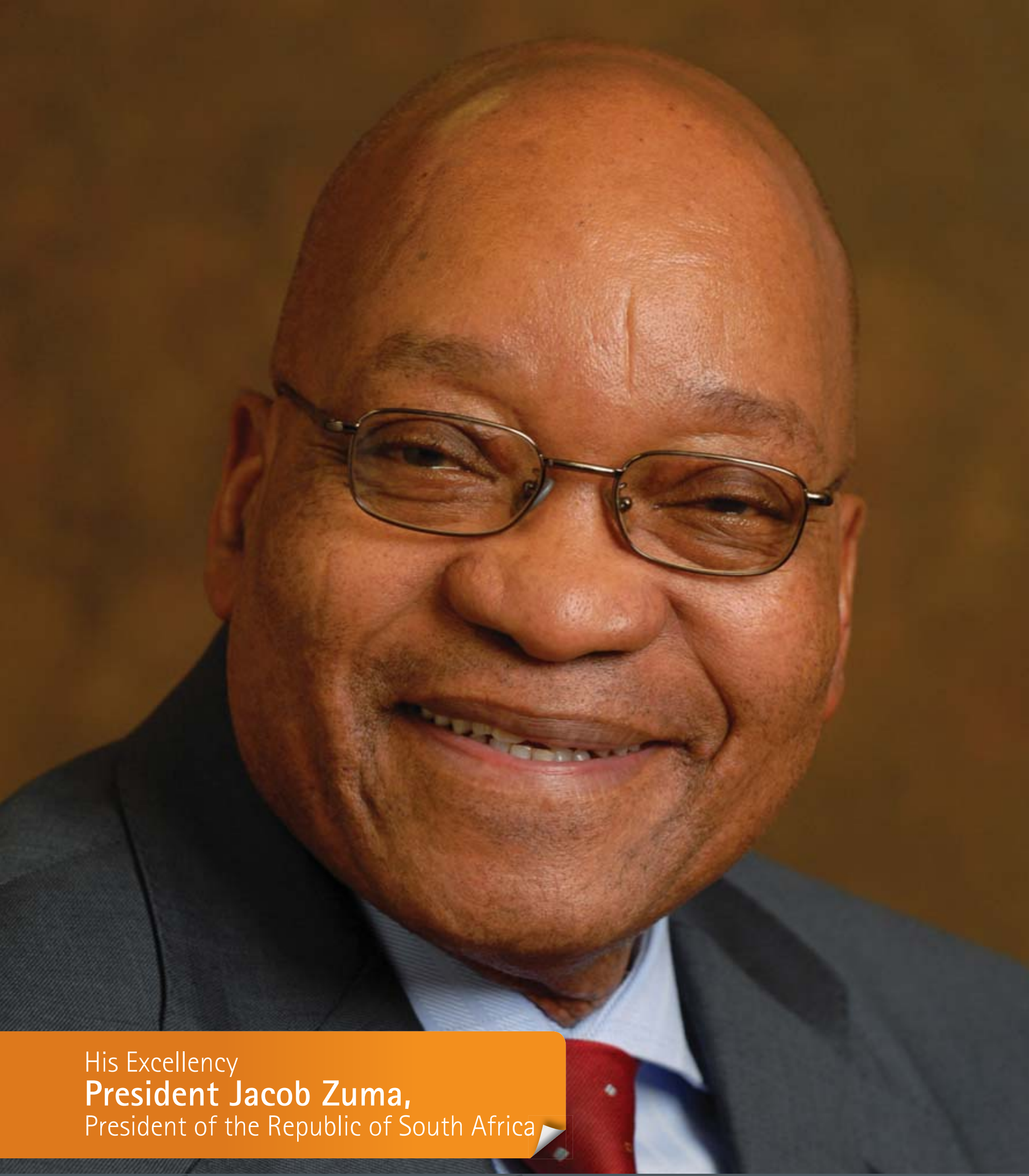
CELEBRATING BLACK BUSINESS EXCELLENCE

National Empowerment Fund
Growing Black Economic Participation

NATIONAL EMPOWERMENT FUND
INTEGRATED REPORT 2016/17



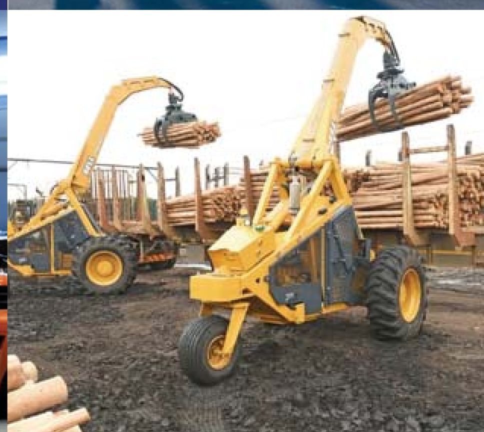
His Excellency
President Jacob Zuma,
President of the Republic of South Africa

"One of the biggest challenges facing black businesses and the implementation of our empowerment policies is access to finance. To address this challenge we established the National Empowerment Fund (NEF) to be used as an instrument to financially support empowerment initiatives. Since its inception, the number of approvals by the National Empowerment Fund (NEF) has totalled 7.6 billion rand, supporting seven hundred and seventy (770) black businesses. For the 2015/16 financial year, the NEF has approved one hundred and twenty deals worth 1.3 billion rand. The NEF needs to be supported in order for the institution to do more to ensure access to finance by black entrepreneurs. Governments currently exploring various means to recapitalize the NEF as an apex institution to facilitate BEE finance. I am sure that we are all in agreement that all development finance institutions must be used as vehicles of economic transformation"

His Excellency President Jacob Zuma at the Black Business Council Awards Gala Dinner, 28 September 2016.







Celebrating Black Business Excellence

The power that holds sway at the centre of the vortex of wind generates the energy necessary to mobilise and galvanise the entrepreneurs whose vocation is to drive the quest for inclusive growth. As the source of motion, as a catalyst for transformation and growth, like the whirlwind, the NEF is the force that invigorates value in the rural economy, creating sustainable SMEs, as well as creating new manufacturing and industrial capacity across South Africa. The calm and the tranquil at the centre of the whirlwind are symbolic of a development financier that has triumphed over many tribulations and the turbulence of time, and has reached the maturity and resilience necessary to advance the quest of inclusive growth. These elements embody the inextricable unity of purpose between the NEF and its target market, and are a metaphor for a nation hard at work to bring about transformation and growth as well as the celebration of black business excellence, which is the thread that weaves seamlessly through the narrative of this **Integrated Report 2017**.

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FOREWORD BY THE HON. MINISTER OF TRADE AND INDUSTRY

South Africa's promotion of a higher level of more inclusive economic growth must involve intensifying efforts to promote Radical Economic Transformation in two inextricably linked dimensions.

First, it must involve redoubling our efforts to fundamentally change the colonially-defined structure of our economy as a producer and exporter of primary commodities through industrialisation and moving up the value chains. Secondly, it must mean intensifying efforts to promote greater inclusion of black people in positions of ownership, management, leadership and control, particularly but not only in the productive economy.

This Integrated Report 2017 of the National Empowerment Fund (NEF) outlines the seminal achievements that the development financier has continued to make in pursuit of this critical historic mission, leading to cumulative life-to-date approval of R8.6 billion for the benefit of 852 black entrepreneurs countrywide.

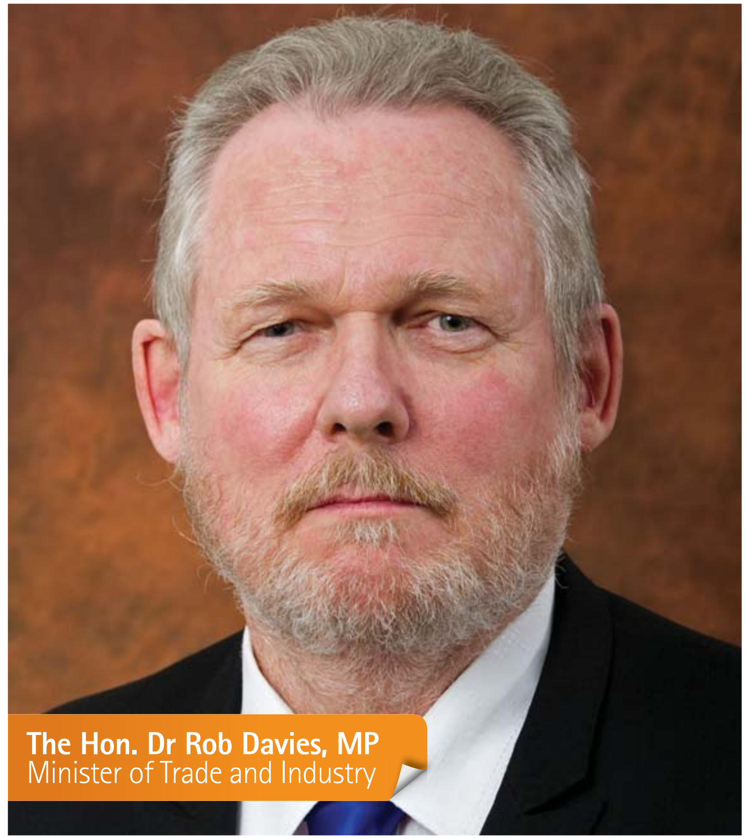
One of the flagship pillars that is integral to the Industrial Policy Action Plan is the Black Industrialist Programme. This we launched in March 2016 when we said we would seek to support 100 black industrialists over the then Medium-Term Expenditure Framework (MTEF) period ending March 2019. We can now point to 46 approved projects run by black industrialists with Government agencies including the NEF, collectively having deployed over R2 billion in financial support on top of R122 million in grants from **the dti**.

In partnership with local and international investors, the NEF has developed 27 strategic and industrial projects worth over R28 billion, with the potential to support over 85 000 jobs. The NEF's Strategic Projects Fund therefore remains a key and important instrument whose work supports efforts to advance the development of black industrialists.

Equally important is the spirited work that continues to unfold in the other areas of the NEF's mandate, namely the iMbewu Fund that supports SME development; the Rural and Community Development Fund that supports rural and peri-urban economic activities; the Women Empowerment Fund, whose ethos is based on the mantra that "to fund a woman is to fund a nation", as well as the uMnotho Fund through which the NEF supports black participation in untransformed sectors of the economy and expansionary projects in medium-sized enterprises.

In addition to providing innovative finance solutions, non-financial interventions such as business planning, entrepreneurship development, incubation, investor education and mentorship are also critical imperatives in the quest for inclusive growth, and in this regard we commend the NEF for continuing to set the benchmark.

It is for these reasons that efforts are underway to ensure that the NEF, as an apex institution, will soon be recapitalised as a subsidiary of the Industrial Development Corporation in order to meet the considerable demand for funding by black entrepreneurs.



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

Government applauds the NEF for having developed formidable human capital across its echelons, and for retaining exceptional skills under trying conditions in respect of yet unrealised recapitalisation, and for delivering meaningful impact in driving economic growth and transformation across industries and the country as a whole.

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

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ABOUT THIS REPORT

This report aims to provide a balanced, accurate and accessible assessment of the NEF Trust's (excluding its operating subsidiaries) strategy, performance and opportunities for the year ended 31 March 2017. A high level overview of the three subsidiaries in the Group is provided on page 7.

This is the NEF's third year of integrated reporting, applying King III. The preparation of the report was further guided by the International Integrated Reporting Council's (IIRC) Integrated Reporting (IR) Framework's fundamental concepts, guiding principles, content elements and presentation guidance. While the IR Framework suggests that the Integrated Report should be primarily for investors, as a public entity, the NEF's aim is to communicate to all stakeholders on factors that materially affect the NEF's ability to create value.

As an agency of government, the NEF's mandate places it as a significant vehicle through which radical economic transformation can be facilitated. We hope that this report will provide our stakeholders with a transparent overview of our mandate, how we respond to our operating context, our strategic objectives, the values that outline everything we do, our stakeholder engagement processes, risks and opportunities.

The report provides a perspective of current and past performance, while giving sight of future prospects and addressing 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) and the National Empowerment Fund Act. These financial statements are included in full in this report as part of our regulatory reporting obligations per the PFMA.

The NEF's ongoing stakeholder engagements as well as ongoing scanning of external macro factors (these mainly entail economic, regulatory, policy 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 considering:

- Our Materiality Framework, which largely guides financial materiality levels; and
- Assessing issues that could substantially affect our ability to be sustainable, impact on our ability to discharge our mandate or influence decisions of the Trust and its stakeholders.

The annual financial statements as well the required performance information in this report have been independently assured by our external auditors, SizweNtsalubaGobodo, (refer to pages 68-70). Internal audit also conducts 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.

We welcome your views on this integrated report and the manner in which we approach strategic priorities. Please send us your feedback on info@nefcorp.co.za.

Approval of the Integrated Report

The Board of Trustees (BoT) acknowledges its responsibility to ensure the integrity of this report. The BoT confirms that it has collectively reviewed the contents and that this report addresses material issues and provides a fair representation of the performance and prospects of the NEF.

This integrated report was approved by the BoT and signed on its behalf by:

Rakesh Garach

Chairman

Philisiwe Mthethwa

CEO

PERFORMANCE HIGHLIGHTS

Approvals of
R1.1 billion
(2016: R1.2 billion)

Portfolio impairment provision
17.5%
(6.5% down from 2016)

>5000
job opportunities supported
(56% of which are new)

Support for women business
↑ 5% year on year to
34%
of disbursed funds

Brand awareness at
86%
up from 81% in 2015

R515 million
worth of DRDLR deals approved
(R154 million in 2016)

Disbursements of
R 699 million
(R819 million in 2016)

7%
growth in investment assets vs 0.3% annual GDP growth

ABOUT THE NEF

Vision

The NEF's 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 drafts and monitors policy and legislation, 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, Act No. 53 of 2003, and the B-BBEE Codes of Good Practice
- Industrial Policy Action Plan
- 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

To ensure the NEF's social and economic impact is as broadly outlined in the NEF Act, the Executive and BoT 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. Refer page 8.

Government created and mandated the NEF through the NEF Act to grow black participation in South Africa's national economy.

Group structure

NATIONAL EMPOWERMENT FUND TRUST

NEFCorp SOC Ltd 100% (NEFCorp)

INVESTMENT HOLDING ENTITY

Zastrovect Investment (Pty)Ltd 100% (Trading as Goseame)

RETAIL INDUSTRY

Delswa (Pty)Ltd 100%

TEXTILE INDUSTRY

NEFCorp

NEFCorp is an investment holding company that was established by the NEF Trust in 2002. The company has made a strategic acquisition of the land and property on which the Goseame business is conducted and earns rental income.

Goseame

The NEF invested in Goseame in June 2012. The business is involved in the wholesale and retailing of fresh produce, groceries, flowers and meat in Limpopo. In September 2013 the promoter that was supported through this transaction was found to be in breach of the loan terms. The breach compelled the NEF to exercise its rights in terms of the loan agreement and expel the promoter from the business, consequently temporarily taking over 100% of the entity's shareholding effective 6 September 2013 and appointing interim management in the business. The Minister of Finance has granted a section 92 PFMA compliance exemption of this entity for a period of three years, ending June 2017. The NEF has applied for an extension of this exemption while it actively pursues avenues to dispose of this entity.

Delswa

In April 2013, the NEF invested in Delswa, a clothing manufacturing entity in the Northern Cape. Regrettably in December 2013 the business went into financial distress.

The key cause of distress was poor working capital management resulting from ineffective management decisions and loss of key contracts. The NEF exercised its rights in terms of the shareholder agreement and stepped in to run the company since January 2016 in an effort to stabilise the business and save about 415 jobs that were at risk, especially in one of the most impoverished parts of our country. In July 2016, the Minister of Finance granted a section 92 PFMA compliance exemption of this entity for a period of 3 years.

During the current financial year, the NEF entered into a restructuring agreement in terms of which it holds 100% of Delswa (Pty)Ltd which is no longer a trading entity and has become the property holding company. In addition, the NEF holds 30% in the new operating entity. The remaining 70% shareholding of the operating company is owned by an external independent party. This process will aid the NEF in actively pursuing its exit from this investment.

Our Strategic Objectives

As depicted below, our business model is premised on the four main strategic objectives, which advance the creation of value for the NEF. These are as follows:

ADVANCING B-BBEE

Provide finance to business ventures established and managed by black people. Through its funding activities, the NEF actively seeks to promote transformation, broad-based participation, industrialisation, and SME development.

MAXIMISING EMPOWERMENT DIVIDEND

Invest in black empowered businesses that have high employment creating opportunities across all provinces in South Africa. The creation of employment opportunities are assessed as part of the merit and impact of funding transactions. In addition, the focus is to support the participation of black women in the economy.

FINANCIAL EFFICIENCY AND SUSTAINABILITY

Establish the NEF as a sustainable DFI. 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.

OPTIMISING NON-FINANCIAL SUPPORT

Encourage and promote savings, investment and meaningful economic participation by black people. This is achieved through investor education seminars across the country as well as the provision of business training, incubation and social facilitation. Investees are further supported through mentorship, back office support as well as turnarounds, workouts and restructuring support.

KEY PERFORMANCE INDICATORS

ADVANCING B-BBEE

- Value of deals approved
- Value of commitments
- Value of disbursements

MAXIMISING EMPOWERMENT DIVIDEND

- Number of jobs expected to be created or supported
- Percentage of portfolio disbursement owned by women
- Percentage of disbursement target to be invested in targeted provinces

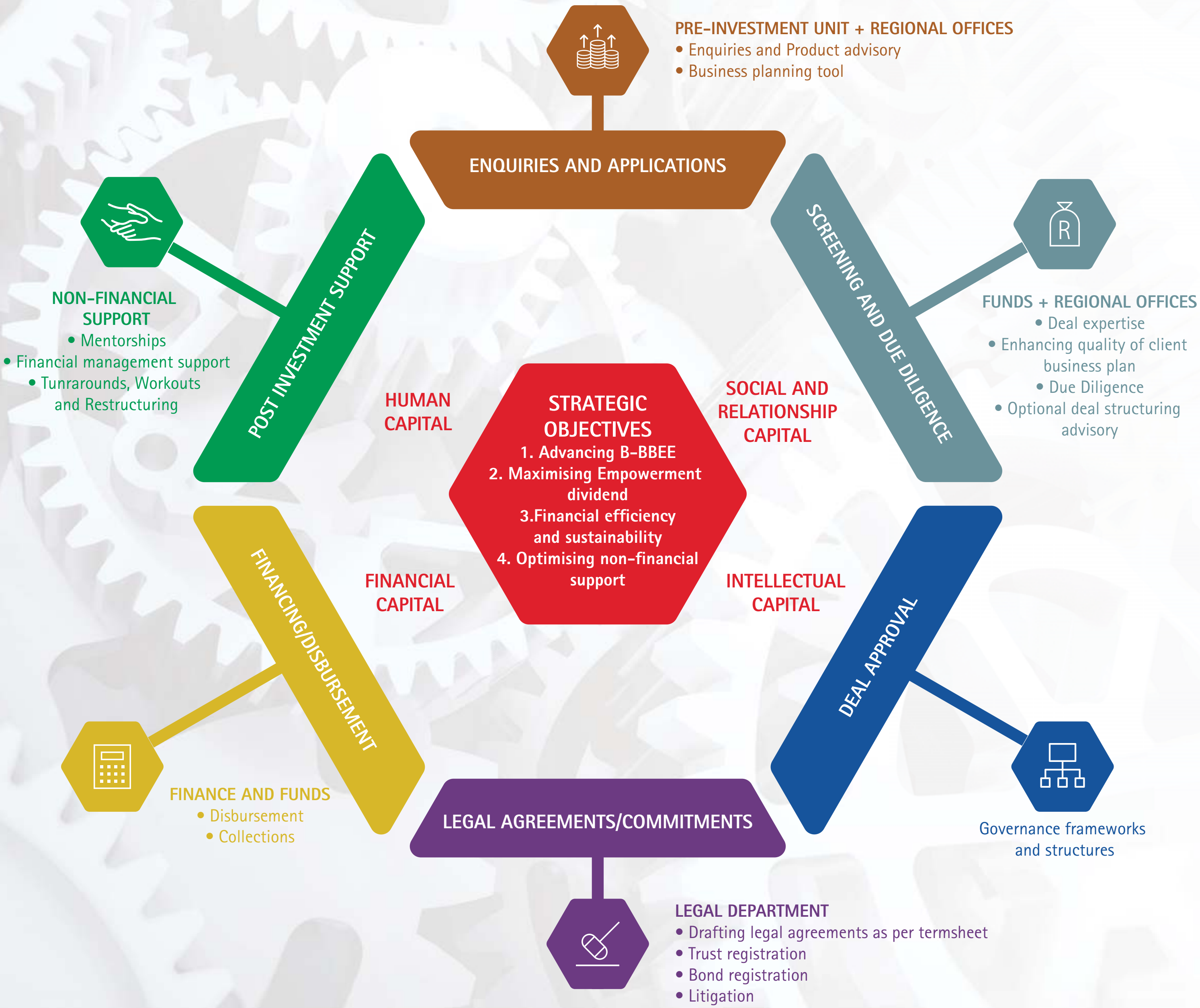
FINANCIAL EFFICIENCY AND SUSTAINABILITY

- Percentage of portfolio impaired
- Return on investment (ROI) before impairments
- Collection ratio

OPTIMISING NON-FINANCIAL SUPPORT

- Number of entrepreneurial training sessions provided
- Number of entrepreneurs referred for business incubation; and number of entrepreneurs who successfully completed business incubation
- Number of social facilitation sessions for NEF investees
- Number of investor education sessions held across the country

Our business model



Forms of capital to create value

The NEF seeks to promote broad-based participation as well as industrial participation of black people through developmental funding support. We make use of the following four significant forms of capital in our business model to achieve the strategic objectives and maximise the outputs that create value. These are defined and depicted below:

FORMS OF CAPITAL

	Financial Capital	Human Capital	Social and Relationship Capital	Intellectual Capital
INPUTS	Our financial resources available to advance B-BBEE and increase the Empowerment dividend	We attract people with competence and skill to deliver on our mandate of advancing B-BBEE	Our stakeholder partnerships are utilised to further the NEF's agenda of empowering black owned businesses and communities within which we operate	We use intellectual capital to design and implement innovative ways in which the NEF mandate can be better fulfilled
ACTIVITIES	Applications, Screening and Due diligence Deal approval Legal agreements and commitments Disbursement of funds Post Investment support	Attracting relevant skills Remuneration and incentives Training and development Succession plan and talent management strategies	Funding activities targeting black women and provincially distributed funding Funding activities that create and maintain jobs Stakeholder engagements Partnerships with Department of Rural Development and Land Reform (DRDLR) and other Enterprise Development (ED) contributors Bursary scheme and other Corporate Social Investment (CSI) programs Socio-economic development and investor education seminars	Thought leadership initiatives Informing policy formulation Innovative B-BBEE funding initiatives
KEY RISKS	Recapitalisation risk Credit risk Market risk	People risk	Reputation risk Recapitalisation risk	Reputation risk People risk

Forms of capital to create value...continued

		Financial Capital	Human Capital	Social and Relationship Capital	Intellectual Capital
VALUE TO STAKEHOLDERS	OUTPUTS	R1.067 billion approved funding (2016: R1.24 billion) R699 million disbursed funding (2016: R819 million) ROI at 7.8% (2016: 9.5%) Portfolio impairments at 17.5% (2016: 24%)	R154.9 million spent on salaries and performance incentives (2016: R159.9 million). R1.059 million spent on 222 training programmes (proportion of total staff complement trained- 80% (2016: R1.3 million spent) 5 Promotions during the year	34% of disbursements to women shareholding 32% disbursed to targeted provinces 5069 jobs opportunities supported - 56% of which are new (2016: 4938 jobs supported, 68% were new) R515 million worth of DRDLR deals approved (2016: R154 million deals approved) 42 social facilitation sessions, 48 investor education seminars. 159 (2016: 130) entrepreneurs referred to business incubation, with 30 (2016: 36) successfully completing the programme. R2.4 million in sponsorships (2016: R1.026 million) Bursary scheme budgeted at R2 million in support of 43 students (2016: R1.6 million for 31 students)	NEF recommendations on the Financial Services Charter as contribution to thought leadership NEF, through its Strategic Projects Fund (SPF) unit, has been consistently driving radical economic transformation through its development of black industrialists Innovative funding structures through collaborations with the public and the private sector
	IMPACT	Achievement of mandate to empower and enable black owned businesses to participate and contribute to economic growth. 852 deals worth R8.6 billion approved since inception, R5.8 billion of which has been disbursed into the economy	Career development through training Market related remuneration for employees Increased level of skill, education and financial literacy Positive employee morale as there is a mapped career path through succession planning	Mediation through social facilitation between investee and communities enables an effective transaction Strengthened relative rights of black farming employees through the NEF collaboration with DRDLR Empowered communities and schools through bursary scheme which funded 31 students in the 2016 academic year, with 28 passing the school year, and an additional 13 added to the scheme in the current year Four CSI projects supported in the current year were mainly in primary and higher education; and healthcare sectors Educating society and communities on funding and savings, and entrepreneurial skills through social facilitations and investor education seminars	Influencing the formulation of policies governing the financial services and mining sectors We have advanced and created meaningful black participation in key sectors such as in the transportation, manufacturing and private health sectors
STAKEHOLDERS		GOVERNMENT, INVESTEES	EMPLOYEES	COMMUNITIES	INFLUENCERS, OPINION FORMERS

How are we organised

The NEF has structured its Funds to address the needs of businesses at different phases of the life cycle of a business as demonstrated by the nature of products housed in each fund below.

Strategic Projects Fund

- Fund the development of projects through stages of project
- Venture Capital
- Development of Black Industrialist in strategic sectors
- Funding from R1 million to R75 million

iMbewu

- Supports start up of new business
- Expansion of micro and small enterprises
- Products: Franchise, Procurement/Contract and Entrepreneurship funding
- Funding from R250 000 to R10 million

uMnotho

- Provide capital to black owned and managed businesses expanding, buying shares in white owned businesses, or new ventures
- Products: Acquisition, New Venture, Expansion, Capital Markets, Property, Liquidity and Warehousing finance
- Funding ranges from R2 million to R75 million

Rural and Community Development

- Support growth and development in the rural economy achieved in the mobilisation of rural communities through various structures including cooperatives
- Products:
  - New Venture
  - Business Acquisition
  - Expansion
- Funding ranges from R1 million to R50 million

Women Empowerment

- Businesses owned more than 50% by black women
- It was established in 2015 and is aimed at accelerating the provision of funding to businesses owned by black women
- Funding from R250 000 to R75 million

Non-financial support

PRE-INVESTMENT UNIT

- Application administration which entails the registration of new applications and distribution of applications to the respective funds for assessment;
- Product advisory which entails the handling of enquiries from clients and business development support; and
- Non-financial support, which has three key elements, namely,
  - Business Planner Tool which is an online tool that assists users to compile business plans;
  - Business incubation which is aimed at providing support to clients that have an idea that is at an early stage, it is not ready for funding and therefore needs nurturing; and
  - Entrepreneurial training which is targeted at entrepreneurs that require capacity building and enhancement in running their fledgling businesses

POST INVESTMENT UNIT

This unit has been established to perform portfolio management through monitoring investee operational performance, credit control and collections; and to provide advice and support through mentorship programmes.

TURNAROUND WORKOUTS AND RESTRUCTURE (TWR)

TWR has the responsibility of restructuring and turning around of distressed NEF funded businesses.

LEGAL SERVICE UNIT

This unit's function is to draft, negotiate and conclude legal agreements for and on behalf of the NEF. It also has the obligation to consider and take legal action to recover losses incurred, including recoveries in instances of illegal and criminal conduct, against NEF investees and guarantors.

SOCIO-ECONOMIC DEVELOPMENT AND ASSET MANAGEMENT UNIT (SEDU)

SEDU facilitates social interventions in transactions which have broad-based groups or communities. It identifies opportunities for beneficiaries in transactions and assists to develop market linkages.

This unit also sources funding for the Enterprise and Supplier Development program for the benefit of investees. In addition, it fosters a culture of savings and investment through its Investor Education programme.

STAKEHOLDER ENGAGEMENTS

Overview

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.

Stakeholder engagement objectives

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 stakeholder engagement through the management of stakeholder expectation and perception.

The main objective of stakeholder engagement is therefore to ensure that the NEF strategy:

a. is aligned and underpinned by the organisational values and code of ethics;

b. is aligned to stakeholder objectives and expectations; and

c. capitalise on strategic partnerships.

INVESTEE PROFILE

Rodger Ian Carter Technical Services (Pty) Ltd

Roger Ian Carter Technical Services (RICTS) was established in 2008. The company started with refrigeration, mechanical and electrical services as their main business, whilst also involved in building maintenance and kitchen interior designs.

The company introduced a paneling division in 2013, which manufactures, supplies and fits prefabricated chromodec panels. The paneling division involves the building of mobile classrooms, cold & freezer rooms, insulated doors and strip curtains.

Prefabricated chromodec panels are used for classrooms, houses, chicken houses, broilers and cold freezer rooms. The life span of the units is 25 years. The company designs, manufactures the paneling and does the installation of the classrooms. Other services offered by RICTS are electrical, building maintenance, engineering, mechanical services and the manufacturing of aluminum windows.

NEF first funding

In 2013, the company approached NEF for funding to the tune of R4.2 million to execute orders worth R32.4 million from Department of Public Works. Since the NEF funding the paneling division has grown extensively and contributes 90% of the company's revenue. The business revenue increased from an average of R5mil per annum to R52mil per annum post NEF funding. The business settled NEF funding in 22 months when the facility was made available for 36 months.

Second Funding

RICTS was initially appointed as a preferred service provider by Aurecon (principal agent) acting on behalf of the Department of Public Works in their Mobile Classrooms program in 2013. When the initial program ended, the Department of Public Works re-issued a tender and appointed RICTS in December 2015 along with two other service providers for the entire Western Cape Province for the continued Mobile Classrooms' program. The new Mobile Classroom Initiative is projected to spend approximately R90 million per annum in the Western Cape.

The NEF funding helped the business to reduce the production time from 2 days to produce 1 panel to 4 hours, permanent employees increased from 84 to 159 workers. The NEF funding also helped the business to acquire the Agrèment Certificate which gave the establishment a competitive edge in the sector as it is the only certified black supplier of prefabricated units in the Western Cape. The growth of the business proves that with the right financier partner a business can grow from being a small sized business to a medium size business on its way to industrialised business.

STAKEHOLDER	EXPECTATIONS/ REASON FOR ENGAGEMENT	KEY ENGAGEMENTS	MATERIALITY	OUTCOMES
Government (**the dti**, Parliament, National Treasury etc.)	The South African government is the ultimate statutory principal of the NEF. The NEF has a statutory requirement, as contained in the NEF Act of 1998, to report to **the dti** which is a custodian of other NEF critical policies and regulations like the B-BBEE Act, the Industrial Policy Action Plan and the Black Industrial Policy.	• Department of Trade and Industry (**the dti**) Portfolio Committee on Trade and Industry oversight meetings and client visits • My Business Expo with **the dti** • North West Provincial Tourism Trade and Investment Lekgotla 2017 • Brand audit survey	Government departments at national, provincial and local level provide a critical network for the NEF to interact with the South African public.	Refer to Performance Highlights and Performance Review sections for KPIs.
Employees	Employees are the most valuable asset in the business of the NEF, through which it fulfils the mandate. The NEF is expected to present a compelling and relevant employee value proposition that drives talent attraction, engagement and retention.	• Brand audit surveys • CEO's staff addresses • Divisional and group strategy sessions • Social activity forums • Performance management platforms • Newsletters and internal communication emails.	Employees are a key stakeholder as the NEF will not be able to meet its mandate without healthy employee relations. Employees who appreciate and understand the NEF values and mandate are better placed to effectively service our customers.	Refer to Human Capital section for the NEF's value proposition to its employees.
Beneficiaries Black business Communities Women, Youth and People with disabilities	Like any other service based operation, the NEF finds life through its clients. The NEF has two forms of beneficiaries as informed by the two pronged mandate: There are black enterprises that are provided with financial and non-financial support. Secondly there is also financial literacy where the NEF stands to promote the culture of savings and investment amongst black communities mainly rural and semi urban localities.	• Radical Economic Transformation Business Summit • SEDA - Entrepreneurship Day • Empowering Women in Agribusiness Through Partnership and Knowledge • SMME Funding and Procurement Indaba • Woman in Rural Development • Investor education and social facilitations • Youth and Women Empowerment Summit • Cell C Take a Girl Child • Brand audit surveys	Clients are key to the NEF as we exist to serve them. Satisfied clients give credence to the organisation's ability to effectively discharge its mandate.	Disbursed over R5.8 billion since inception, supporting over 92 000 job opportunities. The provision of bursary scheme to deserving black students to various institutions of higher learning across the country Participation in a noble project such as Take a Girl Child to work which expose these girls to various work environments.

STAKEHOLDER	EXPECTATIONS/ REASON FOR ENGAGEMENT	KEY ENGAGEMENTS	MATERIALITY	OUTCOMES
Influencers / Opinion Formers / Other Strategic Partnerships	This stakeholder group includes lobby groups, media and various market players. Their general expectation is to understand what the NEF does with the aim of forming synergistic partnerships. This stakeholder group includes analysts, business forums, commentators, other DFIs, financial institutions and the general public. They generally require accurate and regular communication. Collaboration and co-funding with other DFIs is a natural feature of the development facilitation mandate. NEF partnership with Private sector companies in the advancement of funding for enterprise development purposes.	• Africa Trade Summit Expo • SMME Funding and Procurement Indaba • **the dti** Manufacturing Indaba 2016 • Industrial Development Corporation (IDC) Youth Expo Gallagher Estates, Midrand • Durban Chamber of Commerce Seminar • Progressive Professionals Forum (PPF) 4th Annual Seminar • The Tourism Indaba • Black Business Council Conference • Investor education and social facilitations • Enterprise Development Fund (ED Fund) • Fundex	This is a significant group of stakeholders as they can influence the NEF's work and perception in the market. They create shared knowledge of the NEF and a positive view of its financial strength and ability to support funding requests. They are an important group through which positive developmental initiatives can be facilitated.	These engagements provide an opportunity to showcase investees and their wares thus giving our investees potential access to markets and our stakeholders a deeper understanding of the work we do. Enterprise Development Fund addresses both the Enterprise and Supplier Development requirements of the BEE codes for the Private sector companies.

Stakeholder perception survey

The NEF conducted a Brand Audit Survey in 2017 among its stakeholders to identify material issues. The NEF used the survey to gauge and monitor the perceptions of stakeholders about the NEF and to identify areas for improvement in stakeholder engagement. The areas of focus for the Brand Audit Survey included:

- **Operational inefficiencies,** especially around the funding application process where respondents lamented about excessive paperwork and perceived bureaucracy.
- **Lack of brand empathy** – this relates to a perception among stakeholders that as an institution the NEF and its representatives need to display respect, humane understanding, sensitivity and care in its dealings with customers.
- **Limited brand trust**- While seen to be serving a noble cause, the NEF has not convinced stakeholders to fully trust it on objectivity and transparency. There is a perception that only high profile individuals benefit from the work of the NEF.

The NEF appreciates and takes stakeholder feedback in a serious light and has thus embarked on a few measures to respond to these three key findings. The measures include:

- **Operational inefficiencies:**
  - The NEF has re-evaluated its internal processes through a Business Process Reengineering (BPR) project. BPR entails the elemental rethinking, analysing and radical redesigning of the organisation's core business processes in order to achieve improvements in critical performance measures such as cost, service, quality, and speed. We believe that through this project, we will be enabled to gain insights of how best to continuously improve our processes, while ensuring that the quality of our screening and deal evaluation is not compromised.
  - Through the human resources department the NEF has established structured customer centricity training aimed at ensuring a positive NEF customer experience at all levels of interaction.
- **Lack of brand empathy:**
  - The NEF is continuously refining internal protocol of communicating declined applications to clients and exploring ways to enhance reasons given for declined submissions as well as providing referrals to relevant funders where applicable.
  - The NEF brand is seen as relevant to economic development and transformation. Therefore, expectations from it are high, while bearing in mind that it alone cannot transform an economy as large and sophisticated as that of South Africa.
- **Limited brand trust:**
  - Proactive media coverage and profiling of our investees.
  - Engage proactively with stakeholder through sessions to share insights on our processes, requirements and application criteria.

KEY RISKS AND MATERIAL ISSUES

Enterprise-wide risk management

The NEF's mandate requires it to operate in a high risk environment, that is funding entrepreneurs that have minimal own contribution and would not qualify for loans from financial institutions or entrepreneurs with minimal or no security collateral required by traditional financial institutions.

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 places the responsibility of risk management on all staff. 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 is driven by our enterprise-wide risk management (ERM) methodology, designed in the NEF's Risk Management Framework which in turn draws from international best practices and domestic statute. These best practices are contained in the guidance documents provided by the Committee of Sponsoring Organisations of the Tradeway Commission (Coso), ISO 31000 standard on Risk Management, the Institute of Risk Management Standards of South Africa (IRMSA), Guidelines to Risk Management and King III while the domestic regulations are contained in the Public Finance Management Act (PFMA), Treasury Regulations and Public Sector Risk Management Framework published by National Treasury. Our Risk Management Framework is approved by the NEF BoT every three years with significant amendments to the methodology sanctioned by the BoT as and when it is necessary.

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

Risk management process

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

The Governance of NEF's Risk Management Process

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 processes of the organisation are adequate and effective. Internal audit conducts an annual independent review of the risk management process, in order to provide the requisite assurance.

Key Risk Indicators

We have developed a Key Risk Reporting Dashboard which consists of Key Risk Indicators (KRI's) which we use to pro-actively identify, respond to and report on key risks and any emerging risks. Management has focused on improving some of the items previously flagged such as the level of impairments and the portfolio mix (i.e. debt instruments vs. equity and quasi equity instruments). Management has also ensured the write off of items which had a slim probability of recovery. The portion of the portfolio that collections are raised on has improved from 32.7% in the prior year to 40% in the current year. The continued focus on improving the portfolio mix has resulted in R445.3 million being collected for the year ending 31 March 2017.

Risk Appetite and Tolerance Process

Defining an effective risk appetite is a necessary pre-requisite for a sound risk management framework. A framework to determine the NEF's Risk Appetite is in place, however, due to the uncertainty regarding the NEFs recapitalisation, the Risk Appetite and Tolerance levels for the NEF could not be finalised. Now that there is clarity regarding the NEF's recapitalisation, the Risk Appetite and Tolerance levels for the NEF will be finalised during the 2017/18 financial year.

Business Continuity

Business Continuity and IT disaster recovery plans are in place. Implementation on the Business Continuity process has commenced with training being held with the implementation team and testing of plans is in progress.

Risk Assessment Process

The risk assessment process results from the review of the risk universe, allowing key risks to be identified. The risk assessment exercise is completed on an annual basis and the divisional risk registers are updated at least three times in a year. This allows any emerging risks to be identified and tracked. There will be increased focus on the tracking of identified actions during the next financial year.

Our Material Issues

Our material issues relate to the future sustainability of the NEF and our ability to discharge our mandate due to lack of being adequately capitalised. During the last quarter of the 2016/17 financial year end some level of clarity regarding this was obtained. The NEF becoming a subsidiary of the IDC was formally announced and a facility for interim funding from the IDC was approved by their Board. The key outstanding item relating to obtaining these funds relates to Cabinet formally approving the NEF being a subsidiary of the IDC. As a result of the clarity obtained regarding the NEF's recapitalisation and future funding, the risk rating of the recapitalisation risk has reduced since the previous year.

The recent credit rating downgrade of the country has also impacted on the external environment that the NEF operates in and could negatively impact on economic conditions which will impact on the NEF's client base who are more exposed to external shocks than established businesses.

Key risks and material issues

Key risks are identified based on discussions held with individuals from the different departments and the Risk Department's knowledge of the business. The items identified are discussed at the Executive Committee and RPMC before being submitted to BoT. We identified and prioritised five material risks for the NEF:

1. Credit risk/Asset quality
2. Market risk
3. Reputation risk
4. Sustainability and Liquidity risk
5. Recapitalisation risk

Material Issue/Risk	Implications of material issue	Mitigating controls	Strategic objectives
Credit Risk/Asset Quality The risk that poor quality transactions are funded and increasing number of clients are in distress due to difficult economic conditions.	This could lead to an increase in losses suffered by the NEF due to failure of transactions funded, which could negatively impact on NEF's future sustainability.	The NEF has robust screening and due diligence processes, which assist in ensuring that poor quality transactions are not funded.	Advancing B-BBEE Financial efficiency and sustainability Maximising Empowerment Dividend
Market Risk Changes in macro economic conditions negatively impacting on NEF's client base	The current volatile economic conditions due to the recent credit rating downgrade may negatively impact on sustainability of businesses funded by the NEF being more susceptible to external shocks.	Closer monitoring of clients will assist in identifying any problems sooner and transfer them to our TWR unit for early intervention.	Financial efficiency and sustainability
Reputation risk The possible damage to our brand due to association with unethical organisations or individuals that would bring the NEF's reputation into disrepute.	Third party arrangements that are not properly governed and managed could have a negative impact on the reputation of the NEF.	Prudently executing on relationships within the constraints of corporate governance as well as the MOU concluded.	Advancing B-BBEE Maximising Empowerment Dividend
Sustainability and Liquidity risk The risk that the NEF will not have sufficient funds to approve new transactions	Lack of long term funding for the NEF will put the financial support for black businesses at risk.	The monitoring of available cash to ensure that we do not approve transactions that we do not have cash for.	Advancing B-BBEE Financial efficiency and sustainability
Recapitalisation risk Inadequate capitalisation of the NEF to fulfil its mandate	This could negatively impact on the NEF's ability to achieve its mandate and limit the ability to empower businesses established by black people.	Various engagements were held with stakeholders during the year to ensure that the NEF is sufficiently capitalised. The business combination with the IDC was formally announced during the last quarter of the financial year ending 31 March 2017.	Advancing B-BBEE Maximising Empowerment Dividend

Risks and opportunities

The current key risks faced by the NEF relate to recent economic events that will impact on the performance and role of the NEF. The recent downgrade of the credit rating of South Africa will negatively impact on economic conditions of businesses funded by the NEF who are less resilient to external shocks. It could also lead to an increase in the demand for NEF's services to black businesses as banks may start to further tighten their lending criteria.

Government's recent emphasis on radical economic transformation has placed the mandate of the NEF as a key area of focus in the country. The NEF has positioned itself as being a key voice with regard to economic transformation. The NEF is doing this for example through submissions to Parliament on items such as review of the Financial Services charter and supporting the Department of Mineral Resources in its court bid against the Chamber of Mines regarding the principle of "once empowered, always empowered."

Compliance

Regulatory compliance refers to an organisation's adherence to laws, regulations, guidelines and directives applicable and relevant to its business. Increasingly, organisations are seeing a number of laws applicable to their operations and adherence to laws as critical to their success. The NEF has identified legislation applicable to it, the most crucial being B-BBEE, PFMA and King III and appropriate controls have been set up to mitigate the risks of non-compliance.

The Regulatory universe is updated formally on an annual basis and tools are being put in place to identify any new legislation that the organisation needs to be aware of. Furthermore, training and workshops are also conducted with staff to ensure that they are aware of the relevant compliance requirement relating to legislation.

During the next financial year the frequency of these sessions will be increased. In the year, a Protection of Personal Information act (POPI) implementation project was also initiated which will ensure that relevant processes are in place to ensure that we can comply with POPI once the implementation date has been finalised.

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 2016/17 financial year to address the fraud risk according to our fraud prevention plan:

- Strong control environment is in place and subjected to annual independent audit by our Internal Audit division.
- The Code of Conduct and Conflict of Interest policies were updated and a PEP (Politically Exposed Person) policy was approved by the BoT during the year.
- Two Fraud awareness sessions were held with staff which included risk relating to cybercrime.
- Fraud Hotline/Whistle blower program managed by an independent service provider 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. We did not receive any reports from the Hotline during the current year. We will be engaging with the service provider regarding ways of increasing awareness regarding the Hotline.
- 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. We investigated one matter during the year relating to allegations against a staff member and found no merit in the allegations levelled.
- Litigation and prosecutions are carried out by the Legal Division following recommendations by the Post Investment Unit and Risk Division. We are dealing with 16 litigation matters which mainly relate to investees who have misappropriated funds from the NEF and date as far back as 2008. We have experienced challenges with the progress of these matters from the Public Prosecutor and we subsequently engaged a law firm to expedite the investigations.

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 forms part of the enterprise-wide risk management process but focuses on ensuring that the funds of the organisation are lent to entrepreneurs and enterprises that are credit worthy.

Credit risk management is a shared responsibility across the entire organisation as detailed on the next page:

> "Let me start by saying without any ambiguity that IPAP is intended to contribute to radical economic transformation. At its simplest this means that IPAP must contribute to the achievement of two components simultaneously, that of bringing about radical change in the structure of our economy in particular to contribute to bringing about structural change that reduces our dependence on the industries and sectors that were designed under colonialism."
>
> **Minister of Trade and Industry, Hon, Dr Rob Davies at the launch of the ninth iteration of IPAP, 8 May 2017**

ACCOUNTABLE OPERATIONAL AREA	MITIGATION ROLE
Investment Teams	• Identify risks and any mitigating measures on each transaction reviewed and conclude on viability of such transaction. • Perform adequate due diligence investigations to confirm existence of mitigating measures and viability. • Structure transactions in a manner that will reduce credit risk to an acceptable level. • Prepare an approval report that is factual and assists investment committees in making informed decisions.
Credit Risk Division	• Thorough study of approval reports prepared by the investment teams. • Perform an independent assessment of credit risk for each transaction. • Support the approval committees by providing an independent and objective opinion on viability of the evaluated transaction with regards to the level of credit risk.
Investment Committees	• Study approval reports to ensure that all risks have been adequately addressed. • Make objective decisions on the basis of economic viability and acceptable risk exposure.
Post Investment Unit (portfolio management)	• Provide mentorship in areas in which the NEF investees lack adequate experience, skills and capacity to successfully run the business for which funding was provided. • Provide continuous monitoring to ensure that the investees adhere to the business plan or address emerging internal risks that have the potential to affect their liquidity and ability to repay the NEF loan. • Follow up on slow paying investees and collect outstanding debts promptly.
Legal Unit	• Perform an independent legal due diligence for each transaction. • Draft, negotiate and conclude legal documents with investees and other external stakeholders where relevant, e.g. suppliers. • Follow 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. • Act on securities or collateral and recover some or all debts from investees failing to honour their debt obligations. Litigate on behalf of the NEF against investees to ensure all possible avenues are to collect or recover debts are exhausted.
Turnaround, Workouts and Restructure Unit (TWR)	• Provide specialist service and intensive monitoring of investments experiencing cash flow or liquidity challenges and similar other challenges affecting debt repayment. • This involves analysing causes of challenges, restructuring of business operations to ease the cash flow constraints and devising turnaround strategies.

Credit Risk Profile

The NEF has a robust credit and investment management process which encompasses among others:

- A robust due diligence process that is performed by an interdisciplinary team of financial, technical, community and legal specialists.
- A credit risk assessment process that is independent of the due diligence and business generating team.
- The Post Investment Unit is responsible for managing the portfolio during the life of each transaction.
- Portfolio Management Committee meetings to monitor the performance of the book.

Collateral

The NEF employs various policies and practices to mitigate credit risk, principally securing sufficient own contribution and collateral for investments made. The NEF implements guidelines on the acceptability and valuation of specific classes of collateral. The principal collateral types for loans and receivables are:

- Notarial bonds over property and equipment.
- Personal securities and the cession of policies, investments and proceeds of contracts.

Internal Rating and Pricing Models

The NEF has developed rating and pricing models which are aligned to our risk profile and portfolio. The output of the rating model is used as an input in the pricing solution and used for portfolio monitoring. The pricing tool is used to price all deals.

Concentration risk

The concentration risk in the investment portfolio is decreased through industry diversification. The 303 investment projects with a cumulative exposure of R3.2 billion in the portfolio are representative of most sectors of the economy, with no specific industry or geographical area representing undue risk. No single investment represents more than 10% of the total investment portfolio thus limiting the concentration of single investments.

Looking Ahead

The Risk Department is working on various initiatives to enhance the Risk Management efforts of the NEF. Work is being done on a Risk Maturity Framework, which will assist in providing a Roadmap to enhance the Risk Management activities of the NEF.

As clarity has been obtained regarding the NEF's recapitalisation, the NEF's Risk Appetite and Tolerance levels will be finalised.

Work has also been done to enhance the background checking process via access to additional credit reports to assess creditworthiness of individuals. These tools will be implemented during the current year to enhance the assessment process for applicants.

The Business Continuity plans are in the process of being implemented and tested. This process will be completed during the 2017/18 financial year.

BoT's view on effectiveness of the NEF's Risk Management process

At the request of the Audit Committee, internal auditors performed a review of the NEF's risk management processes. The overall audit received a satisfactory rating.

INVESTEE PROFILE

WASSA GASSES

The NEF has funded the first independent petrochemicals company that is 100% owned and managed by black women in South Africa. The primary goal of the company remains that of progressively amassing market share in a sustainable manner and gaining visible presence within the petroleum and commodities sectors through its extensive product portfolio and infrastructure.

The company has setup its Liquefied Petroleum Gas (LPG) filling plant in Kya Sands since 2010 and has invested significantly in the LPG business in the form of LPG tankers, logistic fleet, cylinders, storage tanks and gas cylinder filling facility for domestic, commercial and industrial markets. The gas business has been complemented by significant growth in commodities and chemical supply contracts in South Africa and within the SADC market.

Wassa's empowerment credentials, trading expertise and consistent delivery has raised the company's profile within the gas, chemicals, crude oil and fuels sub-sectors of the petroleum and commodities sectors. The company's business partners range from petroleum majors, re-sellers, government entities, distributors, warehousing-logistics companies through shopping malls. The City of Tshwane, Schoeman Boerdery, SAA Air Chefs, Food Corp (Nola), KZN Ezemvelo, Supreme Poultry and DHL International are some of the recent relationships that the company has secured recently.

WASSA drives growth through diversification of its offering, extension of the geographic footprint as well as infrastructure investment. Over the years, the company has successfully built its business from a green-fields concept into a respected independent player within the petrochemicals industry, locally and internationally.

The economic empowerment of women more especially those from communities that were previously excluded from the country's mainstream economy are among the NEF's key objectives.

This has seen the NEF making important intervention in the various sectors of the economy to give the much-needed financial and non-financial support to women entrepreneurs. As part of its mission to fund and support women entrepreneurs NEF has granted WASSA a R12.4 million loan for the expansion of its business operations. The company management has over 50 years combined experience in the manufacturing, marketing and distribution of gas, fuels and chemicals. Over time, Wassa has built sound competencies, which have been instrumental in securing major contracts, and contributed in positioning the company as one of the leading and competitive trading entities within the petrochemicals sector. Wassa permanent jobs have increased from 12 to 32 .

OVERVIEW OF THE OPERATING ENVIRONMENT

Economic overview

Global economic highlights

The global economy expanded by just 2.2% in 2016, the lowest economic growth rate since 2009, as a result of stagnating global investment, low global trade growth, low productivity and higher levels of debt. Recent low commodity prices have aggravated these factors with conflict and geopolitical tensions continuing to weigh on economic prospects in several regions. Global uncertainty was further aggravated by the change of leadership in the USA. The US elections, combined with Brexit all point towards a potentially high degree of protectionist and nationalist sentiment. Should it be followed through by policy, it is likely to impact negatively on global trade and investment flows.

According to the World Bank, the global economy is projected to expand by 2.7% in 2017. This modest growth is indicative of economic stability as opposed to a signal of dynamic and sustained revival of global growth. Key global events that pose key risks include the economic slowdown in China; US interest rate hikes could negatively impact on capital flows into emerging markets; and rising populism in developed economy could see protectionism policies disrupting trade and investment flows that encompass emerging markets.

Key global implications to South African markets

The UK's withdrawal from the EU may enable the Southern African Customs Union to negotiate improved access for agro-processing and agricultural products to the UK market as the restrictive conditions hitherto imposed by other EU countries will no longer have to be accommodated.

South Africa's motor vehicle exports to the UK may benefit from Brexit should vehicles produced in the EU face more difficult market entry. However, should the UK vehicle producing industry suffer setbacks, its demand for South African vehicle parts and components may decline.

Import competition would most likely intensify if Chinese and Mexican clothing manufacturers lose substantial market access in the US. This would counter ongoing efforts to stabilise the domestic sector.

It is worthy to note that South Africa's prudent macroeconomic and fiscal policies, which include inflation targeting and a flexible exchange rate, enable the economy to adjust to global volatility, and provide a stable platform for investment.

South African economic highlights

On the domestic side, the South African economy faced a challenging year in 2016 where the GDP contracted by 0.3% in the fourth quarter of 2016 and the overall annual GDP grew by 0.3%.

The South African economy has not yet recovered from the disappointing performance in 2016 as it entered into a technical recession, following a second consecutive contraction of 0.7% in GDP during the first quarter of 2017. The trade, catering and accommodation sectors was the largest contributor to the negative GDP growth, falling by 5.9%, mainly due to a decreased economic activity. In contrast, the agriculture, forestry and fishing industry rebounded in the first quarter of 2017 and rose by 22.2%, the highest positive growth rate, as a result of increasing field crops and horticultural production.

High unemployment remains a key challenge in the South African economy as the unemployment rate rose to 27.7% in the first quarter of 2017, which is the highest observed since September 2003. Of the increased number of job-seekers, 58% were young people aged between 15-34, driving the youth unemployment rate to 38.6%.

According to the revised World Bank forecast, the South African economy is projected to grow by 0.6% in 2017, an adjustment from the 2017 Budget Review projection of 1.3%. However, a recovery is expected, which will be supported by a stronger global growth, more favourable weather conditions, reliable electricity supply, less volatile labour relations, and stabilising commodity prices.

Sovereign ratings downgrade

The South African government has taken note of the Fitch's and Standard and Poor's downgrading of South African long-term, foreign currency-denominated debt to sub-investment grade in April 2017.

The main reasons for the downgrades are:

- Poor medium-term growth prospects due to structural weakness as well as rising interest rates, further deterioration in the investor climate and less supportive capital market environment.
- The prospect of further rises in the government debt-to-GDP ratio.

While the executive leadership of the finance portfolio has changed, the South African government remains committed to a measured fiscal consolidation that stabilises the rise in public debt.

Government also continues to work with business and labour to rebuild confidence, promote investment and improve prospects for more inclusive economic growth.

Considerations for the NEF

In the midst of a global and domestic difficult economic environment, the NEF remains committed to its role in contributing to the achievement of national goals of poverty alleviation, transformation and economic growth. In addition, the NEF recognises its responsibility as a funder to black-owned businesses to encourage investment activities in the country that will further contribute to job creation opportunities in a time where unemployment continues to be a challenge.

The State of the Nation Address in January 2017 called for radical economic transformation. In addition, the Budget Speech of February 2017 pointed to additional efforts to reduce economic concentration through enhanced competition in South African markets.

The Minister of Finance, Honourable Malusi Gigaba, stressed in his address to the Black Business Council on 15 May 2017, that the government is committed to address the high barriers of entry and low competition in the South African market, and emphasised the urgency to deliver socio economic change that will enable businesses and industries to grow in an inclusive way.

Consequently, the government calls for urgency to accelerate inclusive growth and development in an effort to reverse the triple challenge of poverty, unemployment and inequality. The sovereign downgrades have further highlighted that there is a greater need for economic growth and transformation in the midst of an undeniably tough economic climate.

With a strong commitment to advancing an empowerment dividend comprising job creation opportunities, women economic empowerment, investment across all provinces in the country; the NEF serves to lend support and credibility to black-owned businesses which have a higher risk profile in a climate where otherwise investment in these businesses would be minimal. The NEF is therefore equipped and experienced to make higher risk investments that will advance economic transformation.

The Regulatory and Policy Environment

Amendments to the B-BBEE Act No 53 of 2003 came into effect in October 2014 and in May 2015 amendments to the B-BBEE Codes of Good Practice came into effect. Since then various Sector Codes have undergone revision to align with the B-BBEE Codes and are in the process of being finalised. Other notable policy in the BEE arena has been the promulgation of the Black Industrialists Policy whose objective is to facilitate and support the growth of black industrialists.

There are a few policy enhancements and changes that are key to NEF's mandate in empowering entrepreneurship within previously marginalised groups and are elaborated below.

Financial Services Charter

The Financial Services Charter (FSC) was implemented in 2004, serving as a voluntary commitment from the financial services sector to transform the five pillars including ownership, employment equity, procurement and enterprise development with the purpose of empowering, financing and providing access to financial services.

The National Treasury is intensifying the drive for transformation compliance within the financial services industry and mandated that the FSC be reviewed to fast track Black Economic Empowerment.

The FSC did not produce satisfactory results due to a lacklustre progress in transformation within the industry and therefore, lost momentum, even though it was initially received with excitement and optimism.

The NEF has identified a number of shortcomings with the FSC that are highlighted below:

- A fundamental deficiency of the charter is the lower 10% target for direct ownership in the financial sector, which compares unfavourably with the minimum 25% target in the Generic BEE Codes.
- The R122 billion target for Empowerment Financing is based on the 2002 baseline and has not been reviewed nor has it been adjusted to cater for inflationary increases, population and economic growth.
- Furthermore, although women constitute greater than 50% of the population, the Charter is virtually silent on the need to facilitate and enable the economic participation of women. The Women Empowerment target is not explicit enough to drive the message that women empowerment is a critical lever for radical economic transformation.

In addition, the FSC does not allocate specific targets for the respective sub-elements under Empowerment Finance.

Transformation has remained a voluntary process in South Africa and the NEF believes it has become more necessary than ever for all participants to comply with the Codes as well as the FSC, in the case of the financial services sector.

Through empowerment financing and ensuring that women financing is equally prioritised, the financial services sector can assist in the reduction of poverty and inequality, job creation and restoring dignity to the majority of South Africans.

> “The private sector needs to support Radical Economic Transformation, whether through provision of additional funding, the transfer of skills and technology, or providing access to supply chains. This programme, once it reaches scale, will both contribute to the reindustrialisation of our economy and help redefine our approach to black economic empowerment”
>
> **Address by Deputy President Cyril Ramaphosa at the Black Business Council Dinner, Sandton 19 April 2017**

Industrial Policy Action Plan (IPAP) 2017/18 – 2019/20

IPAP 2017/18-19/20 is in its ninth annual iteration based on the National Industry Policy Framework and its objectives. IPAP 2017/18 places emphasis on job creation with a continuously strengthening focus on labour intensity, especially in labour intensive sectors that link the productive sectors of the economy, across integrated value chains. IPAP 2017/18 seeks to achieve a higher impact in difficult economic circumstances. It recognises that key domestic constraints constitute a considerable break on industrialisation. IPAP 2017/18 therefore recommends continued support for a constructive and solutions-based approach to key challenges which has been adopted by the economic cluster.

South Africa is ranked amongst the most unequal countries in the world in terms of both income and wealth. These realities have major implications for industrial policy because they affect the nature of consumer demand, socio-economic and workplace uncertainty and conflict, and regional labour migration.

The ninth annual iteration of the IPAP is driven by the following key factors:

- A pressing commitment to Radical Economic Transformation.
- Ongoing efforts to secure shared and inclusive growth, encompassing transformation of ownership; substantive management control; and an economic strategy that focuses on value-addition and labour-intensity across value chains.
- Rapid acceleration of the Black Industrial Programme – moving from a start-up target of 30 projects per year for the first two years, up to 100 projects across the span of the 2017/18 – 2019/20 financial years.

IPAP is committed to supporting black industrialists rather than merely transferring ownership in existing large companies to empowered individuals without any real change in decision making and control. At the same time, employee ownership schemes could help to broaden ownership and the benefits from growth while mobilising greater support for enterprise development. Achieving both these aims requires a closer alignment of broad-based BEE requirements, above all by continually strengthening support for local procurement.

The NEF had previously identified this market funding gap and established the Strategic Projects Fund (SPF), which provides venture capital to black entrepreneurs to fund project development from concept to the bankable feasibility stage, which is the funding realm of commercial financial institutions. SPF currently has 27 strategic and industrial projects worth R28.6 billion, with the potential to support over 86 500 jobs.

Preferential Procurement Policy Framework Act (PPPFA)

One of the most encouraging developments in government policy is to advance economic transformation in the strategic use of state procurement. The transformative impact of state procurement to date has been limited by the fact that government procurement has been fragmented, decentralised and poorly designed. Previously, government has also not focused on using the procurement lever to transform ownership and include more black people in the economy.

Therefore, the new regulations in terms of the Preferential Procurement Policy Framework Act ("PPPFA") have been published and will take effect from 1 April 2017. The regulations replace the previous 2011 regulations, and introduce several important changes, which have significant implications for firms contracting with the government and parastatals.

In terms of the new regulations, price remains the dominant basis on which procurement decisions must be made. This is done through the 80/20 and 90/10 principles whereby 80% or 90% of the total points awarded to a tenderer depend on price and 20% or 10% of the points awarded may depend on non-price considerations like the tenderer's rating for Broad-Based Black Economic Empowerment ("B-BBEE"). However, in terms of the new regulations, the 80/20 principle will now apply to tenders under R50 million (previously R1 million). The 90/10 principle, on the other-hand, will apply to tenders above R50 million.

Whilst the NEF acknowledges some of the changes made to this policy, we believe that leaving the 80/20 and 90/10 split does not adequately support the need for an accelerated transformation. Non-price weighting could have been increased to at least 40% in both instances.

Another significant change in the new regulations is the explicit authorisation for prequalification criteria for tenders. Tenders may now contain a specific tendering condition that only one or more of the following tenderers may respond:

- A tenderer with a stipulated minimum B-BBEE status;
- An Exempt Micro Enterprise ("EME") or Qualifying Small Enterprise ("QSE"). These terms are defined in the codes of good practice on black economic empowerment ("Codes") issued in terms of the Broad-Based Black Economic Empowerment Act ("B-BBEE Act"). EMEs are firms with an annual total revenue of R10 million or less and QSEs are firms with an annual total revenue of between R10 million and R50 million; and
- A tenderer subcontracting a minimum of 30% to various EMEs or QSEs, including EMEs or QSEs which are at least 51% owned by black people (including youth, black women, black people with disabilities, black people living in a rural or undeveloped area or township and/or military veterans). The importance of this change is that a tender which fails to meet the prequalification criteria may be rejected upfront from consideration.

Where compulsory subcontracting is applied in a tender process, successful tenderers will be obliged to subcontract a minimum of 30% of the contract value to one or more suppliers registered on a database approved by National Treasury to provide the required goods or services.

An exciting development is an establishment of Office of the Chief Procurement Officer at National Treasury to provide strategic leadership, oversight and a focal point to government procurement.

To complete this reform and modernisation of state procurement, government will soon introduce the Public Procurement Bill.

Amongst other things, this Public Procurement bill:

- provides for supplier development for procurement.
- provides for targeting designated groups, allowing government to call for tenders only from businesses owned by black people, women, youth, and people living in particular areas.
- considers price as an element, but not the defining element, alongside economic transformation imperatives.
- breaks down barriers to entry by lessening the administrative burden on prospective suppliers, leveraging the central suppliers' database.

The NEF views the amended PPPFA and the Public Procurement Bill as positive steps towards the acceleration of opening doors for entrepreneurs who were disadvantaged in the past due to race, gender, age and/or regional location.

The NEF continuously strives to be part of the solution for transformation that is reflective of the South African demographic population by creating an enabling environment for inclusive growth and economic empowerment. In addition, the NEF welcomes progressive initiatives that are aligned with the NDP Vision 2030 that calls for a growing economy that is more equitable, competitive and sustainable.

CHAIRMAN'S REPORT

Mr Rakesh Garach
Chairman of the Board of Trustees

Championing inclusive growth

Introduction

The 2016/17 financial year will go down in history as one of the most challenging for South Africa's economy since the advent of democracy in 1994. With the recent downgrades of the country's sovereign rating and the confirmation that the economy is in recession, it is understandable that a sense of anxiety and disquiet will be prevalent. However, in times like these what is required are bold decisions to rescue the country from the quagmire of negative growth, and it is for this reason that the NEF, its investees and stakeholder community were gratified by the 14-point action plan to revive the economy, as announced recently by the Minister of Finance.

The NEF along with other Development Finance Institutions (DFIs) play a pivotal role as engines for accelerated inclusive growth. The universal reaction of governments in times like these is to default into austerity mode. While belt-tightening is always important, it is critical that this be balanced with the need to redirect resources from consumption to the productive sector and to support black-owned and managed businesses across the value chain. This **Integrated Report 2017** is an account of how the NEF has sought to achieve this purpose.

Cumulative highlights to date

Approvals
R8.6 billion

Disbursed
R5.8 billion

92 189
Jobs opportunities supported

Recapitalisation of the NEF

It is against this background that the NEF is invigorated by recent positive developments in the long journey of its recapitalisation. In this regard, Section 18 of the National Empowerment Fund Act No. 105 of 1998 provides for the NEF to be funded by Government as follows: *"The operating and capital expenses of the Trust will be financed by grants, loans, income generated by the Trust or money appropriated by Parliament for that purpose".*

The engagements with Government have been protracted. Competing demands and priorities on the public purse remain far too numerous. Fearful of the ominous prospects of another involuntary moratorium on funding by the NEF in order to preserve resources at hand, and confronted by few funding options in the open market, the anguish of black entrepreneurs has been insufferable, but in the end, there is cause for hope and belief. In this regard the BoT is pleased to acknowledge the following declarations by Government:

- *"In a landmark breakthrough for South Africa's quest for inclusive growth and radical economic transformation, the Ministers of Trade and Industry and of Economic Development announced in Cape Town today that the National Empowerment Fund (NEF) will become a wholly-owned subsidiary of the Industrial Development Corporation (IDC) in order to meet the considerable demand for funding by black entrepreneurs. This is in line with the affirmation by President Jacob Zuma in the State of the Nation Address (SONA) last Thursday that the quest for radical economic transformation must seek 'fundamental change in the structure, systems, institutions and patterns of ownership, management and control of the economy in favour of all South Africans, especially the poor, the majority of whom are African and female.' Both the IDC and the NEF have been identified by Government as central in implementing radical economic transformation and development policies, particularly in light of renewed efforts to develop black industrialists"* – **Joint media statement by the Ministers of Trade and Industry and of Economic Development, 14 February 2017.**

This historic and resounding declarations resolve a long-standing challenge and by far the NEF's gravest risk, that of securing sustainable recapitalisation in order to continue the implementation of its mandate of providing financial and non-financial support to black entrepreneurs, and entrenching a culture of savings and investment among black people.

As recorded in previous annual reports, the NEF was capitalised in 2005 by Government to the value of R2.4 billion, all of which was fully disbursed by 2010, as planned. Since then, the NEF has been self-financed with proceeds from dividends and interests from its investments and R1 billion proceeds from the sale in 2007 through the Asonge Share Scheme of a portion of the NEF's holding in the MTN Group.

Since July 2014 the NEF has been in discussions with the IDC in a process supported by both **the dti** and the Department of Economic Development, to find a sustainable and long-term recapitalisation solution for the NEF. This process culminated in a proposal that the NEF become an arms-length subsidiary of the IDC, as noted above. The IDC has since approved a facility of R500 million in favour of the NEF, and we are confident that following completion of the regulatory processes presently under way, drawdown will soon follow.

The Ministers have proposed the following principles, which will inform the NEF's structural integration as an arm's length subsidiary of the IDC:

- The NEF remains focussed on B-BBEE and has an opportunity of increasing developmental impact as a result of recapitalisation from the IDC.
- The BoT provides guidance to the NEF on direction and IDC focusses on its mandate of industrial development.
- **the dti** as custodian of B-BBEE legislation and policy in the country continues to maintain oversight over the NEF as the implementation agent of such policies.
- The mandate of the NEF would continue as is, undiluted.

Secondly, the NEF has been in discussions with the Public Investment Corporation (PIC) in order to secure a R1 billion facility from the funds that the PIC manages on behalf of the Unemployment Insurance Fund (UIF). The NEF has also had warm and encouraging engagements with the UIF, and there is broad agreement that because the work of the NEF contributes directly to the country's job-creation imperative, the development financier would be an ideal partner with the UIF.

The BoT is aware of the determined and sympathetic lobby by organised black business for the NEF to be fully recapitalised, to remain relevant in the market and central to the quest for transformation. As the BoT, we are appreciative of these efforts and acknowledge the continuing support and camaraderie that we enjoy with organised black business.

> "Black entrepreneurs, who are the NEF's raison d'être, must become integral to this anticipated growth as active and creative producers of wealth whose objective, among others, is generating export revenue, improving intra-African trade and co-investment for mutual sustainable growth."
>
> **Mr Rakesh Garach**
> **Chairman of the Board of Trustees**

Funding across the economic spectrum

The business echelon that is poised to lead this organic partnership with the broader African continent, the Diaspora and indeed with the wider world, are the black industrialists that the NEF has continued to support together with local and international co-investors.

Examples of these visionaries include *Smith Capital*, a manufacturer of lift drills & aerial cranes. As a result of the NEF's funding to the value of R41 million for 100% black acquisition, Smith Capital is now a 52% black-woman-owned business with a black woman as its CEO. The company has been awarded additional work by Eskom to the value of R22.9 million, as well as by the City of Johannesburg. The NEF approved second round funding of R8 million to execute these orders. With Africa's anticipated infrastructure boom, Smith Capital could very well help take our continent's determined resolve to the skies.

Secondly, in the North West is a bold and exciting project, *Salamax*, which has developed a second-generation biofuel process that uses grass and/or leaves to produce ethanol and its own electricity through locally developed technology. The technology was invented by the project sponsor, and offers significant advantages such as cost effectiveness and positive contribution to the green energy quota compared to conventional biomass methods. The project offers bioethanol export opportunities to the SADC region. A pilot plant is currently being constructed in Potchefstroom. As a 40% equity holder the NEF has invested R10 million for the construction of the pilot plant.

The NEF, through its veritable understanding of the plight, aspirations and fortitude of black business, has over the past 12 years helped budding entrepreneurs who literally walked through its doors armed only with ideas to realise their objectives of either starting their own businesses, expanding existing enterprises or acquiring equity in existing ones. What is unique about the NEF is that as a "funder with a soul", the development financier looks for reasons to fund a transactions rather than for justifications not to. It is for this reason that nothing makes us sadder than to have to decline transactions with lower prospects for sustainability and reduced developmental impact.

Whilst the NEF places precedence on commercial viability, our mandate also focuses on softer measures in assessing applications for funding, and these include development indicators such as black women empowerment, community involvement, black ownership, which must comply with NEF product criteria, job creation, and the geographic location of the business.

These measures form part of the developmental ethos adopted as the underlying theme of its funding strategy, and together constitute a methodology by which the BoT evaluates the impact of the NEF's work. This methodology, in NEF parlance, is referred to as the *empowerment dividend*.

In addition to the industrial projects referred to above, the primacy of the empowerment dividend has helped the NEF ensure that *rural and community development* remains a cornerstone of the NEF's development and funding philosophy, and since inception, rural-based transactions are geared to empower 33 communities and over 1.9 million individuals, countrywide. With anticipated recapitalisation this impact will be far greater in the short to medium terms.

The success and sustainability of rural and *SME* investee businesses has been significantly enhanced by the NEF's robust mentorship support system. Management deserves particular commendation for a successful entrepreneurship training and incubation programme, which has provided business skills to more than 2800 participants through 109 seminars countrywide from 2012 to date.

Work has continued apace in supporting black participation in untransformed sectors of the economy and expansionary projects in *medium-sized enterprises*. Typically, this space attracts black professionals primarily, some of whom emerge from shining corporate careers while others are maturing entrepreneurs, having graduated from the SME strata. The calibre of entrepreneurs funded by this unit can easily crossover into the Black Industrialist category and indeed many already fit into this segment.

A significant portion of the deals that are coming through this funnel are positioned in knowledge-intensive industries requiring a high calibre of skills, which the BoT is satisfied are in good supply across the organisation, as acknowledged in the *Foreword of the Minister of Trade and Industry, Dr Rob Davies*. The NEF's formidable human capital is the primary locus of the organisation's sustainability.

As an organisation that has reached maturity, the NEF therefore funds across the economic spectrum, able to assist businesses of any size and complexity in any sector of the economy, anywhere in South Africa, and the BoT is proud to report that *black women entrepreneurs* occupy pride of place across the NEF's invested portfolio. This remains a priority area of strategic focus for the BoT, and one to which management is equally committed.

> "Efforts are underway to ensure that the NEF, as an apex institution, will soon be recapitalised as a subsidiary of the Industrial Development Corporation in order to meet the considerable demand for funding by black entrepreneurs.
>
> Government applauds the NEF for having developed formidable human capital across its echelons, and for retaining exceptional skills under trying conditions in respect of yet unrealised recapitalisation, and for delivering meaningful impact in driving economic growth and transformation across industries and the country as a whole."
>
> **The Hon. Dr Rob Davies, MP**
> **Minister of Trade and Industry**

Governance and legal framework

As an organisation that serves society, one whose fundamental import is to bridge the economic divide between two distinct historical epochs and across deep social chasms, the NEF BoT understands and subscribes to inclusive and integrated governance that aspires to ensure integrity and uphold sustainability. The role of the BoT as the NEF's highest governing body before **the dti**, Government and Parliament, is to lead the organisation through the discharge of its responsibilities in relation to strategic direction, policy approval, oversight and accountability such that the good governance outcomes of an ethical culture, good performance, effective control and legitimacy with stakeholders are achieved by the organisation in a verifiable manner.

The BoT therefore strives at all times to keep abreast with the legal and regulatory framework in which the NEF operates. The BoT works together with management and continually reviews the NEF's policies, processes, strategy, plans and performance to ensure compliance, relevance and best practice. In line with this commitment, the recent BoT workshop to align with the King IV Report of Good Governance will contribute towards entrenching sound governance principles in order to ensure sustainability and world-class excellence.

Appreciation

With the promise of recapitalisation, the NEF enters a new phase in its journey at a time when there are increased calls for bold and radical interventions to change the ownership and management patterns of the SA economy. With a visionary BoT, a peerless executive and management core as well as highly competent staff, the entity is well-positioned to play a catalytic role to help propel radical, inclusive and accelerated growth.

In discharging its work the BoT is privileged to report to a supportive shareholder ministry, **the dti**, Government at large as well as to the respective committees at Parliament. The BoT also values the NEF's meaningful relations with organised business and co-investors, DFIs and the banking sector, the media, the public and the black entrepreneurs in whose name we serve.

As a BoT we hope we have made a meaningful difference because collectively we are inspired by the words of one Sheryl Sandberg that "leadership is about making others better as a result of your presence, and making sure the impact lasts in your absence".

Mr Rakesh Garach
Chairman of the Board of Trustees

REPORTS

CEO'S REPORT

Ms Philisiwe Mthethwa
Chief Executive Officer

2017 Highlights

Approvals
R1.1 billion

Commitments
R982 million

Collections since inception
>R2.3 billion

Pioneering inclusive growth

Value creation

This Integrated Report 2017 of the NEF seeks to communicate to all the stakeholders an account of the organisation's value creation over the financial year 2016/17, while reflecting on its 12-year operational history in respect of strategy, governance, performance, risks and prospects over the short, medium and long term.

This report seeks to communicate to all stakeholders an account of the NEF's value creation over time, and in particular during the previous financial year 2016/17, in respect of strategy, governance, performance, risks and prospects over the short, medium and long terms.

Economic Landscape

As a development financier the NEF assesses its strategy and operations within the context of the national, regional and global economic landscape. In this regard, key deductions stand out:

Global overview

- The global economic activity is forecast by the IMF to accelerate in 2017 with global growth projected peak at 3.6% in 2018.
- The forecast, however, remains uncertain due to pressure from ongoing political, policy, and economic uncertainties impacted mainly by China's weak economic outlook and major policy changes under the new administration in the USA.
- In some key markets for the South African economy, the United Kingdom went into a snap elections, which, like Brexit a year prior, produced unexpected results as the ruling Conservative Party lost its parliamentary majority to produce a hung Parliament. That has prolonged uncertainty not only in the UK, but across the rest of the European Union with Brexit talks poised to start in mid 2017. In the rest of the European Union, South Africa's biggest trading partner, growth remains a mixed bag, but on the whole the European economy is suffering from the post-Brexit stress even though the outcome of French Presidential elections should have come as a relief.
- Growth prospects have marginally worsened for emerging markets and developing economies, where fiscal conditions have generally tightened.

Domestic overview

- In addition to continued slow growth the South African economy officially entered into a recession in the first quarter of 2017, signalling potential unfavourable impact on the fiscal framework, a prospect further imperilled by rising government debt.
- Unemployment rose to 27.1% in the third quarter of 2016 up from 26.6% in the previous quarter; agriculture, transport, manufacturing, mining and trade sectors continue to report substantial job losses.
- Significantly, these factors further deepen the challenges for black entrepreneurs in terms of securing business finance from commercial banks, therefore necessitating the need for the NEF to be urgently and sustainably resourced in order to carry its mandate forward.
- The NEF believes that Government's 14-point recovery plan, developed following broad consultations with various stakeholders, has the potential to unlock growth, rehabilitate business and consumer confidence and, as stated in the plan, to "review the level of participation by black industrialists and develop a strategy to increase it". The latter, we believe, must apply across the economic spectrum and not be limited exclusively to the energy sector alone.

Considerations for the NEF

- Taken together, what the foregoing economic climate calls for is heightened post-investment monitoring of investee performance by the NEF. The NEF's Post-Investment Unit reports that investee companies are requesting:
- Moratoria,
- Reduced instalments, and
- Extension of loan tenures.

Secondly, five of the seven companies transferred to the Turnaround, Workouts and Restructuring Unit are in the manufacturing and construction sectors, which have experienced the knock-on effects of the decline in the steel manufacturing and mining sectors. The NEF's targeted interventions therefore include, increased and focused mentorship interventions, proactive turnaround, workouts and restructuring interventions, as well as identifying sectors with the greatest potential for maximising the empowerment dividend in a financially sustainable manner.

As the country strives to recover from the grip of the recession, there are significant opportunities for the NEF to take the lead in the implementation of economic transformation, as commercial funders are likely to tighten their lending criteria, further increasing the demand for development finance the NEF's target market.

Resourcing the mandate of the NEF

With NEF having effectively reached full maturity in operational capacity, the organisation requires an annual allocation of R2.5 billion over the next five years, to be able to address the sizeable demand for funding among black entrepreneurs, many of whom aspire become industrialists in order to help bridge the country's formidable historical divide, and to contribute more significantly to economic growth.

The NEF is presently classified under Schedule 3A in the Public Finance Management Act (PFMA), which precludes the NEF from any form of borrowing in the capital markets. To enable the NEF to accept the Industrial Development Corporation's (IDC) facility and loan facilities from other potential funders, notably the Public Investment Corporation, the NEF has made a Section 66(3)(b) of the PFMA that provides that a schedule 3A entity may only borrow money if it is authorised by notice in the Government Gazette by the Minister of Finance, subject to any conditions that may be prescribed by the Minister of Finance.

The NEF is encouraged that both **the dti** and National Treasury are facilitating the limited borrowings application of the NEF to enable the organisation to receive the much-needed recapitalisation from both the IDC and the PIC.

This important administrative measure will bring to an end a long-standing period of uncertainty and anxiety among black entrepreneurs, and instantly unlocking the right to participate meaningfully in the economy by creating value and jobs.

The NEF is grateful for the committed and principled support of stakeholder bodies representing black business and professionals, as well as the mass media and the political parties represented at Parliament, for having carried the hope of the recapitalisation of the NEF.

Performance milestones

One of the NEF's proudest achievements is the quality of its human capital, made up of executives, managers, investment and support professionals who come from across the length and breadth of South Africa. Among these patriots are Chartered Accountants, Engineers, Admitted Attorneys and professionals from various spheres.

70% of the NEF's staff complement is in the core investment divisions, which are the engine rooms that are responsible for the implementation of the specialised mandate of the NEF. While this staff complement is maturing, at an average 38 years the NEF's human capital of 157 employees is an investment in the future and represents continuity of the organisation, with an optimal projected headcount of 185 by year-end in 2018, in anticipation of recapitalisation and increased dealflow.

Since operational inception in 2005 to date the NEF has approved total funding of R8.6 billion for 852 black businesses. During this period R6.8 billion has been committed, while R5.8 billion has been disbursed into the national economy.

Below is a summary of highlights achieved during the period under examination:

1. The NEF **approved** 82 deals worth R1.1 billion against a target of 103 deals worth R750 million. What this means is that NEF-resourced deals amount R552 million against a target of R450 million, and resulting in the target being exceeded by 22%. The balance of the approved amount comprises transactions funded by the Department of Rural Development and Land Reform (DRDLR), valued at R515 million against a target of R300 million, which exceeded the target by 72%.
2. NEF **commitments** reached just over R982 million against a target of R621 million, exceeding target by 58%.
3. **Annual disbursements** amounted to R699 million against a target of R553 million, exceeding target by 26%.
4. Transactions with high **job-creation** impact are a key strategic focus of the NEF, and provide greater discount values for investee businesses as an incentive for entrepreneurs to employ more people as long as this imperative is commercially sustainable. Accordingly, the NEF supported 5 069 job opportunities, of which 2 841 were new, outstripping target by 49%. This brings total job opportunities geared to be supported since inception in excess of 92 000, of which 63 000 are new.
5. **Unencumbered cash** that was immediately available to the NEF for new approvals at year-end was R369 million.
6. Portfolio collections for the year stood at R445.3 million, which is 18% lower than last year's collections of R540 million. This is because in 2016 a major additional collection was received from Busamed's partial exist at R188 million.
7. In respect of the need to advance the frontiers of black women empowerment, the NEF disbursed 34% against a target of 40%, while 36% of commitments were made versus a target of 45%. While this important target eluded the NEF during the year under review, these outputs are higher than last years', and represent an optimistic and determined effort to reach the 40% mark. In order to drive this important objective the NEF will continue to engage with organisations that represent women in business, to optimise dealflow.
8. In relation to brand propagation, we are pleased to report media coverage in excess of R91 million, as measured independently by an external media monitoring agency, NewsClip. The NEF has also registered meaningful growth in brand awareness, from 81% in 2015 to 86% in the recently-concluded brand audit. This growth was driven by increased media coverage, more speaking opportunities and visibility at stakeholder events, Presidential endorsement regarding the performance and recapitalisation of the NEF, as well as media coverage on the NEF's submission to the Parliamentary Finance Committee's Public Hearings on the transformation of the Financial Sector.
9. In respect of continuing efforts to develop black industrialists we saw two key investments progressing to construction phase in the current year. These are the Graskop Lift Company, funded to the value of R33 million, as well as Salamax, a R10 million beneficiary of NEF funding.

   In total the NEF can point to 27 strategic and industrial projects worth R28.6 billion, with the potential to support over 86 500 jobs.
10. **Regional Offices and the Pre-Investment Unit** approved **48%** of total transactions by volume worth R275 million against the broader organisational target of R750 million.

    Active portfolio management on a portfolio of 84 deals by the regional offices, helped in the total collection of the R66 million against R61.5 million of instalments raised, which represents a 107% collection rate.
11. In relation to geographic activity since inception to date, Gauteng now comprises 44% of the NEF's total invested portfolio, which is a great improvement from the days when the NEF's presence in Gauteng accounted for the lion's share at over 60%.

    Accordingly, the NEF has achieved over 32% annual disbursements in the Northern Cape, Free State, Limpopo, Mpumalanga, Eastern Cape and the North West, versus a target of 25%.

    An important indicator that we constantly measure our performance against is the contribution to GDP by the respective provinces, with the ideal being to match regional approvals to GDP contributions per province.

"With NEF having effectively reached full maturity in operational capacity, the organisation requires an annual allocation of R2.5 billion over the next five years, to be able to address the sizeable demand for funding among black entrepreneurs, many of whom aspire become industrialists in order to help bridge the country's formidable historical divide, and to contribute more significantly to economic growth."

Ms Philisiwe Mthethwa
Chief Executive Officer

12. **Rural & Community Development** is important in ensuring that economic value reaches across the length and breadth of the republic, and once again this area of the NEF's mandate saw heightened organic growth, also buoyed significantly by the partnership with DRDLR.

13. **Entrepreneurial Development** remains at the top of the agenda, with 21 Business Today training sessions having been provided countrywide, and 30 entrepreneurs having been successfully incubated.

    The number of entrepreneurial training sessions have also been on an increase over a 6-year period, with 145 total seminars held over the period. On average, 67% of seminars were held in rural areas during the same period.

14. **Collections & litigation** also merits recognition as outlined below:

    - The portfolio improved with an impairment of 17.55% from 24% in FY2016 vs target of 18%
    - Return on Investment is at 7.80% and is below the targeted range of between 9 and 10%. The current tough economic climate has resulted in capitalised interest on impaired transactions not meeting the asset-recognition criteria. This interest is reversed, thus reducing ROI.
    - The collection ratio at 101.79% vs a target of 80% is as a result of proactive collection processes and early settlement agreements reached with investees.
    - The period also shows 18 successful exits at Times Money Back of 1.41, which is an improvement on last year's performance 1.12.

15. **Control environment**

    Another important area of work where the NEF recorded a significant improvement is in **Internal Audit**.

    Year on year there has been a **33% decrease** in the number of audit findings raised compared to the previous year, and this demonstrates an improvement in the NEF's control environment. The NEF has not only been able to implement controls, but has also ensured that such controls are adequately designed and that they operate effectively. Significantly, the Internal Audit function was awarded the highest rating by the Institute of Internal Auditors, specifically the **Generally Conform** grade. The NEF is also fully compliant with the Auditor General's dashboard because required controls are in place. A total of 10 of 18 Departments, or 55%, have clean tracking registers.

16. In response to the findings of the Brand Audit 2015 the NEF has also re-engineered the Contact Centre to improve call response times, reporting on in-bound calls, ability to monitor contact centre agents, and overall call statistics within the contact centre for the regions and head office.

17. In relation to **Preferential procurement** from black women-owned businesses 29.64% was achieved versus a target of 20%. The NEF's procurement from black businesses stands at 65% versus a target of the same figure, and is higher than last year's showing of 60%.

18. Enterprise and Supplier Development

    Enterprise and supplier development inroads have seen the NEF attract third party contributions of R442 million in the current year versus a target of R300 million.

Empowering farmworkers to become entrepreneurs

As reported to Parliament during the year under review, one of the NEF's proudest achievements is the successful partnership with the **Department of Rural Development and Land Reform** where the NEF is a key partner in the implementation of the programme called **Strengthening of Relative Rights (SSR) of People Working the Land**, also known as the 50 – 50 project.

The SRR policy entails the farmer acquiring 50% of the business, and farm workers acquiring the other 50%, of which 5% will be allocated to the NEF, to be operated under a NEWCO. The land is then acquired by the state and leased back to the business for 30 years.

NEF scope

1. Firstly, the NEF has undertaken due diligence investigations into the projects in order to determine the commercial viability of the businesses;
2. It has also been the NEF's responsibility to negotiate the prices for the acquisition of the land and businesses on behalf of the department and finalizing the structure of the transactions;
3. We have helped prepare transaction agreements, which include sale of land and moveable assets, shareholders' agreements, performance agreements, reviewing current business plans and financial projections, and registration of new company entities, as well as the finalisation of take-on balance sheets and of governance structures.
4. The NEF also audits the current lists of employees and beneficiaries to ensure that benefits accrue to the rightful farmworkers and the members of the community.
5. The NEF also acts as a warehousing agent of Government for the businesses until the relevant broad based structures have been finalized;
6. The NEF has served as an implementation agent of Government in the projects, ensuring the conclusion of the relevant agreements, collection of all conditions precedent, overseeing the conveyancing and business transfer processes and implementing the governance structures in the projects, among others;
7. It is also the NEF's responsibility to conduct social facilitation for the workers and farm dwellers as well as house-hold profiling to help the beneficiaries.
8. In line with the NEF's investment philosophy, we have also provided ongoing monitoring, evaluation and mentorship support to each of the approved projects.

The total approved amount under this programme since inception is R669 million.

SRR development impact

We believe this historic project of the Department constitutes an important step towards social cohesion.

1. It will contribute towards the revitalisation of the rural economy through the social and economic empowerment of farm workers and communities.
2. As a consequence of this programme, farm workers and dwellers will no longer have reason to fear the sceptre of evictions because land tenure will have been secured.
3. The *One Household One Hectare* programme has the potential to enhance food security by empowering households to contribute to the country's food production.
4. Equally important, farmworkers will become entrepreneurs.

Thought-leadership

A key highlight of the NEF during the year under review was submission of written and oral input jointly to the Standing Committee on Finance and the Portfolio Committee on Trade and Industry, when Parliament hosted public hearings on the transformation of the financial sector in South Africa.

Our context as the only development finance institution which is exclusively mandated to grow black economic participation in South Africa, gave the NEF a unique vantage point to be able to comment authoritatively on the subject, because for well over 12 years the NEF has been in the trenches of operational involvement in transformation policy and implementation.

Analysis of the top 17 JSE listed financial sector companies

Following a diagnostic review of the history of economic transformation in South Africa, the NEF analysed the top 17 JSE-listed financial services companies that have concluded B-BBEE deals, which transactions are still live.

- The total market capital of these top 17 JSE-listed financial services companies stood at just above R1.6 trillion at the time.
- On average the deals were live for a period of over 10 years and thereafter they vested with some level of value created for black people, and these included Staff Schemes, Strategic Partners and Community or Charity Schemes as beneficiaries of the transactions.
- The valuations done in the years between 2014 and 2013 indicate some level of net value created for the above-mentioned beneficiaries. However, it must be noted that when the BEE deals were concluded there was a higher expectation and as a result of debt repayments some companies declared lower dividends. The net value resulted in lower values and the financial service sector companies not meeting the set target.
- As a highlight the Firstrand Limited BEE transaction is one of the largest transactions that largely benefited Community or Charity Schemes to the accrued value of R14.7 billion, Strategic partners at R2.59 billion and the Staff Scheme at a value of R5.97 billion.

However, the study shows that the financial service sector companies have achieved an average of 6% against the direct equity target of 10%. This is under-performance remains a challenge because the sector has not met its set targets as per the charter.

Some of the Shortcomings of the FSC

There is no doubt that the FSC remains an important document, however it is important to highlight some of its shortcomings.

- A fundamental deficiency of the charter is the lower 10% target for direct ownership in the financial sector, which compares unfavourably with the minimum 25% target in the Generic BEE Codes.
- The R122 billion target for Empowerment Financing is based on the 2002 baseline and has not been reviewed nor has it been adjusted to cater for inflationary increases, population and economic growth.
- Furthermore, although women constitute greater than 50% of the population, the Charter is virtually silent on the need to facilitate and enable the economic participation of women. The Women Empowerment target is not explicit enough to drive the message that women empowerment is a critical lever for radical economic transformation.

- Also, the FSC does not allocate specific targets for the respective sub-elements under Empowerment Finance.

Empowerment Financing

- In the view of the NEF, the sector's commitment of a cumulative R122 billion is too low for a sector that had assets estimated at R4.8 trillion as at end September 2016.
- Using the illustrative example of the 17 JSE-listed financial services companies as a proxy to determine the appropriate amounts for Empowerment Finance. We can deduce that:
    - Firstly, the market cap of the these companies is R1.6 trillion and they have done B-BBEE Ownership deals worth R65.2 billion, indicating that there is still a 4% gap in terms of the 10% FSC Ownership Target.
    - Since the 10% FSC Ownership target is below the 25% Ownership Target in terms of the Codes, the companies will have to spend an additional R244.6 billion in Empowerment Finance to make-up for the 15% gap.

We suggest that the R244.6 billion be invested in the economy. We recommend a 61% and 39% split between Targeted Investments and the Black Industrialist programme. This will translate into the targets for both categories increasing twofold to R149 billion and R95 billion respectively.

Furthermore, the amounts for Targeted Investments must be evenly split between the four sub elements to avoid preference of one over the other.

In the experience of the NEF, if you fund a woman you fund a nation. We therefore propose that Black Women participation be set at 50% for both Targeted Investments and the Black Industrialist programme, respectively.

Increased partnership with DFIs

Furthermore, the credit assessment models currently in use by commercial financial institutions such as banks typically categorise black entrepreneurial businesses, particularly start-up businesses, as high risk due to several factors, including but not limited to:

- Firstly, limited to no trading records.
- Secondly, inadequate to no security or collateral, which results in the inability to access commercial bank financing.

Unfortunately, this so-called "high risk" market segment, which would typically attract funding from DFIs, venture capitalists, angel and seed funders, has limited financial capital providers in South Africa hence the perpetuation of the dilemma of black entrepreneurs being unable to access finance. The market trend by the commercial institutions is to crowd the less risky financing segment comprising businesses in the growth, expansion and mature stages of evolution whilst the early, high risk stages (gestation, inception, prototype and roll-out) are typically left to the government as well development and grant-funding institutions to finance.

Accordingly, in 2007 the NEF identified this market funding gap and established the Strategic Projects Fund (SPF), which provides venture capital to black entrepreneurs to fund project development from the concept to the bankable feasibility stage, which is the funding realm of commercial financial institutions. SPF currently has a project pipeline of 27 live industrial-scale projects that requires circa R28.5 billion financial close capital for implementation, inclusive of circa R4 billion necessary to cater for and maintain NEF's equity positions.

> "The NEF is encouraged that both **the dti** and National Treasury are facilitating the limited borrowing application of the NEF, to enable the organisation to receive the much-needed recapitalisation from both the IDC and the PIC."
>
> **Ms Philisiwe Mthethwa**
> **Chief Executive Officer**

In order to address this funding shortfall, particularly given NEF's R5.2 billion constrained balance sheet, the NEF is calling for increased partnership between the DFIs to provide project development funding to black industrialists and entrepreneurs.

Utilise Preferential Procurement as an anchor to Transformation

The Codes prescribe 40% and 12% preferential procurement targets from black and black women-owned businesses, respectively. Assuming a hypothetical net measurable annual Government procurement spend of R1 trillion across the economy, this would be equivalent to R400 billion and R120 billion procurement spend on black and black women-owned businesses, respectively.

The Codes further prescribe 15% preferential procurement targets for Exempted Micro Enterprises and Qualifying Small Enterprises, which translates to R150 billion annual procurement per designation.

Notably, this quantum of funding which would be required by black businesses to finance, among other aspects, capital expenditure and working capital, cannot be provided by DFIs alone due to their limited consolidated funding pool, hence the requirement for complementary private sector funding.

Evidently, in view of the significant annual Government procurement spend, we believe Government should use procurement as a lever and catalyst for economic transformation by making it mandatory for private and public sector entities to fulfil the national transformation objectives via the implementation of the preferential procurement requirements in accordance with the Codes.

Prevent value leakage

A fourth recommendation relates to value leakage such as transfer pricing, an unscrupulous practice that undermines the objectives of transformation by diluting the real value that accrues to black people in BEE transactions. It is an insidious practice that should be prevented and eradicated from occurring within the South African financial system.

Furthermore, in order to achieve effective monitoring and evaluation of the performance of companies in relation to set BEE targets, mandatory reporting should be implemented. The recent establishment of the BEE Commissioner's office is a welcome initiative in this regard.

The Establishment of a Black Bank

Lastly, the NEF argues that, in addition to existing DFIs and commercial banks, there is an urgent need for the establishment of a Black Bank to foster additional competition in the Financial Sector, but more importantly, increase the number of financing options for Black people, in the spirit of inclusive growth and radical economic transformation. With comparatively limited resources, the DFIs are playing an important role, but the Financial Sector has proven incapable of putting its big shoulder to the wheel in this regard, despite the massive resources it commands.

The NEF's calculation is that initial capital required for the establishment of a Black Bank is R306m, among other purposes to acquire a licence and to build infrastructure. The bank could be owned 49% by government, which could provide the initial R150 million seed capital, while the remaining R156 million could be raised from the black public, own 51% of the entity. Resource mobilisation among the black public can be modelled along the lines of successful initiatives like the Initial Public Offer of the NEF's own Asonge Share Scheme.

Additional capital can be raised through redirecting 30% of the R279 billion that Government and the SOCs have deposited in the banking system. This will inject R83.7billion into the Black Bank enabling it to provide the necessary liquidity for its lending activities. The services that a Black Bank could offer include:

- Management of municipal accounts, including rates and taxes for a fee
- Handling payments of State services such as social grants and traffic fines
- Black business financing
- Insurance
- Payments of salaries and wages
- Financing of Black agricultural projects
- Affordable housing

Acknowledgements

These milestones would not have been possible had the NEF not invested meaningful time and effort in building relations with the broadest spectrum of stakeholders across the Government sphere, in the private sector and across organised commerce, in civil society, across communities and indeed in the mass media.

Management gratefully acknowledges the support, guidance and wisdom of the Chairman and the BoT for their sterling contributions. We would like to extend our gratitude to the employees of the NEF, **the dti**, National Treasury, Department of Economic Development, Parliament, editors, journalists, DFIs, co-financiers and black entrepreneurs, who are the jewel in the crown of the empowerment dividend.

Ms Philisiwe Mthethwa
Chief Executive Officer

INVESTEE PROFILE

Africa Best 350

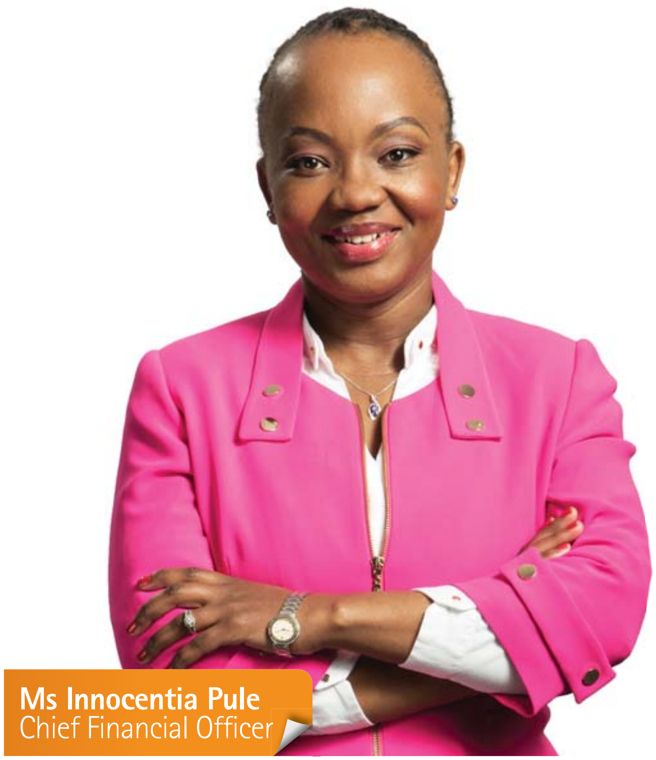
Africa Best 350 (AB350) is a 100% black owned company based in the Eastern Cape Province with its core business as public transport services or simply passenger bus services. The business transport over 5.7 million of rural people per annum with a total of 112 routes spread across the former Transkei or Eastern part of the Eastern Cape. The entity was incorporated in 2005 and comprised of 234 shareholders which are former bus and taxi owners mainly from the rural areas of the Eastern Cape. Currently, the company has over 150 buses.

AB350 was previously funded on two different occasions by the NEF to the tune of R3.5 million for phase one (57 buses) and R30 million for phase two (59 buses). Both facilities have been settled as per scheduled amortisation.

The company further requested funders to provide a R17.3 million funding facility in order to commission a Bus Repair Centre (BRC) in Mthatha. The BRC will operate two broad but related service in the form Mechanical and Body Repairs for both AB350 fleet and to Public or 3rd party operators both bus and truck companies. The business has partnered with V&E Repairs Centre to operate a bus and truck spare part business known as Afrika Ways Spares and Parts Outlet.

AB 350 employs 429 permanent employees of which 80% are core staff with the remaining 20% being the support.

CFO'S REPORT



Ms Innocentia Pule
Chief Financial Officer

New Developments and Updates

The Group results include three subsidiaries namely, Zastrovect Investment (Pty) Ltd (trading as Goseame Open Market - Goseame), Delswa (Pty)Ltd and National Empowerment Fund Corporation SOC Limited (NEFCorp SOC Ltd). These entities are briefly described on page 7.

A tender process to dispose of Goseame did not yield desirable results in that offers made by bidders were going to result in a material write off. Management has decided to work on the areas of weakness in order to improve the price at which this investment can be ultimately sold. Relevant PFMA applications have been made to the National Treasury in this regard.

The Delswa group was restructured during the financial year, in preparation for its disposal before the set 2019 deadline. The accounting treatment for these two entities has remained the same (i.e. in terms of IFRS 5 – *Non-current Assets Held for sale and Discontinued Operations*, which outlines the accounting and disclosure requirements for non-current assets held for sale).

NEFCorp has been fully consolidated in terms of GRAP 6.

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

Portfolio impairment provision
17.5%
(6.5% down from 2016)

7%
year on year increase in development investment assets

64.82%
procurement from black controlled entities
(up 4.25% from 2016)

Financial Performance Overview of the Trust

A five year snapshot of the financial performance of the Trust is as follows:

Rm	5 year CAGR*	5 year average	Annual Growth	2016/17	2015/16	2014/15	2013/14	2012/13
Financial Position								
Cash and Cash equivalents	-4%	1 476	-5%	1 345	1 419	1 448	1 480	1 689
Financial market assets	-5%	1 751	-9%	1 287	1 412	2 116	2 254	1 686
Investment in development activities	5%	2 302	7%	2 537	2 369	2 344	2 284	1 976
Other assets	-43%	38	-95%	4	93	6	14	71
Total assets	***-1%***	***5 567***	***-2%***	***5 173***	***5 292***	***5 915***	***6 032***	***5 422***
Liabilities	51%	149	105%	386	188	63	56	49
Trust capital and reserves	-2%	5 418	-6%	4 787	5 104	5 852	5 976	5 373
Total liabilities and equity	**-1%**	**5 567**	**-2%**	**5 173**	**5 292**	**5 915**	**6 032**	**5 422**
Financial Performance								
Interest on development activities	6%	197	3%	212	206	218	193	156
Interest on cash investments	-4%	86	3%	85	83	83	76	102
Total interest	***3%***	***283***	***3%***	***297***	***289***	***301***	***269***	***258***
Dividends from development activities	-20%	5	-86%	1	7	7	7	3
Dividends from financial market assets	-3%	107	-45%	75	137	130	109	86
Other income	17%	40	-49%	52	101	3	20	24
Fair value gains/(losses)	-201%	-57	-59%	-269	-656	-163	550	251
Profit on disposal of investments		13	-87%	8	58	-	-	-
Operating expense	2%	220	1%	240	237	206	200	219
Impairments (including write offs)	-4%	264	-46%	240	445	196	152	290
Surplus/(deficit) for the year	-223%	**-94**	**-58%**	**-317**	**-747**	**-125**	**604**	**114**
Operating surplus/(deficit) for the year	-19%	**-37**	**-48%**	**-48**	**-91**	**38**	**53**	**-138**
Financial Ratios								
Cash and Cash equivalents to total assets		26,6%		26,0%	26,8%	24,5%	24,5%	31,2%
Net Return on assets		-2,1%		-6,1%	-14,1%	-2,1%	10,0%	2,1%
Return on investment (before impairments)		8,9%		7,8%	9,5%	9,4%	8,8%	8,8%
Return on investment (after impairments)		-1,5%		-0,5%	-3,5%	1,3%	2,1%	-6,6%
Operating expenses to income		50,2%		55,7%	40,2%	46,9%	49,2%	59,0%
Impairment charge ratio		11,6%		9,4%	18,8%	8,3%	6,7%	14,7%

** CAGR - Compounded Annual Growth Rate*

As indicated in the economic overview section, South Africa's economic growth remained subdued through the 2017 financial year and the situation is expected to remain muted in the short to medium term. It is therefore with this background that it is pleasing to report a 7% year on year increase in our development investment assets. It is also noteworthy that the compounded growth in our portfolio since 2013 at 5% is materially higher than the recorded average GDP growth over the same period of 1.6%. The increase in our portfolio shows continued significant demand for financial support by black business. Black business has continued to identify viable opportunities in the midst of this muted economic environment. Through the disbursement of over R767 million (12% up on 2016), we have facilitated development funding for start-ups and expansions across the country and in various sectors, some of which we showcase throughout this report. It is also very pleasing to note that the cost per job for the year was about R151 000, against a target of R162 500.

ROI however remains under pressure at 7.8% which is 170bps below the prior year. The 2016 return was mainly supported by a realised profit on disposal of an investment of R58 million. When this profit is excluded, the prior year ROI would have been 8.0%. The 20bps year on year reduction in ROI is not pleasing given that the average prime lending rate over the same period increased by 83bps. This shows the increased vulnerability to market factors faced by our investees especially given their size. We will continue to support investees through this difficult period as the majority of the business cases being supported remain viable in the long term.

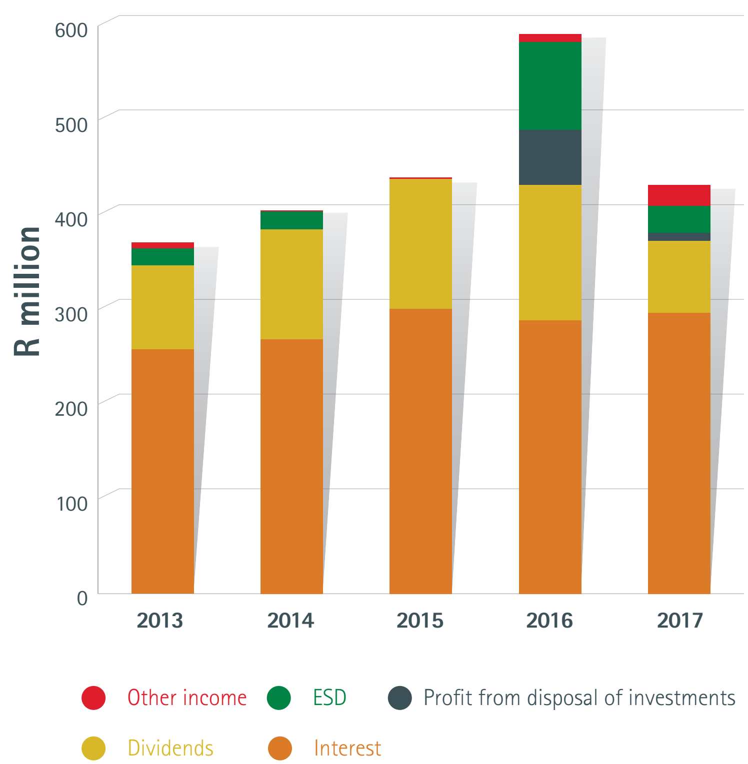
The current ROI level, at 270bps below the average prime lending rate is also concerning, especially with the imminent business combination process with the IDC, as for the first time the NEF would have a real hurdle rate to achieve which could be higher than the prime lending rate. This ratio heightens the requirement for the NEF's activities to be subsidised in order to continue meaningful developmental support for black business as evidenced in the socio-economic achievements we have achieved during this year and since inception. To this end, we continue our engagements with various parties, including the National Treasury, to source concessionary funds that would bring the cost of funding down.

At R75 million, dividend income from listed equity holdings (especially MTN) has significantly reduced (45% year on year). In addition, unconditional Enterprise and Supplier Development (ESD) contributions raised during the year were R64 million lower than in 2016. The reduction in income on these main lines, despite the increase on operating expenses being contained at 4%, resulted in an increased cost to income ratio of 55.7% (40.2% in 2016). The reported cost to income ratio is within our long term target range of 54-58%. We will continue to contain expense growth while exploring ways to enhance our income sources to a sustainable level.

Figure 1 shows how the income mix has changed over the past five years. The graph shows that interest income and dividends used to be the core sources of income for the organisation. This income mix has changed over time with the introduction and growth of other income sources. Interest income increased between 2013 and 2015 and has been maintained around R300 million since 2015. Dividend income has significantly reduced in the current year. Unconditional ESD income was significant in 2016 and has materially reduced in the current year. Other income includes bad debt recovered and raising fees charged on new facilities. The steady growth in the contribution from raising fees over the years is particularly pleasing in light of the pressures around interest income.

> "Despite continued tough economic conditions, the NEF reported a 46% (R205 million) year on year reduction in impairment provisions and write off charges. Impairment provision charges were at R212.9 million (2016: R407.2 million), while net write offs were contained at R26.7 million (R37.4 million in 2016)."
>
> **Ms Innocentia Pule**
> Chief Financial Officer

Figure 1: Income mix over time

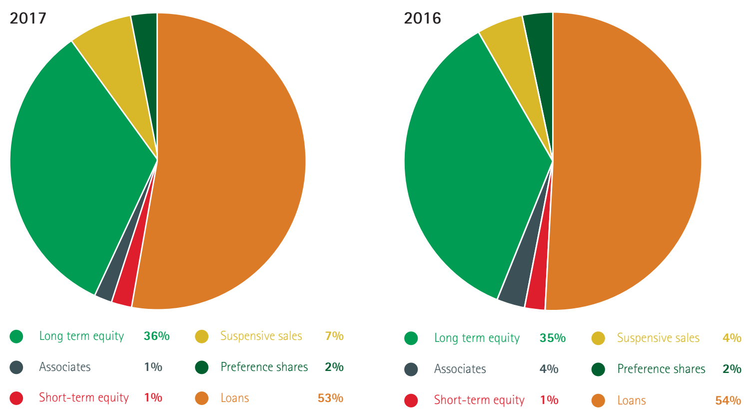


Despite continued tough economic conditions, the NEF reported a 46% (R205 million) year on year reduction in impairment provisions and write off charges. Impairment provision charges were at R212.9 million (2016 R407.2 million), while net write offs were contained at R26.7 million (R37.4 million in 2016). Based on our assessment of the portfolio, we believe that 2016 was the peak of the impact of this tough environment, unless economic conditions get worse than anticipated in the short to medium term.

Sustainability of our Portfolio

Figure 2 indicates that interest bearing lending remains a focus for the NEF. Loans, preference shares and suspensive sale advances have increased to 62% from 60% in 2016. 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 2: Portfolio Make-up (Gross Amortised Cost/Fair Value)



Reported income before impairments, fair value movements and dividends, is a key indicator of the operational sustainability of the fund. At R116 million (2016: R210 million), this indicator accounts for the ability of cash and investments to sustain the operational overheads of the NEF.

The collection ratio (measured as receipts as a percentage of installments raised) at 101.79% has increased from the prior year's 97%. Whilst total collections and disposal income on the portfolio at R445.3 million is 18% lower than total portfolio collections made in 2016, prior year collections included R188 million from a disposal of one equity position. When this unique and material inflow is removed from the 2016 collection figures, then 2017 portfolio collections are 26% higher.

Portfolio impairment provisioning in the year reduced to 17.55% from prior year's 24.41%; mainly as a result of reviewing our portfolio write off policy, which resulted in gross value of write offs of R502.4 million being made in the year (R119.7 million in 2016). 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 resulted in an unrealised loss of R269.4 million against a loss of R655.8 million in 2016. Reported losses for both years were mainly led by unrealised losses reported on the mark to market valuation of the MTN shares (R133 million in 2017 against R706 million in 2016).

It is further worth highlighting that there was an unrealised fair value loss reported at R132.5 million against a net unrealised fair value gain of R72.7 million in 2016, mainly as a result of one venture capital investment made in the renewable energy sector. The NEF was involved in the development of this project since inception until it reached financial close in 2012. The economic merit for the project was so attractive that it did not take much to leverage third party funding in preparation for construction.

One of the main factors that was meant to unlock the envisaged value in this project was the finalisation of the Government's Biofuels sector subsidy mechanism, which unfortunately was not passed. The delay in finalising this subsidy mechanism has resulted in the value previously attached to this investment at over R100 million being fair valued down to a nominal amount during the year.

IT Management

During the financial year, we formalised the IT Governance Framework (aligned to King III and COBIT best practices). Internal audit conducted an independent maturity assessment of our IT environment. Given the size and complexity of our IT environment, management is targeting a 'Defined (Level 3)' maturity level. A 'Defined (Level 3)' maturity level means that the processes are defined/confirmed as a standard business process.

We are pleased that through a high level assessment of the eleven COBIT processes that were prioritised for the organisation, and remedial work done since that review, the NEF is 82% (i.e. nine out of eleven) compliant with the requirements for a 'Defined' environment. Key outstanding items relate to the enhancement and standardisation of Enterprise Infrastructure and Information Security management.

We also completed the documentation of all our business processes and are in the process of procuring services of programmers who can assist in the automation of these processes onto applicable systems. We believe that through this project, we will be able to increase our efficiencies and improve client experience of the NEF.

Under the guidance of the IST Steering Committee, we have formalised and implemented a project management framework, allowing us to complete four out of seven projects planned for the year. These included the finalisation of the system version upgrade of our loans management system, the documentation of our business processes, the enhancement and centralisation of our regional network and the upgrading of the contact centre system. As indicated, these projects are mainly aimed at unlocking efficiencies as well as improving the service experience of our stakeholders. The three projects that were not initiated during the year were dependent on the completion of some of the projects completed in the latter part of the year. These will be carried forward to the new financial year.

We are also pleased that a strong control environment in IT continues to be maintained, with only one audit finding outstanding at year end. We remain committed to ensuring stability of the IT systems, with 99.33% (99.63% in 2016) system availability attained during the year.

Given the recent spike in cyber security breaches across the world, the issue of data and information security has been heightened on the BoT's agenda. In addition to various control measures we have in the environment, we have reviewed and enhanced our policies around security and have procured tools that will assist us in proactively managing the environment. Various initiatives to raise awareness to employees around this risk, its potential impact and providing pointers of how employees can assist in protecting the environment are regularly undertaken.

Supply Chain Management

The NEF issued five public tenders which were evaluated against the process set out in the NEF Supply Chain Management Policy, the National Treasury Supply Chain Management Regulations and Preferential Procurement Policy Framework Act and all of the relevant practice notes.

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

The NEF's total procurement for the year was R 56.4 million from 335 suppliers. A total 64.82% of our procurement expenditure was with 50.1% to 100% Black Owned suppliers. This is a great achievement as it is against a target of 65% and represents a 4.25% increase from prior year achievement. It is also the highest result we have managed to achieve since this target was set. It is worth noting that if we had set our target in line with the market that includes black influenced (i.e. 25.1% -50% black owned) businesses in its procurement statistics, we would be reporting that over 80% of our total procurement was from black empowered businesses.

Even more gratifying is the achievement of 29.64% (29.18% in 2016) procurement from Black Women Owned businesses; against a target of 20%.

Table 1: BEE Ownership levels reported

BEE Ownership	Number of suppliers	Percentage by number	Value (Rm)	Percentage by value
75.1% - 100%	176	52.54%	32.5	57.72%
50.1% – 75%	15	4.48%	4.0	7.10%
25.1% – 50%	37	11.04%	8.9	15.74%
0% – 25%	107	31.94%	10.9	19.44%

Supply chain management practice has been maintained at the highest levels of good governance and the Procurement Committee is able to report that no procurement irregularities were identified in the financial year ending 31 March 2017.

"The recent announcement of the NEF and IDC business combination has resuscitated a process of securing long term recapitalisation for the NEF. The R500 million bridging funding approved by the IDC Board will assist the NEF to continue with its business for the 2017/18 financial year. The work to prepare the two organisations for a group setting has already started"

Ms Innocentia Pule
Chief Financial Officer

Focus for the year ahead

The recent announcement of the NEF and IDC business combination has resuscitated a process of securing long term recapitalisation for the NEF. The R500 million bridging funding approved by the IDC Board will assist the NEF to continue with its business for the 2017/18 financial year. The work to prepare the two organisations for a group setting has already started. Key items being unpacked include:

- Statutory and regulatory reviews and applications;
- Mandate and product alignment;
- Conversion of the NEF's financial reporting from GRAP to IFRS;
- Alignment of accounting policies;
- Alignment of operational policies and risk management frameworks;
- Alignment of reporting frameworks;
- Identifying areas of operational collaboration to unlock efficiencies.

Management will also continue to focus on proactive portfolio management to ensure that clients are given support during this period of muted economic growth.

Acknowledgements

In conclusion, I would like to thank the NEF team for their dedication, diligence and enthusiasm throughout the year.

I would also like to extend my gratitude to the Audit Committee and the BoT for the guidance and support that enables the NEF to reach for greater heights in making an impact in the South African society.

Together we can continue to steadfastly drive sustainable and radical economic transformation for our economy.

Ms Innocentia Pule
Chief Financial Officer

PERFORMANCE REVIEW

The NEF proudly presents its performance for the 2016/17 financial year. This performance is based on the revised targets as approved by the Hon. Minister of Trade and Industry.

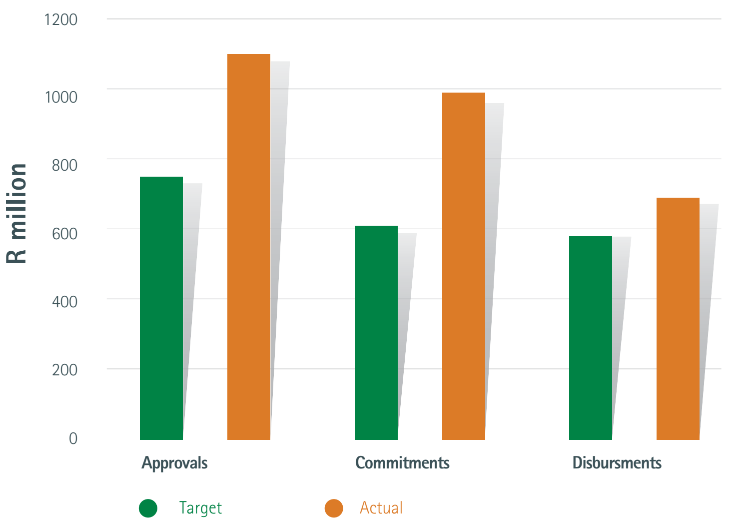
The NEF has done well in discharging its mandate particularly in light of the tough economic conditions that continue to prevail in both the global and local economy. The NEF partnered with DRDLR and during the course of the year significant progress was made to approve and commit deals in the DRDLR pipeline, contributing to NEF's overall performance. The NEF continues to discharge non-financial support to investees and their communities through investor education, business incubation, business development and social facilitation.

Achievements against strategic objectives:

Advancing B-BBEE: Provide finance to business ventures established and managed by black people.

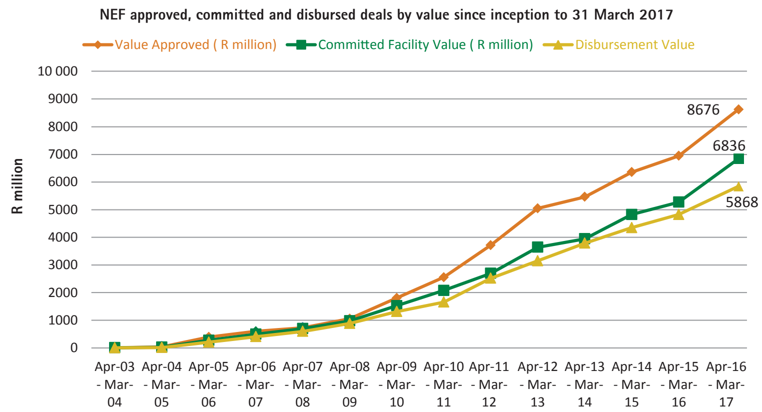
For the financial year 2016/17, the NEF exceeded its targets against all financial KPIs as it continues to fulfil its mandate to facilitate investment in the economy in support of black-owned businesses. The NEF has approved a total of eighty-two (82) transactions worth R1 067 million. Commitments amount to R982 million, while disbursements amount to R699 million. Refer to figure 1:

Figure 1: Actual Investment Performance Against Targets 2016/17



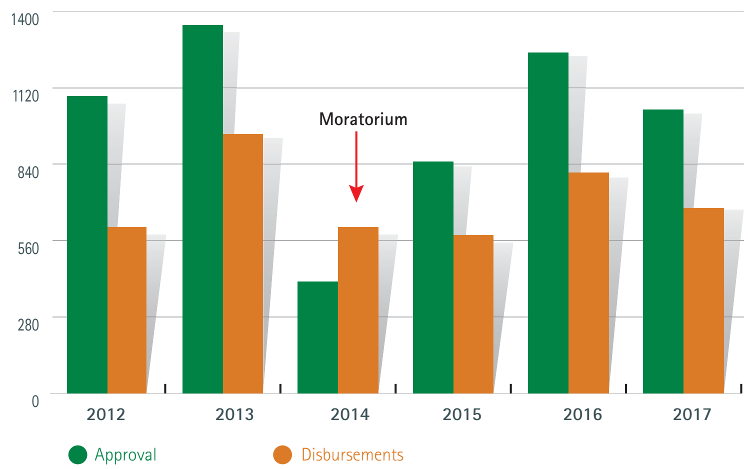
Since inception the NEF has approved over R8.6 billion and disbursed R5.8 billion as shown in Figure 2:

Figure 2: NEF cumulative investment performance since inception



Following the organisations highest performance to date in 2013 where approvals amounted to R1.3 billion, the NEF had to revise its targets each year since 2014 in response to its recapitalisation needs.

Figure 3: NEF Trend Analysis



REPORTS

The NEF continues to contribute to the objectives of the Black Industrialists Programme. The following figure illustrates the progress in the NEF's SPF pipeline.

Figure 4: SPF Process Report Diagram

SPF PROCESS REPORT

SPF approved	Scoping/ Concept	Prefeasibility	Bankable Feasibility	Close/ Fundraising	Financial	Construction
Value	1 500 000	39 000 000	218 151 679	219 313 600	400 600 000	
Number	1	5	14	4	3	

NEF Future Equity Rights 4 173 007 500

The current SPF portfolio consists of 27 projects spread across the respective development stages. About 70% of the portfolio (by value) is at advanced development stages i.e. financial close and construction. The portfolio is expected to create 86 500 jobs at financial close and 3 600 job opportunities have been created to date.

The NEF's future equity rights of R4 billion in these projects represents the amount of money the NEF would require in order to follow its rights as shareholders under investments made through SPF at financial close.

Maximising the empowerment dividend

Jobs: Through its financial activities during the 2017 financial year, the NEF is geared to support 5 069 jobs of which (2 841 are new). This is an increase against the prior year's performance of 4 938. This brings the number of jobs opportunities to be supported since inception to 92 189 (of which 63 989 are new).

Women ownership: Women empowerment continues to be one of the NEF's key priorities. A total of 34% (2016: 29%) of the portfolio disbursed in the 2016/17 financial year is owned by black women and 36% (2016: 30%) of committed deals were to businesses owned by black women. It took considerable time to build a deal pipeline that has increased women ownership but the NEF is encouraged by the fact that performance in the 2016/17 financial year was an improvement on performance in the previous year.

Efforts are being made to engage women business formations to explore collaborative strategies to increase women ownership in the deal pipeline.

The establishment of the Women Empowerment Fund (WEF) in 2015 highlights NEF's commitment to fast-tracking the participation of women in the economy.

Figure 5: Women Empowerment Fund Performance 2016/17

Women Empowerment Fund	Approvals		Commitments		Disbursements	
	Target	Actual	Target	Actual	Target	Actual
R million	188	210	155	255	138	202

Though performance targets have been revised every year since the establishment of WEF, performance of this fund has remained constant with slight growth being recorded in commitments and disbursements to women owned businesses.

Africa People Mover (Pty) Ltd. (APM)

The NEF invested R23 million in Africa People Mover (APM) a 100% black owned and managed enterprise, which provides intercity passenger transport services within South Africa. The bus services company was established in 2014. APM has developed a service model that revolves primarily around the passenger whilst ensuring commercial and social sustainability for the company in the long term.

Prior to NEF participation APM leased four buses and the investment enabled the company to grow their fleet to 21 luxury buses. The funding has further led to an in-house management of the following functions:

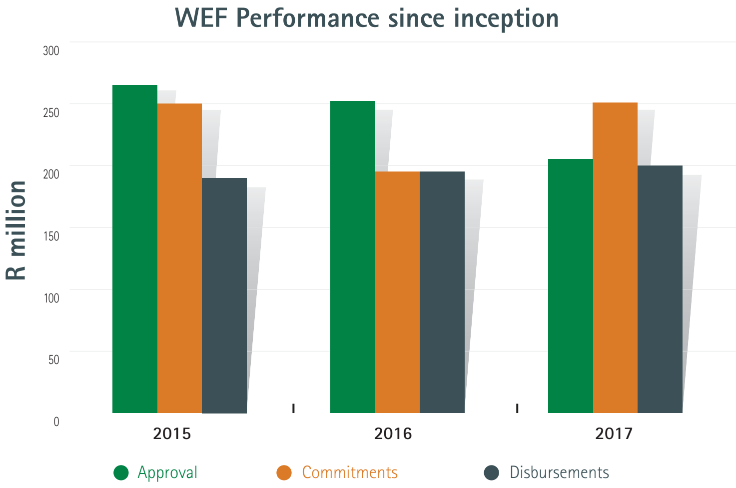
- Administrative IT infrastructure (both at head office and their various sales offices)
- Depot accommodation (new premises)
- Bus washing facilities (developed at new premises)
- Bus and Driver scheduling

APM plans to unlock and deliver value to the stakeholders by consistently ensuring that the intercity passenger service remains relevant to intercity travellers. This mission is underpinned by the company's commitment to on-time departures, newness and the reliability of the fleet, service excellence, passenger safety and bus cleanliness.

At the time of approval, APM employed 49 staff members and currently employs 169 people. The luxury coaches boast a 2X2 seat configuration, on-board entertainment (APM tv), air conditioning, individual reading lights and reclining seats.

The bus services covers extensive routes between Gauteng , KZN, Eastern Cape and Western Cape.

Figure 6: WEF Performance since Inception



Regional activity: The NEF continues in its efforts to increase the value of the collective portfolio outside Gauteng. Gauteng's proportion of the portfolio has decreased from 60% in 2009 to 44% in 2017 (a slight decrease from the previous year's share of 45%). With presence in all nine provinces the NEF is a truly national organisation and has exceeded its target of 25% by investing 32% of disbursements in the underrepresented provinces of Eastern Cape, Limpopo, Mpumalanga, Northern Cape, North West and Free State.

Optimising Non-Financial Support

Non-financial support is as crucial to the success of an enterprise as financial support. As such, the NEF contributes to the delivery of its mandate through a variety of programmes that offer entrepreneurial development and support including:

- Investor Education campaigns that are accessible to the general public including Industrial Theatres delivered to youth in tertiary institutions in various locations around the country. The NEF offered 48 seminars (which included 9 Industrial Theatre Performances) against a target of 32. This performance is consistent with the prior year's performance of 44 seminars, illustrating the high demand for these interventions.
- Business training activities enhance the NEF's impact in entrepreneurship development. Twenty-one (21) business training sessions were completed against a target of 18. This was a slight decrease to last year's performance of 26 sessions.
- Business incubation nurtures entrepreneurial ideas into feasible business opportunities. Out of 159 referrals, the NEF facilitated the full incubation of 30 entrepreneurs against a target of 15.
- Social facilitation supports the development of NEF investees and promotes sustainable entrepreneurship through corporate governance training. There were 42 training sessions against a target of 18 during the financial year. There has been an increase in the demand for Social facilitation as compared to the previous year where 25 sessions were conducted.

Biennially the NEF conducts a brand audit survey to measure, amongst other things, brand awareness. In the financial year 2016/17 brand awareness was 86% against a targeted 70%. This performance is an improvement of 5% on the performance in 2014/15.

Establish the NEF as a sustainable DFI

Active portfolio monitoring is crucial to ensure sustainability of the portfolio. This is done through the monitoring of performance indicators such as impairments, ROI and collection ratios.

In the financial year 2016/17 the NEF had an impairment provision of 17.55%, an improvement on the previous year's performance of 24% which was as a result of the difficult economic climate that exerted an immense amount of pressure on our investees (refer to the CFO's report for further details). NEF management has actively worked on various interventions to remedy issues that arise in our investee companies. The Post-Investment and the Turnaround, Workouts and Restructures Units continue to intervene where necessary to stabilise investee companies and ensure that loan impairments are kept at a minimum.

ROI for the year was 7.8% (2016: 9.5%), falling below the targeted range of 9-10%. The collections rate was 101.8% (2016: 97%).

Performance against the Annual Performance Plan

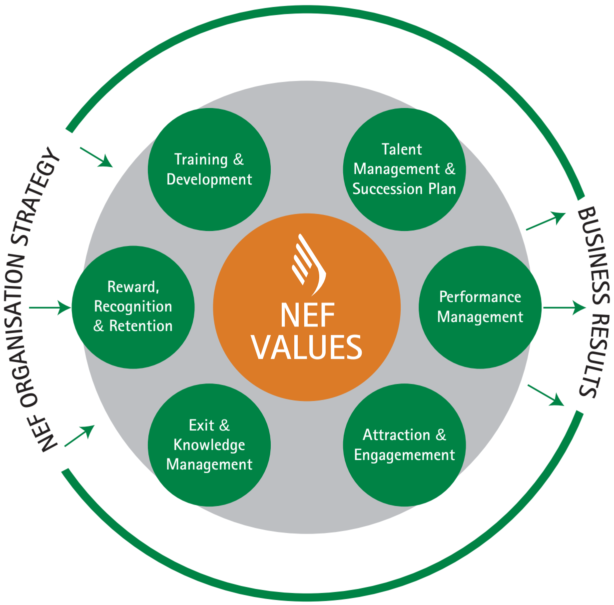
Output	Performance Measure or Indicator	Annual Target	Annual Achievement	Reason for Variance
Strategic Objective 1: Provide Finance to business ventures established by black people				
Provide finance to black empowerment business by investing in the form of loans, quasi-equity and equity finance through funds and funding products, targeting black rural enterprise, SMEs, corporate finance and venture capital	Value of deals approved by the NEF (R million)	750	1 067	Increased DRDLR deal activity exceeding the targeted R300 million has improved the pipeline and significantly impacted on overall performance. DRDLR deals are worth 515 million
	Value of new commitments (R million)	621	982	Significant efforts were made to commit DRDLR deals in the pipeline
	Value of new Disbursements (R million)	553	699	Managed to disburse higher commitments during the year than we anticipated as a factor of conditions precedents being met quicker
Strategic Objective 2: Maximising the empowerment dividend				
Invest in black empowered businesses that have high employment creating opportunities	Number of jobs expected to be supported or created	Support 3 403 new or existing job opportunities	5 069 (of which 2 841 are new	N/A
Support the participation of black women in the economy	Percentage of portfolio disbursement owned by women	40% (on annual disbursements	34%	The NEF continues to make efforts towards facilitating women participation in the economy and strive to meet this target
Facilitate investment across all provinces in South Africa	Percentage of disbursement target to be invested in EC, NC, NW, MP, FS and LP	25% of disbursement target to be invested in EC, NC, NW, MP, FS and LP	Year-to-date, a total of 40 deals worth R224 m is invested as follows: NC: 2 worth R7 m FS: 6 worth R15 m LP: 9 worth R56 m MP: 9 worth R21 m NW:8 worth R104.5m EC: 6 worth R21 m This represents 32% of the disbursements	The presence of the regional offices continues to enhance efforts to increase investment across all provinces in South Africa enabling the NEF to exceed its target

Output	Performance Measure or Indicator	Annual Target	Annual Achievement	Reason for Variance
Strategic Objective 3: Optimising non-financial support				
The provision of non-financial support and training for black -owned businesses and entrepreneurs	Number of Business Today Training sessions provided	18 training sessions per year, with an average score of 60% required in the post-training assessment	A total of 21 training sessions have been conducted, with an average score of 73%	There has been an overwhelming demand for non-financial support and training. In addition, non-financial support was required for the DRDLR transactions
	Number of entrepreneurs referred for business incubation; and number of entrepreneurs who successfully completed business incubation	Refer 75 entrepreneurs for incubation; and 15 entrepreneurs in the final incubation stage	159 entrepreneurs were referred to business incubation partners; of these 30 have made it to the final incubation stage	
	Number of Social Facilitation Sessions for NEF investees	18 Social Facilitation Sessions	42 Social Facilitation sessions for the year to date	
Conduct investor education seminars in provincial towns and increase understanding by participants	Number of seminars held across the country	32 Investor education seminars per year	48 (39 Sessions completed and 9 industrial theatres)	
Establish the NEF in the South African economy as a credible and meaningful development finance institution	Brand audit survey findings	Increase brand awareness to 70%	86%	Various factors such as advertising, maximising of media coverage, stakeholder relations, a strong national office network and a wide reaching investor education campaign all contributed to growing awareness of the NEF
Strategic Objective 4: Financial efficiency and sustainability				
Establish the NEF as a sustainable DFI	Percentage of portfolio impaired	18%	17.55%	N/A
	Target ROI before impairments (to be reviewed annually)	9-10%	7.80%	The current and prolonged tough economic climate has resulted in capitalised interest on impaired transactions not meeting the asset recognition criteria. This interest is reversed, reducing ROI
	Collection ratio	80%	101.79%	A number of exits and a decrease in percentage of debit order rejections resulted in a higher collections rate

INVESTING IN HUMAN CAPITAL

The role of the HR department is to provide capacity to the NEF's achievement of its strategic objectives by:

- Delivering business results through an integrated people centered strategy, that supports employees by providing training and development opportunities;
- Attracting high calibre and suitably qualified candidates who are fit for purpose;
- Utilising a pay-for-performance remuneration structure which will ensure that key and top talent is retained at the NEF; and
- Ensuring that exceptional performance remains a major yardstick with which performance and ultimately succession planning and talent management is measured, albeit there are other key factors that assist in determining the suitability of the targeted employees.



"NEF is an employer of choice as it offers a work culture and work environment that attracts and retains employees. It also favours the well-being of its employees and is empowerment driven in terms of growth within its employees by providing opportunities for career advancement, training and development and access to information" **Mpume Majola –** Client Liaison Manager

The NEF strives to position itself as an employer of choice and this will be demonstrated throughout this Human Capital report. Broadly, the NEF:

- Offers a rich, rewarding and fulfilling career for its employees;
- Embraces diversity in its employees by creating an environment that allows for inclusivity, thereby increasing the levels of employee engagement;
- Offers support and assistance to staff to improve their skills, qualifications and expertise;
- Has values that are embraced by all of its employees;
- Offers a unique mandate that is appealing and ensures that its employees remain engaged all the time;
- Has employees that are young, vibrant and dynamic that go beyond the call of duty for their clients;
- Ensures that its staff well-being is taken care of and has employee friendly HR policies; and
- Provides an enabling environment for its employees to thrive in their jobs.

"Because we recognize that every dream is valid, we work tirelessly using financial and non-financial, tools to add value to all pursuits. In short, we're motivated to perform ethically and with excellence making our clients feel respected and their dreams worthy."

Palesa Mzolo
Senior Post Investment Associate

NEF Values

It is said that the organisation's values happen by either default or design. An organization's values plays a significant role in its ability to successfully execute its strategic plans. At the NEF the values are inculcated in the employees and driven from the senior management to all employees. We use the NEF values as a key business strategy driver to create a strong competitive advantage by aligning our people to the mission, purpose, vision, and values.

Outlined below are the NEF core values that employees are expected to live by.

E-M-P-O-W-E-R

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 the mandate of the organisation
Worthy	Recognising the value of other's contribution
Excellence	Exceeding our clients' expectations
Respect	Treating everyone with dignity and meaning

These values are a sacred covenant between the NEF and its employees and are further entrenched through the NEF Pledge.

My Pledge to the People

"As a member of the NEF family, I solemnly pledge to remain faithful to the Values and ethos of the NEF, because as an instrument in the quest for inclusive growth, I recognise that the economic dreams and aspirations of black people depend on my willingness to serve with truth in my heart. In taking the hopes of black economic freedom to greater heights, undertake that as a patriot I will perform my call to duty with integrity and honour, with empathy and dedication to excellence, inspired by the vision of a growing and inclusive economy. This is my oath, my vocation, my contract with the nation."

INVESTEE PROFILE

UMLAZI MEGA CITY

The retail sector forms a critical element of a community's economic and social welfare. It provides people with choices and services. These choices were until recently very limited in township areas. The pre 1994 retail landscape was dominated by small, often informal businesses offering basic household necessities to relatively low-income earners. This has resulted in township residents' preference to shop outside townships.

Rapid income growth of township resident's post 1994 resulted in a substantial increase in consumer expenditure in these areas.

The impact of shopping mall development on small township retailers clearly suggests a decline in the township retailers' market share. A change in small business model towards an effective customer service with a small-dedicated assortment of merchandise, satisfaction of emergency needs, selling in small units and extension of credit facilities may result in the survival of some small township retailers.

Since the late 1990s township inhabitants have experienced a substantial economic uplift. Many township consumers have progressed to a middle-income group resulting in a significant increase in the consumer spending of the inhabitants of these areas. This increase in spending, together with the fact that many traditional retailing areas are becoming saturated, has caused national retailers, especially supermarket chains, to increasingly focus on market expansion strategies in these emerging markets.

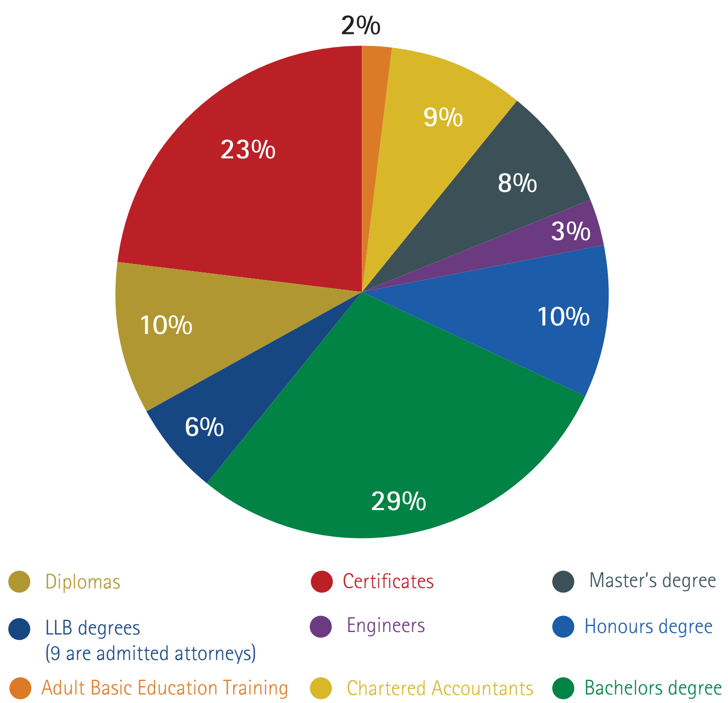
Thus when a community based private investment company approached the NEF for equity funding in Umlazi Megacity Mall (UMC), it was not difficult to establish a shared vision between the development funder and Sizovuna Investment (Pty) Ltd. Sizovuna Investment comprises of six shareholders from various sectors within the Umlazi and Lamontville communities. It is a 100% managed and controlled broad based black empowerment group established in response to the need to improve the township economy in partnership with eThekwini Municipality. The NEF funding to the tune of R51.8 million enabled the investment group to acquire 25% equity in stake in Umlazi Mega City in 2009. The initial investment by the NEF is what has enabled Sizovuna to become a community-based company with interest in commercial and retail properties and affordable housing.

Sizovuna is now geared for the next phase of investment and growth, which is to invest in property related development projects. The group has strengthened and established relationship with other companies specializing in this area and investment opportunities are being originated and evaluated on an ongoing basis. The NEF support has enabled the communities to own this valuable asset. The initial value of the Sizovuna 25% equity in UMC was R55.5 million and is now estimated at R270 million.

Our People

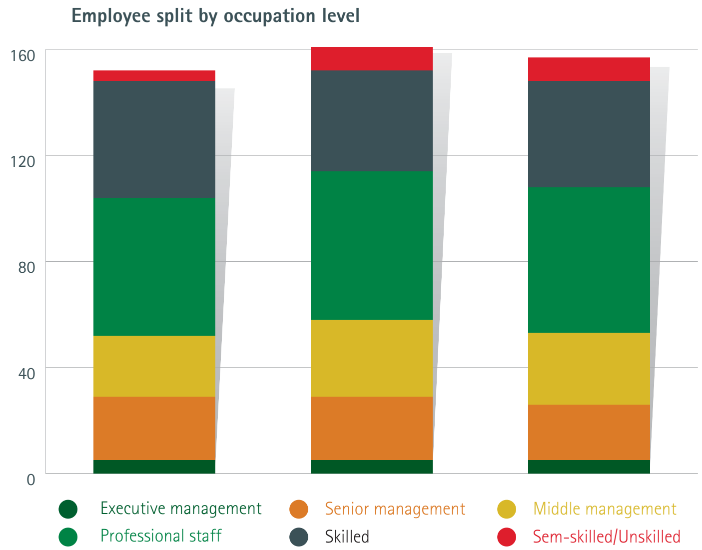
The NEF prides itself with a human capital resource that is diverse and possesses an array of qualifications. These qualified skills enable the NEF to carry out its mandate of transforming the South African economy by bringing black people to the forefront of the economic mainstream participation.

We believe the NEF employees are high performers who strive to provide service beyond our clients' expectations. They go above and beyond the call of duty in the day-to-day activities and these skills are jealously guarded by the NEF. The graph below illustrates the qualifications held by the 157 employees at the NEF as at the financial year end.



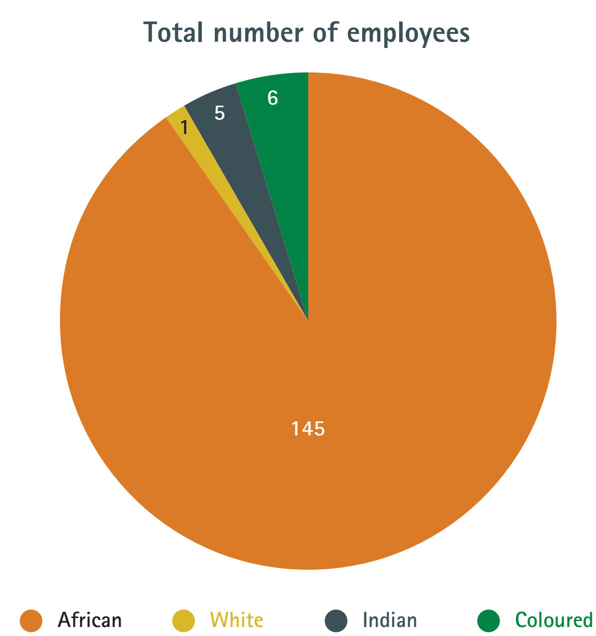
Headcount

The NEF's head count as at 31 March 2017 was 157, comprising 97 (62%) women and 60 (38%) men. During the financial year under review the average vacancy rate was 10%. Staff turnover of 11.5% compares favourably with the norm in the financial services sector at 12%.



Racial Analysis

Below are the employment equity statistics of the NEF. In order for the NEF to manage its workforce population distribution and to be in line with the economically active population of the country, it endeavours to attract the individuals within this category. This also assists in determining what resources are required and needed to achieve an equitable and representative workforce



Gender and age distribution

The table below shows the distribution of NEF employees by age and gender. The average age of the NEF employee is 38 years, which demonstrates that the NEF is a maturing organisation.

GENDER	M - F	M - F	M - F	M - F
Number	6 - 11	25 - 60	22 -24	6 - 3
AGE	20-29	30-39	40-49	50-59
Number	17	85	46	9

"NEF recognises the various cultures that makes up the NEF Brand, this is undertaken through the celebration of the variant cultures during the Heritage Month. Employees are allowed to celebrate or observe important cultural and religious events."

Eric Zwane:
Rural and Community Development Fund Manager

Investment in People vs Returns

Engagement and attraction

Our people are the soul of the business of the NEF. During the year under review the NEF acquired the services of 14 new employees. Of these new employees 12 (86%) were female and 2 (14%) male.

Training and development

As part of the HR strategy which is to deliver business results through an integrated approach, the NEF supports its employees by providing training and development opportunities. This investment in human capital ensures that the NEF is able to grow its timber, maintaining a high performance culture in the organisation.

Staff Cost	Training Expense	% of Training Cost	Number of training interventions
Total Female trained	R833 746	79%	131
Total Male trained	R225 406	21%	91
Total	**R1 059 152**	**100%**	**222**

INVESTEE PROFILE

Dikwata Harvesting (Pty) Ltd

Dikwata Harvesting is a newly established company that has an off-take agreement with Sappi Forests (Sappi). The business is 100% black owned. Dikwata specialises in mechanised harvesting of timber in the Highveld, they harvest different species of Eucalyptus trees, transporting the timber to the depot, offloading and loading of timber from the depot into train wagons to Sappi Saiccor. The business operations are in Piet Retief Mpumalanga.

The entrepreneur has vast experience in harvesting and forestry management. His knowledge in forestry was gained primarily on the job during his tenure as a Forest Manager for Sappi where he was tasked with management of all the siviculture and harvesting operations of approximately 25000ha, management of contractors with their sub-contractors and management of harvesting operations so they comply with silviculture standards. Other duties included management of all firefighting and preparation matters, liaising with neighbours and the community at large. He has operated burning projects, felling of dangerous trees, and transportation of timber projects successfully within Ngodwana. He is one of the ambitious and committed young entrepreneur funded by the NEF to the tune R9.9 million for the acquisition of equipment, fund the set of the operations and to cover operational expenses.

Initially the business was supposed to employ around 25 employees but the Sappi Forests granted the Dikwata an additional contract and now it employs over 111 employees. Dikwata Harvesting started operations on 01 March 2016. This company performed exceptionally well leading to Sappi requesting that it increases its volumes from 4000 tons per month to 7000 tons. To meet these new targets, the company has invested in a bakkie, a tractor and a trailer.

The total revenue generated for the period under review is R13 million which is 17% above the NEF projections of R11 million. The positive variance is due to the additional loads from Sappi. The business is operating 54% above break even of R8.4 million. It is evident the in Dikwata the NEF has funded an entrepreneur that holds the necessary business levers required to operate a successful business. Some of these business levers are, solid business relationships with suppliers, customers, employees, service providers and sound business and sector knowledge.

Performance Management

The NEF has a performance driven culture that instills consequences for performance and non-performance. It is against this backdrop that, the NEF undertakes performance reviews twice per year which assists to get the most out of our employees. The performance review process includes providing constructive feedback and support where required as well as providing recognition. During the review process the employee is provided with feedback about what the employee has successfully learned and achieved as well as what still needs to be learnt and achieved.

It is the philosophy of the NEF to have an effective performance management system that offers a means of providing continuous feedback to employees. The performance management system is intended as a positive means of promoting career development and job satisfaction, as well as a management tool that supports people management decisions.

Performance Management cycle

Performance Planning (Setting Performance Targets)

Regular review and monitoring

Feedback

Corrective action

Performance review and evaluation

- Training and Development plan
- Salary/ Bonus Adjustment
- Career Development

> "What is encouraging to me is the limitless opportunity of advancing to the next level within the organisation. Another point but not limited to this is that I get to enjoy study assistance in my field of choice which is empowering for my future."
>
> **Mapule Pandeka**
> Executive Assistant

Reward, Recognition and Retention

The NEF uses a pay-for-performance remuneration model which is key to retaining our top talent and enables the NEF management to drive organisational performance. The pay-for-performance model seeks to align our people with the goals and objectives of the NEF and motivate and reward our top performers, while continuing to develop under performers.

In order to match current market trends and practices in the financial services sector, SOE's, and other DFI's and be able to retain core staff, the NEF generally maintains employee guaranteed packages at least at the median level of remuneration scales and with respect to core, critical and selected key senior staff, at between the Median and 75th percentile.

The diagram below illustrates on a high level the remuneration process that is undertaken by the NEF when appointing new employees.

Own Cost To Company

Budget

Rewards Principles

Market data/ External Equity

Internal Equity

Succession Planning and Talent Management

The NEF has put in place measures to ensure that it minimises the loss of critical skills. Part of the succession plan and talent strategy involves deliberate efforts to ensure that employees and management alike are aware of employees' personal development plans and that these well-sought-after skills are continuously nurtured and recognised. Exceptional performance remains a major yardstick by which performance and ultimately succession planning and talent management is measured, albeit there are other key factors that assist in determining the suitability of the targeted employees.

In order to ensure that the NEF has a talent pool of exceptional employees who can be readily available for leadership roles, a Performance-Potential Matrix is utilised as a talent mapping guideline, which is applied to evaluate identified potential talent and suitability for various roles.

PERFORMANCE	MASTERY	GROWTH	TURN
Exceptional Performer	**Exceptional Performance/ Mastery Potential** (Super Keeper)	**Exceptional Performance/ Growth Potential** (Moving Star)	**Exceptional Performance/ Turn Potential** (Radiant Star)
Full Performer	**Full Performance/ Mastery Potential** (Core Contributor)	**Full Performance/ Growth Potential** (Moving Star)	**Full Performance/ Turn Potential** (Rising Star)
Below Performer	**Below Performance/ Mastery Potential** (Potential contributor)	**Below Performance/ Growth Potential** (Developing contributor)	**Below Performance/ Turn Potential** (Potential Star)
	− Learning Capacity	Potential	Learning Agility +

Employee Wellness

The NEF wellness program continues to yield positive results, in that employees are encouraged to develop suitable coping mechanisms and accept personal responsibility. Some of the positive spin-offs of the Wellness Program include but are not limited to decreased absenteeism, increased employee engagement, increased staff morale, greater employee retention and fewer labour disputes.

There were 324 interactions between the NEF employees and the Wellness provider which amounted to the utilisation of 202.5% out of a total of 157 employees. These interactions ranged from financial advice, legal advice, telephonic counselling and offsite face to face counselling.

External bursaries

In keeping up with its slogan, that of being a ***funder-with-a-soul*** and an ***employer-with-a-soul***, the NEF established an external bursary scheme to fund deserving learners in 2016. In its maiden year the NEF funded 31 students who are from disadvantaged backgrounds to the tune of R1.6 million. The second year of the bursary scheme sees the NEF funding 43 students, 13 of whom are a new intake for first year studies. R2 million has been set aside for external bursaries for the 2017 tuition year.

The NEF's external bursary scheme policy is aimed at financially supporting qualifying young people to further their studies and obtaining qualifications identified as critical in the development South Africa. The development of the NEF's external bursary scheme is motivated by its core mandate of empowerment of Black People and its values of **EMPOWER** underpinning the purpose, vision and mission of the NEF.

By implementing this initiative, the NEF will be contributing towards closing the gap on equity programs (inequalities); contribute towards the National Development Plan and Skills Development Plan; and empowered communities wherein professionals funded by the bursary scheme can go invest back in their communities.

> “Wellness Day is a great initiative, it shows how much our employer cares for our wellbeing. Always fun with free massages and healthy smoothies but most importantly we are able to keep track of our fitness”
>
> **Nthoto Khalema**
> Marketing and Communications Co-ordinator

GOVERNANCE

The NEF BoT is committed to sound corporate governance practices and subscribes to the principles of good corporate governance as recommended in the King III Report on Corporate Governance. The NEF has established corporate governance structures to assist the BoT to ensure compliance with legislation and regulatory requirements as well as corporate governance best practice.

Governance Structures

The NEF's shareholder is the Government of the Republic of South Africa, represented by **the dti**, which serves as the NEF's executive authority in terms of the PFMA.

A Shareholder's Performance Compact (Shareholder's Compact) was concluded with **the dti** for the year under review. The purpose of the document is to define and regulate the mandate from **the dti** to the NEF; document the parameters of the relationship between the NEF and **the dti**; and outline the roles and responsibilities of the two parties. The BoT finalised and submitted its Annual Performance Plan and the Strategic Plan to **the dti**. These plans were duly authorised by the Minister of Trade and Industry and Parliament.

Board of Trustees

The BoT is appointed in terms of the NEF Act. BoT members possess expertise in the fields of, amongst others, finance, law, economics, business practice, and development practice. The BoT currently comprises five independent non-executive Trustees and two executive Trustees. The roles of the chairman and CEO are separate and the composition of the BoT ensures balance of authority precluding any one Trustee from exercising disproportionate power of decision making.

The BoT holds regular meetings to ensure that it meets its objectives as outlined in the BoT charter. The elements of the BoT charter are derived from the NEF Act and the Shareholders Compact concluded between **the dti** and NEF.

The NEF will become a wholly-owned subsidiary of the IDC, which will necessitate the reconstruction of the BoT.

Amongst other activities the BoT and its committees reviewed their terms of reference to ensure alignment with the principles of good corporate governance.

Lack of recapitalisation remained a major concern for the BoT throughout the year. The BoT continues to support management in engagements with various government departments and other entities in their efforts to raise funding.

Board Subcommittees

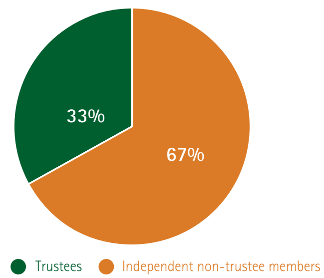
Each board committee has clearly defined responsibilities and submits reports of its activities to the BoT on a quarterly basis.

Audit Committee

The Audit Committee assists the BoT in its duties relating to the safeguarding of assets, the operation of adequate financial systems and control processes, and the preparation of Annual Financial Statements, and related reporting, in compliance with all applicable legal and regulatory requirements and accounting standards.

The Audit Committee has adopted comprehensive terms of reference that have been approved by the BoT. The committee has conducted its work over the past financial year and discharged its responsibilities in accordance with those terms of reference and has reported quarterly in this regard to the BoT.

Composition



Composition and attendance	
A Coombe (Acting chairman)	6/6
Z Ntlangula	4/6
R Van Wyk	5/6
J Williams	6/6
R Harichunder**	3/4
L Serithi*	4/4

**Appointed as a member with effect from 6 June 2016*
***Appointed as a member with effect from 8 July 2016*

Audit Committee focus areas

- Nominated for approval the appointment of a registered external auditor ("auditor") who in the opinion of the Committee is independent of the NEF and satisfied itself that the appointment of the auditor complies with the PFMA and other relevant legislation. The committee is comfortable that the audit plan makes provision for effectively addressing the critical risk areas in the business.
- reviewed the annual financial statements, the quarterly reports, the accompanying reports to stakeholders and any other announcements regarding the results or other financial information, prior to submission and approval by the BoT;
- had oversight of the integrated reporting process;
- satisfied itself that a combined assurance model is applied to provide a co-ordinated approach to all assurance activities;
- was responsible for overseeing the internal audit function;
- considered the legal and regulatory requirements to the extent that they may have an impact on the financial statements.

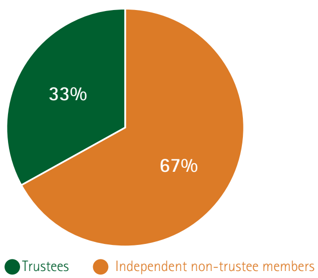
In the 2017/18 year the Audit Committee will focus on

- The conversion of NEF's accounting reporting from GRAP to IFRS
- The implementation of King IV
- Cyber Security trends and recommendations

Risk and Portfolio Management Committee (RPMC)

The core function of the RPMC is to ensure appropriate risk management and provide an oversight role regarding the performance of the NEF's invested portfolio. The committee established and maintained a common understanding of the risk universe which needs to be addressed in order to meet the NEF's objectives. The committee satisfied itself that a proper business risk assessment is carried out and that a risk profile of the organisation is compiled. It also ensured that there is a coordinated effort between risk management and assurance providers within the NEF. The committee reported to the BoT on overall risk management and on the extent of any action taken by management to address areas identified for improvement.

Composition



Composition and attendance	
Z Fihlani (Chairman)	3/3
A Makwetla	2/3
R Garach	2/3
S Harford	2/3
N Maliza*	3/3
R Harichunder**	3/3

** Appointed as a member with effect from 6 June 2016*
*** Appointed as a member with effect from 8 July 2016*

RPMC focus areas

The key focus in the current year was assisting management to adequately capacitate the Post Investment Unit to ensure proactive identification of early signs of distress in investees and implement appropriate interventions. The RPMC also focused on the following areas:

- Reviewing the NEF's Empowerment Dividend model;
- Analysis of the portfolio mix; and
- In-depth portfolio analysis since inception and the strategic decisions for future implementation.

In the 2017/18 financial year the RPMC will focus on:

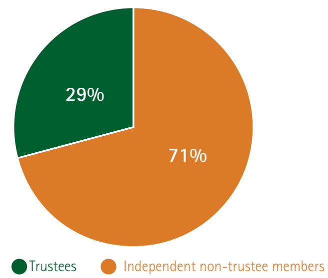
- Empowerment Dividend methodology and application thereof;
- SPF lessons learnt; and
- IRR analysis for all exits.

Board Investment Committee (BIC)

The BIC assessed, evaluated, approved (where appropriate) and recommended to the BoT investments in accordance with the BoT approved Delegation of Authority framework.

The focus area in the 2018 financial year will include approval of any new NEF investment products and recommend same to the BoT.

Composition



Composition and attendance	
N Pascal (Chairman)	7/7
P Mthethwa (CEO)	7/7
*Z Siyotula	1/6
P Tyalimpi	6/7
Z Ntlangula	6/7
C Busetti	5/7
Z Fihlani	6/7

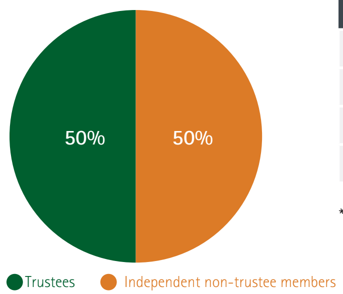
** Appointed as a member with effect from 6 June 2016*

> "Radical economic transformation requires also that we leverage our massive infrastructure investment more strategically and more deliberately to build local manufacturing capacity. It requires that we create a new generation of black industrialists. Government, through its development finance institutions and other agencies, is putting significant resources into this effort."
>
> **The Hon Deputy President Mr Cyril Ramaphosa at the Black Business Council dinner, 19 April 2017**

Human Capital and Remuneration Committee (HCRC)

The HCRC oversees and monitors the level and remuneration structures of the NEF in line with overall performance; and reviews compliance to appropriate policies, procedures and structures relating to human capital.

Composition



Composition and attendance	
J Williams (Chairman)	6/6
B Zwane*	4/4
A Makwetla	5/6
S Stojanovic	6/6

**Appointed as a member with effect from 6 June2016*

HCRC focus areas

The committee objectives were to:

- oversee compliance with the human capital policies, procedures and structures regulating the relationship between the NEF and its staff;
- monitor and strengthen the objectivity and credibility of the NEF's human capital policies and procedures and the application thereof;
- make recommendations to the BoT on remuneration packages and policies applicable to staff members;
- ensure that the NEF is transparent and representative in terms of gender and race; and
- ensure that the NEF has the appropriate human capital to deliver on its mandate.

In the 2017/18 financial year the HCRC will focus on:

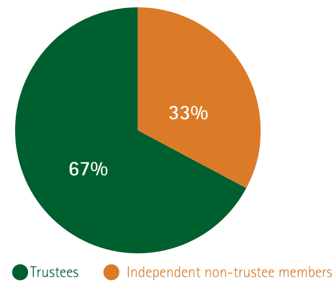
HR deep dive with the aim to:

- map the NEF growth with regards to its people, culture and the NEF brand, towards fulfilling its empowerment dividend objectives;
- explore a range of Strategic Organisation Development, HR Operational topics relating to human capital and the expression of values and culture, within developmental organisations, and consider their relevance to NEF and its empowerment agenda; and
- identify gaps and elements for application of best practice leading to a healthy and innovative developmental organisation.

Social and Ethics Committee (SEC)

The SEC assists the BoT with the oversight of social and ethical matters relating to the NEF.

Composition



Composition and attendance	
A Makwetla (Chairman)	4/4
J Williams	4/4
M Mbaco	4/4

The SEC's **key focus areas** for the year included:

- Monitoring the implementation of the NEF's strategic responses to the brand audit findings;
- The NEF's media relations;
- Reviewing policies relating to conflicts of interests and code of conduct to ensure that best practice is adopted; and
- Ethics awareness in the workplace (to be determined from the results of the ethics survey).

Furthermore, the committee monitored the NEF's activities regarding:

- The environment, health and public safety, including the impact of the NEF's activities and of its products or services; and
- 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.

In the 2017/18 financial year the SEC will focus on:

- 2017 Brand Audit results with emphasis on repeat findings and implement an action plan for resolving these findings.

INVESTEE PROFILE

Busamed Private Hospital Group


Busamed Paardevlei Private Hospital

Busamed Modderfontein Private Hospital

In Busamed, the NEF invested in a 100% proudly South African black owned private hospital group offering cost effective and innovative healthcare services. The group holds six bed licenses across South Africa. Although they are a relatively young hospital group, the management and staff have a wealth of experience and are passionate about patient-centred care. Busamed has been able to attract a variety of specialists that are all highly trained and qualified in their specific fields to make sure they provide the best possible care to the respective communities and patients.

The investment was first approved in August 2010 with a funding of R10million towards pre-feasibility study securing the NEF 49% in the Busamed. A further bankable feasibility study was undertaken in June 2011 with the NEF injecting a further R40 million, by financial close the total deployed was R360 million. The NEF funding has overall leveraged over R3.5 billion of value into the Busamed group.

There are currently two operational hospitals in Gauteng Modderfontein and Paardevlei in the Western Cape with the third facility expected to open in the Free State Harrismith in the first quarter of 2018 followed by the one in Bloemfontein.

Busamed Paardevlei Private Hospital

Busamed Paardevlei Private Hospital is a 100 bed acute hospital. It is housed in an attractive, modern, purpose-built, building situated in the historic Paardevlei precinct. Its location is convenient as the facility is along the N2 and other main and arterial routes, which makes access to our excellent, quality treatment facility even easier for residents of the Helderberg and other surrounding areas. The hospital structure has been designed with the patients' needs and comfort in mind. In addition, it is equipped with the most modern equipment aimed at the most favourable outcomes and best possible experience for patients and their families. The building and equipment however, would have very little value in the absence of appropriate specialists and staff. To this end, Busamed staff and the resident specialists are passionate about patient-centred care and place their well-being at the centre of all they do.

Busamed Modderfontein Private Hospital Orthopaedic & Oncology Centre

The second facility, Busamed Modderfontein Private Hospital Orthopaedic & Oncology Centre opened its doors to the public on September 2016.

The hospital has 170 bed acute facility comprising a wide range of specialities including, Dermatology, Ear Nose Throat surgery, Gastroenterology, General Surgery (including Bariatric), Gynaecology & Fertility Medicine, Internal Medicine / Physicians, Neurology, Neurosurgery, Nephrology, Oncology (Radiation and Medical), Orthopaedic Surgery (including robotic assisted surgery – MAKO), Paediatrics, Paediatric Surgery, Plastic and Reconstructive Surgery, Sports Medicine, Thoracic Surgery, Urology, Vascular surgery as well as a Travel Clinic.

The hospitals Auxiliary support services include Audiology, Biokinetics, Dietician, Pathology, Physiotherapy, Radiology, Occupational Therapy, Orthotist/Prosthetist, Renal Dialysis, Speech therapy and a retail pharmacy. Busamed Moderfontein has eight state-of-the-art operating theatres of which three are specialised (Laminar flow). There are also thirty specialty beds, which include an adult and a paediatric Intensive Care unit, as well as a High Care unit. This facility is also strategically located close to the N3 and other main and arterial routes which makes access to this excellent, quality treatment facility even easier for the residents of Edenvale, Greenstone, Linbro Park, Marlboro Gardens, Thembisa, Wendywood, Kelvin and other surrounding areas.

Busamed has recently acquired innovative and state of the art technology within Orthopaedics, specifically for hip and knee replacement surgery using a robotic assisted arm, the first of its kind in Orthopaedic Surgery in South Africa and on the African continent. The Mako Robotic Arm delivers improved accuracy and has been used to perform over 70 000 surgeries worldwide. The arrival of this machine and the Mako technology is exclusive to Busamed Modderfontein Private Hospital and ensures patients can now benefit from this innovative excellent orthopaedic technology. Two Orthopaedic Surgeons of, doctors Lipalo Mokete and Ebrahim Hoosen, underwent professional training in the United States of America and are the only two Orthopaedic Surgeons currently trained in this area of Orthopaedics in the country. The Modderfontein Hospital Oncology Centre boasts the latest technology used in Radiation therapy used in treating cancer. The hospital group aims to offer the most technology advanced systems in the health sector.

PROFILES OF THE BOARD

The Board of Trustees is made up of **14% men** and **86% women**

BoT BIC AC

RPMC HCRC SEC

Meetings attended

Mr Rakesh Garach (53)
Chairman
Appointed in December 2009

QUALIFICATIONS AND MEMBERSHIPS

- CA(SA)
- U Bank Limited
- Destiny Seating (Pty)Ltd
- Telkom Foundation Trust

7/7 2/3

Ms Philisiwe Mthethwa (53)
Executive Trustee (CEO)
Appointed in July 2005

QUALIFICATIONS AND MEMBERSHIPS

- MBA Corporate Finance
- MSc Economics (thesis not defended)
- Group Five Limited
- Industrial Development Corporation (IDC)

7/7 7/7

71% of the Board is made up of non-executive Trustees

Ms Zukiswa Ntlangula (44)
Trustee
Appointed in December 2009

QUALIFICATIONS AND MEMBERSHIPS

- B.Juris
- LLB
- Masters Diploma in Human Resources
- Diploma in Project Management
- Ntlangula Inc.
- Alexkor SOC Ltd
- Glencore Operations South Africa (GOSA)
- Katlego Trust ESOP
- Dumisa Holdings (Pty)Ltd
- Maduna Diamonds CC
- The Word Foundation

4/7 6/7 4/6

Ms Innocentia Pule (40)
Executive Trustee (CFO)
Appointed in September 2012

QUALIFICATIONS AND MEMBERSHIPS

- CA(SA)
- Certificate in Global Executive Development
- Certificate in Transition to General Management
- M-Care Operating Holdings
- Global Wheel (Pty)Ltd
- Somlolo Group Investment Holdings
- South African National Space Agency
- Bapo Trans (Pty)Ltd
- Bapo Ba Mogale Investment (Pty)Ltd

6/7

Ms Angelina Makwetla (69)
Trustee
Appointed in December 2009

QUALIFICATIONS AND MEMBERSHIPS

- BA (Social Sciences)
- Management Certificate
- SMME Management Certificate
- Bantene Family Co-Operative
- SA Human Rights Commission

6/7 2/3 5/6 4/4

Average tenure of board members is
7.7 years

Ms Nomalanga Pascal (52)
Trustee
Appointed in December 2009

QUALIFICATIONS AND MEMBERSHIPS

- NCT Forestry Co-operative Limited
- Nomalanga Property Holdings (Pty)Ltd
- Hahisa Consulting (Pty)Ltd
- Msunduzi Forestry Company (Pty)Ltd

7/7 7/7

Ms Jacqueline Williams (59)
Trustee
Appointed in October 2012

QUALIFICATIONS AND MEMBERSHIPS

- MA MDiv
- Co-owner of Williams and Calmer
- SJSM Energy Investment (Pty)Ltd
- Energreen Africa (Pty)Ltd
- Community Growth Management Company (Pty)
- African Women's Entrepreneurship Program SA

6/7 6/6 6/6 4/4

Combined tenure
54 years

PROFILES OF THE EXECUTIVE COMMITTEE

Ms Philisiwe Mthethwa (53)
Executive Trustee (CEO)
Appointed in July 2005

QUALIFICATIONS AND MEMBERSHIPS

- MBA Corporate Finance
- MSc Economics (thesis not defended)
- Group Five Limited
- Industrial Development Corporation (IDC)

60% of the Executive team is made up of women

Ms Innocentia Pule (40)
Executive Trustee (CFO)
Appointed in September 2012

QUALIFICATIONS AND MEMBERSHIPS

- CA(SA)
- Certificate in Global Executive Development
- Certificate in Transition to General Management
- M-Care operating Holdings
- Global Wheel (Pty)Ltd
- Somlolo Group Investment Holdings
- South African National Space Agency
- Bapo Trans (Pty)Ltd
- Bapo Ba Mogale Investment (Pty)Ltd

Ms Hlengiwe Makhathini (38)
Divisional Executive: Venture Capital and Corporate Finance
Appointed in April 2011

QUALIFICATIONS AND MEMBERSHIPS

- CA(SA)
- Motula Trading
- Road Traffic Infringement Agency
- Dube Trade Port Corporation
- Ladvest Investments
- Karsten Group Holdings
- Botebo Investments Holdings
- Business Venture Investment Holdings No 1693 (Pty)Ltd

Mr Setlakalane Molepo (56)
Divisional Executive: SME and Rural Development
Appointed in November 2010

QUALIFICATIONS AND MEMBERSHIPS

- Civil Engineer
- Busamed Holdings (Pty) Ltd
- Zastrovect Investments (Pty)Ltd
- South Africa Metals Equity (Pty)Ltd

Combined tenure at the NEF is **32 years**

Mr Mziwabantu Dayimani (39)
General Counsel
Appointed in November 2015

QUALIFICATIONS AND MEMBERSHIPS

- LLB
- An admitted attorney and Notary Public (South Africa)
- Gibela Rail Transport Consortium
- Sizovuna Umlazi Mega City SPV (Pty)Ltd
- Yandisa Properties
- Imfihlakalo Asset Management (Pty)Ltd
- Ubumbano Rail (Pty)Ltd

ASSURANCE

Internal controls

The BoT, through the Audit Committee, ensures that internal controls are effective and adequately reported on for auditing and regulatory purposes. The NEF applies a combined assurance model to ensure coordinated assurance activities. This model gives the Audit Committee and the Risk and Portfolio Management 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 performed 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 has fully embedded the combined assurance model (CAM). The CAM view as at 31 March 2017 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 the BoT.

Non-financial information

The organisation's performance against KPIs as outlined in the Annual Performance Plan is reviewed by Internal Audit to ensure that the integrity of the data therein is credible and accurate. This information is review by the Audit Committee and approved by the BoT prior to being reported to our stakeholders.

Quality Assurance Review - QAR

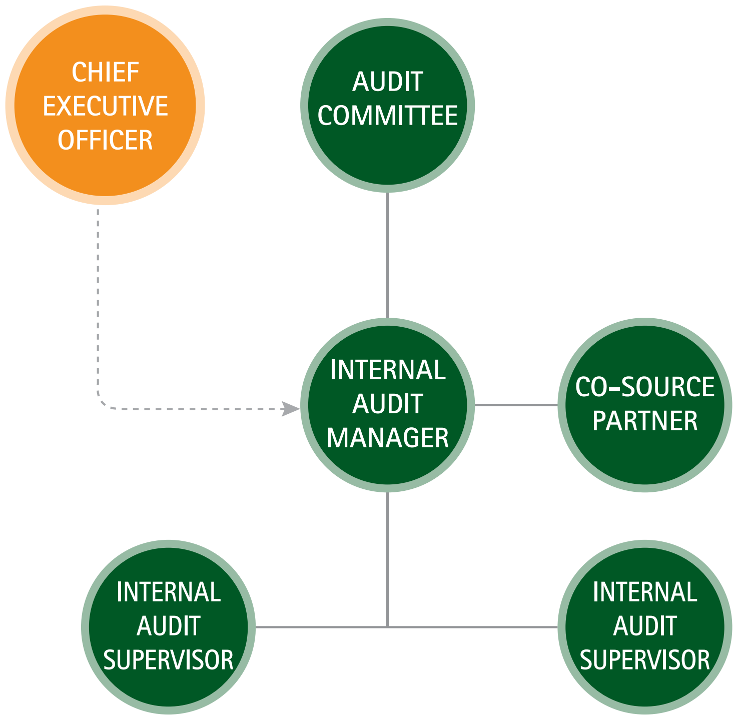
To be responsive to stakeholder needs, internal audit departments must operate at the highest level of quality. For the year under review the NEF engaged The Institute of Internal Auditors South Africa (IIA) to conduct a quality assessment of the organisation. The review was performed by an IIA Accredited Quality Assessor. The major objectives of the QAR were to:

- Assess Internal Audit Function's (IAF) conformity to the IIA's International Standards for the Professional Practice of Internal Auditing (Standards) and the Code of Ethics,
- Evaluate IAF's efficiency and effectiveness in carrying out its mission as set forth in its Regulations (Charter) and expressed in the expectations of NEF's management and Audit Committee,
- Offer advice and recommendations to enhance the management and work processes of IAF, as well as its value to NEF, where appropriate, and
- Assist IAF in its pursuit of adding value and consulting services.

The result of the review was that the NEF "Generally Conforms" means the evaluator has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual Standard or element of the Code of Ethics in all material respects.

Appointment of a co-source partner

The NEF adopts a co-sourced IAF. NEF Internal Audit staff members along with an external firm, fulfil the needs of the NEF IAF. The NEF Internal Audit Manager reports administratively to the CEO and functionally to the Audit Committee in accordance with Attribute Standard 1110 – Organisational Independence, of the IIA.



This reporting structure allows the IAF to remain independent and objective in the work that it performs and the conclusions that it reaches. The IAF has sole discretion on what will be reported to the Audit Committee.

In the year under review the NEF's co-source partner was Nkonki Incorporated, an independent external firm. The contract with Nkonki expired on 31 December 2016. The BoT appointed Rakoma and Associates on 01 February 2017 as the independent co-source partner.

On the horizon: King IV

The King Committee published the King IV Report on Corporate Governance for South Africa 2016 (King IV) on 1 November 2016. King IV is effective in respect of financial years commencing on or after 1 April 2017. The Audit Committee believes that the new code represents a positive step forward.

The NEF plans to unpack and adopt this new approach in the new financial year.

INVESTEE PROFILE

Motheo Construction Group

Motheo Construction Group (Pty) Ltd was established in 1997. Motheo has during its nineteen-year history developed into South Africa's leading, predominantly black female - owned and managed construction company. The NEF approved a total of R62 million towards Motheo as a Revolving Credit Facility. The funding was utilised as working capital for the business. The construction company is a leading provider of Social Housing in the country. One of Motheo's key focus areas is the development of young talent and today boasts six black female shareholders who hold in excess of 54% of the company's shares.

Motheo is currently registered with the Construction Industry Development Board (CIDB) as level 9 General Building and Civil Engineering . Motheo has been registered with the NHBRC since its inception and remains in good standing. Motheo is a founder member and leading role player in SAWIC (South African Women in Construction).
Whilst Motheo's head office is based in Randburg, Johannesburg, the company has over the past few years completed projects and contracts in eight of South Africa's nine provinces and are currently considering options in the Western Cape. The company has branch offices in:

- Durban
- East London and
- Johannesburg (Randburg and Meyersdal)

Motheo remains adaptable having successfully completed projects in some of the most remote parts of South Africa. Many of their contracts have involved projects categorised as "deep rural" e.g. in Mpumalanga, Eastern Cape, Northern Kwa-Zulu Natal.
When Motheo approached the NEF their core was social housing and to date 60% of their annual is in Social Housing.

As at the first quarter of 2016, Motheo had, completed almost 80 000 units in the Social Housing Sectors described above. It is estimated that 400 000 South Africans in houses built by Motheo. The total value of projects undertaken and completed to date is in excess of R5.5bn. Motheo has, to date, completed General Building Projects valued in excess of R 1.5bn. These projects range from

- Schools - Various Employers
- Upgrades - Development Bank of Southern Africa, First National Bank/others
- Town Centres - Umnini (eThekwini Municipality)
- Call Centres - MTN
- Vehicle Safeguarding Facilities - SAPS
- New Railway Stations - PRASA
- New Offices - Private Sector and
- New Corporate Offices and Guest Lodges for the Department of International Relations
- New Operating Theatres – KZN Dept. of Health

Within Civil Engineering Motheo has been involved in the township structure rehabilitation as a part of social housing development
Township Infrastructure forms an integral part of successful Social Housing Development and Construction. Motheo has further refurbished rail infrastructure to re-align it in such a manner as to have the floor of the train at the same level as the platform. This enables people with disabilities, and the elderly, easier access, to and from the trains.

Motheo Infrastructure Contractors (Pty) Ltd, a division of The Motheo Construction Group (Pty) Ltd, prides itself on delivering high quality multi-disciplinary engineering and construction projects that are on time and on budget. The company's commitment to safety, quality and the environment is paramount.

Motheo Infrastructure Contractors (Pty) Ltd provide a highly experienced, knowledgeable and well-trained workforce, which endeavours to display the work ethic and ethos. Equal opportunity supported with focused training ensures the development of all employees through the organisation's structure to become. Among key company disciplines are,

- Structural concrete construction
- Road construction and rehabilitation
- Mining infrastructure
- Sliding and slip form construction
- Bulk earthworks
- Specialised concrete repair and rehabilitation
- Infrastructural services development
- Water treatment works

Motheo boasts a dynamic and flexible management team equipped with resources to provide theoretical and practical engineering solutions to a range of civil engineering contracting challenges as and when they occur. This team, supported by efficient operational administration and financial systems, together with a committed focus on customer satisfaction, forms the key to Motheo Infrastructure Contractors (Pty) Ltd's success.

A further measure of Motheo's success is developing the personnel, over the past number of years; five beneficiaries have acquired a share holding within Motheo. Collectively they now hold 12.5% of the issued share capital of the business. This offers them a real sense of ownership and significant real wealth creation. The company's success has been a function of training generally provided by external professional service providers in areas such as negotiating skills, building contracts, programming, estimating, valuations, finance for non-financial managers, concrete technology, accounting and more. The number of people employed by Motheo has increased almost 100% with permanent jobs increasing from 80 to 145 while temporary jobs have increased from 900 to 1739.

Position 1 Position 2 Position 3 Position 4 Position 5 Position 6 Position 7 Position 8 Position 9
January February March April May June July August September October
25000,00
20000,00
15000,00
10000,00
5000,00
0,00
January March April

ANNUAL FINANCIAL STATEMENTS

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75 Cash Flow Statement

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77 Notes to the Financial Statements


POLISHED FRAME

TRUSTEE STATEMENT OF RESPONSIBILITY

The Trustees are responsible for the preparation, integrity and fair presentation of the report on performance information and the financial statements of the National Empowerment Fund Trust. The consolidated financial statements presented on pages 72 to 115 have been prepared in accordance with South African Statements of Generally Recognised Accounting Practice, 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 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 consolidated 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 consolidated financial statements support the viability of the Trust.

The report on performance information and the consolidated financial statements has been audited by the independent auditors, SizweNtsalubaGobodo Inc, whom 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 consolidated financial statements, as set out, has been approved by the Board of Trustees and is hereby signed on its behalf.

Ms Philisiwe Mthethwa	**Mr Rakesh Garach**
Chief Executive Officer	Chairman of the Board of Trustees

FINANCIALS

INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF TRUSTEES ON THE NATIONAL EMPOWERMENT FUND TRUST

Report on the audit of the financial statements

Opinion

We have audited the consolidated and separate financial statements of National Empowerment Fund Trust and its subsidiaries (the Group) set out on pages 72 to 115, which comprise the consolidated and separate statement of financial position as at 31 March 2017, and the consolidated and separate statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual for the year then ended, as well as the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Group as at 31 March 2017, and its 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 (PFMA) and the National Empowerment Fund Act.

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the consolidated and separate financial statements section of our report.

We are independent of the Group in accordance with the Independent Regulatory Board for Auditors' *Code of professional conduct for registered auditors* (IRBA code) and other independence requirements applicable to performing audits of the financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA code is consistent with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (parts A and B).

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

Responsibilities of the Board of Trustees

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

In preparing the consolidated and separate financial statements, the accounting authority is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting authority either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of consolidated and separate financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

A further description of our responsibilities for the audit of the consolidated and separate financial statements is included in the annexure to the auditor's report.

Report on the audit of reported performance information

Introduction and scope

In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof we have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. We performed procedures to identify findings but not to gather evidence to express assurance.

Our procedures address the reported performance information which must be based on the approved performance planning documents of the National Empowerment Fund Trust. We have not evaluated the completeness and appropriateness of the performance indicators established and included in the planning documents. Our procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information relating to future periods that may be included as part of the reported performance information. Accordingly our findings do not extend to these matters.

We evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the Performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the National Empowerment Fund Trust for the year ended 31 March 2017:

Objectives	Pages in the annual performance report
Strategic Objective 1: Provide finance to business ventures established by black people.	46 to 47
Strategic Objective 2: Maximising the empowerment dividends.	46 to 47
Strategic Objective 3: Optimising non-financial support	46 to 47
Strategic Objective 4: Financial efficiency and sustainability.	46 to 47

We performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. We performed further procedures to determine whether the indicators and related targets were measurable and relevant, and 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 the above mentioned objectives.

Other matter

We draw attention to the matter below. Our opinions are not modified in respect of this matter.

Achievement of planned targets

Refer to the annual performance report on pages 46 to 47 for information on the achievement of planned targets for the year and explanations provided for the under/overachievement of the targets. This information should be considered in the context of the conclusions expressed on the usefulness and reliability of the reported performance information in the preceding paragraph of this report.

Report on the audit of compliance with legislation

Introduction and scope

In accordance with the PAA and the general notice issued in terms thereof we have a responsibility to report material findings on the compliance of the Group with specific matters in key legislation. We performed procedures to identify findings but not to gather evidence to express assurance.

Other information

The Group's accounting authority is responsible for the other information. The other information does not include the consolidated and separate financial statements, the auditor's report thereon and those selected objectives presented in the annual performance report that have been specifically reported on in the auditor's report.

Our opinion on the consolidated and separate financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements and the selected objectives presented in the annual performance report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Internal control deficiencies

We considered internal control relevant to our audit of the consolidated and separate financial statements, performance review and compliance with legislation, however the objective is not to express any form of assurance thereon. We did not identify any significant deficiencies in internal control.

Auditor tenure

In terms of the IRBA rule published in Government Gazette Number 39475 dated 4 December 2015, we report that SizweNtsalubaGobodo Inc. has been the auditor of the National Empowerment Fund Trust for 5 years.

Darshen Govender
Partner
Registered Auditor

28 July 2017

Annexure – Auditor's responsibility for the audit

As part of an audit in accordance with the ISAs, we exercise professional judgement and maintain professional scepticism throughout our audit of the consolidated and separate financial statements, and the procedures performed on reported performance information for selected objectives and on the Group's compliance with respect to the selected subject matters.

Financial statements

In addition to our responsibility for the audit of the consolidated and separate financial statements as described in the auditor's report, we also:

- identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting authority.
- conclude on the appropriateness of the accounting authority's use of the going concern basis of accounting in the preparation of the consolidated and separate financial statements. We also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the consolidated and separate financial statements. Our conclusions are based on the information available to me at the date of the auditor's report. However, future events or conditions may cause a Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated and separate financial statements. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

Communication with those charged with governance

We communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also confirm to the accounting authority that we have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on our independence, and where applicable, related safeguards.

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 has been 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 confirmed that key controls implemented by management to address the associated risks indicate that an adequate control framework is in place but improvements are needed in certain 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 to manage and adequately mitigate the Trust's key risk areas and the Audit Committee and the Board of Trustees to exercise oversight.

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

The Audit Committee has discussed 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 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

21 July 2017

STATEMENT OF FINANCIAL POSITION

as at 31 March 2017

	Notes	Group 2017 R	Group 2016 R	Trust 2017 R	Trust 2016 R
ASSETS					
Non-current assets		**3 421 837 369**	**3 316 188 048**	**3 418 672 956**	**3 264 781 273**
Property and equipment	4	23 606 564	23 770 180	1 946 564	2 110 180
Intangible assets	5	94 858	3 309	94 858	3 309
Investments in associates	6	67 924 461	189 587 768	67 924 461	189 587 768
Investment in subsidiary	11	–	–	6 178 205	6 178 104
Investments at fair value	7	1 564 964 871	1 597 159 359	1 564 964 871	1 597 159 359
Originated loans	8	1 390 892 866	1 262 422 516	1 510 043 442	1 344 763 684
Preference shares	9	50 740 725	43 600 060	50 740 725	43 600 060
Finance lease receivables	10	216 779 830	81 378 809	216 779 830	81 378 809
Non-current asset classified as held for sale	11	106 833 194	118 266 047	–	–
Current assets		**1 754 703 066**	**2 027 251 053**	**1 754 418 325**	**2 027 250 953**
Current portion of originated loans	8	315 865 877	435 622 956	315 865 877	435 622 956
Current portion of finance lease receivables	10	38 480 613	38 172 930	38 480 613	38 172 930
Investments held-for-trade	12	53 207 276	44 104 960	53 207 276	44 104 960
Current asset held for sale	13	829 600	3 000 000	829 600	3 000 000
Trade and other receivables	14	1 512 371	87 583 421	1 512 371	87 583 421
Cash and cash equivalents	16	1 344 807 329	1 418 766 786	1 344 522 588	1 418 766 686
TOTAL ASSETS		**5 176 540 435**	**5 343 439 101**	**5 173 091 281**	**5 292 032 226**
NET ASSETS AND LIABILITIES					
Net Assets		**4 793 229 508**	**5 121 613 315**	**4 786 671 102**	**5 103 948 032**
Trust capital	17	2 468 431 472	2 468 431 472	2 468 431 472	2 468 431 472
Accumulated surplus		2 324 798 036	2 653 181 843	2 318 239 630	2 635 516 560
Non-current liabilities		**6 139 899**	**42 989 677**	**9 249 151**	**9 249 151**
Deferred tax	35	563 705	514 155	–	–
Liabilities directly associated with non-current assets classified as held for sale	11	5 576 194	42 475 522	9 249 151	9 249 151
Current liabilities					
Trade and other payables	18	**377 171 028**	**178 836 109**	**377 171 028**	**178 835 043**
Total Liabilities		**383 310 927**	**221 825 786**	**386 420 179**	**188 084 194**
TOTAL NET ASSETS AND LIABILITIES		**5 176 540 435**	**5 343 439 101**	**5 173 091 281**	**5 292 032 226**

STATEMENT OF FINANCIAL PERFORMANCE

for the year ended 31 March 2017

		Group		Trust	
		2017	2016	2017	2016
	Notes	R	R	R	R
Revenue	20	**362 544 526**	**422 479 770**	**373 035 544**	**432 021 038**
Sundry income	21	59 071 624	158 558 173	59 071 624	158 558 173
Total Revenue		**421 616 150**	**581 037 943**	**432 107 168**	**590 579 211**
Administration expenses	22	(240 482 440)	(237 373 978)	(240 478 294)	(237 372 912)
Net operating income		**181 133 710**	**343 663 965**	**191 628 874**	**353 206 299**
Impairment charge	23	(212 880 880)	(370 138 869)	(212 880 880)	(407 211 166)
Investment write-offs		(26 670 332)	(37 364 093)	(26 670 332)	(37 364 093)
Net income/(loss) before fair value adjustments		**(58 417 502)**	**(63 838 997)**	**(47 922 338)**	**(91 368 960)**
Fair value gains/(losses)		**(269 354 592)**	**(646 580 952)**	**(269 354 592)**	**(655 830 103)**
– Investments in associates	6	(132 477 044)	72 679 211	(132 477 044)	72 679 211
– Investments at fair value – non associate equity investments	7.1	(132 185 336)	(703 829 973)	(132 185 336)	(703 829 973)
– Investments at fair value – unincorporated equity investments	7.2	(13 794 528)	(5 425 841)	(13 794 528)	(5 425 841)
– Day 1 Loss – Acquisition of Delswa (Pty) Ltd	11	–	–	–	(9 249 151)
– Investments held-for-trade	12	9 102 316	(10 004 349)	9 102 316	(10 004 349)
Deficit before non-current asset held for sale		**(327 772 094)**	**(710 419 949)**	**(317 276 930)**	**(747 199 063)**
Deficit from non-current asset held for sale	11	(562 164)	(2 722 318)	–	–
Deficit before taxation		**(328 334 258)**	**(713 142 267)**	**–**	**–**
Taxation	35	(49 549)	(514 155)	–	–
Deficit for the year		**(328 383 807)**	**(713 656 422)**	**(317 276 930)**	**(747 199 063)**

FINANCIALS

STATEMENT OF CHANGES IN NET ASSETS

For the year ended 31 March 2017

	Trust capital R	Accumulated surplus R	Total R
Group			
Balance at 31 March 2015	**2 468 431 472**	**3 376 087 416**	**5 844 518 888**
Amounts recognised directly in net assets in relation to non-current assets held for sale	–	(9 249 151)	(9 249 151)
Deficit for the year	–	(713 656 422)	(713 656 422)
Balance at 31 March 2016	**2 468 431 472**	**2 653 181 843**	**5 121 613 315**
Deficit for the year	–	(328 383 807)	(328 383 807)
Balance at 31 March 2017	**2 468 431 472**	**2 324 798 036**	**4 793 229 506**
	Note 17		

	Trust capital R	Accumulated surplus R	Total R
Trust			
Balance at 31 March 2015	**2 468 431 472**	**3 382 715 623**	**5 851 147 095**
Deficit for the year	–	(747 199 063)	(747 199 063)
Balance at 31 March 2016	**2 468 431 472**	**2 635 516 560**	**5 103 948 032**
Deficit for the year	–	(317 276 930)	(317 276 930)
Balance at 31 March 2017	**2 468 431 472**	**2 318 239 630**	**4 786 671 102**
	Note 17		

CASH FLOW STATEMENT

For the year ended 31 March 2017

	Notes	Group 2017 R	Group 2016 R	Trust 2017 R	Trust 2016 R
Cash inflows/(outflows) from operating activities	26	**3 506 220**	**(24 769 345)**	**3 511 432**	**(24 769 445)**
Cash receipts from other income		59 071 624	94 061 559	59 071 624	94 061 558
Cash paid to suppliers and employees		(55 565 404)	(118 830 904)	(55 560 192)	(118 831 003)
Cash inflows/(outflows) from investing activities		**(79 241 676)**	**(23 910 755)**	**(77 755 530)**	**(4 910 756)**
Additions to property plant and equipment	4	(2 304 253)	(22 643 711)	(2 304 253)	(983 711)
Additions to intangible assets	5	(130 243)	(188 100)	(130 243)	(188 100)
Investment disbursements	27	(766 960 405)	(681 270 022)	(766 960 405)	(683 930 022)
Dividends received		161 970 700	57 284 408	161 970 700	57 284 408
Interest receipts		84 405 479	82 318 247	84 403 624	82 318 247
Repayments on originated loans leases and preference shares		429 277 046	318 782 863	430 765 047	318 782 863
Proceeds from sale of investments		14 500 000	221 805 560	14 500 000	221 805 560
Net cash flows from Non – Current Assets Held For Sale		1 775 999	–	–	–
Decrease in cash and cash equivalents		**(73 959 457)**	**(48 680 100)**	**(74 244 098)**	**(29 680 200)**
Cash and cash equivalents at beginning of the year		**1 418 766 786**	**1 467 446 886**	**1 418 766 686**	**1 448 446 886**
Cash and cash equivalents at end of the year	16	**1 344 807 329**	**1 418 766 786**	**1 344 522 588**	**1 418 766 686**

FINANCIALS

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL

for the year ended 31 March 2017

		Trust		
	Notes	Approved Final Budget R	Actual R	Variance R
Revenue	28.1	**459 460 860**	**373 035 544**	**(86 425 316)**
Sundry income	28.2	7 950 400	59 071 624	51 121 224
Total Income		**467 411 260**	**432 107 168**	**(35 304 092)**
Expenses				
Compensation of employees		(201 262 230)	(154 855 984)	46 406 246
Use of goods and services		(100 968 224)	(85 622 310)	15 345 914
Total Expenses	28.3	**(302 230 454)**	**(240 478 294)**	**61 752 160**
Net Operating Income		**165 180 806**	**191 628 874**	**26 448 068**
Impairment charge	28.4	(159 453 790)	(212 880 880)	(53 427 090)
Write-offs		–	(26 670 332)	(26 670 332)
Net Income before fair value adjustments		**5 727 016**	**(47 922 338)**	**(53 649 354)**
Net fair value losses	28.5	**–**	(269 354 592)	(269 354 592)
Surplus/(deficit) for the year		**5 727 016**	**(317 276 930)**	**(323 003 946)**

1. ACCOUNTING POLICIES AND BASIS OF PREPARATION

The accounting policies below are those employed by National Empowerment Fund Trust (NEF) and National Empowerment Fund Corporation SOC Limited. The accounting policies employed by Delswa (Pty) Ltd and Zastrovect (Pty) Ltd may differ from those of National Empowerment Fund Trust.

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 owned and managed 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 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 IPSAS 20 – Related Parties and IFRS 7 disclosure.

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.

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. ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

National Empowerment Fund Corporation SOC Ltd is a subsidiary that was created by the NEF to fulfil specific functions of the NEF. The subsidiary is treated as a normal investee in the separate financial statements and consolidated under GRAP 6 in the Group financial statements.

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 are 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.

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%
Property	N/A

Investment property is held by National Empowerment Fund Corporation SOC Ltd at fair value and is accounted for at cost in the group. 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 asset 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.

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.

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%

1.8 Non-current assets held for sale

Non-current assets held for sale comprises of group subsidiaries that the National Empowerment Fund Trust acquired through exercising it's rights when investees defaulted on the terms on their loans. These subsidiaries are temporary in nature while the National Empowerment Fund Trust seeks suitable buyers. These disposal groups are accounted for in terms of GRAP 100 Discontinued Operations. In terms of GRAP 100 Discontinued Operations 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 has 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.

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 derivate 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, receivables and preference share investments are carried at amortised cost, less accumulated impairments, 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

1. ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

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.

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 a 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.

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.

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.

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.

1.11 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.

1.12 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.

1.13 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.

1.14 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. ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

1.15 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 investments held at fair value through profit and loss. 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 quarterly 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.

1.16 Taxation

a) Income tax

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period.

b) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

2. NEW STANDARDS AND INTERPRETATIONS

2.1 Standards and interpretations effective and adopted in the current year

Although there were no new standards adopted in this current financial year there were some modifications applied in respect to Grap 17 whereby the Trust and Group has disclosed repairs and maintenance values in relation to PPE.

2.2 Standards and interpretations not yet effective or relevant

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. 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 34 – Separate Financial Statements

The objective of this Standard is to prescribe the accounting and disclosure requirements for investments in controlled entities joint ventures and associates when an entity prepares separate financial statements. The effective date of the standard is still to be determined by the Minister of Finance. This standard may have a material impact on the Trust's Annual Financial Statements given the material investments in associate entities and the few controlled entities.

GRAP 35 – Consolidated Financial Statements

The objective of this Standard is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The effective date of the standard is still to be determined by the Minister of Finance. The Standard may have a material impact on the Trust's Annual Financial Statements given that the Trust has three subsidiaries.

GRAP 36 – Investments In Associates and Joint Ventures

The objective of this Standard is to prescribe the accounting for investments in associates and joint ventures and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The effective date of the standard is still to be determined by the Minister of Finance. The standard is expected to have a material impact on the Trust's Annual Financial Statements given that the Trust has material investments in respect of associate investments. However no material impact is expected in respect of joint ventures as the Trust has adopted GRAP 8 exemption for venture capital organisations.

GRAP 37 – Joint Arrangements

The objective of this Standard is to establish principles for financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. joint arrangements). The effective date of the standard is still to be determined by the Minister of Finance. The standard is not expected to have a material impact on the Trust's Annual Financial Statements as the Trust is not invested in Joint Arrangements.

GRAP 38 – Disclosure of Interest In Other Entities

The objective of this Standard is to require an entity to disclose information that enables users of its financial statements to evaluate:

(a) the nature of and risks associated with its interests in controlled entities unconsolidated controlled entities joint arrangements and associates and structured entities that are not consolidated; and

(b) the effects of those interests on its financial position financial performance and cash flows. The effective date of the standard is still to be determined by the Minister of Finance. The standard is expected to have a material impact on the Trust's Annual Financial Statements given that the Trust is materially invested in equity investments in associates non – associates and controlled entities.

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.

GRAP 109 – Accounting by Principals and Agents

The Objective of this standard is to outline principles to be used by an entity to assess whether it is party to a principal – agent arrangement and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement.

The effective date of this standard is still to be determined by the Minister of Finance. This Standard does not introduce new recognition or measurement requirements for revenue expenses assets and /or liabilities that result from principal – agent arrangements. The Standard does however provide guidance on whether revenue expenses assets and /or liabilities should be recognised by an agent or principal as well as prescribe what information should be disclosed when an entity is a principal or an agent. It is likely that this standard will have a material effect on the Group and Trust annual financial statements especially in relation to enterprise and supplier development funds received from third parties.

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 follow:

	Credit Ratings	2017 R	2016 R
Standard Bank	BB+	518 260 834	544 687 646
First National Bank	BB+	4 814 384	110 473 754
South Africa Reserve Bank	BB+	772 976 478	718 292 977
Rand Merchant Bank	BB+	48 467 283	45 312 289
Total Cash held with banks (Trust)		**1 344 518 979**	**1 418 766 666**
Subsidiary current account (Standard Bank)	BB+	284 741	100
Total balance for Group		**1 344 803 720**	**1 418 766 766**

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.

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

	Group		Trust	
	2017	2016	2017	2016
Originated Loans	R	R	R	R
Normal monitoring and performing loans	1 477 199 026	1 472 527 980	1 621 580 538	1 580 100 084
Close monitoring	44 245 204	8 147 787	44 245 204	8 147 787
Partly/fully impaired	629 159 523	849 126 938	641 000 884	860 968 299
	2 150 603 753	**2 329 802 705**	**2 306 826 626**	**2 449 216 170**
Finance Leases				
Normal monitoring and performing leases	219 777 855	92 017 894	219 777 855	92 017 894
Close monitoring	10 090 717	–	10 090 717	–
Partly/fully impaired	70 747 095	83 958 123	70 747 095	83 958 123
	300 615 667	**175 976 017**	**300 615 667**	**175 976 017**
Preference Shares				
Normal monitoring and performing preference shares	54 035 662	76 820 682	54 035 662	76 820 682
Close monitoring	–	24 186 551	–	24 186 551
Partly/fully impaired	20 479 430	8 236 345	20 479 430	8 236 345
	74 515 092	**109 243 578**	**74 515 092**	**109 243 578**

The average loan disbursed is R 6 147 923 (2016: R 5 721 070) with the minimum being R 53 897 (2016: R 11 980) and the maximum being R 99 614 006 (2016: R 36 285 933).

Collateral obtained by the Trust

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

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

Collateral held in favour of impaired loans	Land & buildings R	Plant & equip-ment R	Furniture other equipment and office equipment R	Motor vehicles R	TOTAL R
2017					
Book Value	708 205 238	437 076 181	64 349 047	126 236 428	1 335 866 894
Fair value	496 163 666	145 677 491	16 772 231	42 074 601	700 687 989
2016					
Book Value	537 676 639	367 379 606	44 827 721	60 711 590	1 010 595 556
Fair value	376 373 647	122 447 623	11 121 137	20 235 172	530 177 579

3. RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

Collateral obtained by the Trust

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 general changes in market factors which are not unique to individual instruments or its issuers. Market risk embodies not only the potential for loss but also the potential for gain.

3.2.1 Interest rate risk

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

This risk materialises in the Trust's significant cash portfolio invested in various interest earning bank treasury and call accounts. The Trust 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 (2017 – 91%: 2016 – 90%) 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 2017 the portfolio was assessed from this risk rating approach as follows:

	Trust			
	2017		2016	
Category	**% by number**	**% by value**	% by number	% by value
Performing	**65%**	**71%**	69%	64%
Impaired	**33%**	**27%**	29%	35%
Close Monitoring	**2%**	**2%**	2%	1%
	Group			
Category				
Performing	**65%**	**69%**	69%	63%
Impaired	**33%**	**29%**	29%	36%
Close Monitoring	**2%**	**2%**	2%	1%

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 a restructuring programme for potentially eligible investments. This programme allows for transactions that would be performing if it were not for the impact of the economic downturn conditions to undergo restructuring resulting in the deferment of up to half of outstanding loan 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

	2017			2016		
	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	1 825 909 319	193 541 221	18 259 093	1 780 386 640	177 964 423	17 803 866
Cash and cash equivalents	1 344 522 588	84 688 797	13 445 226	1 418 766 686	82 527 661	14 187 667
Total effect on Profit/Loss	**3 170 431 907**	**278 230 018**	**31 704 319**	**3 199 153 326**	**260 492 084**	**31 991 533**

Group

Originated loans	1 706 758 743	183 048 348	17 067 587	1 698 045 472	168 423 155	16 980 455
Cash and cash equivalents	1 344 807 329	84 690 652	13 448 073	1 418 766 786	82 527 661	14 187 668
Total effect on Profit/Loss	**3 051 566 072**	**267 739 000**	**30 515 661**	**3 116 812 258**	**250 950 816**	**31 168 123**

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. RISK MANAGEMENT (continued)

3.2 Market risk (continued)

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

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

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 B	2 883 617	13.90	40 082 276	44 090 504	36 074 049
Interwaste Holdings Limited	12 500 000	1.05	13 125 000	14 437 500	11 812 500
MTN Ltd	10 114 866	122.00	1 234 013 652	1 357 415 017	1 110 612 287
Total			**1 287 220 928**	**1 415 943 021**	**1 158 498 836**

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 four 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

3.4 Capital Risk Management

Trust Capital primarily comprises funds transferred from **the dti** for the purposes of granting funding to eligible black empowered businesses through its fund management products. To date cash funds received from **the dti** for these purposes totals R2 297 431 472 (2016:R2 297 431 472 – note 17). Historically funding for operations was also advanced by **the dt**i 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 and/or National Treasury.

4. PROPERTY AND EQUIPMENT

	Owned							
	Motor Vehicles	Computer Equipment	Audio Visual Equipment	Office Equipment	Furniture and Fittings	Leasehold Improvements	Paintings	Total
	R	R	R	R	R	R	R	R
2017								
Opening Balance								
Cost	1 291 157	4 582 930	28 912	108 020	3 135 271	4 928 072	146 888	14 221 250
Accumulated depreciation	(1 234 871)	(3 508 787)	(28 911)	(75 821)	(2 399 572)	(4 825 210)	(37 899)	(12 111 071)
Net Book Value	**56 286**	**1 074 143**	**1**	**32 199**	**735 699**	**102 862**	**108 989**	**2 110 180**
Movement for the year:								
Additions	–	1 390 320	9 785	181 929	368 177	354 042	–	2 304 253
Net Disposal	(346)	(360 034)	(16 409)	(178 713)	(664 087)	(38 910)	(1 539)	(1 260 038)
Disposals/ derecognition at cost	(294 200)	(1 468 559)	(38 696)	(174 510)	(2 775 843)	(4 497 358)	(2 098)	(9 251 264)
Depreciation on disposed/ derecognised assets	293 854	1 108 525	22 287	(4 203)	2 111 756	4 458 448	559	7 991 226
Reclassification	-	6 274	40 298	222 899	(274 471)	-	5 000	–
Depreciation	(55 940)	(658 440)	(33 673)	(191 645)	(140 544)	(120 496)	(7 093)	(1 207 831)
	(56 286)	**378 120**	**1**	**34 470**	**(710 925)**	**194 636**	**(3 632)**	**(163 616)**
Closing Balance								
Cost	996 957	4 510 965	40 299	338 338	453 134	784 756	149 790	7 274 239
Accumulated depreciation	(996 957)	(3 058 702)	(40 297)	(271 669)	(428 360)	(487 258)	(44 433)	(5 327 676)
Net Book Value	**–**	**1 452 263**	**2**	**66 669**	**24 774**	**297 498**	**105 357**	**1 946 564**
Group property includes an investment property cost in the separate financial statements of National Empowerment Fund Corporation SOC Limited. Another group subsidiary Zastrovect Proprietary Limited operates on this property hence the GRAP 17 Property Plant and Equipment measurement criteria.								21 660 000
Total fixed assets for the Group								**23 606 564**
Gross carrying amount of fully depreciated assets still in use.	**996 957**	**2 195 094**	**40 298**	**259 331**	**423 408**	**262 001**	**5 000**	**4 182 089**

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4. PROPERTY AND EQUIPMENT (continued)

	Motor Vehicles R	Computer Equipment R	Audio Visual Equipment R	Owned Office Equipment R	Furniture and Fittings R	Leasehold Improvements R	Paintings R	Total R
2016								
Opening Balance								
Cost	1 291 157	4 895 750	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)
Net Book Value	**181 018**	**1 395 296**	**36 321**	**370 427**	**695 908**	**416 810**	**139 949**	**3 235 729**
Movement for the year:								
Additions	–	924 286	–	26 836	32 589	–	–	983 711
Disposals/ Derecognition at cost	–	(1 237 106)	(511 040)	(1 209 686)	(951 592)	(938 089)	(34 566)	(4 882 078)
Depreciation on disposed/ derecognised assets	124	670 032	474 720	853 262	1 235 165	811 436	6 544	4 051 282
Depreciation	(124 856)	(678 365)	–	(8 640)	(276 371)	(187 295)	(2 938)	(1 278 464)
	(124 732)	**(321 153)**	**(36 320)**	**(338 228)**	**39 791**	**(313 948)**	**(30 960)**	**(1 125 549)**
Closing Balance								
Cost	1 291 157	4 582 930	28 912	108 020	3 135 271	4 928 072	146 888	14 221 250
Accumulated depreciation	(1 234 871)	(3 508 787)	(28 911)	(75 821)	(2 399 572)	(4 825 210)	(37 899)	(12 111 071)
Net Book Value	**56 286**	**1 074 143**	**1**	**32 199**	**735 699**	**102 862**	**108 989**	**2 110 180**
Group property includes an investment property cost in the separate financial statements of National Empowerment Fund Corporation SOC Limited. Another group subsidiary, Zastrovect Proprietary Limited, operates on this property hence the GRAP 17 Property Plant and Equipment measurement criteria.								21 660 000
Total fixed assets for the Group								**23 770 180**
Gross carrying amount of fully depreciated assets still in use.	**793 100**	**2 619 232**	**28 912**	**66 833**	**1 459 512**	**4 393 066**	**–**	**9 360 655**

	2017 R	2016 R

5. INTANGIBLE ASSETS

	2017 R	2016 R
Computer software		
Opening Balance		
Cost	13 808 821	14 058 045
Accumulated amortisation	(13 805 512)	(14 037 720)
Net Book Value	**3 309**	**20 325**
Movement for the year:		
Additions	130 243	188 100
Disposal/Reclassification – Cost	(13 658 865)	(437 324)
Disposal/Reclassification – Amortisation	13 648 733	352 261
Amortisation	(28 562)	(120 053)
	91 549	(17 016)
Closing Balance		
Cost	280 199	13 808 821
Accumulated amortisation	(185 341)	(13 805 512)
Net Book Value	**94 858**	**3 309**

The intangible assets comprise purchased computer software and software development customised for use in the Trust's operations. The reclassification arose from the year-end verification and reconciliation processes.

6. INVESTMENTS IN ASSOCIATES

	2017 R	2016 R
Investments at cost	**237 957 904**	**231 964 756**
– Opening balance	231 964 756	488 724 666
– Additions	4 860 300	23 939 811
– Transfers to non-associate equity investments	(1 000 560)	(130 000 051)
– Transfers from non-associate equity investments	–	330
– Transfer to subsidiary (Delswa Pty Ltd)	(5 095 900)	–
– Transfer from originated loans	14 230 289	11 300 000
– Write off	(7 000 961)	–
– Disposal	(20)	(162 000 000)
Fair value adjustments	**(170 033 443)**	**(42 376 988)**
– Opening balance	(42 376 988)	(27 340 209)
– Disposal	19	–
– Transfer to subsidiary (Delswa Pty Ltd)	5 095 899	–
– Transfers to non-associate equity investments	(7 275 677)	(87 715 990)
– Write-off fair value adjustments	7 000 348	–
– Fair value (loss)/gains	(132 477 044)	72 679 211
Net investment in associates	**67 924 461**	**189 587 768**

6 INVESTMENT IN ASSOCIATES (continued)

The Trust's associates are all incorporated in the Republic of South Africa and have been listed below:

Name	Principal activity	2017 Interest held (%)	2016 Interest held (%)
Unlisted:			
Africa Rising (Pty) Ltd	Financial Services	25.0%	25.0%
Allimor Footwear (Pty) Ltd	Manufacturing	30.0%	0.0%
Amazin Hotels (Pty) Ltd	Tourism & Entertainment	20.0%	20.0%
Basfour (Pty) Ltd	Engineering	0.0%	49.0%
Blue Glamour (Pty) Ltd	Manufacturing	0.0%	32.4%
Business Venture Investments (Pty) Ltd	Healthcare	30.0%	30.0%
Colliery Dust Control (Pty) Ltd	Agro Processing	40.1%	40.1%
Crowie Holdings (Pty) Ltd	Mining	25.8%	25.8%
Cyclocor Motlekar (Pty) Ltd	Construction	30.0%	30.0%
Drifts Brands Holdings (Pty) Ltd	Manufacturing	0.0%	26.0%
False Bay Bricks (Pty) Ltd	Manufacturing	30.0%	30.0%
Ga Matlala Roof Tiles and Bricks (Pty) Ltd	Construction	30.0%	30.0%
Global Wheel (Pty) Ltd	Manufacturing	32.0%	32.0%
Golden Dice Foods (Pty) Ltd	Agro Processing	49.0%	49.0%
Gradoscope (Pty) Ltd	Tourism & Entertainment	49.0%	49.0%
Graskop Gorge Lift Company (Pty) Ltd	Tourism & Entertainment	26.1%	0.0%
IM Capital (Pty) Ltd	Engineering	0.0%	49.0%
Imbaza Mussel (Pty) Ltd	Agro Processing	30.0%	30.0%
Inca Concrete Masonry (Pty) Ltd	Construction	35.0%	35.0%
iVac Bio (Pty) Ltd	Energy	0.0%	45.0%
Janitone (Pty) Ltd *	Telecommunication	41.0%	41.0%
Karbochem Co-generation (Pty) Ltd	Energy	30.0%	30.0%
Kenako (Pty) Ltd	Pharmaceuticals	49.0%	49.0%
Lak Investment T/A Stone Age (Pty) Ltd	Construction	0.0%	25.0%
Mabele Fuels (Pty) Ltd	Energy	20.1%	20.1%
Magoveni Pharmaceuticals (Pty) Ltd	Pharmaceuticals	25.0%	0.0%
Mayborn Investments 67 (Pty)Ltd **	Tourism & Entertainment	33.4%	33.4%
M-Care Operating Company (Pty) Ltd	Healthcare	22.5%	22.5%
Middelsdrift Dairy (Pty) Ltd	Agro Processing	40.0%	40.0%
Mohale (Pty) Ltd	Agro Processing	45.0%	45.0%
Mopadi Molamu (Pty) Ltd	Agro Processing	20.0%	20.0%
Nyonende Investments (Pty) Ltd	Agro Processing	30.0%	30.0%
Petrocom (Pty) Ltd	Energy	30.0%	30.0%
Pretamix (Pty) Ltd	Services	24.0%	24.0%
Pyratrade (Pty) Ltd	Agro Processing	30.0%	30.0%
Quartile Capital (Pty) Ltd	Financial Services	30.0%	30.0%
Rapid Purple Waters Trading (Pty) Ltd	Agro Processing	45.0%	45.0%
Rhino Ridge Lodge (Pty) Ltd	Tourism & Entertainment	33.3%	33.3%
SA Metals (Pty) Ltd	Mining	29.0%	29.0%
Safepak (Pty) Ltd	Manufacturing	34.0%	34.0%
Salamax (Pty) Ltd	Manufacturing	40.0%	0.0%
Sizovuna Investments Holding (Pty) Ltd	Property	0.0%	49.0%
Stutt Brick Company (Pty) Ltd	Construction	45.0%	45.0%
Super Grand Agric (Pty) Ltd	Agro Processing	30.0%	0.0%
Trennplast (Pty) Ltd	Manufacturing	0.0%	26.5%
Unique Engineering (Pty) Ltd	Engineering	49.0%	49.0%
Value Cement (Pty) Ltd	Construction	25.8%	25.8%
Vastek Trading (Pty) Ltd	Mining	30.0%	30.0%
White Heat Trading 4 (Pty)Ltd	Manufacturing	0.0%	30.0%
Willowvale (Pty) Ltd	Property	45.0%	45.0%

Name	Voting power 2017	Voting power 2016	Equity at Fair Values 2017 R	Equity at Fair Values 2016 R
Unlisted:				
Africa Rising (Pty) Ltd	25.0%	25.0%	2 174 228	2 511
Allimor Footwear (Pty) Ltd	30.0%	0.0%	30	–
Amazin Hotels (Pty) Ltd	20.0%	20.0%	19 138 388	19 138 388
Basfour (Pty) Ltd	0.0%	49.0%	–	1
Blue Glamour (Pty) Ltd	0.0%	32.4%	–	1
Business Venture Investments (Pty) Ltd	30.0%	30.0%	30	1
Colliery Dust Control (Pty) Ltd	40.1%	40.1%	12 329 347	8 750 272
Crowie Holdings (Pty) Ltd	25.8%	25.8%	3 615 364	49 106 250
Cyclocor Motlekar (Pty) Ltd	30.0%	30.0%	30	1
Drifts Brands Holdings (Pty) Ltd	0.0%	26.0%	–	1
False Bay Bricks (Pty) Ltd	30.0%	30.0%	766 232	1
Ga Matlala Roof Tiles and Bricks (Pty) Ltd	30.0%	30.0%	300	1
Global Wheel (Pty) Ltd	32.0%	32.0%	32	1
Golden Dice Foods (Pty) Ltd	49.0%	49.0%	495 034	1
Gradoscope (Pty) Ltd	49.0%	49.0%	1	1
Graskop Gorge Lift Company (Pty) Ltd	26.1%	0.0%	1 100 000	–
IM Capital (Pty) Ltd	0.0%	49.0%	–	1
Imbaza Mussel (Pty) Ltd	30.0%	30.0%	1 236 785	1
Inca Concrete Masonry (Pty) Ltd	35.0%	35.0%	1	1
iVac Bio (Pty) Ltd	0.0%	45.0%	–	1 000 000
Janitone (Pty) Ltd	41.0%	41.0%	3 800 180	34 783
Karbochem Co-generation (Pty) Ltd	30.0%	30.0%	1	1
Kenako (Pty) Ltd	49.0%	49.0%	1	1
Lak Investment T/A Stone Age (Pty) Ltd	0.0%	25.0%	–	1
Mabele Fuels (Pty) Ltd	20.1%	20.1%	606 476	111 555 000
Magoveni Pharmaceuticals (Pty) Ltd	25.0%	0.0%	333	–
Mayborn Investments 67 (Pty)Ltd **	33.4%	33.4%	656 379	1
M-Care Operating Company (Pty) Ltd	22.5%	22.5%	30	1
Middelsdrift Dairy (Pty) Ltd	40.0%	40.0%	1	1
Mohale (Pty) Ltd	45.0%	45.0%	450	1
Mopadi Molamu (Pty) Ltd	20.0%	20.0%	200	1
Nyonende Investments (Pty) Ltd	30.0%	30.0%	150	1
Petrocom (Pty) Ltd	30.0%	30.0%	30	1
Pretamix (Pty) Ltd	24.0%	24.0%	240	1
Pyratrade (Pty) Ltd	30.0%	30.0%	30	30
Quartile Capital (Pty) Ltd	30.0%	30.0%	37	1
Rapid Purple Waters Trading (Pty) Ltd	45.0%	45.0%	2 128 246	450
Rhino Ridge Lodge (Pty) Ltd	33.3%	33.3%	1 135 746	1
SA Metals (Pty) Ltd	29.0%	29.0%	1	1
Safepak (Pty) Ltd	34.0%	34.0%	14 230 323	1
Salamax (Pty) Ltd	40.0%	0.0%	3 153 416	–
Sizovuna Investments Holding (Pty) Ltd	0.0%	49.0%	–	49
Stutt Brick Company (Pty) Ltd	45.0%	45.0%	1	1
Super Grand Agric (Pty) Ltd	30.0%	0.0%	45	–
Trennplast (Pty) Ltd	0.0%	26.5%	–	1
Unique Engineering (Pty) Ltd	49.0%	49.0%	490	1
Value Cement (Pty) Ltd	25.8%	25.8%	31	1
Vastek Trading (Pty) Ltd	30.0%	30.0%	309	1
White Heat Trading 4 (Pty)Ltd	0.0%	30.0%	–	1
Willowvale (Pty) Ltd	45.0%	45.0%	1 355 513	1
			67 924 461	**189 587 768**

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

	2017 R	2016 R
7. INVESTMENTS AT FAIR VALUE		
7.1 Non-associate equity investments		
Opening Balance	**1 597 145 359**	**2 083 259 341**
Movements	**(32 198 488)**	**(486 113 982)**
MTN shares – fair value adjustments	(133 500 150)	(706 121 579)
Transfers from Associates	7 276 237	217 715 991
Additions	99 784 140	–
Unlisted securities – fair value adjustments	1 314 814	2 291 606
Disposal	(7 073 529)	–
Fair value balance at end of the year	**1 564 946 871**	**1 597 145 359**
Non – associate investments include:		
Listed securities:		
– Equity securities : RSA (MTN Shares)	1 234 013 652	1 367 731 197
Unlisted securities:		
Securities not traded on an active market	330 933 219	229 414 163
Busamed (Pty) Ltd	317 329 996	217 715 991
Class A Trading 253 (Pty) Ltd	3 428 299	3 264 523
Connex (Pty) Ltd	1	819 036
Ekhamanzi Farming (Pty) Ltd	170 000	–
Gidani (Pty) Ltd	1	1
Inkwali Fabrication (Pty) Ltd	1	1
Intaba Technologies (Pty) Ltd	–	1
Ithuba Holdings (Pty) Ltd	1	150
Kenako Medical (Pty) Ltd (equity options)	1 085 411	1 085 411
Loliwe Integrated Rail Solutions (Pty) Ltd	–	6 529 044
Motseng Investment Holdings (Pty) Ltd	5	–
On Digital Media (Pty) Ltd	1	–
Sky Rink Studios (Pty) Ltd	130	–
Thin Film (Pty) Ltd	1	1
Ubumbano Rail (Pty) Ltd	1	1
Vuwa Pharmaceuticals (Pty) Ltd	–	1
Western Breeze Trading 297 (Pty) Ltd	1 643 133	1
Zulimar Trading (Pty) Ltd	7 276 238	1
	1 564 946 871	**1 597 145 359**

		2017 R	2016 R
7.2	**Unincorporated joint ventures and investments**		
	Unincorporated equity investment fair value through profit and loss	**84 229 369**	**85 428 841**
	Opening Balance	85 428 841	80 000 000
	Additions	12 800 528	5 428 841
	Transfer from Associates – iVac Bio	1 000 000	–
	Cost of derecognised transactions	(15 000 000)	–
	Fair value movements	**(84 211 369)**	**(85 414 841)**
	– Balance brought forward from prior year	(85 414 841)	(79 989 000)
	– Fair value (losses)	(13 794 528)	(5 425 841)
	– Fair value on derecognised transactions	14 998 000	–
	Net investment in fair value through profit & loss financial assets	**18 000**	**14 000**
	Total Investments held at FV-through profit and loss	**1 564 964 871**	**1 597 159 359**
	Net fair value loss on the face of the Statement of Financial Performance	**(13 794 528)**	**(5 425 841)**

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7. INVESTMENTS AT FAIR VALUE (continued)

7.2 Unincorporated joint ventures and 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:

Investment	Investment at cost R	Fair value R	Interest in project/joint venture	Effective voting on Joint Steering Committee %
2017				
Rare Metals Industries (Pty) Ltd*	13 500 000	1 000	30%	27%
Manhize – Coking Coal (Pty) Ltd	10 000 000	1 000	75%	50%
African Silica Investments (Pty) Ltd	7 000 000	1 000	50%	50%
Tyre Energy Extraction (Pty) Ltd	12 918 578	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%
Modular Industries Building Technologies (Pty) Ltd	15 000 000	1 000	50%	50%
Cape Point Film Studios	2 878 194	1 000	22%	22%
Joy House Academy	812 902	1 000	50%	50%
Jalo Enterprise	2 484 475	1 000	50%	50%
Travallo (Pty) Ltd	539 825	1 000	49%	49%
iVac Bio (Pty) Ltd	3 066 000	1 000	74%	50%
Mendi Rail and Engineering (Pty) Ltd	2 690 000	1 000	49%	49%
Techteledata (Pty) Ltd	300 000	1 000	50%	50%
Nyamane Agro-foods Holdings (Pty) Ltd	135 000	1 000	50%	50%
Van Der Tlale (Pty) Ltd	428 571	1 000	30%	30%
Lebombo Agricultural Secondary Co-Operative Ltd	475 824	1 000	49%	49%
	84 229 369	**18 000**		
2016				
Rare Metals Industries (Pty) Ltd*	13 500 000	1 000	30%	27%
Manhize – Coking Coal (Pty) Ltd	6 000 000	1 000	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%
Tyre Energy Extraction (Pty) Ltd	11 741 563	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 Biofuels (Pty) Ltd	10 000 000	1 000	30%	50%
Modular Industries Building Technologies (Pty) Ltd	15 000 000	1 000	50%	50%
Cape Point Film Studios	2 878 194	1 000	22%	22%
Joy House Academy	403 155	1 000	50%	50%
Jalo Enterprise	1 420 000	1 000	50%	50%
Travallo (Pty) Ltd	485 929	1 000	49%	49%
	85 428 841	**14 000**		

* *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.*

	Group		Trust	
	2017	2016	**2017**	2016
	R	R	**R**	R

8. ORIGINATED LOANS

	Group 2017 R	Group 2016 R	Trust 2017 R	Trust 2016 R
Opening balance	**2 329 802 705**	**1 951 997 337**	**2 449 216 170**	**2 031 587 307**
Net movement for the year	**(179 198 952)**	**377 805 368**	**(142 389 544)**	**417 628 863**
Loans disbursed	502 310 709	595 791 496	502 310 709	597 700 603
Interest capitalised	183 048 348	168 423 155	193 541 221	177 964 423
Loan repayments	(399 458 752)	(288 076 633)	(399 458 752)	(288 076 633)
Write-offs	(440 492 437)	(64 453 357)	(440 492 437)	(64 453 357)
Transfer to investment in associates	(14 230 289)	(11 300 000)	(14 230 289)	(11 300 000)
Transfer from preference shares	11 000 000	5 793 827	11 000 000	5 793 827
Transfer to non-current asset held for sale	(26 316 535)	(28 373 119)	–	–
Capital raising fees	4 940 004	–	4 940 004	–
Closing balance	**2 150 603 753**	**2 329 802 705**	**2 306 826 626**	**2 449 216 170**
Provision for Impairment	**(443 845 010)**	**(631 757 233)**	**(480 917 307)**	**(668 829 530)**
– Opening balance	(631 757 233)	(387 704 884)	(668 829 530)	(387 704 884)
– Impairments for the year	(225 737 512)	(291 818 616)	(225 737 512)	(328 890 913)
– Transfer from Preference Share	(3 598 038)	–	(3 598 038)	–
– Write-offs	417 247 773	47 766 267	417 247 773	47 766 267
	1 706 758 743	**1 698 045 472**	**1 825 909 319**	**1 780 386 640**
Net Originated Loan balance	**1 706 758 743**	**1 698 045 472**	**1 825 909 319**	**1 780 386 640**
Current Portion	315 865 877	435 622 956	315 865 877	435 622 956
Long Term Portion	1 390 892 866	1 262 422 516	1 510 043 442	1 344 763 684

9. PREFERENCE SHARES

	2017 R	2016 R
Opening Balance	109 243 578	179 964 749
Net movement for the year	**(34 728 486)**	**(70 721 171)**
Interest capitalised	5 188 359	16 493 530
Repayments	(4 250 000)	(960 000)
Preference shares re-classified to loans	(11 000 000)	(5 793 827)
Write-off	(24 666 845)	(80 460 874)
Closing balance	**74 515 092**	**109 243 578**
Provision for Impairment	**(23 774 367)**	**(65 643 518)**
– Opening balance	(65 643 518)	(50 122 715)
– Decrease/(Increase) Impairments for the year	14 027 321	(60 059 069)
– Transfer to originated loan	3 598 038	–
– Write-offs	24 243 792	44 538 266
Net Preference shares balance	**50 740 725**	**43 600 060**

	2017 R	2016 R
10. FINANCE LEASE RECEIVABLES		
Opening Balance	175 976 017	131 551 236
Net movement for the year	**124 639 650**	**44 424 781**
Additions	147 449 743	62 842 635
Raising fee capitalised	2 718 117	–
Interest capitalised	13 767 827	11 629 656
Repayments	(27 056 294)	(29 746 230)
Write-offs	(12 239 743)	(301 280)
Closing balance	**300 615 667**	**175 976 017**
Provision for impairment	**(45 355 224)**	**(56 424 278)**
– Opening balance	(56 424 278)	(38 459 958)
– Impairments for the year	(1 170 689)	(18 261 184)
– Write-offs	12 239 743	296 864
Net finance lease receivable balance	**255 260 443**	**119 551 739**
Gross investment in leases due		
	346 028 174	**203 799 170**
– within one year	57 284 157	45 230 738
– in second to fifth year inclusive	145 244 973	83 623 746
– after 5 years	143 499 044	74 944 686
Less: Unearned finance income	(45 412 507)	(27 823 153)
Present value of minimum lease payments receivable	300 615 667	175 976 017
Less: Allowance for uncollectable minimum lease payments	(45 355 224)	(56 424 278)
Present value	**255 260 443**	**119 551 739**
Present value of minimum lease payments due		
– within one year	38 480 613	38 172 930
– in second to fifth year inclusive	124 335 947	72 366 840
– after 5 years	137 799 107	65 436 247
	300 615 667	175 976 017
Less: Allowance for uncollectable minimum lease payments	(45 355 224)	(56 424 278)
Carrying amount of minimum lease payments	**255 260 443**	**119 551 739**
Net finance lease receivable balance	**255 260 443**	**119 551 739**
Current Portion	38 480 613	38 172 930
Long Term Portion	216 779 830	81 378 809

The average lease term is 5 years (2016:5 years) and the average effective lending rate is 9.39% (2016:9%).

		2017 R	2016 R
11.	**NON-CURRENT ASSETS HELD FOR SALE AND INVESTMENT IN SUBSIDIARY**		
11.1	**Investment in Subsidiary (Trust)**		
	Cost at acquisition	–	–
	Day 1 Loss – Delswa (Pty) Ltd	9 249 151	9 249 151
	Liabilities directly associated with non-current assets classified as held for sale	9 249 151	9 249 151
	Cost at acquisition	251	251
	Day 1 Profit – Zastrovect Investments (Pty) Ltd	6 177 853	6 177 853
	Delswa (Pty) Ltd	1	–
	Nefcorp SOC Limited	100	–
	Investment in subsidiary	6 178 205	6 178 104
11.2	**Non-Current asset Held for Sale (Group)**		
	Revenue	263 921 480	279 582 891
	Expenses	(265 384 930)	(280 485 525)
	Pre-tax (loss)	(1 463 450)	(902 634)
	Taxation	901 286	(1 819 684)
	Net surplus / (deficit) from non-current assets held for sale	(562 164)	(2 722 318)
	Amortised value of loans transferred from originated loans	95 921 219	51 125 595
	Equity investment	2	2
	Amounts recognised directly in net assets in relation to non-current assets held for sale	5 335 779	24 664 928
	Liabilities	5 576 194	42 475 522
	Non-current assets held for sale	**106 833 194**	**118 266 047**

The NEF has 2 subsidiaries classified as held for sale: Zastrovect Investments (Pty) Ltd and Delswa (Pty) Ltd. Delswa (Pty) Ltd became a 100% subsidiary in the 2016 financial year after an agreement was reached with the shareholders. Delswa (Pty) Ltd was factually insolvent at acquisition hence there being no day 1 profit recognised. The NEF has elected to apply the requirements of Directive 5 where subsidiaries could be presented as Non Current Asset Held for Sale.

	2017 R	2016 R
12. INVESTMENTS HELD-FOR-TRADE		
Fair value balance at beginning of year	44 104 960	41 859 309
Additions	–	12 250 000
	44 104 960	**54 109 309**
Fair value (losses)/gains	9 102 316	(10 004 349)
Disposals	–	–
Fair value balance at end of year	**53 207 276**	**44 104 960**
Investments Held-for-Trade include:		
Listed Securities:		
Interwaste Holding Ltd	13 125 000	12 250 000
Hospitality Fund A	–	27 754 815
Hospitality Fund B	40 082 276	4 100 145
	53 207 276	**44 104 960**

13. CURRENT ASSET HELD FOR SALE

	2017 R	2016 R
Opening Balance	3 000 000	2 065 850
Additions	1 859 200	3 000 000
Payment received	–	(2 065 850)
Disposal	(1 029 600)	–
Write-off	(3 000 000)	–
Closing balance	**829 600**	**3 000 000**

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.

14. TRADE AND OTHER RECEIVABLES

	2017 R	2016 R
Deposits	1 237 868	1 239 358
Dividend receivable	–	86 121 360
Other receivables	274 503	222 703
	1 512 371	**87 583 421**

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

15. FINANCIAL ASSETS

	Group			
	2017		2016	
	Carrying amount	Fair value	Carrying amount	Fair Value
	R		R	R
Loans and receivables	**2 014 272 282**	**2 014 272 282**	**1 948 780 692**	**1 948 780 692**
– Originated loans	1 706 758 743	1 706 758 743	1 698 045 472	1 698 045 472
– Preference shares	50 740 725	50 740 725	43 600 060	43 600 060
– Finance leases	255 260 443	255 260 443	119 551 739	119 551 739
– Trade and other receivables	1 512 371	1 512 371	87 583 421	87 583 421
Investments held at fair value	**1 564 964 871**	**1 564 964 871**	**1 597 159 359**	**1 597 159 359**
– Unlisted non-associate equity investments	330 933 219	330 933 219	229 414 163	229 414 163
– Listed non associate equity investments	1 234 013 652	1 234 013 652	1 367 731 196	1 367 731 196
– Unincorporated equity investments	18 000	18 000	14 000	14 000
Investment in associates	**67 924 461**	**67 924 461**	**189 587 768**	**189 587 768**
Investments held for trade	**53 207 276**	**53 207 276**	**44 104 960**	**44 104 960**
– listed equity	53 207 276	53 207 276	44 104 960	44 104 960
Total	**3 700 368 890**	**3 700 368 890**	**3 779 632 779**	**3 779 632 779**

	Trust			
Loans and receivables	**2 133 422 858**	**2 133 422 858**	**2 031 121 860**	**2 031 121 860**
– Originated loans	1 825 909 319	1 825 909 319	1 780 386 640	1 780 386 640
– Preference shares	50 740 725	50 740 725	43 600 060	43 600 060
– Finance leases	255 260 443	255 260 443	119 551 739	119 551 739
– Trade and other receivables	1 512 371	1 512 371	87 583 421	87 583 421
Investments held at fair value	**1 564 964 871**	**1 564 964 871**	**1 597 159 359**	**1 597 159 359**
– unlisted non associate equity investments	330 933 219	330 933 219	229 414 163	229 414 163
– listed non associate equity investments	1 234 013 652	1 234 013 652	1 367 731 196	1 367 731 196
– unincorporated equity investments	18 000	18 000	14 000	14 000
Investment in associates	**67 924 461**	**67 924 461**	**189 587 768**	**189 587 768**
Investments held for trade	**53 207 276**	**53 207 276**	**44 104 960**	**44 104 960**
– listed equity	53 207 276	53 207 276	44 104 960	44 104 960
Total	**3 819 519 466**	**3 819 519 466**	**3 861 973 947**	**3 861 973 946**

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:

	Level 1 R	Level 2 R	Level 3 R	Total R
2017				
Financial assets at fair value through profit and loss	**53 207 276**	**–**	**67 942 461**	**121 149 737**
Associates	–	–	67 924 461	67 924 461
Unincorporated equity investments	–	–	18 000	18 000
Investments held for trade	53 207 276	–	–	53 207 276
Non – Associate equity investments	**1 234 013 652**	**–**	**330 933 219**	**1 564 946 871**
Listed equities	1 234 013 652	–	–	1 234 013 652
Unlisted equities	–	–	330 933 219	330 933 219
Total	**1 287 220 928**	**–**	**398 875 680**	**1 686 096 608**
2016				
Financial assets at fair value through profit and loss	**44 104 960**	**–**	**189 601 768**	**233 706 728**
Associates	–	–	189 587 768	189 587 768
Unincorporated equity investments	–	–	14 000	14 000
Investments held for trade	44 104 960	–	–	44 104 960
Non – Associate equity investments	**1 367 731 196**	**–**	**229 414 163**	**1 597 145 359**
Listed equities	1 367 731 196	–	–	1 367 731 196
Unlisted equities	–	–	229 414 163	229 414 163
Total	**1 411 836 156**	**–**	**419 015 931**	**1 830 852 087**
Reconciliation of financial assets held at fair value				
2017				
Opening balance for the year	1 411 836 156	–	419 015 931	1 830 852 087
Additions – Cost	–	–	117 444 968	117 444 968
Sales/Transfers	(217 394)	–	7 371 539	7 154 145
Fair value adjustments recognised in profit and loss	(124 397 834)	–	(144 956 758)	(269 354 592)
Closing balance	**1 287 220 928**	**–**	**398 875 680**	**1 686 096 608**
Reconciliation of financial assets held at fair value				
2016				
Opening balance for the year	2 115 712 084	–	470 802 023	2 586 514 107
Additions – Cost	12 250 000	–	29 368 653	41 618 653
Sales/Transfers	–	–	(150 699 721)	(150 699 721)
Fair value adjustments recognised in profit and loss	(716 125 928)	–	69 544 976	(646 580 952)
Closing balance	**1 411 836 156**	**–**	**419 015 931**	**1 830 852 087**

15. 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.

(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	Effect of 1% Sensitivity adjustment	Effect of 10% Sensitivity adjustment
2017			
Associates	67 924 461	679 245	6 792 446
Unincorporated equity investments	18 000	180	1 800
Unlisted equities	330 933 219	3 309 332	33 093 322
	398 875 680	**3 988 757**	**39 887 568**
2016			
Associates	189 587 768	1 895 878	18 958 777
Unincorporated equity investments	14 000	140	1 400
Unlisted equities	229 414 163	2 294 142	22 941 416
	419 015 931	**4 190 160**	**41 901 593**

	2017 R	2016 R
16. CASH AND CASH EQUIVALENTS		
For the purposes of the cash flow statement the cash and cash equivalents comprise the following:		
Bank balances		
– Current accounts	21 121 072	115 250 977
– Short-term bank deposits	1 323 397 907	1 303 515 689
– Cash on hand	3 609	20
Trust Total	**1 344 522 588**	**1 418 766 686**
Subsidiary current account	284 741	100
Group Total	**1 344 807 329**	**1 418 766 786**

The effective interest rate on short term deposits was 6.5% (2016 – 5.7%). Included in the balances above is an amount of R334 215 093 received from the Department of Rural Development and Land Reform that remains undisbursed.

	Notes	2017 R	2016 R
17. TRUST CAPITAL			
Investment in listed shares			
– At cost		171 000 000	171 000 000
Cash funds received from **the dti:**		**2 297 431 472**	**2 297 431 472**
– Opening Balance		2 297 431 472	2 297 431 472
Closing balance		**2 468 431 472**	**2 468 431 472**
18. TRADE AND OTHER PAYABLES			
Trade payables		5 228 709	4 853 935
Lease accrual		434 246	331 422
Unallocated receipts generated by Asonge		–	427 791
Enterprise Development Contributions	24.4	311 450 269	117 431 940
Bursary Scheme and Sponsorship		2 584 012	2 000 000
Accruals		**57 473 792**	**53 789 955**
– Performance awards		39 245 377	40 550 600
– Supplier accruals		12 128 458	7 403 811
– Leave pay		6 099 957	5 835 544
Trust Total		**377 171 028**	**178 835 043**
Group trade payables consist of a bank overdraft in National Empowerment Fund Corporation SOC Limited.		**–**	**1 066**
Group Total		**377 171 028**	**178 836 109**

The carrying amount of Trade Payables approximates their fair value and is payable within 30 days.

19. RELATED PARTY TRANSACTIONS

Executive Authority	Department of Trade and Industry
Other related parties	Board of Trustees (refer Note 25)
	Department of Arts and Culture
	Department of Rural Development and Land Reform
	Department of Economic Development – Western Cape
	Investments in associates
	Investments in subsidiaries

Related party balances in respect of Investments in Associates and Subsidiaries

		Loans receivable before impairment		Investments at cost	
	% 2017 Holding	2017 R	2016 R	2017 R	2016 R
Africa Rising (Pty) Ltd	**25.0%**	–	20 433 927	2 510	2 510
Allimor Footwear (Pty) Ltd	**30.00%**	8 172 523	–	30	–
Amazin Hotels	**20.0%**	38 055 803	18 090 807	19 138 388	19 138 388
Basfour (Pty) Ltd	**0.0%**	–	–	–	146
Blue Glamour (Pty) Ltd	**0.0%**	–	–	–	4 219 976
Busamed (Pty) Ltd	**18.7%**	–	–	229 614 005	130 000 000
Business Venture Investments (Pty) Ltd	**30.0%**	18 710 006	18 407 874	30	30
Colliery Dust Control (Pty) Ltd	**40.1%**	–	–	12 984 766	12 984 766
Crowie Holdings (Pty) Ltd	**25.8%**	6 225 377	13 831 732	27 761 526	27 761 526
Cyclocor Motlekar (Pty) Ltd	**30.0%**	62 964 017	–	30	30
Delswa Trading (Pty) Ltd	**100.0%**	45 600 344	51 636 346	1	1
Drifts Brands Holdings (Pty) Ltd	**0.0%**	–	–	–	26
False Bay Bricks (Pty) Ltd	**30.0%**	7 750 000	5 247 678	300	300
Ga Matlala Roof Tiles and Bricks (Pty) Ltd	**30.0%**	6 319 145	5 735 601	300	300
Global Wheel (Pty) Ltd	**32.0%**	53 260 187	58 777 096	32	32
Golden Dice Foods (Pty) Ltd	**49.0%**	12 278 910	11 278 470	49	49
Gradoscope (Pty) Ltd	**49.0%**	12 131 414	–	11 300 000	11 300 000
Graskop Gorge Lift Company (Pty) Ltd	**26.1%**	–	–	1 100 000	–
IM Capital (Pty) Ltd	**0.0%**	–	–	–	146
Imbaza Mussel (Pty) Ltd	**30.0%**	5 487 624	5 843 438	300	300
Inca Concrete Masonry (Pty) Ltd	**35.0%**	7 750 000	5 247 678	350	350
iVac Bio (Pty) Ltd	**0.0%**	–	–	–	1 000 000
Janitone (Pty) Ltd	**41.0%**	22 316 646	19 598 225	3 800 000	3 800 000
Karbochem Co-generation (Pty) Ltd	**30.0%**	84 060 040	79 292 569	12 000 000	12 000 000
Kenako (Pty) Ltd	**49.0%**	–	–	6 071 189	6 071 189
Lak Investment T/A Stone Age (Pty) Ltd	**0.0%**	–	–	–	25

19. RELATED PARTY TRANSACTIONS (continued)

	% 2017 Holding	Loans receivable before impairment 2017 R	Loans receivable before impairment 2016 R	Investments at cost 2017 R	Investments at cost 2016 R
Mabele Fuels (Pty) Ltd	**20.1%**	15 000 000	15 000 000	61 750 000	61 750 000
Magoveni Pharmaceuticals (Pty) Ltd	**25.0%**	9 833 821	–	333	–
Mayborn Investments 67 (Pty)Ltd **	**33.4%**	20 398 415	22 907 729	334	334
M-Care Operating Company (Pty) Ltd	**22.5%**	–	–	30	30
Middelsdrift Dairy (Pty) Ltd	**40.0%**	6 541 065	6 358 422	4 589 036	4 589 036
Mohale (Pty) Ltd	**45.0%**	15 176 681	15 114 689	450	450
Mopadi Molamu (Pty) Ltd	**20.0%**	9 285 222	9 209 179	200	200
National Empowerment Fund Corporation SOC Ltd	**100.0%**	23 229 357	21 810 339	–	–
Nyonende Investments (Pty) Ltd	**30.0%**	–	–	150	150
Petrocom (Pty) Ltd	**30.0%**	21 229 516	17 537 967	30	30
Pretamix (Pty) Ltd	**24.0%**	–	–	240	240
Pyratrade (Pty) Ltd	**30.0%**	17 335 361	15 809 290	30	30
Quartile Capital (Pty) Ltd	**30.0%**	37 440 027	–	37	37
Rapid Purple Waters Trading (Pty) Ltd	**45.0%**	23 666 720	–	450	450
Rhino Ridge Lodge (Pty) Ltd	**33.3%**	23 491 355	–	333	333
SA Metals (Pty) Ltd	**29.0%**	–	–	40 000 000	40 000 000
Safepak (Pty) Ltd	**34.0%**	–	27 730 289	20	20
Salamax (Pty) Ltd	**40.0%**	630 938	–	3 154 417	–
Sizovuna Investments Holding (Pty) Ltd	**0.0%**	–	44 106 776	–	49
Stutt Brick Company (Pty) Ltd	**45.0%**	12 648 565	12 279 353	45	45
Super Grand Agric (Pty) Ltd	**30.00%**	11 413 166	–	45	–
Trennplast (Pty) Ltd	**0.0%**	–	52 037 441	–	265
Unique Engineering (Pty) Ltd	**49.0%**	12 903 445	14 338 372	490	490
Value Cement (Pty) Ltd	**25.8%**	41 578 567	38 000 560	31	31
Vastek Trading (Pty) Ltd	**30.0%**	–	38 602 920	309	309
White Heat Trading 4 (Pty)Ltd	**0.0%**	–	61 907 634	–	300
Willowvale (Pty) Ltd	**45.0%**	19 329 710	18 351 962	450	450
Zastrovect Investments (Pty) Ltd	**100.0%**	55 027 706	55 736 779	251	251

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

	Group		Trust	
	2017	2016	**2017**	2016
	R	R	**R**	R

20. REVENUE

	Group 2017 R	Group 2016 R	Trust 2017 R	Trust 2016 R
Interest – cash	84 405 479	82 318 247	84 403 624	82 318 247
Interest – preference shares	5 188 359	16 493 530	5 188 359	16 493 530
Interest – originated loans	183 048 348	168 423 155	193 541 221	177 964 423
Interest – finance leases	13 767 827	11 629 656	13 767 827	11 629 656
Interest – other	285 173	209 414	285 173	209 414
Dividends	75 849 340	143 405 768	75 849 340	143 405 768
	362 544 526	**422 479 770**	**373 035 544**	**432 021 038**

21. SUNDRY INCOME

	Group 2017 R	Group 2016 R	Trust 2017 R	Trust 2016 R
Bad debts recovered	2 414 962	160 000	2 414 962	160 000
Other income	19 843 186	7 341 244	19 843 186	7 341 244
Profit on disposal of equity investment	7 511 375	57 739 710	7 511 375	57 739 710
Enterprise development funding	29 302 101	93 317 219	29 302 101	93 317 219
	59 071 624	**158 558 173**	**59 071 624**	**158 558 173**

	Note	Trust 2017 R	Trust 2016 R
22. ADMINISTRATION EXPENSES			
Net operating income is arrived at after taking into account:			
Auditors' remuneration		**2 096 189**	**2 484 414**
– For external audit fees		1 501 622	1 732 217
– Internal audit – outsourced fees		594 567	752 197
Professional fees		**11 394 769**	**11 866 636**
– Human resources		114 000	327 423
– Information technology		1 940 116	1 330 973
– Legal fees		6 305 908	5 270 049
– Finance		54 090	293 557
– Risk management		843 995	370 444
– Strategy		332 672	2 365 285
– Investments		1 803 988	1 908 905
Depreciation	4	**1 207 831**	**1 278 464**
– Motor vehicles		55 940	124 855
– Computer equipment		658 440	678 365
– Audio visual equipment		33 673	–
– Office equipment		191 645	8 640
– Furniture and fittings		140 544	276 371
– Paintings		7 093	2 938
– Leasehold improvements		120 496	187 295
Trustees and senior management emoluments	25	**19 606 927**	**21 778 989**
Amortisation of intangible assets	5	**28 562**	**120 053**
Repairs and maintenance		**921 016**	**662 153**
Operating lease rentals		**13 294 845**	**11 141 912**
– Property rental		11 818 402	9 578 271
– Equipment rental		1 476 443	1 563 641
Total staff costs		**154 855 984**	**159 897 409**
– Salaries and other benefits		143 315 402	148 643 023
– Provident fund contributions		11 540 582	11 254 386
Number of employees at year end		157	161

	Group		Trust	
	2017 R	2016 R	2017 R	2016 R

23. IMPAIRMENT CHARGE

	Group 2017 R	Group 2016 R	Trust 2017 R	Trust 2016 R
Originated loans	225 737 512	291 818 616	225 737 512	328 890 913
Preference shares	(14 027 321)	60 059 069	(14 027 321)	60 059 069
Finance leases	1 170 689	18 261 184	1 170 689	18 261 184
Impairment for the year	**212 880 880**	**370 138 869**	**212 880 880**	**407 211 166**

24. COMMITMENTS

	2017 R	2016 R
24.1 Operating lease commitments – property rentals		
The future minimum lease payments on office premises rentals under operating leases are as follows:		
Not later than 1 year	7 137 070	10 414 354
Later than 1 year but not later than 5 years	3 451 366	8 639 190
	10 588 436	**19 053 544**
Operating lease payments represent rentals payable by the Trust for office properties. Leases are negotiated for an average term of between 2 to 5 years with an average escalation of 9% per annum.		
24.2 Undrawn loans and investments		
Not later than 1 year	**619 808 312**	**797 323 715**
Payment will be made out of cash reserves.		
24.3 Uncontracted loans and investments approved and committed		
Not later than 1 year	**355 328 129**	**265 774 572**
Payment will be made out of cash reserves.		
24.4 External Contributions		
Unconditional contributions recognised in Sundry Income		
Opening balance	91 515 363	21 459 014
Total income	102 480 944	93 317 219
– Contributions received	102 372 363	93 100 000
– Interest earned on contributions received	108 581	217 219
– Funds disbursed	(28 997 591)	(23 260 870)
– Contributions available for investment	164 998 716	91 515 363
Conditional Funding		
Other Conditional Contributions recognised in current liabilities		
Opening Balance	16 964 940	7 952 180
– Contributions received	22 969 145	9 447 775
– Funds disbursed	(11 262 180)	(435 015)
	28 671 905	**16 964 940**
DRDLR – Conditional Contributions recognised in current liabilities		
Opening Balance	100 467 000	–
– Contributions received	391 785 434	100 467 000
– Funds disbursed	(209 474 069)	–
	282 778 365	**100 467 000**
Total contributions available for future disbursements	**476 448 986**	**208 947 303**

Approvals for the current year amounted to R 435 492 376 (2016: R23 506 000) whilst disbursements for the year amounted to R248 203 840 (2016: R23 695 886). Included in the funds disbursed under conditional contributions is an amount of R111 954 155.48 for DRDLR transactions which were made into Attorneys trust accounts and are awaiting finalisation of the conveyancing process.

25. TRUSTEES AND SENIOR MANAGEMENT EMOLUMENTS

	Basic	Bonuses & performance payments	Long term bonus payments	Provident fund contributions	Other contributions Other contributions	Fees to Non-Executive Trustees Other	Total Total
	R	R	R	R	R	R	R
Year ended 31 March 2017							
Executive trustees:							
P Mthethwa (CEO)	3 063 747	1 840 248	674 400	564 549	52 200	–	**6 195 144**
I Pule (CFO)	1 678 934	878 980	–	201 472	72 885	–	**2 832 271**
	4 742 681	**2 719 228**	**674 400**	**766 021**	**125 085**	**–**	**9 027 415**
Senior Management:							
S Molepo (Divisional Executive)	1 997 623	1 055 273	–	289 743	57 687	–	**3 400 326**
H Makhathini (Divisional Executive)	1 597 934	983 747	–	239 690	129 870	–	**2 951 241**
M Dayimani (General Counsel)	1 465 120	899 130		219 768	113 373	–	**2 697 391**
	5 060 677	**2 938 150**	**–**	**749 201**	**300 930**	**–**	**9 048 958**
Non-executive trustees:							
Z Ntlangula	–	–	–	–	–	232 107	**232 107**
N Pascal	–	–	–	–	–	255 410	**255 410**
A Makwetla	–	–	–	–	–	318 620	**318 620**
R Garach (Chairman)	–	–	–	–	–	300 249	**300 249**
J Williams	–	–	–	–	–	424 168	**424 168**
	–	**–**	**–**	**–**	**–**	**1 530 554**	**1 530 554**
TOTAL	**9 803 358**	**5 657 378**	**674 400**	**1 515 222**	**426 015**	**1 530 554**	**19 606 927**
Year ended 31 March 2016							
Executive trustees:							
P Mthethwa (CEO)	3 067 577	1 000 000	1 274 631	565 315	47 604	–	**5 955 127**
I Pule (CFO)	1 684 663	888 747	536 800	202 160	66 468	–	**3 378 839**
	4 752 240	**1 888 747**	**1 811 431**	**767 475**	**114 072**	**–**	**9 333 966**
Senior Management:							
S Molepo (Divisional Executive)	2 047 785	1 055 274	650 403	297 268	–	–	**4 050 730**
H Makhathini (Divisional Executive)	1 607 910	914 885	510 120	241 186	118 398	–	**3 392 498**
M Dayimani (General Counsel)	**1 472 813**	**845 183**	**581 256**	**220 922**	**104 526**	**–**	**3 224 700**
	5 128 508	**2 815 342**	**1 741 779**	**759 376**	**222 924**	**–**	**10 667 928**
Non-executive trustees:							
Z Ntlangula	–	–	–	–	–	323 315	**323 315**
N Pascal	–	–	–	–	–	340 931	**340 931**
A Makwetla	–	–	–	–	–	340 946	**340 946**
R Garach (Chairman)	–	–	–	–	–	370 437	**370 437**
J Williams	–	–	–	–	–	401 467	**401 467**
	–	**–**	**–**	**–**	**–**	**1 777 096**	**1 777 096**
TOTAL	**9 880 748**	**4 704 089**	**3 553 210**	**1 526 851**	**336 996**	**1 777 096**	**21 778 989**

	Group 2017 R	Group 2016 R	Trust 2017 R	Trust 2016 R

26. NOTES TO THE CASH FLOW STATEMENT

	Group 2017 R	Group 2016 R	Trust 2017 R	Trust 2016 R
Reconciliation of net (deficit)/surplus to cash flows from operating activities:				
Deficit for the year	**(328 383 807)**	**(713 656 422)**	**(317 276 930)**	**(747 199 063)**
Adjustment for:	**47 484 058**	**659 764 062**	**36 381 327**	**693 307 769**
Depreciation & amortisation	1 236 393	1 398 516	1 236 393	1 398 516
Interest received on cash and cash equivalents	(84 405 479)	(82 318 247)	(84 403 624)	(82 318 247)
Interest accrued on investments	(202 004 534)	(196 546 341)	(212 497 407)	(206 087 609)
Loss on disposal of fixed assets	962 994	889 129	962 994	889 129
Profit on disposal of Investments	(7 511 375)	(57 739 710)	(7 511 375)	(57 739 710)
Deficit from non-current asset held for sale	562 164	2 722 318	–	–
Capital raising Fee	(6 481 558)	(5 955 264)	(6 481 558)	(5 955 264)
Write-offs	26 670 332	37 364 093	26 670 332	37 364 093
Dividends received *	(161 970 700)	(57 284 408)	(161 970 700)	(57 284 408)
Impairment of investments	212 880 880	370 138 869	212 880 880	407 211 166
Fair value adjustments	269 354 592	646 580 952	269 354 592	655 830 103
Enterprise Development Allocation	(1 859 200)	–	(1 859 200)	–
Taxation	49 549	514 155	–	–
Operating deficit before working capital changes	**(280 899 749)**	**(53 892 360)**	**(280 895 603)**	**(53 891 294)**
Working capital changes	**284 405 969**	**29 123 015**	**284 407 035**	**29 121 849**
Decrease/(Increase) in trade and other receivables	86 071 050	(86 607 582)	86 071 050	(86 607 582)
Increase in trade and other payables	198 334 919	115 730 597	198 335 985	115 729 431
Net cash inflows/(outflows) from operating activities	**3 506 220**	**(24 769 345)**	**3 511 432**	**(24 769 445)**

** Dividends earned and received for the current financial year amounted to R75 849 340. The amount recorded for cashflow purposes includes R86 121 360 which was a receivable from 2016.*

27. ADDITIONAL INVESTMENT IN CORE ACTIVITIES

	Group 2017 R	Group 2016 R	Trust 2017 R	Trust 2016 R
Originated loans	502 310 709	595 040 603	502 310 709	597 700 603
Investments in Associates	4 860 300	23 939 811	4 860 300	23 939 811
Non associate equity investments	99 784 140	–	99 784 140	–
Unincorporated equity investments	12 800 528	5 428 841	12 800 528	5 428 841
Finance leases	147 449 743	62 842 635	147 449 743	62 842 635
Capitalised raising fees	–	(5 981 868)	–	(5 981 868)
Non-cash additions *	(245 015)	–	(245 015)	–
Total disbursements	**766 960 405**	**681 270 022**	**766 960 405**	**683 930 022**

** Non cash additions relate to enterprise development allocations (vehicles) disbursed to investee companies.*

28. RECONCILIATION OF STATEMENT OF FINANCIAL PERFORMANCE TO BUDGET

28.1 Revenue

The decrease in revenue earned is as a result of the decrease in dividend income especially on the MTN share portfolio. Interest on the Investment portfolio was below budget as a result of lower disbursements made against what was budgeted for throughout the year and interest on the bank balances was above budget.

28.2 Other income

The positive variance is as result of Enterprise Development Funding received as well as some management fees under Other Income which was not budgeted for in the current year.

28.3 Total expenses

R46 million of the saving on total expenses is mainly as a result of a reduced head count of 157 against a budget of 195. The remaining R15 million is due to various cost saving measures implemented by management.

28.4 Impairments

There is a decrease in the impairment charge for the year is as a result of the prudent approach taken last financial year. Some of the businesses have performed slightly better than expected and hence a write-back of the previously impaired loans on these businesses. The collective impairment charge against originated loans finance leases and preference shares amounted to R212.8 million for the 2017 financial year (2016: R407.2 Million).

28.5 Fair value (losses) and gains

Fair Value gains and losses are made up of the net fair value movements for the year on the various equity investments. A significant portion of the movement for the year is made up of the negative mark to market adjustment of R133.7 million on the listed MTN shares as well as a further R132.4 million negative movement on the Associate Investments.

The balance of the movement for the year is made up of a gain of R9.1 million on the Held for Trade listed portfolio, a net gain of R1.3 million on non-associate equity investments and a loss of R13.8 million on unincorporated 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.

29. FRUITLESS AND WASTEFUL EXPENDITURE

There was no fruitless and wasteful expenditure during the current financial year.

30. UNAUTHORISED IRREGULAR EXPENDITURE

There was no unauthorised and irregular expenditure 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. The company holds a strategic investment property from which it earns rental income. The Trust obtained permission from the National Treasury under Section 54 of the PFMA that the Trust may utilise this entity in any of its future Investment activities. The company does not have a tax exemption.

33. CONTINGENT LIABILITY

33.1 Matter with Public Protector

A client lodged a complaint with the Public Protector in the previous financial year for delays experienced in the investment assessment and decision process. The Public Protector found the NEF delayed in advising the applicant that the business does not qualify for funding and recommended that the NEF pay the applicant damages of R5 million for the delay. The NEF has taken the Public Protector's findings and recommendations on review in the High Court. Based on the case the NEF put forward the outcome of this review cannot be reliably predicted and measured at reporting date. Consequently no provision has been raised.

33.2 The Commission for Conciliation Mediation and Arbitration (CCMA) matter

The NEF was successful in a disciplinary matter through an internal disciplinary process against an employee and following which the employee was dismissed. The matter referred for conciliation but remained unresolved. The employee applied for arbitration however the former employee's application was never actioned by the CCMA for over a year. CCMA held a hearing to determine whether the matter should be escalated to arbitration. This notice was sent to an email address of a Human Resources employee who has since left the employ of NEF. As such the CCMA proceedings were held in NEF's absence and a ruling was made in favour of transferring the matter for arbitration. The NEF is preparing for arbitration. The outcome of the matter cannot be reliably predicted and measured at reporting date and consequently no provision has been recognised.

33.3 Matter with an Investee Company

An Investee company of the NEF was advanced a loan facility. The Company then defaulted on the repayment of the loan and thus the NEF exercised its rights by instituting legal proceedings against the company and the guarantor. The client is now seeking a counter-claim against the NEF as damages it allegedly suffered as a result of the NEF's action against it and the loss of its business. The claim is for R587 million and which the NEF is defending.

34. SEGMENT REPORTING

The NEF has offices through out the nine provinces in the country so as to increase its accessibility and coverage. Each of the satellite offices operates on its own in carrying out the mandate of the NEF. In accordance with GRAP 18 – Segment Reporting the Trust is required to report on performance aspects of its segments. Below is a segmental report indicating the operating costs and fixed asset outlay per segment. There is no transfer pricing between the various regional operations presented below meaning that there are significant costs borne by head office but attributable to the regions.

Operating expenditure per segment

Category	Gauteng	Free State	Limpopo	Eastern Cape	Mpumalanga	KZN	North West	Western Cape	Northern Cape	Total
Employee Costs	140 903 295	1 105 775	1 281 905	1 206 211	2 339 383	2 600 561	1 333 190	2 820 143	1 322 040	154 912 502
Other Operating Expenses	80 946 120	454 375	363 881	758 456	446 169	530 898	477 607	617 513	970 772	85 565 791
Total Base Costs	**221 849 415**	**1 560 150**	**1 645 786**	**1 964 667**	**2 785 552**	**3 131 459**	**1 810 797**	**3 437 656**	**2 292 812**	**240 478 293**
Non-current assets per region										
Property and equipment at cost	28 215 114	60 683	60 930	36 671	34 429	13 549	24 727	18 010	470 127	28 934 240
Accumulated depreciation	(5 006 373)	(60 683)	(53 483)	(31 423)	(32 173)	(13 549)	(24 727)	(3 304)	(101 961)	(5 327 676)
Net carrying amount	**23 208 741**	**–**	**7 447**	**5 248**	**2 256**	**–**	**–**	**14 706**	**368 166**	**23 606 564**

35. TAXATION

	2017 R	2016 R
Deferred tax		
– Opening balance	514 156	–
– Current year	49 549	514 156
	563 705	**514 156**

Deferred tax arose as a result of the unrealised fair value adjustment on the investment property held by National Empowerment Fund Corporation SOC Limited and the lease smoothing asset from rental income receivable by National Empowerment Fund Corporation SOC Limited from Zastrovect Investments (Pty) Ltd.

ADMINISTRATION

31 March 2017

TRUSTEES	Mr R Garach (Chairman) Ms Z Ntlangula Ms P Mthethwa (CEO) Ms I Pule (CFO) Ms A Makwetla Ms N Pascal Ms J Williams
BANKERS	Standard Bank Limited First National Bank Limited Rand Merchant Bank South African Reserve Bank
AUDITORS	SizweNtsalubaGobodo Inc.
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POSTAL ADDRESS	P.O. Box 31 Melrose Arch Melrose North 2076
REGISTERED ADDRESS	West Block 187 Rivonia Road Morningside 2057

Acronyms and Definitions

Approved	Final committee approval obtained, legal agreements not signed
B-BBEE	Broad-Based Black Economic Empowerment
B-BBEE Codes	Codes of Good Practice
BEE	Black Economic Empowerment
BIC	Board Investment Committee
BIP	Black Industrialist Programme
BoT	Board of Trustees
Commitments	Legal agreements signed (deals may have been approved in current and previous financial periods.) All Conditions Precedent may not have been met yet.
COBIT	Control Objectives for Information and Related Technologies
CPI	Consumer Price Index
Current year	Current financial year ended 31 March 2017
DRDLR	Department of Rural Development and Land Reform
DFI	Development Finance Institution
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.
EC	Eastern Cape
ED	Enterprise Development
EME	Exempt Micro Enterprises
ESD	Enterprise and Supplier Development
ERM	Enterprise-wide Risk Management
FSC	Financial Services Charter
FS	Free State
GDP	Gross Domestic Product
GP	Gauteng
GRAP	Generally Recognised Accounting Practice
HCRC	Human Capital and Remuneration Committee
HR	Human Resources
IDC	Industrial Development Corporation
IFRS	International Financial Reporting Standards
IPAP	Industrial Policy Action Plan
IST	Information Systems and Technology
IT	Information Technology
JSE	Johannesburg Stock Exchange
KPI	Key Performance Indicators
KZN	KwaZulu-Natal
LP	Limpopo
MP	Mpumalanga
NC	Northern Cape
NDP	National Development Plan
NEF	National Empowerment Fund
NW	North West
PFMA	Public Finance Management Act
PPPFA	Preferential Procurement Policy Framework Act
Prior year	Prior financial year ended 31 March 2016
QSE	Qualifying Small Enterprises
ROI	Return on Investment
RPMC	Risk and Portfolio Management Committee
SADC	Southern African Development Community
SEC	Social and Ethics Committee
SEDA	Small Enterprise Development Agency
SME	Small and Medium Enterprises
SOC	State Owned Company
SPF	Strategic Projects Fund
SSR	Strengthening of Relative Rights (SSR) of People Working the Land
the dti	Department of Trade and Industry
TWR	Turnaround, Workouts and Restructuring Unit
WC	Western Cape


National Empowerment Fund
wasaa
SCANIA
MLAZI
MEGA CITY

FRAUD, CORRUPTION AND THEFT.

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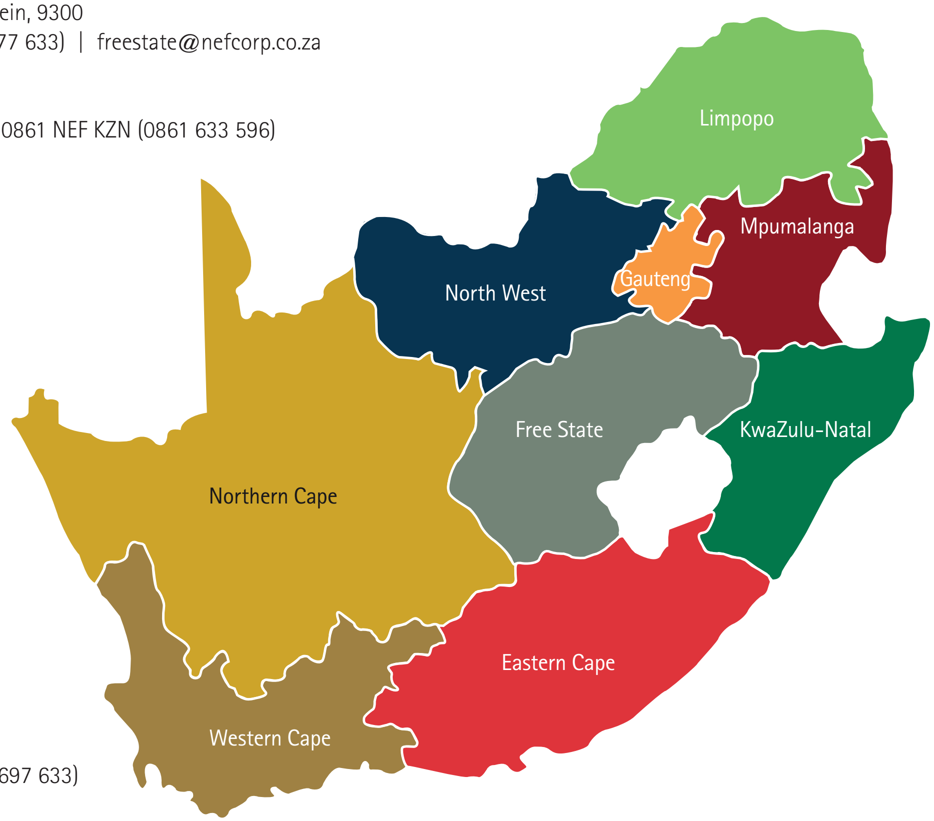

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