level of impairment, in line with the overall period in arrears. The Originated Loans that have not been impaired all remain at the 60 day period of ageing, in that they remain regularly monitored with a high likelihood that some repayment instalments in the future will be missed by the borrowers. This risk of default is further managed with ongoing feedback on repayment activity to the Post Investment Department of the Trust.

None of the financial assets that are performing have been renegotiated in the last year.

Originated loans and preference shares are individually impaired. After impairments the originated loans and preference shares (Note 11.1) may be analysed as follows:

Monitoring Category	2010	2009	Monitoring Category	2010	2009
	R000's	R000's		R000's	R000's
Normal monitoring and performing loans	544 383	538 434	Normal monitoring and performing preference shares	128 340	64 287
Close monitoring	107 799	85 865	Close monitoring	-	-
Partly/fully impaired	315 448	120 463	Partly/fully impaired	1 304	-
Renegotiated loans	24 140	-			
<b>TOTAL ORIGINATED LOANS</b>	<b>991 770</b>	<b>744 762</b>	<b>TOTAL PREFERENCE SHARES</b>	<b>129 644</b>	<b>64 287</b>

The average loan disbursed is R 5 700 000, with the minimum being R200 000, and the maximum being R51 800 000.

**Collateral obtained by the Trust**

The development finance mandate of the Trust prescribes that it often advances debt funding to black empowered entities that would not normally be able to raise such funding under normal credit lending conditions. Any collateral raised in respect of such funding advanced represents a commitment from the borrower rather than commercially collectable collateral on which a funding decision is based. The Trust hence does not place much reliance on collateral obtained on originated loans but has undertaken a fair value assessment of collateral on impaired loans. To the extent that a fully impaired loan is in breach and is transferred for legal collection, then the Trust considers the values of any nominal collateral available against such collections.

Collateral available is fair valued by nature of underlying asset as follows:

Collateral held in favour of impaired loans	Land & buildings	Property & equipment	Furniture & equipment	Motor vehicles	Office equipment	Total
Book Value	15 855	64 396	5 812	11 992	1 002	99 057
Fair Value	11 098	21 463	1 937	3 997	334	38 829

Collateral available against current fully impaired loans that are in breach and have been transferred for legal collections includes the following forms:

- Special notarial bonds on any plant and equipment funded
- General notarial bonds on movable assets
- Cession of trade debtors and specific cash balances
- Mortgage bonds on land and buildings

Any fair value of such collateral is considered against collectible debt at outstanding amounts, including accrued interest.

The book value of collateral represents the original collateral value discounted for loss of asset value over time.

The fair value of collateral represents the book values further discounted for costs estimated to be incurred by the trust in liquidating/collecting on the collateral.

**3.2 Market risk**

Market risk represents the risk that the value of investments will fluctuate because of changes in market interest rates and prices, whether those changes are caused by factors specific to individual instruments or its issuer or factors affecting all instruments traded in the market. Market risk embodies not only the potential for loss but also the potential for gain.

**3.2.1 Interest rate risk**

The Trust is exposed to interest rate risk through the financing of investment proposals, at fixed as well as variable interest rates, as well as cash management activities. Changes in market interest rates affect the fair value of cash and investment assets. Investment interest rate risk is managed through the investment policy while cash returns are managed through the cash management policy.

This risk materialises in the Trust's significant cash portfolio invested in various interest earning bank treasury and call accounts. The Trust was partially dependent on interest income from cash on call to fund its annual operations, and will become more dependent on interest income from cash balances as well as from the originated loans portfolio to fund its annual operational requirements going forward.

A significant part (2010 – 82%; 2009 – 82%) of the Trust's investment portfolio is advanced in the form of originated loans. These loans are advanced at interest rates which are fixed as well as others that are linked to the prime lending rates over terms generally ranging from 5 to 8 years.

**NATIONAL EMPOWERMENT FUND TRUST**  
**REGISTRATION NUMBER: IT 10145/00**

**NOTES TO THE ANNUAL FINANCIAL STATEMENTS**  
**for the year ended 31 March 2010 (Continued)**

The Trust individually assesses the effect of interest rate risk in a series of scenario and sensitivity analyses of each individual transaction that the Trust funds. In these scenarios the impact of an interest rate change is assessed against the businesses' ability to meet the increased charge in lending rates out of own cash flows. The decision to grant funding to applying businesses is fundamentally based on these sensitivity analyses. The underlying risk therefore within the range of interest rate changes run in sensitivity analyses is the business risk associated with the approval of loans to applying businesses. This business risk is assessed regularly by the Post Investment department of the Trust and is assessed on a risk rating scale as follows performing (low risk deals), impairments (medium risk deals) and workouts (high risk deals). As at 31 March 2010, the portfolio was assessed from this risk rating approach as follows:

Category	% by number	% by value
Performing	42%	72%
Impairments	16%	8%
Workouts	42%	20%

The impact of this risk assessment has been catered for in the impairment provisions against the individual loans.

During the year under review and in response to the effects that the global economic crisis was having on the originated loans portfolio, the Trust approved an originated loans restructuring programme for potentially eligible investments. This programme allows for originated loans that would be performing if it were not for the impact of the economic downturn conditions to undergo a restructuring resulting in the deferment of up to half of outstanding capital for up to three years with the coupled conversion of interest charges from variable to fixed rates.

The potential effects of eligible loan restructurings in terms of this programme would not have a significant bearing on interest rate risk since these loans are associated with the smaller end of the portfolio and would only be applied in isolated and deserving cases. This programme is, however, to be closely monitored as well as any potential effects on interest rate risks.

As at the reporting date, 27 loans had undergone restructuring in terms of this approved business rescue programme.

**Interest rate risk sensitivity analysis**

In assessing the impact of changes in interest rates on the most impacting areas of the investment activities of the Trust, the effect of a 1% change in the interest environment around originated loans and cash and cash equivalents was considered as follows:

Financial Instrument	Interest earned	Sensitivity of 1% effective adjustment
	R000's	R000's
Originated loans	88 108	10 000
Cash and cash equivalents	205 385	27 883
<b>TOTAL EFFECT ON PROFIT/LOSS</b>	<b>293 492</b>	<b>37 883</b>

**3.2.2 Foreign exchange risk**

The Trust does not have exposure to foreign exchange risk beyond that associated with occasional foreign currency based goods and supply purchases primarily denominated in US Dollar and EU Euro currencies. These occur in the operational management of the Trust and in some instances in the funding of property and equipment purchased by the Trust's investee companies from overseas suppliers in foreign currency denominated transactions. These transactions are undertaken at spot rates and no forward cover contracts are entered into by the Trust. No financial assets or liabilities at year end are denominated in foreign currencies.

**3.2.3 Other price risk**

The Trust is exposed to listed equity market price risk due to its portfolio of equities classified as either held for trading, at fair value through profit and loss or available for sale. These investments are as a result of the state allocated investment in MTN and some listed investments undertaken as a result of the Trust's funding products for listed investments.

The investment in MTN was transferred to the Trust at subscription date value and hence significant fair value has accrued to the Trust through the fair value reserve. This fair value is applied in the development of appropriate retail products in terms of the mandate of the Trust and part of this fair value has been transferred to the Trust's beneficiaries in the form of discounts on subscription values.

The Trust manages other price risk in terms of its listed investment portfolio by means of structured exits as well as minimum return fair values being catered for in the investment funding agreements. In this way the Trust's maximum exposure to other price risk is limited with the bulk of the risk being associated with underlying business and credit risk.

**3.3 Liquidity risk**

The Trust is capitalised annually out of voted transfers made to it for the purposes of funding operations and also for the advancing of capital to eligible black empowered businesses through its fund management products. This funding is voted annually and advanced in tranches by the dti to cover operational and fund management capital requirements for disbursements during the year.

The cash balances of the Trust are invested in treasury and call accounts of its three banks. The treasury management function in the finance department under the CFO manages the investment of cash in various market quoted treasury accounts on terms commensurate with the liquidity requirements of the Trust. These liquidity requirements of the Trust are measured against forecasted liquidity requirements.

Liquidity risk would arise to the extent the Trust has committed investment disbursements that cannot be met out of fixed treasury commitments or available cash balances, or to the extent that cash held by the Trust is reclaimed by the National Treasury through the provisions of the PFMA.

All current operating liabilities are expected to be contractually due in 7 days and current fund management commitments are expected to be due within 30 days of these being approved for investment. As these classes of financial liabilities are current, it is assumed that the effect of discounting, if any, is immaterial.

**“Political freedom without economic freedom is nothing but empty air.”**

*Dr Matthews Phosa (NEF BB-EEE Vision 20/20 Seminar, 24 May 2010)*

NATIONAL EMPOWERMENT FUND TRUST  
REGISTRATION NUMBER: IT 10145/00

NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 March 2010 (Continued)

3.4 Capital risk

Trust Capital primarily comprises funds transferred from the dti for the purposes of granting funding to eligible black empowered businesses through its fund management products. To date cash funds received from the dti for these purposes total R2 297 431 472 (2009:R1 985 789 472 – note 18). Funding for operations is advanced by the dti also in the form of transfer funds. These are matched against operational expenditure for the year and to the extent there is some level of operational surplus or deficit, then this is transferred or offset to Accumulated Surplus once approval is granted in this respect from National Treasury.

Capital advanced for fund management is applied only against budgeted and actual investment disbursements in terms of the fund management products and mandate of the Trust. Operational transfer is strictly applied against operational expenditure only, in terms of PFMA requirements.

Proceeds raised on asset management retail product subscriptions are transferred to capital through profit and loss upon derecognition of available for sale assets fair valued through non-distributable reserves. This capital is managed separately and utilised for the purposes of reapplication into asset management activities and other related investments in consultation with the dti and National Treasury.

Since inception the Trust has been funded out of transfer funds from the dti against presentation and approval of its annual business plan and budget. The Trust intends moving towards self sustainability over time due to interest income being received on its originated loans portfolio as well as on cash balances invested in bank treasury and call accounts generating sufficient revenues to sustain operations.

The Trust has complied with the requirements of the application of transfers for capital purposes and transfers for expenditure purposes as imposed through the PFMA.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENT IN APPLYING ACCOUNTING POLICIES

Management has to apply judgement on the basis of valuation methodologies in the estimation of the carrying value of loans (for impairments), available for sale investments (for fair values and impairments) and associates (for fair values). The valuation methodologies are disclosed below.

(a) Impairment losses on originated loans

The Trust reviews its loan portfolios to assess impairment at half-yearly intervals. In determining whether an impairment loss should be recorded in the Statement of Financial Performance, the Trust makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease is identified for an individual loan in that portfolio. The portfolio is made up of new empowerment investments most of which are start-ups in the market. As a result there is no financial performance history which guides the impairment process. The Trust's management has thus developed an impairment matrix and is continually refining it. The impairment matrix was benchmarked against those utilised by peers in the market. Amongst others, the impairment matrix encompasses the review of the following observable data:

- Falling markets.
- History of payment default.
- Legal action taken against the investee.

- Breach of contract.
- *Non-submission of financial information.*
- *General attitude of the investee as demonstrated by their repayment history.*
- *Value of security.*
- *Arrear payments.*

Originated Loans are individually assessed and impaired utilising management's impairment matrix. For the carrying amount of these investments refer to note 11.

#### (b) Impairment of equity investments

The Trust determines that equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Trust evaluates among other factors, the normal volatility in earnings. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flows, for the the carrying amount of these investments refer to note 10.

#### (c) Fair value on unlisted securities

The Trust establishes fair value of unlisted securities by enterprise valuation techniques as outlined in note 2.8 financial assets: fair value. For the carrying amount of the investments refer to note 9, 10 and 13.

	2010	2009
	R000's	R000's
<b>5. REVENUE</b>		
Grants received	116 000	-
Interest received - cash	127 889	157 067
Interest received - originated loans	106 594	103 015
Interest received - cash (Asonge proceeds)	77 495	130 138
Dividends received	6 957	26 057
Available -for-sale investments - state allocated investments	1 422	21 095
Investments held for trade	5 535	4 961
<b>TOTAL REVENUE</b>	<b>434 936</b>	<b>416 276</b>
<b>6. SUNDRY INCOME</b>		
Sector wide enterprise, employment and equity programme (SIWEEP funding)	5 650	-
Advisory income	961	-
Recoveries	657	66
<b>TOTAL SUNDRY INCOME</b>	<b>7 268</b>	<b>66</b>

NATIONAL EMPOWERMENT FUND TRUST  
REGISTRATION NUMBER: IT 10145/00

NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 March 2010 (Continued)

7. PROPERTY AND EQUIPMENT

2010	Owned			
	Motor Vehicles R000's	Computer Equipment R000's	Audio Visual Equipment R000's	Office Equipment R000's
<b>Opening Balance:</b>				
Cost	408	2 602	666	475
Accumulated depreciation	(158)	(1 464)	(642)	(370)
<b>Net Book Value</b>	<b>250</b>	<b>1 137</b>	<b>24</b>	<b>105</b>
<b>Movement for the year:</b>				
Additions	-	1 196	17	1 968
Depreciation	(102)	(739)	(14)	(360)
<b>Closing Balance</b>	<b>(102)</b>	<b>456</b>	<b>23</b>	<b>1 607</b>
Cost	408	3 797	684	2 442
Accumulated depreciation	(260)	(2 204)	(656)	(730)
<b>NET BOOK VALUE</b>	<b>148</b>	<b>1 594</b>	<b>28</b>	<b>1 712</b>
Gross carrying amount of fully depreciated assets still in use at year end	-	920	528	330

2009	Owned			
	Motor Vehicles R000's	Computer Equipment R000's	Audio Visual Equipment R000's	Office Equipment R000's
<b>Opening Balance</b>				
Cost	408	1 351	610	790
Accumulated depreciation	(48)	(953)	(571)	(419)
<b>Net Book Value</b>	<b>360</b>	<b>398</b>	<b>38</b>	<b>370</b>
<b>Movement for the year:</b>				
Additions	-	1 036	22	46
Re-classification	-	215	36	(362)
Depreciation	(111)	(511)	(71)	50
<b>Closing Balance</b>	<b>(111)</b>	<b>740</b>	<b>(13)</b>	<b>(266)</b>
Cost	408	2 602	666	475
Accumulated depreciation	(158)	(1 464)	(642)	(370)
<b>NET BOOK VALUE</b>	<b>250</b>	<b>1 137</b>	<b>24</b>	<b>105</b>

Owned				Leased	Total R000's
Furniture and Fittings R000's	Leasehold Improvements R000's	Paintings R000's	Total R000's	Computer Equipment R000's	
3 444	3 578	281	11 454	1 809	13 264
(1 929)	(2 645)	(35)	(7 243)	(1 650)	(8 893)
<b>1 515</b>	<b>934</b>	<b>246</b>	<b>4 212</b>	<b>159</b>	<b>4 371</b>
603	2 083	5	5 872	-	5 872
(480)	(379)	(6)	(2 080)	(159)	(2 239)
<b>123</b>	<b>1 705</b>	<b>(1)</b>	<b>3 791</b>	<b>(159)</b>	<b>3 633</b>
4 048	5 662	286	17 329	-	17 329
(2 409)	(3 023)	(42)	(9 324)	-	(9 324)
<b>1 639</b>	<b>2 639</b>	<b>245</b>	<b>8 005</b>	<b>-</b>	<b>8 005</b>
714	2 480	-	4 942	-	4 942
Owned				Leased	Total R000's
Furniture and Fittings R000's	Leasehold Improvements R000's	Paintings R000's	Total R000's	Computer Equipment R000's	
2 894	3 034	270	9 357	1 809	11 166
(1 517)	(2 427)	(54)	(5 989)	(1 106)	(7 095)
<b>1 377</b>	<b>607</b>	<b>217</b>	<b>3 367</b>	<b>704</b>	<b>4 071</b>
395	590	11	2 099	-	2 099
156	(45)	-	-	-	-
(412)	(217)	19	(1 255)	(544)	(1 799)
<b>139</b>	<b>328</b>	<b>30</b>	<b>847</b>	<b>(544)</b>	<b>300</b>
3 444	3 578	281	11 454	1 809	13 264
(1 929)	(2 645)	(35)	(7 243)	(1 650)	(8 893)
<b>1 515</b>	<b>934</b>	<b>246</b>	<b>4 212</b>	<b>159</b>	<b>4 371</b>

NATIONAL EMPOWERMENT FUND TRUST  
REGISTRATION NUMBER: IT 10145/00

NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 March 2010 (Continued)

	2010	2009
	R000's	R000's
<b>8. INTANGIBLE ASSETS</b>		
Computer software		
<b>Opening Balance</b>		
Cost	9 460	4 032
Accumulated amortisation	(2 372)	(381)
<b>Net Book Value</b>	<b>7 088</b>	<b>3 651</b>
<b>Movement for the year:</b>		
Additions	1 370	5 428
Amortisation	(3 180)	(1 991)
	(1 810)	3 437
<b>Closing Balance</b>		
Cost	10 830	9 460
Accumulated amortisation	(5 551)	(2 372)
<b>NET BOOK VALUE</b>	<b>5 278</b>	<b>7 088</b>

The intangible assets comprise of purchased computer software and software development customised for use by the Trust's operations.

**9. INVESTMENTS IN ASSOCIATES**

<b>Investments at cost</b>	<b>30 568</b>	<b>30 567</b>
- Opening balance	30 567	20 867
- Additions	1	9 701
- Disposals	-	(1)
<b>Fair value adjustments</b>	<b>25 436</b>	<b>15 209</b>
- Balance brought forward from prior year	15 209	903
Gains during year	10 227	14 306
- Fair value gains	10 227	14 306
<b>NET INVESTMENT IN ASSOCIATES</b>	<b>56 004</b>	<b>45 776</b>

The Trust holds convertible preference shares in SunSpace and Information Systems (Pty) Ltd on behalf of the dti. These preference shares are convertible into 30% of the ordinary equity in SunSpace after conversion. The Trust will convert upon conclusion of the governments' evaluation of the taking up a strategic equity stake in SunSpace in order to further the space policy for the country.

## The Trust's principal associates are:

			2010	2009
Name	Country of incorporation	Principal activity	Interest held (%)	Interest held (%)
Unlisted:				
Blue Glamour (Pty) Ltd	South Africa	Manufacturing	32.00%	32.00%
Choice Technologies (Pty) Ltd	South Africa	ICT & Media	49.00%	49.00%
Dezzo Timbers (Pty) Ltd	South Africa	Timber	30.00%	30.00%
DMS Powders (Pty) Ltd	South Africa	Mining	20.00%	20.00%
Exotic Bread (Pty) Ltd	South Africa	Agro-processing	49.00%	49.00%
Inca Concrete Masonry (Pty) Ltd	South Africa	Construction	35.00%	35.00%
Lak Investment T/A Stone Age (Pty) Ltd	South Africa	Construction	25.00%	25.00%
Notae Entertainment (Pty) Ltd	South Africa	Tourism & Entertainment	26.00%	26.00%
Safepak (Pty) Ltd	South Africa	Manufacturing	20.00%	20.00%
Stutt Brick Company (Pty) Ltd	South Africa	Construction	45.00%	45.00%
Wiredloop (Pty) Ltd	South Africa	ICT & Media	25.00%	25.00%
Amajuba Berries (Pty) Ltd *	South Africa	Farming	51.00%	51.00%
Izingwe Automotive (Pty) Ltd	South Africa	Automotive	20.00%	20.00%
Colliery Dust Control (Pty) Ltd	South Africa	Mining	40.10%	40.10%
False Bay Bricks (Pty) Ltd	South Africa	Construction	30.00%	30.00%
Trennplast (Pty) Ltd	South Africa	Manufacturing	26.50%	26.50%
Middeldrift Dairy (Pty) Ltd	South Africa	Farming	40.00%	40.00%
White Heat Trading 4 (Pty) Ltd T/A Hollywood Displays	South Africa	Manufacturing	34.50%	34.50%
Renu Energy (Pty) Ltd	South Africa	Manufacturing	26.00%	0.00%
Ntsinde Royal Jozini Holdings (Pty) Ltd	South Africa	Tourism & Entertainment	33.4%	0.00%
Buffalo Bull (Pty) Ltd	South Africa	Farming	30.0%	0.00%

“Faced with these realities and the challenges of very high inequality and deep levels of poverty, we are working on ways to improve the employment performance of the economy and create many more decent work opportunities and better social outcomes.”

*The Hon. Minister of Economic Development, Mr Ebrahim Patel (Budget Vote 27 March 2010)*

NATIONAL EMPOWERMENT FUND TRUST  
REGISTRATION NUMBER: IT 10145/00

NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 March 2010 (Continued)

Name	Voting power		Equity at cost	
	2010 %	2009 %	2010	2009
Unlisted:				
Blue Glamour (Pty) Ltd	32.0%	32.0%	20	20
Choice Technologies (Pty) Ltd	49.0%	49.0%	10 000 000	10 000 000
Dezzo Timbers (Pty) Ltd	30.0%	30.0%	30	30
DMS Powders (Pty) Ltd	20.0%	20.0%	1 000 000	1 000 000
Exotic Bread (Pty) Ltd	49.0%	49.0%	196 000	196 000
Inca Concrete Masonry (Pty) Ltd	35.0%	35.0%	350	350
Lak Investment T/A Stone Age (Pty) Ltd	25.0%	25.0%	25	25
Notae Entertainment (Pty) Ltd	26.0%	26.0%	20	20
Safepak (Pty) Ltd	20.0%	20.0%	20	20
Stutt Brick Company (Pty) Ltd	45.0%	45.0%	45	45
Wiredloop (Pty) Ltd	25.0%	25.0%	33	33
Amajuba Berries (Pty) Ltd *	31.0%	31.0%	19 369 051	19 369 051
Izingwe Automotive (Pty) Ltd	20.0%	20.0%	20	20
Colliery Dust Control (Pty) Ltd	40.1%	40.1%	401	401
False Bay Bricks (Pty) Ltd	30.0%	30.0%	300	300
Trennplast (Pty) Ltd	26.5%	26.5%	265	265
Middeldrift Dairy (Pty) Ltd	40.0%	40.0%	40	40
White Heat Trading 4 (Pty) Ltd T/A Hollywood Displays	34.5%	34.5%	300	300
Renu Energy (Pty) Ltd	26.0%	0.0%	36	-
Ntsinde Royal Jozini Holdings (Pty) Ltd	33.4%	0.0%	334	-
Buffalo Bull (Pty) Ltd	30.0%	0.0%	38	-
<b>TOTAL EQUITY AT COST</b>			<b>30 567 328</b>	<b>30 566 920</b>

\* Although The Trust owns 51% of the issued share capital of this community based company, 20% of the voting rights have been ceded back to the community and therefore the Trust controls only 31% of the investment, hence the classification as an associate.

	2010	2009
	R000's	R000's
<b>10 INVESTMENTS AVAILABLE-FOR-SALE</b>		
Fair value balance at beginning of the year	1 203 989	1 381 000
Net fair value adjustments	<b>(62 325)</b>	<b>(200 838)</b>
MTN shares	92 009	(200 838)
MTN shares de-recognised transferred to Statement of Financial Performance	(130 224)	-
Fuel Logistics Group (Pty) Ltd - impairment loss	(24 111)	-
Derecognition of MTN shares at cost	(8 271)	-
Additions	50 000	23 827
<b>FAIR VALUE OF INVESTMENTS AVAILABLE-FOR-SALE</b>	<b>1 183 392</b>	<b>1 203 989</b>
Available-for-sale investments include:		
Listed securities:		
- Equity securities : RSA (MTN Shares)	1 125 071	1 171 557
Unlisted securities:		
Securities not traded on an active market	<b>58 321</b>	<b>32 432</b>
Intaba Technologies (Pty) Ltd	0	0
Inkwali Fabrication (Pty) Ltd	0	0
Fuel Logistics Group (Pty) Ltd	0	24 111
Thin Film (Pty) Ltd	5 313	5 313
Connex (Pty) Ltd	3 008	3 008
On Time Digital Media (Pty) Ltd	50 000	-
<b>FAIR VALUE OF INVESTMENTS AVAILABLE-FOR-SALE</b>	<b>1 183 392</b>	<b>1 203 989</b>

The investment in Fuel Logistics was impaired due to the economic decline in the sector coupled with restructuring decisions taken by major funders

NATIONAL EMPOWERMENT FUND TRUST  
REGISTRATION NUMBER: IT 10145/00

NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 March 2010 (Continued)

	2010	2009
	R000's	R000's
<b>11. ORIGINATED LOANS AND PREFERENCE SHARES</b>		
<b>11.1 Originated loans</b>		
Opening balance	744 762	549 034
Net movement for the year	247 008	195 728
Loans disbursed	295 409	245 923
Interest capitalised	88 108	96 342
Loan repayments	(80 516)	(70 928)
Disposals/write-offs	(55 992)	(71 820)
Loans reclassified to other investment categories	-	(3 790)
Closing balance	991 770	744 762
Impairments	(223 110)	(120 463)
- Opening balance	(120 463)	(106 156)
- Impairments for the year	(158 640)	(89 077)
- Disposals/Write-offs	55 992	74 771
<b>Net Originated Loan balance</b>	<b>768 660</b>	<b>624 299</b>
<b>11.2 Preference shares</b>		
Opening Balance	64 287	52 427
Net movement for the year	77 987	11 860
Additions	67 585	11 750
Loans reclassified from other investment categories	-	3 790
Interest capitalised	18 486	6 673
Repayments	(8 085)	(7 402)
Disposal	-	(2 950)
Closing balance	142 274	64 287
Impairments	(12 630)	-
- Opening balance	-	-
- Impairments for the year	(12 630)	-
- Disposals/Write-offs	-	-
<b>Net Preference shares balance</b>	<b>129 644</b>	<b>64 287</b>
<b>TOTAL NET ORIGINATED LOANS AND PREFERENCE SHARE BALANCE</b>	<b>898 304</b>	<b>688 586</b>

Some loans are secured by general notarial bonds over movable property, cession of receivables, cession of bank accounts, personal sureties, second mortgage bonds and insurance policies, refer to note 3.1 for more details.

	2010	2009
	R000's	R000's
<b>11.3 Impairment charge to the Statement of Financial Performance for the year</b>		
Originated loans	(158 640)	(89 077)
Preference shares	(12 630)	-
Available for sale	(24 111)	-
<b>IMPAIRMENT FOR THE YEAR</b>	<b>(195 381)</b>	<b>(89 077)</b>

Originated loans that would have been past due and impaired had terms not been renegotiated	24 140	-
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**12. INVESTMENT HELD-TO-MATURITY**

Debentures at cost	-	10 000
Interest Accrued	-	6 090
Prior year	-	4 195
Current year	-	1 895
	-	<b>16 090</b>
Impairment	-	<b>(16 090)</b>
- Opening balance	-	(14 195)
- Impairment for the year	-	(1 895)
<b>NET INVESTMENT HELD-TO-MATURITY</b>	<b>-</b>	<b>-</b>

This investment was written off in the prior financial year.

**13. INVESTMENTS AT FAIR VALUE THROUGH PROFIT & LOSS**

Investments at fair value through profit and loss	<b>10 500</b>	-
Opening Balance	-	-
Additions	10 500	-
Fair value adjustments	<b>(10 497)</b>	-
- Balance brought forward from prior year	-	-
- Fair value losses	(10 497)	-
<b>NET INVESTMENT IN FAIR VALUE THROUGH PROFIT &amp; LOSS</b>	<b>3</b>	<b>-</b>

These investments comprise the following unlisted investments representing the right to subscribe for equivalent equity in the Company at a pre-determined time in the future upon completion of feasibility studies, the cost of which is detailed below:

Tourvest (Pty) Ltd	2 000	-
N'komazi Chemicals (Pty) Ltd	1 000	-
Rare Metals Industries (Pty) Ltd	7 500	-
<b>TOTAL COST OF INVESTMENT AT FAIR VALUE THROUGH PROFIT &amp; LOSS</b>	<b>10 500</b>	<b>-</b>

NATIONAL EMPOWERMENT FUND TRUST  
REGISTRATION NUMBER: IT 10145/00

NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 March 2010 (Continued)

	2010	2009
	R000's	R000's
<b>14. INVESTMENTS HELD-FOR-TRADE</b>		
Fair value balance at beginning of year	60 186	59 799
Additions	-	-
Disposals	(519)	-
	59 667	59 799
Fair value (losses)/gains	(7 098)	387
Disposals	(2 387)	-
<b>NET INVESTMENTS HELD-FOR-TRADE</b>	<b>50 182</b>	<b>60 186</b>
Investments Held-for-Trade include:		
Listed Securities:		
Cipla/Enaleni	762	2 631
AH Vest/All Joy	786	2 751
Hospitality Fund A	32 170	29 698
Hospitality Fund B	16 464	25 106
<b>NET INVESTMENTS HELD-FOR-TRADE</b>	<b>50 182</b>	<b>60 186</b>
<b>15. TRADE AND OTHER RECEIVABLES</b>		
Deposits	1 025	1 025
Interest receivable - cash and cash equivalents	5 234	-
Dividend receivable	4 236	22 737
Other receivables	246	222
<b>TOTAL TRADE AND OTHER RECEIVABLES</b>	<b>10 740</b>	<b>23 984</b>

The Trustees consider that the carrying amount of trade and other receivables approximates their fair value.

“ Business has to help us realise that vision of an industrialised South Africa. We need you to establish industries and create decent jobs that would lead to a better life for millions of South Africans. ”

H.E. President Jacob Zuma (General Meeting: BUSA May 2010)

	2010		2009	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>16. FINANCIAL ASSETS</b>				
<b>Loans and receivables</b>	<b>909 045</b>	<b>909 045</b>	<b>712 570</b>	<b>712 570</b>
- originated loans and preference shares	898 304	898 304	688 586	688 586
- trade and other receivables	10 741	10 741	23 984	23 984
<b>Available for sale investments</b>	<b>1 125 071</b>	<b>1 125 071</b>	<b>1 171 557</b>	<b>1 171 557</b>
- listed equity investments	1 125 071	1 125 071	1 171 557	1 171 557
<b>Investments held for trade</b>	<b>50 182</b>	<b>50 182</b>	<b>60 186</b>	<b>60 186</b>
- listed equity	50 182	50 182	60 186	60 186
<b>TOTAL</b>	<b>2 084 298</b>	<b>2 084 298</b>	<b>1 944 312</b>	<b>1 944 312</b>

**Fair value hierarchy**

The following table details the fair value hierarchy as defined in IFRS 7 for the investments carried at fair value in the financial statements:

	2010			
	Level 1 R000's	Level 2 R000's	Level 3 R000's	Total R000's
<b>Financial assets at fair value through profit and loss</b>	<b>50 182</b>	<b>-</b>	<b>56 007</b>	<b>106 189</b>
Associates	-	-	56 004	56 004
Financial assets at fair value through profit and loss	-	-	3	3
Investments held for trade	50 182	-	-	50 182
<b>Financial assets available for sale</b>	<b>1 125 071</b>	<b>-</b>	<b>58 321</b>	<b>1 183 392</b>
Listed equities	1 125 071	-	-	1 125 071
Unlisted equities	-	-	58 321	58 321
<b>TOTAL</b>	<b>1 175 253</b>	<b>-</b>	<b>114 328</b>	<b>1 289 581</b>

NATIONAL EMPOWERMENT FUND TRUST  
REGISTRATION NUMBER: IT 10145/00

NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 March 2010 (Continued)

	2009			
	Level 1 R000's	Level 2 R000's	Level 3 R000's	Total R000's
<b>Financial assets at fair value through profit and loss</b>	<b>60 186</b>	<b>-</b>	<b>45 776</b>	<b>105 962</b>
Associates	-	-	45 776	45 776
Financial assets at fair value through profit and loss	-	-	-	-
Investments held for trade	60 186	-	-	60 186
<b>Financial assets available for sale</b>	<b>1 171 557</b>	<b>-</b>	<b>32 431</b>	<b>1 203 990</b>
Listed equities	1 171 557	-	-	1 171 557
Unlisted equities	-	-	32 431	32 432
<b>TOTAL</b>	<b>1 231 743</b>	<b>-</b>	<b>78 207</b>	<b>1 309 951</b>

Reconciliation of level 3 investments

	2010			
	Financial assets at fair value through profit and loss		Financial assets available for sale	Total
	Associates	Financial assets at fair value through profit and loss	Unlisted securities	
	R000's	R000's	R000's	R000's
<b>Opening balance for the year</b>	<b>45 776</b>	<b>-</b>	<b>32 432</b>	<b>78 208</b>
Purchases	1	10 500	50 000	60 501
Sales	-	-	-	-
Impairment of available for sale investments recognised	-	-	(24 111)	(24 111)
Total fair value adjustments recognised:				
- In profit and loss	10 227	(10 497)	-	(270)
- Directly in equity	-	-	(1)	(1)
<b>CLOSING BALANCE</b>	<b>56 004</b>	<b>3</b>	<b>58 321</b>	<b>114 328</b>

	2009			
	Financial assets at fair value through profit and loss		Financial assets available for sale	Total
	Associates	Financial assets at fair value through profit and loss	Unlisted securities	
	R000's	R000's	R000's	R000's
Opening balance for the year	21 770	-	8 605	30 374
Purchases	9 701	-	23 827	33 528
Sales	(1)	-	-	(1)
Impairment of available for sale investments recognised				-
Total fair value adjustments recognised:				-
- In profit and loss	14 306	-	-	14 306
- Directly in equity	-	-	1	1
<b>CLOSING BALANCE</b>	<b>45 776</b>	<b>-</b>	<b>32 431</b>	<b>78 208</b>

	2010	2009
	R000's	R000's

**17. CASH AND CASH EQUIVALENTS**

For the purposes of cash flow statements, the cash and cash equivalents comprise the following:

<b>Bank balances</b>		
- Current accounts	950	5 503
- Short-term bank deposits	2 787 391	2 598 678
- Petty cash	2	7
<b>TOTAL CASH AND CASH EQUIVALENTS</b>	<b>2 788 343</b>	<b>2 604 188</b>

The effective interest rate on short term deposits was 8% (2009 - 11%).

**18. TRUST CAPITAL**

<b>Investment in listed shares</b>		
- At cost	171 000	171 000
<b>Cash funds received from the dti:</b>	<b>2 297 431</b>	<b>1 985 789</b>
- Opening balance	1 985 789	1 672 857
- Funds received during the year	311 642	312 932
<b>TOTAL TRUST CAPITAL</b>	<b>2 468 431</b>	<b>2 156 789</b>

NATIONAL EMPOWERMENT FUND TRUST  
REGISTRATION NUMBER: IT 10145/00

NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 March 2010 (Continued)

	2010	2009
	R000's	R000's
<b>19. FAIR VALUE RESERVES</b>		
Balance at beginning of the year	1 088 596	1 289 434
Net decrease	(38 215)	(200 838)
Revaluation of investments available for sale	92 009	(200 838)
Fair value derecognition on disposal of MTN shares transferred to Statement of Financial Performance	(130 224)	-
<b>BALANCE AT END OF THE YEAR</b>	<b>1 050 381</b>	<b>1 088 596</b>
<b>20. FINANCE LEASE LIABILITY</b>		
Gross finance lease liability - minimum lease payments		
No later than 1 year	-	170
	-	170
Present value of finance lease liabilities	-	170
No later than 1 year	-	170
<b>GROSS FINANCE LEASE LIABILITY</b>	<b>-</b>	<b>170</b>
<b>21. TRADE AND OTHER PAYABLES</b>		
Trade payables	5 912	6 086
Lease smoothing liability	448	935
Unallocated receipts generated by Asonge	497	751
Accruals	34 459	21 688
- Performance awards	21 778	14 078
- Supplier accruals	9 298	5 272
- Leave pay	3 382	2 338
<b>TOTAL TRADE AND OTHER PAYABLES</b>	<b>41 316</b>	<b>29 460</b>

	2010	2009
	R000's	R000's
<b>22. PROVISIONS</b>		
Provision for Asonge Administrative Expenditure and Bonus Share Offer		
Opening balance	121 994	4 776
Charged to Statement of Financial Performance (Asonge admin expenses)	-	509
Charged to Statement of Financial Performance (Asonge bonus share provision)	(120 909)	120 909
Amounts Utilised	(1 085)	(4 200)
<b>CLOSING BALANCE</b>	<b>-</b>	<b>121 994</b>

Also refer to note 26.4 for explanation on the nature of the obligation

### 23. RELATED PARTY TRANSACTIONS

The Trust is a public entity reporting to the Department of Trade and Industry from whom it receives operational transfers and investment capital allocations by means of annual vote through Parliament.

<b>Transfers &amp; Capital Received</b>			
Department of Trade & Industry	Income	116 000	-
Department of Trade & Industry	Capital	311 642	312 932
<b>TOTAL RELATED PARTY TRANSACTIONS</b>		<b>427 642</b>	<b>312 932</b>

“BBBEE should be genuinely broad-based and promote the ownership and control of productive assets by black people, women, youth and people with disabilities. We cannot allow an abuse of the policy to empower just a few.”

*H.E. President Jacob Zuma (BMF Symposium April 2010)*

NATIONAL EMPOWERMENT FUND TRUST  
REGISTRATION NUMBER: IT 10145/00

NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 March 2010 (Continued)

Investments in associates	% Holding	Loans receivable		Investments at cost	
		2010 R	2009 R	2010 R	2009 R
Blue Glamour (Pty) Ltd	32	23 317 539	26 852 569	20	20
Choice Technologies (Pty) Ltd	49	31 448 659	27 233 806	10 000 000	10 000 000
Dezzo Timbers (Pty) Ltd	30	8 125 093	11 574 435	30	30
DMS Powders (Pty) Ltd	20	20 044 961	20 887 416	1 000 000	1 000 000
Exotic Bread (Pty) Ltd	49	-	4 841 233	196 000	196 000
Inca Concrete Masonry (Pty) Ltd	35	25 972 747	28 553 595	350	350
Lak Investment T/A Stone Age (Pty) Ltd	25	36 235 197	32 923 449	25	25
Notae Entertainment (Pty) Ltd	26	-	-	20	20
Safepak (Pty) Ltd	20	35 370 959	35 552 354	20	20
Stutt Brick Company (Pty) Ltd	45	24 466 342	26 692 295	45	45
Wiredloop (Pty) Ltd	25	1 235 334	1 419 295	33	33
Amajuba Berries (Pty) Ltd *	51	24 870 658	19 369 000	19 369 051	19 369 051
Izingwe Automotive (Pty) Ltd	20	5 020 724	6 154 036	20	20
Colliery Dust Control (Pty) Ltd	40.1	30 678 725	30 965 781	401	401
False Bay Bricks (Pty) Ltd	30	59 077 088	52 986 483	300	300
Trennplast (Pty) Ltd	26.5	61 816 051	60 523 904	265	265
Middeldrift Dairy (Pty) Ltd	40	11 724 367	10 949 992	40	40
White Heat Trading 4 (Pty) Ltd T/A Hollywood Displays	34.5	52 996 011	50 215 616	300	300
Renu Energy (Pty) Ltd	26	37 444 949	-	36	-
Ntsinde Royal Jozini Holdings (Pty) Ltd	33.4	29 546 698	-	334	-
Buffalo Bull (Pty) Ltd	30	5 801 850	-	38	-
<b>TOTAL</b>		<b>525 193 950</b>	<b>447 695 259</b>	<b>30 567 328</b>	<b>30 566 920</b>

\* Although The Trust owns 51% of the issued share capital of this community based company, 20% of the voting rights have been ceded back to the community and therefore the Trust controls only 31% of the investment, hence the classification as an associate.

	NOTE	2010 R000's	2009 R000's
24. EXPENDITURE ON SHARE OFFER			
Reversal of fair value		-	-
Discount at 20%		-	-
Share offer costs	25.4	(27 736)	(129 575)
TOTAL EXPENDITURE ON SHARE OFFER		(27 736)	(129 575)
Proceeds from share offer		-	-
Cost of shares sold		-	-
Share offer costs		(27 736)	(129 575)
TOTAL EXPENDITURE ON SHARE OFFER		(27 736)	(129 575)

Expenditure on share offer relates to the bonus share awards on a share offer in 2008 which comprised of the subscription for the NEF Asonge Share Scheme, which offered 12 230 706 MTN shares to the public at a 20% discount to the market share price.

“As South Africans, we have learnt over the past twenty years that our shared humanity, our generosity, our resilience and our capacity to deal honestly with each other present a formidable capacity to fight adversity, to find common ground and to move forward. These capabilities now face their sternest test. In the construction of a more just economic order, we must again, in our own way, demonstrate to the world that it is possible to find an agreed way forward – a path in which inequality and narrow self interest give way to a longer-term, inclusive, broad-based development path.”

*The Hon. Minister of Finance, Mr Pravin Gordhan (Budget Speech 2010)*

NATIONAL EMPOWERMENT FUND TRUST  
REGISTRATION NUMBER: IT 10145/00

NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 March 2010 (Continued)

		2010	2009
	NOTE	R000's	R000's
<b>25. ADMINISTRATION EXPENDITURE BY NATURE</b>			
Net operating expenditure is arrived at after taking into account:			
<b>Auditors' Remuneration</b>		<b>1 708</b>	<b>1 880</b>
- For external audit fees		991	973
- Internal audit		716	907
<b>Consulting fees</b>		<b>20 957</b>	<b>18 728</b>
- Information technology		2 231	1 755
- Legal fees		2 387	2 900
- Risk management		(12)	113
- Marketing		9 005	8 188
- Public Relations		3 167	1 947
- Professional fees - Investments		4 179	3 825
<b>Depreciation</b>	<b>7</b>	<b>2 240</b>	<b>1 799</b>
- Motor vehicles		102	111
- Owned computer equipment		739	511
- Leased computer equipment		159	544
- Audiovisual equipment		14	71
- Office equipment		360	(51)
- Furniture and fittings		480	412
- Other assets		6	(19)
- Leasehold improvements		379	217
- Mentorship costs incurred against SWEEP income		4 116	318
<b>Trustees and senior management emoluments</b>		<b>12 205</b>	<b>9 092</b>
<b>Amortisation of intangible assets</b> (included in line item Administration expenses)	<b>8</b>	<b>3 180</b>	<b>1 991</b>
<b>Expenditure related to the World Cup Soccer</b>			
Apparel (T Shirts)		19	-
The above expense was for T shirts purchased for 37 members of the administration staff of the NEF. This expense is actually incurred post financial year end, and will accordingly also be disclosed in the next reporting period. The expenditure was approved through the normal procurement process.			
<b>Operating lease rentals</b>		<b>6 020</b>	<b>5 285</b>
- Property rental		5 158	5 151
- Equipment rental		860	134
<b>Total staff costs</b>		<b>78 050</b>	<b>60 609</b>
- Salaries and other benefits		72 644	56 383
- Provident fund contributions		5 406	4 226
Number of employees at year end		117	104

	NOTE	2010 R000's	2009 R000's
<b>25.1 Reconciliation of Statement of Financial Performance to Budget</b>			
Net surplus per Statement of Financial Performance		198 964	104 043
Adjusted for:			
Fair value adjustments		7 368	(14 693)
Fair value of investment disposals		(130 224)	-
Share offer expenditure		(16 500)	(129 575)
Impairments recognised		195 380	90 972
(Over)/underspending against budget		(1 588)	(78 747)
<b>NET SURPLUS AGAINST APPROVED BUDGET</b>		<b>253 400</b>	<b>(28 000)</b>

**26. COMMITMENTS****26.1 Operating lease commitments – property rentals**

The future minimum lease payments on office premises rental under non-cancellable operating leases are as follows:

Not later than 1 year	3 150	4 389
Later than 1 year but not later than 5 years	-	2 705
<b>TOTAL OPERATING LEASE COMMITMENTS</b>	<b>3 150</b>	<b>7 094</b>

The property lease expires in October 2010. An extension of this lease is in a final stage of discussion with the landlords.

**26.2 Undrawn investments**

Not later than 1 year	149 882	203 233
Payment will be met out of cash reserves.		

**26.3 Investments approved and committed but not contracted for**

Not later than 1 year	237 501	146 350
Payment will be met out of cash reserves.		

**26.4 MTN Bonus Shares**

Within the provisions of the NEF Asongwe Share Scheme, an award of 1 bonus share in MTN for every 10 MTN shares still held by the investors at 16 August 2009 was made. The award was provided for in the prior year (refer note 22) with the shortfall in provision being met out of fair value reserves upon derecognition of the bonus shares (refer note 10 and 19).

The above commitment was met out of MTN shares on hand.

NATIONAL EMPOWERMENT FUND TRUST  
REGISTRATION NUMBER: IT 10145/00

NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 March 2010 (Continued)

Year ended 31 March 2010	Basic	Bonuses and performance payments	Long-term bonus payments	Pension contributions	Other contributions	Fees to Non-Executive Trustees	Total
	R000's	R000's	R000's	R000's	R000's	R000's	R000's
<b>27. TRUSTEES AND SENIOR MANAGEMENT EMOLUMENTS</b>							
<b>Executive trustees:</b>							
P Buthelezi (CEO)	2 073	1 069	540	275	52	-	4 009
A Wright (CFO)	1 268	743	338	154	77	-	2 579
	<b>3 341</b>	<b>1 812</b>	<b>877</b>	<b>429</b>	<b>129</b>	<b>-</b>	<b>6 588</b>
<b>Senior management:</b>							
F Gillion (CIO)	1 325	629	500	184	79	-	2 717
C Clarke (COO) (Resigned 31/05/2010)	1 121	-	-	143	28	-	1 293
B Lombard (Corporate Services) (Joined 19/10/2009)	438	208	-	56	33	-	735
	<b>2 884</b>	<b>837</b>	<b>500</b>	<b>383</b>	<b>140</b>	<b>-</b>	<b>4 745</b>
<b>Non-executive trustees:</b>							
R Ntuli	-	-	-	-	-	227	227
T Mhlambiso (Term ended 15/12/2009)	-	-	-	-	-	155	155
K Seitshiro (Term ended 15/12/2009)	-	-	-	-	-	113	113
N Mosala (Appointed 16/12/2009)	-	-	-	-	-	61	61
A Makwetla (Appointed 16/12/2009)	-	-	-	-	-	58	58
Z Ntlangula (Appointed 16/12/2009)	-	-	-	-	-	58	58
A Raiz (Appointed 16/12/2009)	-	-	-	-	-	58	58
R Garach (Appointed 16/12/2009)	-	-	-	-	-	60	60
N Fakude (Appointed 16/12/2009)	-	-	-	-	-	21	21
T Tlailai (Appointed 16/12/2009)	-	-	-	-	-	64	64
	-	-	-	-	-	872	872
<b>TOTAL EMOLUMENTS</b>	<b>6 225</b>	<b>2 649</b>	<b>1 377</b>	<b>812</b>	<b>269</b>	<b>872</b>	<b>12 205</b>

Year ended 31 March 2009	Basic	Bonuses and performance payments	Long-term bonus payments	Pension contributions	Other contributions	Fees to Non-Executive Trustees	Total
	R000's	R000's	R000's	R000's	R000's	R000's	R000's
<b>Executive trustee:</b>							
P Buthelezi (CEO)	1 894	864	540	242	47	-	3 587
	<b>1 894</b>	<b>864</b>	<b>540</b>	<b>242</b>	<b>47</b>	<b>-</b>	<b>3 587</b>
<b>Senior management:</b>							
A Wright (CFO)	1 185	506	338	137	70	-	2 237
F Gillion (CIO)	1 323	290	250	180	78	-	2 121
C Clarke (COO) (Joined on the 1/03/2009)	93	192	-	12	2	-	300
	<b>2 602</b>	<b>988</b>	<b>588</b>	<b>329</b>	<b>151</b>	<b>-</b>	<b>4 658</b>
<b>Non-executive trustees:</b>							
(all appointed on 1/11/ 2005)							
R Ntuli	-	-	-	-	-	181	181
J Hoffmann (Term ended 31/10/2008)	-	-	-	-	-	76	76
T Mhlambiso	-	-	-	-	-	188	188
S Sebotsa (Resigned 31/10/2008)	-	-	-	-	-	67	67
K Seitshiro	-	-	-	-	-	156	156
P Radebe (Resigned 31/10/2008)	-	-	-	-	-	48	48
J Theledi (Term ended 31/10/2008)	-	-	-	-	-	132	132
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>848</b>	<b>848</b>
<b>TOTAL EMOLUMENTS</b>	<b>4 496</b>	<b>1 852</b>	<b>1 127</b>	<b>571</b>	<b>198</b>	<b>848</b>	<b>9 092</b>

“The launch of the BEE Advisory Council, on 3 December 2009, signifies an important milestone in fulfilling the transformation agenda. One of the key functions of the Council will be to monitor the implementation of BB-BEE by all organs of state, public entities, government departments, sector charter councils, and the general public at large.”

*The Hon. Minister of Trade and Industry, Dr Rob Davies, MP (Budget Vote Debate May 2010)*

NATIONAL EMPOWERMENT FUND TRUST  
REGISTRATION NUMBER: IT 10145/00

NOTES TO THE ANNUAL FINANCIAL STATEMENTS  
for the year ended 31 March 2010 (Continued)

	NOTE	2010 R000's	2009 R000's
<b>28.1 Notes to the Cash Flow Statement</b>			
Reconciliation of net surplus to cash utilised in operations:			
Surplus for the year		198 964	104 043
Adjustment for:		(213 233)	(338 105)
Depreciation & amortisation		5 419	3 788
Interest accrued on investment held-to-maturity		-	(1 895)
Interest on investments		(311 977)	(390 220)
Loss on disposal of investment		22	
Dividends on investments		(6 957)	(26 057)
Impairment of investments		195 380	90 972
Income from retail activities per statement of financial performance		(102 488)	
Fair value losses/(gains)		7 368	(14 693)
<b>Operating surplus/(deficit) before working capital changes</b>		<b>(14 269)</b>	<b>(234 062)</b>
Working capital changes		11 660	114 697
Increase in trade and other receivables		(25)	(7 056)
Increase/(decrease) in trade and other payables		11 686	121 753
<b>Cash utilised in operations</b>		<b>(2 609)</b>	<b>(119 365)</b>
<b>28.2 Additional investment in core activities</b>			
Originated loans		295 409	245 923
Preference shares		67 585	11 750
Investments in Associates		1	9 700
Investments Available-for-sale		50 000	23 827
Investments at fair value through profit and loss		10 500	-
<b>TOTAL INVESTMENT IN CORE ACTIVITIES</b>		<b>423 495</b>	<b>291 200</b>

**29. FRUITLESS AND WASTEFUL EXPENDITURE**

No incidents occurred during the current financial year.

**30. UNAUTHORISED, IRREGULAR EXPENDITURE**

An incident of unauthorised expenditure relating to the hosting of an SME seminar was reported on in the prior year. This matter has now resulted in criminal charges of fraud being laid against the alleged perpetrator.

A matter concerning allegations of unauthorised utilisation of the petty cash float of R5 000 was reported and the custodian was charged with negligence and gross misconduct. The custodian was found guilty of the charges.

**31. INCOME TAX EXEMPTION**

The Trust is exempt from income tax in terms of Sections 10 (1)(cA) of the Income Tax Act.

**32. NATIONAL EMPOWERMENT FUND CORPORATION (PTY) LTD**

The Trust established the entity, in which it has a 100% interest, in 2002, as provided for in the NEF Act. To date this company remains a dormant subsidiary with no trading having ever taken place. The Trust obtained permission during the prior year from the National Treasury under Section 54 of the PFMA that the Trust may utilise this entity in any of its future Asset Management retail activities.

**33. CONTINGENT LIABILITY**

National Treasury has not reached a decision on the Trust's application under S 53(3) of the PFMA to retain surpluses reported over the last three financial years (years ending 31 March 2010, 2009, 2008) totalling R1 254 822 006. Should permission to retain this surplus not be granted then the Trust may be required to declare a distribution to National Treasury through its Executive Authority, **the dti**. The effect of such a distribution would be significant to the cash balances of the Trust. This surplus has not been factored into the Trust's financial forecasts for the next three years, nor the budget for the next three years.

The Trust will thus be able to achieve its mandate over the next two years, though investment activity would have to be curtailed in the third year, unless additional funding is granted through the MTEF process or other external sources. Operating overheads will be met out of investment income over the next three years.

**“ We have to think creatively about ways in which, to quote from the BB-BEE Act, we can increase ‘the extent to which communities, workers, co-operatives and other collective enterprises own and manage existing and new enterprises and increase their access to economic activities, infrastructure and skills training.’ ”**

*Deputy President, Mr Kgalema Motlanthe, MP (Inaugural Meeting of BB-BEE Advisory Council)*



**NATIONAL EMPOWERMENT FUND TRUST**  
**REGISTRATION NUMBER: IT 10145/00**

**TRUSTEES**

Mr R Ntuli (Board Chairman)  
 Ms P Buthelezi (CEO)  
 Ms N Fakude (Appointed 16.12.2009)  
 Mr R Garach (Appointed 16.12.2009)  
 Ms A Halstead (Re-appointed 16.12.2009)  
 Ms A Makwetla (Appointed 16.12.2009)  
 Mr L McPatie (Resigned 16.04.2010)  
 Ms N Mesatywa (Term ended 15.12.2009)  
 Mr T Mhlambiso (Term ended 15.12.2009)  
 Ms J Molisane (Appointed 03.05.2010)  
 Ms N Mosala (Appointed 16.12.2009)  
 Ms Z Ntlangula (Appointed 16.12.2009)  
 Mr A Raiz (Appointed 16.12.2009)  
 Mr K Seitshiro (Term ended 15.12.2009)  
 Mr T Tlelai (Appointed 16.12.2009)  
 Mr K Thaver (Appointed 16.12.2009)  
 Mr A Wright (CFO) (Appointed 16.12.2009)

**BANKERS**

Standard Bank Limited  
 First National Bank Limited  
 Rand Merchant Bank  
 South African Reserve Bank

**AUDITORS**

PricewaterhouseCoopers Inc.

**BUSINESS ADDRESS**

West Block  
 187 Rivonia Road  
 Morningside  
 2057

**POSTAL ADDRESS**

P.O. Box 31  
 Melrose Arch  
 Melrose North  
 2076

**REGISTERED ADDRESS**

West Block  
 187 Rivonia Road  
 Morningside  
 2057



## FUNDING PRODUCTS AND SERVICES

NEF funding is currently obtainable from four funds, which are discussed in detail below. These are:

1. iMbewu Fund
2. Umnotho Fund
3. Rural and Community Development Fund
4. Strategic Projects Fund

### NEF Fund Management Division

The NEF was established by the National Empowerment Fund Act No. 105 of 1998 ("NEF Act") to promote and facilitate transformation and economic equality. Its mandate and mission is to be the catalyst of Broad-based Black Economic Empowerment (BB-BEE).

### Initial Assessment Criteria

The NEF provides funds to black entrepreneurs and groups with the aim of facilitating access to finance in support of Broad-Based BEE in terms of government legislation. The investment activities of the NEF are guided by an investment policy that seeks to ensure that investments create real economic empowerment for black people without deviating from sound economic principles. Each application for funding is assessed in terms of the following criteria:

- Commercial viability of the business case being presented
- The business must comply with all relevant laws and regulations
- There must be operational involvement at the managerial and board levels by black people
- Minimum percentage of black ownership or interest of 50.1% is a requirement
- The business must be able to repay NEF funding
- The business must create a reasonable number of jobs
- Geographic location of the business is also important with the focus on rural or economically depressed areas encouraged
- Meaningful black women participation is viewed more favourably
- Rural and Community Development Projects must have meaningful participation by communities
- Possibility of co-funding with private or public sector institutions is encouraged in larger projects.

Once your application has been received and found to meet the above conditions, it will then go through different stages for a detailed commercial assessment.

## How to apply for Funding

### Completing the application form

Having read and understood how the NEF is structured to assist black entrepreneurs and businesses, the next logical step is to do a self-needs analysis to see how the NEF is able to assist you and your business needs. To engage them is as simple as taking the first step of filling in an application form that will present your business case for assessment based on the criteria described above.

Your proposal needs to contain comprehensive information to support the commercial viability and the financial position of your business. A business plan guideline has been provided on the application form, to highlight the various topics you need to cover when making your submission.

## Non-financial business support

### a. Pre-Investment Business Support Unit (PIU)

Applicants for funding may be excellent entrepreneurs, but often struggle to navigate the necessary application procedures and to manage their businesses. The NEF therefore assists with funding advice, business planning and general assistance to help ensure that applications are of sufficient quality to complete all steps in the application process.

The first point of contact for many potential clients, the PIU's primary functions are to:

- Provide information on NEF products and procedures
- Control and assist in drawing up funding applications
- Identify applications that will qualify for funding
- Keep clients informed on the progress of their applications
- Advise applicants and assist with drawing up business plans

### b. Post-Investment Business Support Unit (POIU)

Black businesses need to be robust and self-sustaining for BB-BEE to succeed. Recognising this fact, the NEF established structures to monitor its clients for risk and provide advice when needed. Although start-ups are inherently higher risk, the rewards for success are jobs and increased capital for further start-ups.

The unit is responsible for:

- Monitoring and preparing management information on investments
- Administering investment contracts
- Coordinating mentorship programmes
- Facilitating investment valuations with fund managers
- Working with distressed assets and recommending solutions such as liquidations, turnarounds and restructurings
- Conducting strategic reviews

## iMBEWU FUND

### iMbewu Fund product information

This Fund is designed to support black entrepreneurs wishing to start new businesses as well support existing black-owned enterprises with expansion capital. The Fund supports these entities by offering debt, quasi-equity and equity finance products with the funding threshold ranging from a minimum of R250 000 to a maximum of R20 million. Funding is delivered through the following products:

1. Entrepreneurship Finance
2. Procurement Finance
3. Franchise Finance

#### 1. Entrepreneurship Finance

The Entrepreneurship Finance product is aimed at providing start-up and expansion capital to new and early-stage businesses that are owned and managed by black people.

The key criteria of this product are:

- BEE applicants should be actively involved in the day-to-day management of the business
- Minimum black ownership of 50.1% is a requirement
- Business and/or industry experience by black entrepreneurs is also considered
- The NEF reserves the right to oblige applicants to participate in the NEF mentorship programme where there is lack of business and/or Industry experience
- The business should be able to repay NEF's investment
- Business must have a clear value-add with a sustainable business case
- Business should preferably employ minimum of 5 people
- Maximum NEF funding is R5 million
- The NEF will exit from the investment in 5 to 7 years

#### 2. Procurement Finance

The Procurement Finance product is aimed at assisting black-owned SMEs that have been awarded tenders or contracts by public and private sector entities. The product's main objective is to ensure that qualifying SMEs have the capacity to carry out the contracts.

**“ I recently appointed a BB-BEE Advisory Council. It will greatly assist us to take our transformation programmes forward with regards to BBBEE. We need to identify where the current bottlenecks are in implementation, and eliminate the unintended consequences. ”**

*H.E. President Jacob Zuma (BMF Symposium April 2010)*

The key criteria of this product are:

- Repayment terms must match the contract term
- NEF funding is generally limited to R10 million
- There must be active participation by black individuals in the operations of the business
- Minimum black ownership of 50.1% is required
- Industry knowledge by management or there must be clear transfer of skills through relevant partnerships
- The NEF will seek to co-finance with commercial banks to share risk where possible
- The NEF reserves the right to oblige applicant to participate in the NEF mentorship programme

### 3. Franchise Finance

The Franchise Finance product is aimed at assisting black entrepreneurs who wish to acquire a franchise license. The product is aimed at entrepreneurs who wish to start their own businesses by buying a franchise linked to a particular brand to reduce risks associated with start-up businesses lacking a track record.

The key criteria of this product are:

- The NEF prefers to fund recognised franchise concepts
- Active management involvement by BEE parties is required
- Minimum BEE shareholding of 50.1% is a requirement
- Transactions will be structured with sustainable capital structure

- BEE party must have been pre-approved by the franchisor before approaching NEF
- NEF funding generally limited to R5 million
- The NEF will exit from the investment in 5 to 7 years

## UMNOTHO FUND

### The Umnotho Fund product information

This Fund is designed to improve access to BEE capital and has five products: Acquisition Finance, Project Finance, Expansion Finance, Capital Markets Fund, and liquidity and warehousing. These products provide capital to black-owned and -managed enterprises, black entrepreneurs who are buying equity shares in established white-owned enterprises, project finance and BEE businesses that are or wish to be listed on the JSE. Funding ranges from R2 million to R75 million and details of the five products are provided below:

1. Acquisition Finance
2. Project Finance
3. Expansion Capital
4. Capital Markets
5. Liquidity and Warehousing

### 1. Acquisition Finance

The key criteria of this product are:

- BEE applicants seeking to fund equity purchases of between R2 million and R75 million in existing businesses
- Focus on medium to large companies
- Focus on partnerships with existing management teams and other equity investors
- Minimum BEE ownership of 25.1% post NEF investment
- Active BEE management participation
- Active BEE involvement in investee companies
- BEE Financial contribution determined on case-by-case basis
- Investment instruments can include a combination of debt, equity and mezzanine finance
- The NEF reserves the right to oblige applicants to participate in the NEF mentorship programme
- Typical investment horizon of 4 to 7 years
- Security to include personal suretyship

## 2. Project Finance

This product provides capital of R2 million to R75 million per project for BEE parties seeking to participate in medium-sized greenfields projects with total funding requests of between R10 million and R200 million.

The key criteria of this product are:

- Minimum 25.11% BEE shareholding
- Investment instruments can include a combination of debt, equity and mezzanine finance in support of BEE
- BEE-specific financial contribution assessed on a case-by-case basis
- NEF exposure to the project generally not to exceed 50% of total project costs
- Proven management experience within consortium
- Active BEE involvement in investee companies

Debt funding raised from the market to match equity funding provided by NEF and other project sponsors

- NEF funding limited to R25m per project
- The NEF investment horizon is 5 to 10 years
- Security to include personal suretyship

## 3. Expansion Capital

The NEF will provide funding of R2 million to R75 million to entities that are already black-empowered, but seek expansion capital to grow the business.

The key criteria of this product are:

- Investment instruments can include a combination of debt, equity and mezzanine finance in support of BEE
- BEE shareholding should be minimum of 50.1%
- Pricing based on instrument, risk matrix, security package, etc.
- Typical investment horizon of 4 to 7 years
- Active BEE involvement in investee companies
- Security to include personal suretyship and security over business assets

## 4. Capital Markets

This product invests in BEE enterprises, particularly those owned by black women, that seek to list on the JSE or its junior AltX market. The Umnotho Fund will also help listed BEE companies to raise additional capital for expansion. All other key features are similar to those of the Acquisition Finance product.

## 5. Liquidity and Warehousing

This product assists BEE shareholders who need to sell a portion or all of their shares (as minority stakes in unlisted firms are hard to sell). Also acquires and temporarily warehouses these shares before on-selling them to new BEE shareholders, and refinances BEE shareholdings where existing financing structures are costly and/or inefficient. All other key features are similar to Acquisition Finance Fund.

## RURAL AND COMMUNITY DEVELOPMENT FUND

Rural and Community Development Fund was designed to promote sustainable change in social and economic relations and supporting the goals of growth and development in the rural economy, through financing of sustainable enterprises. This would be achieved through the mobilisation of rural communities in legal entities or cooperatives, in order to participate in the broader economic activities and realise the economic transformation goals in rural South Africa. The fund has four products: Project Finance, Business Acquisition, Expansion Capital and Start-up/Greenfields with the funding threshold ranging from a minimum of R1 million to R50 million. Sectors to be funded:

- Agribusiness & Forestry
- Agriprocessing
- Tourism
- Mining & Beneficiation
- Manufacturing
- Aquaculture



The key criteria of this product are:

- Projects must be financially sustainable
- BEE applicants should be actively involved in the day-to-day operations of the business
- Technical partners should be actively involved in the day-to-day operations of the business
- The NEF will invest using debt, equity and quasi-equity instruments
- Minimum black ownership of 25.1% is a requirement
- Joint ventures between black and non-black partners to support skills transfer
- The business should be able to repay NEF's investment
- The business must have a clear value-add with a sustainable business case
- The NEF will exit from the investment in 5 to 10 years
- The NEF reserves the right to oblige applicants to participate in the NEF mentorship programme

Rural and community development fund which offers the following financing products:

1. Project Finance
2. Business Acquisition
3. Start-up/Greenfields
4. Expansion Capital

### STRATEGIC PROJECTS FUND

In the quest to expedite BB-BEE participation not only in small and medium enterprises and existing businesses through acquisition of equity interest in well established businesses but also participation in new sector industries which have been built from the ground, the NEF established the Strategic Projects Fund ("SPF").

The Strategic Projects Fund (SPF) is at the centre of NEF's investment strategy when it comes to securing the participation of historically disadvantaged people (HSDAs) in early stage projects. Its core function is to provide Venture Capital Finance aimed at developing South Africa's new and strategic industrial capacity within strategic sectors identified by government as the key drivers to the economic growth. The fund is led by the Chief Executive who provides the strategic guidance, with the Head of the fund being responsible for execution of that strategy.

## Funding Products and Services (Continued)

It all began with a simple strategic question; "How is the NEF going to secure the participation and empowerment of black people in strategic sector projects that are at an early stage?" This required NEF to develop a fund that would become a pioneer in providing Venture Capital Finance that would seek to provide seed capital for feasibility studies. This fund would embody NEF's truest sense of achieving its developmental finance objectives, most importantly securing the participation of black people. To date that question is being answered and the NEF through SPF takes a leading role and has become the face of BB-BEE in future strategic companies.

Established in 2008 as a division within the NEF, the SPF's mandate is to play a central role in early stage projects by identifying, initiating, scoping and developing projects that are in sectors identified by government as the key drivers to South Africa's economic growth. These projects will be taken through 6-stages of the project development phases.

The phases being the following: Scoping & Concept Study; Pre-Feasibility Study; Bankable Feasibility Study; Financial Closure; Construction Phase; and Technical Completion. **A successful implementation of the Fund will see the NEF take the lead in the following:**

- Expansion and creation of new industrial and manufacturing capacity in South Africa,
- Investment in economically depressed areas or poverty nodes, and principally in rural areas,
- Warehouse equity for the future benefit of BB-BEE in national strategic projects and increase the participation of BB-BEE in these projects,
- Increase export earning potential for South Africa,
- Reduce the dependency of South Africa on imports.

PRODUCTS AND SERVICES

**“As we begin the second decade of the 21st century we must all take responsibility to lay a solid foundation for a better, more just, more fair and a more equal world. A world in which the poor have as much to gain as the privileged.”**

*The Hon. Minister of Finance, Mr Pravin Gordhan (An award acceptance speech January 2010)*

“ We believe with the perfect execution of the SPF Strategy, the NEF will become the leading DFI which addresses both BB-BEE and economic growth while ultimately doubling and strengthening the quality of the overall NEF balance sheet...”

*Ms Philisiwe Buthelezi (Chief Executive Officer)*

### Empowerment Objectives

Through the Strategic Projects Fund, NEF will facilitate BB-BEE in the following ways:

- Warehouse equity for BB-BEE in early stage projects at valuations with little or no premium paid to access the projects. This enables NEF to distribute its warehoused equity to BB-BEE at lower valuations once a project is operational;
- Take early stage risk on behalf of black people as early stage projects have higher execution risks compared to operational companies. The NEF will assume most of the financing risk and devise instruments to carry or transfer equity to BB-BEE once project fatal flaws have been mitigated;
- Manage the project and venture capital finance structuring complexities as it is more complex and difficult to raise capital for new ventures as compared to corporate finance deals where valuations can be ascertained based on historical performance and risks are clearly understood;
- Enable project promoters to focus on making projects bankable and operational by giving the BB-BEE status as NEF is the only DFI gazetted as a BB-BEE facilitator;

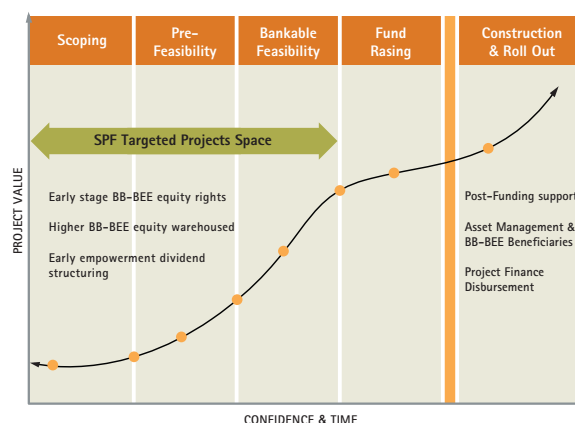


Figure 8: Investment Focus and Project Development Stages

### Investment Focus and Project Development Stages

**Stage 1 – Scoping or Concept Study:** This is the 1st stage in the development of a project. The key focus is to invest in the generation of ideas at very high level and package options that are technically and economically sound for the idea to become feasible. These options are then presented for Pre-Feasibility consideration which will in more detail test the viability of feasibility of the proposed options.

**Stage 2 – Pre-feasibility Study (PFS):** This is the 2nd stage in the development of a project. This objective is to test for fatal flaws in any concept and reduce the options to one concept. The selected option is then developed in more detail to an extent that all assumptions are qualified and verifiable within 30% accuracy. This covers areas ranging from marketing, technical packages, Environmental Impact Assessments (EIA), financing structures etc. At the end of the PFS, a base case economic model is used to ascertain viability of the project and the key risks and possible mitigants are defined.

**Stage 3 – Bankable Feasibility Study (BFS):** This is one the key steps in the development of the project. The key objectives of the BFS are to execute most, if not all, material contracts that will reduce the uncertainty in the project. For example, concluding a "lump sum turn-key (LSTK) contract" for the construction of power plant, concluding a "supply contract for raw material" or "off-take agreement for purchase of services or products" or receiving a "positive EIA record of decision". It is on the back of these executable contracts that project financiers and private equity investors would then consider the project bankable and offer investment finance to financially close the capital requirements for the project to move to construction.

**Stage 4 – Financial Closure (FC):** This stage largely involves capital raising for the project as determined by the BFS and once all financing agreements have been executed, the project is then deemed to have reached financial close. Financing stages 1 to 3 by providing venture capital, SPF will then play a Private Equity or Project Financier role depending on the size of the project. After financial close, the project is then ready to begin construction.

**Stage 5 – Construction Phase (CP):** At this stage the focus is to manage the construction of the project as per plan and budget. Depending on the nature of the project this can be anything from 3 – 36 months.

**Stage 6 – Technical Completion (TC):** This represents the final milestone for SPF. This represents a stage at which the project has been constructed and tested against the designed operating parameters as signed off in the BFS material contracts. The project will then be handed over the Post Investment Unit to manage and monitor the business operations measured against the business plan.

#### Strategic sector alignment

Our Investment Strategy is directed towards the following sectors:

- Tourism & Hospitality
- Renewable Energy
- Business Process Outsourcing
- Mining & Mineral Beneficiation
- Agriculture & Agro-processing
- Infrastructure
- Strategic Manufacturing Capacity (new area under development)

#### Empowerment Dividend

SPF appetite for a specific project increases when three or more of the following can be delivered by the project:

- Increase or creation of new industrial capacity
- Increase in investment into economically depressed areas or poverty nodes
- Increasing the participation of BB-BEE in all areas of the business or new project
- Increasing South Africa's export earning potential
- Reduce import dependency
- Increase co-investment and linkage with Foreign Indirect Investment (FDI)

#### Investment instruments

The fund is predominantly a Venture Capital Fund that aims to provide funding for feasibility studies. Strategically SPF avoids defining itself by instruments as every project is unique and SPF will strive to use instruments that make sense for the business in the long-term as opposed to satisfying pre-determined instruments. The general type of funding available is as follows;

- Venture Capital Finance
- Private Equity Finance
- Project Finance

#### Minimum BB-BEE threshold

No minimum, NEF acts as a co-investor and warehouses for BB-BEE.

#### Project sizes

Minimum project investment size at financial closure of ZAR25 million up to ZAR15 billion.

#### Project returns

A minimum ungeared project IRR of 20%

A close-up photograph of a woman with dark hair, looking through the viewfinder of a professional video camera. The camera is black and has various controls visible. The background is blurred, showing green foliage. The image is part of a larger graphic with green and orange geometric shapes.

## INVESTEE STORIES

### Building The Economy, Sharing The Wealth

**DMS Powders** (BEE party funded at R30 million) is the largest global supplier of both atomized and milled Ferrosilicon (FeSi) with a production capacity of 42 000tpa. Their products are produced with proven technology and precision. The production of FeSi in South Africa dates back to 1949 for use in the dense medium separation of diamonds. This was also the early beginning of DMS Powders, trading as Amcor. The production facility relocated to Meyerton in the 1950s with the Atomized Ferrosilicon production facility being commissioned in 1967. In 1975, Amcor merged with SA Manganese and started trading as Samancor. A stand alone business entity for Ferrosilicon was created in 2000 with the formation of the now black-empowered DMS Powders a division of Samancor. In April 2006 an independent company, Dense Medium Separation Powders (Pty) Ltd, was established under new ownership as a fully black-empowered company. DMS boasts expertise coupled with experienced product technical support, long term customer relationships and intimate knowledge of global logistics.

**Red Cherry Productions** was funded at R5 242 500, and is a production company that specialises in interactive marketing. Interactive marketing is an advertising medium which allows for realtime interface with the target market. This medium is mainly used by advertisers of new or complicated products, or in promoting brand awareness, for example, through competitions. The medium requires viewers or listeners to interact with the marketer by call-ins, SMS, e-mails etc. This medium is mainly used in new product launches or the activation of a media campaign. Red Cherry operates from well-equipped and modern premises. The facilities have been upgraded to align it with modern technology and to ensure compatibility with the latest technology.

**Time Mining and Processing (Pty) Ltd** was funded at R15 400 000 and is a technical services provider to the gold mining industry. Time Mining has the expertise to project manage, design, develop, and operate medium size mines and to undertake metallurgical operations (laboratory analytical and test work). The group also provides consultancy, drilling and mine dump reclamation services. Time Mining laboratories provide analytical services using fire, wet chemical and instrument techniques for precious and base metal ores. Through performance laboratories it is the largest "outsourced" operator of laboratories in South Africa, managing laboratories for clients such as Harmony Gold Mining and Placer Dome Western Areas Joint Venture. Time Mining is BEE compliant with 37% of the shares owned by a black company.

**Colliery Dust Control** (BEE party funded at R30 900 000). For over twenty years Colliery Dust Control (Pty) Ltd has been a pioneer in the development of dust control systems used to improve working conditions and safety in underground collieries in South Africa. Since 1996 the company has consolidated its position as the leading supplier in its field, including development of a three-fold integrated system comprising the unique CDC wet-fan scrubber

box, air movers and a spray fan system operating in complementary fashion to achieve maximum dust suppression efficiency. Backed by sound product support and maintenance, together with the implementation by collieries of optimal mine ventilation and mining practices, the CDC integrated system consistently performs well within the limit of 5 mg/cu m as laid down by the South African Department of Mining.

"Today our business is based more on supplying parts and service exchange units and providing on-going backup services than on selling new systems. With booster pumps, for example, we service five times as many units every month as we sell," Ms Babalwa Geza, Managing Director at CDC, points out. "Our turnover depends as much on good service as on offering a top quality and competitively priced product."

**Hospitality Property Fund (HPF)**, funded at R34 847 840, is a property loan stock company which invests in properties in the hotel and leisure industries. HPF is a publicly traded company and was listed on the main board of the JSE Limited ('JSE') under the 'Financials - Real Estate' sector in February 2006. HPF was established with the aim of offering unit holders an investment vehicle with exposure to the hospitality sector through the ownership of hotel and leisure properties. Both the property and hotel and leisure sectors have recorded sustained growth of late, and the prospects for these sectors continue to be positive. HPF consists of investments in 23 hotel and resort properties in South Africa, and is highly diversified in terms of geographic location, star grading, fixed and variable income and market mix. The properties were independently valued at R2.73 billion.

HPF comprises a total of R61.6 million A-linked units and R61.6 million B-linked units, which are traded on the JSE under the HPA and HPB codes respectively. The A-linked units have a preferential claim to earnings with capped growth. The B-linked units receive the balance of the earnings. HPF has a BEE ownership component of some 22.6%. The Board of Directors of HPF consists of members from various fields of expertise, predominantly in the property, hospitality and investment sectors. HPF is managed by Hospitality Property Fund Managers (Pty) Limited, which comprises a team of professionals with extensive experience in both the hospitality and property sectors.

**Middledrift Dairy** was funded at R9 920 000. The three parties to the project all possess the key factors necessary to implement a sustainable dairy farming production.

The factors and their owners are:

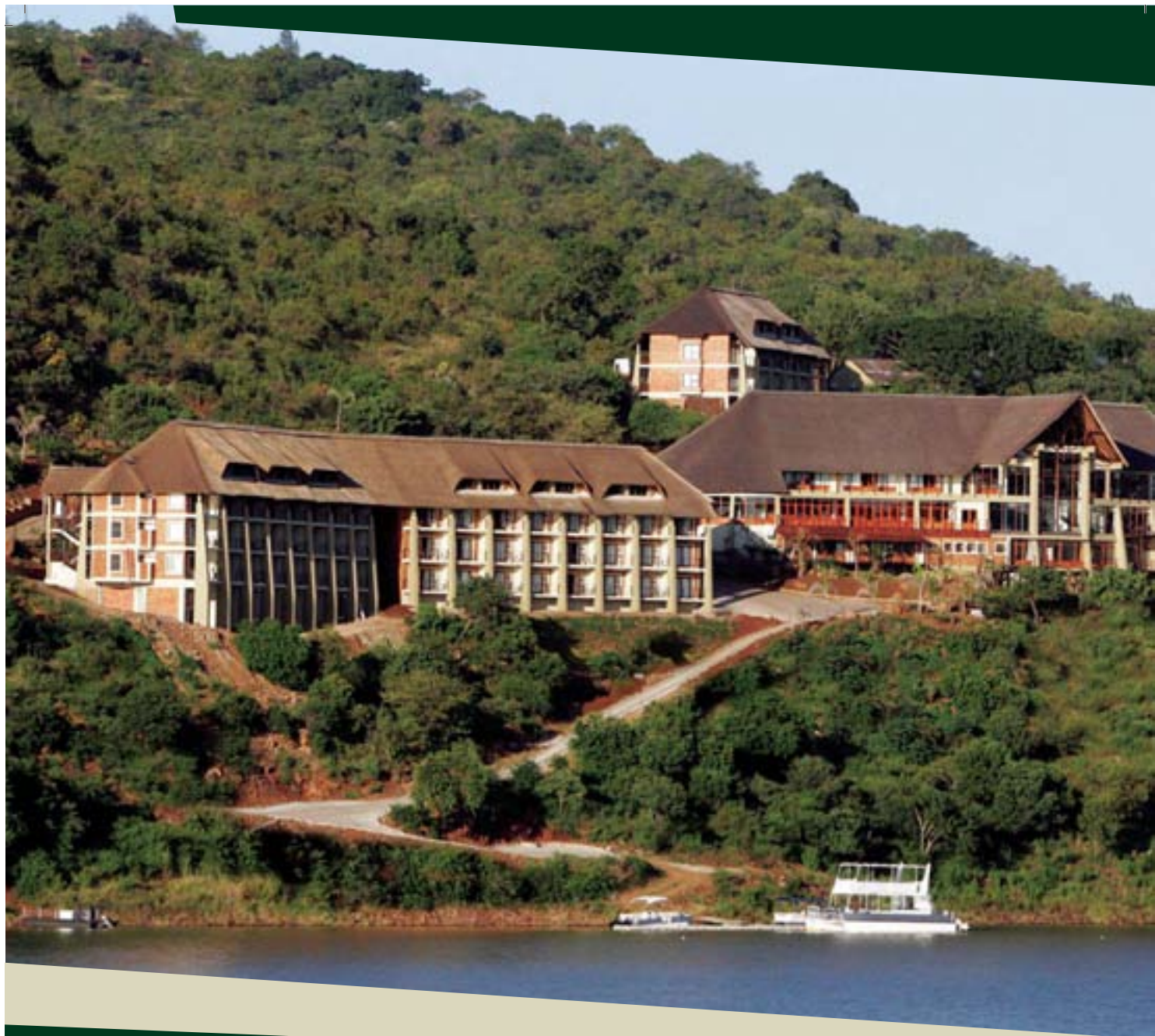
- Agricultural Land - Middledrift Community
- Labour - Middledrift Community
- Capital - National Empowerment Fund and Amadlelo Agri (Pty) Ltd.
- Technical Skills - Amadlelo Agri (Pty) Ltd

The community of Middledrift formed the Gwebindlala Trust, through which they provided land for dairy farming. A company, Middledrift Dairy, was established with the NEF, Gwebindlala Trust, and Amadlelo as shareholders. Through funding provided by the NEF to the value of R9 920 000 and R8.2 million by Amadlelo Agri, Middledrift Dairy has been empowered to establish a commercial dairy farm. Amadlelo Agri has also provided 600 cows and additional operational and working capital required for development of the farm. The funds have been utilised for start-up costs, acquisition of assets, machinery and working capital. Development of the farm included busheclearing, fencing and irrigations network and other infrastructure requirements. The farm started production in November 2008 and has produced 2.1m litres to date and is projected to produce 3.0 million litres per year once it reaches full production. It employs 30 workers from the community and is managed by black graduates from the Amadlelo/Fort Hare training initiative. Middledrift Dairy has an offtake agreement with Clover and is currently supplying all of its milk production to Clover.

The objectives of the project are:

- To create a sustainable milk producing enterprise.
- To contribute to alleviating poverty and unemployment in Middledrift.
- To transform the milk-farming sector and develop black farming expertise.
- To empower community members with ownership of a modern commercial farming operation.

A critical lesson arising from this entrepreneurial initiative is that meaningful partnerships can be developed between skilled white farmers and black land owners. The project provides a win-win solution for all the participants with the community providing land, the farmers providing capital and investment, resulting in ownership of a farm for the community and additional income streams in the forms of salaries and wages, and as the business reaches maturity, dividends in the future.



### On the Shores of a Lake, a Jewel Glitters

Nestled within indigenous evergreen yet colourful flora, Jozini Tiger Lodge is ideally located for domestic and international tourism. The hotel overlooks Lake Jozini, which is the third largest lake in South Africa, and is easily accessible from both Durban and Gauteng. The facility boasts 60 upmarket executive rooms with the capacity to accommodate 144 guests. There is no other accommodation in the vicinity that can match the spectacular positioning, size and the experience offered by the lodge. Crocodiles and hippos live in these waters and one can stay near the waters with accommodation varying from houseboats to lodges to private game reserves. Lake Jozini combines the best beach holiday with the natural beauty of a game reserve in fresh water. Jozini Tiger Lodge is ideal for weekends away, extended family holidays, conferencing, incentives, team building and international tour groups - this is a must visit picturesque property which offers truly breathtaking scenery.

The National Empowerment Fund's involvement in Jozini Tiger Lodge is for funding the participation of communities in the hotel establishment by purchasing a direct stake on their behalf and also holding a direct investment in the hotel company. In addition, the NEF will be the sole provider of senior debt funding in the project estimated at R18.8 million. The shareholding in the hotel company is split according to the individual investment contribution by all shareholders.

The community's interest will be held in the holding company, named Ntsinde Royal Jozini Holdings (Pty) Ltd. The company shareholding is 70% community trust and 30% BEE sponsors. The trust represent the interests of approximately 22 000 beneficiaries residing in the Jozini area of Northern KwaZulu-Natal.

**“As a Board we believe that the NEF has the necessary credibility and the institutional maturity to become a catalyst in the quest for true economic transformation through the initiation and support of projects of all sizes, an ideal that must embody the pursuit for economic development and inclusivity.”**

*Mr Ronnie Ntuli (Chairman of the Board of Trustees)*



## INVESTEES STORY

INVESTEES STORIES

### A Sweet Deal For The People

In 1963, a rural community in Charlestown, KwaZulu-Natal, was forcefully removed by the apartheid government and resettled in various areas. Like most communities in South Africa that had borne the brunt of forced removals, the Charlestown community was soon beset with extreme poverty, joblessness and social dislocation.

In 1998, the community began the long road back to its ancestral lands, lodging a claim for restitution. The claim bore fruit in 2004, resulting in the community regaining ownership of its land. Today, the community has developed a successful farming enterprise, with one of the sweetest parts of the story being a fruit farm named Amajuba Berries. The farm boasts the production of a variety of berries for consumption within South Africa and for the export market. The sweet success story is truly broad-based. The community has 1 100 beneficiaries, who are all black.

Most of them have moved back to Charlestown. The land is owned by the Charlestown Community Trust and has been leased to Amajuba Berries for 25 years. The Trust has a Board of Trustees with 11 elected members representing the beneficiaries, and it owns 12 farms totalling 8 054ha in Charlestown.

According to Bheki Kubheka, a community leader and a director of a community farming project in the area, while the restoration of the land to its rightful owners was a major achievement, it was only the beginning. The community is now faced with the challenge of turning the land into a successful commercial enterprise comprising several farming projects, breeding beef cattle, a commercial timber project and a dairy project.

But it is the berry growing project that has become the prize of the Trust. Kubheka says one of the reasons behind the choice of berries as an ideal crop was that it is a quick return crop. During the 2008/2009 farming season, which was Amajuba Berries' first harvesting season, 25 tons were produced. The company aims to produce 170 000 tons during the 2009/2010 season. The company has already seen significant returns since there is a high demand for berries, particularly in Europe, the UK and the United States. The fruit is high in anti-oxidants, contributing to an even higher demand.

All the temporary staff was sourced from the community and they have an option to work for the company during harvest time. At forty hectares, the project is estimated to employ 800 people and all these temporary positions are filled by the community.

One of the key factors that led to the success of the project is the NEF's mentor system. The system saw the community receiving guidance from the early stages of the project, when soil tests were conducted and climate conditions assessed. The NEF's mentoring guidance continued throughout the project to cover the creation of farm management structures, the creation of marketing and distribution systems and ongoing monitoring systems.

Mr Kubheka says the NEF's model has ensured that the Charlestown community realises its dream of not only getting its land back, but also turning it into a commercial success. The NEF's empowerment funding of R24.9 million, coupled with the IDC's R14.8 million, will enable broad-based community ownership in a project with strong social benefits aimed at poverty alleviation. The participation of a technical partner will see the transfer of skills. Other local economic benefits will be electrification of houses and provision of land for new houses.

“Our Constitution's preamble emphasises that South Africa belongs to all who live in it, united in our diversity. Guided by the Constitution, we have to create a society that has equal opportunities for all, in all spheres; political, social, cultural or economic.”

H.E. President Jacob Zuma



## Empowering Through Franchising

The financing of franchises remains a key means for black entrepreneurs to gain access to economic opportunities whilst reducing investment risk. This is due to the training, marketing and general entrepreneurial support typically provided by franchisors. NEF franchise funding, which is generally limited to R5 million with an investment horizon of 5 to 7 years, is available to black entrepreneurs who have prequalified with franchisors.

**Engen**, The National Empowerment Fund (NEF) and Engen Petroleum, South Africa's leading fuel marketer, have entered into an agreement that aims at increasing black entrepreneurial ownership of Engen service stations, countrywide.

As part of the agreement the NEF has made R50 million available in affordable loans to suitable candidates over a period of two years. Engen, in turn, will provide the financial surety and the business support

necessary for the new members of its retail service station network to thrive. This is the first deal of its kind in the petroleum industry, and we see it as an important move towards fostering empowerment in a sector that, by its nature, presents high barriers to entry.

During the year under review, 39% of Engen's service stations were black-owned. The goal is to increase this to 45% by 2016. Potential black entrepreneurs will be required to put up between 10% and 20% of the purchase price, and the NEF will provide financing for the balance. Engen will stand surety for half of the average R5 million purchase price, and will cover training, evaluation and business support costs.

Commonly, Engen requires that entrepreneurs put up 60% of the purchase price. Lowering the level of their contribution in this instance is aimed at making service station-ownership more accessible for black entrepreneurs.





## INVESTEE STORY

INVESTEE STORIES

### NEF INVESTS R100 million in TOP TV

One of the highlights of the year under review was an investment of R100 million in the second national pay television channel, TOP TV, through an equity investment in On Digital Media (ODM).

The NEF will warehouse its stake on behalf of First Aone Trade and Investment 12 (Pty) Ltd, a special-purpose vehicle representing the interests of a Broad-Based Black Economic Empowerment consortium comprising Lereko Investment (Pty) Ltd, a Black women's group and designated broad-based trusts. The NEF is classified as a BEE facilitator in terms of the Codes of Good Practice and consequently the NEF stake will be regarded as black-owned during the warehousing period.

The investment secures the NEF shareholding in the R1 billion ODM greenfields project to operate under the Top-TV brand as the second pay-TV provider in South Africa, with plans to expand and cover the rest of the continent. The company will operate direct-to-home (DTH) subscription broadcasting services providing both international and local multichannel subscription television services. These will be delivered through an encrypted digital signal into the subscriber's home via a satellite dish and a digital set-top-box.

The ODM project creates new capacity in our economy and will contribute directly to the liberalisation of the pay TV sector, thereby offering choice to consumers. The project also leverages local and international best practice and allows the NEF to be at the centre of cutting-edge digital innovation. The project is aligned to the investment mandate of the NEF in that ODM will be black-owned and managed, providing for meaningful participation by black women and designated groups.

The ODM investment secures the NEF a substantial Empowerment Dividend by ensuring;

- Media Industry transformation and introduction of competition to the benefit of the entire nation;
- 153 new jobs will be directly created upon the full implementation the project and many more downstream job opportunities will be created;
- ODM will maintain at least 51% effective black ownership, a black controlled board of directors and at least 50% black executive control at all times.
- 22% effective black-women shareholding and over 30% black-women executive management participation;
- An allocation of equity to an Educational Trust for the benefit of black deserving students throughout the country;
- Access to affordable multi-channel television to the majority of the nation including currently under-served remote and rural areas;
- Foreign direct investment by strategic technical partner, SES Astra;
- Transfer of skills from SES Astra to local engineers;
- Enterprise development in the form of new entities to provide services to ODM such as First Call (Pty) Ltd, a new call centre company;
- Preferential procurement opportunities through prioritisation of black-owned suppliers to ODM.

The NEF's participation in the project highlights the organisation's commitment to Broad-Based Black Economic Empowerment and to supporting technology enhancement and digital innovation as led by the Department of Trade and Industry and the Department of Communications.

**“Moving from BEE to BB-BEE was an outstanding move with the inclusion of other spheres of the Empowerment Dividend. Even with the introduction of the 7 codes of good practice, there is still a leaning towards other aspects of the codes and some are neglected. I believe all of the codes should be implemented and viewed equally.”**

*Xolile Tofile (Supply Chain)*



## INVESTEE STORY

INVESTEE STORIES

### Mat Kat Trading CC T/A News Cafe Emperors Palace/ Sha Jes Poultry CC

**Sha Jes Poultry CC**, funded for R9 514 750 is a poultry business that is owned 100% by Mr Sajesh Aungunu based in Westonaria, south of Johannesburg. This is a broiler farm that rears one day old chicks to fully grown chickens over a six week period and supplies to wholesale clients. The business has been operating since its inception in 2004. Mr Aungunu has been both Broiler Production Manager and Poultry Technical Manager for Early Bird Farms and Meadow Feeds northern region respectively for a period of 11 years prior to establishing his own poultry business.

"With the assistance of the National Empowerment Fund, the business has grown from 30 000 chickens per cycle (6 weeks) to 80 000 per cycle," says Mr Aungunu. The funding from NEF is essentially used for the development of two broiler houses and machinery that will serve to meet the demand from clients. "The farm is now operating at 40% capacity, meaning that our target of 200 000 chickens per cycle is a reality," says Mr Aungunu.

Mat Kat Trading CC T/A News Café Emperors Palace funded at R8 811 197 34 is a food and beverage franchise outlet that operates from the Emperors Palace Casino in the Gauteng Province. The News Café outlet is the third Grade A in the News Café Franchise brand. The restaurant is owned by Mr N Naidoo. The attraction to the transaction was based on the following facts:

- The brand prides itself in the fact that News Café is a premium brand.
- In the past 16 years that the brand has been in existence, there has not been a single News Café franchise that has closed down.
- The reasons behind the success of the brand is the commitment of the franchisor. Once the franchisor has identified a dip in the turnover of any one franchise outlet, they personally send out a team "surprise visit" who will investigate the problems in the store and implement strategies to bring that store up to acceptable trading levels.

The News Café Emperors Palace is not only one of the top restaurants at Emperors Palace Casino, but one of the top News Cafés in the country.

“Through our state we now have the Constitution that we’ve all adopted, and that constitution provides for certain principles that strengthen our resolve in attaining economic freedom...”

*Mr Cyril Ramaphosa, NEF BB-BEE Vision 2020 Seminar 24 May 2010*



## CODES OF GOOD PRACTICE

### Codes Of Good Practice For Broad-Based Black Economic Empowerment

The Codes of Good Practice as per the requirements of the Broad-Based Black Economic Empowerment (BB-BEE) Act No. 53 of 2003.

#### 1. Ownership

The participation by black people, in companies where there is real economic interest or value and decision making/voting rights by people that own either part of the whole company.

#### 2. Management Control

The participation by black people in the companies where they are executive board members, executive directors, senior management, other management, or non-executive directors.

#### 3. Employment Equity

The participation by black people in companies at junior, middle or senior management.

#### 4. Preferential Procurement

The recognition of buying of goods from qualifying small enterprises, exempted micro enterprises and black-owned or black enterprises.

#### 5. Skills Development

The training and development of skills of black employees in companies.

#### 6. Enterprise Development

The assistance provided by large companies and government to qualifying small enterprises, exempted micro enterprises and black-owned or women-owned enterprises.

#### 7. Socio-Economic Development

Assistance provided by business and government in facilitating the improvement of living standards of black people in rural areas, black unemployed people and black people with disabilities.

## GLOSSARY OF TERMS

AsgiSA	Accelerated and Shared Growth Initiative for South Africa
BIC	Board Investment Committee
BB-BEE	Broad-Based Black Economic Empowerment
DFI	Development Finance Institution
DPE	Department of Public Enterprises
Equity	Another name for shares (derived from the word "equal" meaning each share is equal to every other share in the same class)
ERM	Enterprise-wide Risk Management
EXCO	Executive Committee
EXCO IC	EXCO Investment Committee
FRMC	Finance and Risk Management Committee
FMD	Fund Management Division
GAAP	Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
HCRC	Human Capital and Remuneration Committee
IAS	Internal Accounting Standard
ICT	Information Communication Technology
IDC	Industrial Development Corporation of South Africa
IFRS	International Financial Reporting Standards
IPAP	Industrial Policy Action Plan
IPF	Industrial Policy Framework
IRR	Internal Rate of Return
JSE	JSE Securities Exchange Limited
Leverage	Another term for debt
NEF	National Empowerment Fund
NEF Act	National Empowerment Fund Act No. 105 of 1988
PFMA	Public Finance Management Act No. 1 of 1999 (as amended by Act No. 29 of 1999)
SAI	State Allocated Investments
SAVCA	South African Venture Capital and Private Equity Association
Secondary market	Once a company is listed on the stock exchange trade in its shares is referred to as a "secondary market" (as opposed to the "primary market", which is the initial raising of funds through IPOs)
SME	Small and Medium Enterprises
SPF	Strategic Projects Fund
SWEEEP	Sector-Wide Enterprise, Employment and Equity Programme
The Codes (of Good Practice)	Small and Medium Enterprises Broad-Based Black Economic Empowerment Codes of Good Practice
the dti	Department of Trade and Industry

## In Memoriam

Mr Kabelo Seitshiro  
1972 – 2010

A former member of the Board of Trustees between 2005 and 2009, Mr. Seitshiro brought a wealth of experience to the National Empowerment Fund (NEF). A consummate professional with a background in auditing and several aspects of investment banking, including structured and corporate finance, Mr Seitshiro chaired the Finance and Risk Management Committee of the NEF, and made an exceptional contribution to the growth and development of the NEF. He was an executive director for IDG Financial Services, and was previously Chief Director: Asset Management for the National Treasury, a director of the Export Credit Insurance Corporation of South Africa Limited, and a council member of the Vega School of Brand Communication. At the time of his untimely passing, Mr Seitshiro was deputy president of the Association of Black Securities and Investment Professionals (ABSIP). May his soul rest in peace.



Mr. Kabelo Seitshiro  
Robala ka kagiso, Nare!



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