



## GEARING BLACK INDUSTRIALISTS FOR AFRICA'S GROWTH

“ Since the establishment of the National Empowerment Fund (NEF) in 2004 to early this year, 21% of the businesses it funded are owned and managed by black women. The NEF recently established the Women Empowerment Fund, whose ethos is “Fund a Woman is to Fund a Nation”. Through this initiative, we intend to increase the funding for women-owned business to a minimum of 40% in the medium term. Given that our country comes from the background of institutionalised racism in which the economy was also structured to serve a few, South Africa continues with economic transformation programmes to expand the ownership of the economy to black South Africans. One of our new programmes is to promote the development of black industrialists. Our view is that women should comprise a critical mass of beneficiaries in respect of the development of black industrialists. Our target is 100 black industrialists over three years. We trust that women will be key participants in this programme.

His Excellency President Jacob Zuma at the Africa for African Women's Conference, ICC Boardwalk Convention Centre, Port Elizabeth, 08 March 2015



His Excellency  
 President Jacob Zuma,  
 President of the Republic  
 of South Africa



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## GEARING BLACK INDUSTRIALISTS FOR AFRICA'S GROWTH

The image of industrial gears depicted on the front cover of this **Integrated Annual Report 2015** conveys a unity of purpose, and is a metaphor for a nation hard at work to bring about radical economic development and transformation. The NEF contributes towards this objective by providing financial and non-financial support for small and medium enterprises, rural and community development, the economic empowerment of black women and the creation of new manufacturing and industrial capacity. The orange gear represents the NEF, which propels and drives the quest for an inclusive economy. As the source of motion, as the motive-force of inclusive growth, the NEF drives the aspirations of black South African entrepreneurs to become industrialists. Because they are integral parts of a greater whole, these entrepreneurs are geared to become part of Africa's promise and resolve to grow into a global industrial power. A dynamic and multi-faceted engine of hope, the NEF offers black entrepreneurs business-planning support, incubation and entrepreneurial training, as well as innovative funding and mentorship support. This, then, is the narrative of a development financier that is committed to the success of its investees, South Africa's development and growth and the prosperity of the African continent.

# FOREWORD BY THE HON. MINISTER OF TRADE AND INDUSTRY NEF ANNUAL REPORT 2015

The National Empowerment Fund (NEF) is a statutory trust mandated to promote and facilitate black economic participation in the economy through the provision of financial and non-financial support to black empowered businesses. In doing so, the NEF contributes to **the dti's** objectives of facilitating the transformation of the economy and broadening black economic participation.

A notable contributor to this transformation of the economy, is the NEF's Strategic Projects Fund (SPF), which is an initiative aimed at entrenching black entrepreneurial rights in early stage projects by identifying, initiating, scoping and developing projects aligned to the Industrial Policy Action Plan. SPF's investment strategy includes investment in tourism and hospitality, renewable energy, business process outsourcing, mining and mineral beneficiation, agro-processing, infrastructure and strategic manufacturing capacity. I am pleased to note that these projects, which are valued at R25 billion have potential to create over 80 000 jobs, and offer the real possibility to generate exports and beneficiation.

The recapitalisation risk currently faced by the NEF, which has resulted in funding activity slowing down significantly during the 2013/14 financial year, remains a high priority that we aim to manage with the expediency it deserves. Given the valuable role that the NEF plays within the South African economy, **the dti** is committed to support the NEF in its efforts to obtain additional capital.

The executive and management teams' efforts to improve efficiencies during this time are commendable. The institutional knowledge and expertise owned by the NEF in financing of enterprises across priority sectors of the economy is valuable assets to the South African economy.

The development of this plan has presented an opportunity for the NEF to reflect upon the achievements made to date as well as the critical constraints facing the NEF. The NEF achieved its highest level of funding



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

during the 2012/13 financial year with more than R1.3 billion approved to support 135 black businesses. Since inception, the NEF has supported projects that are to create or maintain over 80 000 job opportunities. The focus on entrepreneurship, rural and community development, as well as the support of black entrepreneur in new industrial development has resulted in the support of a number of projects of which we are proud. In particular, the focus on SMEs has contributed towards the increase in the number of business supported, thereby broadening access and participation in the economy. 🏽

The Hon. Dr Rob Davies, MP  
Minister of Trade and Industry  
Government of the Republic of South Africa



**the dti**  
Department:  
Trade and Industry  
REPUBLIC OF SOUTH AFRICA





## ABOUT THIS REPORT

**This is the NEF's first integrated report, guided by best practice as outlined in the Global Reporting Initiative (GRI) guidelines and King III. It is our primary annual report to stakeholders that represents a balanced presentation of the NEF's financial, economic, environmental and social performance.**

The report provides an overview of the NEF Trust business activities and to a limited extent, a high level overview of its operating subsidiaries for the year ended 31 March 2015. A high level overview of the two subsidiaries is provided on page 18. The report covers the Trust's and Group financial statements, overall performance against set targets, impact of key indicators since inception and looks at prospects for the next year.

The NEF has fully embraced its role of facilitating equitable economic participation of black business in the economy. We hope that this report will provide a transparent overview of our mandate, strategic objectives, the values that outline everything we do, our stakeholder engagement processes, risks and opportunities ahead. We trust the report further outlines a clear picture of how we are shaping and fulfilling our mandate of facilitating financial and non-financial support for black business and the empowerment dividend/ social impact we have gained through our various activities.

The report provides perspective of past and current performance, while giving sight of future prospects and addressing the short, medium and long term account of various capitals employed in the value creation activities. Our annual financial statements are prepared in accordance with standards of Generally Recognised Accounting Practice (GRAP), requirements of the Public Finance Management Act (PFMA) of South Africa and the National Empowerment Fund Act.

The NEF's ongoing stakeholder engagements as well as ongoing scanning of external macro factors (mainly economic, regulatory, political factors) allow us to identify material issues that inform the content of our report and validate the importance of what we communicate through this report. We assess the materiality of issues to be included in this report by referring to:

- Our Materiality Framework, which largely guides financial materiality levels;
- Assessment of issues that would affect our ability to be sustainable or that impact on our ability to discharge our mandate; and
- Strategic risk environment.

The Board is responsible for ensuring the integrity of this integrated report. The Board believes that it has addressed all material issues and has presented a balanced account of the NEF's performance and ability to create value over time through this report.

The financial as well as material non-financial information relating to all key indicators in this report have been independently assured by our external auditors, Sizwe Ntsaluba Gobodo. Our internal auditors conduct quarterly reviews of our performance indicators to give ongoing assurance of the integrity of the information we provide to our stakeholders throughout the year and at year end. »

**“ The institutional knowledge and expertise owned by the NEF in financing of enterprises across priority sectors of the economy is valuable assets to the South African economy. ”**






The Hon. Minister of Trade and Industry,  
Dr Rob Davies, MP, NEF Integrated  
Annual Report 2015



We welcome the views of our stakeholders on this integrated report and the manner in which we approach strategic priorities. Please send us your feedback to [info@nefcorp.co.za](mailto:info@nefcorp.co.za).

# PERFORMANCE HIGHLIGHTS

## Performance by Funds for year ending 31 March 2015

					
iMbewu (SME)	Rural & Community Development Fund (Rural)	Umnotho (Corporate Finance)	Strategic Projects Fund (Venture Capital)	Women Empowerment Fund	TOTAL
<b>Approvals:</b> R181 million	<b>Approvals:</b> R33 million	<b>Approvals:</b> R244 million	<b>Approvals:</b> R166 million	<b>Approvals:</b> R271 million	<b>Approvals:</b> R895 million
<b>Commitments:</b> R154 million	<b>Commitments:</b> R5 million	<b>Commitments:</b> R327 million	<b>Commitments:</b> R144 million	<b>Commitments:</b> R249 million	<b>Commitments:</b> R879 million
<b>Disbursements:</b> R60 million	<b>Disbursements:</b> R56 million	<b>Disbursements:</b> R208 million	<b>Disbursements:</b> R47 million	<b>Disbursements:</b> R191 million	<b>Disbursements:</b> R562 million

Job opportunities supported 33 763 in 2014/15  
(Target 4 000)

Existing Jobs  
943

New Jobs  
32 820

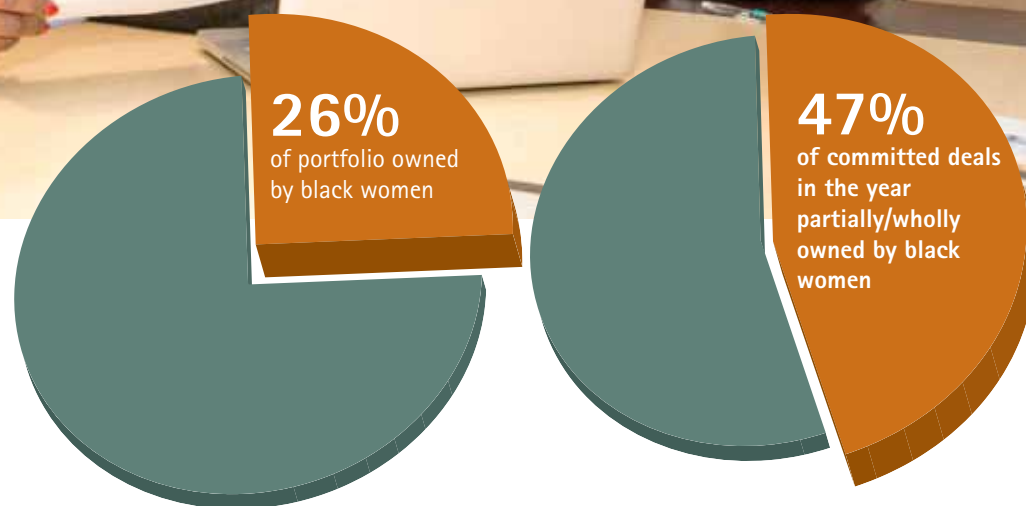
“ Through the significant changes in the B-BBEE codes, government encourages big business to support and facilitate the development of sustainable, competitive black-owned business. ”

NEF Integrated Annual Report 2015

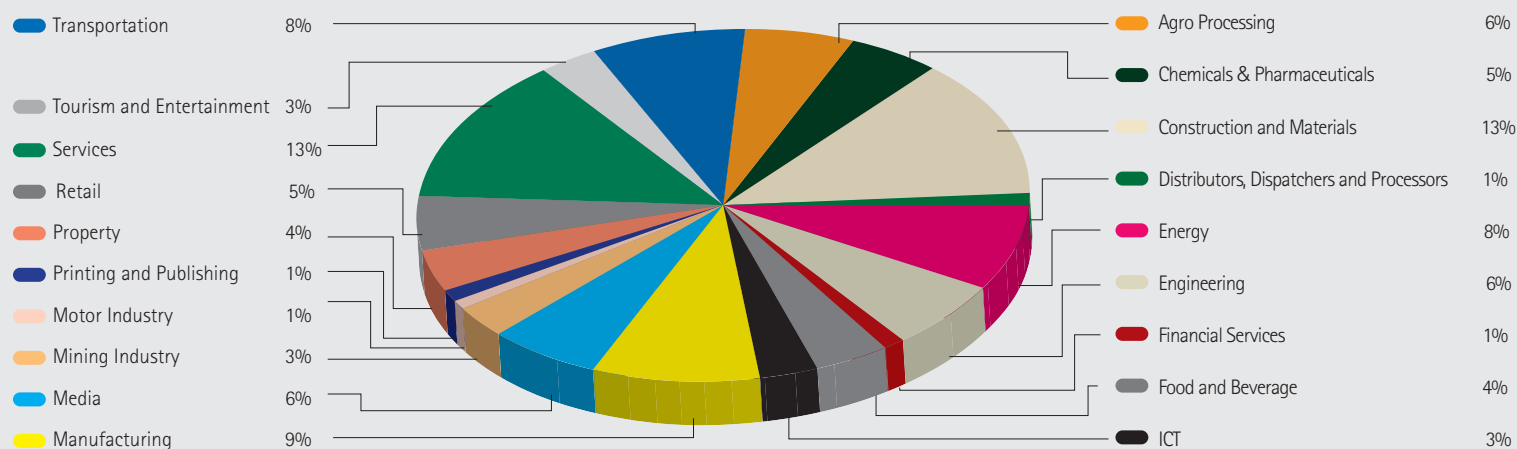
## Women Participation in the economy



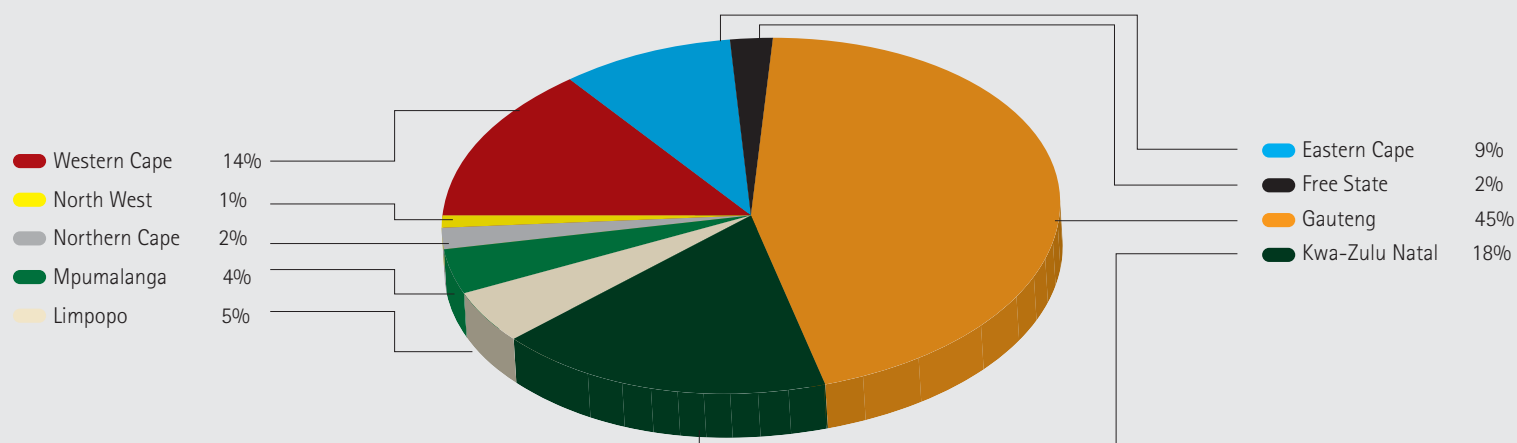
- ✓ 26 % of portfolio owned by black women
- ✓ 47 % of committed deals in the year partially/wholly owned by black women



### NEF Invested Portfolio by Sector since inception to 31 March 2015



### NEF Invested Portfolio per Region by Value since inception to 31 March 2015



# INTRODUCING THE NATIONAL EMPOWERMENT FUND

## Vision

The National Empowerment Fund's (NEF) vision is to become the leading provider of innovative transformation solutions for an economically inclusive South Africa.

## Mission

The NEF is a catalyst for Broad-Based Black Economic Empowerment (B-BBEE) in South Africa. We promote, enable, implement and develop innovative investment and transformation solutions to advance sustainable black economic participation in the economy.

## Mandate of the NEF

Established by the National Empowerment Fund Act (NEF Act), Act No.105 of 1998, the NEF is a driver and thought leader in promoting and facilitating black economic participation. Government created and mandated the NEF through the NEF Act to grow black participation in South Africa's national economy. Subsequently, Parliament passed the Broad-Based Black Economic Empowerment Act in order to guide the process of crafting a growing, inclusive and employment-generating economy.

Government discharges the implementation of B-BBEE through **the dti**, and specifically through its BEE Unit, which monitors the implementation of policy, and provides practical guidelines for the implementation of B-BBEE for industry.

## Policy and Regulatory Framework

The NEF's strategy and operations are informed by various government policies, and especially by the NEF Act. Other policies to which the NEF's strategy and operations are aligned include the various policies and legislation directing macro-economy and governance. These include:

- The National Development Plan
- Broad-Based Black Economic Empowerment Act, and the B-BBEE Codes of Good Practice
- Industrial Policy Action Plan (IPAP)
- Public Finance Management Act, No. 1 of 1999 (PFMA), including National Treasury regulations
- King Report on Governance for South Africa 2009 (King III)
- Protocol on Corporate Governance in the Public Sector, 2002
- Preferential Procurement Policy Framework Act No. 5, 2000

In order to ensure the NEF's ability to deliver a social and economic impact as broadly outlined in the NEF Act, the Executive and Board of Trustees have translated these policy objectives into strategic objectives which represent the NEF's priorities for the future. The strategic objectives are used to monitor and review the performance of the NEF.

E<sub>THICS</sub> M<sub>OTIVATION</sub> P<sub>ERFORMANCE</sub> O<sub>WNERSHIP</sub> W<sub>ORTHY</sub> E<sub>XCELLENCE</sub> R<sub>ESPECT</sub>

“ The NEF offers innovative solutions and a broad product portfolio for the needs of a diverse range of business opportunities and objectives. These may be small, medium to large, rural or urban, private or community-owned, start-up or expansionary. ”

Mr Rakesh Garach, Acting Chairman of the Board of Trustees, Integrated Annual Report 2015



The following table outlines the link between the policy objectives as defined by the NEF Act as well as the Government priorities as outlined in various policies and how they relate to the strategic objectives used for performance monitoring purposes.

NEF Strategic Objectives and Key Performance Indicators	Alignment with the NEF Act	Alignment with Government Priorities, Policies and Plans	NEF Activities
ADVANCING B-BBEE			
<div>1. Provide finance to business ventures established and managed by black people.</div> <div>1.1. Value of deals approved by the NEF (R million)</div> <div>1.2. Value of new Commitments (R million)</div> <div>1.3. Value of deals disbursed by the NEF (R million)</div>	<div>Promote &amp; support business ventures pioneered and run by black people.</div> <div>Promote the universal understanding of equity ownership among black people</div>	<div>Supports the following <u>Government Priorities</u>:</div> <div><ul style="list-style-type: none"><li>• Creating decent jobs</li><li>• Rural development</li></ul></div> <div>Supports the NDP objective to broaden ownership of assets to historically disadvantaged groups.</div> <div>Supports <b>the dti's strategic outcomes</b> through oriented goals to:</div> <div><ul style="list-style-type: none"><li>• Facilitate transformation of the economy to promote industrial development, investment, competitiveness and employment creation.</li><li>• Facilitate broad-based economic participation through targeted interventions to achieve more inclusive growth.</li></ul></div> <div>Supports IPAP by investing in industry and priority sectors identified in IPAP.</div> <div>Supports the B-BBEE Codes by promoting all elements (ownership, management control, skills development, enterprise and supplier development, and socio-economic development).</div>	<div>Through its funding activities, the NEF actively seeks to promote transformation, broad-based participation, industrialisation, and SME development. The performance of the investees' business against the elements of the B-BBEE Codes is assessed as part of the merit of funding all transactions.</div> <div>The promotion of industrial development in particular, is achieved via the NEF's Strategic Projects Fund, which has as its core function, the provision of Seed Venture Capital Finance aimed at developing industrial capacity within the priority sectors identified in the IPAP including green industries, agro-processing, automotives, biofuels, the film industry, and clothing and textiles.</div> <div>The promotion of rural development is achieved via the NEF's Rural &amp; Community Development Fund, which is responsible for financing enterprises in the rural economy.</div>



NEF Strategic Objectives and Key Performance Indicators	Alignment with the NEF Act	Alignment with Government Priorities, Policies and Plans	NEF Activities
<b>MAXIMISING THE EMPOWERMENT DIVIDEND</b>			
<p>2. Invest in black empowered businesses that have high employment creating opportunities.</p> <p>2.1. Number of job opportunities expected to be maintained or created.</p>	Contribute to the creation of employment opportunities.	<p>This is aligned with Government Priority to create decent jobs.</p> <p>Supports the NDP objective to reduce the unemployment rate.</p> <p>Supports <b>the dti's</b> strategic outcomes-oriented goals to:</p> <ul style="list-style-type: none"> <li>Facilitate transformation of the economy to promote industrial development, investment, competitiveness and employment creation.</li> <li>Facilitate broad-based economic participation through targeted interventions to achieve more inclusive growth.</li> </ul>	<p>Through its funding activities, the NEF actively seeks to promote transformation, broad-based participation, industrialisation, and SME development.</p> <p>The creation of employment opportunities are assessed as part of the merit and impact of funding transactions.</p>
<p>3. Support the participation of black women in the economy.</p> <p>3.1. Percentage of portfolio owned by black women</p> <p>3.2. Percentage of committed deals partially /wholly owned by women</p>	Not specifically defined as a policy objective but is considered to be part of the broader objective of transforming the economy.	Supports <b>the dti's</b> objective to facilitate broad-based economic participation through targeted interventions to achieve more inclusive growth.	The NEF sets a specific target to support women-owned businesses, which is achieved via the NEF's funding activities. Participation by black women is assessed as part of the merit of funding all transactions. The Women's Empowerment Fund has also been recently introduced to directly address the participation by black women in NEF funded transactions going forward.
<p>4. Facilitate investment across all provinces in South Africa</p> <p>4.1. Maintain/increase percentage of portfolio by value invested in EC, NC, WC, KZN, NW, Mpumalanga, FS and Limpopo</p>	Not specifically defined as a policy objective but is considered to be part of the broader objective of transforming the economy.	Supports <b>the dti's</b> objective to facilitate broad-based economic participation through targeted interventions to achieve more inclusive growth.	The NEF seeks to balance the geographic spread of investments and contributions towards increased economic activity across all provinces, particularly in areas of regional economic disadvantage. Targets are set in relation to geographic spread which attempt to match the respective provinces' relative contribution to GDP and to surpass this in areas of regional economic disadvantage.

NEF Strategic Objectives and Key Performance Indicators	Alignment with the NEF Act	Alignment with Government Priorities, Policies and Plans	NEF Activities
<b>OPTIMISING NON-FINANCIAL SUPPORT</b>			
5. Encourage & promote savings, investment & meaningful economic participation by black people	Encourage & promote savings, investment & meaningful economic participation by black people.	Supports the NDP objective to broaden ownership of assets to historically disadvantaged groups, by promoting savings and investment.	Investor education campaign.
5.1. Number of Investor Education seminars held across the country.	Encourage the development of a competitive and effective equities market inclusive of all persons in the Republic.	Supports <b>the dti's</b> objective to facilitate broad-based economic participation through targeted interventions to achieve more inclusive growth.	Also achieved via the Entrepreneurial Strategy (incubation and Business Today entrepreneurship development training).
	Provide black people with the opportunity of acquiring shares/ interest in State Owned Commercial Enterprises (SOCE's) that are being restructured or in private business enterprises.	Supports <b>the dti's</b> objective to facilitate broad-based economic participation through targeted interventions to achieve more inclusive growth.	The NEF achieved this goal with the Asonge share scheme.  The possibility of equity allocations of Government's shareholding in non-strategic entities is currently being explored as part of the NEF's recapitalisation. It must however be noted that this policy objective can only be addressed in line with government's broader policy for SOCE's.
6. Black economic empowerment is advanced through funding commercially sustainable enterprises.	Generally employing such schemes, businesses and enterprises as may be necessary to achieve the objects of the Act.	Supports the NDP objective to broaden ownership of assets to historically disadvantaged groups by investing in skills development and by promoting sustainable entrepreneurship.	Non-financial support activities including:
6.1. Number of Business Today Training sessions provided.		Supports both <b>the dti's</b> objectives to:	<ul style="list-style-type: none"> <li>• Mentorship.</li> <li>• Entrepreneurial assessments.</li> <li>• Incubation.</li> <li>• Business Today entrepreneurship training.</li> <li>• Portfolio monitoring activities.</li> </ul>
6.2. Number of entrepreneurs referred for business incubation		<ul style="list-style-type: none"> <li>• Facilitate transformation of the economy to promote industrial development, investment, competitiveness and employment creation.</li> <li>• Facilitate broad-based economic participation through targeted interventions to achieve more inclusive growth.</li> </ul>	
6.3. Number of social facilitation sessions held with investees			



NEF Strategic Objectives and Key Performance Indicators	Alignment with the NEF Act	Alignment with Government Priorities, Policies and Plans	NEF Activities
<p>7. Establish the NEF as a credible and meaningful development finance institution in the South African economy.</p> <p>7.1. Brand audit survey findings</p>	Not specifically defined as a policy objective but is considered to be part of the broader objective of transforming the economy.	<p>Supports the NDP objective to broaden ownership of assets to historically disadvantaged groups.</p> <p>Supports <b>the dti's</b> objective to facilitate broad-based economic participation through targeted interventions to achieve more inclusive growth.</p>	This is achieved via Marketing & Communication activities which seek to increase awareness, and ultimately the utilisation of the NEF's products and services. A broader impact is achieved when funds are disbursed.
<b>FINANCIAL EFFICIENCY &amp; SUSTAINABILITY</b>			
<p>8. Establish the NEF as a sustainable DFI.</p> <p>8.1. Percentage of portfolio impaired.</p> <p>8.2. Target ROI before impairments.</p> <p>8.3. Collections ratios.</p> <p>8.4. Manage portfolio risk.</p>	Not specifically defined as a policy objective but is considered to be part of the broader objective of transforming the economy.	Supports <b>the dti's</b> objective to facilitate broad-based economic participation through targeted interventions to achieve more inclusive growth.	This is achieved by ensuring that we invest in transactions which have economic merit, through active financial management of the NEF itself, as well as through portfolio monitoring and support activities.

“ *Black economic empowerment is necessary not only to satisfy the imperatives of the Constitution. It is necessary not only to correct the wrongs of the past. It is necessary and essential if we are going to build a prosperous, sustainable and equitable society.* ”

The Hon. Deputy President Mr Cyril Ramaphosa, MP, at the Nelson Mandela Bay 25 October, 2014



## B-BBEE CODES OF GOOD PRACTICE

Broad-based black economic empowerment (B-BBEE) remains a priority for the government and this has been reflected in the recent amendments to the B-BBEE Act as well as the changes in the accompanying Codes of Good Practice. The Codes of Good Practice serve as a framework that not only provides a generic scorecard but also provides guidelines that ensure the implementation of BEE principles in a manner that is meaningful for broad-based empowerment.

The amendments to the B-BBEE codes, which came into effect from the 1<sup>st</sup> of May 2015, are aimed at accelerating transformation and placing greater emphasis on black ownership. The new codes have reduced the number of elements from seven to five, fusing together Management Control and Employment Equity; and Enterprise Development with Preferential Procurement as follows:

Key element	Description of key elements	Impact of Revised Framework
Ownership	<p>This element is comprised of two components</p> <ul style="list-style-type: none"> <li>designates voting rights and</li> <li>economic interests</li> </ul> <p>Intended beneficiaries are black people and black women. The importance of black ownership is underscored by the increase in the number of points attributed to this element from 20 on the old scorecard to 25 on the new one.</p>	<ul style="list-style-type: none"> <li>This is a priority element and therefore the 40% subminimum under the realisation points is applicable; failure to comply will result in an automatic downgrade by 1 level.</li> <li>Black designated groups, Broad based groups and black entrants are now incorporated into the main scorecard;</li> <li>Weighting for element increases from 20 points to 25 points;</li> <li>Various types of ownership are given specific points for better differentiation</li> </ul>
Management Control	<p>This element is comprised of seven categories</p> <ul style="list-style-type: none"> <li>Board Participation</li> <li>Executive Directors</li> <li>Other Executive Management</li> <li>Senior Management</li> <li>Middle Management</li> <li>Junior Management</li> <li>Employees with disabilities</li> </ul> <p>Intended beneficiaries are black people, black women and black people with disabilities as defined in the Codes of Good Practice. Furthermore this element has been aligned with Economically Active Population (EAP) targets categorised by gender and race.</p>	<ul style="list-style-type: none"> <li>This is not a priority element</li> <li>This element seeks to ensure that black people and black women are appointed within the various levels in the organisation.</li> <li>Targets have been set for the various categories</li> <li>The targets for each category have been further categorised by demographic representation in terms of the EAP Targets.</li> </ul>
Skills Development	<p>This element is comprised of three main categories:</p> <ul style="list-style-type: none"> <li>Skills development expenditure has been extended to include external training of black people and black employees</li> <li>Learnerships, apprenticeships and internships</li> <li>Number of black people absorbed by Entity after learnership programme</li> </ul> <p>Intended Beneficiaries are black people (employed and unemployed) and black employees with disabilities.</p>	<ul style="list-style-type: none"> <li>This element is opening opportunities for unemployed black people, black people living in underdeveloped and rural communities and black women by providing them with training and ensuring permanent employment.</li> <li>As a priority element if an entity does not meet the 40% of the total points on the scorecard excluding the bonus points they will be downgraded by one level</li> <li>Bonus points are awarded to companies who ensure that the number of black people under, learnerships, apprenticeships and learnerships are absorbed into the economy or within the entity providing the training.</li> </ul>

Key element	Description of key elements	Impact of Revised Framework
Enterprise and Supplier Development	<p>This element is comprised of three main categories with the fourth qualifying an entity to bonus points</p> <ul style="list-style-type: none"> <li>• Preferential Procurement</li> <li>• Supplier Development</li> <li>• Enterprise Development</li> </ul> <p>Facilitating the graduation of an Enterprise Development Beneficiary to Supplier Development level (Bonus Point)</p> <p>Employment creation as a result of initiatives undertaken by the respective entities under Supplier Development and Enterprise Development</p> <p>Intended beneficiaries are black owned, black women owned and designated group suppliers that are 51% black owned EME's and QSE's.</p>	<ul style="list-style-type: none"> <li>• This element is a priority element and therefore Entities that do not meet the 40% subminimum requirement in each category under this scorecard will be downgraded by one level.</li> <li>• Generic Entities must ensure that they meet three of the five requirements in order to qualify as an Empowering Supplier</li> <li>• QSE's must meet at least one of the 5 requirements to qualify as an empowering supplier</li> <li>• Enhanced recognition for Black owned and Black women owned entities (including EME's);</li> </ul>
Socio –Economic Development	<p>Under this element, firms will receive recognition for contributing towards activities that facilitate socio-economic development including but not limited to the provision of grants, guarantees or developmental capital to beneficiaries, training and mentoring that will assist beneficiaries increase financial capacity.</p> <p>Intended Beneficiaries are black people/communities.</p>	There have not been substantial changes to this element.

The total number of available points, as seen below has increased from 107 to 118. This will serve to mitigate any adverse effects of the revised codes.

Element	Weighting Points – Amended Codes	Weighting Points – Previous Codes
Ownership	25	20 + 3 Bonus Points
Management Control	15 + 4 Bonus Points	10 + 1 Bonus Point – Management Control 15 + 3 Bonus Points – Employment Equity
Skills Development	20 + 5 Bonus Points	15 – Skills Development
New Enterprise Development	40 + 4 Bonus Points	20 – Preferential Procurement 15 – Enterprise Development
Socio Economic Development	5	5
<b>Total</b>	<b>118</b>	<b>107</b>



## Key Revisions By Company Size

### Exempt Micro Enterprises (EMEs)

Entities turning over less than R10 million a year are exempt from being measured against a B-BBEE scorecard and need only obtain a Sworn affidavit confirming their company's Annual Total Revenue. EMEs will be awarded BEE status according to their ownership profile as follows:

Black Ownership	BEE Status	Procurement Recognition
100% Black Owned	Level 1	135%
>51% Black Owned	Level 2	125%
<50% Black Owned	Level 4	100%

Under the revised codes, businesses are required to ensure that 15% of procurement spend is from EMEs; thus creating an environment conducive to the growth and development of sustainable EMEs in the economy.

### Qualifying Small Enterprises (QSE)

Entities that have an Annual Total Revenue of over R10million but less than R50 million qualify as QSEs. QSEs that are 100% black owned automatically qualify as Level 1 B-BBEE Supplier while those that are at least 51% black owned qualify as a Level 2 Supplier. 100% black owned and 51% black owned entities only require a sworn affidavit detailing the Annual Total Revenue, Level of Black Ownership and if they qualify as an Empowering Supplier. Under the previous codes QSEs could choose which four of the seven elements to comply with and score points from. The new codes require QSEs that are less than 51% black owned must comply with all 5 elements. In order to secure a BEE certificate they need to qualify for one of the following criteria to be recognised as an empowering supplier:

- 25% of sales must be procured from local producers or suppliers
- 50% of jobs created are for black people
- 25% of transformation of raw materials/beneficiation
- At least 12 days per year of productivity to be spent in providing support or assistance to black EME and QSE beneficiaries to increase financial or operational capacity.

### Generic Enterprises

This includes all companies with a turnover greater than R50 million. Qualifying enterprises are now expected to comply with all elements of the amended BEE Codes. In order to obtain a BEE certificate they are required to qualify for 3 of the following criteria:

- 25% of sales must be procured from local producers or suppliers
- 50% of jobs created are for black people
- 25% of transformation of raw materials/beneficiation
- At least 12 days per year of productivity to be spent in providing support or assistance to black EME and QSE beneficiaries to increase financial or operational capacity.

### Key considerations for the NEF

Through the significant changes in the B-BBEE codes, government encourages big business to support and facilitate the development of sustainable, competitive black-owned business. The NEF mandate emphasises the facilitation "of black economic participation through the provision of financial and non-financial support" and is thus a key consideration engrained in our business processes. Alignment with the B-BBEE codes is ensured through:

### Ownership

The new codes have made ownership a priority element. For most companies, complying with the ownership element is now unavoidable in order to maintain a B-BBEE status of level 6 or above. Even when an enterprise complies with the other four elements, it will not be able to attain level 4 status without complying with the ownership element. This is meant to encourage companies to implement ownership transactions in order to comply with the B-BBEE codes. Enterprises are expected to comply with 40% minimum requirement of net value targets for this element which measure the debt-free portion of B-BBEE ownership of a firm. Enterprises that do not meet the 40% minimum compliance requirement risk an automatic downgrade by one level.

The NEF welcomes this regulatory development as it will ensure that accelerated transformation in the market through better alignment of Government's efforts to increase meaningful participation of black owned businesses in the economy.

The changes to the ownership element have significant implications where transactions that involve the provision of financing for BEE shareholding which will be repaid out of dividend flows. The downgrade that applies when net-value targets is aimed at emphasising proper structuring of BEE deals, to avoid structures being 'under water' at the end of lock in period and thus leaving no value vesting to BEE investors while companies would have enjoyed the benefits of higher BEE status during the lock-in period.

The NEF will continue exploring new ways of structuring deals to ensure value is delivered to black people in the deals that it facilitates.

### Enterprise and Supplier Development:

To date, the NEF's ED Fund has been a success and, through it, we have secured contributions in our capacity as a "Category B Beneficiary" from various public and private industries organisations. The funds secured have been utilised to finance EMEs and QSEs as part of the NEF funding and we have therefore managed to create sustainable enterprises and have leveraged our capital for greater economic and developmental impact. We also provide non financial support to enterprises supported through our mentorship and business development programmes.

These contributions have consistently been recognised by B-BBEE verification agencies as qualifying Enterprise Development Contributions and thus the Measured Entities have successfully managed to receive Enterprise Development points for such Contributions immediately upon being deposited into the Fund, before any Beneficiaries actually benefit from the Contributions. This was on an understanding that the contributions would be applied in the same financial year.

The new Codes have however significantly diluted the ED Fund's offering due to the fact that our niche as a beneficiary and our ability support the immediate allocation of points has been compromised. The new Codes have done away with the "Category B Beneficiary" classification and paragraph 4.14 of Statement 400 clearly prohibits the calculation and measurement of Contributions and points outside the verification window.

The monetary impact of this change is included in the CFO's report.

### Products and Services

The NEF provides financial and non-financial support to black enterprises for start-up, expansion and equity transformation purposes. The NEF is also mandated to promote a culture of savings and investment among black people in South Africa.

The NEF provides business funding from R250 000 to R75 million across a range of sectors, for start-ups, expansions and equity acquisition purposes.

One of the key requirements for NEF funding is for the investees to be involved in the operation of their business.

Furthermore the NEF has recently been identified as a key player in the ambitious Black Industrialist Programme (BIP) being driven by the department of trade and industry.

By definition, a Black Industrialist is "An entrepreneur or enterprise that has a substantial equity and operational interest in the long-term ownership and control of a medium to large enterprise in a key sector of the economy as defined in Industrial Policy Action Plan (IPAP).


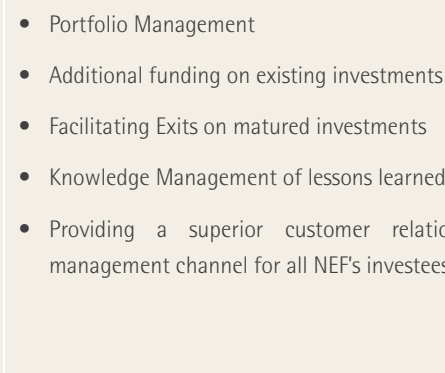

In line with the draft Black Industrialist Policy Framework, exclusive grants and incentives as well as a syndicated finance package will be on offer for qualifying black business. The **dti** has set aside a dedicated R1-billion incentive scheme for black industrialists as well as a separate grant scheme for participating private-sector companies. Through development finance institutions such as the NEF **the dti** will establish a syndicated low-interest-rate facility to set aside a "pool of capital" for black industrialists.

**“** A black person is defined as, "an African, Coloured or Indian natural person who is a citizen of the Republic of South Africa by birth or by descent as well as a natural person who acquired citizenship by naturalisation prior to 27 April 1994". **”**

NEF Integrated Annual Report 2015



Non-financial support is provided in the following main forms:

Pre- Investment Unit (PIU)	Post Investment Unit (POIU) and Turnarounds Workouts and Restructuring (TWR)	Socio-Economic Development and Asset Management Unit
<p>Applicants for funding may be excellent entrepreneurs, but often struggle to navigate necessary application procedures and to manage their business. The NEF therefore assists with funding advice, business planning and general assistance to help ensure that the application are of sufficient quality to complete all steps in the process</p> <p>As the first point of contact for many potential clients, the PIU's primary function are:</p> <ul style="list-style-type: none"> <li>• Provide information on NEF product and procedures</li> <li>• Identify applications that will qualify for funding</li> <li>• Keep clients informed on the progress of their application</li> <li>• Advise applicants and assist drawing up a business plan</li> <li>• Refer applicants that show potential for business incubation</li> </ul> 	<p>Black business needs to be robust and self-sustaining for B-BBEE 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 reward for success are jobs and increased capital for further expansion</p> <p>The unit is responsible for:</p> <ul style="list-style-type: none"> <li>• Regular portfolio monitoring</li> <li>• Regular collections management and credit control</li> <li>• Restructure of distressed investments</li> <li>• Turnaround and rescue of highly distressed investments</li> <li>• Active board participation on larger investments</li> <li>• Mentorship and technical assistance</li> <li>• Valuations of investee company</li> <li>• Measuring the impairment of investments</li> <li>• Monitor Legal Compliance</li> <li>• Portfolio Management</li> <li>• Additional funding on existing investments</li> <li>• Facilitating Exits on matured investments</li> <li>• Knowledge Management of lessons learned</li> <li>• Providing a superior customer relationship management channel for all NEF's investees</li> </ul> 	<p>Social interventions in deals which have broad-based groups or communities as beneficiaries are facilitated through this unit. The unit's main services are to:</p> <ul style="list-style-type: none"> <li>• Foster a culture of savings and investment through its Investor Education programme</li> <li>• Promote and facilitate Enterprise Development</li> <li>• Educate beneficiaries about roles and responsibilities in business.</li> <li>• Ensure that schemes (eg trusts and co-operatives) are formally registered</li> <li>• Identify opportunities for beneficiaries in transactions and develop market linkages</li> <li>• Develop social plans that outline how funds are to be used by beneficiaries</li> </ul> 



The NEF has five Funds through which it discharges its mandate, which are briefly described below:

Fund	What it does
<b>iMbewu</b>	<p>This fund is designed to support black entrepreneurs wishing to start new business as well as support existing black owned enterprises with expansion capital. The fund support 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 R10 million.</p> <p>Main products offered through this fund include Franchise funding, Contract/Procurement funding and Entrepreneurship funding</p>
<b>Rural and Community Development</b>	<p>Designed to promote sustainable change in social and economic relations and support the goals of growth and development in the rural economy, through financing sustainable enterprises.</p> <p>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.</p> <p>The fund has three products: New Ventures Finance, Business Acquisition and Expansion Capital with the funding threshold ranging from R1 million to R50 million.</p>
<b>Strategic Projects Fund</b>	<p>The SPF is at the centre of NEF's investment strategy when it comes to securing the participation of black people in early stage projects. Its core function is to provide Venture Capital Finance aimed at developing South Africa's new and industrial capacity within strategic sectors identified by Government as the key drivers of economic growth.</p> <p>The fund facilitates the development of various strategic projects through five stages of the project development phases, namely, Scoping/Concept study, Pre-feasibility study, Bankable feasibility, Financial closure, and Implementation.</p> <p>Funding ranges from R2 million to R75 million</p>
<b>uMnotho</b>	<p>This fund is designed to provide access to Acquisition Finance; New Ventures Finance, Expansion Finance, Capital Markets, Liquidity and Warehousing as well as Property Finance. These products provide capital to black owned and managed enterprises, black entrepreneurs who are buying equity stakes in established white-owned enterprises, new ventures and BEE businesses that are or wish to be listed on the JSE.</p> <p>Funding ranges from R2 million to R75 million</p>
<b>Women Empowerment Fund</b>	<p>This is a newly established fund aimed at accelerating the provision of funding to businesses owned and managed by black women.</p> <p>Funding is provided from R250 000 to R75 million across all existing NEF products.</p>

## Application Criteria

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.

A black person is defined as, "an African, Coloured or Indian natural person who is a citizen of the Republic of South Africa by birth or by descent as well as a natural person who acquired citizenship by naturalisation prior to 27 April 1994".

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/or 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.

The NEF measures and assesses its impact not only on the basis of financial return, but in accordance with what has come to be referred to as the "*Empowerment Dividend*". This incorporates the Codes of Good Practice as well as a specific focus on Black Women Empowerment, Job Creation, Priority Growth Sectors and Geographic Spread.

This investment methodology enables the NEF to pursue national priorities such as B-BBEE, the dti's industrial policy objectives and targeted government programmes.

- **Investment in black empowered businesses** – Through its funding activities, the NEF actively seeks to promote transformation, broad-based participation, industrialisation and SME development.

- **Participation by Black women** – the NEF emphasises the empowerment of women by providing for an additional weighting for Black women participation.
- **Job Creation** – Contribution towards employment creation and the number of jobs created per rand invested or jobs sustained through investment in expansion type activities.
- **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 New Growth Path and the National Industrial Participation Programme (NIPP) and Industrial Policy Action Plan (IPAP).
- **Geographic Spread** – Geographic spread of investments and contribution towards increased economic activity across all provinces, particularly in areas of regional economic disadvantage.



*The amendments to the B-BBEE codes, which came into effect from the 1<sup>st</sup> of May 2015, are aimed at accelerating transformation and placing greater emphasis on black ownership. The new codes have reduced the number of elements from seven to five, fusing together Management Control and Employment Equity; and Enterprise Development with Preferential Procurement.*

The NEF seeks to address the following market failures specifically in relation to black business participation in the economy:

- Access to finance
- Access to markets
- Insufficient industry knowledge and/or management experience
- Equity contribution
- Low bargaining power with suppliers and customers
- Undercapitalisation and low asset base
- Lack of accurate and reliable information, and lack of business planning skills

### Operating Subsidiaries

The NEF has two wholly owned operating subsidiaries, namely Zastrovect Investment (Pty) Ltd (trading as Goseame Open Market - Goseame) and National Empowerment Fund Corporation SOC Limited (NEFCorp SOC Ltd).

Goseame is involved in the wholesale and retailing of fresh produce, groceries, meat, flowers and all aspects involved therewith. The NEF provided loan financing to Goseame in June 2012 for a period of 7 years. The promoter who was supported through this transaction was however found to be in breach of loan terms which compelled the NEF to expel the promoter from the business, consequently temporarily taking over 100% of the entity's shareholding effective 6 September 2013 and placing interim management in the business.

The Minister of Finance has granted PFMA compliance exemption of this entity for a period of three years, ending June 2017.

NEFCorp SOC Ltd is an investment holding company that was established by the NEF Trust in 2002. The company remained dormant since inception until the current financial year when a strategic acquisition of the land and property on which the Goseame business is conducted was facilitated through the provision of a long term loan granted by the NEF. The transfer of the property was not concluded as at year end but is imminently expected.🔥

*“ If we really want an economy that is inclusive and sustainable and that will address the triple challenge that the country is facing, we need to broaden the industrial base through the inclusion of black industrialists. We don't want to wipe out white entrepreneurs, instead, we want to add black industrialists into the economic base. ”*

The Hon. Deputy Minister of Trade and Industry, Mr. Mzwandile Masina, MP, at the Annual Manufacturing Indaba in Kempton Park, 30 June 2015





# HOW THE NEF CREATES VALUE

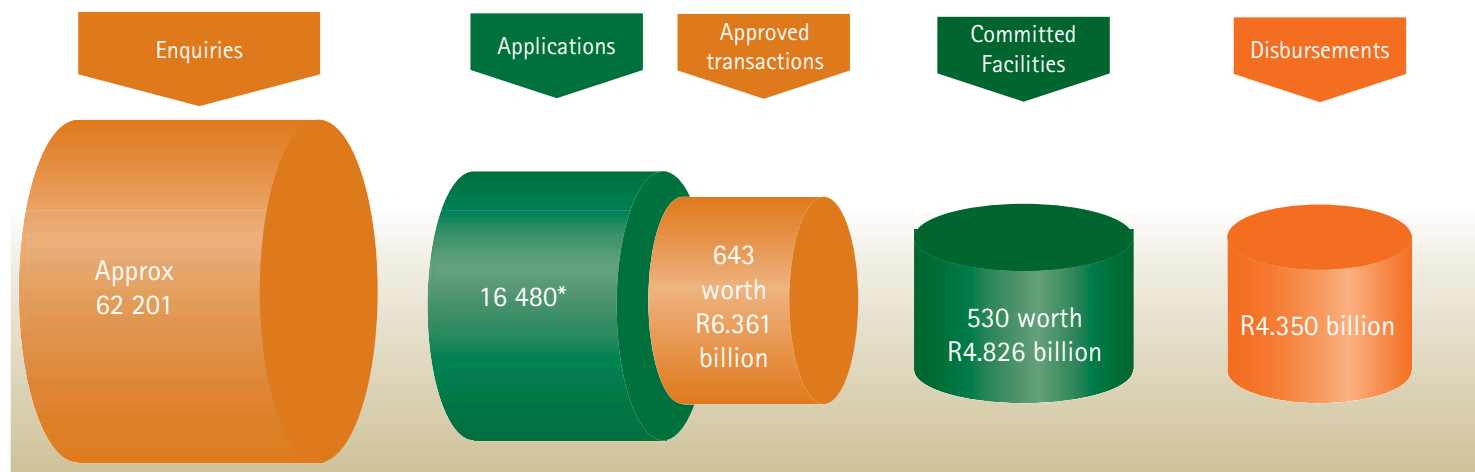
As the only DFI mandated with the promotion of B-BBEE, we mainly measure the value we create through our funding activities, non-financial support activities and elements of the empowerment dividend.

## Funding Activities

With an initial capitalisation of R2.4 billion, the NEF has since inception approved R6.4 billion and disbursed R4.4 billion towards 463 transactions. During the current financial year, the NEF approved 94 new transactions worth R895 million and disbursed R562 million.

### NEF INVESTMENT PROCESS

Since Inception – 31 March 2015



\* Please note that applications are not necessarily linked to enquiries

Our Rural and Community funding activities have supported over **30 communities, comprising over 1.8 million people, 60% of whom are women.**

In adding our contribution to the support of Black Industrialists, through the creation of new manufacturing and industrial capacity, maximizing job-creation and increasing export-earning potential we developed a pipeline of **20 strategic projects worth over R25 billion.** 78% (by value) of these projects are at advanced development stages (ie Financial close and construction). Our total investment of over **R800 million has leveraged R3.7 billion in third party funding.**

Refer to 'Investor Profile' section further details on some of the deals we have supported.

We further support black business through our procurement activities as described in more detail in the 'Report of the Chief Financial Officer'.

## Non – Financial Support Activities

As indicated on page 15, non-financial support is mainly through the application support services (Pre –investment), post investment support (Post Investment and TWR) as well as socio interventions (Socio-Economic Development and Asset Management).

The Pre-investment has facilitated the processing of 1413 applications during the year. Whilst these volumes were 26% lower than those received during the 2012/13 financial year where we had our peak performance, they represented a marked improvement on the 393 applications we received during the temporary moratorium period. Through the screening and advisory services given to entrepreneurs during the application process, 11% of the total approvals made in the year were facilitated by the Pre-Investment unit.

In addition, the unit facilitated the referral of 89 (64 prior year) entrepreneurs to incubation partners and saw **16 successful incubations** during the year compared to eight last year.

Through active portfolio management, the collection ratio of 84% was attained, allowing the NEF to **collect over R440 million, 25% more than prior year** and highest annual portfolio collection

attained since inception. 18 successful exits were facilitated during the year at 1.31 times money back. Collection of capital and some financial returns is key to the sustainability of the NEF in ensuring that more businesses can be supported to participate meaningfully in the economy. Since inception, we have exited 48 deals, approximately **45% of which are still operational** and have gone to expand the number of job opportunities that were there when we exited by a further 21%. This is a great achievement as up to 90% of new businesses are generally documented to fail within five years. We believe the success rate of the businesses we have supported is testament to the tenacity of the entrepreneurs we support as well as the quality of non-financial support (for example mentorship etc) we give our investees.

TWR facilitated two turnarounds, one business rescue and six restructures (three of which have been returned to the Post Investment unit for

normal portfolio monitoring). Portfolio impairment provisions remained below 20%.

37 Investor education interventions (incl five Industrial Theatre Programmes) throughout the country were facilitated. About 6000 people were reached through these initiatives. Since inception, we have reached over **20 000 people** in villages and townships through 80 community seminars on how to save and invest, personal financial discipline, shares, dividends, bonds, the property and money markets. We further implemented seven social plans in support of broad-based beneficiaries being supported through our funding activities.

In a transaction worth over R1 billion the NEF Asonge Share Scheme made available more than 12 million MTN shares to **over 87 000 investors** comprising black individuals and groups. 49% of investors were women.👉

## Empowerment Dividend

	Value Added
<b>Participation by women</b>	47% of commitments made during the 2014/15 financial year were partially/wholly owned by women. <b>26%</b> of the portfolio since inception is owned by women.
<b>Job Creation</b>	Supported over 81 000 job opportunities since inception (over <b>57 000 of which were new</b> ). The NEF is further geared to support <b>over 99 000</b> job opportunities in the next three to five years.
<b>Investment in Priority Growth sectors</b>	Refer page 5 34% of our portfolio is in Manufacturing, Mining, Agro-processing, Construction and Tourism sectors, in support of priority sectors identified in government policies.
<b>Geographic spread of the portfolio</b>	Refer page 5 56% of our disbursed funds in the year were made outside Gauteng.
<b>Investment Return</b>	ROI (before impairments) of 9.4% which is 21 bps higher than average prime lending rate during the year

# FORMS OF CAPITAL

DEFINITIONS	INPUTS	ACTIVITIES	OUTPUTS
<b>Financial Capital</b> Financial capital is an economic resource measured in terms of funds available to provide funding to our investees	<b>Financial Capital</b> <ul style="list-style-type: none"> <li>▶ Trust Capital</li> <li>▶ Retained surpluses</li> </ul>	<b>Funding Capital</b> Funding applications go through due diligence and approved through relevant governance structures	<b>Financial Capital</b> <ul style="list-style-type: none"> <li>▶ YTD disbursements (R562million), Life to date Disbursements (R4,4billion)</li> <li>▶ Collections ratio =84%</li> </ul>
<b>Social Capital</b> Refers to the collective value of all social networks by establishing relationships with each community, stakeholders and other networks to enhance individual and collective well being	<b>Social Capital</b> <ul style="list-style-type: none"> <li>▶ Partnerships with other DFIs and commercial banks</li> <li>▶ Socio Economic Interventions</li> <li>▶ Partnerships with Measured Entities</li> </ul>	<b>Social Capital</b> <ul style="list-style-type: none"> <li>▶ Syndicated funding with other DFIs and commercial banks</li> <li>▶ Educating and empowering broad based beneficiaries of their rights and responsibilities</li> <li>▶ Fostering a culture of savings and investment through Investor Education programme</li> <li>▶ Raising Enterprise Development (ED) contributions from Measured Entities</li> </ul>	<b>Social Capital</b> <ul style="list-style-type: none"> <li>▶ 26% of our investments since inception owned by women</li> <li>▶ Empowered 30 communities (1.8 million individuals, 60% of whom are women)</li> <li>▶ Geared to support 33 763 job opportunities from this year's activities</li> <li>▶ 6 000 participants in Investor Education (32 seminars held)</li> <li>▶ Approved R50 million of the R53million ED contributions raised since inception reducing borrowing costs for qualifying applicants.</li> </ul>
<b>Human Capital</b> Is the stock of knowledge habits and social and personality attributes including skills, experience embodied in the ability to perform labour as to produce economic value	<b>Human Capital</b> <ul style="list-style-type: none"> <li>▶ Recruitment and retention of staff</li> </ul>	<b>Human Capital</b> The NEF appoints staff that is equipped to perform its functions. Staff is further equipped through training. Appropriate remuneration structures put in place	<b>Human Capital</b> <ul style="list-style-type: none"> <li>▶ Staff turnover at 11%</li> <li>▶ Training and development costs of over R1 million for the year</li> </ul>
<b>Intellectual Capital</b> Is the intangible value of a company and is measured as the difference between the enterprise value of the company and the market value of its intangible that provide a competitive advantage	<b>Intellectual Capital</b> <ul style="list-style-type: none"> <li>▶ Innovative structuring of BEE deals including Retail share offers</li> </ul>	<b>Intellectual Capital</b> Through its deal structuring, the NEF strives to ensure that value accrues to intended beneficiaries. The Retail offer made of the MTN stake was the first of its kind targeted at specific empowerment of black people	<b>Intellectual Capital</b> <ul style="list-style-type: none"> <li>▶ Successfully exited 18 deals in the year at 1.31 times money back</li> <li>▶ Empowered over 87 000 investors through the Asonge retail offer</li> </ul>
<b>Manufactured Capital</b> Refers to the Material good or fixed assets which are controlled by the company contribute to the production process rather than being the output itself, such as building, equipment and infrastructure	<b>Manufactured Capital</b> <ul style="list-style-type: none"> <li>▶ Establishment of regional offices</li> </ul>	<b>Manufactured Capital</b> The NEF has invested in regional offices across South Africa to strengthen the entities geographical spread	<b>Manufactured Capital</b> The NEF has 8 Regional Offices - 56 % of investments made in the year were outside Gauteng
<b>Natural Capital</b> Defined as the world's stock of natural assets which include geology, soil, air, water and all living things. It is from this Natural Capital that humans derives a wide range of services often called ecosystem service	<b>Natural Capital</b> <ul style="list-style-type: none"> <li>▶ Consciousness investment in Green initiatives</li> <li>▶ Internal processes aligned to environmental preservation</li> </ul>	<b>Natural Capital</b> The NEF ensures that where investments' activities are likely to have environmental impact, that all regulatory clearances and considerations are made before disbursement.	<b>Natural Capital</b> <ul style="list-style-type: none"> <li>▶ Responsible investing Responsible disposal of electronic equipment</li> <li>▶ Utilisation of recycled paper in our publications</li> </ul>

## STAKEHOLDER ENGAGEMENT

At the NEF, we believe that our growth and continued existence depends on the strength of our relationship with all our stakeholders, which informs our ability to achieve our strategic objectives and to create value for both the organisation and our stakeholders. As such, our stakeholder management approach involves gaining a thorough understanding of our key stakeholder groups, assessing the issues that are material to them and the level of their impact on the NEF's ability to achieve its mandate. This has over the years informed the development and implementation of products and initiatives in response to identified stakeholder needs.

The main objective is to ensure the following:

- a. strategy is aligned and underpinned by the organisational values and code of ethics;
- b. strategy is aligned to stakeholder objectives and expectations;
- c. there is an embedded stakeholder relation and engagement strategy;
- d. encourage and motivate access to entrepreneurship and investment opportunities,
- e. targets are met and to deliver on set objectives; and
- f. capitalise on strategic partnerships.

Stakeholder engagement is a critical element to our value proposition and it informs our values and strategic objectives. The NEF continues through proactive engagement, to maintain strategic

relationships with a broad range of stakeholders through the management of stakeholder expectation and perception. To achieve this, it is important to identify and respond to possible concerns between our actions and stakeholder's expectations or possible misalignment to either the NEF's values of EMPOWER or its strategy. The following are some of the key initiatives adopted to ensure ongoing alignment to stakeholder needs:

- a. Brand audit to measure impact and depth of the NEF's brand and how it is perceived;
- b. Business planner and financial modelling tool that ensures entrepreneurs are empowered to adequately implement their business strategies and to also improve their prospects to access business finance;
- c. Incubation to enhance capacity and further commercialise qualifying enterprises,





- d. The establishment of the Social and Ethics Committee (subcommittee of the board),
- e. Socio economic development for the NEF to stimulate economic development and participation by marginalised groups, primarily in rural areas
- f. Values of the NEF of EMPOWER which every staff member, including the members of the Board pledged to uphold.

The NEF uses different stakeholder models to demonstrate quality of engagement by articulating expectations and how the organisation engages with key stakeholder through:

- Conducting surveys to probe perception on business performance, leadership, products and services, social relevance, customer relationship, brand value, company's vision and values.
- Public Relations with an AVE of R42 million, with 88% of the coverage being positive.
- Motlana forums whereby activities are co-ordinated to facilitate engagements with relevant industry experts, thus further enhancing the NEF's position as a thought leader.
- Facilitation of daily media monitoring and quarterly media tonality reports
- Profiling of investee successes to further showcase the fulfilment of the NEF's mandate.
- Campaigns, measurement tools and plans whose main aim is to maintain and improve customer experience by continuously improving on the management of customer complaints and enquiries through the customer relationship management (CRM) tool.

### Value Add

- Stakeholder presentations and investor education
- Publication of investee profiles and exhibitions
- Increased brand awareness

### Future plans

- More vigilant monitoring and management of social media
- Improve on our Brand Audit rating through enhanced communication and customer service strategies.
- Enhanced and increased media coverage for our investees

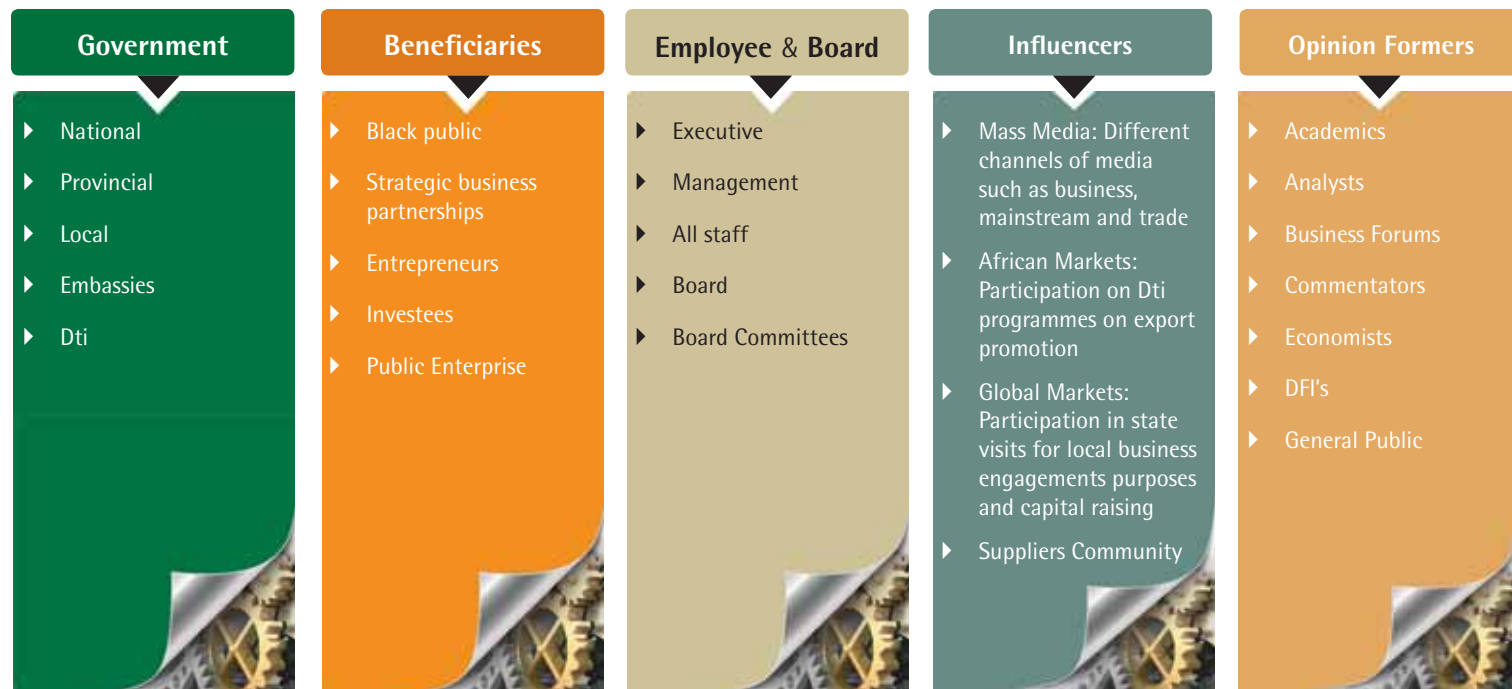
By effectively engaging with our stakeholders, we create loyalty, sustainability, impact and depth. Our objective is to engage in strategic partnership that complements our mandate and service offering.

In order to achieve maximised engagement with our stakeholders it is important that we continue to ensure the following:

- regular communication with our stakeholders to promote accurate reporting and feedback that prevents adverse impact on the fund,
- that our communication is clear and simple,
- treat the views of our stakeholders as important, and
- share information with our stakeholders, in a manner that will enhance their knowledge of the NEF.



### Below is a categorisation of our stakeholders



### Responding to Expectations and Engagements

During the year, the NEF engaged with its stakeholders to maximise its footprint and brief stakeholders on funding activities, recapitalisation and future NEF plans.

Our stakeholder engagement approach involves gaining a thorough understanding of our key stakeholder groups, assessing the issues that are material to them and the level of impact on them and the NEF. In addition, every second year we conduct a Brand Audit survey in order to measure the quality of our relationship with stakeholders, including the impact and depth of our various stakeholder engagements.

The brand audit identified a number of key areas in this year's survey being:

- Total awareness of the NEF as an organisation advancing BEE is 79%.
- The NEF Pledge is seen as credible by 79% of its stakeholders. 70% of respondents feel the NEF should be recapitalised.
- NEF BEE effectiveness is 6.42 (out of 10), which indicates that despite our success stories, there's a need for continued and ongoing visibility and impact on black economic empowerment.
- With a score of 6.20 (out of 10) on branding, respondents felt that NEF could improve in terms of: brand reputation, governance and communication.
- A key attribute requiring attention is the protracted nature of decision making with organisational red-tape and analysis paralysis viewed as symptomatic of NEF's decision making process.
- While the NEF is well recognised for its BEE mandate, critical aspects of its brand reputation need attention.

The table below outlines our understanding of stakeholder expectations and how we have engaged with each stakeholder group during the year.

Stakeholder	Expectations	Engagement Activity
GOVERNMENT	Align strategy with government perspective and policy	<p>Provision of investee training to ensure adherence to corporate governance, regulatory &amp; compliance requirements. To align our programmes with the BEE Codes, we have developed Enterprise and Supplier Development programmes, and also developed Social Plans for communities who form part of our investments to ensure that Socio Economic issues are adequately addressed.</p> <p>Funding activities are aligned to strategic industries as stipulated by Government, with a special focus on marginalised groups, i.e. women, youth and the disabled.</p> <p>Some of the key engagements held during the year include:</p> <p><b>the dti</b> Outreach campaign</p> <p>Parliamentary Portfolio Committee visit at the NEF Head Office</p> <p><b>the dti</b> Black Industrialist Indaba</p> <p>Minister Rob Davies and <b>the dti</b> COTII Forum, NEF Head Office</p> <p>Tourism Indaba</p> <p>Member of the Gauteng Industrial Forum (Gauteng Department Economic Development)</p>
BENEFICIARIES <ul style="list-style-type: none"> <li>• Business</li> <li>• Communities</li> </ul>	Access to funding and non-funding opportunities. Taking funding to the people.	<p>Pre-Funding:</p> <ul style="list-style-type: none"> <li>• Business planning tool to assist in packaging business cases.</li> <li>• Capacity building through business incubation and business skills training, 16 enterprises fully incubated.</li> </ul> <p>Post-Funding:</p> <ul style="list-style-type: none"> <li>• Business coaching and mentorship to the value of R4million.</li> <li>• Assist with the development and implementation of business turnaround strategies: nine enterprises assisted, three successful exits recorded.</li> </ul> <p>Several formal and informal engagements and presentations were held with the JSE, business, forums, chambers, media; including one-on-one meetings, as well as local and international roadshows.</p> <p>The Executive and Management teams addressed a number of business seminars and conferences attended by both local and foreign stakeholders.</p> <p>Annual Investor Education roadshows are undertaken with a special focus on rural towns. This year 32 seminars were concluded and five Industrial Theatres targeted at Youth were presented at Universities and other institutions of Higher Learning.</p> <p>KZN Funding Fair.</p> <p>Soweto Youth Entrepreneur EXPO, UJ Soweto Campus, Gauteng</p> <p>"It's in your hands campaign" across all provinces</p> <p>Entrepreneurial training</p> <p>Small Business Expo, Cape Town</p>

Stakeholder	Expectations	Engagement Activity
EMPLOYEES	Job security, transparency in relation to recognition and reward programmes.	<ul style="list-style-type: none"> <li>• Brand audit survey: Group feedback sessions</li> <li>• CEO's address on annual performance and other Townhall engagements</li> <li>• Participation at divisional &amp; group strategy sessions</li> <li>• Access to relevant training interventions</li> <li>• Bursaries</li> <li>• Motlana forum interactions and engagement</li> </ul>
INFLUENCERS	Recognition and Partnerships	<p>Black Business Council (BBC) – Black industrialists Round Table Discussions</p> <p>Mining Lekgotla</p> <p>Black Management Forum Dinner</p> <p>BBC Dinner (Honouring Minister Lindiwe Zulu)</p> <p>Manufacturing Indaba</p> <p>South African Emerging Black Films Investor</p> <p>Bakgatla Ba Kgafela Launch, North West</p> <p><b>the dti</b> Media relations workshop</p>
OPINION FORMERS	Accurate, regular communication. Recognition	<p>Brand Audit conducted biannually where one of the key intended outcomes is to measure whether we are aligned to stakeholders and to ensure that awareness initiatives result in knowledge depth.</p> <p>African Women Chartered Accountants (AWCA) Women of Substance Awards</p> <p>Women in Transport Expo</p> <p>Business Women Association Gala Dinner</p> <p>SMART Procurement</p> <p>NAFCOC 50th Anniversary</p> <p>Women Empowerment Summit</p>

“ NEF remains committed to advancing black economic empowerment, and through its acceptance of the challenge to develop black industrialists, it continues to align its work with the national agenda for transformation. ”

NEF Integrated Annual Report 2015

# KEY RISKS AND MATERIAL ISSUES

Strategic Objectives (to fully execute our mandate)	Our Key Objectives (based on our strategy)	Top key risks (relating to key objectives)	Mitigating Controls
Advancing B-BBEEE	<ul style="list-style-type: none"><li>Provide finance to business ventures established and managed by black people.</li></ul>	<ul style="list-style-type: none"><li>Inadequate capitalisation of the NEF to take the organisation to the next level, fund future growth and follow through on participation interest or equity options for SPF transactions. <b>(Recapitalisation risk)</b></li></ul>	<ul style="list-style-type: none"><li>MTEF and IDC applications are underway to secure funding.</li><li>A possible business combination with the IDC is also currently being explored.</li><li>NEF is also undertaking fundraising initiatives for Strategic Projects Fund transactions globally.</li></ul>
		<ul style="list-style-type: none"><li>Loss of key personnel due to uncertainty regarding the outcome of recapitalisation and business combination processes. <b>(Human capital risk)</b></li></ul>	<ul style="list-style-type: none"><li>Constant information dissemination to all personnel regarding recapitalisation and business combination process and plan. The level of resignations has decreased from prior financial year.</li><li>Succession plans are in place in which capable individuals have been identified and suitably trained and given exposure at senior levels.</li><li>Remuneration framework is also used to ensure that talented people are well remunerated with market related salaries and incentives.</li></ul>
		<ul style="list-style-type: none"><li>Business combination process not planned and implemented effectively with resultant negative impact on the future sustainability, reputation and mandate of NEF. <b>(Business combination risk)</b></li></ul>	<ul style="list-style-type: none"><li>A project task team has been established between the NEF and IDC to ensure that interests and objectives of both the NEF and IDC are upheld and will be responsible for the monitoring of the progress of the business combination.</li></ul>



Strategic Objectives (to fully execute our mandate)	Our Key Objectives (based on our strategy)	Top key risks (relating to key objectives)	Mitigating Controls
		<ul style="list-style-type: none"> <li>Inability to adequately invest allocated funds according to the mandate of the NEF as clearly set out in the NEF Act due to inadequate capacity, skills and investment experience among the NEF employees. <b>(Mandate risk)</b></li> </ul>	<ul style="list-style-type: none"> <li>The NEF has developed its recruitment process to ensure that all departments are sufficiently resourced in line with the annual performance targets and with highly skilled individuals.</li> <li>NEF employees participate in the staff planning workshops in which the mandate is reemphasised.</li> <li>Specific funding strategies and products are constantly developed to address market failures and acceleration of execution of the mandate. An example is a strategy referred to as the SME Strategy where high volume and low value applications in the form of franchise, procurement, invoice discounting, contract and bridging facilities has been developed and implemented.</li> <li>A credit committee has been established to approve SME strategy loan applications as a rapid loan approval solution.</li> </ul>
Maximising the empowerment dividend.	<ul style="list-style-type: none"> <li>Invest in black empowered businesses that have high employment creating opportunities, support the participation of black women in the economy and facilitate investment across all provinces in South Africa.</li> </ul>	<ul style="list-style-type: none"> <li>Lack of adequate loan application pipeline or pipeline from ventures with opportunities of high employment, women empowerment and across all South African provinces.</li> </ul> <p><b>(Mandate risk)</b></p>	<ul style="list-style-type: none"> <li>Transactions are currently being assessed against a measure of impact termed the NEF Empowerment Dividend.</li> <li>The NEF Empowerment Dividend leads to a discount in the pricing of the transactions to encourage entrepreneurs to consider ventures with opportunities of high employment, women empowerment and across all South African provinces.</li> </ul>

Strategic Objectives (to fully execute our mandate)	Our Key Objectives (based on our strategy)	Top key risks (relating to key objectives)	Mitigating Controls
Optimising Non-Financial Support	<ul style="list-style-type: none"> <li>Black Economic empowerment is advanced through commercially sustainable enterprises.</li> </ul>	<ul style="list-style-type: none"> <li>Changes in the micro and macro-economic conditions (decline in GDP growth, forex, interest rate movement) negatively impacting performance of investees. <b>(Market Risk)</b></li> </ul>	<ul style="list-style-type: none"> <li>The market conditions are considered during the evaluations, due diligence investigations, modelling and structuring of transactions by the deal teams.</li> <li>Regular micro and macro economy sensitivity analysis is undertaken by our Post Investment Unit and NEF appointed mentors and used to promptly advise NEF investees on appropriate course of action.</li> </ul>
	<ul style="list-style-type: none"> <li>Establish the NEF in the South African economy as a credible and meaningful development finance institution.</li> </ul>	<ul style="list-style-type: none"> <li>Negative Media Coverage/ Publicity <b>(Reputation risk)</b></li> </ul>	<ul style="list-style-type: none"> <li>The NEF regularly engages in marketing initiatives such as advertising and stakeholder engagements, performs brand awareness and regular brand audits, engages the media and performs perception surveys.</li> </ul>
Financial Efficiency & Sustainability	<ul style="list-style-type: none"> <li>Establish the NEF as a sustainable DFI.</li> </ul>	<ul style="list-style-type: none"> <li>The risk that the NEF will not be financially sustainable due erosion of the capital base and the NEF not having adequate capital to fund planned programs and meet medium term cash requirements. <b>(Sustainability Risk)</b></li> </ul>	<ul style="list-style-type: none"> <li>Close monitoring of unencumbered cash and regularly performing going-concern cash analysis.</li> <li>Close monitoring of the portfolio by the Post Investment Unit in collaboration with the Finance Division.</li> <li>Intervention by the Turnaround, Workouts and Restructure Unit for businesses that are in distress.</li> <li>Re-examining the current funding instruments and developing a guideline on moratoriums to improve cash inflows.</li> <li>Increase focus on funding expansion finance type transactions that do not require long moratoriums or funding instruments that delay repayment to NEF.</li> <li>Engage <b>the dti</b> and National Treasury regarding funding requirements.</li> </ul>

Strategic Objectives (to fully execute our mandate)	Our Key Objectives (based on our strategy)	Top key risks (relating to key objectives)	Mitigating Controls
		<ul style="list-style-type: none"> <li>Failure by the NEF investees to honour loan repayment obligations emanating due to:               <ul style="list-style-type: none"> <li>Poor quality of transactions funded and poor quality of deal analysis.</li> <li>Funding inexperienced and or un-creditworthy entrepreneurs.</li> <li>Funding transactions not adequately priced for risk taken.</li> <li>Overcapitalisation of an investee due to overvaluation for acquisition transactions.</li> <li>Concentrated portfolio skewed towards a particular sector which when affected by economic distress leads to high payment defaults.</li> </ul> </li> </ul> <p><b>(Credit Risk)</b></p>	<ul style="list-style-type: none"> <li>Appointment of skilled fund management team.</li> <li>There are adequate processes in place which include:               <ul style="list-style-type: none"> <li>Due diligence investigation process which includes background checks.</li> <li>Adequately constituted and efficient approval governance structures.</li> <li>Portfolio management, monitoring and reporting process.</li> <li>Use of pricing models according to a pricing policy with consideration of credit risk.</li> <li>An independent credit risk assessment process by the Risk Division.</li> <li>Credit collection process managed by collaboration between the Post Investment Unit and the Finance Division.</li> <li>Turnaround, workout and restructure interventions.</li> </ul> </li> </ul>

“ Since inception, the NEF has supported projects that are to create or maintain over 80 000 job opportunities. The focus on entrepreneurship, rural and community development, as well as the support of black entrepreneur in new industrial development has resulted in the support of a number of projects of which we are proud. ”

The Hon. Minister of Trade and Industry Dr Rob Davies, MP, NEF Integrated Annual Report 2015

# OVERVIEW OF THE ECONOMIC ENVIRONMENT

In 2014 South Africa recorded its weakest performance since 2009 with a GDP growth rate of 1.5%. The outlook for 2015 remains subdued with South African Reserve Bank (SARB) pegging GDP growth at 2.1%, while the some economists forecast an even lower 1.7% growth. Mining and manufacturing performance struggled as a result of protracted industrial action during the first half of 2014. Drought affected agricultural production in the first quarter of 2015, resulting in the biggest negative impact on GDP growth for the period. Electricity constraints have highlighted infrastructure gaps; and low levels of business confidence coupled with subdued domestic demand are expected to continue to weigh on growth.

While the SARB reported lower trends in inflation at the beginning of 2015, mainly due to lower petrol prices, this is likely to reverse during the remainder of the year due to electricity tariff increases as well as the sustained weak Rand exchange rate.

Indicator 2014 (avg)	% Rate	% Change from prior year
Unemployment	24.3	(0.2) ↓
Inflation	6.1	0.4 ↑
Real GDP growth	1.5	(0.4) ↓
Real GDP per capita	0.8	(0.7) ↓

On the international arena, an ever strengthening US dollar against the world's major currencies, including the rand, presents both a challenge and

opportunity for South Africa. A weaker rand could improve competitiveness of South African exports on international markets. Conversely, slower growth in China weighs on demand for some of South Africa's key commodity exports which pushes down prices and counters some of the benefits a weak rand exchange rate could have posed. This may negatively impact investment decisions particularly in the vulnerable resource sectors.

Whilst the Quarterly Labour Force Survey reported employment gains of 364 000 in 2014, unemployment stands at 24.3%. Youth unemployment at 49% in particular poses significant challenges and highlights the need for continued efforts in job creation and skills development.

Changes in the B-BBEE codes point to government's reinforced commitment to economic transformation and socio-economic development priorities. The new codes prioritise direct ownership and control

of economic interests by black people, creation and sustainability of black business through enterprise and supplier development as well as increased focus on skills development. President Zuma has identified infrastructure development as a key area through which to facilitate socio-economic development and empowerment.

He stated in his budget speech that "Infrastructure is fundamental to radical economic transformation, to change the patterns of ownership and control in the economy and to empower workers, community members and the rural poor."

NEF remains committed to advancing black economic empowerment, and through its acceptance of the challenge to develop black industrialists, it continues to align its work with the national agenda for transformation. »



*"Fundamental to our economic transformation programme in particular, is the need to broaden the ownership, control and management of the economy. The black industrialists programme falls within this policy framework."*

H.E. President Jacob Zuma, Africa for African Women's Conference, 08 March 2015



## REPORT OF THE ACTING CHAIRMAN OF THE BOARD OF TRUSTEES

Mr Rakesh Garach

### Cumulative Highlights to Date

Approved investments

**640**

Approved amount

**R6.4 billion**

Annual funding capacity

**R1.3 billion**

Amount repaid by Investees

**R1 billion**

## The call to lead an historic mission

### A season of hope

The fall of apartheid in 1994 ushered in a season of hope on many fronts, chief among which was the restoration of the economic citizenship of the black majority, who had been economically exploited, marginalised and impoverished through centuries of political conquest and subjugation.

The National Empowerment Fund (NEF), a creature of statute established in 1998 and capitalised for operational inception in 2004, was to become one of the harbingers of this season of hope amid the birth-pangs of a long-awaited constitutional democracy.

This **Integrated Annual Report 2015** tells the narrative of an organisation that has continued to light the path in the nation's quest to bridge the economic divide and **"improve the quality of life of all citizens and free the potential of each person"**, as declared in the Preamble to the Constitution of the Republic of South Africa.

### Economic context

The year under review was characterised by various challenges to the global and local economies. Globally, these included declining growth rates in China, fluctuating commodity prices, the potential impact of increase in US interest rates on emerging markets and the threat of default by Greece, among many others. Add to this the recent devaluation of the Yuan and increasing concerns over China's slowing economic growth, what emerges is the near-certainty of a slow and anaemic process of global recovery.



These are among the factors that have increased the pressure on an already troubled domestic economy, which has had to contend with challenges brought about by energy shortages that have impacted households, businesses and wider society. The period is also characterised by declining GDP rates, the Rand hitting a 14-year low against the dollar, the mining sector going through a difficult period, the manufacturing sector entering a recession in the second quarter, inadequate job growth and the increasing wealth gap between rich and poor. While government continues to implement key interventions to reduce poverty and improve access to social services, the high levels of inequality that are racially based as a result of our country's legacy, continue to imperil social cohesion, a risk that must be confronted and managed with a will far greater than was mobilised before the dawn of democracy.

Given the anxiety about South Africa's growth under these conditions, it can be expected that commercial banks will become more conservative and stringent, and as a consequence of a past that still plagues our economy and society today, black entrepreneurs will become the greater victims of inflexible lending practices.

The need for a funder with a soul has never been greater, which is why the NEF has answered the call to lead this historic mission.

### Recapitalising the NEF

One abiding character of progressive societies is that advancement and growth are built on the back of strong institutions. These are institutions that perform beyond expectation. When hope is thin and the granaries are low, they inspire the belief that a new day will rise, and tomorrow will be better than yesterday. The NEF is one such institution, which has continued to achieve new milestones every year,

defying the odds and together with entrepreneurs whose resolve is to become part of the story of a winning nation, has continued, every month, to enable new enterprises to rise. A significant number of these are owned by black women entrepreneurs, and more and more are in the historically under-served regions of our country.

Apart from funding many have received support with the preparation of business plans, and in addition, others have received incubation and entrepreneurship training, while mentorship support remains the mainstay of NEF funding.

This is a vocation that can only be made possible by the injection of new capital, entrusted in the care of an institution that has demonstrated prudence, integrity and foresight in the implementation of the mandate to grow black participation in the national economy. The recapitalisation of the NEF is therefore mission-critical.

As a patient-capital lender the NEF invests the resources entrusted in its care with the acceptance that its beneficiaries will repay the loans on average over five to eight years, and up to ten years in the case of industrial and manufacturing projects, as well as rural and community development enterprises.

To date the NEF has approved more than R6.4 billion for over 640 black enterprises, and R4.4 billion of this has been disbursed in line with the applicable performance milestones of the various businesses. In excess of a cumulative R1 billion has been repaid by investees, and this collection rate is one of the many appreciable breakthroughs by management.

This cash has been reinvested in the funding mandate of the NEF in order to massify the growth of new investees, jobs and the economy. The historical funding deficit for more black enterprises to enter the economic mainstream is considerable,



and the economy requires greater investment in this national imperative. The NEF has demonstrated capacity to fund up to and beyond R1.3 billion annually. A modest injection of at least R2 billion annually is the minimum required by the NEF for greater impact to be felt in the villages, townships, towns and cities where hope resides in abundant expectation.

The NEF is confident that the many spirited efforts that have been led by management, supported vigorously by the Board of Trustees, the dti, National Treasury, the Portfolio Committee on Trade and Industry as well as the Select Committee on Trade and International Relations, will soon come to fruition. While the NEF's founding legislation enjoins the fiscus to resource the organisation periodically, the Board remains confident that this shall not remain a permanent feature, and that in the long-term the NEF should develop into a self-sustaining entity as its investments reach maturity, with limited and reduced reliance on public funding.

### Championing a unique mandate

The NEF implements its mandate alongside a dynamic network of other development finance institutions (DFIs), which have unique mandates respectively. Many across the country, including beneficiaries, have come to realise and to accept that each of these DFIs address a range of particular market failures, and that the absence of any of these would result in the disadvantage and handicap of distinct market demands.

The Small Enterprise Finance Agency (Sefa), for instance, supports micro, small to medium enterprises from R50 000 up to R5 million regardless of whether these are owned by black or white entrepreneurs. The Industrial Development Corporation (IDC) provides industrial finance to

large enterprises requiring funding of between R1 million and R1 billion, again regardless of whether these are owned by white or black entrepreneurs.

The Land Bank is an agricultural financier which offers tailor-made financial services to established and emerging farmers, across all racial groups.

The Development Bank of Southern Africa (DBSA) provides financial and non-financial support for investments in the social and economic infrastructure sectors led by black and white people across the Southern African Development Community (SADC).

Provincial development financiers, for their part, are mandated to provide financial and non-financial support to enterprises domiciled within their respective geographies, which are owned and managed by black and white entrepreneurs alike.

The exception is occasioned by South Africa's history, which has resulted in the significant exclusion of black people from the economic mainstream. For this compelling reason there is an overwhelming demand for a development financier whose mandate is to fund black businesses exclusively, for start-up, expansion or equity transformation. This is the unique role that the NEF performs. The organisation provides business loans to black enterprises countrywide from R250 000 up to R75 million, across the economic spectrum.

While these financiers are independent, they are also interdependent and mutually supporting, and have often co-funded numerous transactions in response to the specific merits of the businesses, and also to spread the risk where transactions require significant levels of exposure. These DFIs together alleviate a critical gap that private commercial financiers have neither the risk appetite nor the inclination to fill.

*“Kenako Medical is a black company that aims to establish a plant for the manufacture of hypodermic disposable syringes and needles. There is currently no local manufacturing of any type of syringes in South Africa or across Southern Africa. The market size within the SADC region is 1.1 billion syringes and 911 million needles.”*

Mr Rakesh Garach



As institutions of the state united in our patriotic quest for South Africa's inclusive development, we cannot be said to be competitors, and instead are partners committed to the growth of a shared and prosperous economy.

### Amendments to the B-BBEE Act

The NEF implements the Codes of Good Practice of Broad-Based Black Economic Empowerment as outlined in the Act. We welcome the important amendments that have been introduced to the B-BBEE Act because they portend a more actively interventionist and prescriptive approach by Government to transformation and empowerment. The amendments also introduce a number of new measures, which include:

- Establishing a B-BBEE Commission to play an oversight and advocacy role with regard to B-BBEE and investigate complaints relating to B-BBEE transactions and fronting practices. The B-BBEE Commission will have important powers including the authority to subpoena and applying to Court to restrain a breach of the B-BBEE Act and/or a fronting practice;
- Setting out various criminal offences for misrepresenting or providing false information regarding an entity's B-BBEE status or engaging in fronting practices;
- A statutory right for Government and public entities to cancel any contract or authorisation awarded due to false information regarding an entity's B-BBEE status;
- Impose an obligation on South African listed entities to provide a report to the Commission on their compliance with the B-BBEE Act.

### The pillar of emerging and black industrialists

In March 2015 at the Inaugural Black Industrialists Indaba, Government identified the NEF as the lead agency that will support this historic imperative. We have welcomed and embraced this expression of confidence and trust in the capacity of the NEF to drive the process of changing the face of South Africa's economy through fostering a radical socio-economic transformation agenda.

The NEF offers innovative solutions and a broad product portfolio for the needs of a diverse range of business opportunities and objectives. These may be small, medium to large, rural or urban, private or community-owned, start-up or expansionary.

Having successfully joined forces with a range of local and international investors to develop industrial projects from prefeasibility phase to commercialisation, the NEF is in familiar territory. These comprise of 20 strategic and industrial projects worth over R25 billion, with the potential to support over 80 000 jobs collectively, once fully commercialised.

Many of these are profiled throughout this **Integrated Annual Report 2015**, but one which we wish to highlight for illustrative purposes is Kenako Medical, a black company that aims to establish a plant for the manufacture of hypodermic disposable syringes and needles.

There is currently no local manufacturing of any type of syringes in South Africa or across Southern Africa. The market size within the SADC region is 1.1 billion syringes and 911 million needles. The proposed plant capacity is 200 million normal syringes, 30 million safety or retractable syringes and 200 million needles. Detailed engineering designs are complete and offtake agreements with two international

players are at an advanced stage of negotiations. In the view of the NEF, this is the scale and magnitude of industrial development, and in line with our mandate, black people have to be in the centre and at the forefront of such developments.

### Appreciation

Government must be hailed for its foresight in championing the black industrialist programme. The Board of Trustees also value and appreciate the ongoing support and endorsement of the NEF by the Presidency, **the dti**, National Treasury and the Economic Cluster, Parliament, Provincial Governments, municipalities, the mass media and organised business.

It is a privilege to serve alongside the Trustees, Chief Executive and the executive team of the NEF, who are a well of wisdom and torchbearers in the call to lead this historic mission.

The lifeblood of the NEF's mandate is the black entrepreneurs who have made the funder with a soul their financier of choice, certain in the knowledge that the Board, management and staff of the NEF are patriots who have taken the vow to *"solemnly remain faithful to the values and ethos of the NEF, because as instruments in the quest for inclusive growth we recognise that the economic dreams and aspirations of black people depend on our willingness to serve with truth in our hearts"*.



**Mr Rakesh Garach**  
Acting Chairman of the Board of Trustees  
National Empowerment Fund



## REPORT OF THE CHIEF EXECUTIVE OFFICER



Ms Philisiwe Mthethwa

### 2015 Highlights

Application for MTEF

**R2.3 billion**

Approved investments

**R895 million**

Portfolio collections

**R440 million**

Jobs supported

**33 763**

### Gearing black industrialists for Africa's growth

#### Integral to Africa

The National Empowerment Fund (NEF) is pleased to be tabling this **Integrated Annual Report 2015**, the first integrated account in its nascent history, constituting a composite record and assessment of the organisation's strategy, governance, performance and plans, and how these lead to the creation of value over the short, medium and long terms.

With South Africa being an integral part of the African continent, the theme of this report is **Gearing black industrialists for Africa's growth**. The NEF Board of Trustees has approved a historic

strategic path for the NEF to look favourably on black South African entrepreneurs who may have good business prospects and opportunities in other parts of our continent.

South Africa's past, and indeed her destiny, is inextricably bound to that of the African continent, and intra-African trade is thus an important means for mutual benefit and shared growth. With almost 200 million people aged between 15 and 24 years, Africa has the youngest population in the world today. The number of young people across Africa is expected to double by 2045, with the labour force totaling 1 billion people by 2040, making it the largest continent in the world ahead of both China and India. Also worth noting is the fact that Africa's youth population is not only growing rapidly but is also getting better educated. Africa is therefore both



a factory and a market, and the NEF looks forward to supporting black South African entrepreneurs who will heed Africa's call.

### The journey of recapitalisation

Readers will find in this publication an audited account of an organisation that continues to deliver solid results, achieving much with little in the face of scarce resources, and consistently striving for excellence in the implementation of the mandate to grow black economic participation in South Africa.

The most fervent challenge facing the NEF today is the need to conclude a recapitalisation journey that has been on the table with government for eight years running. It is a priority that has become more urgent than ever before because the need to integrate greater numbers of black people into the economic mainstream, is a patriotic and historical imperative.

It is a priority that is located within the context of global deceleration that has dampened local growth expectations, with high levels of unemployment and low growth rates expected to prevail. South Africa's growth prospects remain closely tied to global growth forecasts because of the material impact commodity price swings have on South Africa's export performance and income growth.

Clearly, what this means is that the NEF, which is mandated by legislation to bridge the economic divide, has to do significantly more to help grow an employment-generating and inclusive economy.

The financial year under review began with the lifting of the year-long temporary moratorium on funding, on 29 April 2014. This way a new momentum was set in motion to rebuild our transaction pipeline, with R950 million made available from internal reserves and loan collections for new approvals.

As reported over the years, the NEF was first capitalised in 2004 by government to the value of R2.4 billion, all of which was fully disbursed by 2010 as planned. Since then, the NEF was self-financed with proceeds from dividends and interests from its investments and proceeds from the sale of a portion of the NEF's holding in the MTN Group through the Asonge Share Scheme in 2007. This resulted in more than 87 000 black South Africans becoming investors in one of the country's leading cellular operators, generating over R1 billion revenue. Additional capital was generated from loan repayments, which are still being collected in the normal course.

Recapitalisation remains the NEF's foremost objective in order to ensure much-needed support for black SMEs and aspiring black industrialists. Various options for additional capital have been explored, and these are the subject of continuing engagements with National Treasury and **the dti**. These possibilities include:

- An application for funding via the Medium-Term Expenditure Framework (MTEF) to the value of R2.3 billion submitted to National Treasury through **the dti**.
- Discussions with other government entities such as the Public Investment Corporation and the Industrial Development Corporation.
- As an interim measure, implementing a retail public share offer for the sale of the NEF's listed investment in MTN, similar to the successful Asonge Share Scheme of 2007.

We believe that recapitalisation will be accomplished because South Africa's empowerment deficit constitutes a key national risk, and the NEF remains an important instrument for bridging the historic economic divide.



*“The total cash reserves of the NEF as at 31 March 2015 were at R1.47 billion. Unencumbered cash immediately available to the NEF for new approvals was R735 million.”*

Ms Philisiwe Mthethwa



What is certain to the beneficiaries of NEF funding to date, as well as the thousands who continue to be declined by commercial banks daily, is that the NEF remains their true source of hope for entry into the world of business, assured not only of funding, but of key interventions such as business-planning support, incubation, entrepreneurship training and mentorship support. To this we add not only a willing ear, but also the promise to look for the reasons to say yes.

### Do black people own less than 3% of the economy?

In the fourth quarter of the past financial year an important debate exploded in the public domain arising from the NEF's counsel to the Presidency and **the dti** that "as a consequence of the apartheid legacy, BEE equity control on the JSE's average market cap of R11.9 trillion as at 30 June 2014 for listed companies, stands at **3%** (R358 billion) for black South Africans."

The NEF believes that black people own a significantly small share of the national economy, and as a result, economic transformation is a national imperative. Further, measuring how transformation is progressing over time is an important means for determining whether inclusive growth is trending in the right direction.

The NEF assures government, organised business and the public at large that when using the JSE as a proxy for economic transformation, "BEE equity control on the exchange stands at 3%, as a consequence of the apartheid legacy and some BEE transactions that are under water especially in the mining sector".

This is an important measure of the long walk South Africa must still travel to bring about meaningful and sustainable levels of black economic participation.

### Performance highlights

A high performing organisation is one that achieves financial and non-financial results that consistently exceed key agreed targets by having a disciplined focus on its mandate. It is where motivated and qualified professionals collectively sustain a pace and agility that is hard to copy. We believe that the NEF is such an organisation, where performance seeks to provide worldclass products and services that improve with time, setting new methods and benchmarks.

We are pleased to report on the strides taken over the past year in discharging the NEF's shareholder compact with **the dti** and the Board, the highlights of which are as follows:

1. Over the past year the NEF approved 94 deals worth R895 million against a target of 96 deals worth R718 million.

2. Our commitments reached R879 million against a target of R619 million.
3. In a significant breakthrough for job-creation, which is one of the NEF's primary objectives, a total 33 763 job opportunities were supported in the past year alone. Of these, 32 820 were new jobs, the highest ever in any one-year period in the NEF's history. Cumulatively, this brings total job opportunities geared to be supported since inception in excess of 81 000.
4. The total cash reserves of the NEF as at 31 March 2015 were at R1.47 billion unencumbered cash immediately available to the NEF for new approvals was R735 million.
5. At R440 million, portfolio collections for the year were 25% above 2014 receipts. This has been a trend in terms of our collection and over



the last five years the NEF has collected a total of R1.27 billion from our investees

6. Because the NEF believes that a black woman's place is at the forefront of the economy, 47% of the commitments made were towards businesses partially or wholly owned by black women. This is the highest ever in any one year period in the NEF's history. The 47% was achieved against a target of 45%. The total value of transactions partially or wholly owned by black women over this period amounts to R264 million.

Through Rural Community Trust Investments, effective woman shareholding in rural areas now stands at 60%.

7. To date 18 clients with a total exposure of R176 million have been transferred to the Turnarounds, Workouts and Restructuring (TWR) unit. During the year TWR facilitated two turnarounds, one business rescue and six restructures, three of which have been returned to the Post Investment unit for normal portfolio monitoring.
8. The cumulative value of media coverage in 2014/2015 exceeded the targeted R26 million, and was measured by the media monitoring company, NewsClip, at R42 million. In respect of tonality, 88% of the coverage was positive, 8% neutral and 4% unfavourable.
9. Our commitment to developing black industrialists saw the NEF progressing a total five projects to the pilot, financial close and commercialisation stages in the Strategic Projects Fund (SPF) portfolio. SPF is the NEF's investment fund charged with the responsibility of supporting the development of black industrialists.

## Supporting black industrialists

The biggest quest of our society today is the drive for the industrialisation of South Africa's economy in order to deliver the aspiration for radical transformation, growth and development. The industrialists about whom we speak are the visionaries who, having succeeded as small and medium-sized entrepreneurs, begin to graduate, to dream about running larger enterprises in key sectors of the economy.

The NEF defines a black industrialist as an entrepreneur or enterprise that has a substantial equity and operational interest in the long-term ownership and control of a medium to large enterprise in a key sector of the economy as defined in IPAP, with a high job-creation potential, and making a meaningful contribution to growth and development. These black-owned companies may increase South Africa's export-earning

potential and reduce import dependency by growing the country's economic capacity through primary (retrieval and production of raw materials), secondary (processing or beneficiation) or tertiary industries. As a patriotic corporate citizen the black industrialist is motivated both by the quest for personal success and the sustainable growth of the South African and African economies, and pursues his or her endeavours with irreproachable integrity. In accordance with legislation and for the purpose of eligibility for funding from the National Empowerment Fund (NEF), a black person is an African, Coloured or Indian natural person who is a citizen of the Republic of South Africa by birth or by descent as well as a natural person who acquired citizenship by naturalisation prior to 27 April 1994.



Below are the five industrial projects that the NEF and its partners and other investors have progressed to commercialisation:

1. **BusaMed** is a healthcare group whose first hospital is now operational, having admitted its first patient on 04 May 2015. This is a worldclass cardiology hospital located in Strand, Cape Town. The balance of the three hospitals in the group are at the capital and construction phases, and the Longlake hospital at Modderfontein in Johannesburg is expected to be operational by the end of 2016.
2. The other is **Kenako Medical**, which has moved from Bankable Feasibility to Financial Close, and is set to become the only manufacturer of syringes and needles in the SADC region.
3. Third is **Tyre Energy Extraction**, a tyre recycler that has fully secured offtakes for all products and is at Financial Close. Construction is expected to commence around January 2016 and the plant will come online at the end of 2016.
4. **KC Energy**, the Combined Heat and Power (CHP) plant, is now operational and the company's boilers are fully functional and generating revenue. The turbine is yet to be hot-commissioned to generate power.
5. **African Silica Holdings** is in the process of obtaining offtakes from potential industrial clients, and the pilot plant is now engaged with product testing and certification for various silica derivative products.

The total value of our SPF projects is R25 billion and the NEF's target is to contribute towards at least 20% of the government's target of creating hundred black industrialists over the next few years.

We believe that the NEF's seminal work on this industrialisation front holds out many important benchmarks for the country's quest to help develop 100 black industrialists over the next three to five years. The NEF is grateful for the opportunity to serve in this quest.

The SPF's accomplishments once again underline the historic value of the NEF as a worthy and important catalyst for national growth and development.

### Fraternal relations

The NEF is privileged to discharge its mandate under the aegis of the Presidency and various Cabinet clusters, in particular the Ministers, Deputy Ministers, Directors General and officials in **the dti**, National Treasury, Economic Development, Small Business Development and many other esteemed departments. We also acknowledge the wise counsel of the committees and chairpersons in the national legislature, as well as the valued partnerships of provincial governments, Traditional Leaders and municipalities.

The NEF continues to maintain strong relations with the international fraternity and has maintained partnerships with countries such as Senegal, France, United Kingdom and others.

The NEF appreciates the opportunity to work closely with a range of organisations and leaders across the breadth of civil society, and these include the Black Business Council, Association of Black Securities and Investment Professionals, Africa Women Chartered Accountants, Business Women Association of South Africa, National African Federated Chamber of Commerce, Black Management Forum, Business Unity South Africa, South African National Editors Forum, journalists and many other stakeholders across the regions.

To the Chairman and Trustees of the NEF, my fellow executives, management and staff of the NEF, you are the funders with a soul and I am humbled to serve in your midst.

And to the entrepreneurs of our beloved Republic, you who are the guardians of our economic heritage, it is our privilege to be at your service.



**Ms Philisiwe Mthethwa**  
Chief Executive Officer  
National Empowerment Fund

*“ Given the valuable role that the NEF plays within the South African economy, the dti is committed to support the NEF in its efforts to obtain additional capital. ”*

The Hon. Minister of Trade and Industry Dr Rob Davies, MP, NEF Integrated Annual Report 2015



## REPORT OF THE CHIEF FINANCIAL OFFICER



Ms Innocentia Pule

Annual Highlights

Portfolio collections

**R440.6m**

was

**25%**

higher than 2014

### *New Developments and Updates*

The NEF presented Group accounts for the first time in 2014 following taking control of one of its investments, Zastrovect Investment (Pty) Ltd (trading as Goseame Open Market - Goseame), background of which is provided in the 'Introducing the NEF' section. The accounting treatment of investments that are temporarily taken over by the Trust is in terms of GRAP100: *Non-Current Assets Held for Sale and Discontinued Operations* to account for such entities as disposal groups acquired exclusively with a view to dispose of them once they have been stabilised. The Minister of Finance has granted PFMA compliance exemption of this entity for a period of three years, ending June 2017. The Trust is still actively ensuring that the entity is operationally stabilised and pursuing its disposal making the GRAP100 accounting treatment still applicable for the current financial year.

A strategic acquisition of the land and property on which the Goseame business is conducted was facilitated during the year through a provision of a long term loan granted to the Trust's wholly owned subsidiary, National Empowerment Fund Corporation SOC Limited (NEFCorp SOC Ltd). The transfer of the property was not concluded as at year end but is imminently expected. GRAP6 consolidation was performed for this transaction.

My report will however focus on the performance and financial position of the Trust, and not go into any detail regarding the Group results.



### Financial Performance Overview of the Trust

Building the pipeline following an eleven month temporary moratorium (from June 2014 to April 2015) on new approvals proved slower than anticipated. The organisation however ensured that the dreams of black business continued to be supported as demonstrated in the results presented below.

Rm	5 year CAGR	5 year average	2014/15 Annual Growth	2014/15	2013/14	2012/13	2011/12	2010/11
<b>Financial Position</b>								
Cash & Cash equivalents	-11%	1,881	-2%	1,448	1,480	1,689	2,202	2,583
Financial market assets	9%	1,766	-6%	2,116	2,254	1,686	1,403	1,372
Investment in development activities	12%	1,910	3%	2,344	2,284	1,976	1,640	1,307
Other assets	-35%	41	-54%	6	14	71	58	54
<b>Total assets</b>	<b>2%</b>	<b>5,598</b>	<b>-2%</b>	<b>5,914</b>	<b>6,032</b>	<b>5,422</b>	<b>5,303</b>	<b>5,316</b>
Current liabilities	12%	50	12%	63	56	49	44	35
Trust capital & reserves	2%	5,669	-2%	5,851	5,976	5,976	5,259	5,281
<b>Financial Performance</b>								
Interest on development activities	14%	159	13%	218	193	156	112	115
Interest on investments	-13%	113	9%	83	76	102	137	169
<b>Total interest</b>	<b>1%</b>	<b>272</b>	<b>12%</b>	<b>301</b>	<b>269</b>	<b>258</b>	<b>249</b>	<b>284</b>
Dividends from development activities	1489%	4	-4%	7	7	3	0	0
Dividends from financial market assets	11%	97	20%	130	109	86	86	75
Other income	40%	10	-86%	3	20	24	5	1
Fair value gains/(losses)	42%	115	-130%	-163	550	251	-34	-28
(Loss)/Profit on disposal of investments				-0	0	-	-15	-1
Operating expense	6%	194	3%	206	200	219	192	154
Impairments	14%	169	28%	196	152	290	105	103
<b>Surplus/(deficit) for the year</b>	<b>-211%</b>	<b>132</b>	<b>-121%</b>	<b>-125</b>	<b>604</b>	<b>114</b>	<b>-6</b>	<b>75</b>
<b>Operating surplus/(deficit) for the year</b>	<b>-18%</b>	<b>17</b>	<b>-29%</b>	<b>38</b>	<b>53</b>	<b>-138</b>	<b>28</b>	<b>103</b>
<b>Financial Ratios</b>								
Cash & Cash equivalents to total assets		34.1%		24.5%	24.5%	31.2%	41.5%	48.6%
Return on assets		2.3%		-2.1%	10.0%	2.1%	-0.1%	1.4%
Return on investment (before impairments)		8.5%		9.4%	8.8%	8.8%	6.8%	8.8%
Return on investment (after impairments)		-0.4%		1.3%	2.1%	-6.6%	0.4%	0.9%
Operating expenses to income		50.8%		46.9%	49.2%	59.0%	56.4%	42.7%
Impairment charge ratio		8.8%		8.3%	6.7%	14.7%	6.4%	7.9%



Interest income on our development activities continue to show strong growth at 13% year on year, in line with an increasing portfolio. Interest earned in the year has resulted in pre-impairment return of 9.4%, which is 21bps higher than the average prime interest rate over the financial year.

With a net decrease in cash and cash equivalents of R31.6 million in the year, cash balances were maintained around R1.4 billion over the year. The main reason for such a low net reduction in cash balances was as a result of collections from investments comprising 87% of disbursements made in the year compared to a 55% ratio in 2014. The steady decline in interest income from investments over the past 5 years was expected as cash was being disbursed into development activities. Interest income on investments increased by 9% year on year, which is a good result in a generally steady rate environment.

The majority of our dividend income continues to flow from our holding in MTN shares, R125.9 million accrued for the year; with the rest flowing from other listed and unlisted investments.

Our Enterprise Development initiative has been adversely impacted by changes in the Codes of Good Practice, as described in detail in the 'Introducing the NEF' section of this report. The NEF was therefore only able to raise R6.25 million unconditional contributions in the year. Since inception of this fund, R53million was raised through contributions and we have approved R50 million of those funds.

Operating expenses have increased by 3% mainly as a result of the recruitment of staff to fill key vacancies only gaining momentum during the second half of the financial year. The cost of these new staff members will however have a full year impact during the 2016 financial year. With total income increase of 9%, the Trust has reported a healthy jaws ratio (difference between growth in income and operating expenses) of 6%.

Cost to income ratio has reduced to 46.9% from 49.2% reported last year. This trend is in line with the positive jaws ratio reported in the period. Based on benchmark analysis, we target to in the long term maintain this ratio between 54% and 58%, when we operate at full capacity.

At 67% (69% in 2014), human capital costs continue to be the single largest overhead for the NEF. This proportion has been favourably impacted downwards by a relatively lower increase in overall expenses as well as the majority of recruited staff only joining the Trust during the second half of the year. The proportion of professional staff to support staff has been maintained at two to one.

We continue to monitor our portfolio closely in order to identify investments which are showing signs of potential non-performance early so that interventions may be taken on time. The establishment of a turnaround, workouts and restructuring unit has shown great potential with two turnarounds facilitated, one Business Rescue and six restructures (three of which have been successfully transferred for normal portfolio monitoring). Portfolio collections at R440.6 million was 25% higher than 2014, is the highest recorded collection in any given year since inception.

Despite this good traction in active portfolio management, impairment charges (excluding settlement write offs) at R168 million have increased compared to the prior year. It should however be noted that the prior year charge of R152 million was net of R30 million in respect of the settlement agreement for the media entity impaired in the prior years. If that impact is reversed then the current year charge is actually an improvement. The current year's impairment charge included R28 million in respect of settlement discounts offered to investees for early settlement of their debts.

*“One of our new programmes is to promote the development of black industrialists. Our view is that women should comprise a critical mass of beneficiaries in respect of the development of black industrialists. Our target is 100 black industrialists over three years. We trust that women will be key participants in this programme.”*

H.E. President Jacob Zuma,  
Africa for African Women's  
Conference, 08 March 2015



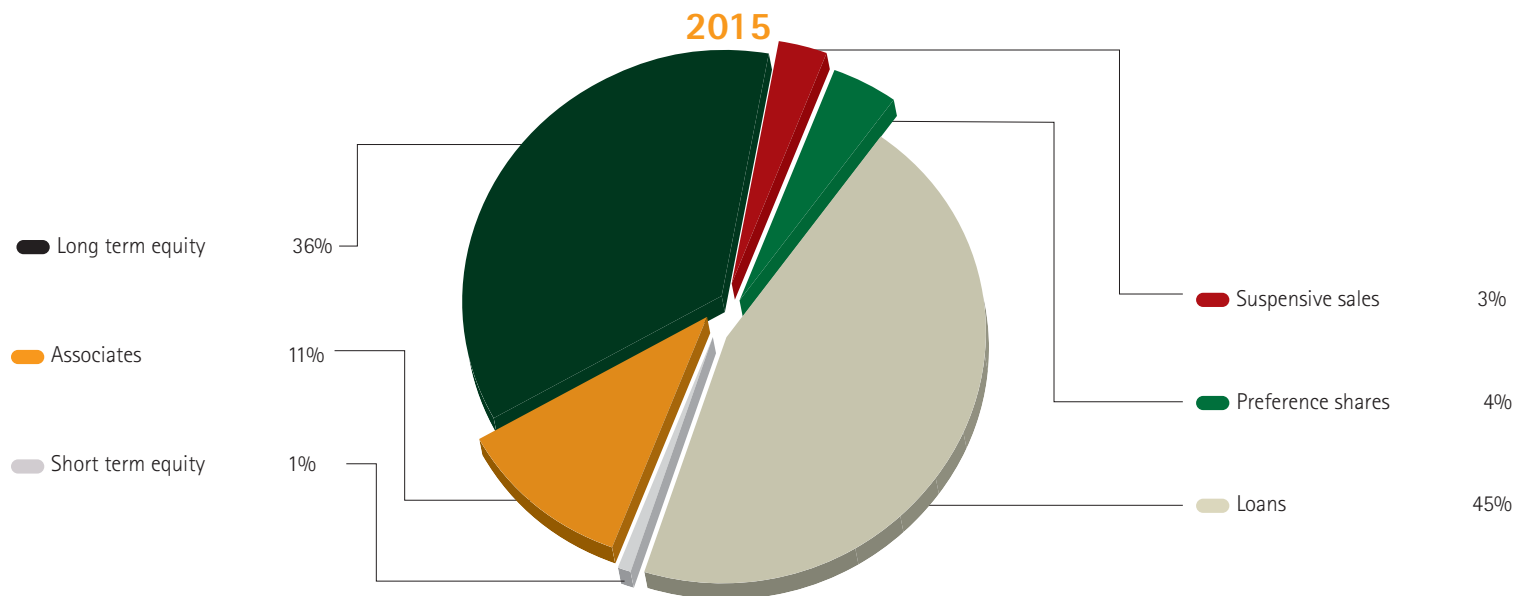
The Trust delivered an operating surplus (ie net surplus before fair value gains) of R38 million which is R15 million (29%) less than reported in 2014, mainly as a result of increased impairment and settlement write off charges. If settlement write offs of R28 million which mainly represent discounts offered to investees for early settlement of their positions are excluded, then the Trust would have reported an operating surplus of R66 million which is 24% higher than the prior year.

Fair value losses, which are mainly made up of the mark to market valuation of the MTN shares (share price decrease from R218.00 in 2014 to R205.00 in 2015), represent unrealised net losses in equity positions. These fair value entries are in compliance with GRAP requirements and are the main contributors to the net reported deficit for the year at R125 million. Whilst there was a temporary improvement of the MTN share price post year end (as at June 2015 at R225.00), the share price has since reduced to year end levels in July.

### Sustainability of our Portfolio

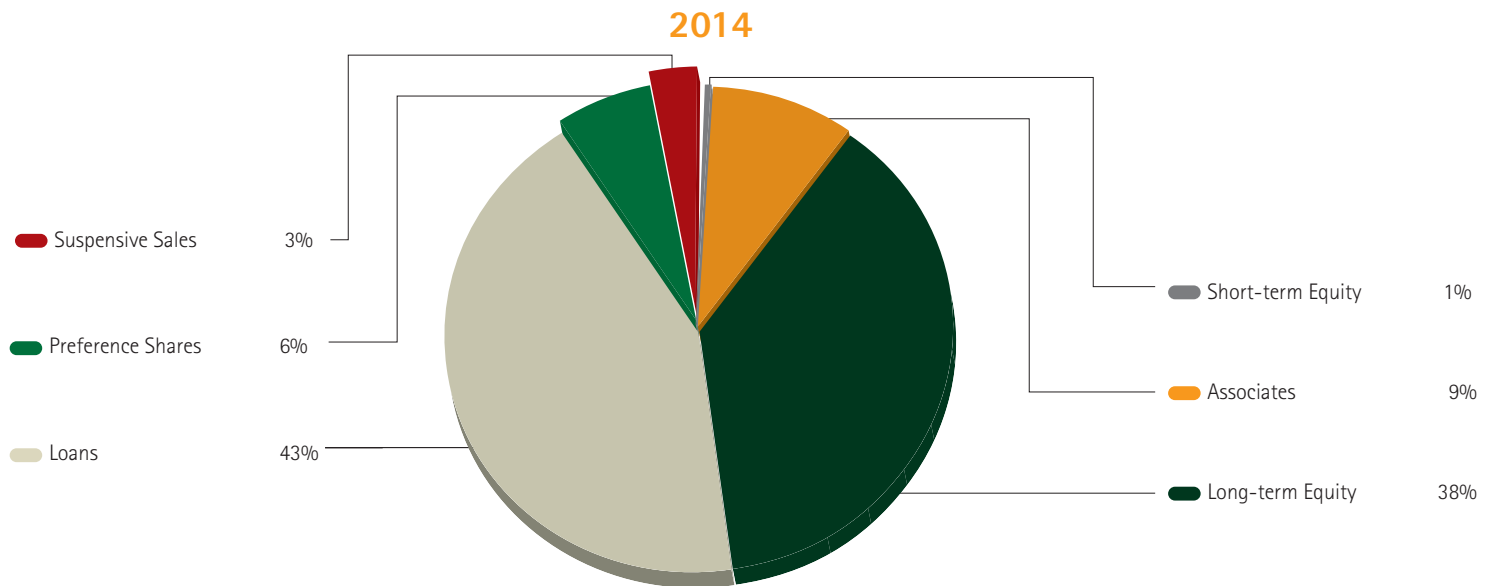
Our portfolio make-up as reflected in Figure 1 indicates that interest bearing lending remains a focus for the NEF. Loans, preference shares and suspensive sale advances (excluding mark to market impact in respect of the MTN shares) maintained at 52% since 2013. The portfolio skew in favour of non-equity instruments provide the NEF with the required element of predictable cash flows though this must be done in full consideration of the level of loans in moratorium at that specific reporting date.

Figure 1: Portfolio Make-up (Gross Amortised Cost/Fair Value)



“ Building the pipeline following an eleven month temporary moratorium (from June 2014 to April 2015) on new approvals proved slower than anticipated. The organisation however ensured that the dreams of black business continued to be supported as demonstrated in the results presented below. ”

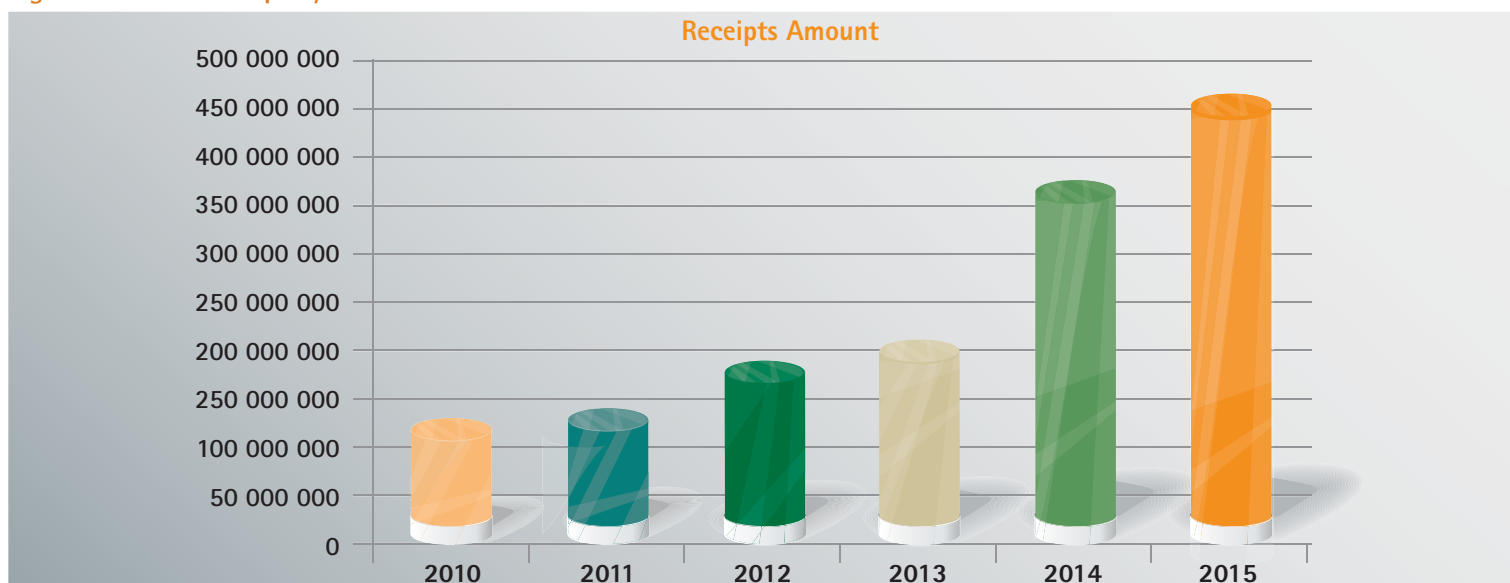
Ms Innocentia Pule, Chief Financial Officer



Reported income before impairments, fair value movements and dividends, is a key indicator of the operational sustainability of the fund. At R97m (2014:R90m), this indicator accounts for the ability for cash and investments to sustain the operational overheads of the NEF.

Whilst the collection ratio (measured as receipts as a percentage of instalments raised) at 84% has reduced from the prior year's 87%; our total collections on the portfolio at R440.5m are 25% higher than total portfolio collections made in 2014 and the highest ever recorded collection amount since inception. Figure 2 demonstrates collections made by the NEF since 2010. Since inception, the NEF has collected over R1bn from its investees.

**Figure 2: Collections per year**



We have further continued to closely monitor the level of loans in moratorium, which we aim to normally keep ranging between 35% and 40% of the carrying value of the loan book. We have managed to reduce this ratio to 30% (34% in 2014) as the impact of new disbursements were reduced by existing loans that came out of moratorium and started paying as scheduled.

Portfolio impairment provisioning in the year reduced slightly to 19.08% from prior year's 19.94%; mainly as a result of concerted efforts of early identification of issues and assisting businesses that can turn the corner. Write offs of R193.8m were made in the year (R87.1m in 2014) following a long process of recovery. Whilst management is currently of the view that the chances of recovery at this point are negligible, the legal processes of bad debt recovery where applicable will continue.

Fair value movements on equity positions (excluding MTN) at a loss of R31.6m have increased from prior year's R21.2m reported unrealised loss. This was mainly as a result of the day 1 profit on initial consolidation of Goseame of R6.2m being recorded in the prior year.

Overall return on investments before impairments for the year is 9.4% (8.8% in 2014) and after the impact of impairments is 1.3% (2.1% in 2014). The improvement in the gross return before impairments is 26 bps higher than the 56 bps average increase in the prime interest rate in the last two financial years. This increase is a function of both improved pricing and early settlements realised in the year.

The NEF conservatively provides for closely monitored exposures. As demonstrated in our credit management section of our Annual Financial Statements, the proportion of closely managed exposures have increased by 5% in value. These provision impairments are reviewed for reasonableness every quarter by management.

The net impairment provision charge including settlement discounts offered for the year were higher than in 2014, hence the reduction in the net return on investments.

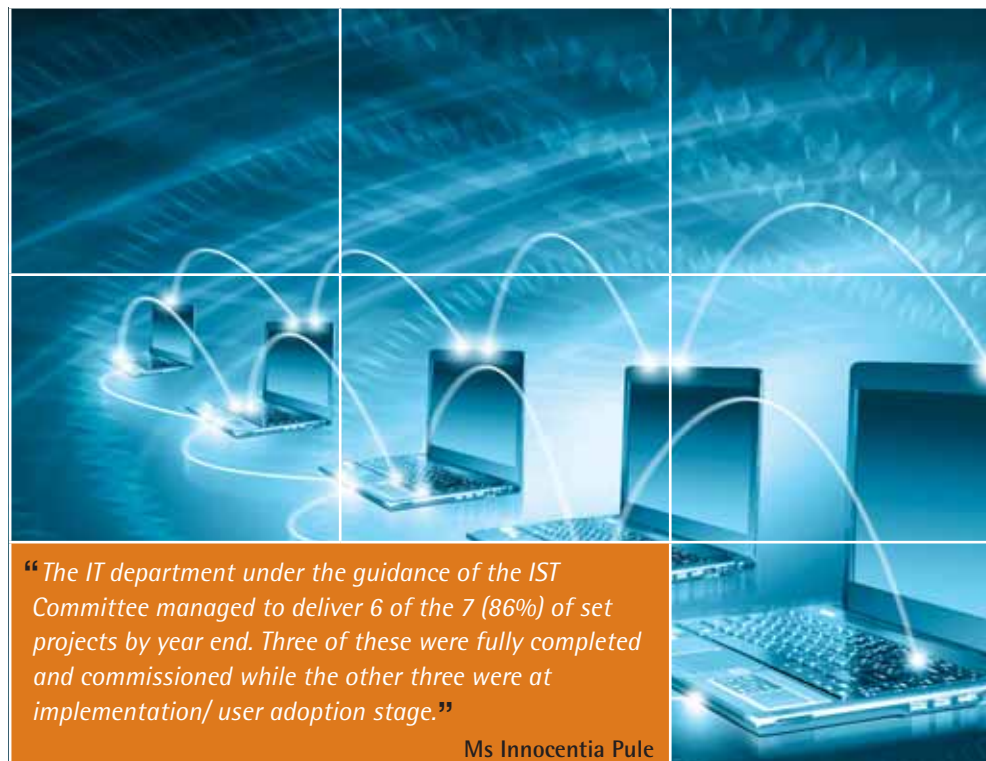
### IT Management

With the formalisation of the IT Governance Framework, an IST Steering Committee was established to:

- provide strategic leadership for IST through the alignment of IST strategic objectives and activities with enterprise strategic objectives and processes;
- prioritise IST investment initiatives and deliver final approvals and recommendations on proceeding with proposed IST projects;

- ensure open communication between the IST department and the other functional units of the NEF so as to promote collaborative planning;
- monitor and manage the IT spend and return on investment;
- monitor IST related risks and ensure that the risks are adequately managed within the IT department; and
- ensure effective IT Governance is in place within the department.

The committee is constituted as a sub-committee of the Executive Committee and is chaired by the CFO. Periodic feedback is given to the Executive Committee, the Audit Committee and the Board.



*“The IT department under the guidance of the IST Committee managed to deliver 6 of the 7 (86%) of set projects by year end. Three of these were fully completed and commissioned while the other three were at implementation/ user adoption stage.”*

**Ms Innocentia Pule**



Great work was delivered in respect of the nine priority projects that the committee set for the year. These projects were split as follows:

- three business application projects (two version upgrades and one functionality enhancement)
- six infrastructure related projects (main ones including updating organisation wide printing solution, installing VoiceOver Internet Protocol infrastructure, and introducing hybrid cloud computing solutions)

The functionality enhancement of our CRM platform was put on hold during the year in view of the work that was still being done in exploring the business combination. Once the work of this Task team working on this integration project has been finalised, we will review our approach on this platform. We however in the meantime plan to focus on fully documenting and enhancing our business processes. One infrastructure project relating to installing mobile telephone network boosters in our

offices was reprioritised by the IST Committee due to capacity constraints.

The IT department under the guidance of the IST Committee managed to deliver 6 of the 7 (86%) set projects by year end. Three of these were fully completed and commissioned while the other three were at implementation/ user adoption stage. The only project that was outstanding at year end has since been completed and is undergoing parallel testing with the aim of being fully commissioned by August 2015.

One of the milestones we had set ourselves with the roll out of the voiceover infrastructure was to realise up to 40% cost savings in fixed line call charges that we used to incur. We are pleased to report that since implementation of this project, we have seen at least 50% cost savings in our fixed line call spend per month. We therefore aim to roll this project out to our regional offices in the year ahead.

We continued to enhance IT governance through the formulation or updating of policies and standard operating procedures. Whilst the general control environment continue to be assessed as weak by internal auditors, we have managed to clear half of the findings that we had at the beginning of the year. Continued enhancement of our control environment and overall risk management will remain a key focus in the year ahead.

We remain committed to ensuring the stability of the IT systems, with 99.8% system availability attained during the year as well as securing our IT environment with regular penetration testing and annual health checks and constant monitoring of both our IT infrastructure and applications.

### Supply Chain Management

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 NEF issued fifteen public tenders (Request for Proposals – RFP) and one Request for Quotation (RFQ) which were evaluated against the process set out in the NEF Supply Chain Management Policy, the National Treasury Supply Chain Management Regulations and the Preferential Procurement Policy Framework Act and all of the relevant practice notes. Two Request for Information (RFI) were also issued.



**Table 1: Number of Public Tenders issued and considered (RFP)**

Tender	Tender Number
Investor Education (Mobiliser)	RFP: NEF 01/2014*
Research Design - Brand Audit	RFP: NEF 02/2014*
Legal Services	RFP: NEF 03/2014**
Auctioneering Services	RFP: NEF 04/2014**
Internal Audit	RFP: NEF 05/2014*
Turnarounds, Workouts & Restructuring	RFP: NEF 06/2014**
Business Specialists (Back Office Support) For The Investees Management Accounts	RFP: NEF 07/2014**
Mentorship (9 Provinces)	RFP: NEF 08-16/2014**
Financial Advisory Services	RFP: NEF 17/2014**
Investor Education (Mobiliser)	RFP: NEF 18/2014**
Travel Management Services	RFP: NEF 19/2014***
Recruitment Services	RFP: NEF 20/2014***
Security Services	RFP: NEF 21/2014*
Research Design - Brand Audit	RFP: NEF 22/2014**
Investor Education (Mobiliser)	RFP: NEF 23/2014**

\* Cancelled

\*\* Completed

\*\*\* In Progress

**Table 2: Number of Requests for Quote (RFQ)**

Request for Quote	RFQ Number
Hygiene Services	RFQ: NEF 01/2014

**Table 3: Number of Requests for Information (RFI)**

Request for Information	RFI Number
Multimedia Services	RFI: NEF 01/2014
Courier Services	RFI: NEF 02/2014

The NEF, by virtue of its mandate to support and promote enterprises owned and managed by black people, focuses its efforts on identifying and procuring 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 B-BBEE procurement targets and for the financial year R 41.9million of our Procurement Spend went to 329 suppliers. 62.90% (49.83% in 2014) of our procurement expenditure has been with majority black-owned suppliers (ie 50.1% to 100% black ownership), 14.53% (18.32% in 2014) of which was spent on black women owned businesses. The reduction in our procurement from black women owned businesses is of concern and is receiving management focus, which includes ensuring that performance contracting with business units puts emphasis on the identification and continued support of women owned businesses.

Table 3: BEE Ownership levels reported

BEE Status – Ownership	Number of suppliers	Percentage by number	Value (Rm)	Percentage by value
75.1% – 100%	157	47.72%	R 24.0	57.38%
50.1% – 75%	9	2.74%	R 2.3	5.52%
25.1% – 50%	34	10.33%	R 5.3	12.60%
0% – 25%	129	39.21%	R 10.3	24.50%

It is also important to note that as part of the NEF SME development programme within the Supply Chain Management Department, 91% of the above black owned businesses are businesses that report turnovers less than R35 million per annum.

Our supply chain has been maintained at the highest levels of good governance. No procurement irregularities were identified in the financial year ending 31 March 2015.

### Focus for the year ahead

The active management of our financial performance to ensure sustainability of the Trust remains an exciting mandate for us. Despite being scheduled as a section 3A public entity of the PFMA, the NEF has managed to successfully sustain itself without allocations from the fiscus since 2010. The NEF has established itself as a very strong agency through which aspirations of black business participation in the economy can be facilitated and its track record speaks for itself. Allocations from the fiscus would enable the Trust to exponentially increase its impact in the economy. Management, with the guidance of the Board will continue exploring ways of ensuring long term recapitalisation of the Trust.

Ambitious targets have been set for our front line businesses and we believe that all support business units are geared to support the growth of the Trust. We will continue enhancing our internal processes

to ensure that we remain true to support the strategic direction of the Trust in all respects.

### Acknowledgements

It has been an exciting and rewarding journey for me to steer the introduction of our first Integrated Report. To the staff that embarked on this journey with me over the last two years, I thank you for the energy and vigour that you brought to the table.

To the hard working staff of the NEF, especially my functional teams, thanks for your support and dedication over the past year. To the Executive team, the Board and the Audit Committee, thank you for your continued support and trusting me with this great responsibility.🙏



Ms Innocentia Pule  
Chief Financial Officer



# PERFORMANCE REVIEW

Despite the year that started slowly following the lifting of the temporary funding moratorium, the NEF proudly presents its performance for the 2014/15 financial year. Concerted effort was made to progress the pipeline through various governance structures and concluding legal agreements. Some of the key initiatives that allowed us to progress in the core areas of the business were the filling of most critical positions especially in the deal making professional space and deals facilitated throughout our Regional offices which resulted in a balanced representation of approvals and disbursements through the country. A good base has been laid to increase disbursements to get approved funds working in the economy in support of black economic participation. The NEF has further done very well in discharging the non-financial support aspects of its mandate, which includes investor education, business incubation facilitation and corporate governance training.

## Advancing B-BBEE: Provide Finance to business ventures established and managed by black people

For the year, NEF approved 94 new transactions worth R895 million; 75 transactions worth R879 million were committed and disbursed R562 million. The NEF exceeded targeted approval and commitment values. We however did not achieve targets for the disbursement values. As we forge ahead with our mandate, a good base has been laid to increase disbursements to get approved funds working in the economy in support of black economic participation. The annual achievement of these measures is set out in Figures 1 of this report.

Greater focus was placed on the utilisation of Enterprise Development Fund contributions that were available at the beginning of the financial year by fully committing R30.9 million to qualifying entities.

Figure 1: Actual Investment Performance Against Targets

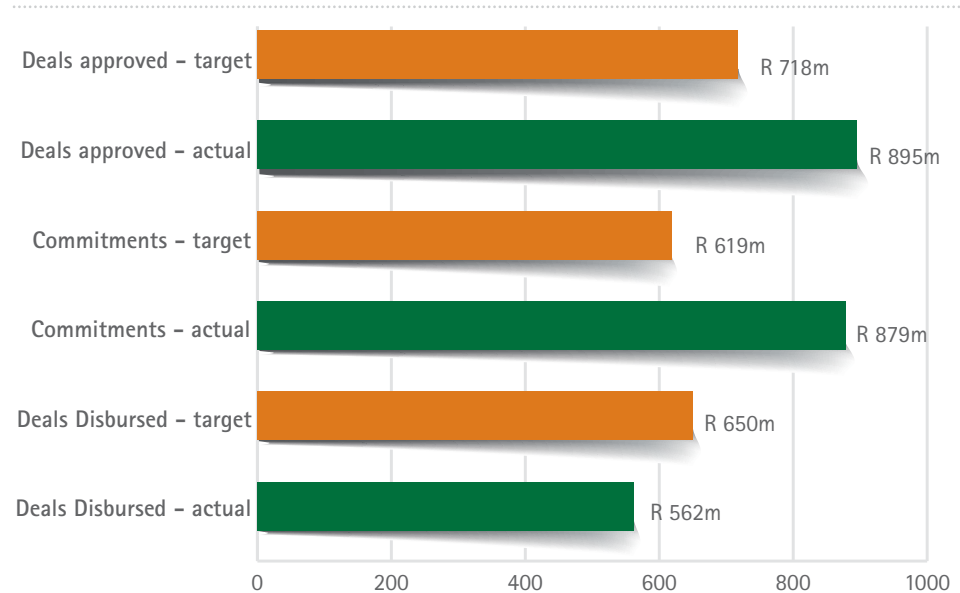
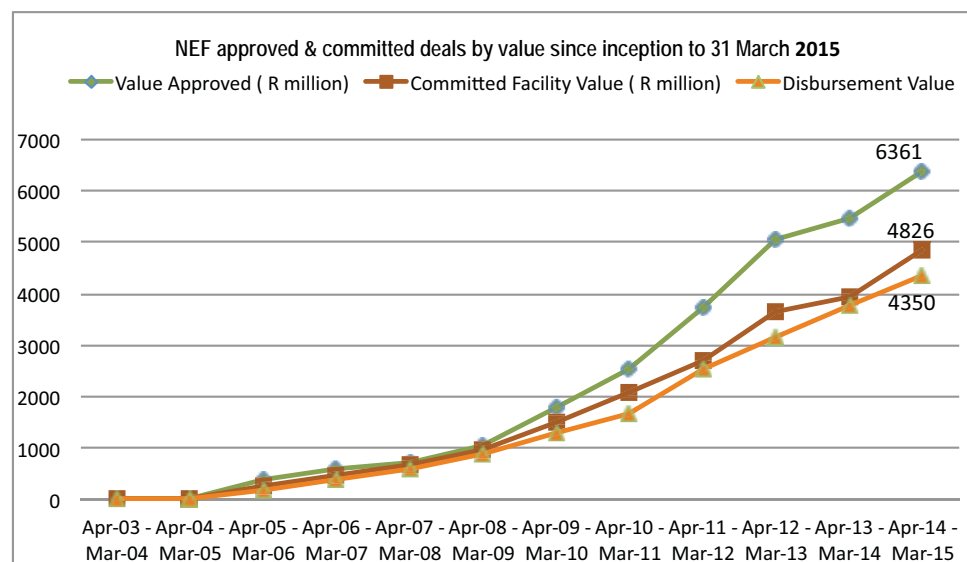
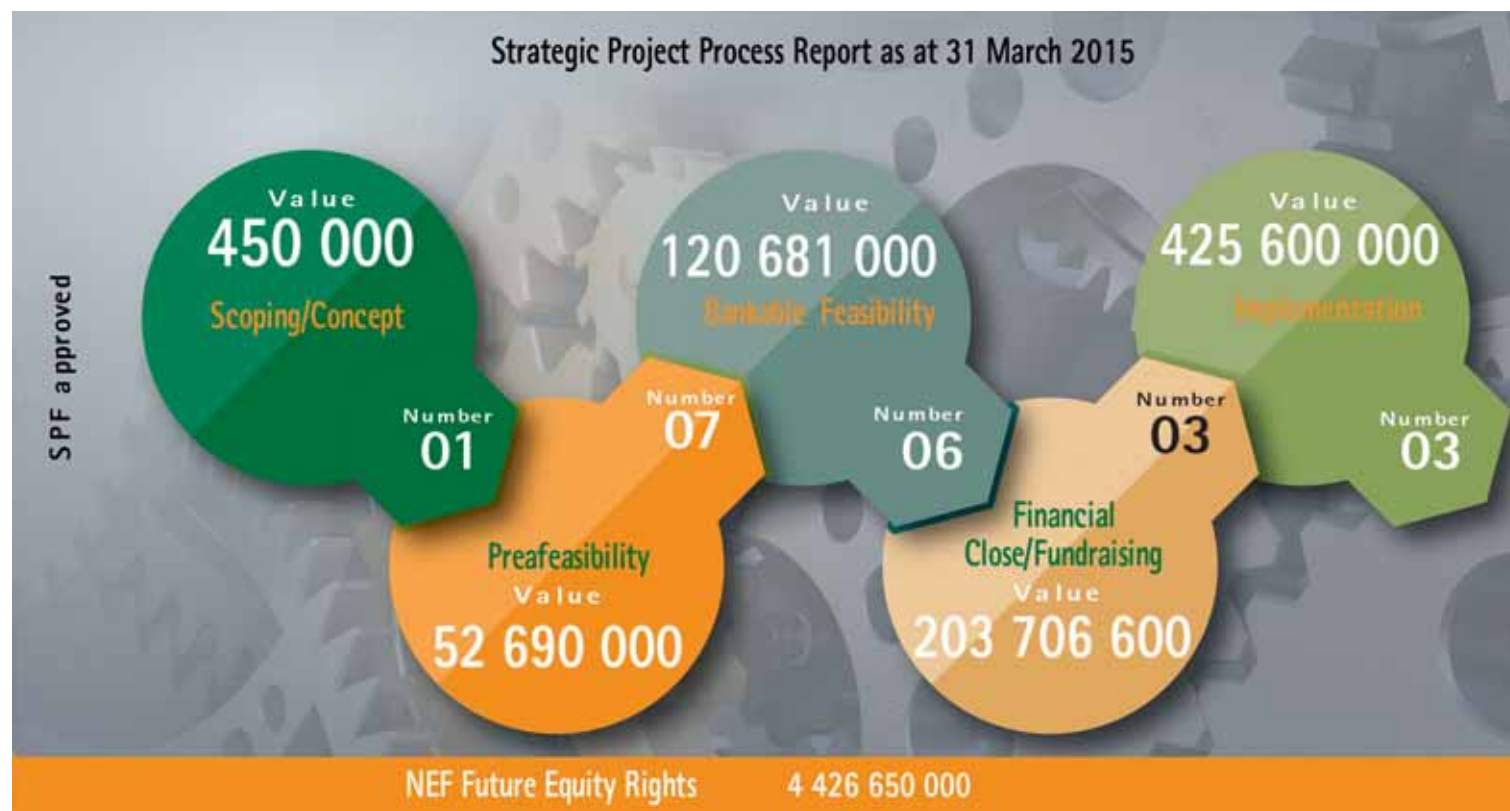


Figure 2: NEF Investment Performance Since Inception



We have further continued to progress our SPF pipeline through various stages of the project development phases.

Figure 3: Strategic Projects Fund Process Report as at 31 March 2015



The SPF portfolio consists of 20 projects spread across the respective stages, with 78% of the portfolio (by value) at advanced development stages, i.e. financial close and construction. The portfolio is expected to create 80 000 job opportunities at financial close.

“Readers will find in this publication an audited account of an organisation that continues to deliver solid results, achieving much with little in the face of scarce resources, and consistently striving for excellence in the implementation of the mandate to grow black economic participation in South Africa.”

NEF CEO, Ms Philisiwe Mthethwa



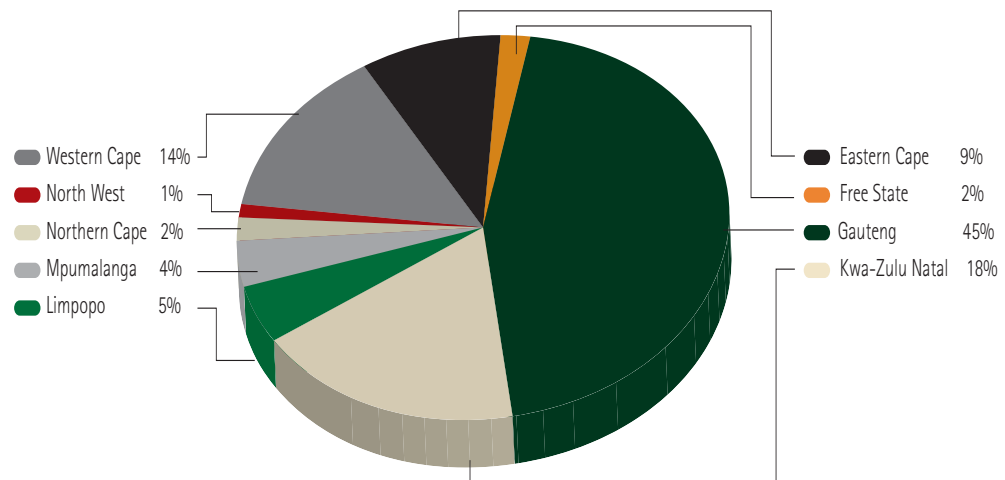
## Maximising the empowerment dividend

For the year, the NEF is geared to support 33 763 job opportunities, of which 32 820 are new. This significantly large number of jobs was mainly driven by the disbursement of the Passenger Rail Agency of South Africa (PRASA) rolling stock supply contract deal that is geared to support 31 121 new job opportunities over a 10 year period. This brings the number of job opportunities geared to be supported since inception to 81 618 (57 573 of which are new).

26% of the portfolio disbursed since inception has benefited black women ownership and 47% of committed deals in the year was to businesses owned by black women. Whilst it is taking time to build a pipeline that largely has women ownership, this is driven through the newly formed Women Empowerment Fund. In addition to direct women ownership, this measure includes warehoused shares for women and women participation in community development schemes.

Our portfolio has in the past been materially skewed to Gauteng province. The aim is to continue to use our regional presence to re-align the portfolio towards a majority share being held in other provinces. There is evidence of great strides as we have seen Gauteng's proportion of the portfolio reduced from over 50% to 45% as at 31 March 2015.

Figure 4: NEF Investment by province





### Optimising non-financial support

The NEF continues to be committed to its programmes that encourage and promote savings, investments and meaningful economic participation by black people. These include Investor Education Campaigns and Industrial Theatres that are accessible to the general public and are delivered in various locations from community centres to tertiary institutions; allowing the NEF to access a diverse range of audiences. The NEF exceeded the set target of 32 seminars by hosting 37 seminars during the year.

The NEF has further done well in discharging the non-financial support aspects of its mandate, which include business incubation facilitation and corporate governance training. These programmes aim to promote sustainable entrepreneurship and nurture entrepreneurial ideas into feasible business opportunities. Our screening processes identify enterprises which cannot be funded but would benefit from services provided by our business incubation partners. Over the years, the process has become more refined resulting in most of the enterprises referred for incubation being in a position to grow their businesses.

For the period ending 31 March 2015 there were 89 referrals against a target of 75. This was mainly due to the increase in activities post the moratorium period. 16 enterprises were fully incubated against a target of five. Incubators were able to absorb more enterprises given the relationship with the mines in North West and the NEF's ED partnership with some of the communities.

Furthermore there were 21 business training sessions held by the NEF against a target of 18.

Biennially, the NEF's marketing and communication team measures brand perception in order to increase the utilisation of our services and financing products.

This year the brand audit revealed that NEF is one of top two organisations in South Africa associated with advancing B-BBEE with total brand awareness at 79%. While awareness is high, showing that NEF has made inroads in establishing its presence in the B-BBEE arena, the survey highlighted areas in which the NEF could make improvements in its perceived impact on BEE issues and operational effectiveness for example the turnaround time to client queries.

### Establish the NEF as a sustainable DFI

The sustainability of the NEF is monitored through performance indicators such as impairments, return-on-investment (ROI) and collection ratios.

Due to active portfolio monitoring, the NEF managed to contain the impairment provision at 19.1% against a target of 19%. Return on investment for the year was at 9.4%, which is within the target range of 8% to 10%. The collection ratio is 84%, attributable to early interventions in the portfolio.

*“A high performing organisation is one that achieves financial and non-financial results that consistently exceed key agreed targets by having a disciplined focus on its mandate. It is where motivated and qualified professionals collectively sustain a pace and agility that are hard to copy. We believe that the NEF is such an organisation, where performance seeks to provide worldclass products and services that improve with time, setting new methods and benchmarks.”*

**Report of the Chief Financial Officer,  
NEF Integrated Annual Report 2015**



## Performance against the Annual Performance Plan

The NEF met fifteen of the seventeen targeted performance indicators, which equates to 88% of set targets. These are outlined below:

Strategic Objective	Performance Measure or Indicator	Annual Target 2014/15	Achievement 2014/15	Reason for Variance
<b>Advancing B-BBEE</b>				
Provide finance to business ventures established and managed by black people	Value of deals approved by the NEF	R718 million	R895 million	Increased pipeline following the temporary moratorium.
	Value of new commitments	R619 million	R879 million	The commitments are in line with increased approved transactions during the course of the year.
	Value of disbursements	R650 million	R562 million	Dependent on conditions precedent (CPs) that are to be fully met to allow disbursements. A centralised disbursement team aimed at expediting the collection of CPs has been established.
	Utilisation of Enterprise Development funds secured	R30.9 million	R30.9 million	Greater focus was placed in the identification and support of qualifying entities.
<b>Maximising the empowerment dividend</b>				
Invest in black empowered business that have high employment creating opportunities	Number of jobs expected to be created or supported	Support at least 4000 new jobs and or existing jobs	The number of jobs opportunities geared to be supported through new disbursements is 33 763	Annual achievement has been mainly driven by the disbursement of the Passenger Rail Agency of South Africa (PRASA) rolling stock supply contract deal that is geared to support 31 121 new job opportunities over a 10 year period.
Support the participation of black women in the economy	Percentage of portfolio owned by black women	30%	26%	It is taking time to build a pipeline that has largely women ownership. Women ownership is being further driven through the newly formed Women Empowerment Fund.
	Percentage of committed deal wholly or partially owned by black women	45%	47%	No significant variance noted.
Facilitate investment across all areas of South Africa	Total collective increase in percentage of portfolio by value invested in EC, NC, WC, NW, MP, FS, KZN and LP	Increase the overall, collective value of the portfolio invested in EC, NC, WC, KZN, NW, MP, FS and LP by 5%.	Year to date, there has been, approximately, a 6% increase in the overall collective portfolio invested in EC, NC, WC, KZN, NW, MP, FS and LP.	Regional offices are gradually making inroads in increasing the collective portfolio invested in other provinces.

Strategic Objective	Performance Measure or Indicator	Annual Target 2014/15	Achievement 2014/15	Reason for Variance
<b>Optimising non-financial support</b>				
Encourage and promote savings, investment and meaningful economic participation by black people	Number of seminars held across the country	32 Investor education seminars per year	37 Investor Education seminars	No significant variance noted
Black economic empowerment is advanced through commercially sustainable enterprise	Number of Business Today Training sessions provided	18 training sessions per year	21 training sessions were conducted	No significant variance noted
	Number of entrepreneurs referred for business incubation	75 referrals for incubation and 5 entrepreneurs in the final incubation stage	89 referrals for incubation were made and 16 enterprises progressed to full incubation	Incubators were able to absorb more enterprises on the back of strong relationships the NEF has built with various stakeholders.
	Number of Social Facilitation sessions for NEF investees	18 Social Facilitation sessions	26 Social Facilitation sessions	Annual target was exceeded due to a high demand in the first two quarters.
	Brand audit survey findings	Increase brand awareness to 34%	Brand awareness is 81%	Proactive stakeholder management and focused marketing strategy.
<b>Financial efficiency and sustainability</b>				
Establish the NEF as a sustainable DFI	Percentage of portfolio impaired	19%	19.1%	No significant variance noted.
	Target ROI before impairments	8-10%	9.4%	No variance noted
	Collections ratios	75%	84%	Earlier interventions in the portfolio
	Manage Portfolio Risk	High risk clients: <35%	High risk clients: <30%	No significant variance noted

“Recapitalisation remains the NEF's foremost objective in order to ensure much-needed support for black SMEs and aspiring black industrialists. Various options for additional capital have been explored, and these are the subject of continuing engagements with National Treasury and **the dti**.”

NEF CEO, Ms Philisiwe Mthethwa

# ENTERPRISE- WIDE RISK MANAGEMENT

The NEF is dedicated to ensuring that its mandate is fully executed in line with generally accepted policies and procedures of the Republic of South Africa which include statutory laws and governance policies. The NEF operates in a high risk environment due to the types of entrepreneurs that are funded which characterised by the following:

- Entrepreneurs with minimal or absence of own financial contribution required in the establishment of an enterprise;
- Entrepreneurs with minimal or absence of security or collateral normally required by traditional banking sector or other financial institutions and;
- Entrepreneurs with minimal prior financial and overall business management exposure requiring strong mentorship.

In light of the above, the NEF has designed and continuously implements a strong risk management process which promotes a strong culture of risk awareness and which places the responsibility of risk management to all staff members of the organisation. This enterprise-wide risk management approach ensures that we proactively anticipate and manage all risks: strategic, operational, financial, people, credit, fraud, market and reputation risks, and ensures that our mandate is fully executed.

## Our approach to risk management

Our approach to risk management is driven by our enterprise-wide risk management (ERM) methodology. Our ERM methodology is designed in accordance with the NEF's Risk Management Framework which in turn draws from international best practices and domestic statute. The best practices are contained in the guidance documents provided by the Committee of Sponsoring Organisations of the Treadway Commission (Coso) and the Institute of Risk Management Standards of South Africa (IRMSA) Guideline to Risk Management while the domestic regulations are contained in the Public Finance Management Act (PFMA) and Treasury Regulations. Our Risk Management Framework is approved by the NEF Board of Trustees (BOT) every three years with significant amendments

to the methodology sanctioned by the board as and when it is necessary. We continue engaging our key stakeholders to align their expectations with our approach ensuring that a good balance is achieved in the management of internal, strategic and external risks concerning the NEF.

Our integrated approach to risk management, which we followed throughout the period under review, entails identification, assessment, management, reporting in accordance with predefined reporting lines and continuous monitoring of all significant risks and mitigation measures thereof. Further, we have developed a Key Risk Reporting Dashboard and Key Risk Indicators which we use to proactively identify, respond to and report on and track top key risks and any emerging risks.

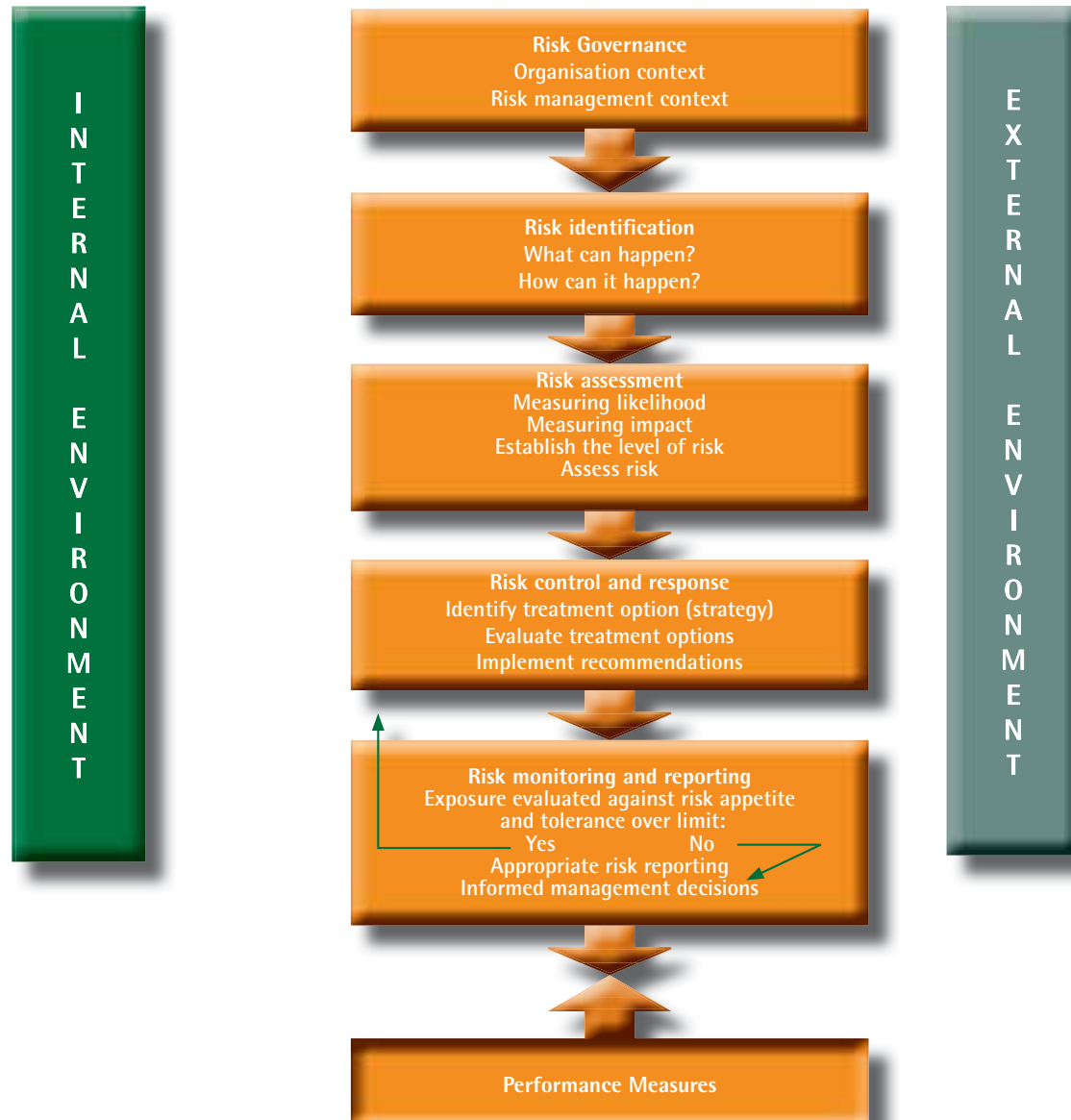


*Our approach to risk management is driven by our enterprise-wide risk management (ERM) methodology.*

Integrated Annual Report 2015

## Our risk management process

The diagram below outlines our risk management process in terms of our ERM methodology:





### The Governance of NEF's Risk Management and risk reporting protocol

The NEF's BOT has the ultimate responsibility of overseeing the ERM of the organisation in line with the requirements of King III report. BOT discharges its governance responsibility through its delegated sub-committee, Risk and Portfolio Management Committee (RPMC), which has been tasked with the review of adequacy and effectiveness of the risk management process and continuous monitoring of key risks and performance of the NEF's portfolio. RPMC works closely with the Audit Committee which provides overall assurance that risk management process of the organisation is indeed adequate and effective. An independent review by the Internal Audit Division, which reports directly to the Audit Committee, is performed on an annual basis for the purpose of providing that assurance. Risk reporting follows the governance pyramid below from line management through to the board level with each level responsible for ensuring that all critical risks of the organisation are identified and adequately managed:





### NEF Risk Assessment Process

The risk assessment process results in the output of the risk universe, allowing key risks to be identified. The risk assessment exercise is completed on an annual basis and divisional risk registers are updated on a quarterly basis to identify any emerging risks and track progress.

### Risk Appetite and Tolerance Process

Defining an effective risk appetite is a necessary prerequisite for a sound risk management framework. Scenarios were examined by Exco and the relevant Board sub-committees to determine the acceptable level of risk that the NEF can tolerate in pursuit of its objectives. The lack of clarity regarding the NEF's future recapitalisation however made this a challenging exercise. Until finality is established, it will be difficult to determine the level of risk to be taken on. Should future funding come through borrowings the level of risk to be taken on will be less than being funded through grants.

### Board's view on effectiveness of the NEF's Risk Management process

At the request of the Audit Committee the outsourced internal auditors, Nkonki performed a review of the NEF's risk management processes. The overall audit received a good rating. Work is currently in progress to develop an Enterprise-wide risk management maturity model for the NEF.

## Credit Risk Management

Credit risk is defined as the potential that a borrower or counterparty will fail to meet its obligations in accordance with agreed terms.

NEF's credit risk management (CRM) forms a key part of the enterprise-wide risk management process that focuses on ensuring that the funds of the organisation are lent to viable and credit worthy enterprises. This, in turn, also ensures that the liquidity risk and sustainability of the NEF business are properly managed.

Credit risk management is a shared responsibility across the entire organisation as detailed below:

### Credit risk management roles and responsibilities

It is a collective responsibility of all the following to manage credit risk of the NEF: -

- **Investment Teams**
  - Identity risks and any mitigating measures on each transaction reviewed and conclude on viability of such transaction.
  - Perform adequate financial, technical and legal due diligence investigations to confirm existence of mitigating measures and viability.
  - Structure transactions in manner that will reduce credit risk to an acceptable level.
  - Prepare an approval report that is factual and assists the investment committees in making informed decisions.
- **Investment Committees**
  - Study approval reports to ensure that all risks have been adequately addressed.
  - Make objective decision on the basis of economic viability and acceptable risk exposure.

### Credit Risk Division

- Thoroughly study approval reports prepared by the investment teams.
- Perform an independent assessment of credit risk for each transaction and
- Support the approval committee by providing an independent and objective opinion on viability of the evaluated transaction with regards to the level of credit risk.

### Post Investment Unit (portfolio management)

- Providing mentorship in areas in which the NEF investees lack adequate experience and skills to successfully run the business for which funding was provided.
- Providing continuous monitoring to ensure that the investees adhere to the business plan or address emerging investees' internal risks that have a potential of affecting their liquidity and ability to repay NEF loan.
- Following up on slow paying investees and collecting on outstanding debts promptly.

### Turnaround, Workouts and Restructuring Unit (TWR)

- Providing specialist service and intensive monitoring of investments experiencing cash flow or liquidity challenges and similar other challenges affecting debt repayment. This involves analyzing causes of challenges, restructuring of business operations to ease the cash flow constraints and devising turnaround strategies.

### Legal Unit

- Perform an independent legal due diligence for each transaction.
- Draft, negotiate and conclude legal documents with investees and/or suppliers

- Following up on investees transferred to the Legal Unit as a result of failure by investees to honour their obligations after all the turnaround options have been exhausted.
- Acting on securities or collateral and recovering some or all debts from investees failing to honour their debt obligations.
- Litigating on behalf of the NEF against investees refusing to settle their debts including NEF employees and members of the general public defrauding the NEF.

## Fraud Risk Management

Fraud is defined as the unlawful and intentional misrepresentation or act which can lead to actual or potential disadvantage to another individual or group.

Fraud prevention forms part of the risk management process. The following initiatives have been carried out during the year to address the fraud risk according to our fraud prevention plan:-

- Governance structures and reporting lines have been re-emphasized to the employees to afford them liberty to report suspicious activities. Each of the structures is thoroughly advised to treat every report with high level of confidentiality.
- Strong control environment is in place and subjected to annual independent audit by our Internal Audit division.
- Code of conduct forms part of the NEF policies and serves to guide employees with regards to what constitutes fraud and corruption.
- Fraud risk assessment is conducted annually to establish the level of exposure of NEF to fraud risk.
- Fraud awareness workshops are conducted annually to remind employees of the code of conduct and to also alert them of new emerging

schemes used by fraudsters or amendments in the policies aimed and combating fraud and corruption.

- Fraud Hotline/Whistleblower program managed by Deloitte in collaboration with the Risk Division of the NEF is also used as confidential means of reporting fraudulent activities perpetrated by employees and NEF investees.
- Fraud investigations are conducted by the Risk Division for each reported matter. This is sometimes performed using external forensic companies with the ultimate accountability resting with the Risk Division.
- Litigation and prosecutions are carried out by the Legal Division following recommendation by the Post Investment Unit and Risk Division. All litigation matters referred to the Legal Division by the Post Investment Unit are approved by

the Portfolio Management Committee (PMC) and or EXCO Investment Committee (EXCO IC), depending on the value of the investment per Delegation of Authority (DoA). Investments are transferred to the Legal Division when all the options of turning the business around have been exhausted or and fraudulent activities have been uncovered at the investee's business.

The following are the highlights relating to fraud risk management:

#### • Ethics workshops

An ethics workshop was held during the current financial years in which matters amounting to or considered to be unethical behaviour were highlighted to the employees of the NEF. The workshop was well attended.

#### • Fraud workshops

Two fraud awareness workshops that were well attended were held during the 2014/15 financial year during which behaviour, indicators and causes of fraud and corruption including reporting and anonymous tip-off processes were communicated to the employees of the NEF.

#### • Fraud Tip-offs

The Risk Division received and followed up on seven tip-off matters during the financial year. Two of the matters are currently being dealt with by the Legal Division while the rest were closed due to lack of evidence. »



“The NEF implements the Codes of Good Practice of Broad-Based Black Economic Empowerment as outlined in the Act. We welcome the important amendments that have been introduced to the B-BBEE Act because they portend a more actively interventionist and prescriptive approach by Government to transformation and empowerment.”

Mr Rakesh Garach, Report of the Acting Chairman of the Board of Trustees, Integrated Annual Report 2015

# INVESTING IN HUMAN CAPITAL

The NEF began year by lifting the funding moratorium and in so doing began the year with limited human capital due to the high attrition rate experienced in the previous year. In spite of this, in order to strive at achieving organisational strategic goals, the human resources department continued to strategically partner with business in human capital attraction, development, and retention by focusing on:

## Values and Culture

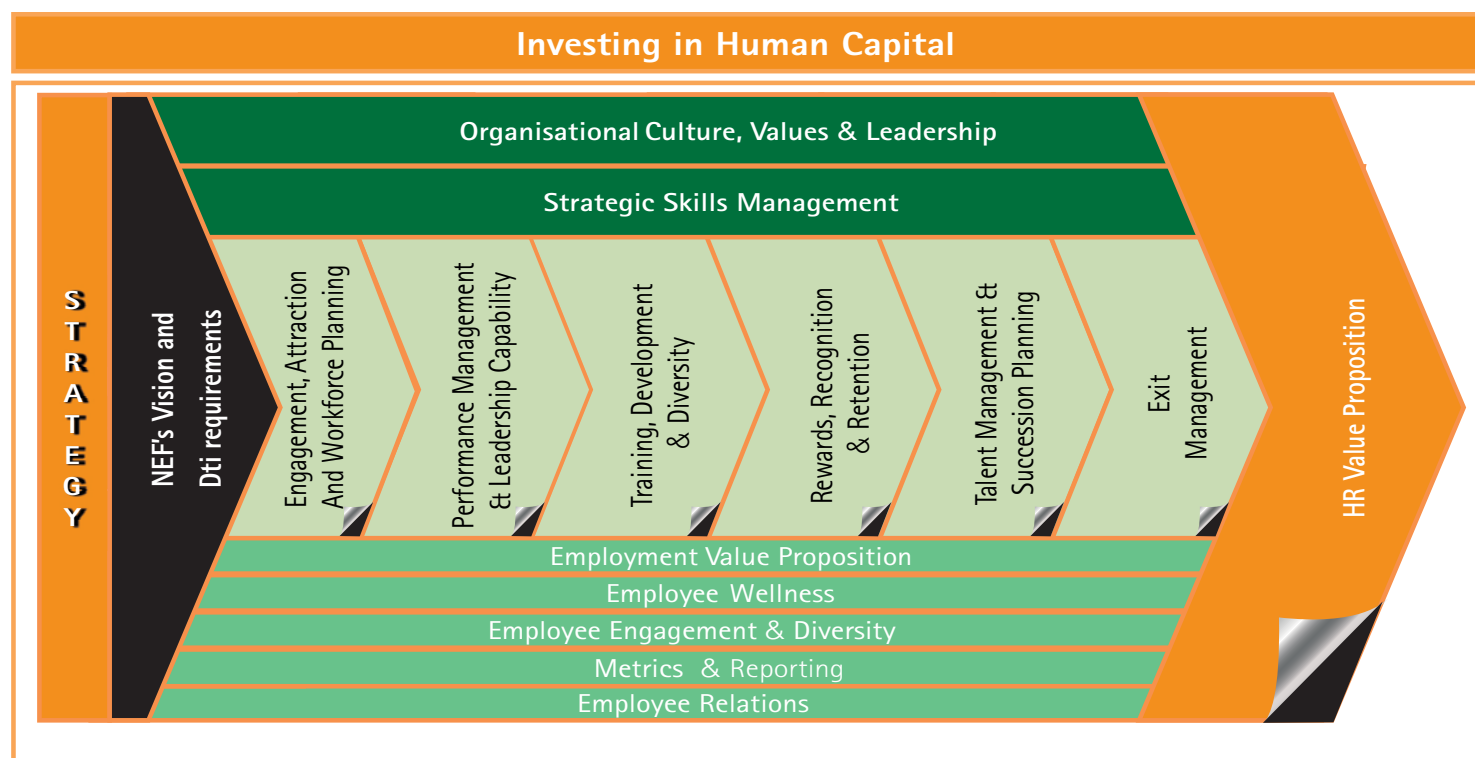
The NEF Values are the cornerstone of how the NEF expects its employees to conduct themselves when discharging their duties. The Human Resources department (HR) together with the leadership strives to ensure that the values of the NEF are entrenched through targeted initiative such as the values celebrate program, as well linking the values and culture program to heritage month. How we interact with our clients and one another determines how we experience being part of the NEF and how our stakeholders and clients experience the NEF. This experience is underpinned by how we do things, how we behave and our values of:

E<sub>THICS</sub> M<sub>OTIVATION</sub> P<sub>ERFORMANCE</sub> O<sub>WNERSHIP</sub> W<sub>ORTHY</sub> E<sub>XCELLENCE</sub> R<sub>ESPECT</sub>

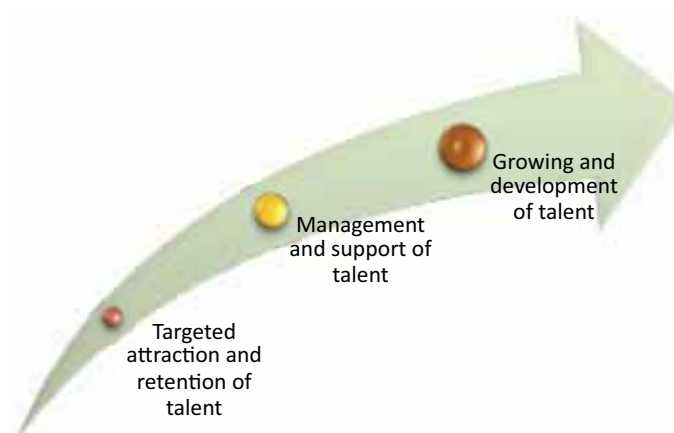
Value	Main Descriptor
Ethics	Choosing to do what's right over what's wrong
Motivation	Being self-driven and passionate in what we do
Performance	Achieving results timeously, accurately and performing to create an impact
Ownership	Owning our actions, our decisions and consequences of our actions
Worthy	Creating an environment where we make a valued contribution and where we feel valued for our contribution
Excellence	Consistently exceeding expectations and being the best in everything we do
Respect	Treating everyone fairly and with dignity; and demonstrating humility

In order for the organisation to achieve its business strategy, it needs talented people to help achieve its goals, objectives and targets and fully practice the values of the organisation. This is informed by the NEF's integrated human capital model below.





The NEF's integrated human capital model not only enables the NEF to achieve its strategy and business objectives but also informs how the NEF drives a high performing culture and investment to human capital based on three pillars namely, targeted attraction and retention of talent, management and support of talent as well as growing and the development of talent.



**"To drive and embed a high performing culture: look at your people and your organisational culture"**

## Performance and Development

Having the right skills at the right place means that people are able to perform at their highest level in the best working environment that is enabling and provides job satisfaction and this is what forms the core of the NEF striving to be an employer of choice. The focus therefore placed on performance, training and skills development is so that the NEF recognises and rewards appropriately those who are equipped with the right skills, knowledge, capability and are performing to ensure sustainable value creation.

High performing organisations outperform their rivals by developing their employees to acquire the right skills and by providing world class products and services. These are places where the best people want to work and they sustain a pace and agility which is hard to copy. To achieve this, the NEF endeavours to improve employee performance by:



High performance Organisations are the result of the work being 'meaningful' to those who perform the roles within the organisation. This is not just about acquiring skills, but it is also about personal growth and development beyond the specifics of the role. Most notably, the NEF recognises and rewards appropriately those who are developed with the right skills, knowledge, capability and are performing to ensure sustainable value creation. Leadership capability is a strong determinant of remuneration.

The training and skills development, not only seeks to close gaps, but also provides opportunities for growth in order to maintain a competitive edge. Training and development is linked to the employees' personal development plans which aim to strengthen the employee's performance in areas that are aligned to the vision of the organisation.

Evident to performance and development are the key indicators below detailing the training cost per employee as a percentage of staff costs, head count and turnovers, employment equity as well as leadership and management programs.

### Training Spend:

Staff Costs	Training Expenditure	a % of training costs	Number of employees trained
Total Female Trained	R 579 369	67%	60
Total Male Trained	R 450 288	33%	30
<b>Total Costs</b>	<b>R 1 029 657</b>		

“The National Empowerment Fund (NEF) is a statutory trust mandated to promote and facilitate black economic participation in the economy through the provision of financial and non-financial support to black empowered business. In doing so, the NEF contributes to the dti's objectives of facilitating the transformation of the economy and broadening black economic participation.”

The Hon. Minister of Trade and Industry, Dr Rob Davies, MP, NEF Integrated Annual Report 2015

### Development / Management Programs

NEF supports and enables employees to give their best through skills development and provide an environment with opportunities for growth in order to maintain a competitive edge. This contributes to achieving and delivering on the NEF's strategy through:

- a. Skills and development
  - v. Assisting employees with their career development through the NEF's bursary scheme and Bankseta programs;
  - vi. Prioritising certain capabilities for skills development such as deal making, portfolio and investment management, risk and regulatory expertise, financial management leadership skills, interpersonal skills;
  - vii. Providing workplace readiness program, coaching, mentoring and training for graduate trainees.
  - viii. On-going focused workshops and initiatives on risk, ethics and values.

### b. Capacity Building

- i. Alignment to the NEF strategy as an organisation in order to achieve objectives and goals more effectively and efficiently.
- ii. Capability is determined by the training and leadership framework which ensures that employees have the right capabilities required for the right roles;
- iii. A skills gap analysis is also conducted during the recruitment process to consider the skills, competencies, capabilities and performance required;
- iv. The assessment of displayed behaviour to build capacity is based on a competency framework available which forms part of the NEF blue print. The principles applied are to offer competitive packages, build capacity by shadowing and where possible transfers internally or to other DFI's;
- v. NEF's enrolment of four employees on the certificate in management development program through Bankseta with one of the NEF's employee being the highest performer on the programme;
- vi. Achievement of 17% of professional staff attending the IDC capacity building training programmes in order to enhance their deal making and post investment capability and skill;
- vii. Develop, recognise and reward NEF's talented workforce.

## c. Future plans include:

- viii. Introducing learnerships for unemployed graduates;
- ix. Getting accredited as a SAICA training office;
- x. Participate and host the Letsema and Kuyasa Bankseta learnership programmes;
- xi. Vacation work for girl learners at grade 11 and grade 12 from previously disadvantaged communities.

**Head count and Turnover:**

- The split in terms of the workforce proportion for women is 61% and men 39%;
- The employee vacancy rate was 11% during the past financial year with 83% of new recruits starting in the second half of the year;
- Employee turnover rate: staff turnover was 11% during the past financial year. This compares favourably with the NEF's balanced scorecard target of 8% and other Development Finance Institutions (DFI's) which averages 10%.

	Headcount as at 31 March 2014	Headcount % per band as at 31 March 2014	Headcount as at 31 March 2015	Headcount % per band as at 31 March 2015
<b>Employee Level</b>	<b>146</b>	<b>100%</b>	<b>152</b>	<b>100%</b>
Executive Management	5	3%	5	3%
Senior Management	21	14%	24	16%
Middle Management	20	14%	23	15%
Professional Staff	49	34%	52	34%
Skilled	47	32%	44	29%
Semi-Skilled / Unskilled	4	3%	4	3%

“ The concept of Black Industrialists refers to black people directly involved in the origination, creation, significant ownership, management and operation of industrial enterprises that derive value from the manufacturing of goods and services at a large scale. These should be acting to unlock the productive potential of South Africa's capital assets for massive employment locally. ”

The Hon. Deputy Minister of Trade and Industry, Mr. Mzwandile Masina, MP, delivering keynote address at the uThungulu District Economic Development Symposium and SMME Fair 2015

## How The NEF Adds Value to its Human Capital

### Employment Equity

The NEF is an equal opportunity employer in that it strives to provide equal employment opportunities to South Africans. The recruitment policy of the NEF supports the government imperatives and seeks to continue to comply with the employment equity requirements that are prescribed by the Department of Labour. These statistics prescribe that organisations should employ people who represent the demographics of the economically active population of the country.



At year end the NEF had a staff complement of 152, sixty one percent (61%) of the employment the workforce are women. 100% of our Executive Committee is black with a sixty percent (60%) female representation.

The tables below illustrate the gender and racial breakdown of the NEF as at 31 March 2015.

**Table 1: Gender Analysis**

TOTAL NO OF EMPLOYEES	N°	%
Male	60	39%
Female	92	61%
<b>GRAND TOTAL</b>	<b>152</b>	<b>100%</b>

**Table 2: Racial Analysis**

TOTAL NO OF EMPLOYEES	N°	%
African	136	89%
White	4	3%
Indian	6	4%
Coloured	6	4%
<b>GRAND TOTAL</b>	<b>152</b>	<b>100%</b>

### Talent Management and Succession Planning

Talent Management and Succession Planning is a systematic process of planning job appointments and successor candidates in order to address the NEF's management growth and continuity needs, as well as the developmental needs of employees. This ensures that:

- We have a targeted approach to attract quality hires by streamlining recruitment processes to be more structured and effective in order to minimise the need for external recruitment partners;
- Have leadership programs which accommodate varying business needs as per the workforce segmentation / planning model, introduction of learnerships and Management Development Programmes (MDP) to build leadership capability;



- c. Use talent management and succession planning to define future talent capabilities required for management and leadership talent pipeline;
- d. Sustained knowledge management through harvesting, sharing of corporate intellectual property and extracting expert knowledge.

### Total Remuneration Elements

The purpose of the compensation and remuneration system is designed to attract and retain high calibre employees who can best contribute to the vision, mission, values and strategic plans of the NEF.

### Reward Principles

The following reward principles guide the NEF's remuneration practice:

#### i. Internal Equity / Parity

A comparison of salaries for similar positions at the NEF based on relevant data including factors such as previous related experience outside the NEF, a sustained change in responsibility that is more or less than what is considered normal for that type of position, education or level of responsibility within a group of similar positions in the NEF.

#### ii. External Equity / Market Data

Salaries should be comparable with remuneration of similar organisations in terms of size of the organization, similar positions, similar experience, levels of responsibility and qualifications. In order to achieve this principle, the NEF seeks to participate in various salary surveys and consult professionals. When making decisions regarding remuneration, the NEF considers the CPI and other macro-economic indicators.

#### iii. Remuneration Positioning

The NEF seeks to remunerate employees at the median of the market survey. It is also the policy of the NEF to remunerate top performers, top talent and scarce skills at the upper quartile of the market survey subject to affordability.

#### iv. Guaranteed Package

The NEF remunerates employees on total packages / total cost of employment. This is a remuneration structure in which all benefits, both compulsory and add-on, are converted to cash and deemed to be the cost of employment to the NEF.

#### v. Short Term Incentives

It is the NEF's policy to reward performance through an Incentive Bonus which has been developed to enable employees to share the success of the NEF. The NEF's performance bonus scheme has been established to reward those employees who excel in their performance and exceed expectations. A performance bonus is based purely on the merit and individual performance of the employee. The actual awarding of the bonus, in addition to the determination of the value of the bonus within the parameters prescribed in the performance management policy, is entirely at the discretion of the remuneration committee and the board of trustees.

#### vi. Long Term Incentives

The NEF acknowledges that in order to ensure that it is able to grow its capacity to achieve its objectives, it is necessary to incentivise certain categories of employees to remain in the employment of the organisation whilst maintaining a high standard of performance. The core message is that the NEF is not looking for short term decisions that may have long term

consequences that may harm the organisation or its reputation and this by creating a balance of both the Short term incentive and Long term incentive and this is the balance between performance and the health of the organisation over time.

#### The objectives of the Scheme are to:

- Drive behaviour supportive of the NEF's strategic intent, objectives and sustainable performance;
- To enable retention of competent, high performing employees with critical skills; qualifications, knowledge and/or experience and who will add value to the NEF; and
- To implement market related reward and incentive principles.

The NEF maintains a remuneration system that provides for the payment of salaries comparable to those paid for similar positions in the industry, given the NEF's unique mandate. The NEF recognition and reward is driven by both individual and organisational performance. As a general rule, remuneration is reviewed annually and based on local statutory and regulation requirements. Below is how the compensation and remuneration system is structured:

Fixed Remuneration	Variable Remuneration
Salary and Benefits	Short Term Incentive Award
Salary levels based on function, experience and market pay levels	Long Term Incentive Award
	Long Service Awards

## Employee Wellness

Through confidential engagement, the NEF's wellness program encourages a culture which supports employees to take responsibility for their own wellness. These include:

- Confidentiality through management support, telephonic and face to face support;
- Support for employee health and wellness by continuing to encourage staff participation at wellness days and other initiatives through a communicated wellness annual plan;
- Wellness days which have had a resounding success over the years, with employee attendance and participation exceeding 70%.
- Financial general support and Legal advice: the HR department undertakes strict confidentiality in facilitating assistance to those employees needing financial assistance and legal advice.
- Workplace trauma interventions.

*“It is the role the Advisory Council to ensure that the B-BBEE legislative framework through the Black Industrialists programme, achieves maximum inclusivity in terms of economic transformation, bearing in mind the goals set in the National Development Plan. Among key interventions, members of the Advisory Council need to tackle historical issues hindering economic transformation such as the public procurement policy. However, more fundamentally, their role is to help us as we carry out the important work of reversing the legacy of a racially structured South African economy.”*

H.E. President Jacob Zuma, to the inaugural Black Industrialists Indaba, Gallagher Convention Centre, Midrand 25 March 2015



## GOVERNANCE

The NEF Board strives to promote the highest standards of corporate governance by subscribing to the principles of good corporate governance as outlined in the King III Report on Corporate Governance. The Board ensures that the NEF conducts its affairs with accountability, fairness, transparency and prudence.

The appointment of the Board is outlined in the National Empowerment Fund Act 105 of 1998. The composition of the Board, which comprises a majority of independent and non-executive Trustees, ensures that there is independence and objectivity in decision-making processes. Board members possess expertise and experience in the fields of, amongst others, law, economics, business practice, development practice and finance.

During October 2014, Cabinet approved the re-appointment of the NEF's current Board of Trustees for an additional three years, until November 2017. Approval was obtained from the Minister of Trade & Industry for Mr R Garach to continue as Acting Chairman of the Board until the vacancy in that position is filled.

The Board charter, which is reviewed annually, sets out the Board's role, responsibilities and authority. Elements of the Board charter are derived from the NEF Act 105 of 1998 and the Shareholders Compact concluded between **the dti** and NEF.

The Board holds regular meetings to ensure that it meets its objectives. The Chairmen of the all Board sub-committees prepare and present reports to the Board of the activities and decisions of their respective committees on a quarterly basis. In the year under review the Board met ten times.

Board Members	Meeting Attendance
Rakesh Garach (Acting Chairman)	10/10
Philisiwe Mthethwa (Chief Executive Officer)	10/10
Nomalanga Mosala	10/10
Zukiswa Ntlangula*	6/6
Jacqueline Williams	10/10
Innocentia Pule (Chief Financial Officer)	9/10
Allon Raiz	9/10
Angelina Makwetla	9/10
Avril Halstead	6/10
Jacqueline Molisane	6/10
Sipho Zikode	7/10

\* On maternity leave for part of the year

### Board Committees

In terms of the Board charter, the Board may delegate certain responsibilities to its committees to enable it to properly discharge its responsibilities and duties. As such, the Board has established the following 6 sub-committees.

### Audit Committee

The overall function of the Audit Committee is to assist the Board in discharging its responsibilities relating to the safeguarding of assets, the operation of adequate and effective systems and control processes, the preparation of fairly presented financial statements in compliance with all applicable legal and regulatory requirements and accounting standards, and the oversight of the external and internal audit appointments and functions.

A vacancy arose in the Audit Committee during the year under review as a result of the appointment of Rakesh Garach as the Acting Chairman of the Board, which appointment precludes him from being a member of the Audit Committee as per recommendation by the King Report on Corporate Governance. Anthony Coombe, an existing Audit Committee member, was appointed as the Acting Chairman of the Audit Committee and Jacqueline Williams, a non-executive Trustee, was appointed as an interim member. On 3 July 2014 Kumaran Naidoo, the Group CFO of **the dti**, was appointed as an *ex-officio* member of the Audit Committee as per the Shareholder's Compact.

The Audit Committee comprises five members, two of whom are non-Trustees and independent. This committee met 5 times in the year under review.

The attendance of meetings of the Audit Committee for the year is reflected in the table below:

Name	Meeting Attendance
*Anthony Coombe (Acting Chairman)	5/5
Rene van Wyk	5/5
**Zukiswa Ntlangula	3/4
***Jacqueline Williams	5/5
****Kumaran Naidoo	3/3

\* Appointed as Acting Chairman with effect from 15 April 2014

\*\* On maternity leave for part of the year

\*\*\* Appointed as Acting member with effect from 15 April 2014

\*\*\*\* Appointed as an *ex-officio* member with effect from 3 July 2014

A detailed report of the Audit Committee is contained on page 140 of this Integrated Report.

### Risk & Portfolio Management Committee

The primary purpose of the Committee is to:

- establish and maintain a common understanding of the risk universe which needs to be addressed in order to meet the NEF's objectives;
- ensure that a proper business risk assessment is carried out and that a risk profile of the organisation is compiled;
- satisfy the King III corporate governance reporting requirements in relation to risk management,
- coordinate the risk management and assurance efforts of the organisation;
- report to the Board on overall risk management and on the extent of any action taken by management to address areas identified for improvement;
- provide oversight regarding the performance of the portfolio of the NEF;
- review, from a business point of view, provisioning for the loans portfolio;
- provide feedback to the Audit committee regarding risk management governance and management process at the NEF; and
- from a risk point of view, provide oversight over IT governance in the organisation.

The Risk & Portfolio Management Committee comprising four members, met four times in the year under review.

Name	Meeting Attendance
Zukiswa Ntlangula (Chairman)	4/4
Rakesh Garach	4/4
Simon Harford*	4/4
Zola Fihlani*	3/4

\* Non-trustee and Independent member

### Board Investment Committee

The Board Investment Committee assesses, evaluates, approves (where appropriate) and recommends to the Board investments in accordance with the Board approved Delegation of Authority framework.

Pani Tyalimpi joined as an independent and non-Trustee member of the NEF Board IC on 15 October 2014; and Delphine Govender, also an independent and non-Trustee member resigned with effect from 30 January 2015.

The Board IC comprised seven members in the year under review and held 13 meetings.

Name	Meeting Attendance
Jacqueline Molisane (Chairman)	7/13
Nomalanga Mosala	13/13
Philisiwe Mthethwa	11/13
Sawa Nakagawa	10/13
*Delphine Govender	5/13
**Pani Tyalimpi	6/13
Allon Raiz	5/13

\*Resigned with effect from 30 January 2015

\*\*Appointed with effect from 20 October 2014

### Human Capital & Remuneration Committee (HCRC)

The primary purpose of the Human Capital & Remuneration Committee is the following:

- to review and make recommendations to the Board on the human capital policies, procedures, structures and all matters relating to the relationship between the NEF and its staff;
- to oversee compliance with the human capital policies, procedures and structures regulating the relationship between the NEF and its staff;
- to address and make recommendations to the Board with regards to resolution on any issue of concern that has an impact on the business of the NEF that may have arisen from such aforementioned policies, procedures and structures;
- to oversee and monitor the level and remuneration structure of staff other than Executives (for recommendation to Board) to ensure that the NEF's employees are fairly rewarded for their individual contributions to the NEF's overall performance; and
- to demonstrate to all stakeholders that the remuneration of staff members of the NEF are reviewed by a committee of members who have no personal interest in the outcomes of their decisions and who will give due regard to the interests of the stakeholders, to the financial and commercial health of the NEF and to remuneration rates offered in the market and similar development finance institutions.

Name	Meeting Attendance
Avril Halstead (Chairman)	4/5
Angelina Makwetla	4/5
Jacqueline Williams	5/5
** Sonja Stojanovic	5/5
*Michael Campbell	1/1

\*Resigned with effect from 22 July 2014

\* Non-trustee and Independent member

### Social & Ethics Committee (SEC)

The SEC performs the following functions:

To monitor the NEF's activities, with reference to any relevant legislation, other legal requirements or prevailing codes of best practice, relating to:

- Social and economic development, including the NEF's standing in terms of the goals and purposes of:
  - The 10 principles set out in the United Global Compact Principles;
  - The Organisation for Economic Co-operation and Development recommendations regarding corruption;
  - The Employment Equity Act; and
  - The Broad-Based Black Economic Empowerment Act;
- Good corporate citizenship, including the NEF's:
  - Promotion of equality, prevention of unfair discrimination, and eradication of corruption;
  - Contribution to development of the communities in which its activities are predominantly conducted or within which its products or services are predominantly marketed; and

➤ Record of sponsorship, donations and charitable giving;

- The environment, health and public safety, including the impact of the NEF's activities and of its products or services;
- Ethical procurement of goods and services for the NEF and ensuring that clients and customers of the NEF conduct themselves in an ethical manner in their dealings with the NEF.
- Stakeholder relationships, including the NEF's advertising, public relations and compliance with consumer protection laws; and
- Labour and employment, including:
  - The NEF's standing in terms of the International Labour Organisation Protocol on decent work and working conditions; and
  - The NEF's employment relationships, and its contribution towards the educational development of its employees.
- Ethical conduct of NEF staff, overall ethical conduct of all investees and suppliers through entrenchment of the NEF's pledge of oath and an ethics management framework.

The SEC comprises three members, one of whom is independent and a non-Trustee; and met three times during the year under review.

Name	Meeting Attendance
Angelina Makwetla (Chairman)	3/3
Jacqueline Williams	3/3
Michelle Mbaco	3/3

### Nominations Committee

The role of the Nominations Committee to assist the Board to ensure that:

- The Board Committees have the appropriate composition to assist the Board to execute its duties effectively;
- Non-Trustee Members of NEF Board committees are appointed through a formal process; and
- Formal succession plans for the CEO and Executives are in place.

The Nominations Committee is an ad-hoc committee and did not hold any meetings during the year under review.

### Board Appraisal

An independent Board appraisal was conducted by the Institute of Directors of Southern Africa ("IoDSA") on the effectiveness of the Board and its committees. In addition to conducting the evaluation process, the IoDSA was also tasked with developing action plans for the Board and its committees to improve the effectiveness of the Board. In addition an executive summary of the high-level findings from the appraisal process for submission to the NEF's shareholder representative, the Minister of Trade and Industry was prepared.

The scope of the appraisal process covered areas of board composition, board responsibilities, relationship with management, stakeholder relationships and board meetings.

Whilst the results of the appraisal reflected significant areas that were viewed as performing well, as indicated by 87% of the questions attracting ratings of "satisfactory and meets best practice"; 13% of the evaluated aspects were identified as needing some improvement.



The main areas which require improvement included rotation and succession planning of Trustees and Board sub-committee members, on-going Trustee development, entrenchment of IT governance and communication by management with Board sub-committee members in-between meetings. The lack of the NEF's recapitalisation still remains a major concern.

The Board and management have undertaken steps to address identified areas of improvement.

### Social & Ethics Report

*Corporate governance is concerned with holding the balance between economic and social goals and between individual and communal goals... the aim is to align as nearly as possible the interest of individuals, corporations and society" Sir Adrian Cadbury, UK, Commission Report: Corporate Governance 1992).*

The SEC performs functions as outlined in regulation 43(5) of the Companies Act No. 71 of the 2008.

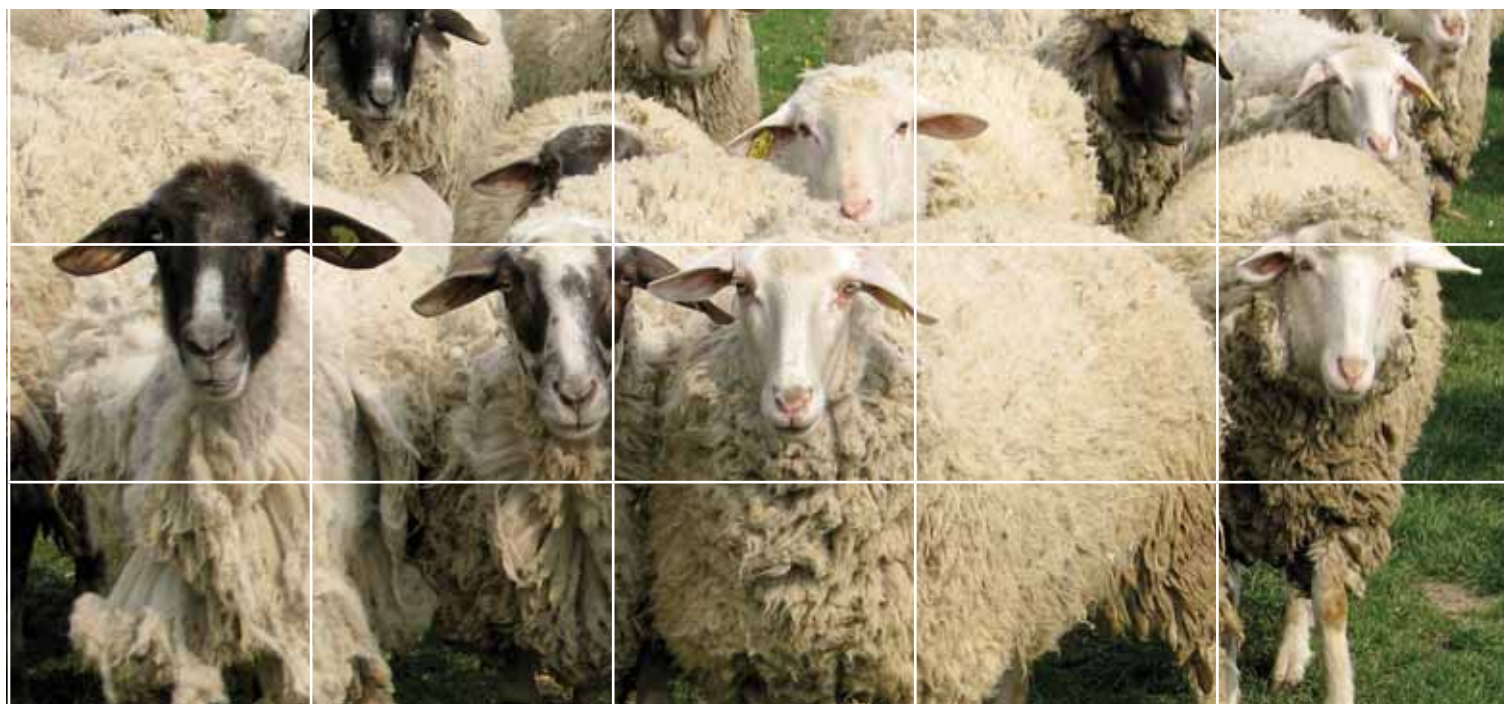
The following have been the key achievements of the SEC since its establishment in late 2012:

- Conducting a gap analysis of the NEF's regulatory universe, in relation to the SEC's function, to ensure compliance thereto.
- Promoting understanding of ethics within the NEF's Executive team.
- Development of a work plan in response to the results and recommendations emanating from the Ethics Survey conducted within the organisation.
- Assisting the NEF's Socio-Economic Development Unit with achieving its goals with regard to entrepreneurial training, social facilitation and the implementation of social plans for the NEF's community related investments.

The SEC will going forward oversee the development of a Corporate Social Investment Policy and review of the NEF's sustainability strategy.

“ *The rural and community development fund of the NEF is designed to promote sustainable change in social and economic relations and support the goals of growth and development in the rural economy, through financing 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.* ”

NEF Integrated Annual Report 2015



# ASSURANCE

## Internal controls

The Board, through the Audit Committee, ensures that internal controls are effective and adequately reported on for auditing and regulatory purposes. In line with King III, the NEF applies a combined assurance model to ensure coordinated assurance activities. This model gives the Audit Committee and the Risk and Portfolio Committee an overview of significant risks, as well as the effectiveness of critical controls to mitigate these risks. The principles for the combined assurance model are embedded in the combined assurance framework. NEF's internal audit function is managed by the Internal Audit department which reports directly to the Audit Committee.

The Internal Audit department's risk-based plan for technical and financial reviews of internal control systems is approved by the Audit Committee on an annual basis. The NEF keeps a database of all internal and external audit findings called the Tracking Register. The database is monitored on a monthly basis by Internal Audit and management, and progress on resolving audit findings is reported to the Audit Committee on a quarterly basis. The NEF also provides the Auditor-General of South Africa with a quarterly assessment on the control environment.

## Combined assurance

Combined assurance assists management in identifying duplication of assurance work, any potential assurance shortfall, and improvement plans for those areas identified. It also helps focus assurance providers to better achieve consensus on the key risks the NEF faces and reduce the risk of failing to identify significant risks. The combined assurance model provides three lines of defence against risk:

- Line 1: Line management and managerial controls. Line management is responsible for managing risk and performance
- Line 2: Functional areas like risk management, compliance and oversight. This function supports management in executing its duties and provides a layer of control over risk management
- Line 3: Internal Audit which is independent of management and provides independent, objective assurance

The NEF continues to embed the combined assurance model (CAM) implemented in the previous year. The CAM view as at 31 March 2015 was arrived at after taking into account:

- The CAM procedural framework document;
- The latest key risk register;
- Results of internal audit engagements;

- Results of external audit engagements;
- Results of other specialised engagements; and
- Consultations with management, internal and external assurance providers as well as the audit committee and board of trustees.

*“ In line with King III, the NEF applies a combined assurance model to ensure coordinated assurance activities. ”*

**NEF Integrated Annual Report 2015**



The NEF has designed and continuously implements a strong risk management process which promotes a strong culture of risk awareness and which places the responsibility of risk management to all staff members of the organisation.

**NEF Integrated Annual Report 2015**

# SOCIAL, ENVIRONMENTAL & ENTREPRENEURIAL SUPPORT

The NEF ensures, through its various governance structures, that all its activities respond to the national socio-economic development needs. We take cognisance of the fact that every community is different, thus we have adopted a socio-economic development framework which guides the development and implementation of the various initiatives relevant to each benefiting community.

The following table demonstrates the elements within which our socio-economic initiatives are structured.

Economic	Social	Institutional	Land and Environment	Infrastructure
<ul style="list-style-type: none"><li>▶ Ownership</li><li>▶ Job creation</li><li>▶ Large scale sustainable projects</li><li>▶ Investor Education</li><li>▶ Economic development through our investments</li><li>▶ Entrepreneurial development</li></ul>	<ul style="list-style-type: none"><li>▶ Broad-based funding instruments</li><li>▶ Social facilitation</li><li>▶ Investing in the Rural Economy</li><li>▶ Sponsorships</li><li>▶ Education:- bursary scheme, vocational training take a girl child to work</li></ul>	<ul style="list-style-type: none"><li>▶ Stakeholder engagements</li><li>▶ Support of Governance structures</li><li>▶ Building local capabilities</li></ul>	<ul style="list-style-type: none"><li>▶ Agriculture</li><li>▶ Development of new industries</li><li>▶ Focus on preserving the environment</li></ul>	<ul style="list-style-type: none"><li>▶ Housing</li><li>▶ Hospitals</li><li>▶ Energy</li><li>▶ Water</li></ul>

REPORTS

“ One of the key goals of the national development plan (NDP) is to create 11 million jobs and grow the economy by 2030 through mass economic and cultural redress including land form, employment equity and black economic empowerment. Mass economic and cultural redress must be effected. This would include, employment equity and black economic empowerment and the production of stories that facilitate healing, nation building and dialogue.

”

The Hon. Deputy President Mr Cyril Ramaphosa, MP, Third Annual South African Premier Business Awards 09 April 2015

## FUTURE FOCUS:

Over the years, various Funds and initiatives have been developed in response to the identified socio-economic needs. Whereas the financial and developmental benefits from these activities are articulated in the various sections of this integrated report, we have identified as a shortcoming the ability to demonstrate the full extent of the impact we create through these activities. It is our intention to develop a tool which will be utilised to measure the full socio economic benefits created through our investing and socio development activities.

To that extent, we have already started with the development and implementation of the Empowerment Dividend tracking tool.

## PERFORMANCE HIGHLIGHTS

Economic	Social	Institutional	Land and Environment	Infrastructure
<ul style="list-style-type: none"> <li>▶ Approved 94 worth R895 million</li> <li>▶ 33 763 jobs supported</li> <li>▶ Progressed 5 large scale industrialisation projects</li> <li>▶ 37 Investor Education, over 6 000 attendees</li> <li>▶ 21 business skills training sessions</li> <li>▶ 89 enterprises referred for incubation, 16 fully incubated</li> </ul>	<ul style="list-style-type: none"> <li>▶ Rural deals to date to benefit: 30 communities and over 1.8 million beneficiaries</li> <li>▶ Implemented 7 social plans</li> <li>▶ Investing in the Rural Economy</li> <li>▶ Sponsorships</li> <li>▶ Education-bursary scheme</li> <li>▶ Two graduates accessed vocational training</li> <li>▶ Take a girl child to work where we hosted over 90 girl learners in all our offices</li> </ul>	<ul style="list-style-type: none"> <li>▶ Enterprise Development partnerships with one provincial government and two rural communities</li> <li>▶ Facilitated 24 Corporate Governance training sessions</li> <li>▶ Business Planner help tools and Investor Education handbooks provided in at least 5 official languages</li> </ul>	<ul style="list-style-type: none"> <li>▶ Supported various agro processing projects</li> <li>▶ Development of new industries through our Strategic Projects Fund</li> <li>▶ Focus on preserving the environment</li> </ul>	<ul style="list-style-type: none"> <li>▶ Provided funding in the following sectors, unlocking existing resources and capabilities</li> <li>▶ Housing</li> <li>▶ Hospitals</li> <li>▶ Energy</li> <li>▶ Water</li> </ul>



# PROFILES OF THE BOARD OF TRUSTEES



**Mr Rakesh Garach**

Acting Chairman

Appointed in December 2009

## Qualifications and memberships

- CA(SA)
- Member of NEF Risk & Portfolio Management Committee
- Director of Pacific Wildcat Resources Corp
- Board member and chairman of Audit Committee of the KZN Growth Fund
- Board member of U Bank Limited



**Ms Zukiswa Ntlangula**

Trustee

Appointed in December 2009

## Qualifications and memberships

- B.Juris
- LLB degree
- Masters Diploma in Human Resources
- Diploma in Project Management
- Member of the NEF Board Investment Committee (previously Chairman of the Risk & Portfolio Management Committee)
- Member of the NEF Audit Committee
- Director of Ntlangula Inc.
- Chairman of Black Conveyancers Association (BCA)
- Director of Alexkor SOC Ltd
- Director of Glencore Operations South Africa (GOSA)
- Trustee of Katlego Trust ESOP



**Ms Philisiwe Mthethwa**

Executive Trustee (CEO)

Appointed in July 2005

## Qualifications and memberships

- MBA Corporate Finance
- MSc Economics (thesis not defended)
- Chairman of Group Five
- Director of Sanlam Limited and Sanlam Life Insurance Limited
- Director of Industrial Development Corporation (IDC)
- Member of the BRICS Financial Services Working Group



**Ms Avril Halstead**

Trustee

Appointed in May 2009

## Qualifications and memberships

- MSC in Economic Policy
- MBA
- MA in Organisational Consulting
- B. Com (Hon)
- Social Science Degree
- Chief Director at National Treasury
- Chairman of the NEF Human Capital & Remuneration Committee





**Ms Angelina Makwetla**

Trustee

Appointed in December 2009

**Qualifications and memberships**

- BA degree (Social Sciences)
- SMME Management Certificate
- Chairman of the NEF Social & Ethics Committee
- Member of the NEF Human Capital & Remuneration Committee
- Chairman of the National Arts Council
- Member of the Thusanang Women's Club
- Chairman of Dr Motsuenyane Rural Development Foundation
- President of the Catholic Women's League - Rivonia Branch



**Ms Jacqueline Molisane**

Trustee

Appointed in May 2009

**Qualifications and memberships**

- BA Honours in Economics
- Deputy Director General: Strategic Partnerships at the Department of Public Enterprises
- Chairman of the NEF Risk & Portfolio Management Committee (previously chairman of the Board Investment Committee)
- Member of the Steering Committee of the Infrastructure Investment Program for SA (IIPSA)



**Ms Nomalanga Mosala**

Trustee

Appointed in December 2009

**Qualifications and memberships**

- Chairman of NEF Board Investment Committee
- Strategic Partner to the Department of Rural Development and Land Reform (DRDLR) to mentor land reform beneficiaries to implement business plans
- Director of NCT Forestry Co-operative Limited and the mills: Shincel and Durban Wood Chip
- Chairman of Nomalanga Estate - a mixed farming operation
- Nguni cattle stud breeder
- Human resources practitioner



**Ms Innocentia Pule**

Executive Trustee (CFO)

Appointed in September 2012

**Qualifications and memberships**

- CA(SA)
- Certificate in Global Executive Development
- Certificate in Transition to General Management
- Director of M-Care Sub-Acute Hospital Group
- Director on Global Wheel (Pty) Ltd



Mr Allon Raiz

Trustee

Appointed in December 2009

#### Qualifications and memberships

- Founder and CEO of Raizcorp, a privately held business incubator
- Author of two bestselling entrepreneurial books (*Lose the Business Plan and What to do When You Want to Give Up*)
- Member of the NEF Board Investment Committee
- Sits on the advisory and judging boards of numerous local and international NGOs and entrepreneurial awards.



Ms Jacqueline Williams

Trustee

Appointed in October 2012

#### Qualifications and memberships

- MA MDiv
- Social entrepreneur
- Co-owner of Williams & Calmer Management and Training Consultants
- Member of the NEF Human Capital & Remuneration Committee
- Member of the NEF Audit Committee
- Member of the NEF Social & Ethics Committee
- Chairman of COMANCO



Mr Sipho Zikode

Trustee

Appointed in October 2012

#### Qualifications and memberships

- B. Com Economics
- Post Graduate Diploma in Marketing Management
- National Diploma in Engineering
- Deputy Director General of the dti – Broadening Participation Division
- Acting CEO of the Small Enterprise Development Agency (SEDA)

*“The lifeblood of the NEF's mandate is the black entrepreneurs who have made the funder with a soul their financier of choice, certain in the knowledge that the Board, management and staff of the NEF are patriots who have taken the vow to “solemnly remain faithful to the values and ethos of the NEF, because as instruments in the quest for inclusive growth we recognise that the economic dreams and aspirations of black people depend on our willingness to serve with truth in our hearts.” ”*

Mr Rakesh Garach, Acting Chairman of the Board of Trustees, Integrated Annual Report 2015

## PROFILES OF THE EXECUTIVE COMMITTEE



**Ms Philisiwe Mthethwa**

Chief Executive Officer

Appointed in July 2005

### Qualifications and memberships

- MBA Corporate Finance
- MSc Economics (thesis not defended)
- Chairman of Group Five
- Director of Sanlam Limited and Sanlam Life Insurance Limited
- Director of Industrial Development Corporation (IDC)
- Member of the BRICS Financial Services Working Group



**Ms Innocentia Pule**

Chief Financial Officer

Appointed in September 2012

### Qualifications and memberships

- CA(SA)
- Certificate in Global Executive Development
- Certificate in Transition to General Management
- Director of M-Care Sub-Acute Hospital Group
- Director of Global Wheel (Pty) Ltd



**Ms Hlengiwe Makhathini**

Divisional Executive: Venture Capital and Corporate Finance

Appointed in April 2011

### Qualifications and memberships

- CA(SA)
- Director of Air Traffic & Navigation Services (ATNS)
- Chairman of the ATNS Audit Committee
- Director of Modular Industries Building Technologies (Pty) Ltd



**Mr Setlakalane Molepo**

Divisional Executive: SME and Rural Development

Appointed in November 2010

### Qualifications and memberships

- Civil Engineer
- Director of Busamed Holdings (Pty) Ltd
- Director of Zastrovect Investments (Pty) Ltd
- Director of South African Metals Equity (Pty) Ltd
- Director of Small Enterprise Finance Agency SOC Ltd

*“ To date the NEF has approved more than R6.4 billion for over 640 black enterprises, and R4.4 billion of this has been disbursed in line with the applicable performance milestones of the various businesses. In excess of a cumulative R1 billion has been repaid by investees, and this collection rate is one of the many appreciable breakthroughs by management. ”*

Mr Rakesh Garach, Acting Chairman of the Board of Trustees, Integrated Annual Report 2015



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## Trustees' Statement of Responsibility

The Trustees are responsible for the preparation, integrity and fair presentations of the report on performance information and the financial statements of the National Empowerment Fund Trust. The financial statements presented on pages 86 to 139 have been prepared in accordance with South African Statements of Generally Recognised Accounting Practice, and requirements of the PFMA (Public Finance Management Act) and NEF Act and include amounts based on judgements and estimates made by management. The Trustees prepared the other information presented in the Integrated 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 financial statements were audited by the independent auditors, SizweNtsalubaGobodo Inc, which were 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 Integrated Annual Report, as set out, has been approved by the Board of Trustees and is hereby signed on its behalf.



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**Ms Philisiwe Mthethwa**

*Chief Executive Officer*

Date

31 July 2015



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**Mr Rakesh Garach**

*Acting Chairman of the Board of Trustees*



# Report of the Independent Auditor to the Board of Trustees of the National Empowerment Fund

We have audited the consolidated and separate financial statements of the National Empowerment Fund Trust and its subsidiaries set out on pages 86 to 139, which comprise the consolidated and separate statement of financial position as at 31 March 2015, the consolidated and separate statement of financial performance for the year ended, statement of changes in net assets, and cash flow statement and statement of comparison of budget information with actual information for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

## Trustee's responsibility for the consolidated and separate financial statements

The board of trustees, which constitutes the accounting authority, is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with Generally Recognised Accounting Practices and the requirements of the Public Finance Management Act of South Africa and the National Empowerment Fund Act, and for such internal control as the trustees determine are necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

## Independent Auditors' responsibility

Our responsibility is to express an opinion on these consolidated and separate financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate 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 consolidated and separate 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 consolidated and separate 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 consolidated and separate financial statements present fairly, in all material respects, the financial position of the National Empowerment Fund Trust and its subsidiaries as at 31 March 2015 and their financial performance and cash flows for the year then ended, in accordance with Generally Recognised Accounting Practices and the requirements of the Public Finance Management Act of South Africa and the National Empowerment Fund Act.

## Report on other legal and regulatory requirements

In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) and the General Notice issued in terms thereof we have a responsibility to report findings on the reported performance information against predetermined objectives for selected objectives presented in the annual report, non-compliance with legislation and internal control. The objective of our tests was to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, we do not express an opinion or conclusion on these matters.

### Predetermined objectives

We performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of the Trust for the year ended 31 March 2015:

- Objective 1 – Provide finance to business ventures established and managed by Black people on page 54;
- Objective 2 – Invest in Black Empowered businesses that have high employment creating opportunities on page 54;
- Objective 3 – Support the participation of Black women in the economy on page 54;
- Objective 4 – Facilitate investment across all provinces in South Africa on page 54;
- Objective 5 – Encourage and promote savings, investment and meaningful economic participation by black people on page 55;
- Objective 6 – Black economic empowerment is advanced through commercially sustainable enterprise on page 55;
- Objective 7 – Establish the NEF as a sustainable DFI on page 55;

We evaluated the reported performance information against the overall criteria of usefulness and reliability.

We evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. We further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information (FMPPi)*.

We assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

We did not identify any material findings on the usefulness and reliability of the reported performance information for all the above mentioned objectives.

### Additional matters

Although we identified no material findings on the usefulness and reliability of the reported performance information for the selected programmes, we draw attention to the following matters:

### Achievement of planned targets

Refer to the annual performance report on page 54 to 55 for information on the achievement of the planned targets for the year.

### Compliance with legislation

We performed procedures to obtain evidence that the Trust had complied with applicable legislation regarding financial matters, financial management and other related matters. We did not identify any instances of material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA.

### Internal control

We considered internal control relevant to my audit of the financial statements, Performance Review and compliance with legislation. We did not identify any significant deficiencies in internal control that we considered sufficiently significant for inclusion in this report.



**SizweNtsalubaGobodo Inc.**

registered Auditor

**Darshen Govender**

Chartered Accountant (SA)

Registered Auditor

Director

30 July 2015



AUDIT • ADVISORY • FORENSICS

OPPORTUNITY. EXCEEDED.

## STATEMENT OF FINANCIAL POSITION

as at 31 March 2015

	Notes	Group		Trust	
		2015 R	2014 R	2015 R	2014 R
<b>ASSETS</b>					
<b>Non-current assets</b>		<b>3,850,686,093</b>	<b>4,018,060,604</b>	<b>3,861,749,105</b>	<b>4,003,850,370</b>
Property and equipment	4	3,235,729	4,784,867	3,235,729	4,784,867
Intangible assets	5	20,325	193,566	20,325	193,566
Investments in associates	6	461,384,457	423,870,556	461,384,457	423,870,556
Investment in subsidiary	11	-	-	6,178,104	6,178,104
Investments at fair value	7	2,083,270,341	2,254,784,956	2,083,270,341	2,254,784,956
Originated loans	8	1,051,564,386	959,008,165	1,131,154,356	1,020,961,208
Preference Shares	9	129,842,034	224,006,841	129,842,034	224,006,841
Finance lease receivables	10	46,663,758	69,070,272	46,663,758	69,070,272
Non-current asset classified as held for sale	11	74,705,062	82,341,381	-	-
<b>Current assets</b>		<b>2,071,503,471</b>	<b>2,028,745,996</b>	<b>2,052,503,471</b>	<b>2,028,745,996</b>
Current portion of originated loans	8	512,728,067	455,699,689	512,728,067	455,699,689
Current portion of finance lease receivables	10	46,427,520	34,833,724	46,427,520	34,833,724
Investments held-for-trade	12	41,859,309	49,070,675	41,859,309	49,070,675
Current assets held for sale	13	2,065,850	8,100,000	2,065,850	8,100,000
Trade and other receivables	14	975,839	1,009,474	975,839	1,009,474
Cash and cash equivalents	16	1,467,446,886	1,480,032,434	1,448,446,886	1,480,032,434
<b>TOTAL ASSETS</b>		<b>5,922,189,564</b>	<b>6,046,806,600</b>	<b>5,914,252,576</b>	<b>6,032,596,366</b>
<b>NET ASSETS AND LIABILITIES</b>					
<b>Net Assets</b>		<b>5,844,518,888</b>	<b>5,972,730,646</b>	<b>5,851,147,094</b>	<b>5,976,233,360</b>
Trust capital	17	2,468,431,472	2,468,431,472	2,468,431,472	2,468,431,472
Accumulated surplus		3,376,087,416	3,504,299,174	3,382,715,622	3,507,801,888
<b>Current liabilities</b>		<b>63,105,482</b>	<b>56,363,006</b>	<b>63,105,482</b>	<b>56,363,006</b>
Trade and other payables	18	63,105,482	56,363,006	63,105,482	56,363,006
Liabilities directly associated with non-current assets classified as held for sale	11	14,565,194	17,712,948	-	-
<b>Total Liabilities</b>		<b>77,670,676</b>	<b>74,075,954</b>	<b>63,105,482</b>	<b>56,363,006</b>
<b>TOTAL NET ASSETS AND LIABILITIES</b>		<b>5,922,189,564</b>	<b>6,046,806,600</b>	<b>5,914,252,576</b>	<b>6,032,596,366</b>

## STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 31 March 2015

	Notes	Group		Trust	
		2015 R	2014 R	2015 R	2014 R
<b>Revenue</b>	<b>20</b>	<b>430,887,898</b>	<b>381,142,898</b>	<b>437,524,825</b>	<b>385,350,297</b>
Sundry income	21	2,669,395	20,128,737	2,669,395	20,128,737
<b>Total Revenue</b>		<b>433,557,293</b>	<b>401,271,635</b>	<b>440,194,220</b>	<b>405,479,034</b>
Administration expenses	22	(206,470,506)	(199,760,541)	(206,470,506)	(199,760,541)
<b>Net Operating Income</b>		<b>227,086,787</b>	<b>201,511,094</b>	<b>233,723,714</b>	<b>205,718,493</b>
Impairment charge	23	(167,366,825)	(152,318,522)	(167,366,825)	(152,318,522)
Investment write-offs		(28,311,676)	-	(28,311,676)	-
<b>Net Income before fair value adjustments</b>		<b>31,408,286</b>	<b>49,192,572</b>	<b>38,045,213</b>	<b>53,399,971</b>
<b>Fair value gains/(losses)</b>		<b>(163,131,479)</b>	<b>544,188,139</b>	<b>(163,131,479)</b>	<b>550,365,992</b>
- Investments in associates	6	(24,206,898)	(22,296,957)	(24,206,898)	(22,296,957)
- Write-off of associates	6	-	(348)	-	(348)
- Investment in Subsidiary - Day 1 Profit	11	-	-	-	6,177,853
- Investments at fair value - non associate equity investments	7.1	(131,512,615)	571,545,468	(131,512,615)	571,545,468
- Investments at fair value - unincorporated equity investments	7.2	(3,502,000)	(2,302,000)	(3,502,000)	(2,302,000)
- Investments held-for-trade	12	(3,909,966)	(2,758,024)	(3,909,966)	(2,758,024)
<b>Surplus/(deficit) before non-current asset held for sale</b>		<b>(131,723,193)</b>	<b>593,380,711</b>	<b>(125,086,266)</b>	<b>603,765,963</b>
Surplus from Non-current asset held for sale	11	3,511,435	704,434	-	-
<b>Surplus/(deficit) for the year</b>		<b>(128,211,758)</b>	<b>594,085,145</b>	<b>(125,086,266)</b>	<b>603,765,963</b>



## CASH FLOW STATEMENT

For the year ended 31 March 2015

	Notes	Group		Trust	
		2015 R	2014 R	2015 R	2014 R
<b>Cash in/(out) flows from operating activities</b>	<b>26</b>	<b>(195,535,447)</b>	<b>(167,994,671)</b>	<b>(195,535,447)</b>	<b>(167,994,671)</b>
Cash receipts from other income		2,669,395	20,128,737	2,669,395	20,128,737
Cash paid to suppliers and employees		(198,204,842)	(188,123,408)	(198,204,842)	(188,123,408)
<b>Cash in/(out) flows from investing activities</b>		<b>182,949,899</b>	<b>(41,034,764)</b>	<b>163,949,899</b>	<b>(41,034,764)</b>
Additions to property, plant and equipment	4	(1,052,946)	(672,708)	(1,052,946)	(672,708)
Additions to intangible assets	5	-	(5,647)	-	(5,647)
Investment disbursements	27	(485,283,030)	(636,122,042)	(504,283,030)	(636,122,042)
Dividends received		136,996,576	168,656,837	136,996,576	168,656,837
Interest receipts		82,504,328	76,002,556	82,504,328	76,002,556
Repayments on Originated Loans, Leases and Preference shares		440,587,199	351,106,240	440,587,199	351,106,240
Proceeds from sale of investments		9,197,772	-	9,197,772	-
<b>Decrease in cash and cash equivalents</b>		<b>(12,585,548)</b>	<b>(209,029,435)</b>	<b>(31,585,548)</b>	<b>(209,029,435)</b>
<b>Cash and cash equivalents at beginning of the year</b>		<b>1,480,032,434</b>	<b>1,689,061,869</b>	<b>1,480,032,434</b>	<b>1,689,061,869</b>
<b>Cash and cash equivalents at end of the year</b>	<b>16</b>	<b>1,467,446,886</b>	<b>1,480,032,434</b>	<b>1,448,446,886</b>	<b>1,480,032,434</b>

## STATEMENT OF CHANGES IN NET ASSETS

For the year ended 31 March 2015

### Group

	Trust capital	Accumulated surplus	Total
	R	R	R
<b>Balance at 31 March 2013</b>	<b>2,468,431,472</b>	<b>2,904,035,925</b>	<b>5,372,467,397</b>
Amounts recognised directly in net assets in relation to non-current assets held for sale		6,178,104	6,178,104
Surplus for the year	-	594,085,145	594,085,145
<b>Balance at 31 March 2014</b>	<b>2,468,431,472</b>	<b>3,504,299,174</b>	<b>5,972,730,646</b>
<b>Deficit for the year</b>	<b>-</b>	<b>(128,211,758)</b>	<b>(128,211,758)</b>
<b>Balance at 31 March 2015</b>	<b>2,468,431,472</b>	<b>3,376,087,416</b>	<b>5,844,518,888</b>

Note 17

### Trust

	Trust capital	Accumulated surplus	Total
	R	R	R
<b>Restated balances at 31 March 2013</b>	<b>2,468,431,472</b>	<b>2,904,035,925</b>	<b>5,372,467,397</b>
Surplus for the year	-	603,765,963	603,765,963
<b>Balance at 31 March 2014</b>	<b>2,468,431,472</b>	<b>3,507,801,888</b>	<b>5,976,233,360</b>
Deficit for the year	-	(125,086,266)	(125,086,266)
<b>Balance at 31 March 2015</b>	<b>2,468,431,472</b>	<b>3,382,715,622</b>	<b>5,851,147,094</b>

Note 17

## STATEMENT OF COMPARISON OF BUDGET AND ACTUAL FOR THE TRUST

for the year ended 31 March 2015

	Notes	Approved Final Budget R	Actual R	Variance R
<b>Revenue</b>	<b>28.1</b>	<b>397,100,000</b>	<b>437,524,825</b>	<b>40,424,825</b>
Sundry income	28.2	25,000,000	2,669,395	(22,330,605)
<b>Total Income</b>		<b>422,100,000</b>	<b>440,194,220</b>	<b>18,094,220</b>
<b>Expenses</b>				
Compensation of Employees		(168,832,538)	(137,462,631)	31,369,907
Use of Goods and Services		(95,898,604)	(69,007,875)	26,890,729
<b>Total Expenses</b>	<b>28.3</b>	<b>(264,731,142)</b>	<b>(206,470,506)</b>	<b>58,260,636</b>
<b>Net Operating Income</b>		<b>157,368,858</b>	<b>233,723,714</b>	<b>76,354,856</b>
Impairment charge	28.4	(153,691,858)	(167,366,825)	(13,674,967)
Write-offs		-	(28,311,676)	(28,311,676)
<b>Net Income before fair value adjustments</b>		<b>3,677,000</b>	<b>38,045,213</b>	<b>34,368,213</b>
Fair value losses	28.5	-	(163,131,479)	(163,131,479)
<b>Surplus/(deficit) for the year</b>		<b>3,677,000</b>	<b>(125,086,266)</b>	<b>(128,763,266)</b>

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2015

### 1. ACCOUNTING POLICIES AND BASIS OF PREPARATION

#### 1.1 Main business and operations

The National Empowerment Fund Trust is a South African public entity (Schedule 3A) under the direction of **the dti**. 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 and Strategic Projects Fund, which provides funding for venture capital activities in the priority sectors. In addition, the promotion of investments 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.

#### 1.2 1.2 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.

#### 1.3 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 South African Statements of Generally Recognised Accounting Practices (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board. Paragraph 12 of Directive 5: Determining the GRAP reporting framework states that in the absence of a standard of GRAP dealing with a particular transaction or event, the pronouncements of the following professional organisations should be used, in descending order, to develop an appropriate accounting policy.

- International Public Sector Accounting Standards Board (IPSASB).
- International Accounting Standards Board (IASB), including the Framework for the Preparation and Presentation of Financial Statements.
- Accounting Practices Board (APB).
- Accounting Practices Committee (APC) of the South African Institute of Chartered Accountants (SAICA).

Applying the guidance in Directive 5 paragraph 12 the accounting framework applied by the Trust has been impacted by the application of the following International Financial Reporting Standards (IFRS) and International Public Sector Accounting Standards (IPSAS) in the absence of applicable GRAP Standards:

- IFRS 3 - Business Combinations; and
- IPSAS 20 - Related Parties.

#### 1.4 Consolidation

##### Investments in 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.

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2015

### 1. ACCOUNTING POLICIES AND BASIS OF PREPARATION continued

#### 1.4 Consolidation continued

##### Investments in associates continued

Once an investment in associate is initially designated at fair value through profit and loss it is recognised at fair value. Subsequent measurement will thereafter be in terms of GRAP 104 which allows for an associate to either be held at fair value or at cost. Specifically where the fair value of unquoted associate investments cannot be reliably measured the investment will be measured at cost. The Trust has opted to hold all associate investments at fair value, except for project related investments initiated by the Strategic Project Fund Division (SPF), where the measurement thereof is dependent on the stage of the project.

Investments in associates that are in pre-finalisation or bankable feasibility stage are written down to nominal value. On finalisation of bankable feasibility stage and incorporation, the investment is held at cost with annual impairment testing. Once the company has reached the intended operating capacity or if the value can be reliably calculated the investment will thereafter be measured at fair value.

##### Interests in 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 GRAP 104.

##### Investments in subsidiaries

Subsidiaries are entities controlled by the NEF. Control exists when the NEF has the power, directly or indirectly, to govern the financial and operating affairs and policies of an entity so as to obtain benefits from its activities. In assessing control voting rights that are presently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured at the lower of its carrying amount and fair value less costs to sell. Intercompany transactions, balances and unrealised gains on transactions between Group entities are eliminated on consolidation. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Investments in subsidiaries in the Trust's separate financial statements are carried at fair value.

#### 1.5 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 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 measured at fair value of the consideration received or receivable.

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.

Sundry income comprises of bad debts recovered on investments that have been written off and unconditional grant income earned through the Enterprise Development Fund Initiative and is recognised when the income is received. With regard to grant income earned through the Enterprise Development Fund Initiative where there is no specific conditions relating to the use of funds, then revenue is recognised. However where there are conditions imposed, then these funds are recognised in current liabilities. Interest earned on these funds is capitalised and accounted for as sundry income.



NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2015

1. ACCOUNTING POLICIES AND BASIS OF PREPARATION continued

1.6 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 Statement of Financial Performance 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.

Item	Rate p.a
Furniture and fittings	16.67%
Motor vehicles	25%
Office equipment	20%-40%
Leasehold improvements	20%
Audio Visual equipment	33.33%
Paintings	2%

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 statement of financial performance, under the 'administrative expenses' line.

1.7 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 as well as whether there is evidence that may indicate impairment of the asset.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

Item	Rate p.a
Computer software	33.30%

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2015

### 1. ACCOUNTING POLICIES AND BASIS OF PREPARATION continued

#### 1.8 Non-current assets held for sale

Non current assets held for sale comprises collateral assets against investment funding provided, that has been determined to be uncollectable and has been attached by the NEF for recovery of funds provided. Such assets are accounted for in terms of GRAP 100 Non-current Assets Held for Sale and Discontinued Operations. In terms of GRAP 100 Non-current Assets held for Sale are defined as non current assets or disposal groups for which the carrying amount will be recovered primarily through sale rather than through continuing use.

In terms in GRAP 100 the criteria for classification are as follows:

- The asset or disposal group must be available for immediate sale in its present condition; and
- The sale of the asset must be highly probable.

On initial classification such assets are initially measured in terms of the applicable standard and impaired in terms of GRAP 100 were applicable. Depreciation/ Amortisation is ceased on the non-current assets held for sale were applicable and thereafter the assets are measured at the lower of the carrying amount and the fair value less costs to sell.

#### 1.9 Cash and cash equivalents

Cash and cash equivalents are carried at amortised cost at reporting 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.

#### 1.10 Financial assets

##### Recognition and derecognition

Regular way purchases and sales of financial assets at fair value are recognised on trade date, which is the date on which the Trust commits to purchase or sell the asset. Loan and Receivable financial assets 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. Differences, on recognition, between the fair value of a financial asset and the purchase price is recognised as a Day 1 profit and loss only where the fair value determined is based on observable market data. 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.

##### Classification

The Trust classifies financial assets in the following categories: investments at fair value, originated loans and preference shares (GRAP 7 category: loans and receivable) and investments held at cost. Management determines the classification of investments at initial recognition.

##### 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 reporting date. These are classified as non current. They arise when the Trust provides money, goods or services directly to a borrower with no intention of trading the originated loan.

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2015

### 1. ACCOUNTING POLICIES AND BASIS OF PREPARATION continued

#### 1.10 Financial assets continued

##### Investments carried at fair value

This category has two subcategories: financial assets held for trading and those designated at fair value 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 non current assets when designated at fair value, whilst investments held for trading are classified as current. Financial assets are designated as fair value in instances where: (i) they meet the definition of held for trading in that they are principally held with the intention to dispose of in the near term or (ii) they represent assets that are 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.

##### 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 recognised at fair value with any gains or losses from the change in fair value being recognized 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 recognized at fair value.

##### 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.

##### 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.

##### Subsequent measurement

Investments at fair value are subsequently carried at fair value. Loans and receivables and Preference Share 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 category are included in the Statement of Financial Performance in the period in which they arise.

##### 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; or the net asset value of the enterprise. The latest company earnings and asset values as reported in their financial statements, comparable to other similar sector companies or independent asset valuation are used to perform the valuations. These valuation techniques are commonly used by market participants and based on South African Private Equity and Venture Capital Association guidelines.

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2015

### 1. ACCOUNTING POLICIES AND BASIS OF PREPARATION continued

#### 1.10 Financial assets continued

##### 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 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.

##### 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;
- (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 preference share 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 preference share 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.

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2015

### 1. ACCOUNTING POLICIES AND BASIS OF PREPARATION continued

#### 1.10 Financial assets continued

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 borrowers' 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.

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) Investments held at cost

Equity investments that are measured at cost as a result of fair value not being reliably measurable, are assessed for impairment on an annual basis. Where there is objective evidence that an impairment loss has been incurred, the amount of the impairment loss is measured as the difference between the carrying amount of the investment and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

#### (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.

Reversals of impairment losses are recognised in profit or loss.



## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2015

### 1. ACCOUNTING POLICIES AND BASIS OF PREPARATION continued

#### 1.10 Financial assets continued

##### 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 unit. 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.

Trade and other payables

Trade and other payables relate to goods and services for operating expenses incurred before year end but not settled as at reporting date.

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

##### 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.

Suspensive sale agreements are primarily stand alone financing transactions, with rentals and instalments receivable, less unearned finance charges, being included in the gross lease receivable in the Statement of Financial Position.

Finance charges earned are computed using the effective interest rate method, which reflects a constant periodic rate of return on the investment in the finance lease. Initial direct costs and fees are capitalised to the value of the lease receivable and accounted for over the lease term as an adjustment to the effective rate of return.

#### 1.11 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 term employee benefits are recognised as an expense in the accounting period when the services are rendered.

##### b) Performance awards

The Trust recognises a liability and an expense in circumstances when bonuses are approved. The Trust recognises an accrual where contractually obliged or where there is a past practice that has created a constructive obligation.

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2015

### 1. ACCOUNTING POLICIES AND BASIS OF PREPARATION continued

#### 1.12 Provisions and contingencies

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.

#### 1.13 Critical accounting estimates and judgements 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), and investment held at fair value through profit and loss (for fair values). It is reasonably possible, on the basis of existing knowledge that outcomes within the next year that are different from the assumption could require a material adjustment to the carrying amount of the asset or liability affected. 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 recognised 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 black 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; and
- Arrear payments

Originated Loans are individually assessed and impaired utilising management's impairment matrix. For the carrying amount of these investments refer to note 8.

##### (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 amongst 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 carrying amount of these investments refer to note 6.

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

The Trust establishes the fair value of unlisted securities by enterprise valuation techniques as outlined in note 1.10 financial assets. For the carrying amount of the investments refer to note 6 and 7.

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2015

### 2. NEW STANDARDS AND INTERPRETATIONS

#### 2.1 Standards and interpretations effective and adopted in the current year

No new standards were effective or adopted during the reporting year.

#### 2.2 Standards and interpretations not yet effective or relevant

##### **GRAP 18 – Segment Reporting**

This standard establishes principles for reporting financial information by segments.

The effective date of the standard is 1 April 2015. It is unlikely that the standard will have a material impact on the Trust's annual financial statements.

##### **GRAP 20 – Related Parties Disclosure**

The objective of this standard is to ensure that a reporting entity's financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

The effective date of the standard is still to be determined by the Minister of Finance. It is unlikely that the standard will have a material impact on the Trust's annual financial statements. For the current period the related party accounting policies and disclosures in Note 19 to the Annual Financial Statements have been made on the basis of IPSAS 20.

##### **GRAP 32 – Service concession arrangements: Grantor**

The objective of this Standard is to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

The effective date of the standard is still to be determined by the Minister of Finance. It is unlikely that the standard will have a material impact on the Trust's annual financial statements.

##### **GRAP 105 – Transfer of functions of entities under common control**

The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control.

The effective date of the standard is 1 April 2015. It is unlikely that the standard will have a material impact on the Trust's annual financial statements.

##### **GRAP 106 – Transfer of functions of entities not under common control**

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control.

The effective date of the standard is 1 April 2015. It is unlikely that the standard will have a material impact on the Trust's annual financial statements.

##### **GRAP 107– Mergers**

The objective of this Standard is to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

The effective date of the standard is 1 April 2015. It is unlikely that the standard will have a material impact on the Trust's annual financial statements.

##### **GRAP 108 – Statutory Receivables**

The objective of this Standard is to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

The effective date of the standard is still to be determined by the Minister of Finance. It is unlikely that the standard will have a material impact on the Trust's annual financial statements.

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2015

### 3. RISK MANAGEMENT

#### 3.1 Credit risk

Trade and other receivables are due from reputable counterparties with no history of default.

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.

Only the National Treasury approved banks are used by the Trust for cash and call deposits, and these are split between the banks as follows:

	Credit Ratings	Closing balances 2015 R	Closing balances 2014 R
Standard Bank	<u>BBB</u>	140,821,402	250,765,933
First National Bank	<u>BBB</u>	101,903,135	91,052,751
South Africa Reserve bank	<u>BBB</u>	917,349,494	865,037,527
Rand Merchant Bank	<u>BBB</u>	288,369,555	273,172,923
<b>Total Cash held with banks (Trust)</b>		<b>1,448,443,586</b>	<b>1,480,029,134</b>
Cash held in Attorneys trust account		19,000,000	-
<b>Total balance for Group</b>		<b>1,467,443,586</b>	<b>1,480,029,134</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 utilized by the Trust results in Originated Loans that are in excess of 60 days in arrears i.e., 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 current year.

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2015

### 3. RISK MANAGEMENT continued

#### 3.1 Credit risk continued

Originated Loans, Finance leases and Preference shares are individually impaired, and may be analysed as follows:

	Group		Trust	
	2015	2014	2015	2014
	R	R	R	R
<b>Originated Loans</b>				
Normal monitoring and performing loans	1,343,924,692	1,280,694,940	1,423,514,662	1,342,647,984
Close monitoring	166,529,136	134,012,913	166,529,136	134,012,913
Partly/fully impaired	441,543,509	437,808,964	441,543,509	437,808,963
	<b>1,951,997,337</b>	<b>1,852,516,817</b>	<b>2,031,587,307</b>	<b>1,914,469,860</b>
<b>Finance Leases</b>				
Normal monitoring and performing leases	86,426,131	99,749,976	86,426,131	99,749,976
Close monitoring	6,665,147	4,154,020	6,665,147	4,154,020
Partly/fully impaired	38,459,958	15,026,601	38,459,958	15,026,601
	<b>131,551,236</b>	<b>118,930,597</b>	<b>131,551,236</b>	<b>118,930,597</b>
<b>Preference Shares</b>				
Normal monitoring and performing preference shares	124,841,488	221,138,530	124,841,488	221,138,530
Close monitoring	22,405,506	2,868,311	22,405,506	2,868,311
Partly/fully impaired	32,717,755	36,748,691	32,717,755	36,748,691
	<b>179,964,749</b>	<b>260,755,532</b>	<b>179,964,749</b>	<b>260,755,532</b>

The average loan disbursed is R 7 328 213(2014: R4 139 917), with the minimum being R 204 547 (2014: R250 000), and the maximum being R86 680 800 (2014: R125 000 000).

#### 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.



## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2015

### 3. RISK MANAGEMENT continued

#### 3.1 Credit risk continued

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

2015					
	Land & buildings	Plant & equipment	Furniture, other equipment and office equipment	Motor vehicles	TOTAL
Collateral held in favour of impaired loans	R	R	R	R	R
Book Value	166,904,179	405,687,102	45,266,470	69,793,984	687,651,735
Fair value	116,832,925	135,215,511	11,769,682	23,262,335	287,080,453

#### 2014

	Land & buildings	Plant & equipment	Furniture, other equipment and office equipment	Motor vehicles	TOTAL
Collateral held in favour of impaired loans	R	R	R	R	R
Book Value	410,287,983	427,975,069	52,536,652	94,236,752	985,036,456
Fair value	287,201,588	140,802,115	17,510,466	31,410,109	476,924,278

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.

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2015

### 3. RISK MANAGEMENT continued

#### 3.2 Market risk continued

##### 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 is 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 (2015 – 88%; 2014 – 79%) 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.

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 2015, the portfolio was assessed from this risk rating approach as follows:

Category	Trust			
	2015		2014	
	% by number	% by value	% by number	% by value
Performing	70%	63%	69%	70%
Impairments	17%	21%	19%	19%
Close Monitoring	13%	16%	12%	11%

Category	Group			
	2015		2014	
	% by number	% by value	% by number	% by value
Performing	69%	63%	68%	69%
Impairments	18%	21%	20%	20%
Close Monitoring	13%	16%	12%	11%

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2015

### 3. RISK MANAGEMENT continued

#### 3.2 Market risk continued

##### 3.2.1 Interest rate risk continued

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

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.

#### 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:

	Trust					
	2015			2014		
	Carrying Amount	Interest earned	Sensitivity of 1% effective adjustment	Carrying Amount	Interest earned	Sensitivity of 1% effective adjustment
	R	R	R	R	R	R
Originated loans	1,643,882,423	172,010,742	16,438,824	1,476,660,897	144,039,015	14,766,609
Cash and cash equivalents	1,448,446,886	82,613,419	14,484,469	1,480,032,434	76,272,739	14,800,324
<b>Total effect on Profit/Loss</b>	<b>3,092,329,309</b>	<b>254,624,161</b>	<b>30,923,293</b>	<b>2,956,693,331</b>	<b>220,311,754</b>	<b>29,566,933</b>

	Group					
	2015			2014		
	Carrying Amount	Interest earned	Sensitivity of 1% effective adjustment	Carrying Amount	Interest earned	Sensitivity of 1% effective adjustment
	R	R	R	R	R	R
Originated loans	1,564,292,453	165,373,815	15,642,925	1,414,707,854	139,831,616	14,147,079
Cash and cash equivalents	1,467,446,886	82,613,419	14,674,469	1,480,032,434	76,272,739	14,800,324
<b>Total effect on Profit/Loss</b>	<b>3,031,739,339</b>	<b>247,987,234</b>	<b>30,317,393</b>	<b>2,894,740,288</b>	<b>216,104,355</b>	<b>28,947,403</b>

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2015

### 3. RISK MANAGEMENT continued

#### 3.2 Market risk continued

##### 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 plant 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. Due to the fact that the impact of foreign exchange exposure is immaterial for the Trust, no additional disclosure has been provided.

##### 3.2.3 Price risk

The Trust is exposed to listed equity and debenture 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 significant fair value has accrued to the Trust. 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.

Listed Investments	Number of shares at year end	Share price at year end R	Market Value of Listed Portfolio at year end R	10% increase in share price R	10% decrease in share price R
Hospitality Property Fund A	2,523,165	15.24	38,453,035	42,298,338	34,607,731
Hospitality Property Fund B	1,261,583	2.70	3,406,274	3,746,902	3,065,647
MTN Ltd	10,116,355	205.00	2,073,852,775	2,281,238,053	1,866,467,498
<b>Total</b>			<b>2,115,712,084</b>	<b>2,327,283,292</b>	<b>1,904,140,876</b>

### 3.3 Liquidity risk

The Trust was historically capitalized 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.

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.

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2015

### 3. RISK MANAGEMENT continued

#### 3.4 Capital Risk Management

Trust Capital primarily comprises funds transferred to the NEF by **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 totals R2 297 431 472 (2014:R2 297 431 472 - note 17). Historically funding for operations was also advanced by **the dti** in the form of transfer funds. These were matched against operational expenditure for the year and to the extent there was some level of operational surplus or deficit, then this was 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 capital 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. 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.

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.

The Trust has since 2010 funded its activities through internally generated cash flows, and has not received any capital transfers from **the dti**/National Treasury.

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2015

Notes to the Financial Statements, where not specifically stated, are recorded for both the Group and the Trust.

### 4. PROPERTY AND EQUIPMENT

2015	Owned							Total R
	Motor Vehicles R	Computer Equipment R	Audio Visual Equipment R	Office Equipment R	Furniture & Fittings R	Leasehold Improvements R	Paintings R	
<b>Opening Balance</b>								
Cost	1,291,157	5,824,872	539,952	3,052,248	4,251,302	5,906,014	181,454	21,046,999
Accumulated depreciation	(891,803)	(4,502,590)	(425,872)	(2,450,551)	(3,222,942)	(4,730,496)	(37,878)	(16,262,132)
<b>Net Book Value</b>	<b>399,354</b>	<b>1,322,282</b>	<b>114,080</b>	<b>601,697</b>	<b>1,028,360</b>	<b>1,175,518</b>	<b>143,576</b>	<b>4,784,867</b>
<b>Movement for the year:</b>								
Additions	-	1,047,505	-	5,441	-	-	-	1,052,946
Disposals/ Derecognition at cost	-	(1,976,626)	-	(1,766,819)	(197,028)	(39,853)	-	(3,980,327)
Depreciation on disposed/derecognised assets	-	1,951,550	-	1,718,760	160,529	38,473	-	3,869,312
Depreciation	(218,336)	(949,414)	(77,759)	(188,652)	(295,953)	(757,328)	(3,627)	(2,491,069)
	<b>(218,336)</b>	<b>73,014</b>	<b>(77,759)</b>	<b>(231,270)</b>	<b>(332,452)</b>	<b>(758,708)</b>	<b>(3,627)</b>	<b>(1,549,138)</b>
<b>Closing Balance</b>								
Cost	1,291,157	4,895,751	539,952	1,290,870	4,054,274	5,866,161	181,454	18,119,618
Accumulated depreciation	(1,110,139)	(3,500,454)	(503,631)	(920,443)	(3,358,366)	(5,449,351)	(41,505)	(14,883,889)
<b>Net Book Value</b>	<b>181,018</b>	<b>1,395,296</b>	<b>36,321</b>	<b>370,427</b>	<b>695,908</b>	<b>416,810</b>	<b>139,949</b>	<b>3,235,729</b>
<b>Gross carrying amount of fully depreciated assets still in use.</b>	<b>793,100</b>	<b>3,543,070</b>	<b>403,275</b>	<b>2,339,467</b>	<b>2,439,355</b>	<b>3,680,978</b>	<b>-</b>	<b>13,199,245</b>
2014	Owned							Total R
	Motor Vehicles R	Computer Equipment R	Audiovisual Equipment R	Office Equipment R	Furniture & Fittings R	Leasehold Improvements R	Paintings R	
<b>Opening Balance</b>								
Cost	1,291,157	5,176,156	539,952	2,886,450	4,178,604	5,841,551	181,454	20,095,324
Accumulated depreciation	(642,734)	(3,846,853)	(357,158)	(2,288,545)	(2,923,920)	(3,565,577)	(34,251)	(13,659,038)
<b>Net Book Value</b>	<b>648,423</b>	<b>1,329,303</b>	<b>182,794</b>	<b>597,905</b>	<b>1,254,684</b>	<b>2,275,974</b>	<b>147,203</b>	<b>6,436,286</b>
<b>Movement for the year:</b>								
Additions	-	548,258	-	6,794	37,719	79,937	-	672,708
Re-classification	-	100,458	-	159,004	34,979	(15,474)	-	278,967
Depreciation on re-classified assets	-	333,997	51,072	62,936	99,976	(190,884)	-	357,097
Depreciation	(249,069)	(989,734)	(119,786)	(224,942)	(398,998)	(974,035)	(3,627)	(2,960,191)
	<b>(249,069)</b>	<b>(7,021)</b>	<b>(68,714)</b>	<b>3,792</b>	<b>(226,324)</b>	<b>(1,100,456)</b>	<b>(3,627)</b>	<b>(1,651,419)</b>
<b>Closing Balance</b>								
Cost	1,291,157	5,824,872	539,952	3,052,248	4,251,302	5,906,014	181,454	21,046,999
Accumulated depreciation	(891,803)	(4,502,590)	(425,872)	(2,450,551)	(3,222,942)	(4,730,496)	(37,878)	(16,262,132)
<b>Net Book Value</b>	<b>399,354</b>	<b>1,322,282</b>	<b>114,080</b>	<b>601,697</b>	<b>1,028,360</b>	<b>1,175,518</b>	<b>143,576</b>	<b>4,784,867</b>
<b>Gross carrying amount of fully depreciated assets still in use.</b>	<b>294,200</b>	<b>1,931,796</b>	<b>173,640</b>	<b>1,917,459</b>	<b>1,425,292</b>	<b>892,814</b>	<b>-</b>	<b>6,635,201</b>



## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2015

	2015 R	2014 R
<b>5. INTANGIBLE ASSETS</b>		
<b>Computer software</b>		
<b>Opening Balance</b>		
Cost	14,058,045	14,263,067
Accumulated amortisation	(13,864,479)	(13,002,454)
<b>Net Book Value</b>	<b>193,566</b>	<b>1,260,613</b>
<b>Movement for the year:</b>		
Additions	-	5,647
Reclassification	-	(421,937)
Amortisation	(173,241)	(650,757)
	(173,241)	(1,067,047)
<b>Closing Balance</b>		
Cost	14,058,045	14,058,045
Accumulated amortisation	(14,037,720)	(13,864,479)
<b>Net Book Value</b>	<b>20,325</b>	<b>193,566</b>

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

**NOTES TO THE FINANCIAL STATEMENTS** for the year ended 31 March 2015

	<b>2015 R</b>	<b>2014 R</b>
<b>6. INVESTMENTS IN ASSOCIATES</b>		
<b>Investments at cost</b>	<b>488,724,666</b>	<b>446,372,918</b>
- Opening balance	446,372,918	260,747,853
- Additions	21,750,799	155,126,934
- Transfers from Originated Loans - Stutt Brick (Pty) Ltd	-	30,498,730
- Transfers from Non-associate Equity Investment - Mabele Fuels (Pty) Ltd	40,000,000	-
- Transfers to Originated Loans - Gibela Rail (Pty)Ltd to Ubumbano Rail (Pty) Ltd	(30,000)	-
- Write off	(19,369,051)	(238)
- Transfer to beneficiaries	-	(110)
- Transfer to investment in subsidiary	-	(251)
<b>Fair value adjustments</b>	<b>(27,340,209)</b>	<b>(22,502,362)</b>
- Opening balance	(22,502,362)	(205,405)
- Disposal/Write-off	19,369,051	-
- Fair value losses	(24,206,898)	(22,296,957)
<b>Net investment in associates</b>	<b>461,384,457</b>	<b>423,870,556</b>

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2015

### 6. INVESTMENT IN ASSOCIATES continued

The Trust's associates are:

Name	Country of incorporation	Principal activity	2015 Interest held (%)	2014 Interest held (%)
Unlisted:				
Africa Rising (Pty) Ltd	South Africa	Financial Services	25.1%	25.1%
Amajuba Berries (Pty)Ltd *	South Africa	Agro Processing	12.7%	51.0%
Basfour (Pty) Ltd	South Africa	Engineering	49.0%	49.0%
Blue Glamour (Pty) Ltd	South Africa	Manufacturing	32.0%	32.0%
Busamed (Pty) Ltd	South Africa	Healthcare	49.0%	49.0%
Business Venture Investments (Pty) Ltd	South Africa	Agro Processing	30.0%	30.0%
Colliery Dust Control (Pty) Ltd	South Africa	Mining	40.1%	40.1%
Crowie Holdings (Pty) Ltd	South Africa	Construction	25.1%	25.1%
Delswa Trading (Pty) Ltd	South Africa	Manufacturing	40.1%	40.1%
False Bay Bricks (Pty) Ltd	South Africa	Construction	30.0%	30.0%
Ga Matlala Roof Tiles and Bricks (Pty) Ltd	South Africa	Construction	30.0%	30.0%
Gibela Rail (Pty) Ltd	South Africa	Manufacturing	0.0%	30.0%
Global Wheel (Pty) Ltd	South Africa	Manufacturing	32.0%	32.0%
IM Capital (Pty) Ltd	South Africa	Engineering	49.0%	49.0%
Imbaza Mussel (Pty) Ltd	South Africa	Agro Processing	30.0%	30.0%
Inca Concrete Masonry (Pty) Ltd	South Africa	Construction	35.0%	35.0%
Karbochem Co-generation (Pty) Ltd	South Africa	Energy	30.0%	30.0%
Kenako (Pty) Ltd	South Africa	Pharmaceuticals	49.0%	49.0%
Lak Investment T/A Stone Age (Pty) Ltd	South Africa	Construction	25.0%	25.0%
Link Africa Group (Pty) Ltd	South Africa	Telecommunication	30.0%	30.0%
Mabele Fuels (Pty) Ltd	South Africa	Energy	20.1%	0.0%
Mayborn Investments 67 (Pty) Ltd **	South Africa	Tourism & Entertainment	33.4%	33.4%
Middeldrift Dairy (Pty) Ltd	South Africa	Agro Processing	40.0%	40.0%
Mohale (Pty) Ltd	South Africa	Agro Processing	45.0%	45.0%
Mopadi Molamu (Pty) Ltd	South Africa	Agro Processing	20.0%	20.0%
Petrocom (Pty) Ltd	South Africa	Energy	30.0%	30.0%
Pretamix (Pty) Ltd	South Africa	Services	24.0%	24.0%
Renu Energy (Pty) Ltd	South Africa	Manufacturing	26.0%	26.0%
SA Metals (Pty) Ltd***	South Africa	Mining	29.0%	29.0%
Safepak (Pty) Ltd	South Africa	Manufacturing	34.0%	34.0%
Sizovuna Investments Holding (Pty) Ltd	South Africa	Property	49.0%	49.0%
Stutt Brick Company (Pty) Ltd	South Africa	Construction	45.0%	45.0%
Trennplast (Pty) Ltd	South Africa	Manufacturing	26.5%	26.5%
Unique Engineering (Pty) Ltd	South Africa	Engineering	49.0%	0.0%
Value Cement (Pty) Ltd	South Africa	Construction	25.8%	25.8%
Vastek Trading (Pty) Ltd	South Africa	Mining	30.0%	0.0%
White Heat Trading 4 (Pty)Ltd	South Africa	Manufacturing	34.5%	34.5%
Willowvale (Pty) Ltd	South Africa	Property	45.0%	45.0%
Zulimar Trading (Pty) Ltd	South Africa	Property	44.0%	44.0%

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2015

## 6. INVESTMENT IN ASSOCIATES continued

Name	Voting power		Equity at Fair Values	
	2015	2014	2015 R	2014 R
Unlisted:				
Africa Rising (Pty) Ltd	25.1%	25.1%	2,510	2,510
Amajuba Berries (Pty)Ltd *	12.7%	31.0%	51	51
Basfour (Pty) Ltd	49.0%	49.0%	146	146
Blue Glamour (Pty) Ltd	32.0%	32.0%	4,219,976	5,038,798
Busamed (Pty) Ltd	49.0%	49.0%	260,000,000	260,000,000
Business Venture Investments (Pty) Ltd	30.0%	30.0%	30	30
Colliery Dust Control (Pty) Ltd	40.1%	40.1%	12,984,766	13,840,712
Crowie Holdings (Pty) Ltd	25.1%	25.1%	27,761,526	19,406,788
Delswa Trading (Pty) Ltd	40.1%	40.1%	1	5,096,374
Ga Matlala Roof Tiles and Bricks (Pty) Ltd	30.0%	30.0%	300	300
Gibela Rail (Pty) Ltd	0.0%	30.0%	-	30,000
Global Wheel (Pty) Ltd	32.0%	32.0%	32	113,328
False Bay Bricks (Pty) Ltd	30.0%	30.0%	300	300
IM Capital (Pty) Ltd	49.0%	49.0%	146	146
Imbaza Mussel (Pty) Ltd	30.0%	30.0%	300	300
Inca Concrete Masonry (Pty) Ltd	35.0%	35.0%	350	11,800,350
Karbochem Co-generation (Pty) Ltd	30.0%	30.0%	12,000,000	12,000,000
Kenako (Pty) Ltd	49.0%	49.0%	6,071,189	6,071,189
Lak Investment T/A Stone Age (Pty) Ltd	25.0%	25.0%	25	25
Link Africa Group (Pty) Ltd	30.0%	30.0%	32,000,000	32,000,000
Mabele Fuels (Pty) Ltd	20.1%	0.0%	61,750,000	-
Mayborn Investments 67 (Pty)Ltd **	33.4%	33.4%	334	334
Middeldrift Dairy (Pty) Ltd	40.0%	40.0%	4,589,036	40
Mohale (Pty) Ltd	45.0%	45.0%	450	450
Mopadi Molamu (Pty) Ltd	20.0%	20.0%	200	200
Petrocom (Pty) Ltd	30.0%	30.0%	30	30
Pretamix (Pty) Ltd	24.0%	24.0%	240	3,752,359
Renu Energy (Pty) Ltd	26.0%	26.0%	-	-
SA Metals (Pty) Ltd***	29.0%	29.0%	40,000,000	40,000,000
Safepak (Pty) Ltd	34.0%	34.0%	20	20
Sizovuna Investments Holding (Pty) Ltd	49.0%	49.0%	49	49
Stutt Brick Company (Pty) Ltd	45.0%	45.0%	45	14,714,121

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2015

### 6. INVESTMENT IN ASSOCIATES continued

Name	Voting power		Equity at Fair Values	
	2015	2014	2015 R	2014 R
Trennplast (Pty) Ltd	26.5%	26.5%	265	265
Unique Engineering (Pty) Ltd	49.0%	0.0%	490	-
Value Cement (Pty) Ltd	25.8%	25.8%	31	31
Vastek Trading (Pty) Ltd	30.0%	0.0%	309	-
White Heat Trading 4 (Pty)Ltd	34.5%	34.5%	300	300
Willowvale (Pty) Ltd	45.0%	45.0%	450	450
Zulimar Trading (Pty) Ltd	44.0%	44.0%	560	560
			<u>461,384,457</u>	<u>423,870,556</u>

\* 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.

\*\* Warehoused shares of Mayborn Investments is 16.7% held in favour of the Jozini Community Trust.

\*\*\* These investments are measured at cost less accumulated impairments in terms of GRAP 104, due to the significant variance with regard to the possible range of fair values. These investments have reached bankable feasibility stage and have not yet reached financial closure.

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2015

	Notes	2015 R	2014 R
<b>7. INVESTMENTS AT FAIR VALUE</b>			
<b>7.1 Non-associate equity investments</b>			
Opening Balance		2,254,771,956	1,643,226,488
<b>Movements</b>		<b>(171,512,615)</b>	<b>611,545,468</b>
MTN shares- fair value adjustments		(131,512,615)	571,545,468
On Time Digital Media (Pty) Ltd - impairment		-	30,000,000
Transfer to Associate - Mabele Fuels (Pty) Ltd		(40,000,000)	-
Transfer to Originated Loans		-	(30,000,000)
<b>Additions</b>			
Mabele Fuels (Pty) Ltd		-	40,000,000
<b>Fair value balance at end of the year</b>		<b>2,083,259,341</b>	<b>2,254,771,956</b>
Non- associate investments include:			
<i>Listed securities:</i>			
- Equity securities : RSA (MTN Shares)		2,073,852,775	2,205,365,390
<i>Unlisted securities:</i>			
Securities not traded on an active market		9,406,566	49,406,566
Intaba Technologies (Pty) Ltd		1	1
Inkwali Fabrication (Pty) Ltd		1	1
Janitone (Pty) Ltd		180	180
Gidani (Pty) Ltd		100	100
Thin Film (Pty) Ltd		5,313,211	5,313,211
Connex (Pty) Ltd		3,007,500	3,007,500
Nyonende (Pty) Ltd		150	150
Vuwa Pharmaceuticals (Pty) Ltd		11	11
Kenako Medical (Pty) Ltd (equity options)		1,085,411	1,085,411
On Time Digital Media (Pty) Ltd		1	1
Mabele Fuels (Pty) Ltd		-	40,000,000
		<b>2,083,259,341</b>	<b>2,254,771,956</b>



## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2015

	Notes	2015 R	2014 R
<b>7. INVESTMENTS AT FAIR VALUE</b> continued			
<b>7.2 Unincorporated Equity investments</b>			
Unincorporated equity investment fair value through profit and loss		<b>80,000,000</b>	<b>84,089,947</b>
Opening Balance		84,089,947	86,789,947
Additions		3,500,000	2,300,000
Cost of exited transactions		(7,589,947)	(5,000,000)
<b>Fair value movements</b>		<b>(79,989,000)</b>	<b>(84,076,947)</b>
- Balance brought forward from prior year		(84,076,947)	(86,774,947)
- Fair value (losses)		(3,499,000)	(2,299,000)
- Fair value on exited transactions		7,586,947	4,997,000
<b>Net investment in fair value through profit &amp; loss financial assets</b>		<b>11,000</b>	<b>13,000</b>
<b>Total Investments held at FV-through profit and loss</b>		<b>2,083,270,341</b>	<b>2,254,784,956</b>
Net fair value loss on the face of the Statement of Financial Performance		(3,502,000)	(2,302,000)

**NOTES TO THE FINANCIAL STATEMENTS** for the year ended 31 March 2015**7. INVESTMENTS AT FAIR VALUE** continued**7.3 Unincorporated Equity investments** continued

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:

<b>2015</b>				
<b>Investment</b>	<b>Investment at cost</b>	<b>Fair value</b>	<b>Interest in project/ joint venture</b>	<b>Effective voting on Joint Steering Committee %</b>
	<b>R</b>	<b>R</b>		
Rare Metals Industries (Pty) Ltd*	13,500,000	1,000	30%	27%
Manhize - Coking Coal (Pty) Ltd	6,000,000	2,000	75%	50%
African Silica Investments (Pty) Ltd	7,000,000	1,000	50%	50%
Organic Coconut Beverage Co.(Pty) Ltd	5,000,000	1,000	49%	50%
Comprecom (Pty) Ltd t/a Waste Tyre Energy	11,500,000	2,000	47%	50%
Milk for Life (Pty) Ltd	2,000,000	1,000	50%	50%
Municipal Waste t/a Lanele Resources (Pty) Ltd	10,000,000	1,000	49%	50%
First in Spec Boifuels Limited	10,000,000	1,000	30%	50%
Modular Industries Building Technologies (Pty) Ltd	15,000,000	1,000	50%	50%
	<b>80,000,000</b>	<b>11,000</b>		
<b>2014</b>				
<b>Investment</b>	<b>Investment at cost</b>	<b>Fair value</b>	<b>Interest in project/ joint venture</b>	<b>Effective voting on Joint Steering Committee %</b>
	<b>R</b>	<b>R</b>		
Rare Metals Industries (Pty) Ltd*	13,500,000	1,000	30%	27%
Manhize - Coking Coal (Pty) Ltd	6,000,000	2,000	75%	50%
African Silica Investments (Pty) Ltd	7,000,000	1,000	50%	50%
Organic Coconut Beverage Co.(Pty) Ltd	5,000,000	1,000	49%	50%
Kimocode - Hluhluwe Wind Farm (Pty) Ltd	2,200,000	1,000	40%	50%
Comprecom (Pty) Ltd t/a Waste Tyre Energy	8,000,000	1,000	47%	50%
Milk for Life (Pty) Ltd	2,000,000	1,000	50%	50%
Municipal Waste t/a Lanele Resources (Pty) Ltd	10,000,000	1,000	49%	50%
Underground Venture Capital (Pty)Ltd	3,089,947	1,000	50%	50%
First in Spec Boifuels Limited	10,000,000	1,000	30%	50%
Modular Industries Building Technologies (Pty) Ltd	15,000,000	1,000	50%	50%
Blacklite(Pty) Ltd	2,300,000	1,000	50%	50%
	<b>84,089,947</b>	<b>13,000</b>		

\*The Trust does not have any shareholding in the project as the company has not yet been incorporated but due to the composition of the project steering committee and the voting powers that the Trust holds in the project the investment is an associate. The investment has however been accounted for at fair value due to the strategic nature of the investment.

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2015

### 8. ORIGINATED LOANS

	Group		Trust	
	2015 R	2014 R	2015 R	2014 R
<b>Opening balance</b>	<b>1,852,516,817</b>	<b>1,737,899,274</b>	<b>1,914,469,860</b>	<b>1,737,899,274</b>
<b>Net movement for the year</b>	<b>99,480,520</b>	<b>114,617,543</b>	<b>117,117,447</b>	<b>176,570,586</b>
Loans disbursed	436,752,728	411,227,315	455,752,728	411,227,315
Interest capitalised	165,373,815	144,039,015	172,010,742	144,039,015
Loan repayments	(331,559,801)	(300,008,868)	(331,559,801)	(300,008,868)
Write-offs	(175,142,774)	(60,898,853)	(175,142,774)	(60,898,853)
Settlement Write-offs	(3,061,550)	(2,679,858)	(3,061,550)	(2,679,858)
Transfer from Investment in Associates - Ubumbano Rail (Pty) Ltd	30,000	-	30,000	-
Transfer to Associates - Stutt Brick Company (Pty) Ltd	-	(30,498,730)	-	(30,498,730)
Transfer to Non- Associate Equity Investments - Mabele Fuels (Pty) Ltd	-	(15,000,000)	-	(15,000,000)
On Digital Media (Pty) Ltd Settlement - Legal Fees	-	390,565	-	-
Transfer from Non-Associate Equity Investment - On Digital Media(Pty) Ltd	-	30,000,000	-	30,390,565
Transfer to non-current asset held for sale	8,000,000	(61,953,043)	-	-
Loans re-classified to Finance Leases	(911,898)	-	(911,898)	-
<b>Closing balance</b>	<b>1,951,997,337</b>	<b>1,852,516,817</b>	<b>2,031,587,307</b>	<b>1,914,469,860</b>
<b>Provision for Impairment</b>	<b>(387,704,884)</b>	<b>(437,808,963)</b>	<b>(387,704,884)</b>	<b>(437,808,963)</b>
- Opening balance	(437,808,963)	(340,257,792)	(437,808,963)	(340,257,792)
- Impairments for the year	(125,038,716)	(161,129,882)	(125,038,716)	(161,129,882)
- Impairment re-classification for the prior year	-	-	-	-
- Write-offs	175,142,794	63,578,711	175,142,794	63,578,711
	<b>1,564,292,453</b>	<b>1,414,707,854</b>	<b>1,643,882,423</b>	<b>1,476,660,897</b>
<b>Net Originated Loan balance</b>	<b>1,564,292,453</b>	<b>1,414,707,854</b>	<b>1,643,882,423</b>	<b>1,476,660,897</b>
Current Portion	512,728,067	455,699,689	512,728,067	455,699,689
Long Term Portion	1,051,564,386	959,008,165	1,131,154,356	1,020,961,208

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2015

	2015 R	2014 R
<b>9. PREFERENCE SHARES</b>		
<b>Opening Balance</b>	<b>260,755,532</b>	<b>253,296,930</b>
Net movement for the year	<b>(80,790,783)</b>	<b>7,458,602</b>
Interest capitalised	35,951,021	39,103,798
Repayments	(87,460,742)	(24,086,336)
Settlement Write-offs	(25,250,126)	-
Write-off	(4,030,936)	(7,558,860)
<b>Closing balance</b>	<b>179,964,749</b>	<b>260,755,532</b>
<b>Provision for Impairment</b>	<b>(50,122,715)</b>	<b>(36,748,691)</b>
- Opening balance	(36,748,691)	(36,946,057)
- Impairments for the year	(17,404,960)	(7,361,494)
- Disposals/Write-offs	4,030,936	7,558,860
<b>Net Preference shares balance</b>	<b>129,842,034</b>	<b>224,006,841</b>

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2015

	Notes	2015 R	2014 R
<b>10. FINANCE LEASE RECEIVABLES</b>			
<b>Opening Balance</b>		<b>118,930,597</b>	<b>104,522,235</b>
Net movement for the year		<b>12,620,639</b>	<b>14,408,362</b>
Additions		24,811,592	42,468,353
Finance Leases reclassified from Loans		911,898	-
Interest capitalised		9,953,597	9,964,463
Repayments		(21,566,656)	(27,011,036)
Disposals/Write-offs		(1,489,792)	(11,013,418)
<b>Closing balance</b>		<b>131,551,236</b>	<b>118,930,597</b>
Provision for Impairment		<b>(38,459,958)</b>	<b>(15,026,601)</b>
- Opening balance		(15,026,601)	(12,212,873)
- Impairments for the year		(24,923,149)	(13,827,146)
- Disposals/Write-offs		1,489,792	11,013,418
Net Finance Lease Receivable balance		<b>93,091,278</b>	<b>103,903,996</b>
Gross investment in leases due		<b>153,198,968</b>	<b>141,288,750</b>
- within one year		55,666,188	43,291,513
- in second to fifth year inclusive		91,843,020	89,628,601
- after 5 years		5,689,760	8,368,636
Less: Unearned finance income		(21,647,732)	(22,358,153)
Present value of minimum lease payments receivable		131,551,236	118,930,597
Less: Allowance for uncollectable minimum lease payments		(38,459,958)	(15,026,601)
Present value		<b>93,091,278</b>	<b>103,903,996</b>
Present value of minimum lease payments due			
- within one year		46,427,520	34,833,724
- in second to fifth year inclusive		79,820,506	76,458,215
- after 5 years		5,303,210	7,638,658
Less: Allowance for uncollectable minimum lease payments		(38,459,958)	(15,026,601)
Carrying amount of minimum lease payments		<b>93,091,278</b>	<b>103,903,996</b>
Net Finance Lease Receivable balance		<b>93,091,278</b>	<b>103,903,996</b>
Current Portion		46,427,520	34,833,724
Long Term Portion		46,663,758	69,070,272

The average lease term is 5 years (2014:5 years) and the average effective lending rate is 7% (2014:7%).

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2015

	Notes	2015 R	2014 R
<b>11. NON-CURRENT ASSET HELD FOR SALE AND INVESTMENT IN SUBSIDIARY</b>			
<b>11.1 Investment in Subsidiary (Trust)</b>			
Cost at acquisition		251	251
Day 1 Profit		6,177,853	6,177,853
		<b>6,178,104</b>	<b>6,178,104</b>
<b>11.2 Non-Current asset Held for Sale (Group)</b>			
Revenue		283,873,492	179,887,088
Amortised value of loan transferred from Originated Loans		60,382,468	61,953,043
Equity in Zastrovect transferred from Investment in Associates		251	251
Amounts recognised directly in net assets in relation to non-current assets held for sale		(242,851)	2,675,139
Liabilities		14,565,194	17,712,948
		<b>74,705,062</b>	<b>82,341,381</b>
Net surplus for Zastrovect Investments (Pty) Ltd since conversion to subsidiary		3,511,435	704,434
<p>The NEF initially held 25.1% as an investment in Zastrovect Investments (Pty) Ltd t/a Goseame, however due to the non-compliance and non-adherence by the investee of covenants of the loan agreements, the NEF took legal action against the investee and thus exercised its legal options and was awarded all the shares in the entity. Consequently the NEF now holds 100% of the entity resulting in the entity being a subsidiary. The NEF has elected to apply the requirements of GRAP 100, where the subsidiary could be presented as Non Current Asset Held for Sale</p>			
<b>12. INVESTMENTS HELD-FOR-TRADE</b>			
Fair value balance at beginning of year		49,070,675	51,828,699
Disposals		(4,714,234)	-
		<b>44,356,441</b>	<b>51,828,699</b>
Fair value (losses)/gains		(3,909,966)	(2,758,024)
Disposals		1,412,834	-
Fair value balance at end of year		<b>41,859,309</b>	<b>49,070,675</b>
Investments Held-for-Trade include:			
Listed Securities:			
AH Vest/All Joy		-	1,572,095
Hospitality Fund A		38,453,035	40,875,270
Hospitality Fund B		3,406,274	6,623,310
		<b>41,859,309</b>	<b>49,070,675</b>



## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2015

	Notes	2015 R	2014 R
<b>13. CURRENT ASSETS HELD FOR SALE</b>			
Opening Balance		8,100,000	8,100,000
Payment received		(6,034,150)	-
Closing balance		<b>2,065,850</b>	<b>8,100,000</b>

Current asset held for sale represents collateral assets against loan defaults that have been attached by the NEF for resale. These assets are expected to be disposed of within 12 months of attachment and sale is considered to be highly probable. The proceeds received is from the sale of the moveable assets, and it is still expected that further amounts will be raised from the sale of the property.

**14. TRADE AND OTHER RECEIVABLES**

Deposits	874,249	874,249
Other receivables	101,590	135,225
	<b>975,839</b>	<b>1,009,474</b>

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

**15. FINANCIAL ASSETS**

	Group			
	2015		2014	
	Carrying amount R	Fair value R	Carrying amount R	Fair Value R
<b>Loans and receivables</b>	<b>1,788,201,605</b>	<b>1,788,201,605</b>	<b>1,743,628,165</b>	<b>1,743,628,165</b>
- Originated loans	1,564,292,453	1,564,292,453	1,414,707,854	1,414,707,854
- Preference shares	129,842,034	129,842,034	224,006,841	224,006,841
- Finance leases	93,091,278	93,091,278	103,903,996	103,903,996
- Trade and other receivables	975,839	975,839	1,009,474	1,009,474
<b>Investments held at fair value</b>	<b>2,083,270,341</b>	<b>2,083,270,341</b>	<b>2,254,784,956</b>	<b>2,254,784,956</b>
- unlisted non associate equity investments	9,406,567	9,406,567	49,406,566	49,406,566
- listed non associate equity investments	2,073,852,774	2,073,852,774	2,205,365,390	2,205,365,390
- unincorporated equity investments	11,000	11,000	13,000	13,000
<b>Investment in associates</b>	<b>461,384,457</b>	<b>461,384,457</b>	<b>423,870,556</b>	<b>423,870,556</b>
<b>Investments held for trade</b>	<b>41,859,309</b>	<b>41,859,309</b>	<b>49,070,675</b>	<b>49,070,675</b>
- listed equity	41,859,309	41,859,309	49,070,675	49,070,675
<b>Total</b>	<b>4,374,715,711</b>	<b>4,374,715,711</b>	<b>4,471,354,352</b>	<b>4,471,354,352</b>

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2015

## 15. FINANCIAL ASSETS continued

	Trust			
	2015		2014	
	Carrying amount R	Fair value	Carrying amount R	Fair Value R
<b>Loans and receivables</b>	<b>1,867,791,574</b>	<b>1,867,791,574</b>	<b>1,805,581,208</b>	<b>1,805,581,208</b>
- Originated loans	1,643,882,423	1,643,882,423	1,476,660,897	1,476,660,897
- Preference shares	129,842,034	129,842,034	224,006,841	224,006,841
- Finance leases	93,091,278	93,091,278	103,903,996	103,903,996
- Trade and other receivables	975,839	975,839	1,009,474	1,009,474
<b>Investments held at fair value</b>	<b>2,083,270,341</b>	<b>2,083,270,341</b>	<b>2,254,784,956</b>	<b>2,254,784,956</b>
- unlisted non associate equity investments	9,406,567	9,406,567	49,406,566	49,406,566
- listed non associate equity investments	2,073,852,774	2,073,852,774	2,205,365,390	2,205,365,390
- unincorporated equity investments	11,000	11,000	13,000	13,000
<b>Investment in associates</b>	<b>461,384,457</b>	<b>461,384,457</b>	<b>423,870,556</b>	<b>423,870,556</b>
<b>Investments held for trade</b>	<b>41,859,309</b>	<b>41,859,309</b>	<b>49,070,675</b>	<b>49,070,675</b>
- listed equity	41,859,309	41,859,309	49,070,675	49,070,675
<b>Total</b>	<b>4,454,305,681</b>	<b>4,454,305,681</b>	<b>4,533,307,395</b>	<b>4,533,307,395</b>

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2015

### 15. FINANCIAL ASSETS continued

#### FINANCIAL ASSETS continued

##### 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:

	2015			
	Level 1 R	Level 2 R	Level 3 R	Total R
<b>Financial assets at fair value through profit and loss</b>	<b>41,859,309</b>	<b>-</b>	<b>461,395,457</b>	<b>503,254,766</b>
Associates	-	-	461,384,457	461,384,457
Unincorporated equity investments	-	-	11,000	11,000
Investments held for trade	41,859,309	-	-	41,859,309
<b>Non- Associate equity investments</b>	<b>2,073,852,775</b>	<b>-</b>	<b>9,406,566</b>	<b>2,083,259,341</b>
Listed equities	2,073,852,775	-	-	2,073,852,775
Unlisted equities	-	-	9,406,566	9,406,566
<b>Total</b>	<b>2,115,712,084</b>	<b>-</b>	<b>470,802,023</b>	<b>2,586,514,107</b>

	2014			
	Level 1 R	Level 2 R	Level 3 R	Total R
<b>Financial assets at fair value through profit and loss</b>	<b>49,070,675</b>	<b>-</b>	<b>423,883,556</b>	<b>472,954,231</b>
Associates	-	-	423,870,556	423,870,556
Unincorporated equity investments	-	-	13,000	13,000
Investments held for trade	49,070,675	-	-	49,070,675
<b>Non- Associate equity investments</b>	<b>2,205,365,390</b>	<b>-</b>	<b>49,406,566</b>	<b>2,254,771,956</b>
Listed equities	2,205,365,390	-	-	2,205,365,390
Unlisted equities	-	-	49,406,566	49,406,566
<b>Total</b>	<b>2,254,436,065</b>	<b>-</b>	<b>473,290,122</b>	<b>2,727,726,187</b>

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2015

### 15. FINANCIAL ASSETS continued

#### FINANCIAL ASSETS continued

##### Reconciliation of financial assets held at fair value

	2015			
	Level 1 R	Level 2 R	Level 3 R	Total R
Opening balance for the year	2,254,436,065	-	473,290,122	2,727,726,187
Purchases				
- Cost	-	-	25,250,799	25,250,799
- Day 1 Profit	-	-	-	-
Sales/Transfers	(3,301,400)	-	(30,000)	(3,331,400)
Impairment of financial assets recognised	-	-	-	-
<i>Total fair value adjustments recognised:</i>	-	-	-	-
- In profit and loss	(135,422,581)		(27,708,898)	(163,131,479)
<b>Closing balance</b>	<b>2,115,712,084</b>	<b>-</b>	<b>470,802,023</b>	<b>2,586,514,107</b>

##### Reconciliation of financial assets held at fair value

	2014			
	Level 1 R	Level 2 R	Level 3 R	Total R
Opening balance for the year	1,685,648,621	-	269,964,014	1,955,612,635
Purchases				
- Cost	-	-	227,925,664	227,925,664
- Day 1 Profit	-	-	-	-
Sales/Transfers	-	-	(599)	(599)
Impairment of financial assets recognised	-	-	-	-
<i>Total fair value adjustments recognised:</i>				
- In profit and loss	568,787,444	-	(24,598,957)	544,188,487
<b>Closing balance</b>	<b>2,254,436,065</b>	<b>-</b>	<b>473,290,122</b>	<b>2,727,726,187</b>

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2015

### 15. FINANCIAL ASSETS continued

#### FINANCIAL ASSETS continued

##### Valuations based on observable inputs

Valuations based on observable inputs include:

##### Level 1

Financial instruments valued with reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available and the price represents actual and regularly occurring market transactions on an arm's length basis.

An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an on-going basis.

This category comprises active listed equities.

##### Level 2

Financial instruments valued using inputs other than quoted prices as described above for Level 1 but which are observable for the asset or liability, either directly or indirectly, such as:

- quoted price for similar assets or liabilities in an active market;
- quoted price for identical or similar assets or liabilities in inactive markets;
- valuation model using observable inputs; and
- valuation model using inputs derived from/corroborated by observable market data.

The portfolio of the fund does not comprise any financial assets that are valued on the basis mentioned above.

##### Level 3

Financial instruments valued using inputs that are not based on observable market data (unobservable data) such as an entity's own assumptions about assumptions of market participants in pricing the asset or liability.

This category includes certain private equity investments, equity derivatives and loans and advances in the form of shareholder loans that have been classified as equity.

In determining the value of Level 3 financial instruments, the following are the principal inputs that can require judgement:

##### (i) Future earnings and marketability discounts

Future earnings and marketability discounts are key inputs in the valuation of certain private equity investments. Forecast earnings and marketability discounts are unobservable for some investments.

##### (ii) Comparator multiples

Comparator multiples and point of difference applied to chosen multiples are key inputs in the valuation of certain private equity investments. Price earnings multiples and point of difference applied to chosen multiples are unobservable for some investments.

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2015

### 15. FINANCIAL ASSETS continued

#### FINANCIAL ASSETS continued

#### Valuations based on observable inputs continued

#### Level 3 continued

#### (iii) Discount rates

Discount rates are key inputs in the valuation of certain private equity investments. Discount rates are unobservable for some investments.

Unobservable inputs are determined on the basis of the best information available and may include reference to similar instruments, similar maturities, appropriate proxies or other analytical techniques.

#### Sensitivity Analysis

Level 3 Contributors	Carrying Amount	2015	
		Effect of 1% Sensitivity adjustment	Effect of 10% Sensitivity adjustment
Associates	461,384,457	4,613,845	46,138,446
Unincorporated equity investments	11,000	110	1,100
Unlisted equities	9,406,566	94,066	940,657
	<b>470,802,023</b>	<b>4,708,021</b>	<b>47,080,203</b>

Level 3 Contributors	Carrying Amount	2014	
		Effect of 1% Sensitivity adjustment	Effect of 10% Sensitivity adjustment
Associates	423,870,556	4,238,706	42,387,056
Unincorporated equity investments	13,000	130	1,300
Unlisted equities	49,406,566	494,066	4,940,657
	<b>473,290,122</b>	<b>4,732,902</b>	<b>47,329,013</b>



## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2015

### 16. CASH AND CASH EQUIVALENTS

	Group		Trust	
	2015 R	2014 R	2015 R	2014 R
For the purposes of the cash flow statement, the cash and cash equivalents comprise the following:				
Bank balances				
- Current accounts	67,948,899	108,209,100	67,948,899	108,209,100
- Short-term bank deposits	1,380,494,687	1,371,820,034	1,380,494,687	1,371,820,034
- Cash on hand	3,300	3,300	3,300	3,300
- Cash held in Attorney's trust account	19,000,000	-	-	-
	<b>1,467,446,886</b>	<b>1,480,032,434</b>	<b>1,448,446,886</b>	<b>1,480,032,434</b>

The effective interest rate on short term deposits was 5.5% (2014 - 5.5%).

### 17. TRUST CAPITAL

	2015 R	2014 R
Investment in listed shares		
- At cost	171,000,000	171,000,000
Cash funds received from <b>the dti</b> :	<b>2,297,431,472</b>	<b>2,297,431,472</b>
- Opening Balance	2,297,431,472	2,297,431,472
Closing balance	<b>2,468,431,472</b>	<b>2,468,431,472</b>

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2015

		2015 R	2014 R
<b>18. TRADE AND OTHER PAYABLES</b>			
Trade payables		4,785,258	5,472,431
Lease accrual		1,072,547	1,852,365
Unallocated receipts generated by Asonge		427,791	427,791
Enterprise Development Contributions	24.4	7,952,180	5,597,836
Accruals		<b>48,867,706</b>	<b>43,012,583</b>
- Performance awards		36,033,748	30,534,524
- Supplier accruals		6,455,359	6,472,473
- Leave pay		6,378,599	6,005,586
		<b>63,105,482</b>	<b>56,363,006</b>

The carrying amount of Trade Payables approximate fair value and are payable within 30 days.

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2015

### 19. RELATED PARTY TRANSACTIONS

Executive Authority	Department of Trade and Industry
Other related parties	Board of Trustees (refer Note 25)
	Investments in associates
	Investments in subsidiaries

#### Related party balances in respect of Investments in Associates and Subsidiaries

		Loans receivable before impairment		Investments at cost	
	% 2015 Holding	2015 R	2014 R	2015 R	2014 R
Africa Rising (Pty) Ltd	30%	-	-	2,510	2,510
Amajuba Berries (Pty)Ltd *	12.7%	499,762	11,731,670	-	19,369,051
Basfour (Pty) Ltd	30%	46,902,003	74,055,248	146	146
Blue Glamour (Pty) Ltd	25%	-	-	20	20
Busamed (Pty) Ltd	49%	-	-	260,000,000	260,000,000
Business Venture Investments (Pty) Ltd	33%	15,861,713	14,870,353	30	30
Colliery Dust Control (Pty) Ltd	49%	-	6,004,573	401	401
Crowie Holdings (Pty) Ltd	35%	16,961,298	25,000,000	25,000,000	25,000,000
Delswa Group (Pty) Ltd	40%	33,444,109	29,346,335	5,096,374	5,096,374
False Bay Bricks (Pty) Ltd	30%	11,775,000	80,990,053	300	300
Ga Matlala Roof Tiles and Bricks (Pty) Ltd	30%	5,217,456	11,286,895	300	300
Gibela Rail (Pty) Ltd	0%	-	-	-	30,000
Global Wheel (Pty) Ltd	32%	55,474,129	52,891,498	32	32
IM Capital (Pty) Ltd	49%	13,197,947	-	146	146
Imbaza Mussel (Pty) Ltd	30%	7,063,497	9,076,533	300	300
Inca Concrete Masonry (Pty) Ltd	31%	5,743,701	6,048,180	11,800,350	11,800,350
Karbochem Co-generation (Pty) Ltd	30%	66,524,355	43,613,551	12,000,000	12,000,000
Kenako (Pty) Ltd	49%	-	-	6,071,189	6,071,189
Lak Investment T/A Stone Age (Pty) Ltd	49%	-	38,483,295	25	25
Link Africa Group (Pty) Ltd	20%	88,184,133	80,333,292	32,000,000	32,000,000
Mabele Fuels (Pty) Ltd	20%	-	-	61,750,000	-
Mayborn Investments 67 (Pty) Ltd **	30%	27,404,724	30,502,962	334	334
Middeldrift Dairy (Pty) Ltd	25%	6,358,896	6,343,246	4,500,040	4,500,040
Mohale (Pty) Ltd	45%	17,009,876	16,005,755	450	450
Mopadi Molamu (Pty) Ltd	20%	15,248,595	14,275,918	200	200

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2015

Executive Authority	Department of Trade and Industry
Other related parties	Board of Trustees (refer Note 25)
	Investments in associates
	Investments in subsidiaries

### Related party balances in respect of Investments in Associates and Subsidiaries

		Loans receivable before impairment		Investments at cost	
	% 2015 Holding	2015 R	2014 R	2015 R	2014 R
Ndalo Luxury Ventures (Pty) Ltd	0%	-	37,516,377	-	-
Nefcorp (Pty) Ltd	100%	19,207,502	-	-	-
Petrocom (Pty) Ltd	30%	13,832,971	2,262,619	30	30
Pretamix (Pty) Ltd	24%	15,000,000	-	240	240
SA Metals (Pty) Ltd	45%	-	-	40,000,000	40,000,000
Safepak (Pty) Ltd	34%	28,550,289	30,463,209	20	20
Sizovuna Investments Holding (Pty) Ltd	25%	46,507,000	50,221,805	49	49
Stutt Brick Company (Pty) Ltd	45%	12,060,186	11,116,460	30,498,775	30,498,775
Trennplast (Pty) Ltd	40%	64,902,323	58,200,105	265	265
Unique Engineering (Pty) Ltd	49%	17,579,169	-	490	-
Value Cement (Pty) Ltd	25.8%	34,852,843	34,160,144	31	31
Vastek Trading (Pty) Ltd	30%	12,926,440	-	309	-
White Heat Trading 4 (Pty) Ltd t/a Hollywood Displays	30%	61,037,999	60,281,782	300	300
Willowvale (Pty) Ltd	45%	19,110,234	21,588,946	450	450
Zastrovect (Pty) Ltd	100%	60,382,468	61,953,043	251	251
Zulimar Trading (Pty) Ltd	44%	50,078,901	13,676,781	560	560
		<b>888,899,518</b>	<b>932,300,628</b>	<b>488,724,917</b>	<b>446,373,169</b>

Interest has been earned on the above balances at an average rate of 7% ( 2014:7%)

\* 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.

\*\* Warehoused shares of Mayborn Investments is 16.7% held in favour of the Jozini Community Trust.

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2015

### 20. REVENUE

	Group		Trust	
	2015	2014	2015	2014
	R	R	R	R
Interest - cash	82,504,328	75,959,797	82,504,328	75,959,797
Interest - preference shares	35,951,021	39,103,798	35,951,021	39,103,798
Interest - originated loans	165,373,815	139,831,616	172,010,742	144,039,015
Interest -finance leases	9,953,597	9,964,463	9,953,597	9,964,463
Interest - other	109,091	312,942	109,091	312,942
Dividends	136,996,046	115,970,282	136,996,046	115,970,282
	<b>430,887,898</b>	<b>381,142,898</b>	<b>437,524,825</b>	<b>385,350,297</b>
			<b>2015</b>	<b>2014</b>
			<b>R</b>	<b>R</b>

### 21. SUNDRY INCOME

Bad debts recovered		531,323	758,500
Other Income		1,696,516	59,290
Enterprise Development Funding	24.4	441,556	19,310,947
		<b>2,669,395</b>	<b>20,128,737</b>

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2015

	Notes	2015 R	2014 R
<b>22. ADMINISTRATION EXPENSES</b>			
Net operating income is arrived at after taking into account:			
<b>Auditors' Remuneration</b>		<b>2,365,915</b>	<b>2,062,637</b>
- For external audit fees		1,526,791	1,427,016
- Internal audit - outsourced fees		839,124	635,621
<b>Professional fees</b>		<b>16,155,370</b>	<b>13,064,977</b>
- Human Resources		210,157	319,119
- Information technology		2,334,189	1,479,160
- Legal fees		9,805,317	8,095,791
- Finance		468,975	353,468
- Risk management		265,933	472,696
- Specialist Consulting		3,070,799	2,344,743
<b>Depreciation</b>	<b>4</b>	<b>2,491,069</b>	<b>2,960,191</b>
- Motor vehicles		218,336	249,069
- Computer equipment		949,414	989,734
- Audiovisual equipment		77,759	119,786
- Office equipment		188,652	224,942
- Furniture and fittings		295,953	398,998
- Other assets		3,627	3,627
- Leasehold improvements		757,328	974,035
<b>Trustees and senior management emoluments</b>	<b>25</b>	<b>17,046,926</b>	<b>18,496,312</b>
<b>Amortisation of intangible assets</b>	<b>5</b>	<b>173,241</b>	<b>650,757</b>
<b>Operating lease rentals</b>		<b>10,297,100</b>	<b>9,665,431</b>
- Property rental		9,567,348	9,344,142
- Equipment rental		729,752	321,289
<b>Total staff costs</b>		<b>137,462,631</b>	<b>135,825,922</b>
- Salaries and other benefits		127,366,839	125,642,580
- Provident fund contributions		10,095,792	10,183,342
Number of employees at year end		152	146



## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2015

	2015 R	2014 R
<b>23. IMPAIRMENT CHARGE</b>		
Originated loans - movement in provision	125,038,716	161,129,882
Preference shares	17,404,960	7,361,494
Finance leases	24,923,149	13,827,146
Non associate equity investments	-	(30,000,000)
Impairment for the year	<b>167,366,825</b>	<b>152,318,522</b>

## 24. COMMITMENTS

### 24.1 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	6,332,659	9,316,581
Later than 1 year but not later than 5 years	1,117,542	6,568,643
	<b>7,450,201</b>	<b>15,885,224</b>

Operating lease payments represent rentals payable by the Trust for office properties. Leases are negotiated for an average term of between 3 to 5 years, with an average escalation of 9% per annum.

### 24.2 Undrawn loans and investments

Not later than 1 year	<b>553,303,750</b>	<b>442,174,207</b>
Payment will be met out of cash reserves.		

### 24.3 Loans and Investments approved and committed but not contracted for.

Not later than 1 year	<b>160,636,573</b>	<b>97,050,000</b>
Payment will be met out of cash reserves.		

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2015

	Note	2015 R	2014 R
<b>24. COMMITMENTS</b> continued			
<b>24.4 Enterprise Development Fund Contributions</b>			
Unconditional Contributions recognised in Sundry Income			
Opening Balance		31,529,572	18,829,112
Total Income	19	441,556	19,310,947
- Contributions received		250,000	19,150,000
- Interest earned on contributions received		191,556	160,947
- Investment disbursements		(10,512,114)	(6,610,487)
- Contributions available for disbursement		21,459,014	31,529,572
Conditional Contributions recognised in current liabilities			
Opening Balance		5,597,836	-
- Contributions received		6,000,000	6,600,000
- Approved and disbursed		(3,645,656)	(1,002,164)
		7,952,180	5,597,836
Total contributions available for future disbursements		29,411,194	37,127,408

Approvals for the current year amounted to R 33 393 416 (2014: R13 878 666) whilst disbursements for the year amounted to R14 858 678(2014: R13 987 751).

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2015

### 25. TRUSTEES AND SENIOR MANAGEMENT EMOLUMENTS

	Basic	Bonuses & performance payments	Long term bonus payments	Provident fund contributions	Other contributions	Fees to Non-Executive Trustees Other	Total Total
	R	R	R	R	R	R	R
<b>Year ended 31 March 2015</b>							
<b>Executive trustees:</b>							
P Mthethwa (CEO)	2,684,010	1,577,355	637,315	536,802	284,422	-	5,719,904
I Pule (CFO)	1,560,717	723,441	268,400	187,286	75,787	-	2,815,631
	<b>4,244,727</b>	<b>2,300,796</b>	<b>905,715</b>	<b>724,088</b>	<b>360,209</b>	<b>-</b>	<b>8,535,535</b>
<b>Senior Management:</b>							
S Molepo (Divisional Executive)	1,830,735	977,105	400,248	274,610	134,031	-	3,616,729
H Makhathini (Divisional Executive)	1,427,905	722,016	313,920	214,186	192,022	-	2,870,049
	<b>3,258,640</b>	<b>1,699,121</b>	<b>714,168</b>	<b>488,796</b>	<b>326,053</b>	<b>-</b>	<b>6,486,778</b>
<b>Non-executive trustees:</b>							
R Garach (Acting Chairman)	-	-	-	-	-	455,356	455,356
Z Ntlangula	-	-	-	-	-	233,598	233,598
N Mosala	-	-	-	-	-	417,097	417,097
A Makwetla	-	-	-	-	-	301,191	301,191
A Raiz	-	-	-	-	-	199,783	199,783
J Williams	-	-	-	-	-	417,588	417,588
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,024,613</b>	<b>2,024,613</b>
<b>TOTAL</b>	<b>7,503,367</b>	<b>3,999,917</b>	<b>1,619,883</b>	<b>1,212,884</b>	<b>686,262</b>	<b>2,024,613</b>	<b>17,046,926</b>

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2015

### 25. TRUSTEES AND SENIOR MANAGEMENT EMOLUMENTS continued

	Basic	Bonuses & performance payments	Long term bonus payments	Provident fund contributions	Other contributions	Fees to Non-Executive Trustees Other	Total Total
	R	R	R	R	R	R	R
<b>Year ended 31 March 2014</b>							
<b>Executive trustees:</b>							
P Mthethwa (CEO)	2,421,512	1,593,288	637,315	484,302	71,726	-	5,208,143
I Pule (CFO)	1,428,637	660,677	268,400	171,437	64,423	-	2,593,574
	<b>3,850,149</b>	<b>2,253,965</b>	<b>905,715</b>	<b>655,739</b>	<b>136,149</b>	<b>-</b>	<b>7,801,717</b>
<b>Senior Management:</b>							
S Molepo (Divisional Executive)	1,682,817	900,558	325,201	252,423	97,499	-	3,258,498
H Makhathini (Divisional Executive)	1,226,792	706,320	255,060	184,019	175,688	-	2,547,879
B Lombard (Corporate Services Executive) (Resigned 30/11/2013)	1,978,402	-	-	155,474	80,956	-	2,214,832
	<b>4,888,011</b>	<b>1,606,878</b>	<b>580,261</b>	<b>591,916</b>	<b>354,143</b>	<b>-</b>	<b>8,021,209</b>
<b>Non-executive trustees:</b>							
T Mhlambiso (Chairman) Resigned 12/12/2013)	-	-	-	-	-	346,408	346,408
Z Ntlangula (Acting Chairman) (13/12/2013 to 31/01/2014)	-	-	-	-	-	403,196	403,196
N Mosala	-	-	-	-	-	416,269	416,269
A Makwetla	-	-	-	-	-	364,604	364,604
A Raiz	-	-	-	-	-	213,918	213,918
R Garach (Appointed Acting Chairman - 10/03/2014)	-	-	-	-	-	532,694	532,694
J Williams	-	-	-	-	-	396,297	396,297
	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,673,386</b>	<b>2,673,386</b>
<b>TOTAL</b>	<b>8,738,160</b>	<b>3,860,843</b>	<b>1,485,976</b>	<b>1,247,655</b>	<b>490,292</b>	<b>2,673,386</b>	<b>18,496,312</b>

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2015

### 26. NOTES TO THE CASH FLOW STATEMENT

Reconciliation of net (deficit)/surplus to cash flows from operating activities:

	2015 R	2014 R	2015 R	2014 R
	Group		Trust	
(Deficit)/Surplus for the year	(128,211,758)	594,085,145	(125,086,266)	603,765,963
Adjustment for:	(74,099,800)	(770,398,313)	(77,225,292)	(780,079,131)
Depreciation & amortisation	2,664,310	3,610,946	2,664,310	3,610,946
Interest received on cash and cash equivalents	(82,504,328)	(75,959,797)	(82,504,328)	(75,959,797)
Interest accrued on investments	(211,278,433)	(188,899,877)	(217,915,360)	(193,107,276)
Loss/(Profit) on disposal of fixed assets	111,015	(560)	111,015	(560)
Loss/(Profit) on disposal of Investments	137,225	-	137,225	-
Non Cash adjustment to fixed assets	-	(214,127)	-	(214,127)
Non Cash expense (legal fees)	-	(390,565)	-	(390,565)
Non Cash item (surplus from non-current asset held for sale)	(3,511,435)	(704,434)	-	-
Capital raising Fee	(1,532,088)	-	(1,532,088)	-
Write-offs	28,311,676	-	28,311,676	-
Dividends received	(136,996,046)	(115,970,282)	(136,996,046)	(115,970,282)
Impairment of investments	167,366,825	152,318,522	167,366,825	152,318,522
Fair value adjustments	163,131,479	(544,188,139)	163,131,479	(550,365,992)
Operating (deficit) before working capital changes	(202,311,558)	(176,313,168)	(202,311,558)	(176,313,168)
Working capital changes	6,776,111	8,318,497	6,776,111	8,318,497
Decrease in trade and other receivables	33,635	1,181,315	33,635	1,181,315
Increase in trade and other payables	6,742,476	7,137,182	6,742,476	7,137,182
Net cash (out) flows from operating activities	(195,535,447)	(167,994,671)	(195,535,447)	(167,994,671)

**NOTES TO THE FINANCIAL STATEMENTS** for the year ended 31 March 2015**27. ADDITIONAL INVESTMENT IN CORE ACTIVITIES**

	<b>Group</b>		<b>Trust</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>R</b>	<b>R</b>	<b>R</b>	<b>R</b>
Originated loans	435,549,143	411,227,315	454,549,143	411,227,315
Preference shares	-	-	-	-
Investments in Associates	21,750,799	155,126,374	21,750,799	155,126,374
Non associate equity investments	-	25,000,000	-	25,000,000
Unincorporated equity investments	3,500,000	2,300,000	3,500,000	2,300,000
Finance leases	24,483,088	42,468,353	24,483,088	42,468,353
<b>Total disbursements</b>	<b>485,283,030</b>	<b>636,122,042</b>	<b>504,283,030</b>	<b>636,122,042</b>

**28. RECONCILIATION OF STATEMENT OF FINANCIAL PERFORMANCE TO BUDGET****28.1 Revenue**

The increase in revenue earned is as a result of the increased dividend income, especially on the MTN share portfolio. Interest on the Investment portfolio was below budget, however interest on the bank balances was above budget, thus normalising overall interest income.

**28.2 Other Income**

Budgeted Sundry Income is largely as a result of Enterprise Development Fund initiatives. Contributions towards this initiative in this last financial year was substantially affected by the recent amendments to the BEE codes.

**28.3 Total Expenses**

The decrease in total expenses is as a result of various cost saving measures implemented by management, as well as a temporary freeze on non-critical headcount.

**28.4 Impairments**

An unbudgeted charge of R28 million was recorded, which relates to early settlement discounts provided to clients that approached the NEF for an early settlement amount.

**28.5 Fair Value (losses) and gains**

Fair Value gains and losses is made up of the net fair value movements for the year on the various equity investment classes. A significant portion of the movement for the year is made up of the negative mark to market adjustment of R 131.5 million on the listed MTN shares.

The balance of the movement for the year is made up of a negative R3.9 million movement of the Held for Trade listed portfolio and a net loss of R27.7 million on the unlisted equity investments held. These gains and losses are not budgeted for by the Trust as such gains and losses will only be realised on disposal of the equity investments.



## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 March 2015

### 29. FRUITLESS AND WASTEFUL EXPENDITURE

No incidents occurred during the current financial year.

### 30. UNAUTHORISED, IRREGULAR EXPENDITURE

No incidents occurred during the current financial year.

### 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 (SOC) 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, however with effect from this current year the company is being geared to hold a strategic investment property, which is awaiting transfer. The Trust previously obtained permission 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

#### 33.1 Defamation

A defamation action was taken against the NEF by a funded client. The NEF attorneys were instructed to serve as legal representatives for the matter, however no resolution has been reached to date. Further, our attorneys have estimated the settlement amount to be R250 000 in the event that the claim is successful.

Prior to the defamation matter the NEF was involved in litigation against the client for breaches of the loan agreement. When the client elected to settle the NEF's litigation against the company, the client agreed to include a provision in the settlement agreement in which it was agreed to withdraw the defamation action. The client ultimately did not honour the commitment. The NEF will however use the undertaking as a basis to enforce the withdrawal of the defamation action.

#### 33.2 Matter with Public Protector

Another matter, which the NEF has referred to the High Court, is the matter in which a client lodged a complaint with the Public Protector. The Public Protector found the NEF guilty of maladministration, and recommended that the NEF pay the client 'sorry money' damages for purported delay in considering the clients application for funding. The estimated computation of the damages is in the region of R5 million, however the NEF is taking the Public Protector's findings and recommendations on review in the High Court.

#### 33.3 Matter with a Motor Vehicle Manufacturer

A group of claimants has applied to the Johannesburg High Court to be constituted as a class so that they can launch a class action against various other parties including another funding institution and a motor vehicle manufacturing entity. The court has not made a final decision as to whether it will approve that the group be recognised as a class and the matter is not a contingent liability for the NEF. The group has indicated through its legal representatives that in the event that it is successful in the application to be constituted as a class, it will consider taking a class action to claim for damages against the NEF, the motor manufacturer and the other funder.

## REPORT OF THE AUDIT COMMITTEE

### 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). The terms of reference are set out in the Audit Committee Charter, which is approved by the Board of Trustees and is continuously reviewed and updated for changes in legislation, business circumstances and corporate governance practices. The Audit Committee has regulated its affairs in compliance with applicable laws and regulations 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 function indicated that the key controls implemented by management to address the associated risks appear to indicate that an adequate control framework is in place but improvements are needed in certain key control activities in providing reasonable assurance that the risk areas, subject to review, are being properly managed and controlled.

A combined assurance framework was designed and implemented in the previous financial year and improvements are being continually effected; this will better assist Management, the Audit Committee and the Board of Trustees in managing and adequately mitigating the Trust's key risk areas.

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 for the most

part 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 and Portfolio 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. We are satisfied that the internal audit function at the NEF has provided adequate coverage for the year under review.

The financial function at the NEF is adequately staffed by suitably experienced and qualified personnel under the executive management of the Chief Financial Officer. During the financial year under review, quarterly management reports were submitted to the dti as required under the PFMA and Treasury Regulations, including performance information related to core business activities extracted out of the organisation's Annual Performance Plan. The Audit Committee is satisfied with the content and quality of quarterly management reports as prepared by management and approved by the Board of Trustees.

### Evaluation of Annual Financial Statements

The Audit Committee has

- reviewed the appropriateness of accounting policies and practices;

- reviewed and was satisfied with the independence of the External Auditors;
- reviewed and discussed with the External Auditors and Management the audited annual financial statements included in the annual integrated report;
- reviewed the External Auditors management letter and Management's responses thereto; and
- reviewed adjustments resulting from the audit.

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

The NEF has embarked on a sustainable fund management model involving the raising of additional capital to fund portfolio growth and extend the impact made through investment activity in black empowered businesses. Thus there is a high level of confidence that the NEF will be successful in at least one of the recapitalisation initiatives and establish itself as a major development finance institution in South Africa. The going concern principle can be adopted in the financial reporting of the NEF.



Anthony Coombe  
Acting Chairman of the Audit Committee  
31 July 2015

## STRATEGIC PROJECTS FUND –

### KC Energy

KC Energy (Pty) Ltd, an energy project development company, has built a Combined Heat and Power (CHP) plant, consisting of two 30tph boilers, which produce steam from a fluidised bed of low grade coal in Newcastle, KwaZulu-Natal. The company also produces 6MW of incidental power, which is supplied to a synthetic rubber manufacturing plant. The boiler ash from the burnt coal is used to manufacture concrete bricks.

The NEF has invested a total of R66.6 million equity in the project company and holds 40% ordinary equity in KC Energy. The funding facilitated the development, construction, commissioning and commercialisation of the plant. The CHP plant is now operational and the brick manufacturing plant will come online in early 2016. The project will create a total of 132 job opportunities.



**Business Sector:** Renewable Energy

**Core Business:** Combined Heat and Power Plant

**Investment:** R66.6 million

**Jobs Supported:** 132

## STRATEGIC PROJECTS FUND –

### Tyre Energy Extraction

Tyre Energy Extraction (TEE) is developing a tyre recycling plant in the Coega Industrial Development Zone, in Port Elizabeth, in the Eastern Cape. The NEF has co-developed the project with TEE. TEE will recycle tyres via a pyrolysis process to produce carbon char, fuel oil and steel wire for sale in the local market. The

NEF has invested a total of R57 million in debt and equity in the project company and holds 70% ordinary equity in TEE. The NEF has co-developed the project with TEE to financial close and has raised the capital required to commence the construction of the plant. The project will create a total of 36 job opportunities.



**Business Sector:** Renewable Energy/ Recycling

**Core Business:** Tyre Recycling Plant

**Investment:** R57 million

**Jobs Supported:** 36



## STRATEGIC PROJECTS FUND –

### Vastek Trading

Vastek Trading (Pty) Ltd operates a chrome beneficiation plant located in Mooiooi, Rustenburg. It utilises source material from tailings dumps and Run of Mine (ROM) from established mines in the North West area to produce metallurgical grade chrome. The NEF has invested a total of R40 million in debt and equity in Vastek Trading and holds 30.9% ordinary equity warehoused for female shareholders as part of its women empowerment initiative. NEF's investment partners are a 20.1% black female shareholder, who developed the project from a concept to

an operational plant, and Lurco Metals (Pty) Ltd (49.0%). Vastek Trading plans to expand its business to include a Platinum Group Metals (PGM) production component in the near future, as this is a by-product in the chrome beneficiation process. The project has created a total of 190 job opportunities.



**Business Sector:** Mining- Mineral Beneficiation

**Core Business:** Chrome Beneficiation

**Investment:** R40 million

**Jobs Supported:** 190

## STRATEGIC PROJECTS FUND –

### Busamed

Busamed (Pty) Ltd is a black-owned and controlled private hospital group that is developing four hospitals across three provinces in South Africa. Construction of the first hospital, located in Paardevlei (Western Cape) has been completed. This hospital is now operating and the official launch was held in June 2015. The Longlake hospital is currently under construction, with commercial operation date expected to be in June 2016. Earthworks on the Harrismith Hospital are underway, and commercial operation date is expected to be September 2016 and

April 2017 for the Harrismith and Bloemfontein Hospitals, respectively. The NEF has invested a total of R260 million equity in the Busamed Group and currently holds 49% ordinary equity alongside the project promoter (51%). The Public Investment Corporation has also invested in the Group at project level to fund a portion of the Longlake hospital. On completion, the project will create a total of approximately 7 000 job opportunities.



**Business Sector:** Healthcare Infrastructure

**Core Business:** Private Hospital Group

**Investment:** R260million

**Jobs Supported:** 7 000

## UMNOTHO FUND –

### Gibela Rail

The NEF supported the B-BBEE Equity partners via a BBBEE Special Purpose Vehicle namely Ubumbano in subscribing for 30% equity in Gibela Rail (Pty) Ltd. R95m was approved and R86m of this has been disbursed. Other 70% shareholders proportionally to their equity split funded the remaining balance of R210 million. The B-BBEE Equity partners hold 30% Economic Interest in Gibela Rail and 30% Exercisable Voting Rights. Broad Based Black economic participation is made of Staff Trust (both

Gibela and PRASA), Educational Trust, Active Black Enterprises, Investor Black Enterprises and Black Woman Trust. Other shareholders of Gibela Rail include ALSTOM, a multinational corporation, listed on the French Stock Exchange, with a significant local manufacturing footprint. As an international corporation, ALSTOM has a long and sustainable history in South Africa, with that history being one of technological excellence and extensive commitment to Local Economic and Social progress.

PRASA's Rolling Stock Programme worth R51billion was awarded to Gibela Rail, which will deliver 600 passenger trains (made up 3 600 coaches) to South Africa's metro rail network. South Africans will manufacture 580 of these passenger trains at the Dunnottar facility being constructed in the East Rand. The programme will support over 31 000 job opportunities over a 10 year period.



**Business Sector:** Rail Infrastructure

**Core Business:** Locomotive Manufacturing

**Investment:** R86million

**Jobs Supported:** Over 31 000





## UMNOTHO FUND –

### Africa Best 350 Limited

Africa Best 350 Limited (AB350) is a public company based in the Eastern Cape Province with its core business being public transport services or simply passenger bus services. The business transports over 5.7 million of rural commuters per annum with 112 routes spread across the former Transkei or Eastern part of the Eastern Cape. The entity was incorporated in 2005 and comprised of 234 shareholders mainly from the rural areas of the Eastern Cape. Currently, the Company has 128 buses. NEF funded AB350 at inception. The Company is 100% black owned with 29% shareholding being held by Black women. AB350 has

set up its own Bus Repair Centre to operate two broad but related services in the form of Mechanical and Body Repairs services to both to Public or third party operators that include both Bus and Truck companies in Mthatha. The Total Project Cost is R23.75 million with R12.2 million being invested by the NEF. AB350 currently employs 420 permanent individuals and this will increase to 445 as the result of the NEF investment.



**Business Sector:** Transport and logistics

**Core Business:** Commuter Busses

**Investment:** R12.2 million

**Jobs Supported:** 445

## UMNOTHO FUND –

### Motheo Construction Group

Motheo Construction Group (Pty) Ltd is a black-woman-controlled construction company that is active in general building, civil engineering and rail infrastructure. The company's primary focus is social housing throughout South Africa. Motheo's CIDB grading was recently increased to 9GB and 9CE. This was achieved through the NEF's initial funding, which enabled the company to meet the all the

criteria for a CIDB 9 grading. Motheo is 54% black owned with more than 51% being held by black women. Motheo is an award-winning construction company with a solid record of accomplishment built on having completed R5.5 billion worth of projects since inception. Over the years, Motheo has grown its order book from R463 million to R2.8 billion in total, NEF has invested R61 million

in Motheo. Motheo has increased its staff personnel by almost 100% the total staff complement is 1 884 people (with 145 permanent and 1 739 temporary). Motheo has offices in Tshwane, Durban, Kimberley, eMalahleni, East London, and Port Elizabeth.





**Business Sector:** Infrastructure

**Core Business:** Construction

**Investment:** R61 million

**Jobs Supported:** 1 884







## UMNOTHO FUND –

### Comberero Consulting and Equipment Services

Comberero Consulting and Equipment Services (Pty) Ltd is a 100% Black-woman-owned and managed company that was established to provide concrete pumping services. Comberero is the first black women owned concrete pumping services provider in the construction industry. Comberero has been in operation since March 2014 and has managed to secure strong clients such as Ontime Ready Mix, Afrisam Ready Mix, Group Five, WBHO, Astek Construction and Tri-star Group

Construction. The company is based in Johannesburg and has a level 1 BEE rating. The NEF has approved R24.8 million for capital expenditure and working to fund the expansion of Comberero. The company employs five people, three of which were unemployed prior to being employed by Comberero. The acquisition of the additional equipment will lead to the creation of 19 new jobs.



**Business Sector:** Infrastructure

**Core Business:** Construction

**Investment:** R24.8 million

**Jobs Supported:** 24



## UMNOTHO FUND –

### Medcon

Medcon is a healthcare products supplier of good quality condoms across South Africa and the rest of the continent. Established in 1993 as an importer of disposable latex medical products such as gloves and condoms, the company now supplies both public and private sector healthcare practitioners. In 2001, Medcon established its manufacturing facility in partnership with a German based equity partner Richter Hi-Tech Sdn, Bhd, which specialises in the manufacture of condom-making machinery globally.

In the private sector the company supplies Trust, Lovers Plus, Contempo, Pronto, Sondeza, Superior Lifestyles and Viva. Medcon is the sole manufacturer of Choice-branded condoms for the Department of Health and has various regulatory approvals from the relevant regulatory bodies that allow for high quality manufacturing of protective healthcare products.



**Business Sector:** Healthcare

**Core Business:** Manufacturing

**Investment:** R15 million

**Jobs Supported:** 90

## UMNOTHO FUND –

### Unique Engineering

Unique Engineering is a division of Pamodzi Industrials. The company manufactures products for a variety of sector including mining and transport. Unique Engineering manufactures double diaphragm pumps, blast barricades, eco pumps, electro brake electromagnetic sheet metal folding machines and pantographs – diversified designs, as well as products for the mining industry and rail sector. The company has been in existence since 1978, over 36 years. The company is based in Boksburg, Gauteng, with a regional representation in Rustenburg, North West Province.



**Business Sector:** Manufacturing

**Core Business:** Mining and Transport  
(Capital Equipment)

**Investment:** R30 million

**Jobs Supported:** 144



## RURAL AND COMMUNITY DEVELOPMENT FUND –

### Berlin Beef

NEF invested a total of R27 million towards the establishment of a feedlot in Berlin, Eastern Cape for the supply of a high through-put abattoir in East London in terms of a 10 year off-take agreement, including upstream investment in the cattle supply region for improved breeding of cattle supplied to the Berlin Beef feedlot. The beef operation currently has a one-time standing capacity of 7 000 head on backgrounding and 3 000 head on feedlot, this capacity has more than

doubled in the first year of operations. The project has adopted and complies with requirements of ISO 14001, a globally recognised standard specification that structures the implementation of an effective environmental management business. The current local clientele includes Famous Brands, Shoprite Checkers, Pick, Pay, and further exports to international markets, Hong Kong, Thailand and Vietnam.



**Business Sector:** Agro-Processing

**Core Business:** Feedlot and Beef Cattle Farming

**Investment:** R27million

**Jobs Supported:** 19

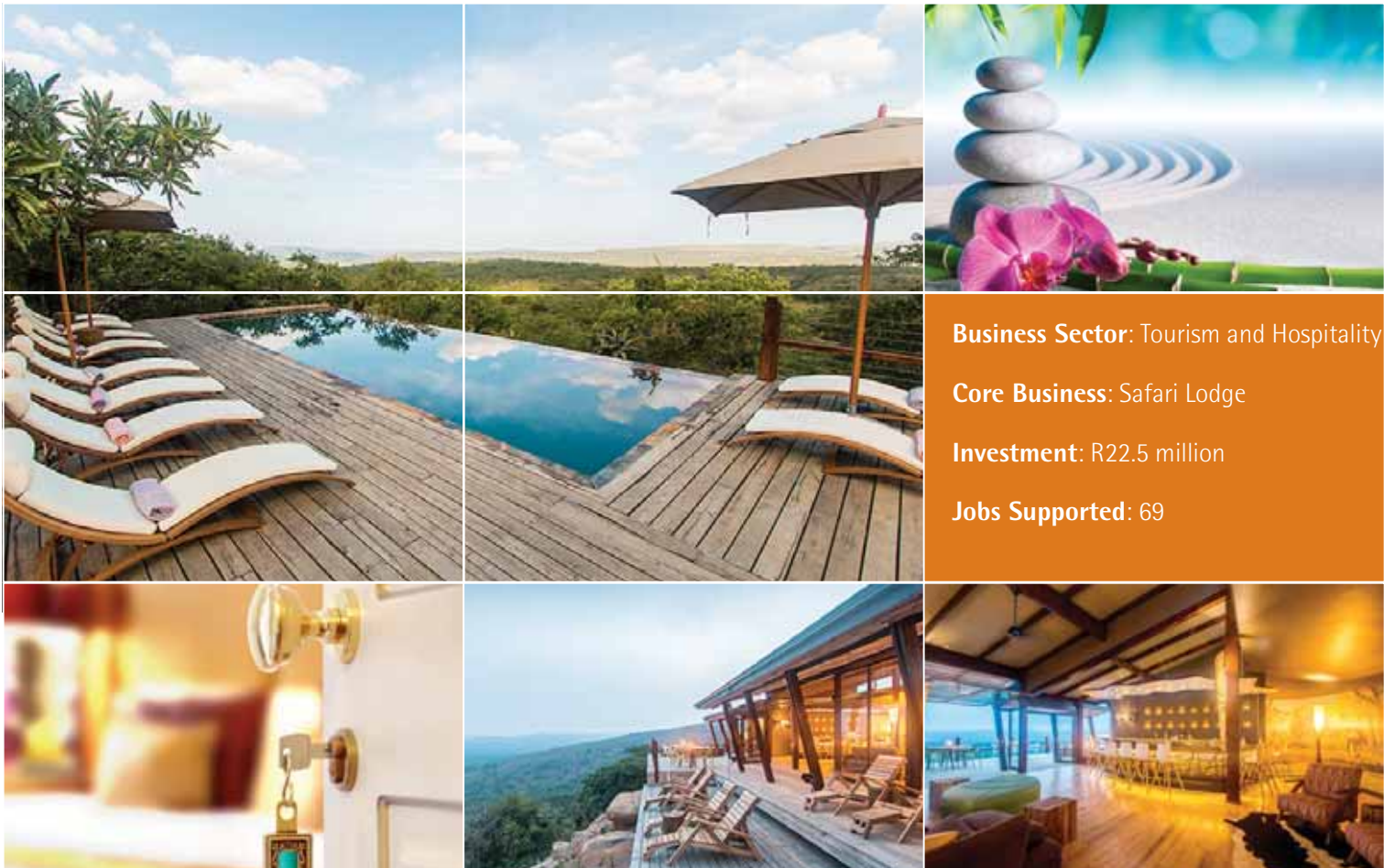


## RURAL AND COMMUNITY DEVELOPMENT FUND –

### Rhino Ridge Safari Lodge

Rhino Ridge is a newly constructed lodge of contemporary design with overtones of organic forms utilizing natural finishes and materials. Rhino Ridge is part-owned by the local Mpembeni Community. It offers 22 rooms nestled in natural bush high up on the ridge with commanding views of the landscape. The Lodge is situated on the western boundary in the first private concession within South Africa's oldest proclaimed Game Reserve Hluhluwe uMfolozi Park, Northern Kwa-

Zulu Natal. The lodge is set in a 96 000 hectare park Rhino Ridge Safari Lodge enables guests to enjoy 4 star luxury at a private lodge for the first time within the park, offering spectacular scenery and excellent safari opportunities within the heart of Big 5 territory.



**Business Sector:** Tourism and Hospitality

**Core Business:** Safari Lodge

**Investment:** R22.5 million

**Jobs Supported:** 69

## RURAL AND COMMUNITY DEVELOPMENT FUND –

### Bakgatla Bioflame

Bakgatla Bioflame (Pty) Ltd was established as a pilot funded by a community trust which is based in the North West Province. The factory's main activity is that of manufacturing "eco-logs" which are regarded as a green product, based on its raw material composition and manufacturing process. The business has been operating for 3 years with success in proving the product and creating a market; however, continuous challenges in production hampered the level of development and success in penetrating the market. The NEF was approached by

Bakgatla Bioflame to invest R15 million into the company to fully commercialise their operations and increase production levels as well as penetrate the targeted market. The funding enabled the company to increase production levels in order to meet supply of the targeted market. The eco-logs are currently sold through established contracts with BP, Spar, Pick and Pay as well as independent retail stores.



The only smoke  
from the braai  
will be from  
your meat.



**Business Sector:** Manufacturing

**Core Business:** Manufacturing

**Investment:** R15 million

**Jobs Supported:** 40



## RURAL AND COMMUNITY DEVELOPMENT FUND –

### Bakwena Ba Mogopa

Bakwena Ba Magopa Mineral Resources (Pty) Ltd is a mining company set up by Bagopa Holdings (Pty) Ltd, the investment holding company, via the Bagopa Trust of the Bakwena Ba Magopa Traditional Community. By virtue of the structure Bagopa Granite is 100% owned by the community. Bagopa Granite is developing a new quarry for the production of gabbronorite dimension stone

blocks. The quarry will be a medium sized operation in terms of dimension stone standards (although medium scale by mining industry standards) Product Offering. The product range includes Dimension Stone, a natural stone which is quarried and utilised mostly for its aesthetic appeal in construction, home decoration and monumental markets as well as Rustenburg Grey which falls into the category of

Black Granites. These products are always in high demand in the dimension stone industry.



**Business Sector:** Mining

**Core Business:** Granite Mining

**Investment:** R27.3 million

**Jobs Supported:** 60

## IMBEWU FUND –

### Dikgeru Enterprise Trading CC

Dikgeru Trading Enterprise CC is a close corporation established in the year 2009. The entity is wholly owned by a black South African woman. Dikgeru offers industrial cleaning, horticulture, conveyor belts cleaning and maintenance, grass cutting and land rehabilitation services. The company is based in Witbank, Mpumalanga.

Dikgeru was awarded a 5-year contract by Glencore. The project is for the maintenance and aftercare of grassing at mined land of the declared re-vegetated areas in the Optimum Coal Mine in Middelburg.

The company approached the NEF for a term loan of R7.4 million to execute the contract with Glencore. The amount applied for was used to purchase assets and fund working capital need of the entity. The NEF funding will support 22 job opportunities.



**Business Sector:** horticulture

**Core Business:** Vegetation management

**Investment:** R7.4 million

**Jobs Supported:** 22

## IMBEWU FUND –

### Masiqhame Trading

Masiqhame Trading is a business that supplies cleaning and waste management services on behalf of the City of Cape Town. The business was established in 2006 and was awarded their first major contract in 2009 for street cleaning and removal of refuse at informal settlements around Cape Town. The company is a wholly owned black company.

The company was awarded a new contract by the City of Cape Town for the provision of a conventional refuse collection service in various Cape Town informal settlements. The company approached the NEF for funding to purchase new trucks and for working capital in order to successfully execute the awarded contract. The funding from NEF resulted in the creation of 62 new job opportunities.



**Business Sector:** Waste Management

**Core Business:** Street cleaning and refuse removal

**Investment:** R12.9 million

**Jobs Supported:** 62



## IMBEWU FUND –

### Shell Millennium

Shell Millennium is a 100% black-female-owned-entity. The entrepreneur is an attorney by profession. The business was established about 15 years ago by the franchisee. The service station is well positioned on one of the main streets that run through the town of Polokwane. Shell indicated that the site was completely closed between 15 April 2013 and 4 December 2013 (approximately 8 months) for a complete knock down and rebuilt, the process which involved installation

of additional pumps, and new equipment on the forecourt. The Service station now offers LRP, unleaded 93, unleaded 95, Diesel (the latest 50 ppm) and a Select Store. There is also a fitted car wash which operating on site. The business is fully generated and operates 24/7. Since renovations the business has increased its petrol and diesel sales significantly



**Business Sector:** Petroleum

**Core Business:** Filling Station

**Investment:** R11.3 million

**Jobs Supported:** 40



## IMBEWU FUND –

### Steers & Fishaways Franchise

AHN Investment Holdings (Pty) Ltd is a 100% black-owned-entity, with 51% equity held by a black woman. The investees identified an opportunity to acquire a Steers and Fishaways outlet in Germiston for a purchase consideration of R2 million.

The woman shareholder has previously worked as a General Manager at a Petroleum business where she was in charge of operations and financial management of four filling stations, with attached food outlets. This position allowed her to gain the relevant experience that is required to operate a quick service restaurant.



**Business Sector:** Franchise

**Core Business:** Steers & Fishaways

**Investment:** R2 million

**Jobs Supported:** 16

## IMBEWU FUND –

## Empowerment through franchising

The NEF has a range of funding products. One of these is franchising, which is designed for black entrepreneurs who have been pre-approved by franchisors. Below are some of the franchises that the NEF has funded to date. 📌



# ADMINISTRATION

31 March 2015

**TRUSTEES**

Mr R Garach (Acting Chairman)  
Ms P Mthethwa (CEO)  
Ms I Pule (CFO)  
Ms Z Ntlangula  
Ms A Halstead  
Ms A Makwetla  
Ms J Molisane  
Ms N Mosala  
Mr A Raiz  
Ms J Williams  
Mr S Zikode

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Acronyms and Definitions			
Approved	Final committee approval obtained, legal agreements not signed	HR	Human Resources
		IDC	Industrial Development Corporation
AVE	Advertising Value Equivalent	IoDSA	institute of Directors of Southern Africa
AWCA	African Women Chartered Accountants	IPAP	Industrial Policy Action Plan
B-BBEE	Broad-Based Black Economic Empowerment	IRMSA	Institute of Risk Management Standards of South Africa
B-BBEE Codes	Codes of Good Practice	IST	Information Systems and Technology
BBC	Black Business Council	IT	Information Technology
BEE	Black Economic Empowerment	JSE	Johannesburg Stock Exchange
BER	Bureau of Economic Research	KPI	Key Performance Indicators
Board IC	Board Investment Committee	KZN	KwaZulu-Natal
BIP	Black Industrialist Programme	LP	Limpopo
BOT	Board of Trustees	MP	Mpumalanga
CAM	Combined Assurance Model	MTEF	Medium Term Expenditure Framework
Commitments	Legal agreements signed (deals may have been approved in current and previous financial periods.) All Conditions Precedent may not have been met yet.	mtm	Mark-to-market
		NAFCOC	National African Federated Chamber of Commerce and Industry
		NC	Northern Cape
		NDP	National Development Plan
COSO	Committee of Sponsoring Organisations of the Treadway Commission	NEF	National Empowerment Fund
COTII	Council of Trade and Industry Institutions	NIPF	National Industrial Policy Framework
CPI	Consumer Price Index	NW	North West
CPs	Conditions Precedent	PC	Procurement Committee
CRM	Customer Relationship Management	PFMA	Public Finance Management Act
CT	Cape Town	PIU	Pre-Investment Unit
DFI	Development Finance Institution	POIU	Post Investment Unit
Disbursements	Total cash advancements made against all approved deals (deals may have been approved in current and previous financial periods). Subject to all Conditions Precedent having been satisfied by the investee.	PRASA	Passenger Rail Agency of South Africa
		QSE	Qualifying Small Enterprises
		RFI	Request for Information
		RFP	Request for Proposals
EAP	Economically Active Population	RFQ	Request for Quotation
EC	Eastern Cape	ROI	Return on Investment
ED	Enterprise Development	RPMC	Risk and Portfolio Management Committee
EME	Exempt Micro Enterprises	SAICA	South African Institute of Chartered Accountants
EMPOWER	Ethics, Motivation, Performance, Ownership, Worthy, Excellence and Respect	SARB	South African Reserve Bank
		SEC	Social and Ethics Committee
ERM	Enterprise-wide Risk Management	SME	Small and Medium Enterprises
Exco	Executive Committee	SOCE	State Owned Commercial Enterprises
FS	Free State	SPF	Strategic Projects Fund
GDP	Gross Domestic Product	the dti	Department of Trade and Industry
GP	Gauteng	TWR	Turn-around, Workouts and Restructuring Unit
GRAP	Generally Recognised Accounting Practice	UJ	University of Johannesburg
GRI	Global Reporting Initiative	WC	Western Cape
HCRC	Human Capital and Remuneration Committee	YTD	Year-to-date





# Fraud, Corruption and Theft

Contact Tip-Offs Anonymous on  
**0800 212 705**  
or email [nef@tip-offs.com](mailto:nef@tip-offs.com)

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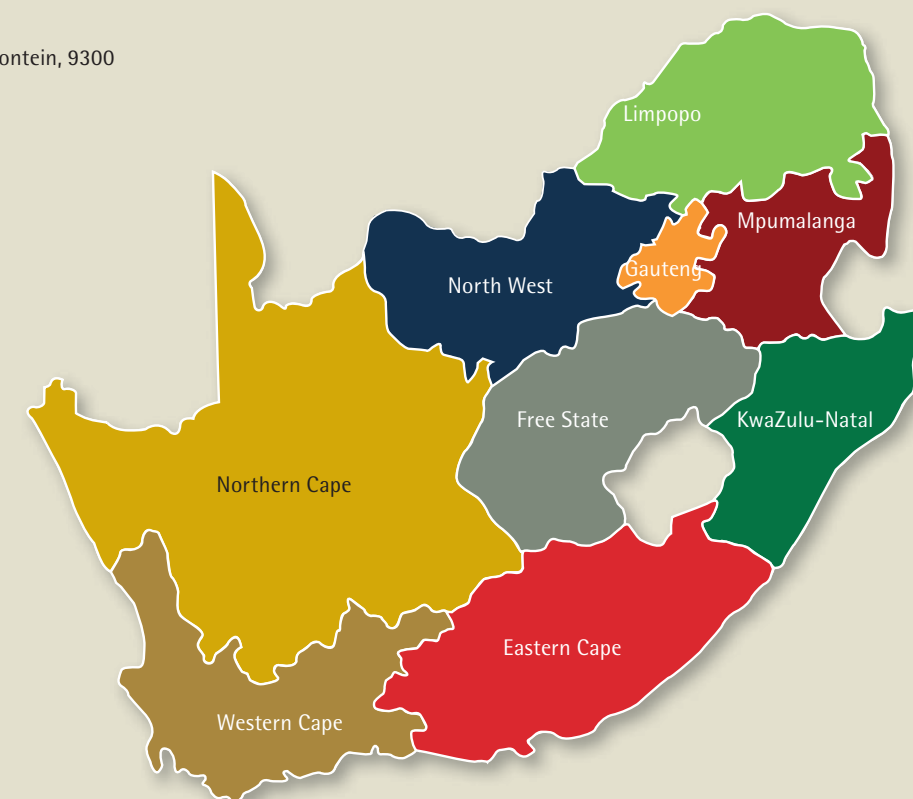
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