Stimulating Economic Growth Through B-BBEE Funding

NATIONAL EMPOWERMENT FUND
Growing Black Economic Participation

NATIONAL EMPOWERMENT FUND
INTEGRATED REPORT 2017/18











Explaining the cover of the Integrated Report 2018

The cover of this Integrated Report 2018 depicts an aerial wave surging forward across the galaxy of opportunity, *where the funder with a soul*, the National Empowerment Fund (NEF), is the pathfinder that can be trusted to lead the way in the quest for inclusive growth. As it takes the aspirations of black entrepreneurs to greater heights, the pathfinder helps to grow value in rural and township economies, as well as across the length and breadth of the South African landscape, in its wake helping to create sustainable SMEs as well as new manufacturing and industrial capacity. The NEF does this to help increase South Africa's export-earning potential and to reduce import dependency. The interconnected parts of the vector are indicative of a diverse and multifaceted Development Finance Institution and a thought-leader that provides investor education, business-planning, entrepreneurial training, incubation, rural and community development, innovative funding and mentorship support to its target market, in partnership with a variety of stakeholders and partners, in order to help black entreprenuers to rise to the highest point in the quest for employment-generating growth.

His Excellency
President Cyril Ramaphosa,
President of the Republic of South Africa

"The process of industrialisation must be underpinned by transformation. Through measures like preferential procurement and the black industrialists programme, we are developing a new generation of black and women producers that are able to build enterprises of significant scale and capability. We will improve our capacity to support black professionals, deal decisively with companies that resist transformation, use competition policy to open markets up to new black entrants, and invest in the development of businesses in townships and rural areas. Radical economic transformation requires that we fundamentally improve the position of black women and communities in the economy, ensuring that they are owners, managers, producers and financiers."

State of the Nation Address by the President of the Republic of South Africa, His Excellency Cyril Ramaphosa, 16 February 2018

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Minister of Trade and Industry

Foreword by the Hon. Minister of Trade and Industry

As an agency of **the dti**, the National Empowerment Fund (NEF) promotes and supports commercially sustainable businesses that are owned and run by black people in order to promote and facilitate black economic equality and transformation across a range of sectors. Established by the National Empowerment Fund Act No. 105 of 1998, the Development Finance Institution (DFI) also encourages and inculcates a culture of savings, investment and meaningful economic participation by black people.

In February 2004, during the budget speech by the Minister of Finance, it was announced that the NEF would be capitalised by R10 billion over the next five years. The decision at the time was premised on such funding being realised through the sale of State Owned Enterprises. Trust capital of R2.47 billion and operational funding of R322 million were transferred between 2004 and 2010 to the NEF as well as R1 billion raised in 2007 from equity through the Asonge Share Scheme (MTN). The NEF has not secured additional capital from the fiscus since then despite numerous MTEF applications.

Since inception the NEF has approved 927 transactions worth more than R9.3 billion for black-owned and managed businesses across the country. Of this, R3.4 billion has been approved for the empowerment of businesses that are owned and managed by black women entrepreneurs. A total 76% of NEF-funded transactions are still active and operational in the economy. Central to the work of the NEF is the need to create decent jobs, and the institution has supported in excess of 95 798 jobs countrywide, with new jobs totaling over 65 359. We recognise appreciably that the over the years the NEF has made concerted strides to improve recoverability of the portfolio through various post investment support of its investees. These include focused mentorship and proactive turnaround, workouts and restructuring interventions. As a result over R2.8 billion has been collected cumulatively from loans disbursed across the country since operational inception.

Having come down significantly from 24.4% some two years prior, the portfolio impairment ratio of 15.4% at year end is a remarkable milestone that compares favourably with other DFIs.

As an early proponent of efforts to support the emergence of black industrialists, in partnership with local and international partners the NEF has developed 27 strategic and industrial projects valued at R27 billion across sectors identified in both the Industrial Policy Action Plan and the National Development Plan, spanning Renewable Energy, Mineral Beneficiation, Agro-processing, Information and Communication Technology, Infrastructure and Tourism.

As outlined in this Integrated Report 2018, the NEF continues to point the path on deal-structuring for maximum benefit to black entrepreneurs, investor education, entrepreneurial training, incubation, rural and community development, powering township economies, on mentorship and across the tapestry of its mandate.

As at March 2018 the net asset value of the NEF was R5 billion, which means that the NEF has managed to leverage a net appreciation of its assets to the value of R2.5 billion. The NEF has therefore doubled the initial capital received from Government.

It is for this reason that Government remains committed to resolving the protracted challenges of recapitalising the NEF speedily and sustainably not only to prevent a moratorium on funding new applications, but precisely to respond to the overwhelming demand for funding among black entrepreneurs and to help the economy grow. As Government intensifies efforts to bring about radical socio-economic transformation, a fully-resourced NEF is poised to become a leading instrument in that quest. With the considerable skills base that the NEF commands across its echelons, including the executive and board strata, there is no doubt that the NEF will continue to shine the path in South Africa's determination to bring about inclusive growth.

the dti acknowledges the profound contributions of the previous board of the NEF, and is privileged to welcome the newly appointed trustees, certain that their stewardship of the organisation will steer the development financier to even greater heights

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

the dti
Department:
Trade and Industry
REPUBLIC OF SOUTH AFRICA

About this Report

This is the National Empowerment Fund's (NEF) fourth 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. The IR Framework states that an integrated report is aimed primarily at financial capital providers, i.e. investors, and serves as a source for improved quality of information on the uses of allocated capitals. However, as a public entity, the NEF's main aim and focus is rather on material factors that affect the creation of value for a much broader stakeholder population.

The NEF chose to report in an integrated manner because it aims to provide a balanced, accurate and accessible assessment of the NEF Trust's strategy, business model, performance, risks and opportunities for the year ended 31 March 2018. A high level overview of the four subsidiaries in the Group is provided on page 8.

The NEF's mandate places it as a significant entity through which radical economic transformation is being facilitated. We hope that through this report we 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 ahead.

> "The Board 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."
>
> About this report, 2018

The aim of this report is to provide stakeholders with an account of the usage of capitals via various value creating activities in the short, medium and long term in order to create value for the organisation. It is a reflection of the past as well as the current performance achievements and challenges of the NEF.

Our annual financial statements are prepared in accordance with standards of Generally Recognised Accounting Practice (GRAP) and where relevant, the International Financial Reporting Standards (IFRS). Additionally, the requirements of the Public Finance Management Act (PFMA) of South Africa and the National Empowerment Fund Act have been complied with. These financial statements are included in full in this report as part of our regulatory reporting obligations in accordance with the PFMA.

The NEF's ongoing stakeholder engagements as well as ongoing scanning of external macro environment (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 financial as well as key performance information in this report have been independently assured by our external auditors, SNG Grant Thornton. Internal audit also conducts quarterly reviews of our performance milestones 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 (The Board), assisted by the Audit Committee, acknowledges its responsibility to ensure the integrity and completeness of this report. The Board 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.

The integrated report contains certain statements about the NEF that are, or may be deemed to be, forward-looking statements.

By their nature, forward-looking statements involve risks and uncertainties as they relate to future events and depend on circumstances that may or may not occur in the future. If any of these or other risks and uncertainties occur, or if the assumptions underlying any of these statements prove incorrect or incomplete, then actual future performance and achievements may be materially different from those expressed or implied by such statements.

The Board therefore advises readers to use caution regarding interpreting any forward-looking statements in this report. The Board approved this report and authorised its release on 30 July 2018

Rakesh Garach
Chairman

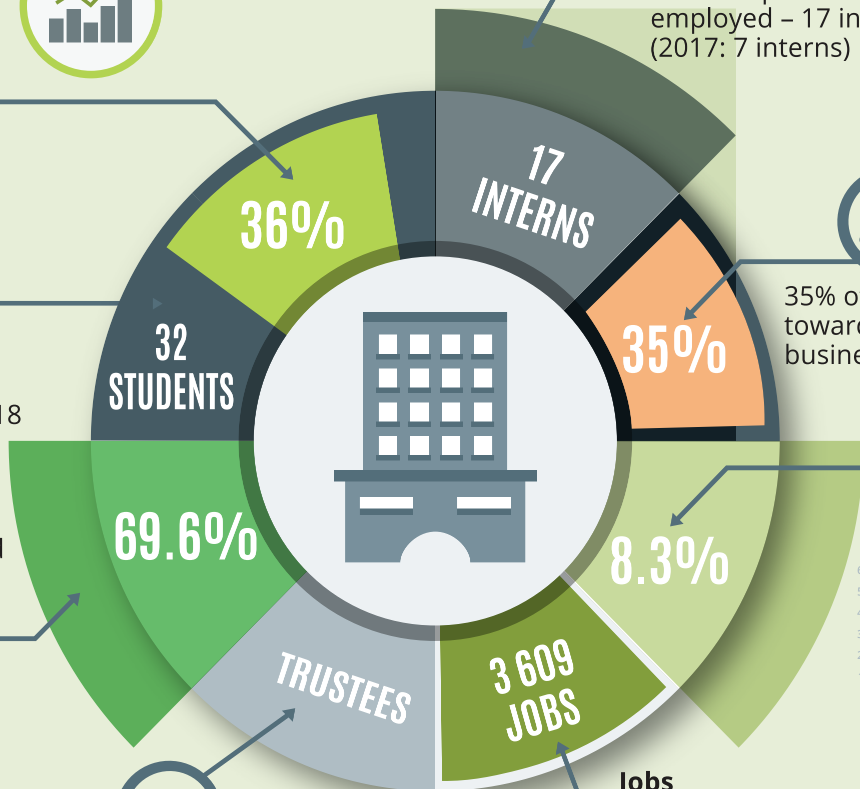
Philisiwe Mthethwa
Chief Executive Officer

PERFORMANCE **HIGHLIGHTS**

Disbursement activity in targeted provinces increased by 4% to 36%, amounting to R162 million (2017: R224 million)

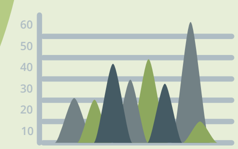
Internship candidates employed – 17 interns (2017: 7 interns)

R2 million for bursary scheme, supporting 32 students in the 2018 academic year

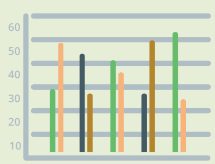


35% of disbursed value towards women owned businesses (2017: 34%)

Return on investment of 8.3% (2017: 7.8%)



Procurement spend towards black owned entities 69.6% (2017: 64.8%)



Appointment of an independent new Board of Trustees, 3 previous trustees were re-appointed for continuity

Jobs

3 609 job opportunities supported, 70% of which are new (2017: 5 069 of which 56% were new)

About the NEF

Our Vision

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

Our 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.

Our Mandate

Established by the National Empowerment Fund Act No.105 of 1998 (NEF Act), the NEF is the only Development Finance Institution (DFI) mandated to be a driver and thought leader in promoting and facilitating black economic participation. This is achieved through the provision of financial and non-financial support to black-owned and managed business as well as by promoting a culture of savings and investment among black people.

In order to guide the process of crafting a growing, inclusive and employment-generating economy, Parliament passed the Broad-Based Black Economic Empowerment Act No. 53 of 2003 as amended Act No. 46 of 2013.

Our Policy and Regulatory Framework

Government discharges the implementation of B-BBEE through the DTI BEE Unit, that drafts and monitors policy and legislation as well as provides practical guidelines for the implementation of B-BBEE.

The NEF's strategy and operations are informed by various government policies, and especially by the NEF Act. Other policies, legislation and frameworks to which the NEF's strategy and operations are aligned in pursuit of increased black economic participation include:

- The National Development Plan
- Broad-Based Black Economic Empowerment Act, Act No. 53 of 2003 as amended Act No. 46 of 2013, and the B-BBEE Codes of Good Practice
- Industrial Policy Action Plan
- Public Finance Management Act, No. 1 of 1999 (PFMA) as amended, including National Treasury regulations
- King Report on Governance for South Africa 2009 (King III)
- Protocol on Corporate Governance in the Public Sector, 2002
- Preferential Procurement Policy Framework Act No. 5, 2000

In its quest to achieve inclusive economic growth, and to discharge its mandate as outlined in the NEF Act, the Executive and Board of Trustees have translated these policy objectives into strategic objectives which represent the NEF's priorities for the future. The strategic objectives are used to monitor and review the performance of the NEF. Refer page 60.

NEF Values

Our Values

The noble mandate of the NEF is underpinned by its values which are the cornerstone and ethos through which the employees live.

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

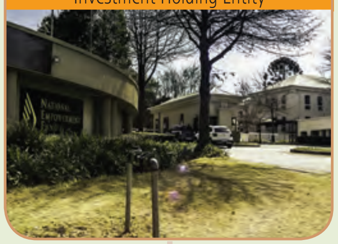
Ethics	We choose to do what's right over what's wrong
Motivation	We are self-driven and passionate in what we do
Performance	We achieve results timeously and with impact
Ownership	We own the mandate of the NEF
Worthy	We recognise the value of other's contribution
Excellence	We exceed our client's expectations
Respect	We treat everyone with dignity

Group Structure

NATIONAL EMPOWERMENT FUND TRUST

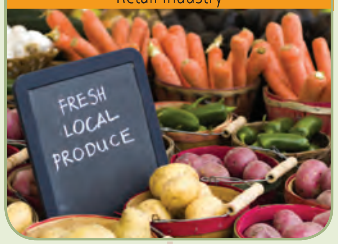
NEFCorp SOC Ltd 100% (NEFcorp)

Investment Holding Entity



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

Retail Industry



Delswa (Pty) Ltd 100%

Textile Industry

Surgetek (Pty) Ltd 100%

Manufacturing and Distribution Industry

NEFCorp

NEFCorp is an investment holding company that was established by the NEF Trust in 2002. The company has made 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 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 loan terms. The breach compelled the NEF to exercise its rights in terms of the loan agreement and expelled the promoter from the business, consequently taking over 100% of the entity's shareholding.

Delswa

In April 2013, the NEF invested in Delswa, a clothing manufacturing entity in the Northern Cape. Regrettably in December 2013 Delswa went into financial distress. The NEF exercised its rights in terms of the shareholders agreement and stepped in to run the entity in order to save jobs. The NEF currently holds 100% of the non-trading company which became a property holding entity. Additionally, the NEF holds a 30% share in the operating entity, Jaff and Company (Pty) Ltd.

Surgetek

Surge Technologies (Pty) Ltd (Surgetek) is a leading manufacturer and distributor of earthing, lighting and overvoltage surge protection devices in Africa. During the current financial year, the entity experienced extensive financial distress, compelling the NEF to exercise its rights in terms of the loan agreement and take over the operations of the company. The NEF intends disposing of the entity as soon as it becomes financially viable.

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:

Strategic objectives	Advancing B-BBEE	Maximising Empowerment dividend	Establish the NEF as a sustainable DFI	Optimising non-financial support
Key outputs	Provide finance to business ventures established and managed by black people.	Invest in black empowered businesses that have high employment creating opportunities. Support the participation of black women in the economy. Facilitate investment across all provinces in South Africa.	This is achieved by ensuring that we invest in transactions with economic merit, through sound financial management of the NEF itself, as well as through portfolio monitoring and support activities.	Encourage and promote savings, investment and meaningful economic participation by black people. Advanced black economic empowerment through commercially sustainable enterprises.
Key performance indicators	• Value and number of deals approved • Value of new commitments • Value of new disbursements	• Number of jobs created or supported • Percentage of investment in women owned and managed businesses • Percentage of investment activities to be invested in the following targeted provinces: NW, NC, FS, LP, MP and EC	• Percentage of portfolio impaired • Target ROI before impairments • Collection ratio	• Number of entrepreneurial training sessions provided • Number of entrepreneurs who are referred for incubation and successfully completed business incubation • Number of social facilitation sessions for NEF investees • Number of investor education sessions held across the country

> "We must ensure that all South Africans, particularly those who were deprived of economic rights, participate meaningfully and actively in all key strategic economic sectors of the country to ensure that their economic rights are fulfilled and that wealth of the country is shared equally."

Deputy President Mr David Mabuza, Human Rights Day Commemoration, 21 March 2018

Our Business Model

How we are Organised

The NEF is structured and transacts through its Funds to address the needs of businesses as demonstrated by the nature of products housed in each of the five funds below.

The Funds:

Strategic Projects Fund

- Funds the development of projects through stages of project through
- **Products**:
  - Venture Capital funding structures
  - Development of Black Industrialist funding in strategic sectors
  - Funding up to R75 million

iMbewu Fund

- Supports start-up businesses
- Provides capital for the expansion of small and medium enterprises
- **Products**:
  - Franchise Finance
  - Procurement/Contract Finance
  - Entrepreneurship Finance
  - Funding from R250 000 to R15 million

uMnotho Fund

- Provides capital for expansion of businesses, the buying of shares in white owned businesses, or funding new ventures
- **Products**:
  - Acquisitions, New Ventures, Expansion, Capital Markets, Liquidity and Warehousing funding
  - Funding ranges from R2 million to R75 million

Rural and Community Development

- Supports the development and growth of rural and peri-urban economy in rural communities, which is achieved by the mobilisation of structures such as cooperatives
- **Products**:
  - New Ventures
  - Business Acquisition
  - Expansion
  - Funding ranges from R1 million to R50 million

Women Empowerment Fund

- Supports businesses which are more than 50% owned and managed by black women
- The product offerings cut across all products provided by the different funds
- Funding from R250 000 to R75 million

Projects that require more than R75 million are assisted through a co-funding arrangement with other funders in the market

> "Central to the work of the NEF is the need to create decent jobs, and the institution has supported in excess of 95 798 jobs countrywide, with new jobs totaling over 65 359."
>
> Trade and Industry Minister, the Hon. Dr Rob Davies (NEF Integrated Report 2018)

Investee Profile

MSG AFRIKA MEDIA (PTY) LTD

Collectively the MSG Afrika Media (Pty) Ltd radio portfolio constitutes the largest privately-owned commercial radio network in South Africa. In 2012 the NEF approved funding for the establishment of Power 98.7, co-funding the radio station to a cumulative R36.2 million.

Launched on 18 June Power 98.7 is accessible through four frequencies, 98.7, 103.6, 104.4 and 107.2, and the station also spills into other in-land provinces.

Since the launch POWER 98.7 was named the second most influential media platform in business in the Agenda Setting Media (ASM) analysis.

The station was the most awarded at the 2017 Liberty Radio Awards walking away with six accolades.

MSG Afrika also owns Capricorn FM, the only commercial radio station based in Limpopo and broadcasts in English and 30% in Tshivenda, Sepedi and Xitsonga to the greater Limpopo covering all the 5 districts in the province.

In 2014 the Independent Communications Authority (ICASA) licensed the MSG Afrika to operate the first post-1994 commercial sound broadcasting radio station in the Free State, Beat 105.1.

Due to launch in the first quarter of 2019, BEAT 105.1 will offer entertainment and information content to audiences in the Free State and the Northern Cape provinces.

Rhythm FM was also licensed by ICASA in 2014, enabling MSG Afrika to operate the Eastern Cape's the first commercial radio station, Rhythm FM.

The NEF has co-funded the establishment of both Beat 105.1 and Rhythm FM to the tune of R26 million. The radio stations will support 128 direct jobs.

> “Government's historic and intrepid determination to resolve South Africa's legacy of landlessness for the majority of citizens, provides the policy certainty that is necessary to ensure radical economic transformation, inclusivity and growth.”
>
> NEF Chairman, Mr Rakesh Garach, Integrated Report 2018

Non-financial Support

PRE INVESTMENT UNIT (PIU)	POST INVESTMENT UNIT (POIU)	TURNAROUND WORKOUTS AND RESTRUCTURE (TWR)	LEGAL SERVICES UNIT	SOCIO-ECONOMIC DEVELOPMENT UNIT (SEDU)
• 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: o **Business Planner Tool** which is an online tool that assists users to compile business plans; o **Business incubation** which is aimed at providing support to clients that have an idea that is at an early stage, and is not ready for funding and therefore needs nurturing; and o **Entrepreneurial training** which is targeted at entrepreneurs that require capacity building and enhancement in running their fledgling businesses *	This unit has been established to perform portfolio management through monitoring of investee operational performance, credit control and collections; and to provide advice and support through mentorship programmes. *	TWR has the responsibility of restructuring and turning around all distressed invested NEF transactions.	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.	SEDU facilitates social interventions in transactions having broad-based groups or communities. It identifies opportunities for beneficiaries in such transactions and assists in developing market linkages. This unit also sources funding for the Enterprise and Supplier Development program to benefit investees. In addition, it fosters a culture of savings and investment through its Investor Education programme.

** Regional offices also provide these services*

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	The financial resources available to advance B-BBEE and increase the empowerment dividend	Attracting the right skill and expertise into the employ of the NEF	The relationships we build with our stakeholder partnerships which we use to harness the NEF's mandate of empowering black-owned businesses and the communities in which we operate	The use of 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	Providing competitive remuneration and incentives for employees Investing in attracting and retaining our employees Supporting employees in their various fields of study from ABET to Post Graduate and Masters Programmes	Actively pursuing black women owned investments and provincially distributed investments through our funding activities Funding activities that create and maintain jobs Stakeholder engagements Partnerships with third party contributors, including Enterprise Development (ED) contributors Bursary scheme and other Social Investment (CSI) programs Socio-economic development and investor education seminars	Thought leadership initiatives Brand audit that provides insight into the needs and concerns of all stakeholder groups Informing policy formulation Innovative B- BBEE funding initiatives
KEY RISKS	Recapitalisation risk Credit risk Market risk	People risk	Reputational risk	People risk

Forms of Capital to Create Value *continued*

FORMS OF CAPITAL				
	Financial Capital	**Human Capital**	**Social and Relationship Capital**	**Intellectual Capital**
OUTPUTS	R634 million approved-there were no Department of Rural Development and Land Reform (DRDLR) approvals (2017: R1.067 billion – includes R515 million DRDLR approvals) R521 million commitments, additionally R219 million DRDLR commitments were made (2017: R982 million- includes R281.3 million DRDLR commitments) R411 million disbursed (2017: R699 million) ROI at 8.3% (2017: 7.8%) Impairment 15.41% (2017: 17.55%)	R1 million spent on training initiatives with 201 training interventions amongst 136 employees (2017: R1.059 million) R800 000 invested in bursary support to employees (2017: R500 000) Remuneration and performance incentives of R162.6 million (2017: R154.9 million)	35% of disbursements to women shareholding (2017: 34%) 35 deals worth approximately R162 million (36% of disbursements) have been invested in targeted provinces (2017: 32%) 3 609 (2017: 5 069) jobs supported job opportunities of which 2 359 (65%) are new R272 million worth of DRDLR deals disbursed (2017: R29 million) 49 social facilitation sessions (2017: 42), 58 investor education seminars (2017: 48) Bursary scheme spending of about R2 million in support of 32 students (2017: R2 million)	NEF recommendations on the Financial Services Charter and thought leadership contributions on a first South African Black-owned Bank Contributions to the BRICS Financial Services working group, especially around support towards SME businesses Continued implementation of innovative funding structures through collaborations with the public and private sectors Brand audit results have identified areas of improvement in the processes of the NEF
IMPACT	Achievement of mandate empowering and enabling black owned businesses to participate and contribute to economic growth	Career development through training interventions Increased level of skills, education and financial literacy High levels of employee engagement and longevity Positive employee morale	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 with 32 funded students in the 2017 academic year	Through the NEF's collaboration with DRDLR, the NEF has played a pivotal role in the economic transformation of previously white owned farms Ensuring that SMEs benefit from South Africa's membership to the BRICS association
STAKEHOLDERS	GOVERNMENT, INVESTEES	EMPLOYEES	COMMUNITIES	INFLUENCERS, OPINION FORMERS

Overview of the Operating Environment

Global Highlights

A solid global economic growth of 3% was achieved in 2017, a noteworthy recovery from a post-crisis low of 2.4 % in 2016. The expansion was due to a broad-based growth recovery in advanced economies and in some major Emerging Market and Developing Economies (EMDEs).

In advanced economies, the growth of an estimated 2.3% in 2017 was driven by a pickup in capital spending and exports. The growth improvement was stronger than expected in the Euro Area, and to a lesser degree, in the United States and Japan. On the other hand, an estimated 4.3% growth in 2017 among EMDEs was driven by firming activity in commodity exporters and continued solid growth in commodity importers.

South African Economic Highlights

GDP growth

Following a contraction of economic activities in the first quarter of 2017, South Africa's economic outlook has improved. Sustained growth in the remainder of the year brought about an annual GDP growth of 1.3% in 2017 as compared to a low growth of 0.6% achieved in 2016. The growth in 2017 was principally led by the agriculture's drought recovery; and the mining sectors which were supported by favourable commodity prices. Other events that contributed to the country's improvement included the smooth transition of the country's leadership; fiscal consolidation; the strong rebound in the world economy; and the strengthened household consumption driven by the moderation in inflation as a result of the dissipating drought effects and a stronger exchange rate. Notwithstanding the economic upturn, drought continues in parts of the country, more specifically affecting the agricultural activities in the Western Cape.

According to the World Bank forecast, the South African economic growth is expected to increase from 1.3% in 2017 to 1.4% in 2018. This conservative estimate was made based on the country's past economic performance and significantly falls short of the intended 5% growth required for the achievement of the NDP objectives.

Interest rates

Economists currently forecast that South African interest rates will remain unchanged in the second half of 2018 and then remain flat over the next year and a half.

In a unanimous decision, the SARB's Monetary Policy Committee (MPC) kept the repo rate unchanged at 6.5% at its July 2018 meeting as it assessed risks to inflation to be tilted to the upside.

The fragile growth outlook makes the prospect of an interest-rate hike in the near term unlikely, despite the two interest-rate hikes implied by the SARB's Quarterly Projection Model (QPM). The general market view is that the SARB will keep the repo rate on hold at 6.5% for the remainder of this year and turn progressively hawkish in 2019, as domestic demand pressures build alongside a weakening rand and higher oil prices.

Inflation

Headline CPI edged to 4.5% year on year in April from 3.8% in March. Core inflation rose to 4.5% year on year in April from 4.1%. The pick-up in inflation was broad-based, with notable increases in fuel prices. Continued global risks have seen oil prices edge up, while the rand and other emerging markets currencies weakened. Economists expect headline CPI inflation for 2018 and 2019 to average 5.0% and 5.3% respectively. Core inflation is unchanged at 4.6% in 2018 and revised to 4.9% in 2019 compared to 4.8% previously forecasted by economists.

Local currency downgrade

In November 2017, Fitch affirmed the country's BB+ rating with a stable outlook, Moody's placed SA's Baa3 foreign and local currency ratings on review for a downgrade, but Standard and Poor Global downgraded SA's local currency rating to BB+ (one notch below investment grade) and our foreign currency rating to BB (two notches below investment grade), while changing the rating outlook to stable. Moody's, the only major agency that currently rates SA's local currency debt at investment grade, has put SA on review for downgrade and should the agency follow through with a downgrade, our government bonds will be excluded from major international bond indices, potentially leading to significant selling. Universal sub-investment-grade status will increase the cost of funding for the entire economy, including government, companies and households. Government will therefore have to pay more to borrow, diverting funds from other priorities such as housing, education and social grants.

Standard and Poor's and Fitch's downgrading of South African long-term, foreign currency-denominated debt to sub-investment grade in April 2017 was a painful period for South Africa. With the new administration, the government's commitment to stabilise debt, as communicated in the 2018 Budget, was strong enough to convince Moody's to keep South Africa's credit rating at investment grade in March 2018, and to move the credit rating outlook from negative to stable.

Inequality and unemployment

The social challenge of high levels of inequality that reflects the country's legacy of racial exclusion remains a persistent problem. The country's low economic growth - compared to its higher population growth rate – continues to widen the gap between the rich and the poor, reinforcing inequality. To realise sustainable growth, the country needs to attract foreign investments. This will boost economic capacity and move the country to a new economic trajectory enabling it to overcome the challenges of unemployment, poverty and inequality.

Unemployment rates remained stubbornly anchored around 27.2% in the first quarter of 2018. The lack of skills means that the poor are still more likely to be unemployed.

NATIONAL EMPOWERMENT FUND IMPACT

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

Some of the major sectors that have a larger job creation rate that the NEF has invested in since inception to date include Construction; Manufacturing and Retail.

Construction

Construction contracted by 0.3% in 2017 as compared to 2016. The real value of recorded building plans passed decreased by 4.5% year-on-year in January 2018, weighed down by non-residential buildings which fell by 32%.

Sector: Construction
Since inception to date: R786 million (13%) of approvals
In 2017/18: R62 million (15%)

Plans passed for residential buildings improved by 1.5% year-on-year in January 2018 as confidence levels amongst building contractors rose against the background of economic growth and political developments towards the end of last year.

The level of confidence and the political climate will remain important factors in the new building activities during 2018. Furthermore, the sector faces less support from public investment spending as compared to 2017 given that substantial expenditure reduction has been applied to provincial and municipal infrastructure grants.

The anticipated improvement in socio-economic conditions supports financial institutions like the NEF. Opportunities include improved sentiment and confidence driving corporate and consumer spending, investment and lending by DFIs. The NEF is already looking into opportunities in the construction sector, including but not limited to: student accommodation, low-cost housing, and tourism related infrastructure.

Manufacturing

The manufacturing sector gained momentum towards the end of 2017 and the performance was sustained in January 2018 with production growing by 2.3% as compared to January 2017. Overall, manufacturing production contracted by 0.2% in 2017.

Sector: Manufacturing
Since inception to date: R833 million (14%) of approvals
In 2017/18: R41 million (10%) of approvals

Furthermore, government's commitment to replacing imported goods with locally-produced goods will strengthen the local demand for manufactured goods that will in turn lead to economic growth and increase the competitiveness of domestic manufactures entering the export market.

Manufacturing, with its strong multiplier effects on value addition, job creation, export earnings and revenue generation, is the one sector in the economy that has the potential to create jobs. We believe that the NEF is well positioned to assist black business and entrepreneurs either through expansionary capital or start-up funding. We believe that by supporting businesses in the manufacturing industry the economy will reap the benefits through the direct jobs created.

For instance, our strategic projects fund portfolio comprises of 27 projects, which are worth over R27 billion and have a potential to create a further 85 000 job opportunities for the economy.

Retail

South Africa's retail sales increased by 3.1% year-on-year in January 2018. The main contributors to the 3.3% increase were: general dealers (contributing 0.5 percentage points); and retailers in textiles, clothing, footwear and leather goods (contributing 1.1 percentage points), the lowest contributors being food, beverages and tobacco in specialised stores.

Sector: Wholesale and Retail
Since inception to date: R1 117 million (19%) of approvals
In 2017/18: R184 million (45%) of approvals

Local retail companies of beverages are affected by social considerations such as the introduction of the Sugary Beverages Levy (SBL) implemented on the 1st of April 2018.The intention behind the levy is to prevent and control non communicable diseases (NCDs) and assist in the prevention and control of obesity. This health promotion levy is therefore welcomed by some as a confirmation of the government's commitment to socio-economic growth.

The NEF's retail portfolio is one of the best performing portfolios, especially the petroleum sector. The NEF will continue with strengthening this portfolio and identifying other retail related sectors to invest in as these are some of the best performing sectors even during difficult economic times. We see this as an opportunity to strengthen our portfolio.

Considerations for the NEF

The NEF is excited about the ambitious goals shared by the President of the Republic of South Africa, H.E Cyril Ramaphosa, in his State of the Nation Address 2018. We commend and support these aspirations to accelerate transformation as they directly address the triple challenge of poverty, inequality and unemployment whilst striving for economic growth. The goals include:

- The establishment of the Digital Industrial Revolution Commission in partnership with the private sector and civil society, to enable the country to seize the opportunities and manage the challenges of rapid advances in information and communication technology;

- The introduction of the first national minimum wage in South Africa that strives to reduce wage inequality; and
- The free higher education and training for first year students from households with a gross combined annual income of up to R350,000 as well as the introduction of the Youth Employment Service (YES) Programme that will assist in upskilling the nation's labour force and increase the competitiveness of South Africa's economy.

Armed with the above-mentioned national goals which are supported by the continuous regulatory improvements, positive business confidence and economic outlook, we look forward to 2018 and the years ahead.

In addition, the President has also stressed the importance of supporting start-ups and small businesses to sustain the growth of the South African economy. In response to this call and with a strong commitment to advancing an empowerment dividend comprising of job creation opportunities, women economic empowerment, investment across all provinces in the country; the NEF strives to lend support and credibility to black-owned businesses with 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 and sustainable investments that will advance economic transformation and realise the B-BBEE.

The NEF has participated in selective pieces of legislation that address the B-BBEE Act and therefore, in this regard, we believe that our engagement in discussions at Parliamentary sessions is a justification and recognition of NEF as a thought leader in the advancement of economic transformation.

The Regulatory and Policy Environment

The regulatory environment on the B-BBEE Act has in the current year not changed significantly to have an effect on the NEF mandate. The amendments to the B-BBEE Act No 53 of 2003 and the amendments to the codes of Good Practice came into effect. Since then, various amendments have been undertaken which complement and support the mandate of the NEF.

Furthermore, a few policy enhancements and changes that are key to the NEF's mandate in empowering entrepreneurship in previously marginalised groups are elaborated below:

- Financial Services Charter
- Industrial Policy Action Plan
- Other developments

Financial Services Charter

The Amended Financial Sector Code (Amended FSC) was promulgated on 1 December 2017 in Government Gazette number 41287. It was prepared in terms of the Broad-Based Black Economic. Empowerment Act 53 of 2003. The sector code seeks to commit all sector players to actively promote a transformed and globally competitive financial services sector. However, the Broad-Based Black Economic Empowerment (B-BBEE) Commission is not satisfied with the code's lower equity targets and questions whether it will be a tool to achieve transformation. NEF made submission to the Parliamentary hearing on the key approach to the revised Financial Services Charter.

NEF made submission to the Parliamentary hearing on the key approach to the revised Financial Services Charter. The aim of the submission was to demonstrate that the progress made by FSC was falling short of the intended purpose i.e. sector charter transformation, therefore, NEF would continue to monitor the progress in the sector and further assist through its Mandated Funds to progress participation of Black people in the sector through provision of funding.

Furthermore, the NEF fully supports the efforts of the government on Radical Economic Transformation and fully believes in the proposed changes to the following:

- The measurement of the access to the financial services element of Broad Based Black Economic Empowerment, as it relates to Long Term Insurers;
- Measurement of Unincorporated Joint Venture;
- Enhanced recognition for certain categories of black people

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

The Industrial Policy Action Plan (IPAP) is firmly entrenched in government's overall policy and plans to address the country's key challenges of economic and industrial transformation towards job creation. To this end IPAP is seen as part of the government's integrated approach in addressing the much-needed fundamental change to the structure of the economy.

As a key component of the President's Nine-Point Plan, the IPAP programmes are underpinned by an understanding that the domestic economy has deep structural fault lines requiring longer term solutions. IPAP is also informed by a process that seeks to identify key constraints to manufacturing growth in the domestic economy and a problem solving, collaborative approach to the solution of these constraints.

Other policy updates

The Chamber of Mines brought an application in the North Gauteng High Court in 2017 on the interpretation of the Minerals and Petroleum Resources Development Act, 2002 ("MPRDA"), read with the Mining Charter, regarding the "once empowered always empowered" principle in the mining sector. The NEF joined the proceedings as an amicus, to help the Court in the interpretation and application of the Broad Based Black Economic Empowerment Act, 2003 ("B-BBEE Act"), which has trumping provisions over any conflicting provisions of other laws regulating black economic empowerment including the MPRDA.

The split judgement in April 2018 found in favour of the Chamber of Mines in ruling that mining companies which had 26% Black ownership prior to 2014 but subsequently dropped the percentage of Black ownership, shall be deemed to be BEE compliant for the rest of their mining licence terms. The Minister is appealing this judgement, with the support of the NEF, as the judgement completely ignored the provisions of the B-BBEE Act and has huge implications on the black economic empowerment, not only in the mining Sector but across all sectors of the economy

Stakeholder Engagements

To achieve its mandate the NEF engages proactively with its stakeholders so as to maintain relationships and understand expectations.

As the NEF we believe that our continued existence depends on how we serve our stakeholders and manage stakeholder relationships.

We also believe that establishing a sustainable and collaborative relationship with our stakeholders, based on trust, is of paramount importance to the NEF.

This has seen us developing products and services that meet our stakeholders needs. The NEF believes that in doing so it has earned and maintained the much needed trust.

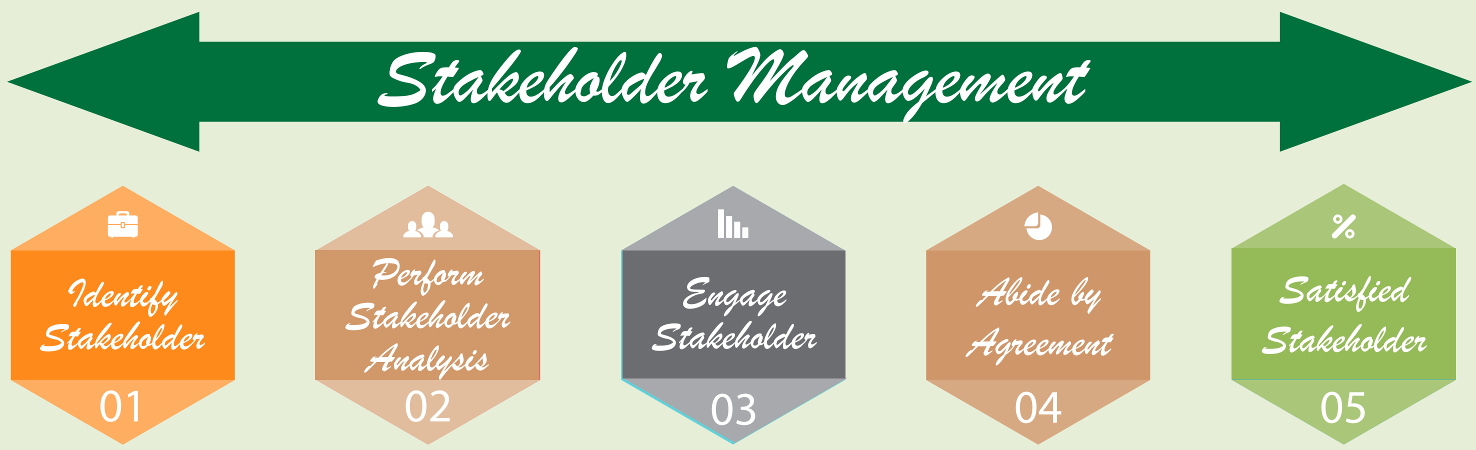
Our main objectives for stakeholder engagements are:

- Enhancing the delivery of our strategic objectives and projects;
- To ensure that stakeholder expectations are met;
- To ensure that the mandate of the NEF is achieved;
- To ensure that the NEF's strategy is aligned to key stakeholder expectations;
- To identify, focus on and deepen stakeholder relationships;
- To create a better understanding of stakeholder needs, leading to positive stakeholder perceptions;
- To influence the social, economic and environmental policy framework within which the NEF operates to enable economic transformation and economic development;
- To increase engagement with sector players for better coordination of opportunities and programmes;
- To improve our understanding of customer needs, leading to enhanced customer experience;
- To interact with stakeholders, to anticipate changes and challenges in the environment in which the NEF operates, thereby optimising opportunities and minimising risk; and
- To increase the NEF Brand awareness.

The success of the NEF is dependent on the support we receive from our key stakeholders. We rely on government as our key stakeholder to create an enabling environment that is conducive to investment and economic growth. We also depend on government to assist us with raising or providing capital that will allow the NEF to effectively discharge its mandate. This has been a challenging process recently.

Without our human capital we cannot mobilise financial capital. We rely on our people in all aspects of our operations. Our people's futures are closely tied to the NEF as they rely on the NEF to remunerate them fairly and provide them with opportunities to grow. The uncertainty relating to the NEF's recapitalisation has resulted in loss of staff and intellectual capital being one of our strategic risks. We are continuously engaging with our stakeholders to resolve this matter.

Key to the process of determining our substantive issues is an in-depth understanding of our stakeholders and the information they require to evaluate our performance. The issues identified by stakeholders are prioritised on the basis of their significance in terms of our economic, environmental and social impacts. The NEF prioritises stakeholders based on their influence on the NEF operations



Investee Profile

RUSTILOX

Company Profile

Rustilox (Pty) Ltd, ("Rustilox") is a Special Purpose Vehicle ("SPV") which was incorporated for the production of a film called "Sew The Winter To My Skin". Yellowbone Entertainment (Pty) Ltd (Yellowbone), which is the production company that owns 100% of Rustilox, is an innovative and dynamic film production house focusing on quality entertainment and ground-breaking work by young black South African film makers. Yellowbone is owned by a black male who has 50% shareholding in the company, whilst a black female, owns the other 50% of the company.

As a team the owners have extensive knowledge of development, pre-production, production and post production which are all key components for a successful film. Yellowbone has recently completed the high end Xhosa science fiction film called "Stillborn" which premiered at the second annual BRICS Film Festival in June 2017. Rustilox started shooting in November 2017. The production took place in the Eastern Cape as well as Gauteng. Yellowbone has four other feature films set to go into production in the next 18 months.

The film "Sew The Winter To My Skin" is an art house film where the target market is the high-end art and film intellectual viewers. An art house film is defined as follows: "typically a serious film aimed at a niche market rather than mainstream audience (mass market). Art films usually present their films at specialty theatres (cinema nouveau) and film festivals such as the Cannes Film Festival". The Cannes L'Atelier (biggest film festival in the world) has selected "Sew The Winter To My Skin" to participate in the film festival.

Developmental Impact

The NEF together with the Department of Arts and Culture (DAC) extended financing of R3.5 million, where 40% of the funds were at a concessionary rate.

The funding that was extended to Rustilox has unlocked the following opportunities:

- Sustained a black film production house where 50% is owned by a black female youth.
- The funding was able to create 98 short term jobs with 21 as cast members and 77 as crew.

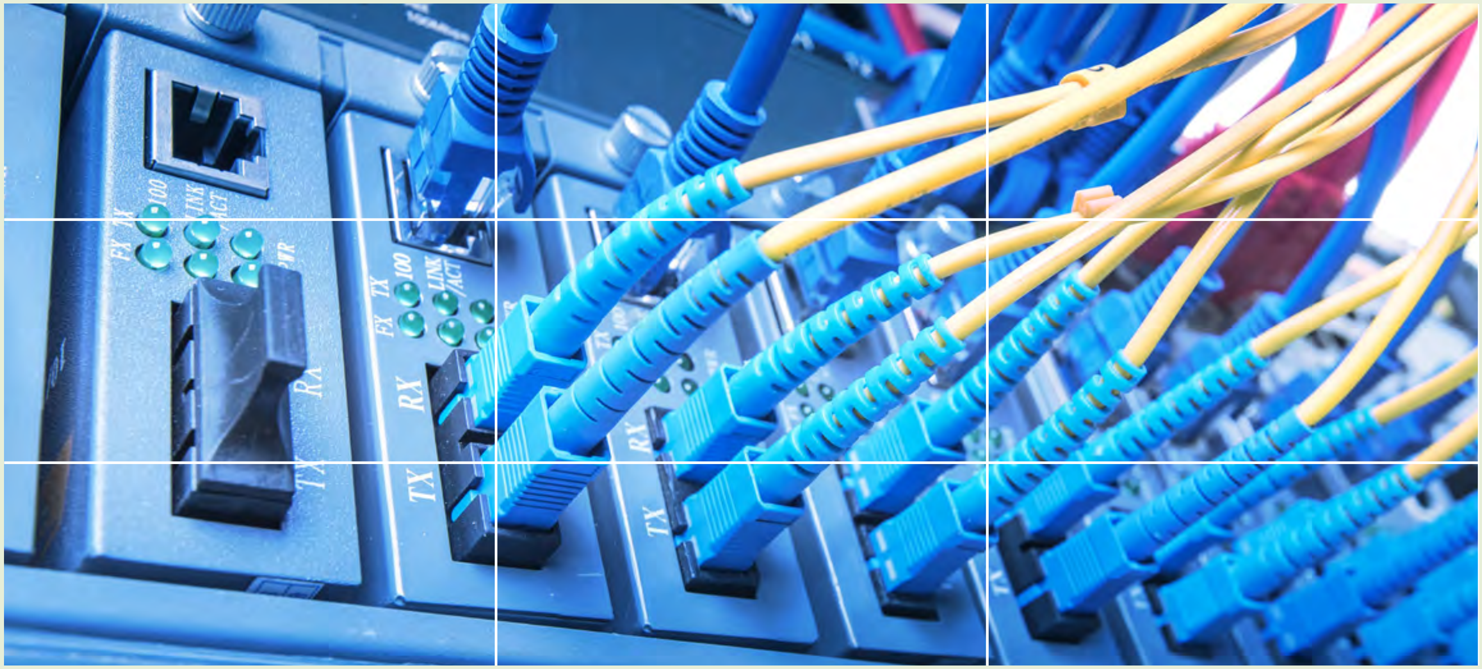
Other work done by the producer and director

Yellowbone has completed a high end Xhosa science fiction film called "Stillborn" which premiered at the second annual BRICS Film Festival in June 2017. It has further completed the following films:

- A Small Town Called Descent;
- Of Good Report;
- uMalusi;
- Hustle Director;
- 90 PLEIN STREET; and
- Mtunzini.com.

> "The NEF's mentorship interventions, as well as successful efforts to rehabilitate businesses in distress, have been very effective in helping to stabilise the operations of investee businesses, thus improving their ability to make good on their loans."
>
> NEF CEO, Ms Philisiwe Mthethwa, Integrated Report 2018

Influence	Stakeholder
High	• South African Government • **the dti** • National Treasury • Portfolio Committees of Parliament • Employees • Strategic partners - third party contributors and enterprise development contributors • Development Finance Institutions • Black Business • Black Communities • Media
Medium	• Applicants • Provincial Governments • Local Government • Business Associations • Private Sector
Low	• Former employees • Suppliers • Potential Employees



Stakeholder	How we engage	Expectations/ Reason for engagement	How we respond to matters	Materiality	Impact of our engagement
Government **the dti,** Parliament, National Treasury	Regular meetings with the Minister of **the dti**, engagements with the National Treasury and Parliament	The South African government is the ultimate statutory principal of the NEF. The NEF has a statutory requirement, as captured in the National Empowerment Act of 1998, to report to **the dti** which as the custodian of other NEF critical policies and regulations such as the B-BBEE Act, the Industrial Policy Action Plan and the Black Industrial Policy.	• Alignment of NEF activities to IPAP and the NDP • Continued focus on B-BBEE financing, particularly for women owned enterprises and the youth • Job creation through beneficiation and regional development • Proactive identification of investment opportunities across value chains • Compliance to Public Finance Management Act (PFMA) and good governance	Different government departments at national, provincial and local levels provides a critical network for the NEF to interact with the South African public	Refer Performance Highlights and Performance Review sections for KPIs
Employees	• Regular employee engagements on organisational developments and performance results feedback • Meetings with line managers • Individual performance feedback with line managers • Regular internal communication memos • Brand survey	• Employees are the most valuable assets in the business of the NEF achieving its mandate. • The NEF is expected to present a compelling and relevant employee value proposition that drives talent attraction, engagement and retention. • Employees require personal development opportunities	• Divisional and group strategy sessions and their role in its implementation • Transparent staff briefings • Provide work/life balance and a conducive working environment • Market-related remuneration and performance incentives • Performance management platforms • Learning interventions for individual development • Employee Wellness Program • Internal study assistance • Social activity forums	• Employees are a material 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

"We express our immense gratitude to the Honourable Chairpersons and Honourable members of the Portfolio Committee on Trade and Industry as well as the Select Committee on Trade and International Relations for their valuable oversight on the implementation of the mandate of the NEF."

NEF CEO, Ms Philisiwe Mthethwa, Integrated Report 2018

Stakeholder	How we engage	Expectations/ Reason for engagement	How we respond to matters	Materiality	Impact of our engagement
Beneficiaries • Black Business • Communities • Youth and black entrepreneurs • Women and People with disabilities • Private sector	• Media briefings and TV/radio interviews • Meetings with individual clients • Written communication in the form of formal letters or email • Brand survey	• Prompt and effective management of the application process • Timely and continuous communication on the funding application process • Fair assessment of investment proposal that follows approval protocol • Efficient and effective post funding service • Promotion of a culture of saving and investment among mostly rural and semi-urban communities • Partnerships with private sector companies for enterprise development funding	• A clear and easy to understand application process • Upfront communication of the application/information requirements • Prompt responses to queries/requests/ service issues • Timeous and effective evaluation of funding applications • Organisation-wide customer centricity training • Streamlining application • processes • Dedicated email address to report service issues • Appointment of specialists and mentors • Establishing and registering community trusts and providing relevant training • Compiling socio-economic needs assessments • Showcasing NEF's impact through client case studies on regional and national media platforms	Entrepreneurs are material to the NEF as we exist to serve them. Satisfied clients give credence to the organisation's ability to effectively discharge its mandate • Job creation • Township Development • Productive utilisation of community land and other assets • Improved skills and increased community participation	• Disbursed over R 6.3 billion since inception, supporting over 95 798 job opportunities • Enterprise Development Fund that addresses both the Enterprise and Supplier Development requirements of the BEE codes for Private sector companies • Received 1 404 funding applications and 6 528 funding enquiries during the year • Also refer to the Performance Review section for non-financial support activity

> "The government has identified rural and township economies as vehicles for achieving Radical Economic Transformation. The face of this transformation is the creation of employment for the youth, empowerment of local businesses and inclusive growth."

The Deputy Minister Mr Bulelani Magwanishe, Industrial Dialogue Breakfast, Kaboweni, Mpumalanga 21 May 2018

Stakeholder	How we engage	Expectations/ Reason for engagement	How we respond to matters	Materiality	Impact of our engagement
Influencers	• Media briefings and TV/radio interviews • Expos and indaba events • Brand survey	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	Activities we were involved in during the year: • Buy Local Summit – joint exhibition with **the dti**, Proudly South African • Maluti a Phofung Special Economic Zone Launch • Western Cape Funding Fair. • **the dti** Budget vote and exhibition Parliament • Source Africa Expo. CTICC, • Pan African Health and Tourism Congress Richards Bay • My Business Expo exhibiting with **the dti**. Durban • KZN Department of Energy "Opportunities in Energy • African Women Chartered Accountants (AWCA) • NEF Empowerment Provincial Expo's • Black Business Council (BBC) Roundtable Breakfast • Joint Oversight Visit by SC on Trade and International Relations, • Regional Empowerment Expos • IDC's Women's conference Gauteng	They are 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	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
Opinion Formers/ Influencers and strategic Partners	• Media briefings and TV/radio interviews • Expos and indaba events • Brand survey	This stakeholder group includes analysts, business forums, commentators, other DFIs, financial institutions and the general public They require accurate and regular communication Collaboration and co-funding with other DFIs is a natural feature of the development facilitation mandate	• Transparent presentation of financial results and performance of the organisation • Presenting and engaging at relevant conferences • Co-funding with relevant financiers • One on one engagements • Investee exhibitions	They are an important group through which positive developmental and recapitalisation 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

Key Risks and Material Issues

Enterprise-wide Risk Management at the NEF

The NEF mandate – including the provision to fund entrepreneurs with minimal or no own contribution and would otherwise not get loans from traditional financial institutions – enjoins the organisation to take higher level risk.

It therefore becomes critical that the NEF maintains a strong risk management process to manage the various risks, including credit risk, market risk, liquidity risk, sustainability risk, the risk of not achieving our mandate, risks from missed opportunities, and risks to our reputation, among others. If not managed appropriately, these risks can adversely affect our performance, our promise to our stakeholders, our customers and members of the public.

Our risk management framework and strategy outlines the following as important elements to effective risk management:

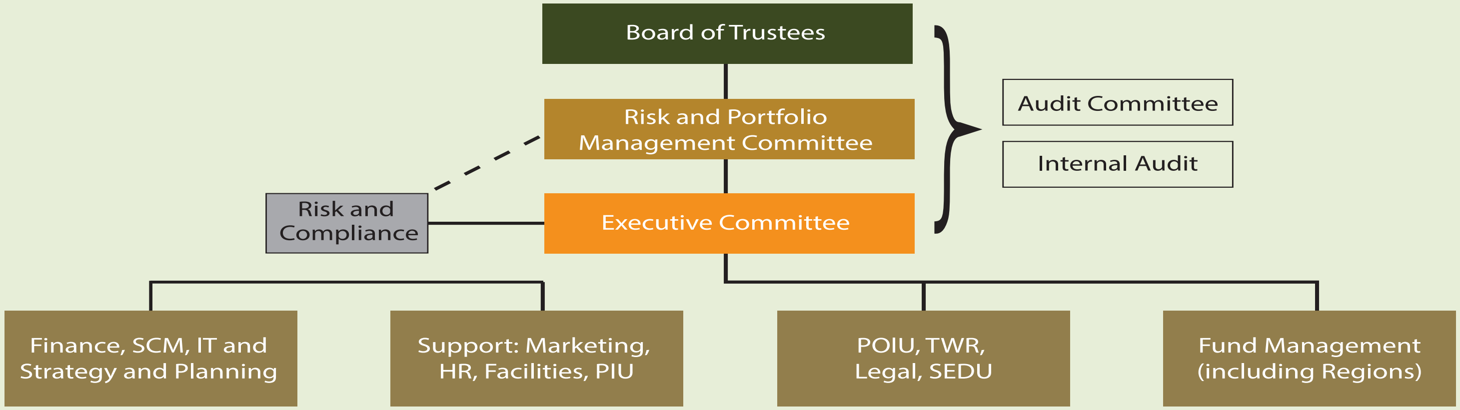
- Policies
- Structures
- Processes (how we will identify, assess, address, review and report on our risks).
- Standards
- The risk appetite and risk tolerance levels of the NEF

Our risk management standards are based on best practice and good corporate governance as detailed by:

- The King Code on Corporate Governance
- National Treasury Guidelines on Risk Management
- National Treasury Regulations in terms of the Public Finance and Management Act
- Institute of Risk Management Standards on Risk Management
- ISO 31000 Risk Management Standards

Our Board of Trustees is responsible and accountable for directing and monitoring the NEF's risk management performance in a structured framework. The Risk and Portfolio Management Committee (RPMC), as a sub-committee of the Board, has been established for governance oversight of risk management. The NEF's executive committee, with the assistance of the Chief Risk Officer, is responsible for implementing the enterprise-wide risk management process. The Audit committee provides additional assurance to the Board mainly on the financial reporting risk management process and internal control on an annual basis. All business divisions of the NEF support the Board and its sub-committees to implement the risk management process.

Risk Management Structure



Our approach to risk management involves managing our threats and taking advantage of the opportunities.

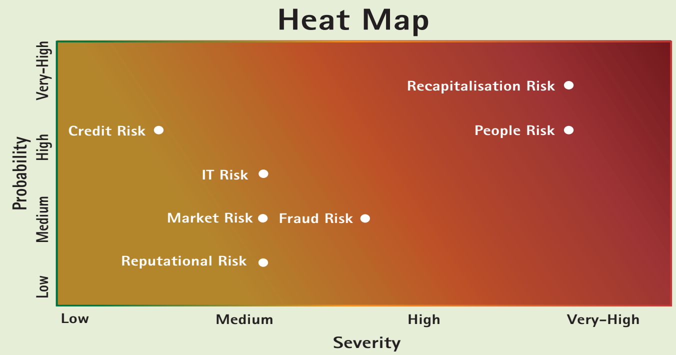
Risk Management Process

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

Our material issues are identified as part of a risk management process from which key risks and opportunities are identified. This process is overseen by the Executive Committee, the Risk and Portfolio Management Committee, the Audit Committee, and approved by the Board.

Key Risks Heat Map

Indicated below are the ratings of the residual risk that remains after management has applied all measures to mitigate the key risk.



Risk comparison to prior financial year		FY2017
Recapitalisation Risk	↑	Risk increased from prior year
People Risk	↑	Risk increased from prior year
Fraud Risk	→	Risk remained the same
IT Risk	↓	Risk decreased from prior year
Market Risk	↓	Risk decreased from prior year
Reputational Risk	→	Risk remained the same
Credit Risk	↓	Risk decreased from prior year

- Recapitalisation risk increased as the NEF continues to experience shortages in capital to fund new investments
- People risk has increased as the NEF continues to experience shortages in capital, potentially resulting in loss of critical skilled and experienced staff.
- Market and Credit risk have seen a decline in the severity of the risk towards the end of the financial year following the change in the economic and political climate in the country.

The key risks that impact on the achievement of NEF's strategic objectives are detailed below along with the mitigation actions and opportunities. These have also been linked to the capitals affected.

Extreme	High	Medium	Low

Strategic Objectives	Risks	Inherent Risk	Mitigating Actions and Opportunities	Residual Risk	Link to Capitals
Advancing BBBEE	**Recapitalisation Risk (Mandate, Business Continuity and Liquidity)** There is a risk that the NEF will become cash constrained due to a delay to secure recapitalisation funding which could lead to decreased operational effectiveness .		**Mitigating Actions**: There are currently efforts to secure funding for the NEF through the following: - Application for funding allocation by the National Government (MTEF application). - Recapitalisation through business combination process with the IDC - Applications for funding from other DFIs. - Portfolio performance monitoring to facilitate collections and possible early exits **Opportunities**: NEF is exploring a legal right to raise funding from the financial market through reclassification from Schedule 3A to a Schedule 2 institution in terms of PFMA.		**Financial Capital**
	IT Risk There is a risk of unauthorised access to critical investee (or other) information leading to financial loss and/or damage in reputation as a result of unscrupulous use of such information.		**Mitigating Actions**: There is an IST Steering committee constituted by various internal stakeholders that ensures that all IT related risk factors are adequately and promptly addressed. This includes ensuring that the following controls are in place: - Infrastructure monitoring tool in place - Disaster Recovery Plans - Physical security - General controls in place such as used of passwords to gain access to the system - Application controls in place - Firewalls - Scan machines for anti-virus software - Penetration testing to see if system is protected from external threats - Mobile Security Policy - Proper system testing and user acceptance testing done for any changes to IT system **Opportunities**: There is an opportunity, currently being explored, of implementing a system based and staged routing process that requires a password at every stage of the process without requiring any manual intervention.		**Social and Relationship Capital**

Strategic Objectives	Risks	Inherent Risk	Mitigating Actions and Opportunities	Residual Risk	Link to Capitals
Advancing BBBEE	**Fraud and Corruption** This is the risk that applicants, investees and employees may defraud the NEF leading to financial loss and reputational damage.		**Mitigating Actions**: - Background checking process on employees and applicants including extensive due diligence process. - Portfolio monitoring of investees which including the review of use of funds is performed by the Post Investment Unit. - A fraud prevention plan which is communicated to all managers and personnel on how to prevent and deal with fraud. - Our Risk Division in collaboration with the Legal Service Unit pursues criminal charges in instances where fraud is identified. - Code of conduct and conflict of interest policy are communicated to all personnel to assist with the understanding of situations of conflict to avoid. - A fraud hotline for internal and external people to report fraud. **Opportunities:** We are in the process of conducting an ethics survey to anticipate the possibility of fraud internally. We also conducted a biannual brand audit to identify perceptions that are likely to expose the NEF to possible instances of fraud.		Social and Relationship Capital
	Reputational Risk There is a risk that the organisation's reputation and brand may be damaged due to inefficient administration of funds managed on behalf of third parties. This risk could also emanate from the association with the third parties in instances where their reputation suffers damage.		**Mitigating Actions**: - There are dedicated, capable and competent individuals within the NEF assigned to manage all third party transactions. - There are memoranda of understanding (MOUs) which govern these relationships and protect the organisation against any matters that do not form part of the agreement. **Opportunities:** With great success in the management of these third party funds, there is an opportunity to increase the number of these funds under management, to earn additional fees and remain operational.		

> “As outlined in this Integrated Report 2018, the NEF continues to point the path on deal-structuring for maximum benefit to black entrepreneurs, investor education, entrepreneurial training, incubation, rural and community development, powering township economies, on mentorship and across the tapestry of its mandate.”

Trade and Industry Minister, the Hon. Dr Rob Davies (NEF Integrated Report 2018)

Strategic Objectives	Risks	Inherent Risk	Mitigating Actions and Opportunities	Residual Risk	Link to Capitals
Maximising empowerment dividend	People Risk There is a risk of loss of key skilled and experienced human resources at all levels of the organisation due to recapitalisation uncertainty, lack of adequate succession planning or lack of a clear career path, all leading to poor organisational performance. There is risk of poor performance of personnel due to inadequate skills.		**Mitigating Actions**: - Ongoing communication with personnel regarding recapitalisation process and liquidity status of the organisation. - The Human Resources Department maintains the organisation's succession plan. - The NEF has an effective recruitment process that facilitates swift replacement of key skills. - There is bi-annual performance management process which identifies and addresses skill inadequacy and provides for training opportunities. - The NEF offers financial study assistance to encourage personnel to improve their knowledge and skills. **Opportunities**: We are striving to create a working environment that seeks to make the organisation an employer of choice for existing and potential employees.		**Human Capital**
Financial efficiency and sustainability	Credit Risk Risk of financial loss as a result of failure of the borrower to honour financial and/or contractual obligations.		**Mitigating Actions**: - There is robust screening process of applications by experienced and trained investment professionals. - The due diligence investigations are thoroughly planned and reviewed by senior managers who also manage performance issues of deal makers. - Investment professionals perform extensive entrepreneurial assessment to ensure that only credit worthy entrepreneurs are funded. - There is an independent credit risk assessment process ensuring that approved transactions are financially viable and free of bias. - There is a background check process performed by deal maker and independently by the Credit Risk Division. - There are properly constituted approval structures that ensure that applications are financial viable and adhere to prudential limits. - There is active portfolio management and monitoring. **Opportunities:** We constantly seek ways to improve credit risk mitigation process through upskilling of personnel and implementation of tools reducing credit risk and improve portfolio quality,thus allowing the organisation to take on additional high risk-high return transactions.		**Financial Capital**

Strategic Objectives	Risks	Inherent Risk	Mitigating Actions and Opportunities	Residual Risk	Link to Capitals
Financial efficiency and sustainability	Market Risk Risk relating to changes in the macro-economic conditions that have an adverse effect in the performance of NEF investees, ultimately having an effect in the overall financial performance of the organisation.		**Mitigating Actions**: - We provide ongoing mentorship to our investees who require assistance including activation of new markets or additional customer base, reducing consequences of market risk. - We restructure transactions in distress due to adverse changes in the market, allowing them an opportunity to recover financially. - We perform sensitivity analysis on a continuous basis to address the effects of market risk before they occur at investee and organisational levels. **Opportunities:** The renewed hope in the economy due to changes in the political environment of the country brings with it an opportunity to facilitate the expansion of existing successful businesses to create additional job opportunities.		**Financial Capital**

Compliance

Regulatory compliance refers to an organisation's adherence to laws, regulations and directives applicable to an organisation. Adherence to laws is seen as critical to success of the organisation. The NEF has a compliance unit under the Risk unit to assist the organisation in identifying and adhering to relevant legislation.

There is a Compliance Management Framework in place to assist us with the implementation of a compliance process. Relevant legislation that needs to be adhered to has been identified. This is done via a regulatory universe which is updated on an annual basis. Training is also conducted with staff to ensure that they are kept abreast with latest changes in legislation that impact on us.

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. There is a fraud prevention plan in place to assist with the prevention of fraud within the organisation. In addition, fraud awareness sessions are conducted with staff during the year, as well as on the code of conduct and conflict of interest policy.

A fraud hotline program managed by an independent service provider in collaboration with the Risk Department is in place to serve as a platform for employees and external stakeholders to report fraudulent activities related to the NEF. All matters recorded via the hotline are investigated and reported to the Audit Committee.

Any identified fraud is reported to the authorities and followed up on a quarterly basis.

> "Having achieved a diverse range of historic milestones since operations began in 2005, the NEF has now reached a critical point where its funding mandate requires urgent recapitalisation for the development financier to be able to implement its mandate unhindered."
>
> NEF CEO, Ms Philisiwe Mthethwa, Integrated Report 2018

Credit Risk Management

Credit risk is defined as the potential that a borrower or counterparty will fail to meet their obligations in accordance with agreed contractual terms and conditions, resulting in financial loss to the credit provider.

The effective management of credit risk is a critical component of a comprehensive approach to risk management and is essential to the long-term success of the organisation. This is the dominant risk within the NEF as a government mandated DFI although the risk has been well mitigated.

Although NEF's credit risk management process forms part of the enterprise-wide risk management process, the core function of credit risk management is to ensure that the funds of the organisation are advanced to entrepreneurs and enterprises that are credit worthy and have proven to have viable business concepts.

The NEF shares the responsibility of credit risk management across various departments as detailed below:

Responsible team	Credit Risk Management actions	Desired Outcome
Investment Team - Interdisciplinary team of financial, technical, community development and legal specialists	• Identify credit risk factors and any mitigating measures on each credit application transaction reviewed as well as concluding on credit worthiness, feasibility and commercial viability of such a credit proposal. • Undertake adequate due diligence investigations confirming existence of mitigating measures and viability • Structure transactions in a manner that reduces credit risk to an acceptable level. • Prepare an approval report that is factual and assists investment committees in making informed credit decisions.	• Letter of decline or informed decision to proceed to due diligence investigations. • Letter of decline or financeable investment report. • Well-structured and priced transactions. • Accurate committee decision.
Credit Risk Division - Division independent of the due diligence and business generating team	• Conducts thorough study of approval reports prepared by the investment teams. • Perform an independent assessment of credit risk for each transaction; and • 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.	• Adequate and independent credit risk assessment. • Credit Risk Assessment report • Accurate committee decision.
Investment Committees - Approval committees evaluating funding proposals in line with delegation of authority.	• Analyse approval reports to ensure that all risks have been adequately addressed. • Make objective decisions on the basis of economic viability and acceptable risk exposure.	• Accurate committee decision. • Approval or decline of funding application.
Post Investment Unit – Division supported by portfolio management committee responsible for managing the portfolio during the life of each transaction and maintaining portfolio risk within acceptable parameters.	• Provide mentorship and support in areas in where the NEF investees lack adequate experience, skills and capacity to successfully run the funded businesses. • Provide continuous monitoring to ensure that the investees adhere to the business plan or address emerging internal risks of the investee that have the potential to affect their liquidity and ability to honour the NEF loan. • Monitor slow paying investees and collect outstanding debts promptly.	• Financially successful business making debt repayment or enhancing the equity value. • Timely intervention and collections • Collections

Responsible team	Credit Risk Management actions	Desired Outcome
Legal Services Unit (LSU) - Unit responsible for ensuring legal compliance in the funding process	• Perform an independent legal due diligence for each transaction. • Draft, negotiate and conclude legal agreements as well other documents with investees and other external stakeholders where relevant, such as suppliers. • Monitor and take appropriate action on investees transferred to the Legal Unit as a result of failure by investees to honour their obligations, including those for which all 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 ensuring all possible avenues to collect or recover debts are exhausted.	• Mitigation of legal risk in a transaction. • Watertight agreements that ensure collection and for LSU to exercise our rights in case of default. • Credit recovery or acting on security. • Credit/Loan recovery
Turnaround, Workouts and Restructure Unit (TWR) – Unit responsible for reviving distressed transactions	• Providing specialist service and intensive monitoring of investees experiencing cash flow or liquidity challenges and similar challenges affecting debt repayment. • Analysing causes of repayment challenges, restructuring of business operations to ease the cash flow constraints and devising turnaround strategies.	• Turnaround of distressed business and/or collection. • Turnaround and collections

Key Credit Risk indicators

The Risk Department tracks the key risk indicators assisting with monitoring and control of potential risks that may affect the overall performance of the organisation. These indicators also include credit risk indicators that should be kept below the organisation's risk appetite and risk bearing capacity. Refer to the CFO's report for an overview analysis of the portfolio.

Internal Rating and Pricing Models

The NEF has developed credit risk rating and risk 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 process and used for portfolio monitoring.

Concentration risk

A deliberate effort is made to manage concentration risk using a number of techniques ensuring that our investment portfolio is well diversified. This risk is managed at marketing and approval stages by ensuring that NEF is marketed and investments are made in all provinces of South Africa and across all sectors of the economy.

Portfolio by sector

The NEF manages concentration risk by ensuring that investments are made across all South African provinces and cover several sectors. Depicted below is the sectoral active portfolio analysis.

SHOTHA ENGINEERING CC "SHOTHA"

Shotha Engineering CC ("Shotha") is a 100% black-youth-owned and managed business established in 2008 with a Level 7GB for General Building/PE, 8CE for Civil Engineering.

It is an integrated construction services provider as well as an infrastructural and modern property development company. In 2008, Shotha was set up by a group of young graduates inspired to contribute to the development of their regions and ultimately the country as a whole. The company grew from strength to strength to be one of the most reliable and highly accountable infrastructural development enterprise deeply rooted in proper business ethics, practices and principles.

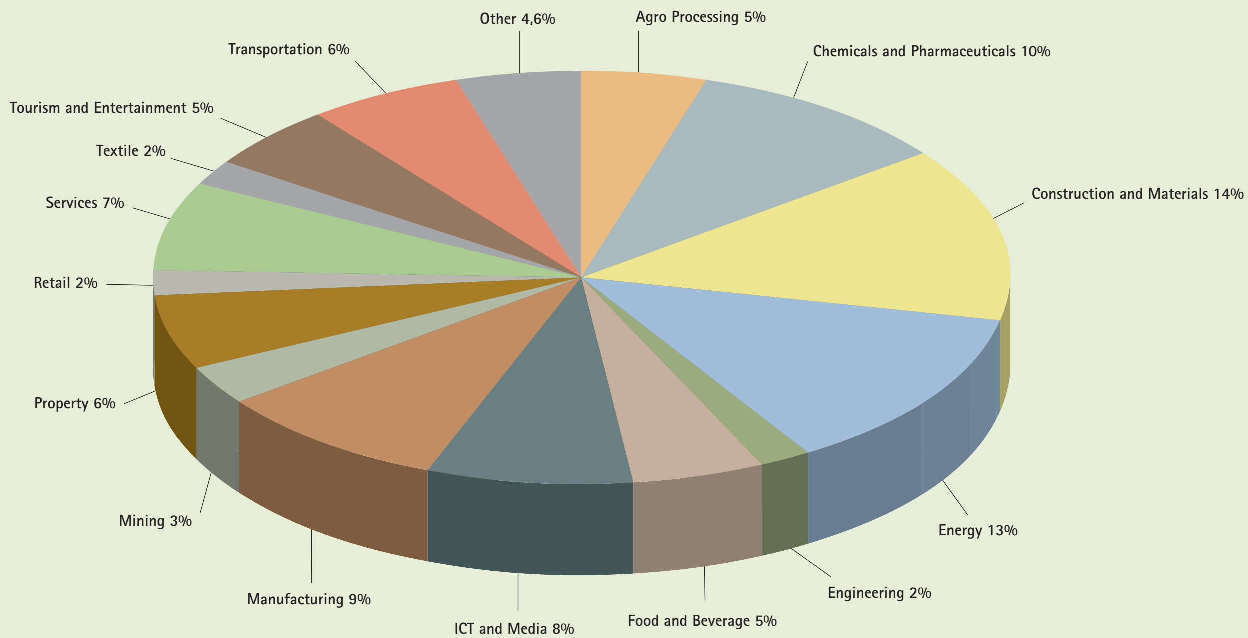
In its nine years of existence Shotha Engineering has accumulated knowledge and experience in construction, civil engineering, mechanical and electrical engineering. The company sources business from both public as well as private entities and has successfully completed projects ranging from R350 000 to R140 000 000. The company is currently engaged in 4 projects.

Shotha Engineering approached the NEF for a revolving loan facility of R15 Million to execute 2 contracts awarded by the Department of Infrastructure and Johannesburg Development Agency to construct a primary school and a clinic respectively. The company currently employs 16 people on permanent basis and through these two projects, 160 temporary jobs will be created. Permanent staff is made up of civil engineers, site agents, human resources specialist, health and safety officers and a team of professional administration staff.

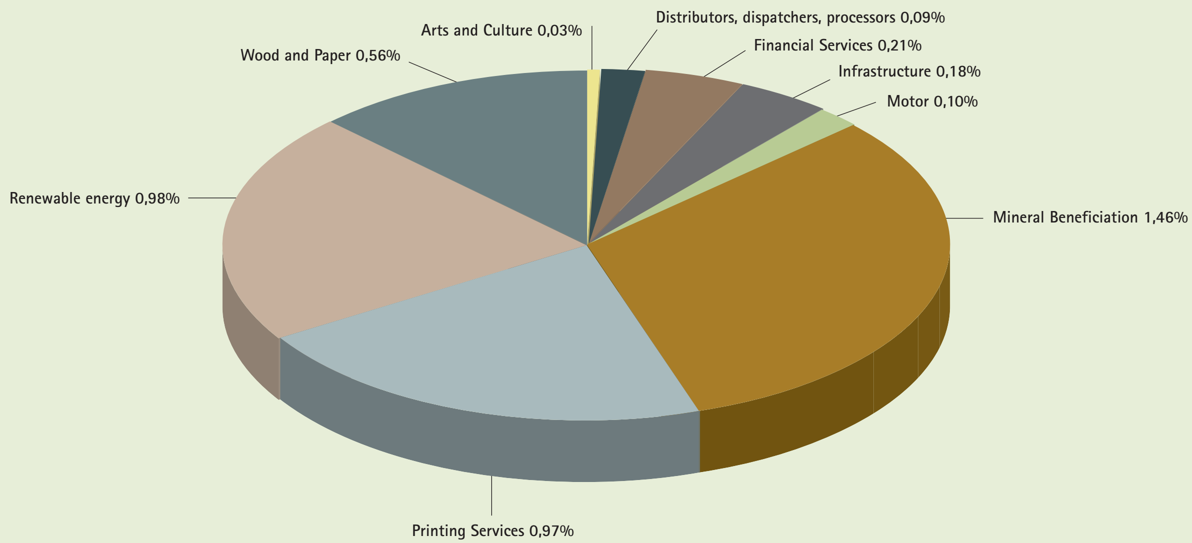
"As at March 2018 the net asset value of the NEF was R5 billion, which means that the NEF has managed to leverage a net appreciation of its assets to the value of R2.5 billion. The NEF has therefore more than doubled the initial capital received from Government."

Trade and Industry Minister, the Hon. Dr Rob Davies (NEF Integrated Report 2018)

Sectoral Exposure



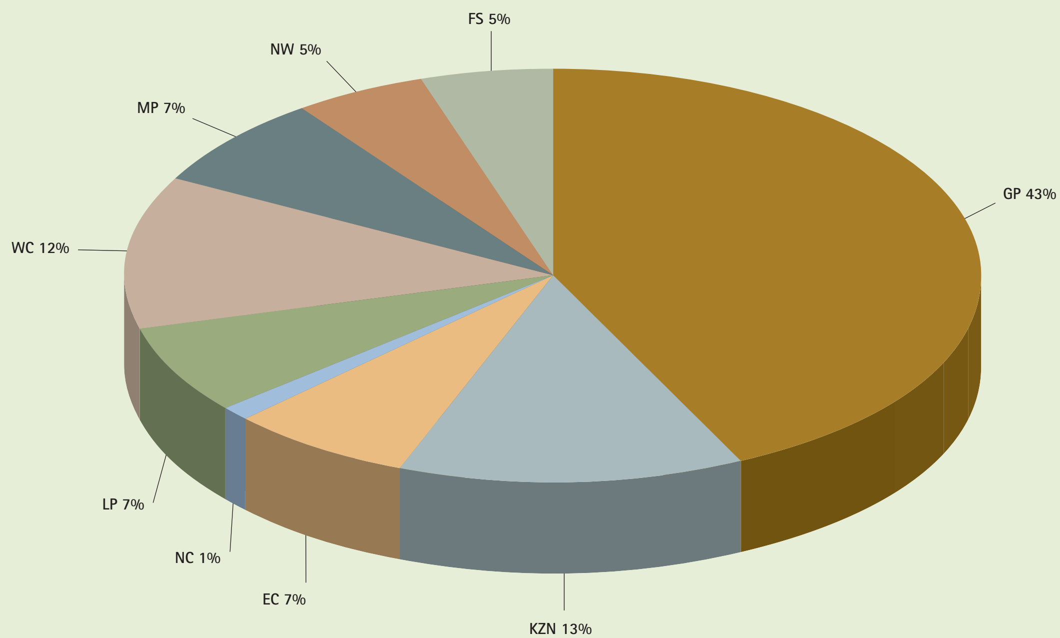
Other



Portfolio by geographical location

Although exposure is high in Gauteng, this is understandable as Gauteng is the economic hub of South Africa.

Exposure per province



The more than 316 investment projects with a cumulative exposure of R3.8 billion in the active 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, limiting the concentration of single investments.

> "B-BBEE is not simply a means to redress the wrongs of the past, but is a pragmatic growth strategy aimed at realising the country's full economic potential. Therefore, embracing B-BBEE is not only the right thing to do, but is also important for sustainable economic growth."
>
> NEF Chairman, Mr Rakesh Garach, Integrated Report 2018

Investee Profile

MENDI RAIL

Mendi Rail and Engineering (Pty) Ltd (Mendi Rail) is a 100% black-owned and majority black-women owned (80%) company. The company has asked NEF to fund feasibility studies towards a local manufacturing plant for concrete rail sleepers and sleeper fasteners. Mendi Rail will establish a manufacturing plant with a 400 000 concrete sleepers per annum production capacity with the creation of 80 permanent semi-skilled and skilled jobs post project completion.

Mendi Rail was awarded a contract to supply rail sleeper fasteners to the Passenger Rail Agency of South Africa (PRASA) following a rigorous multi-stage quality compliance testing process of the company's product. Mendi Rail is currently the sole supplier of fasteners to PRASA since August 2014. As part of the contract Mendi Rail is required to localise its manufacturing and create employment.

Mendi Rail also won the bid from the Transnet Freight Rail (TFR) aimed at transforming the sector and reducing supplier concentration risk in relation to concrete sleepers. This award was specifically for testing of Mendi Rail's own sleepers by TFR. This is a crucial tender award as TFR cannot procure sleepers from any entity without first having tested and approved such sleepers. Mendi Rail's concrete sleeper designs have been approved by TFR, permitting progress to the next stage which requires building of samples for lab and live rail track testing for a period of 6 months. Funding at the project development stage is generally scarce in the market, more so for budding black industrialists.

The NEF has approved a total of R15 million, R12.1 million of which will be in the form of a Venture Capital Loan and R2.9 million was invested so to secure participation interest in Mendi Rail that would be warehoused for B-BBEE entities/groups.

Mendi Rail will require a further R145 million at financial close. The NEF funding will assist to complete the BFS as well as to leverage funding from other funders, particularly **the dti's** grant funding of up to R50 million from the Black Industrialist Scheme (BIS).

"During the year under review the NEF approved 75 transactions worth R634 million against a target of 86 deals worth R600 million."

NEF CEO, Ms Philisiwe Mthethwa, Integrated Report 2018

Chairman's Report

Mr Rakesh Garach
Chairman
Board of Trustees

On the threshold of a new trajectory

Economic overview

The reporting period 2017/18 saw a tale of two economies, one bleak and tentative following the debilitating downgrades of South Africa's sovereign rating during the early half of the year, and the other, the promise of hope and recovery in the latter part of the financial year.

The economy grew by 1.3% in 2017, with confidence peaking following the inauguration of President Cyril Ramaphosa, heralding a new dawn in business and consumer confidence and heightened market appetite for South African securities.

South Africa's growth is expected to accelerate, with the Reserve Bank's 11th edition Economic Update predicting growth of 1.4% in 2018 and 1.8% in 2019, higher than previous estimates of 1.1% and 1.7% respectively.

This is important to drive job creation and accelerated consumer spending, and portends an optimistic outlook for the reduction of South Africa's unacceptably high levels of inequality.

For the National Empowerment Fund (NEF), whose raison d'être is to grow black economic participation in South Africa, the principal preoccupation is how to harness this expected growth for the benefit of black entrepreneurs and communities at large, and indeed how to locate them at the center of this recovery and growth.

In this regard we draw inspiration from Government's commitment to stimulate manufacturing through the localisation programme and in particular through products such as textile, clothing, furniture, rail rolling stock and water meters designated for local procurement, among others. These and more are among the many transactions the NEF has supported, as outlined in this Integrated Report 2018, in order to help develop black entrepreneurs into industrialists.

BEE landscape

Government's historic and intrepid determination to resolve South Africa's legacy of landlessness for the majority of citizens, provides the policy certainty that is necessary to ensure radical economic transformation, inclusivity and growth. Decisive efforts to restore the credibility and efficacy of State Owned Enterprises and the tenacity to fight corruption in the economy, are two among many critical factors that will underpin investor, business and consumer confidence, that will boost economic growth significantly.

Highlights in this Report

Corporate Governance
The centrality of ethical leadership

R9.3 billion
Approved since inception by NEF to fund B-BBEE

13 years running
Number of years of NEF securing clean external audits

The two most important tests that lie ahead for our nascent democracy, and which will influence sentiments greatly, are the resolution of the Mining Charter and the historic matter of land expropriation without compensation. Since the dawn of freedom 24 years ago, socio-economic transformation has continued to unfold at a snail's pace, constituting a risk that stability and growth can ill afford.

As the custodian of the implementation of Broad-Based Black Economic Empowerment (B-BBEE) in South Africa, the NEF took a principled stand as a friend of the court on the legal dispute between the Department of Mineral Resources and the Chamber of Mines regarding the implementation of the mining charter in order to safeguard and uphold the legitimate aspirations of inclusive growth.

At the heart of the dispute is the principle of "once empowered always empowered", according to which some in the private sector want to score BEE points from old equity deals irrespective of whether these have delivered value or not. In our view this makes a mockery of the entire transformation imperative because as a tool to transform the economy into reflecting the demographics of the country, B-BBEE must be a lived experience and not just an accounting feature. When a transformation transaction has taken place, manifest through its consequence must be the tangible economic benefits for black communities, employees and shareholders. As a vital sector of the economy the face of mining has to transform in order to set the pace, form and shape of overall transformation.

This dispute, therefore, points to the continued imperative to see consensus on the essence and methodology of transformation in order to safeguard South Africa's constitutional democracy.

B-BBEE is not simply a means to redress the wrongs of the past, but is a pragmatic growth strategy aimed at realising the country's full economic potential. Therefore, embracing B-BBEE is not only the right thing to do, but is also important for sustainable economic growth.

Cabinet to enable funding of the NEF

With regard to the momentous imperative for the recapitalisation of the NEF, we believe that we stand on the threshold of a new trajectory because for the first time since multi-lateral consultations began in earnest in 2014 between National Treasury, **the dti**, the Department of Economic Development , the NEF and the Industrial Development Corporation (IDC), the recapitalisation of the NEF is expected to be considered by Cabinet soon, and we are confident that Cabinet will assent for the recapitalisation of the NEF by the IDC.

This is important in order to pursue the objectives of the *NEF Act No 105 of 1998* which enjoins the development financier to drive the implementation of B-BBEE through the provision of financial and non-financial support to black-empowered businesses, as well as to promote a culture of savings and investment among black people in South Africa.

Having achieved a wide spectrum of significant milestones since 2005, notably approvals in excess of R9.3 billion to date, the time has now come for the NEF to do more. There is no shortage of applications or viable ideas from black entrepreneurs who wish to contribute to the country's economic growth. Also in place are robust systems, processes and dedicated professionals ready to intensify their patriotic duty in the furtherance of what is easily one of the noblest mandates in the country today.

Corporate governance

In recent times, the sceptre of state capture and breaches of corporate governance in the private sector, notably exemplified by the Steinhoff debacle, have rightly brought corporate governance and the centrality of ethical leadership under sharper focus.

Much like public representatives, members of boards are custodians of institutional trust. They are the ultimate guarantee, the last layer in the architecture of corporate leadership who are charged with the solemn responsibility to ensure that the public interest, and indeed the national interest, reign supreme in the conduct of commerce.

Appointed by the President on the advice of the Minister of Trade and Industry, the Trustees of the NEF are required by law to act with "care, diligence and skill" in order to "acquire, administer and control the assets of the Trust" and to exercise oversight over management.

In this regard I must commend and congratulate the past Trustees of the NEF for having presided over one of the most sterling entities across the public sector, one that has secured clean external audit opinions for 13 years running, attesting to sound controls, financial management acumen and commitment to good corporate governance. The recently-appointed members of the board will find that as they settle in to steer the NEF into its next growth trajectory, they will be building upon a robust foundation, one that must endure and flourish for time to come.

Central to the implementation of the mandate of the NEF is the consciousness to conduct our work with integrity, diligence and foresight, and in this regard the NEF Investment Governance Framework is guided by the Delegation of Authority (DOA) of the various committees with clear and distinct thresholds and policy parameters. In this regard the Board and its committees are guided inter alia by the NEF Act, the principles contained in King III and now King IV, the Public Finance Management Act 1 of 1999, Treasury Regulations issued under the Public Finance Management Act No. 1 of 1999, as amended, and the Protocol on Corporate Governance for the Public Sector of 2002, all as updated or amended from time to time.

In the discharge of its duties and obligations, the Board is assisted by the following subcommittees:

- **Board Investment Committee**, whose principal task is to approve and where required refer for consideration to the Board such transactions for funding delegated to it by the Board in terms of the DOA.
- **Audit Committee**, tasked with assisting the Board in discharging its responsibilities relating to the safeguarding of assets, the operation of adequate and effective systems and control processes, the preparation of fairly presented financial statements in compliance with all applicable legal and regulatory requirements and accounting standards, and the oversight of the external and internal audit appointments and functions.
- **Risk and Portfolio Management Committee**, which oversees the periodic facilitation of risk assessments in order to determine the material risks to which the organisation may be exposed, and to evaluate the strategy for managing those risks.

- **Human Capital and Remuneration Committee**, responsible for reviewing and recommending changes to Board on the human capital policies and procedures applicable to all staff members, as well as to oversee and review principles governing remuneration packages and policies, existing and proposed fringe benefits and any incentive/performance bonus schemes applicable to staff members.
- **Social and Ethics Committee**, whose purpose as the conscience of the organisation encompasses the oversight of social and ethical matters relating to the NEF, including eradication of corruption, good corporate citizenship, promotion of equality, prevention of unfair discrimination, contribution to the development of the communities in which its activities are predominantly conducted or within which its products or services are predominantly marketed, ethical procurement of goods and services as well as care for the environment, health and public safety.

The Board is proud of the men and women of merit and mettle who have served in the various subcommittees over the years, the unsung catalysts who work tirelessly in the background in the quest for inclusivity and excellence. They are the custodians of the NEF's institutional trust. The management of the public funds and the mandate entrusted in the care of the NEF demands no less.

Appreciation

The NEF is both a product of South Africa's past and an important instrument in healing that very past by bringing greater numbers of black entrepreneurs and communities into the economic mainstream. The continued existence of an efficient, adequately resourced, responsive and clean NEF, one that does its work with empathy and fairness, is fundamental to growing jobs, deepening entrepreneurship and contributing to the fortunes of South Africa's national economy.

The employees and management of the NEF have earned their commendation for being true to its values and mission. Government, Parliament, civil society, entrepreneurs, the NEF's enterprise development partners and co-funders also deserve our highest praise and profound appreciation for backing the quest for empowerment and growth.

As we look to the future, certain of riding the crest of the next developmental trajectory, we thank Cabinet in advance for giving black entrepreneurs not only a lifeline, but for affirming the economic citizenship of future generations of black industrialists

Mr Rakesh Garach
Chairman
Board of Trustees

CEO's Report

Ms Philisiwe Mthethwa
Chief Executive Officer

Stimulating Economic Growth Through B-BBEE Funding

Continental overview

At the National Empowerment Fund (NEF) we are driven by the knowledge that if Africa had been destined for perpetual poverty she would not have been so richly endowed with her vast and varied natural resources, an illustrious history as a catalyst of human civilisation, as well as a burgeoning human capital that is becoming both younger and better educated.

As the cradle of humankind Africa is a place that is bubbling with hope, renewal, vigour and promise. With almost 200 million people aged between 15 and 24 years, Africa has the youngest population in the world today. Contrary to global trends, the number of young people in Africa will double by 2045 and if this trend continues, the Continent's labour force will amount to 1 billion people by 2040, making it the largest in the world, surpassing both China and India.

According to a recent report by the McKinsey Global Institute, "future growth is likely to be underpinned by factors including the most rapid urbanisation rate in the world and, by 2034, a larger working-age population than either China or India. Accelerating technological change is helping to unlock new opportunities for consumers and businesses, and Africa still has abundant resources".

As South Africa's economy continues to forge ahead, contending gallantly against myriad challenges, not least a lethargic but promising growth, a dual economy with one of the highest inequality rates in the world, obstinate unemployment levels and more, we choose instead to draw inspiration from the indomitable and resolute spirit that we encounter daily through the tenacity and vision of the many black entrepreneurs who come through the doors of the NEF across the country.

Like the many across our continent, they too bubble with hope, renewal, vigour and promise.

It is the same promise that South Africa will pursue under the stewardship of President Cyril Ramaphosa, who declared recently that: "We must strive together to realise the demand of the Freedom Charter that the people shall share in the country's wealth. It is this demand that stands at the centre of the economic policy of every administration since 1994, to lift the majority of South Africans out of poverty by building an inclusive economy that creates jobs. It informs our focus on transformation, changing patterns of ownership, management and control to benefit black and women South Africans".

Highlights in this Report

R2.4 billion
Capital received by NEF from the fiscus (2004-2010)

R5 billion
NEF net asset value

R10.6 billion
Value of applications received from 1 400 businesses during year under review

Recapitalising the NEF

This **Integrated Report 2018** is a narrative of the ebbs and flows of a Development Finance Institution that once again rose above the trials and tribulations of unrealised recapitalisation, by far the most devastating dilemma for the NEF over the past eight years. Thanks to a robust collections regime, since inception that NEF has harvested over R2.8 billion cumulatively from the loans that have been disbursed over the years to black entrepreneurs across the country, enabling reinvestment in new applications for business funding.

The NEF was capitalised by R2.4 billion in 2005 and has been able to more than double the capital base to about R5 billion through prudence and good governance. The NEF has re-invested collections from loans and allow 927 transactions worth more than R9.3 billion to be approved and a total of R6.3 billion to be injected into the economy.

In the State of the Nation Address of 21 May 2004, then President Thabo Mbeki stated as follows: *"The National Empowerment Fund will announce new financial and non-financial empowerment products within the next three months. In this context, we must bear in mind that Government has provided R1 billion for black economic empowerment during the current fiscal year, with R10 billion provided for over the next five years".*

We are confident that had the NEF received the full capital allocation of R10 billion as stated above, more could have been achieved in the transformation of the country and in growing the participation of black entrepreneurs in the mainstream of the economy, which is the mandate of the NEF.

The NEF's mentorship interventions, as well as successful efforts to rehabilitate businesses in distress, have been very effective in helping to stabilise the operations of investee businesses, thus improving their ability to make good on their loans. Through this pro-active monitoring, approximately 92% of jobs (**1 605**) in businesses in distress that were on the verge of being lost were saved because of our early interventions.

In the period under review, over 1400 black businesses approached the NEF to seek funding of over R10.6 billion for start-up, expansion and acquisition of untransformed businesses. This is double the volume of transactions the NEF had to assess in the year prior. Although over 50% of the value was declined at screening stage, transactions worth about R5 billion went further in the approval processes, and in most instances the NEF had to refer these entrepreneurs to other potential funders due to limited capital available for investment. This is an indication that black entrepreneurs are eager to play an active role in the economy and with adequate resources the NEF can make a huge difference in converting these to active participants in the economy.

A properly resourced NEF, therefore, will have the necessary means and the capacity to respond to the huge demand for business funding among black people.

Whilst the NEF's actual cash as at 31 March 2018 stands at R1.1 billion, there is only R94 million uncommitted cash at hand for new transactions. In order to manage the 2017/18 strategy, approval targets were reduced following representations to **the dti**. For the NEF to discharge the 2018/19 strategy, at least R680 million would be required as cash injection.

> " At the National Empowerment Fund (NEF) we are driven by the knowledge that if Africa had been destined for perpetual poverty she would not have been so richly endowed with her vast and varied natural resources, an illustrious history as a catalyst of human civilisation, as well as a burgeoning human capital that is becoming both younger and better educated. "
>
> NEF CEO, Ms Philisiwe Mthethwa, Integrated Report 2018

Having achieved a diverse range of historic milestones since operations began in 2005, the NEF has now reached a critical point where its funding mandate requires urgent recapitalisation for the development financier to be able to implement its mandate unhindered.

Since July 2014 the NEF has been in discussion with the Industrial Development Corporation (IDC) in a process supported by both **the dti** and the Department of Economic Development. The objective was to find a sustainable and long-term recapitalisation solution for the NEF.

On 14 February last year the Trade and Industry Minister, the Hon. Dr Rob Davies and Minister Economic Development, the Hon. Mr Ebrahim Patel, signed the Memorandum for incorporating the NEF as an IDC subsidiary. Subsequently, the Board of the IDC approved a facility of R500 million for the NEF in March 2017.

The IDC's conditions precedent before the facility may be disbursed to the NEF include Cabinet approval, which the NEF is confident will soon materialise. Secondly, disbursement will require a Section 66 approval by National Treasury in terms of the PFMA for the NEF to be accorded limited borrowing rights, which is presently precluded by the classification of the NEF under the Act.

Operational milestones during the year under review

Despite the protracted challenges to finally secure recapitalisation, the targets for approvals, commitments and disbursements were revised downwards in line with uncertainty regarding recapitalisation, and this was approved by the previous Board and the Minister of Trade and Industry, and reported subsequently to Parliament's portfolio committee on Trade and Industry.

- During the year under review the NEF **approved 75 transactions** worth R634 million against a target of 86 deals worth R350 million. Even though the NEF was 11 transactions shy of the volume target, we are pleased to have approved lesser rand-value transactions at an average of R8.4 million per transaction last year, versus approximately R12 million per deal in the year prior. What this means is that the NEF is stretching the rand from limited resources to reach as many entrepreneurs as possible.
- The targeted value was exceeded by R284 million essentially because of the obligation to respond to high market demand.
- **Total commitments** of R740 million were achieved, which includes commitments of R219 million from the partnership with the Department of Rural Development and Land Reform (DRDLR), in terms of which the NEF implemented the department's 50-50 programme of securing co-ownership of designated farms for the benefit of farm workers and communities. For NEF-specific transactions, commitments amounted R521 million against a target of R475 million, which exceeded target by 9.7%.
- Our **Annual Disbursements** amounted to R683 million, which includes DRDLR disbursements of R272 million. For NEF-specific transactions disbursements met 82.2% of the target, amounting to R411 million against a target of R500 million.

- In accordance with national priorities, job-creation remains central to the NEF's purpose, and in this regard the NEF supported 3 609 job opportunities (2 539 are new) versus a target of 3 077, outstripping target by 17%. This brings total job opportunities geared to be supported since inception to 95 798 of which 65 359 were new.
- In terms of **portfolio management**,
  - Impairment stood at 15,4% at year-end, versus a target of 18%.
  - The return on investment stands at 8.3% which is below target due to lower interest income.
  - Because of robust resolve the collection ratio is at 142.5% versus a target of 80%.
  - We can point to 38 successful exits at times money back (TMB) of 1.24 against the prior year TMB of 1.41.
  - Through the facilitation of turnarounds, business rescues and restructures a total 1605 jobs were saved.
- In respect of the need to advance the frontiers of **black women empowerment**, the NEF disbursed 35% against a target of 40%. While this important target eluded us during the year under review, these outputs are higher than last years', and represent an optimistic and determined effort to reach the 40% mark. To drive this important

objective the NEF continues engaging with organisations representing women in business, to optimise dealflow.

- In respect of the commitment to developing black industrialists we saw three key investments progressing to construction phase. These are:
  - the **Graskop Lift Company**, a majority black-owned enterprise that has received R33.4 million funding from the NEF for the purpose of driving tourism development in the Panorama Tourist Route in Mpumalanga Province. The company is behind the construction of an outdoor lift attraction into the Graskop Gorge and Retail Centre, which opened in December 2017. The outdoor lift system ferries people up and down the cliff face into the forest environment below, where about 500 metres elevated walkways and ground walkways allow visitors to explore the spectacular sights of the area. This transaction is profiled on page 68 of this Integrated Report.
  - **Salamax** is a R10 million beneficiary of NEF funding. Located at the North West University, the company has developed a second-generation biofuel process using grass and leaves to produce ethanol and its own electricity, through a locally-developed technology invented by the project sponsor. The process offers significant advantages over conventional methods that are currently in use, and is highly cost effective, offering significant job creation potential. The Salamax project is currently at pilot plant construction phase and requires R1.3 billion in order to reach financial close.
  - **Jalo Renal**, which operates in the manufacture of medical technology is a black-woman-owned company that will soon revolutionise the treatment of kidney disease by becoming the first South African company manufacturing dialysers to help filter the blood in the same way that kidneys do. The project seeks to establish a Hollow Fibre Dialyzer Manufacturing Plant with a capacity to produce 1 million dialysers per annum. The project will also produce other haemodialysis products such as dialysates, dialysis kits and others. The NEF has invested just under R10 million to complete the bankable feasibility study. As production begins, Jalo will service both the local and export markets in a business valued at over R160 million at financial close.

> “We believe there is still strong and legitimate rationale to support the idea of a bank that is owned, managed and controlled by black people with the primary intention and focus to develop and provide financing and a hybrid between a formal bank and a DFI with a clearly articulated developmental mandate.”
>
> NEF CEO, Ms Philisiwe Mthethwa, Integrated Report 2018

In total the NEF can point to 27 strategic and industrial projects worth R27 billion, with the potential to support over 85 000 jobs. The NEF is exceedingly proud of the work accomplished in this space because it supports the rise of black industrialists, directly.

- Portfolio collections for the year stand at R469 million compared against R427m the year prior, registering an increase of 9.8%.
- Active portfolio management by the regional offices helped in the total collection of R63 million, which represents a 106% collection rate.
- In relation to geographic activity the NEF can report that in the current year, Gauteng comprised 41% of the disbursements, which is a great improvement from years prior when the disbursements in Gauteng were accounted for at 60% in 2008/9.

Accordingly, the NEF has now achieved significant funds disbursements in the Northern Cape, Free State, Limpopo, Mpumalanga, Eastern Cape and the North West, which represents 36% versus a target of 25%, amounting to R162 million.

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

- Rural and Community Development remains a cornerstone of the NEF's development and funding philosophy, and we are pleased that since inception, rural deals are geared to empower 33 communities and over 1.9 million individuals. Since inception, this fund has spearheaded the investment of over R238 million in seven rural and township shopping centres. This leveraged an additional R662 million co-investment by the private sector. A total 9,859 jobs were created with 5,087 of those being direct jobs and the balance indirect during construction

> "This Integrated Report 2018 is a narrative of the ebbs and flows of a Development Finance Institution that once again rose above the trials and tribulations of unrealised recapitalisation, by far the most devastating dilemma for the NEF over the past eight years."
>
> NEF CEO, Ms Philisiwe Mthethwa, Integrated Report 2018

- Another important area of work where the NEF has recorded a significant improvement is in **Internal Audit**. The Auditor General's dashboard indicates that the NEF control environment is fully compliant. We have not only been able to implement controls, but we have also ensured that such controls are adequately designed and that they operate effectively. At last year-end 23 audit findings were outstanding, and only 1 of these findings was significant and past the due date. This highlights Management's commitment to resolving audit findings.
- The **IST governance framework** continues to be entrenched through the steering committee as well as policy and Standard Operating Procedures. The Approved Governance Framework has continued to be entrenched and improved, while IT security enhancements are also best of breed.
- In terms of Preferential procurement from black women-owned businesses it gives us pleasure to report on at 30.3% achieved versus a target of 20%. Procurement from black businesses stands at 69.6% versus a target of 65%, and is higher than last year's showing of 64.8%, while 39% was procured from Exempted Micro Enterprises compared to 32% in 2017.
- **Entrepreneurial Development** has continued to gain momentum, with 19 Business Today training sessions having been provided countrywide against a target of 18 training sessions with a total 376 delegates, the majority of them being women in disadvantaged areas, attending the sessions.

The NEF referred 101 entrepreneurs for business incubation and 13 entrepreneurs were successfully incubated against the target of 75 referrals and 15 entrepreneurs in the final incubation stage.

- On the **socio-economic development** front, we completed 58 sessions comprising 49 investor education seminars and 9 industrial theatre performances to drive home the message of saving and investments among black people, especially in rural and peri-urban communities. In the last year alone, this important campaign reached 12 548 people in total.

Since inception in 2007 the Investor Education drive has reached over 40 000 people in villages and townships through 200 community seminars.

Social facilitation was extended to 49 NEF and DRDLR transactions. These transactions will benefit over 2 million lives.

- **Enterprise and supplier development** inroads have seen the NEF attract contributions of R85 million raised in the current year versus a target of R75 million. Our partners are:

- The Western Cape Department of Economic Development,
- The Department of Tourism,
- The Department of Arts and Culture, and
- Nissan

Human Capital – the jewel in the crown of the NEF

The achievements outlined above have been made possible by the fact that the NEF is an academy of excellence. Below is a breakdown of the NEF's professional core:

- 17 Chartered Accountants together commanding over 134 years of experience.
- From a compliment of 161 staff members, 11 hold Masters' degrees.
- The NEF employs 4 Engineers, together with over 60 years' experience.
- 20 employees hold Honours degrees and 46 hold Bachelors' degrees.
- The NEF employs 9 Admitted Attorneys,
- And as a learning organisation the NEF is committed to driving the advancement of support and entry-level staff, and over the years many have acquired their matriculation, and have acquired a range of additional qualifications.

As an organisation with a future, the average age of the NEF is 38 years, placing the development financier in step with age and educational trends across the continent.

The one challenge that the NEF has faced over the years has been aggressive poaching by organisations with deeper pockets, and indeed delays in securing recapitalisation have presented challenges in the retention of professionals who possess rare and much-sought-after skills in the financial services sector.

Thought leadership

The NEF invests significant time, energy and intellectual capital in seeking to understand and impact on the various sinews of its mandate, including clinical analysis of the different sectors of the economy, macroeconomic fundamentals, corporate behaviour in implementing the black economic empowerment project as well as the broader policy spectrum affecting the transformation milieu.

That is why together with fraternal bodies such as Association of Black Securities and Investment Professionals (Absip) and the Black Business Council, the NEF has been vocal in respect of the need to establish a black-owned bank. We believe the prospect of a black-owned bank is important in order to address the market failures encountered by black entrepreneurs in working with commercial banks.

- In general the banks will not provide term loans without physical security that gives the bank the cover of at least 100%. There has to be collateral in equal value to the loan.
- Banks are reluctant to provide loans to start-up businesses even when SMMEs have obtained Government contracts, especially if they do not have the necessary track record. Banks rely on how their clients have been conducting their bank accounts and other credit lines.
- In many instances small businesses, especially at start-up stage, require equity capital, however, banks only provide secured loans on the back of a strong track record. Owing to the fact that banks do not provide equity, it means that there is a shortage of this form of financing for small businesses that require patient and innovative capital.
- The above exclusions also apply to existing businesses, especially SMMEs that require equity capital to grow. Debt provided by commercial banks is exceptionally restrictive and imposes onerous obligations on SMMEs that require capital and hence this stifles growth.
- Banks have also in the past engaged in practices that undermine Government funding initiatives on SMMEs. For example, the unsuccessful Khula guarantee scheme that was aimed at encouraging banks to lend money to high-risk SMME clients did not work because banks only funded high-risk SMMEs if their debt is guaranteed. All good low-risk SMMEs were funded using their normal instruments and channelling the high-risk SMMEs through the guarantee scheme with Khula.
- Banks do not provide non-financial support such as business-planning support or mentorship. They rely on the security in a form of collateral. Even in instances where SMMEs have a guaranteed contract, banks are unlikely to provide funding unless a client provides collateral, and we believe that a black-owned bank, mindful of the economic history of black people, would assume a more patriotic posture by being more sympathetic to the aspirations of inclusive growth.

In the NEF's submission to Parliament's Standing Committee on Finance's (SCOF) public hearings on the Transformation of the Financial Sector in March 2017, the NEF recommended various options in establishing the black-owned bank.

Among these was for the Government to identify one of the existing smaller banks and to introduce products and services that meet the needs of black people, and to enhance competition and further complement current market offerings. Mercantile Bank was identified as an example of a Bank that could be targeted for acquisition and scaled up to provide services to the target market as a black-owned bank.

Alternatively, the Government could start a new bank from scratch which would provide affordable products and services that meet the needs of the target market such as business finance, home loans and savings products, amongst others.

Regrettably, a range of local and international private sector contenders may be in the process of acquiring the bank, with several non-binding offers having been received by the bank.

For the NEF this may be a lost opportunity for the country to establish a black-owned bank with a national infrastructure.

Overall, the NEF's recommendations provided the potential to enable the financial sector to drive the 3%+ in economic growth, and therefore to propel the country closer to fulfilling the vision of B-BBEE policy and the National Development Plan.

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

We believe there is still strong and legitimate rationale to support the idea of a bank that is owned, managed and controlled by black people with the primary intention and focus to develop and provide financing and a hybrid between a formal bank and a DFI with a clearly articulated developmental mandate.

Acknowledgements

Management is grateful to the staff of the NEF for the results reported herein, and values the continued partnership of the transformation fraternity, which has continued not only to lobby for the recapitalisation of the NEF, but indeed to strive indefatigably for inclusive growth.

The development outcomes of the year under review are also attributable in large measure to the wisdom of the Chairman, Mr Rakesh Garach, as well as the Board of Trustees, for their support and guidance. We look forward to the counsel and leadership of the newly-appointed Board of Trustees, which comprises men and women with reputable track-records.

The NEF and its family of investees are especially thankful to Minister Rob Davies and **the dti** for consistent and unwavering support in guiding the NEF continue delivering on its mandate, and for keeping hopes for recapitalisation alive.

We express our immense gratitude to the Honourable Chairpersons and Honourable members of the Portfolio Committee on Trade and Industry as well as the Select Committee on Trade and International Relations for their valuable oversight on the implementation of the mandate of the NEF.

The NEF also values the many black entrepreneurs and co-funders who have continued to choose the NEF as their preferred partner in economic development and transformation. It is through you that the NEF stimulates economic growth through B-BBEE funding

Ms Philisiwe Mthethwa
Chief Executive Officer

Adorned in African regalia, the NEF bade farewell to the departed national heroine, Mama Winnie Madikizela Mandela, whose biographical movie, Winnie, the NEF co-funded in 2012.

CFO's Report

Ms Innocentia Pule
Chief Financial Officer

Finance Report

New Developments and Updates

The Group results include four subsidiaries namely, Zastrovect Investments (Pty) Ltd (trading as Goseame Open Market - Goseame), Delswa (Pty) Ltd, Surgetek (Pty) Ltd and National Empowerment Fund Corporation SOC Limited (NEFCorp SOC Ltd). Surgetek is a new addition to the group following a decision made after a business rescue process that was finalised on this investment during the financial year. These entities are briefly described on page 8.

Management still intends and is working on disposing of Goseame. It has however taken longer than anticipated, as a result, an application to extend the PFMA section 92 exemption has been made with the National Treasury. The Delswa group was restructured during the 2017 financial year, in preparation for its disposal before the set 2019 deadline. Management intends to also dispose of Surgetek once it is stabilised enough to attract suitors. The accounting treatment for these three entities has remained the same (i.e. limited consolidation based on IFRS 5, while we previously applied GRAP 100). The change in the accounting standard being applied was mainly driven by recent modifications made by the Accounting Standards Board (ASB) to GRAP 100.

NEFCorp continues to be fully consolidated in terms of GRAP 6.

Due to the immaterial net contribution to the Group results from all these subsidiaries, my report will only focus on the performance and financial position of the Trust.

> "The muted and significantly inadequate GDP growth of the South African economy at 1.3% in 2017 compared to the required 5% per the NDP, was largely reflected in NEF's 1% year on year growth in development assets."
>
> NEF CFO, Ms Innocentia Pule, Integrated Report 2018

Highlights in this Report

Portfolio impairment provision

15.4%

(12% down from 2017)

IT General Controls audit achieved a "Good" rating first time

69.6% **procurement from black controlled entities**

(Up 4.8% from 2017)

Financial Performance Overview of the Trust

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

Table 1:

Rm	5 year CAGR	5 year average	Annual Growth	2017/18	2016/17	2015/16	2014/15	2013/14
Financial Position								
Cash and Cash equivalents	-5%	1,365	-16%	1,134	1,345	1,419	1,448	1,480
Investment in development activities	2%	2,421	1%	2,569	2,537	2,369	2,344	2,284
Financial market assets	-11%	1,664	-3%	1,248	1,287	1,412	2,116	2,254
Other assets	30%	34	1069%	51	4	92	6	14
Total assets	**-4%**	**5,483**	**-3%**	**5,003**	**5,173**	**5,292**	**5,915**	**6,032**
Liabilities	38%	195	-27%	281	386	188	63	56
Trust capital and reserves	-5%	5,288	-1%	4,722	4,787	5,104	5,852	5,976
Total liabilities and equity	**-4%**	**5,483**	**-3%**	**5,003**	**5,173**	**5,292**	**5,915**	**6,032**
Financial Performance								
Interest on development activities	4%	212	9%	231	212	206	218	193
Interest on cash investments	-1%	80	-13%	73	85	83	83	76
Total interest	**2%**	**292**	**2%**	**304**	**297**	**289**	**301**	**269**
Dividends from development activities	15%	7	1441%	15	1	7	7	7
Dividends from financial market assets	-8%	105	-2%	73	75	137	130	109
Other income	-3%	39	-65%	18	52	101	3	20
Profit/ (loss) on disposal of investments		13	-100%	-	8	58	-	-
Total income				**410**	**432**	**591**	**440**	**405**
Impairments (including write offs)	7%	250	-10%	217	240	445	196	152
Fair value gains/(losses) on development assets	-212%	-20	-122%	32	-145	60	-28	-18
Income after credit impairment charges and fair valuations				**226**	**48**	**206**	**217**	**235**
Operating expense	5%	227	5%	251	240	237	206	200
Operating surplus/(deficit) for the year				-26	-192	-31	11	35
Fair value gains/(losses) on listed equities	-158%	-89	-69%	-39	-125	-716	-135	569
Surplus/(deficit) for the year	-164%	-130	-80%	-65	-317	-747	-124	604
Financial Ratios								
Cash and Cash equivalents to total assets		24.9%		22.7%	26.0%	26.8%	24.5%	24.5%
Net Return on assets		-2.7%		-1.3%	-6.1%	-14.1%	-2.1%	10.0%
Return on investment (before impairments)		8.8%		8.3%	7.8%	9.5%	9.4%	8.8%
Return on investment (after impairments)		-0.7%		1.2%	-0.5%	-3.5%	15.4%	-16.1%
Operating expenses to income		50.7%		61.3%	55.7%	40.2%	46.9%	49.2%

The muted and significantly inadequate GDP growth of the South African economy at 1.3% in 2017 compared to the required 5% per the NDP, was largely reflected in the NEF 1% year on year growth in development assets. This muted net growth in the portfolio was mainly driven by three factors, namely, continued great portfolio collections (up 9% year on year if equity investment sales are excluded), muted disbursements during the year which only saw R445 million being disbursed against R767 million being disbursed into the economy in 2017 and net write off of assets of R62.8 million for the year.

Whilst the NEF continued to deliver a healthy level of commitments, lower disbursements were mainly as a result of conditions precedents that took longer than anticipated. In some cases, where we had co-funded transactions, our partners were required to inject funds ahead of us as part of our risk mitigation process. Once these disbursements are made in ensuing years and the economy performs better as largely anticipated by the market, we expect our development portfolio to continue the growth trajectory it has shown over the past few years. It should however be noted that the compounded growth in our portfolio since 2013 at 2.4% is materially higher than the recorded average GDP growth over the same period of 1.2%. It is pleasing to note that the cost per job for the year was about R113 800, against a target of R162 500. It is also worth pointing out that despite the muted growth in investments, interest earned on these assets has increased by 9% year on year.

This growth in our main income line has resulted in an 8.3% reported return on investment (ROI), which is a 50 basis points up of prior year's 7.8%. Whilst the current ROI is 170 basis points lower than the closing prime lending rate at year end, the improvement in ROI year on year is encouraging as average lending rates have in fact declined by 20 basis points between the 2017 and 2018 financial years. These levels of returns continue to highlight the need for the NEF funding mix to have some element of concessionary pricing, especially given the significant socio-economic benefits derived from NEF activities – as demonstrated in the performance highlights and the performance overview sections of this report. Total interest income (i.e. including interest earned on cash reserves) has increased by 2% year on year. The growth in interest income was muted by the interest earned on funds held on behalf of DRDLR being capitalised during the year.

We have further seen an encouraging growth in dividends earned from unlisted shares, mainly led by the dividends received from Ithuba Holdings (R12.7 million). This increase in interest income was however not enough to make up for the decline in fees (mainly due to lower new disbursements made in the year) on unconditional enterprise and supplier development (ESD) contributions from third parties. At R73 million, dividend income from listed equity holdings (especially MTN) has remained fairly constant year on year.

Dividends from MTN are anticipated to decline (by about 200 cents per share from the current 700 cents per share) over the short to medium term following MTN's announced intent focusing on a capital expansion drive and on reducing debt over that period.

MTN has however assured the market that they will gradually stagger up their dividend pay-out by between 10-20% over next three to five years. Overall, total income was 5% down year on year.

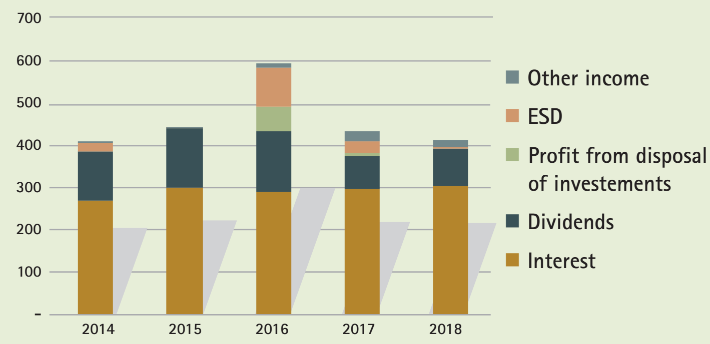
The reduction in total income, combined with the increase on operating expenses contained at 5% (110 basis points below CPI), resulted in an increased cost to income ratio of 61.3% (55.7% in 2017). The reported cost to income ratio has unfortunately broken the upper end of our long term target range of 54-58%. Management has worked tirelessly to ensure expense growth is limited, as demonstrated by a compounded growth in expense at 5% over the past five years fairly in line with average CPI growth reported for the economy over the same period.

Management is therefore continuing to explore ways of enhancing income sources to a sustainable level. Figure 1 below shows how the income mix has changed over the past five years. The graph shows 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. In line with the nature of our business and our instrument mix, interest income has continued to be the core source of income, comprising on average about 70% of total income over the period (i.e. excluding 2016 where we saw a much varied income mix than the norm).

Dividend income has remained stagnant over the last year, while unconditional ESD income has materially reduced since 2016. 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 good in light of the pressures around income growth.

Figure 1: Income mix



Despite continued tough economic conditions, impairment provisions and write off charges have continued to be managed down, with the NEF reporting at R217 million, a 10% reduction in these charges for the year. This total charge represents net write offs at R62.9 million (R26.7 million in 2017), while impairment provision charges were at R153.7 million (R212.9 million in 2017). Our assessment of the portfolio as reported in 2017 proved to be accurate with the portfolio impairment ratio continuing to improve as will be demonstrated in the next section.

It is key to point out that the NEF has consistently delivered a surplus after impairment and write off charges as well as following fair valuation movements of all its unlisted equity investments. In particular, the NEF reported net income of R226 million before operating expenses and fair value movement on listed equity investments. In the recent five years, the NEF recorded a net surplus of R931 million.

As a schedule 3A entity, if government had continued to make annual contributions towards operating expenses (including non-financial support programmes as part of the NEF mandate), the balance sheet of the NEF would have grown by over R1.7 billion (34% potential increase to the financial position) since 2010.

These resources would have been used to support the core NEF mandate, in providing financial assistance to black business. Since the NEF has had to fund its operating expenditure as well, a net operating deficit of R26 million was reported during the 2018 financial year (R192 million in 2017).

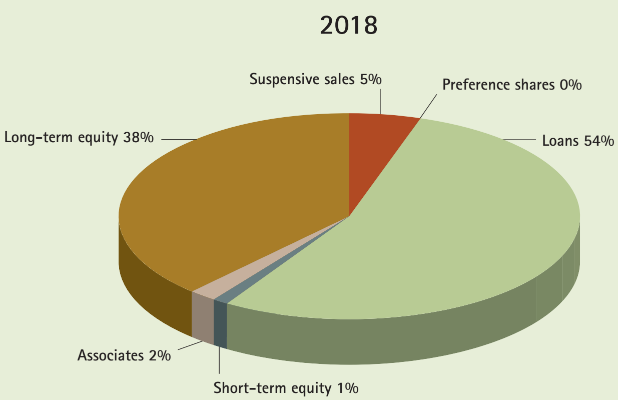
The last item impacting our net performance, is the fair valuation of listed equity holdings (mainly driven by the MTN shares), which as demonstrated in table 1 above, have resulted in material unrealised fair valuation movements in the recent past. During the 2018 financial year, a net unrealised fair valuation movement of R39 million was reported, resulting in a net deficit of R65 million for the year.

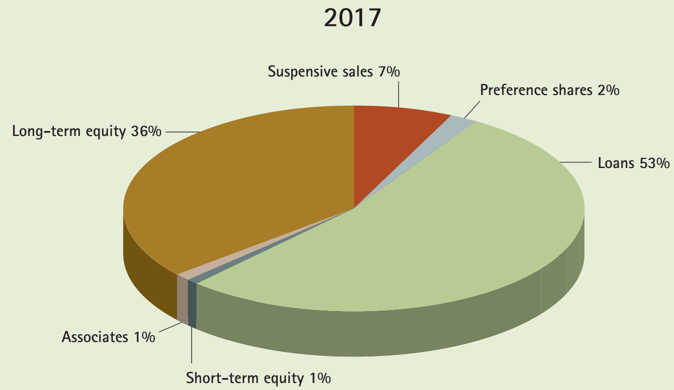
Sustainability of our Portfolio

Figure 2 indicates that interest bearing lending remains a focus for the NEF. Originated loans, preference shares and suspensive sale advances have remained steady at 59% compared to 61% in 2017. The slight decline is mainly due to reasons provided earlier around the growth in development assets as well as a material increase in the fair valuation of one unlisted investment in the healthcare sector during the year.

The portfolio skew in favour of non-equity instruments provides 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)





The collection ratio (measured as receipts as a percentage of instalments raised) at 142.5% has increased from the prior year's 101.8%. Total collections and disposal income on the portfolio at R468.7 million is 5.3% higher than total portfolio collections made in 2017. With equity disposals excluded, pure portfolio collection is 9.1% higher than the prior year. This is testament to active portfolio management ensuring over R2.8 billion is collected from our invitees since inception. Portfolio impairment provisioning in the year further reduced to 15.4% from prior year's 17.5% mainly as a result of continued active portfolio management as well as making gross write offs of R299.4 million during the year. (R502.4 million in 2017).

Management will however continue pursuing the legal processes for bad debt recovery where applicable. Fair value movements on unlisted equity positions resulted in an unrealised gain of R32 million against a loss of R145 million in 2017. As reported, the unrealised loss in 2017 was mainly as a result of one venture capital investment made in the renewable energy space - while the gain this year was mainly driven by another venture capital investment in the healthcare sector following an expansion programme embarked on.

Information Technology (IT) Management

Our governance framework around IT continued to be entrenched and enhanced during the year. One of the key milestones we were aiming to achieve in the 2018 financial year related to the automation of our processes following a thorough business re-engineering where our intended state processes were workshopped with business and documented. During the pre-planning stage of implementation of that automation project, we were enlightened of the danger in automating processes 'in a vacuum', when a proper assessment of the organisation's Enterprise Architecture (EA) has not been bedded down. The intention of an EA is to determine how an organisation can most effectively achieve its current and future objectives, more specifically relating to IT, to ensure that IT can efficiently support the organisation in achieving those business objectives. We are therefore in the process of procuring services of an advisor that will assist in defining that blueprint for the NEF.

Investee Profile

AFRI-DEVO

Afri-Devo (Pty) Ltd is a 100% black-owned company operating in the construction and property development sector. Based in Kimberly the business is actively involved in property development and civil construction works, with their main focus being property development. Their property development projects range from commercial, residential and affordable housing.To date, they have completed projects worth R253 million for both property development and civil construction.

Afri-Devo approached the NEF in June 2016 requesting funding to the tune of R15 million to fund the completion of Phase 1 of "The Palms" residential property development. Phase 1 entailed the development of 75 units, a Lifestyle Centre, boundary wall, installation of the security gate, carports, and the paving around the completed areas. The total project cost for Phase 1 amounted to R53.8 million, of which R38.8 million had been invested by the client using their own resources. It is important to highlight that at the time of approaching the NEF, the transaction was not ready for funding as the market demand had not been fully demonstrated. The NEF continued to engage with the client to assist in providing guidance on elements that would render the project feasible. The project was finally progressed after the client presented the pre-sales of 88% of the units developed for Phase 1.

The construction of Phase 1 resulted in 122 temporary jobs, while Afri-Devo employs 41 staff members on a permanent basis. The NEF seized the opportunity to support a black property developer operating in a predominantly white controlled industry, with the aim of providing access to housing for the middle income earners around Kimberley, who have thus far been excluded due to the high cost of land and residential properties.

> "The NEF also values the many black entrepreneurs and co-funders who have continued to choose the NEF as their preferred partner in economic development and transformation. It is through you that the NEF funds the beloved nation."

NEF CEO, Ms Philisiwe Mthethwa, Integrated Report 2018

Three major projects that we worked on during the year were firstly, the improvement of bandwidth infrastructure of head office and all our regional offices to enhance efficiencies.

The second one is where we partnered with the Pre-Investment unit ensuring the developers follow our project management framework. This was to ensure consistent quality delivery of the product and that proper documentation (i.e. coding, testing cases as well as training manuals) is developed as various modules of this toolkit are being finalised.

Lastly, we conducted a needs analysis and benchmarking exercise allowing us to invigorate and enhance our video conferencing facilities. This project is currently at implementation stage. We are especially proud that IT has for the first time expressly demonstrated the value-add of all projects and technology investments made in the last four years. These include:

- The migration from an owned to a leased printing solution for the organisation, resulting in 20% cost savings per month on printing equipment leasing costs;
- Cloud backup and recovery solutions assisting in limiting the capital investment in IT infrastructure;
- Voice Over Internet Protocol implemented in 2015, resulting in approximately 20% average annual decline in telephony costs; and
- Approximately 40% reduction in annual Vodacom expenditure being realised through the NEF migrating our data packages to the Supply and Delivery of Mobile Communications Services for the State contract that was facilitated by the National Treasury.

We are also pleased that a strong control environment in IT continues to be maintained, with four (prior year one) audit findings outstanding at year end. Two of these findings were however not yet due at year end, the other two, remained partially resolved as management had underestimated the time it would take to fully resolve.

Especially gratifying is that we managed – for the first time – to attain a good rating for the IT General Control audit, from prior weak rated reports in the past five years. This allowed internal audit conducting an applications control audit finalised after year end and pleasingly resulting in a moderate rating.

This excellent progress will stand the organisation in good stead to start a conversation with external audit to consider conducting control-based audits in future. This will make audits more efficient and result in cost savings for the NEF. We remain committed to ensuring stability of the IT systems, with 99.6% (99.3% in 2017) system availability attained during the year as well as securing our IT environment with regular penetration testing and annual health checks, as well as constant monitoring of both our IT infrastructure and applications.

The IST team is always looking for better ways to efficiently enhance the organisation's security. We have, for instance, developed policies around 'bring your own device' and a security policy. In addition, we have deployed a tool assisting IST to efficiently manage mobile devices connected to our environment and which would allow NEF data to be remotely wiped off devices in case of theft and/or loss.

Supply Chain Management

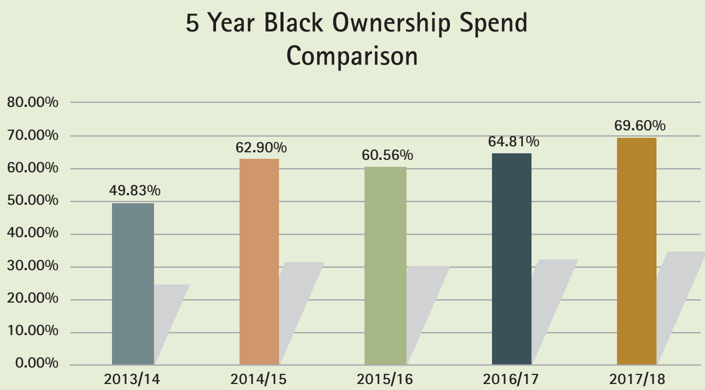
The NEF issued twelve (five in 2017) public tenders, three of which were cancelled due to various changes in business needs. Three tenders were awarded, while six are in various stages of evaluation and one tender has not yet closed. These tenders were evaluated against the process set out in the NEF Supply Chain Management Policy, the National Treasury Supply Chain Management Regulations and Preferential Procurement Policy Framework Act and all other relevant practice notes.

The NEF, by virtue of its mandate to support and promote enterprises owned and managed by black people, focuses its efforts on identifying and procuring from businesses that have significant black ownership and whose owners are operationally involved in the management of the businesses. Furthermore, the NEF emphasis on developing black owned emerging businesses in targeted sectors is underpinned by specific targets set in this regard in the annual business plan of the Supply Chain Management Department.

The NEF total procurement for the year was R 61.4 million from 336 suppliers. 69.6% of our procurement expenditure was with suppliers with black ownership of between 50.1% and 100%. This is a great achievement as it is against a target of 65% and represents a 4.8% increase from prior year. Had we set our target in line with the market including black influenced (i.e 25,1% - 50% black owned) businesses our statistics would be revealing that 70% of our total procurement was from black empowered businesses.

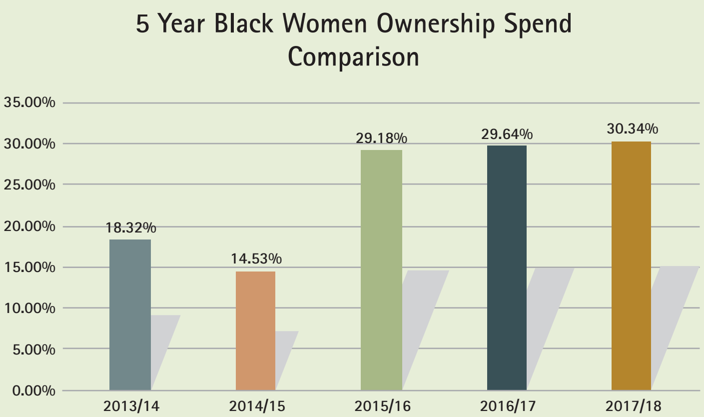
The traction we have made in the past five years in procuring from majority black owned entities is demonstrated in figure 3 below.

Figure 3: Five Year trend on spend towards Black owned entities



Even more gratifying is the achievement of 30.3% (29.6% in 2017) procurement from majority Black Women Owned businesses; against a target of 20%. This achievement is the highest ever attained by the NEF, as demonstrated in figure 4 below.

Figure 4: Five Year trend on spend towards Black women owned entities



An analysis of our procurement spent of the past five years also indicates that we have managed to shift the composition of our increasing procurement spend on EMEs from 32.31% during the 2014 financial year to 38.57% in the current year. Our spent on large entities shifted from 37.61% to 27.95% during the same period.

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 2018.

Focus for the year ahead

The envisaged work around the business combination with the IDC has unfortunately not progressed at the pace we were hoping for when we reported last year. The main reason stalling progress was the insufficient monetary investment (e.g. for legal advice and for the conversion of our accounting framework from GRAP to IFRS) made due to cabinet non-endorsement of the business combination.

In addition, the R500 million facility approved by the IDC Board could not be accessed during the year due to both the cabinet non-endorsement of the business comnination as well as the limited borrowing rights approval from the National Treasury in terms of Section 66 of the PFMA.

The NEF and the IDC are still exploring ways of allowing the NEF accessing these funds in a manner that would not require onerous approval processes. As indicated earlier, the NEF will be exploring sustainable ways of enhancing its income without adversely affecting its target market. Given the prolonged recapitalisation process, the Board and management are exploring a formalised fund management business model ensuring black business continues to be adequately supported.

Whilst all these processes unfold, it is worth highlighting that as at year end, the NEF had R1.1 billion cash reserves. However, over R1 billion of these funds were committed mainly to approved deals that are awaiting disbursements pending either conditions precedent or milestones being met. These commitments are expanded on in note 24 of the annual financial statement.

Regarding IT, we have very exciting projects to roll out in 2018. These include the EA and potentially the automation of re-engineered business processes. We will also continue with the enhancement of our cyber security as we prepare for the implementation of the Protection of Personal Information (PoPI) Act

Acknowledgements

It is with bitter sweet emotions that I bid farewell to the NEF after over five years of a very rewarding experience. I'd like to express my gratitude mainly to my functional teams, with whom I believe good strides in improving the NEF have been achieved. I would reiterate that the integrated reporting journey we embarked on in the last four years has been an enriching one. I have enjoyed working with the many colleagues over the years that have put their time aside to assist with this project. I will really miss this amazing and committed community.

I'd like to thank the CEO and the Board for affording me an opportunity to serve my country through this role. To the Audit Committee, thank you for your sterling guidance and support. The life lessons gained through your leadership are invaluable to me and they will really stay with me as I embark on the next chapter of my professional journey. I wish the Executive Committee and the new Board well in leading the NEF with the infectious vigour and energy that I have come to enjoy

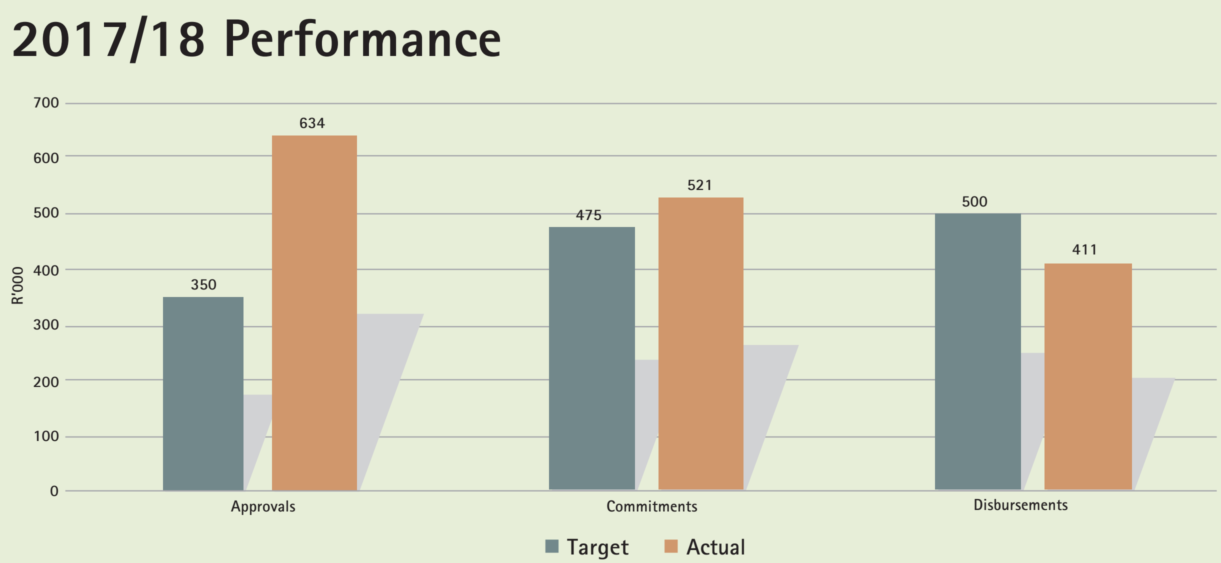
Ms Innocentia Pule
Chief Financial Officer

Performance Review

The NEF 2017/18 financial year performance presented in this section is based on targets which had been revised downwards in light of restraints in capital as approved by the Hon. Minister of Trade and Industry.

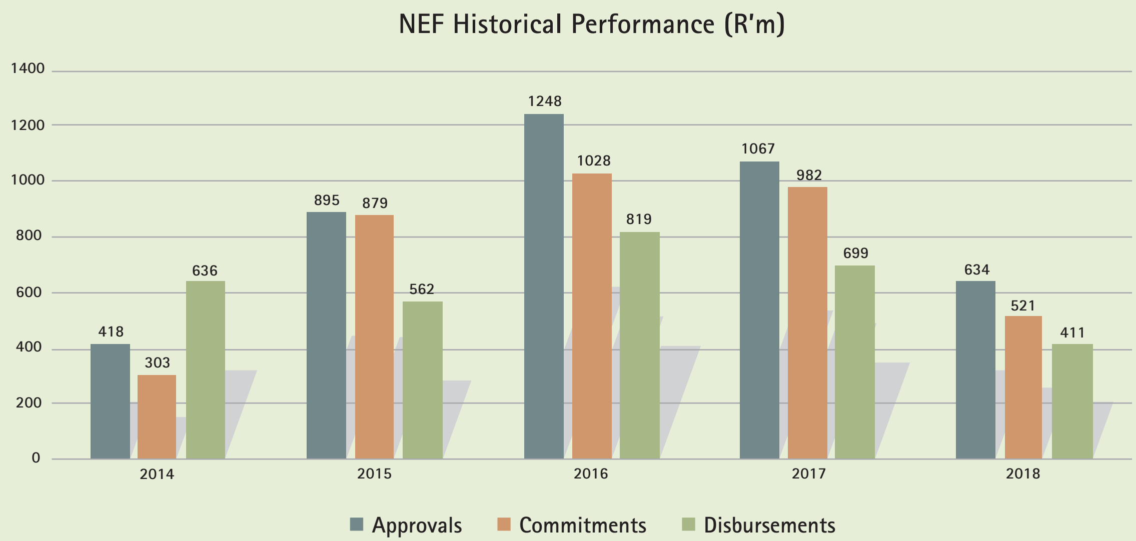
Achievements against strategic objectives

Advancing B-BBEE provide finance to business ventures



For the financial year 2017/18, the NEF significantly exceeded targets set for approvals as a result of early settlement on some facilities which increased available resources, as well as the release of unused committed funds. We slightly exceeded the commitments targets due to continued focus on decreasing turnaround times of finalising legal agreements. However, disbursed funds are 18% below the target of R500m due to some facilities being cancelled during the year and conditions precedent (CP's) on new approvals that could not be disbursed in the current financial year.

> "It is pleasing to note that the cost per job for the year was about R113 800, against a target of R162 500. It is also worth pointing out that despite the muted growth in investments, interest earned on these assets has increased by 9% year on year."
>
> NEF CFO, Ms Innocentia Pule, Integrated Report 2018



The historical trend demonstrates that at its peak over the past five years, the NEF approved over R1.2 billion. This performance was supported by the DRDLR partnership, however in subsequent years, particularly in the current financial year, the NEF's uncommitted cash position has reduced significantly and as a result the performance targets were also reduced by the Board.

Maximising Empowerment Dividend

3609 jobs

35% of disbursements to women owned and managed businesses

36% of disbursements to targeted provinces

2017/18 Performance

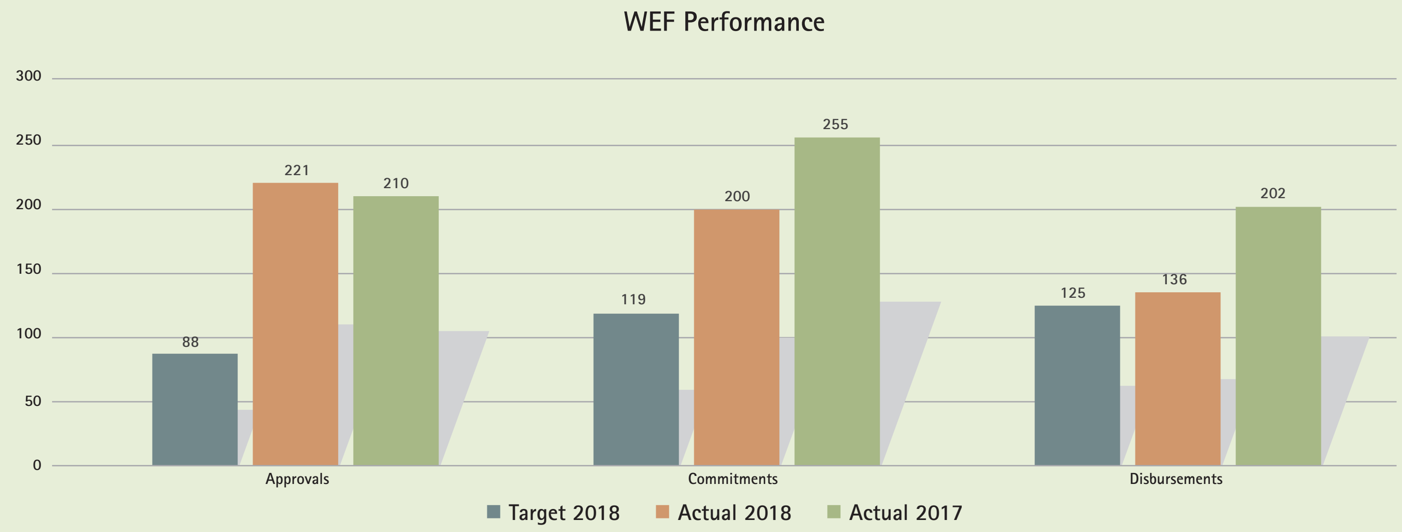
	Target	Actual	Actual (2016/17)	Actual (2015/16)
Jobs created	3 077	3 609	5 069	4 938
Percentage of disbursements to women	40%	35%	33%	29%
Percentage of disbursements to targeted provinces	25%	36%	32%	45%

Jobs created

Through financial activities in the year, the NEF is geared to support 3 609 jobs, of which 2 539 are new. This is a decline compared to the prior year jobs number of 5 069. However, this decline is aligned to decreased approvals and disbursements in the current year compared to prior year, mainly due to resource constraints.

Women Empowerment Fund

The NEF Women Empowerment Fund is comprised of businesses that are 51% or more owned and managed by black women. The purpose of the fund is to accelerate the growth of businesses owned by black women.



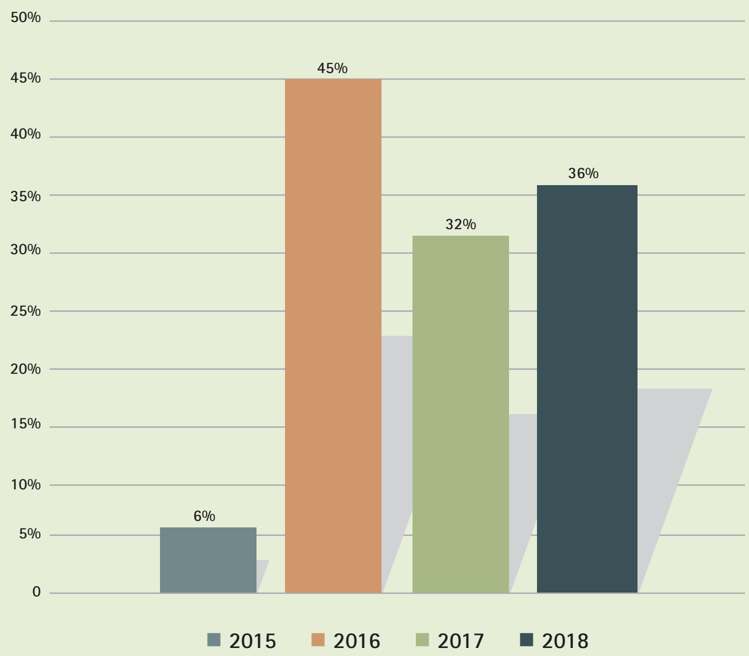
The NEF remains committed to growing black women owned businesses as all our targets for WEF have been exceeded in the current year.

However, the performance for commitments and disbursements has decreased in comparison to the previous year, while approvals have slightly increased. This performance is in line with the NEF overall performance as indicated earlier.

Regional Activity

The NEF remains committed to increasing the value of the collective portfolio in the six targeted provinces of North West, Northern Cape, Eastern Cape, Free State, Mpumalanga and Limpopo. Due to greater focus being placed to increasing the geographical reach, the geographical spread of NEF disbursement activity has increased amongst the targeted provinces to 36% in the current year, resulting in the proportion of the portfolio for Gauteng decreasing from 60% in 2009 to 41% in 2018.

Disbursements to targeted provinces (R'm)



NEF's investment in targeted provinces 2018

Establish the NEF as a sustainable DFI

To ensure continued sustainability of the organisation, active portfolio monitoring is crucial. The NEF performance is measured through the following:

- Impairment provision of 15.4% versus a target of 18%; an improvement on the previous year performance of 17.5%, which was as a result of continued difficult economic conditions that have put pressure on our investees.
- ROI for the year was 8.3% (2017:7.8%) falling below the targeted range of 9-10%.
- Collection ratio of 142.5% (2017:101.8%) is well above the target of 80%.

Optimising Non-financial Support

Non-financial support forms an integral part of the NEF's mandate and is just as crucial to the success of an enterprise. As such, the NEF contributes to the delivery of its mandate through programmes that offer entrepreneurial development and support.

Investor Education

Investor education campaigns are offered in all provinces around the country with the aim of reaching the general public, including efforts focused on the youth at tertiary institutions through industrial theatre performances. NEF investor education campaigns have reached over 40 000 people across communities over the years. The table below highlights the number of investor education sessions over a three year period.

	2018		2017		2016	
	Target	Actual	Target	Actual	Target	Actual
Investor Education	32	58	32	48	32	33

The number of Investor Education programmes completed has increased as the NEF continued to focus on mobilising an even wider coverage area per province.

Entrepreneurial training

The objective of the training is to provide emerging black-owned SMEs with an understanding of basic business principles and business management competencies in the areas of finance, HR and Legal compliance. It also serves as a marketing tool, for NEF funding products. This is typically a 4 day training with 10-24 people. Upon completion, the trained individual will have:

- The ability to produce a business plan;
- Understanding of financials;
- Marketing and sales of the business; and
- Creation of business networks.

Post assessment average core of 77% (2017: 73%) was achieved in the 2017/18 financial year period. The table below highlights the number of training sessions held over a three year period.

	2018		2017		2016	
	Target	Actual	Target	Actual	Target	Actual
Entrepreneurial training	18	19	18	26	18	25

The number of training sessions has decreased due to the decreased budget allocation to the programme in the current year.

Business incubation

Business incubation nurtures entrepreneurial ideas into feasible business opportunities. The table below highlights the number of entrepreneurs referred for incubation and of those referred that are fully incubated over a 3 year period.

	2018		2017		2016	
	Target	Actual	Target	Actual	Target	Actual
Referred business	75	101	75	159	75	130
Fully incubated	15	13	15	30	10	36

The number of training sessions has decreased due to the decreased budget allocation to the programme in the current year.

Social facilitation

Social facilitation encompasses the NEF's non-financial support services seeking to assist NEF investees, beneficiaries and surrounding communities, with various intervention programmes that ensure accelerated implementation of transformation and development.

The function of social facilitation is to ensure there is an understanding of how transactions are structured, address expectations, identify and prioritise broad-based opportunities, implement corporate governance structures, as well as make cross-investee linkages and implement socio-economic development.

The table below highlights the number of social facilitation sessions held over a three year period.

	2018		2017		2016	
	Target	Actual	Target	Actual	Target	Actual
Social facilitation	18	49	18	42	18	25

The 2016/17 and 2017/18 actual social facilitation activity significantly increased due to the addition of DRDLR transactions in approvals and disbursements. Social facilitation activities on NEF funded transaction were 23 and for DRDLR were 26 in the current year.

> "The National Empowerment Fund has contributed significantly to economic development through the empowerment of local and black owned businesses. In the year 2017/18 alone, the NEF has spent a total of R634m, while creating 3609 employment opportunities. The capital injection from the Fund has benefited a number of critical sectors, Eamely: Financial Insurance and Real Estate, Manufacturing, Construction, Agriculture and Forestry."

Deputy Minister of Trade and Industry, Hon. Mr Bulelani Magwanishe, the dti budget Vote 34, National Assembly - 15 May 2018

Performance against the Annual Performance Plan

Output	Performance Measure or Indicator	Revised Annual Target 2017/18	2017/18 Year Achievement	Reason for Variance
Investing in the empowerment of black-owned business by providing finance through funding products including corporate finance and venture capital targeting black rural enterprises and SME's.	Value of deals approved (R million)	R350 m	R634 m	Target exceeded, driven by high market demand and early settlements received which have allowed further ability to exceed approval expectation.
	Value of new commitments (R million)	R475 m	R521 m	Target achieved. This is as a result of the continued focus on quicker turnaround in finalising legal agreements and conclusion of CPs during the year which has yielded positive results.
	Value of new Disbursements (R million)	R500 m	R411 m	Target not met – Some facilities were cancelled during the year and CPs on new approvals could not be met on time to disburse.
Invest in black-owned businesses with high employment creating opportunities	Number of jobs expected to be supported or created	Support 3 077 new or existing job opportunities	3 609 (of which 2 359 are new)	Target exceeded. This was supported by efforts to close the disbursements pipeline in the last three quarters.
Support the participation of black women in the economy	Percentage of portfolio disbursement (partially/wholly) owned by women	40% of disbursements	35% of the portfolio is disbursed to investees that are partially/wholly owned by women.	The proportion of women shareholding in the total of deals disbursed is lower than projected. The NEF continues to strive towards facilitating women participation in the economy and towards meeting this target, by encouraging deal structures that have women participation.
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	36% of disbursed funds comprising of 35 deals worth approx.R162m split follows: NW:4 worth R11.5 m NC: 3 worth R14.4 m FS: 6 worth R15.5 m LP: 5 worth R25.2 m MP:8 worth R67.6 m EC: 9 worth R27.4 m	Good traction is being made through regional presence and the increasing number of approvals made in the provinces over the past two years.

Output	Performance Measure or Indicator	Revised Annual Target 2017/18	2017/18 Year Achievement	Reason for Variance
The provision of non-financial support and training for black -owned businesses and entrepreneurs	Number of Business Today Training sessions provided	18 training sessions, with an average score of 60% required in the post-training assessment	19 Entrepreneurial training sessions conducted YTD. Post assessment average core achieved is 77%.	There has been an overwhelming demand for non-financial support and training. In addition, non-financial support is expected to be provided for the DRDLR transactions.
	Number of entrepreneurs who successfully complete business incubation	Refer 75 entrepreneurs for incubation; and 15 entrepreneurs in the final incubation stage	101 entrepreneurs referred to business incubation partners. 13 entrepreneurs at final stage of incubation	
	Number of Social Facilitation Sessions for NEF investees	18 Social Facilitation Sessions	49 Social Facilitation sessions	
Conduct investor education seminars in provincial towns and increase understanding by participants	Number of seminars held across the country	32 Investor education seminars	58 Sessions (including 9 industrial theatre performances)	
Establish the NEF as a sustainable DFI	Percentage of portfolio impaired	18%	15.41%	Target achieved.
	Target ROI before impairments (to be reviewed annually)	9-10%	8.3%	Below targeted range. This is due to lower interest and fee income.
	Collections ratios	80%	142.5%	Target exceeded. This ratio is mainly supported by additional receipts collected over the year.

> "This year marks the centenary of the birth of the founding father of our democracy, President Nelson Rolihlahla Mandela. As we celebrate his centenary, we remember Nelson Mandela as the struggle stalwart, freedom fighter and first democratic President of South Africa, whose commitment to economic transformation, justice, equality and non-racial South Africa was unwavering."
>
> H.E. President Cyril Ramaphosa, Africa Day, Pretoria 25 May 2018

Investee Profile

Joy House Academy (Pty)

Company profile

The owner of Joy House started a crèche in Jozini, northern part of Kwa-Zulu Natal in 2006, with her own personal funds. She soon realised the need for basic education facilities in the area and had a desire to grow the crèche into a school. At the facilities that existed at the time, she introduced two grade R classes in 2014 and two grade 1 classes in 2015, when the school grew to 113 pupils, but she wanted to develop the facilities into a brick and mortar building and expand the grades to develop a low fee private primary school. Furthermore, her aim was to ensure that suitably qualified black-owned service providers are appointed from the region.

The project created about 25 jobs during construction and 17 permanent jobs at inception of the project in 2018, with the potential to grow to 25 jobs. The new school facilities opened at the beginning the second school term in 2018 with 212 learners from grade R to grade 4, and it is estimated that the school will increase to between 480 and 560 learners by 2021 with grades R to grade 7. The school is registered as a Non-Profit Organisation in order to enable it to have access to subsidies from the Department of Education.

NEF involvement

The project required R2 million to invest in a bankable feasibility study (BFS) that informed the decision to build the low fee private school. The project was implemented under an un-incorporated joint venture whereby the NEF owns 45% and Joy House Ltd own 55%.

At the successful completion of the BFS, the project required an additional R13 million for phase 1 construction which is now complete and will require approximately R10 million for phase 2 construction in the future to accommodate grades 5 to grade 7. In total, the NEF had approved R15 million for first phase of the project.

Investing in Human Capital

2017/2018 Performance highlights

- Completion of the job grading exercise.
- Brand Audit research exercise which included an employee focus.
- Internal bursaries and training spent at R1.8m to employees in the current year.

Looking ahead 2018/2019

- We will be placing focus on alternative retention mechanisms
- We plan to develop more intensive and deeper engagement with employees on their developmental journey

The NEF's Employee Value Proposition is pillared on the following strategic objectives that seek to attract, develop and retain experienced human capital that optimally contributes to the achievement of the NEF mandate.

- Delivering business results through an integrated people centred strategy supporting employees by providing opportunities;
- Attracting high calibre suitably qualified and fit for purpose candidates;
- Providing a compelling Employee Value Proposition that captivates the employment experience from entry to exit;
- Ensuring exceptional performance remains a major yardstick for succession planning and talent management.;
- Providing training and development opportunities enabling employees to thrive in their roles;
- Utilising a pay-for-performance remuneration structure ensuring that key and top talent is retained;
- Driving the NEF values and core principles as the anchor guiding employee behaviour.

As part of the 67 minutes Mandela Day Action Against Poverty on 18 July, NEF members of staff contributed towards the purchase of clothing, groceries and cleaning detergents for distribution among various beneficiaries countrywide. One of these was Dimphonyana Tsa Lapeng, an orphanage school in Olievenhoutbosch, Gauteng, where NEF staff members painted the institution's buildings.

Reports

Employee Value Propositions (EVP)

The NEF's human capital mission is to attract, appoint, place, develop, retain and fully engage suitably qualified and top talent that is committed to executing the organisation's mandate and core objectives. The NEF's EVP which is the value that employees gain in return for working at the NEF, seeks to provide a compelling proposition and captures the employment experience from entry to exit. This value proposition would ensure that the engagement drivers: people, affiliation, work autonomy, rewards and benefits, values and culture and a rewarding career that is fulfilling, are met. The NEF's current employee retention mechanisms are as follows:

Talent Management Strategy and Development

The NEF constantly strives to create and maintain an environment as an enabler for people development and ensures its processes and procedures sufficiently motivate staff to deliver the required standards and outputs.

For us, this means ensuring our employees are engaged from the time they walk through the doors of the NEF and they leave with a sense of fulfilment and achievement. As a result, our employees are able to deliver value to the NEF and its stakeholders.

Our talent management strategy incorporates succession planning and involves deliberate efforts by management to ensure the well-sought-after skills are continuously nurtured, developed and recognised. Management recognises the young and vibrant profile of the NEF's staff compliment and recognises the need to maintain a strategic and competitive approach to managing human capital. This, among others, aids us to attract and retain suitably qualified and top of the breed talent committed to executing the organisation's mandate and core objectives.

Our employees are afforded opportunities to demonstrate their abilities and skills to perform functions above their current roles. Employees who demonstrate capabilities as per the NEF talent capability framework are then earmarked for promotion and succession planning.

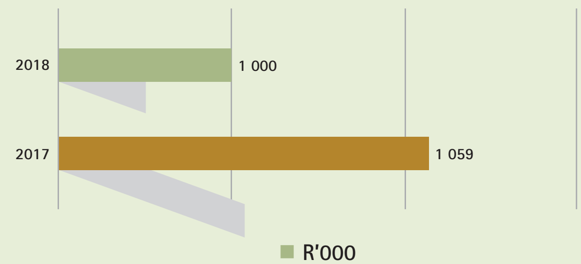
In this financial year, the NEF is proud to have announced a total of 12 promotions across various departments. This is in line with our strategy to develop and nurture talent in a manner that provides long term rewards and fulfilment to our employees.

Training and development

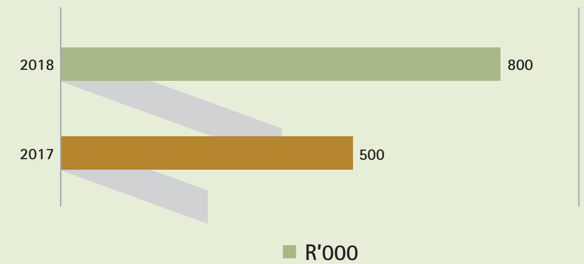
The continuous development of employees to maintain the necessary competence and skills is attained through the mandatory requirement for attendance to at least one training intervention per year, be it technical, soft skills or leadership learning. In addition, the organisation has invested in bursary support for employees wishing to further their academic qualifications.

Over the years these employees have gone on to be promoted onto higher professional level positions within the organisation. A total of R1.8 million was spent in the current year on training and internal bursaries.

Training spend



Bursary spend



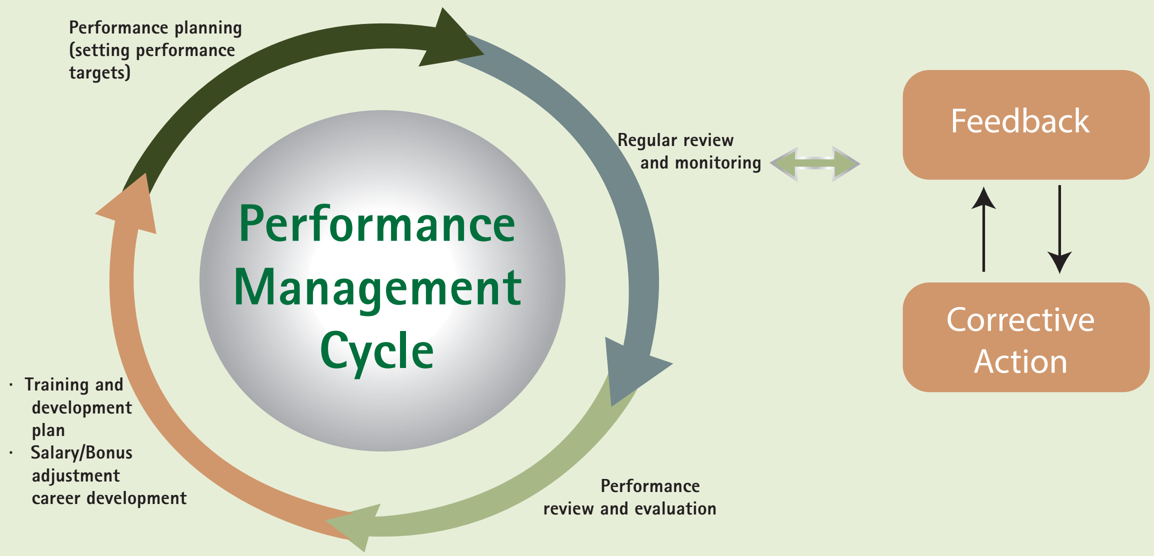
The training spend in the graph above was towards 201 (2017: 222) employees who attended various skills development interventions during the year. Some 15 employees were awarded bursaries for academic qualifications ranging from undergraduate, honours, masters degrees and postgraduate diplomas.

Internships

In the previous financial year, the NEF had employed 7 interns into various divisions in the organisation, 3 of these interns were subsequently absorbed into permanent positions. In the current year, 17 interns have been employed. On average it takes an intern a period of a year and a half to be absorbed into a permanent position. With this program, the NEF strives to contribute to the skills development of young graduates who have not had any work experience, enabling them to acquire practical knowledge and experience that will help them obtain permanent employment within or outside of the NEF. The graduates also receive remuneration during their internship at the NEF.

Performance Management Cycle

Our performance management cycle is one that involves managers and employees working together to plan, monitor and review an employee's work objectives and overall contribution to the organisation. More than just a bi-annual performance review, our performance management process involves the process of setting objectives, assessing progress and providing on-going feedback to ensure that employees are meeting their objectives and career goals.



Remuneration and talent recognition

To sufficiently meet and retain the skills levels required in the competitive finance industry, the NEF offers its employees remuneration packages aligned – at least – to the industry median level of remuneration scales.

Employees are awarded performance incentives in accordance with a performance based mode that seeks to align the employee performance and goals with the NEF objectives.

The NEF's accomplishments as a high-performing organisation are a direct result of a competitive skills-management strategy ensuring the organisation attracts and retains critical and highly competitive talent for the pursuit of its mandate, to strive for an inclusive economic growth.

Completion of job grading project and implementation

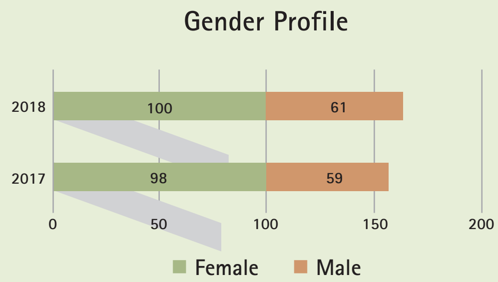
Previous amendments to Employment Equity legislation emphasise a focused shift towards equitable working conditions, particularly referring to income differentials. The NEF initiated a job grading project during the current year. Through this exercise, the organisation ensures salaries are based on fair and objective criteria such as skills, responsibility as well as experience of individuals and that there is alignment of remuneration packages to industry accepted levels.

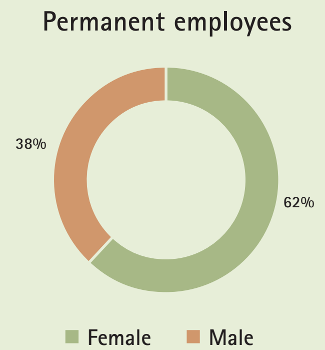
Our People

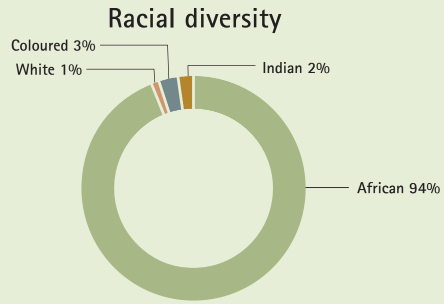
Employment Equity

It is important for us to provide equal opportunities to all our employees. We are constantly working towards increasing the gender diversity, particularly at management level. Ensuring a fair and equitable environment is a critical requirement for employee engagement.

Diversity







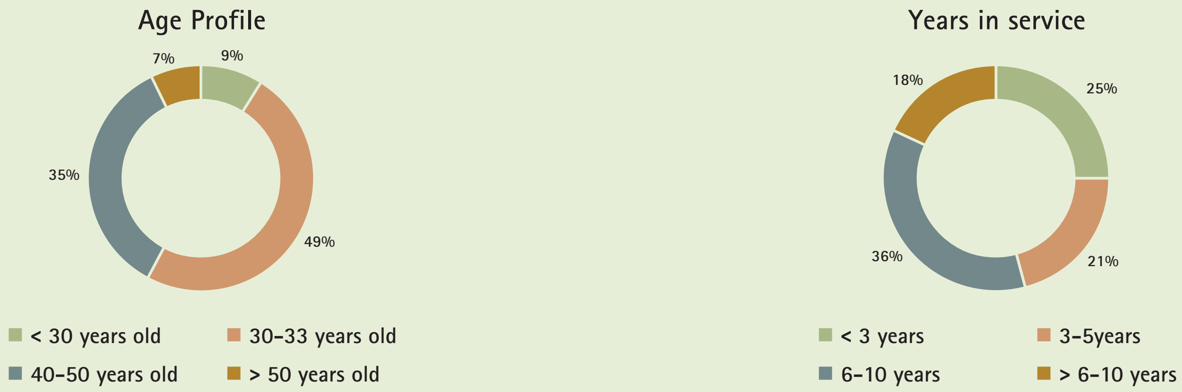
Racial diversity: 2017:
African – 92%
White – 1%
Coloured – 4%
Indian – 3%

As depicted in the below table, the NEF has overall maintained a higher representation of female employees relative to male employees, which has been the case over the years. However, representation at middle and senior management level is skewed towards higher male representation, with 25 of them being male and 18 being female.

	Male	Female
Executives	2	3
Senior management	13	9
Middle management	12	9
Professionals	24	39
Support	10	40

As indicated below the NEF is a young organisation based on the distribution of age in the graph (below) – with the majority of the employees being between the ages of 30 years and 50 years. This indicates a young and vibrant organisation adaptable to change and growth. The NEF strives to be the employer of choice through the value proposition it offers its employees .This is most evidenced in the graph below by the length of service among its employees.

Employees age profile and years in service



On 01 August 2018 the NEF joined the country and people of consciences across Southern Africa in marching against the growing tides of femicide and gender-based violence and abuse.

Investee Profile

GRASKOP

The Mpumalanga Province's Economic Growth and Development Path (MEGDP) has identified the tourism sector as a driver for economic activity and diversification.

Mpumalanga tourism today is characterised by a declining market share due to insufficient marketing spend, fragmented programmes and initiatives, lack of skills and poor quality service, shortcomings in infrastructure, poor institutional relationships and lack of product.

To encourage tourism and job creation in the pristine are the Graskop Gorge Lift Company (Pty) Ltd (GGLC) has been awarded a contract to develop, operate, maintain and transfer the Graskop Gorge Lift and a Retail Complex by the Thaba Chweu Local Municipality for a period of 25 years using a Public-Private-Partnership (PPP) model. Jobs created during construction were 108 direct jobs and 37 permanent skilled jobs post project completion will be created. The project will also maintain 25 existing jobs at the Big Swing operation and Craft Sellers.

Shareholder experience

"We all feel that the NEF staff that we dealt with went far beyond our expectations, they were professional, ethical without question, competent, diligent and tough but fair when needed. I have said it before, I personally don't think this project would have run as smoothly if it was not for the NEF, it was a big project for us (project owners) but it really made a huge difference knowing we had great, experienced people behind us. From general advice, experience, knowledge, project management, strict financial control, legal input to sometimes just asking the simple questions that we entrepreneurs often take for granted. NEF is not just a bank, you are a team of people dedicated to making business work with clear guidelines and mandates" says Campbell, one of four shareholders of the company.

NEF involvement

The NEF is warehousing a 26.1% equity shareholding on behalf of B-BBEE groups whilst project promoters and others hold the rest of the ownership in the company. The total project capital funding requirement for Phase I of R38.4 million was co-funded by the NEF (R33.4 million) and the project promoter's own equity (R5 million).

"As a country it is crucial that we develop our own key industrial productive capacity and capability in key sectors. To leverage the massive public infrastructure development programme and improve our competitiveness in the global markets, IPAP has prioritised the development of the metal fabrication, capital and rail transport equipment sub- sector."

Address delivered by Dr Rob Davies, Minister of Trade and Industry, in the National Assembly 23 May 2017

Employee Engagement (Brand Audit)

The NEF brand audit takes place on a two year cycle, the last of which was conducted in the year ending March 2017. Brand audits are designed to gain a true understanding of customer perceptions and loyalties, organisational culture, organisational identity as well as where an organisation stands in the market. Through a brand audit, an organisation is able to identify strengths and address problems areas.

The brand audit conducted included an element of employee engagement with staff members at various levels and spreading across the various regions from where we operate. The employee section of the brand audit process was aimed at assessing the level of employee satisfaction, employee attitudes, loyalty and workplace climate. With the results of the audit, we are in a position that allows us to get the most out of our human capital, create an effective workforce that boosts productivity and organisational efficiencies.

Looking forward and based on the outcome of the survey, the NEF is committed to do the following:

- Improve on the communication between the various departments of the NEF.
- We will continue to take steps to ensure that all of our employees feel secure, motivated and engaged.

Health and wellness

The aim of the health and wellness program is to enable staff to operate effectively and optimally thereby achieving positive workplace outcomes. Employees have used the wellness program in the following areas:

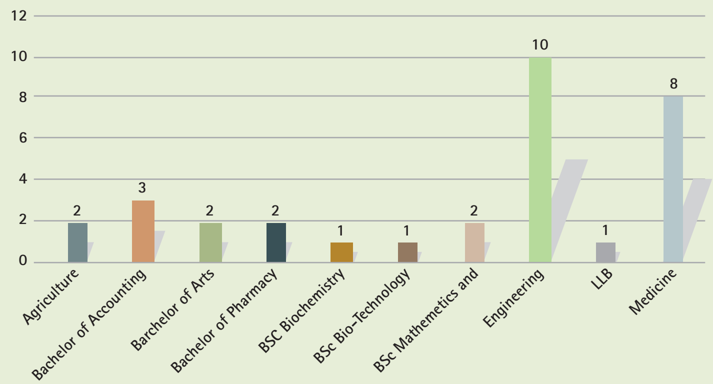
Employees who engaged the wellness program utilised the service in the following areas: financial advice, legal advice, telephonic counselling and offsite face to face counselling. These interactions, although benefit the employees in their individual personal capacity, we believe yield positive outcomes that benefit the organisation.

Corporate social responsibility

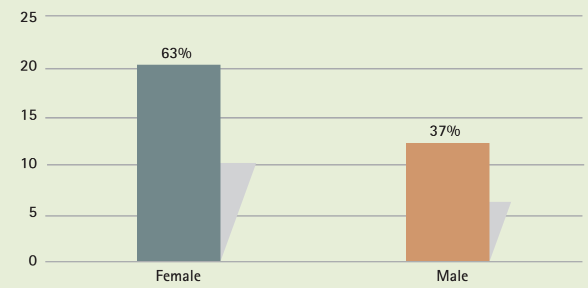
External bursaries

The NEF established an external bursary scheme to fund university level learners from disadvantaged backgrounds. Some of these learners fell in the missing middle and could not qualify for the National Student Financial Aid Scheme (NSFAS). The external bursary scheme was initiated in 2016 with the aim of aiding black learners to obtain a higher learning qualification and circumvent the plight of unemployment in the country. The initial intake of learners in 2016 was 31 and of these, 28 have passed their first and second year examinations and continue to be supported into their third year of study. The 2018 academic year's total intake into the bursary scheme for both past and new students was 32 learners, with 13 in their second year of academic studies and 19 in third year. The learners have elected to obtain qualifications in various fields of study as depicted below, in particular, in fields that would address skills gaps in the economy such as the engineering and medical fields.

Qualification Stats



Gender Split



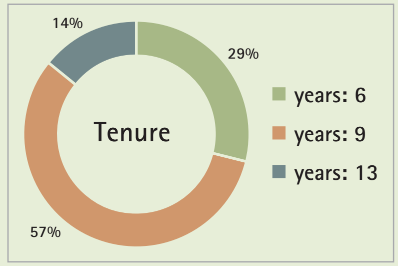
In addition to the financial support, learners received non-financial support during the year, such as an assessment of their academic progress as well as recommendation of students to the institution's academic intervention programmes, assisting them in improving their performance.

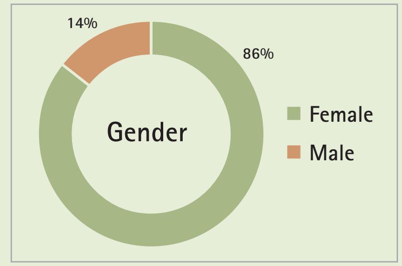
Four top performing students received pre-owned tablets from NEF that had been used within the organisation

> "Having achieved a wide spectrum of significant milestones since 2005, notably approvals in excess of R9.3 billion to date, the time has now come for the NEF to do more. There is no shortage of applications or viable ideas from black entrepreneurs who wish to contribute to the country's economic growth. Also in place are robust systems, processes and dedicated professionals ready to intensify their patriotic duty in the furtherance of what is easily one of the noblest mandates in the country today."
>
> NEF Chairman, Mr Rakesh Garach, Integrated Report 2018

Profiles of the leadership teams

The Board of Trustees





Mr Rakesh Garach (54)
Chairman
Appointed in December 2009

QUALIFICATIONS AND DIRECTORSHIPS

- CA(SA)
- Destiny Seating (Pty)Ltd
- Telkom Foundation Trust
- KZN Tourism Authority

6/6 4/4

Ms Philisiwe Mthethwa (54)
Executive Trustee (CEO)
Appointed in July 2005

QUALIFICATIONS AND DIRECTORSHIPS

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

6/6 8/8

Ms Angelina Makwetla (70)
Trustee
Trusteeship term ended December 2017

QUALIFICATIONS AND DIRECTORSHIPS

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

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

Ms Zukiswa Ntlangula (45)
Trustee
Trusteeship term ended December 2017

QUALIFICATIONS AND DIRECTORSHIPS

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

6/6 3/8 0/5

BoT BIC AC
RPMC HCRC SEC

Meetings attended

Ms Innocentia Pule (41)
Executive Trustee (CFO)
Appointed in September 2012

QUALIFICATIONS AND DIRECTORSHIPS

- CA(SA)
- M-Care Operating Company
- Global Wheel (Pty)Ltd
- Somlolo Group Investment Holdings
- South African National Space Agency
- Bapo Trans (Pty)Ltd
- Bapo Ba Mogale Investment (Pty)Ltd

6/6

Ms Nomalanga Pascal (53)
Trustee
Trusteeship term ended December 2017

QUALIFICATIONS AND DIRECTORSHIPS

- Chairman of NEF Board Investment Committee
- Director of NCT Forestry Co-operative Limited and the mills: Shincel and Durban Wood Chip
- Chairman of Nomalanga Estate - a mixed farming operation

6/6 8/8

Ms Jacqueline Williams (60)
Trustee
Trusteeship term ended December 2017

QUALIFICATIONS AND DIRECTORSHIPS

- MA MDiv
- Co-owner of Williams and Calmer Management and Training Consultants
- Chairman of COMANCO

5/6 4/5 3/3 3/3

Combined tenure 61 years

Average tenure of Board members is 8.7 years

> "**The dti** acknowledges the profound contributions of the previous board of the NEF, and is privileged to welcome the newly appointed trustees, certain that their stewardship of the organisation will steer the development financier to even greater heights".
>
> Trade and Industry Minister, the Hon. Dr Rob Davies, Foreword 2018.

Introducing the new members of the Board of Trustees

Ms Nonkqubela Maliza (51)

Nonkqubela Maliza is currently an executive director of Volkswagen South Africa. She has experience in risk management, economic analysis and stakeholder management.

QUALIFICATIONS

- BA (Economics)
- Hons BA (Economics)
- MBA

Mr Ernest Kwinda (43)

Ernest Kwinda is currently an executive director at Identity Advisory, an organisation he co-founded. He has vast experience in corporate finance advisory.

QUALIFICATIONS

- B.Com (Hons)
- M.Com (Tax)
- CA (SA)
- TGM (INSEAD)

Ms Nthabiseng Moleko (37)

Nthabiseng Moleko is currently a lecturer in Managerial Economics and Statistics at the University of Stellenbosch. She possesses experience in strategy planning, policy development and research analysis.

QUALIFICATIONS

- Master's degree in Development Finance
- Currently pursuing a PhD in the same field

Ms Lerato Molefe (41)

Lerato Molefe is currently a mergers and acquisitions executive at a JSE listed company. She is a seasoned investment professional with extensive experience in deal making, equity analysis and fund management, (gained) from her working years at RMB Asset Management and at AECI Limited.

QUALIFICATIONS

- BSC (Engineering) Chemical, University of Cape Town
- Currently pursuing MBA studies through Wits University

Mr Sipho Zikode (55)

Sipho Zikode is currently the Deputy Director General: BEE and Special Economic Zones, at *the dti*. He has experience in B-BBEE policy development and implementation as well as Black Industrialist Programme development and implementation.

QUALIFICATIONS

- Diploma in Chemical Engineering
- Post Graduate Diploma in Marketing
- MBA

> “The recently-appointed members of the board will find that as they settle in to steer the NEF into its next growth trajectory, they will be building upon a robust foundation, one that must endure and flourish for time to come.”
>
> NEF Chairman, Mr Rakesh Garach, Integrated Report 2018

The Executive Team

The Board of Trustees has delegated the day to day running of the business of the organisation to the executive committee.

Ms Philisiwe Mthethwa (54)
Executive Trustee (CEO)
Appointed in July 2005

QUALIFICATIONS AND DIRECTORSHIPS

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

Ms Innocentia Pule (41)
Executive Trustee (CFO)
Appointed in September 2012

QUALIFICATIONS AND DIRECTORSHIPS

- CA(SA)
- M-Care Operating Company
- 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 (39)
Divisional Executive: Venture Capital and Corporate Finance
Appointed in April 2011

QUALIFICATIONS AND DIRECTORSHIPS

- CA(SA)
- Karsten Group Holding
- Orange Farm Community Trust
- Gibela Rail Transport Consortium

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

QUALIFICATIONS AND DIRECTORSHIPS

- BSc Civil Engineering
- MBL
- Busamed Holdings (Pty) Ltd
- Zastrovect Investments (Pty) Ltd
- South Africa Metals Equity (Pty) Ltd

Mr Mziwabantu Dayimani (40)
General Counsel
Appointed in November 2015

QUALIFICATIONS AND DIRECTORSHIPS

- LLM degree
- An admitted attorney and Notary Public (South Africa)

> "With the considerable skills base that the NEF commands across its echelons, including the executive and board strata, there is no doubt that the NEF will continue to shine the path in South Africa's determination to bring about inclusive growth."
>
> Trade and Industry Minister, the Hon. Dr Rob Davies, Foreword 2018.

Governance

The NEF Board is committed to maintaining high standards of governance, ethics and integrity. The NEF has established corporate governance structures assisting the Board to ensure compliance with legislation and regulatory requirements, and in terms of corporate governance best practice.

Governance structures

The NEF's shareholder is the Government of the Republic of South Africa, represented by the Minister of **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 Minister of **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 as well as responsibilities of the two parties. The Board finalised and submitted its Annual Performance Plan and the Strategic Plan for the years 2018/19 – 21 to **the dti**. These plans were duly authorised by the Minister of Trade and Industry.

Board of Trustees

The Board of Trustees is appointed in terms of the National Empowerment Fund Act. Board members possess expertise in the fields of, amongst others, finance, law, economics, business practice, and development practice. As at year end, the Board comprised of 1 independent non-executive Trustees and 2 executive Trustees. The roles of the chairman and CEO are separate and the composition of the Board ensures balance of authority precluding any one Trustee from exercising disproportionate power of decision making. Most of the trustees' term came to an end on 15 December 2017. The year-end composition was not an optimum board structure, as it indicates that the majority of board members are not independent. Although all the formal processes were duly followed before the financial year end in appointing new board trustees, the significant changes in the South African political landscape has had an adverse effect on the completion of this process. The change in the office of the Presidency resulted in delays in the appointment of trustees. However, a new board was duly appointed effective from 5th April 2018 and have been inducted onto the NEF's Board of Trustees in accordance with the NEF Act.

The IDC and the NEF have been identified by Government as central in implementing radical economic transformation and developing policies, particularly in light of renewed efforts to develop black industrialists. The combination of the two entities has not yet taken place and is an ongoing process.

The decision to combine the entities is in line with government policy to consolidate South Africa's development finance institutions to provide effective support to emerging and existing black entrepreneurs, and thereby enhancing efficient service delivery.

The Minister of Trade and Industry will continue to provide legislative and policy guidance to the NEF.

Board Meetings

The Board holds regular meetings to ensure that it meets its objectives as outlined in the Board charter. The elements of the Board charter are derived from the NEF Act 105 of 1998 and the Shareholders Compact concluded between **the dti** and NEF.

Board meeting attendance

Trustee	Number of meetings to be attended	Meetings attended
Mr R Garach	6	6
Ms P Mthethwa	6	6
*Ms A Makwetla	6	5
*Ms Z Ntlangula	6	6
Ms I Pule	6	6
*Ms N Pascal	6	6
*Ms J Williams	6	5

* *Term ended 17 December 2017*

Board of Trustees focus areas

The Board and its committees continually review their terms of reference to ensure alignment with the principles of good corporate governance outlined in King III.

King IV

"Subsequent to the year ended 31 March 2018, the organisation underwent an exercise to gauge its adherence to the 17 King IV principles and will be implementing and addressing in practice any identified gaps during the 2018/19 financial year."

Specific focus areas in 2017/18:

The board was facilitating and pursuing recapitalisation avenues for the NEF:

- The Public Investment Corporation facility and other capital market funding;
- The business combination with the IDC;
- The application for PFMA and other regulatory requirements and approvals for borrowing powers.

In the 2018/19 year the Board will focus on:

- Capacitating and providing guidance to Board subcommittees;
- Providing guidance on the implementation of King IV gap analysis findings;
- Continuing with efforts to recapitalise the NEF;
- Enhancing the strategy of the organisation, e.g. non-financial support and reviewing the impact of a changing business model.

Board Subcommittees

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

Audit Committee

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

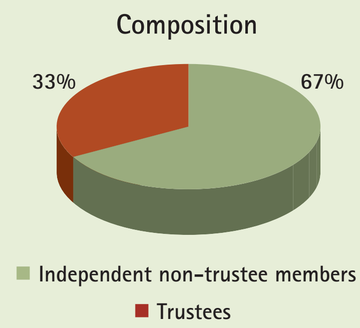
The Audit Committee has adopted comprehensive terms of reference that have been approved by the Board of Trustees. The committee has conducted its work over the past financial year and discharged its responsibilities in accordance with those terms of reference and has reported quarterly in this regard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

Composition and attendance	
Mr A Coombe (Acting chairman)	5/5
*Ms Z Ntlangula	0/5
Ms R Van Wyk	5/5
*Ms J Williams	4/5
Mr R Harichunder	5/5
Mr L Serithi	4/5

**Term ended on 17 December 2017*

Audit Committee focus areas

- Recommended for approval the appointment of the 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 Board;
- Had oversight of the **integrated reporting** process;
- Satisfied itself that an **integrated 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 2018/19 year the Audit Committee will focus on:

- Identifying a new Chair for the Committee.
- Co-ordination with Risk and Portfolio Management Committee
- The implementation of King IV
- Cyber Security trends and recommendations

Risk and Portfolio Management Committee (RPMC)

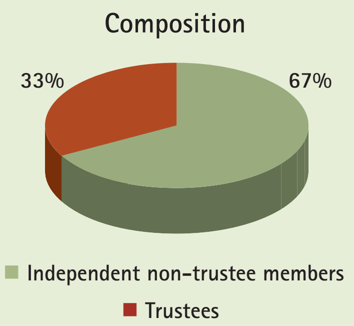
The core function of the RPMC is to ensure appropriate risk management and provides an oversight role regarding the performance of the NEF's invested portfolio. The committee established and maintained a common understanding of the risk universe which needs to be addressed in order to meet the NEF's 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 with the NEF. The committee reported to the Board on overall risk management and on the extent of any action taken by management to address areas identified for improvement.

Composition and attendance	
Mr Fihlani (Chairman)	3/4
*Ms A Makwetla	3/4
Mr R Garach	4/4
Mr S Harford	4/4
Ms N Maliza	4/4
Mr R Harichunder	3/4
**Term ended on 17 December 2017*	

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; and
- In-depth portfolio analysis since inception and the strategic decisions for future implementation



Board Investment Committee (BIC)

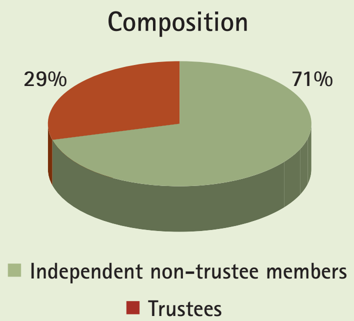
The BIC assessed, evaluated, approved (where appropriate) and recommended to the Board investments in accordance with the Board approved Delegation of Authority framework.

The committee assessed, evaluated, recommended and approved investments (including follow-on investments) by the NEF and made binding commitments relating to such investments on behalf of the NEF and in accordance with the individual investment product limits. The committee further assessed, evaluated and recommended to the Board the approval of transactions above its approval threshold.

Composition and attendance	
*Ms N Pascal (Chairman)	8/8
Ms P Mthethwa (CEO)	8/8
*Ms Z Siyotula	0/3
Ms P Tyalimpi	7/8
*Ms Z Ntlangula	3/3
Ms C Busetti	8/8
Mr Z Fihlani	3/3

**Term ended on 17 December 2017*

> "Central to the implementation of the mandate of the NEF is the consciousness to conduct our work with integrity, diligence and foresight, and in this regard the NEF Investment Governance Framework is guided by the Delegation of Authority of the various committees with clear and distinct thresholds and policy parameters."
>
> NEF Chairman, Mr Rakesh Garach, Integrated Report 2018

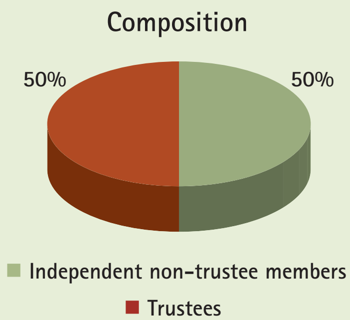


Human Capital and Remuneration Committee (HCRC)

	Composition and attendance	
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.	*Ms Jacqueline Williams (Chairman)	3/3
	Mr Buyani Zwane	3/3
	*Ms Angelina Makwetla	2/3
	Ms Sonja Stojanovic	2/3

HCRC focus areas

- Oversee compliance with the human capital policies, procedures and structures regulating the relationship between the NEF and its staff;
- Review the HR policies to strengthen their objectivity, credibility and their application thereof;
- Make recommendations to the Board 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 2018/19 financial year the HCRC will focus on:

- Reviewing the effectiveness of performance incentive structures.
- Reviewing the results from the job grading exercise performed last financial year.

Social and Ethics Committee (SEC)

The SEC assists the Board with the oversight of social and ethical matters relating to the NEF, including the statutory duties as required by the Companies Act No 71 of 2008.

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).

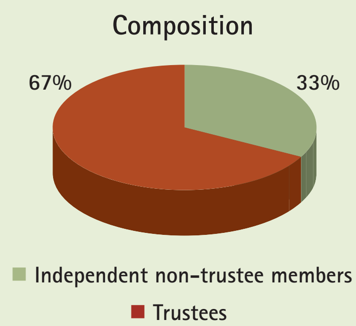
Composition and attendance	
*Ms Angelina Makwetla (Chairman)	3/3
*Ms Jacqueline Williams	3/3
Ms Michelle Mbaco	3/3

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 2018/19 financial year the HCRC will focus on:

- Monitor ethics, integrity and codes of conduct



Assurance

Internal controls

The Board, through the Audit Committee, ensures that internal controls are effective and adequately reported on for auditing and regulatory purposes. The NEF applies an integrated 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 integrated assurance model are embedded in the integrated 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.

Integrated Assurance

Integrated assurance assists management in identifying comprehensive and/or 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 integrated 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 integrated assurance model (IAM). The IAM view as at 31 March 2018 was arrived at after taking into account:

- The IAM procedural framework document;
- The latest key risk register;
- Results of internal audit engagements;
- Results of external audit engagements;
- Results of other specialised engagements; and
- Consultations with management, internal and external assurance providers as well as the audit committee and board of trustees.

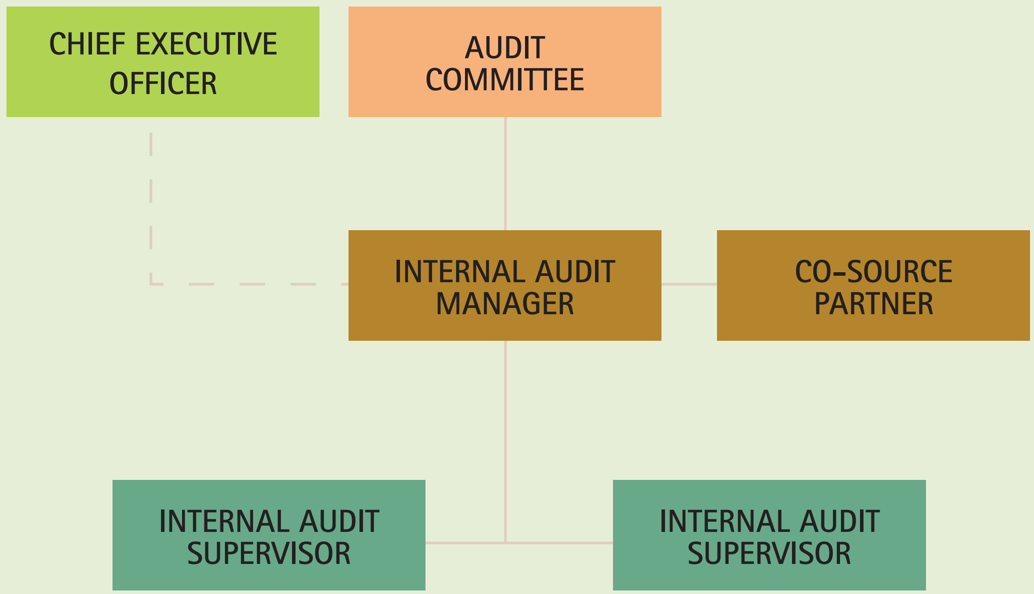
Non-financial information

Internal audit department's involvement extends beyond financial reporting review and includes non-financial performance, opportunities, risks and outcomes attributable to or associated with our key stakeholders, which have a significant influence on our ability to create value. 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 Board of Trustees prior to being reported to our stakeholders.

Internal audit co-source function

The NEF adopts a co-sourced IA function (IAF). NEF IA staff members along with an external firm, fulfil the needs of the NEF IAF. The NEF IA 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.



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. In light of this, the NEF has performed a gap analysis exercise to identify areas where the 17 principles of King IV are not adhered to. The Board's focus in the 2018/19 financial year will be to ensure that King IV is fully adopted. A compliance rating and a complete King IV statement will be incorporated in future integrated reports

> “The Board is proud of the men and women of merit and mettle who have served in the various subcommittees over the years, the unsung catalysts who work tirelessly in the background in the quest for inclusivity and excellence. They are the custodians of the NEF's institutional trust. The management of the public funds and the mandate entrusted in the care of the NEF demands no less.”
>
> NEF Chairman, Mr Rakesh Garach, Integrated Report 2018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success
Quarter 1
Quarter 2
Quarter 3
Quarter 4
Quarter 1
Quarter 2
Quarter 3
Quarter 4
1/6/2002
1/7/2002

Annual Financial Statements

31 March 2018

Trustees' Statement of Responsibility

The Trustees are responsible for the preparation, integrity and fair presentations of the report on performance information and the financial statements of the National Empowerment Fund Trust. The consolidated annual financial statements presented have been prepared in accordance with South African Statements of Generally Recognised Accounting Practice, and requirements of the PFMA (Public Finance Management Act) and NEF Act and include amounts based on judgements and estimates made by management. The Trustees prepared the other information presented in the Integrated 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 annual financial statements. The Trustees have no reason to believe that the Trust and the Group will not be a going concern in the foreseeable future based on forecasts, available cash resources and approval of new investment facilities. These consolidated annual financial statements support the viability of the Trust and the Group.

The report on performance information and the consolidated annual financial statements have been audited by the independent auditors, SNG Grant Thornton, to whom we have given unrestricted access to all financial records and related data, including minutes of all meetings of the Trustees and Committees of the Board. The trustees believe that all representations made to the independent auditors are valid and appropriate.

The annual financial statements, as set out on pages 91 to 141, have been approved by the Board of Trustees and are hereby signed on its behalf

Ms Philisiwe Mthethwa
Chief Executive Officer

Mr Rakesh Garach
Chairman of the Board of Trustees

Independent Auditor's Report to the Board of Trustees on the National Empowerment Fund Trust

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 91 to 141, which comprise the consolidated and separate statement of financial position as at 31 March 2018, 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 2018, 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 2018:

Objectives	**Pages in the annual performance report**
Strategic Objective 1: Provide finance to business ventures established by black people.	60 to 61
Strategic Objective 2: Maximising the empowerment dividends.	60 to 61
Strategic Objective 3: Establish the NEF as a sustainable DFI	60 to 61
Strategic Objective 4: Optimising Non-financial Support	60 to 61

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 60 to 61 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.

Independent Auditor's Report to the Board of Trustees on the National Empowerment Fund Trust

(continued)

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.

Unmodified opinion with ALL material misstatements corrected

The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework as required by section 55(1) (a) of the PFMA. Material misstatements of non-current liabilities and income identified in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

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 6 years.

SizweNtsalubaGobodo Grant Thornton Inc.
Director: Alethia Chetty
Registered Auditor
Chartered Accountant (SA)

31 July 2018

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.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.

Report of the Audit Committee

Audit Committee responsibility

The Audit Committee reports that it has complied with its responsibilities arising from section 51(1)(a)(ii) of the Public Finance Management Act and Treasury Regulations 3.1.13 and 27(1). The terms of reference are set out in the Audit Committee Charter, which is approved by the Board of Trustees and is continuously reviewed and updated for changes in legislation, business circumstances and corporate governance practices. The Audit Committee has regulated its affairs in compliance with applicable laws and regulations and has discharged all responsibilities contained therein and has reported quarterly in this regard to the Board of Trustees.

Effectiveness of Internal Control

A high-level review of the design, implementation and effectiveness of the NEF's internal financial controls was performed as per the internal audit plan. The review is aimed at providing comfort on financial reporting controls that are relied on in preparing the annual financial statements. Based on the information and explanations given by management, the internal auditors and discussions with the independent external auditors on the result of their audit, the committee believes the system of internal control for the period under review was adequate, efficient and effective.

An integrated 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 included in the integrated report;
- reviewed the external auditors management letter and Management's responses thereto; and
- reviewed adjustments resulting from the audit.

The Audit Committee has discussed 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 approval.

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-owned 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

20 July 2018

Statement of Financial Position

as at 31 March 2018

	Notes	Group 2018 R	Group 2017 R	Trust 2018 R	Trust 2017 R
Assets					
Non-current assets		**3,243,171,755**	**3,421,837,369**	**3,222,496,389**	**3,418,672,956**
Property and equipment	4	23,583,383	23,606,563	1,923,383	1,946,564
Intangible assets	5	1,141,470	94,858	1,141,470	94,858
Investments in associates	6	84,762,324	67,924,461	84,762,324	67,924,461
Investment in subsidiaries	11	-	-	6,719,911	6,178,205
Investments at fair value	7	1,615,318,455	1,564,964,871	1,615,318,455	1,564,964,871
Originated loans	8	1,228,732,264	1,390,892,866	1,359,296,724	1,510,043,442
Preference Shares	9	5,000,000	50,740,725	5,000,000	50,740,725
Finance lease receivables	10	148,334,122	216,779,830	148,334,122	216,779,830
Non-current asset classified as held for sale	11	136,299,737	106,833,194	-	-
Current assets		**1,781,216,345**	**1,754,703,066**	**1,780,225,609**	**1,754,418,325**
Current portion of originated loans	8	512,683,870	315,865,877	512,683,870	315,865,877
Current portion of finance lease receivables	10	41,209,403	38,480,613	41,209,403	38,480,613
Investments held-for-trade	12	44,507,500	53,207,276	44,507,500	53,207,276
Current asset held for sale	13	-	829,600	-	829,600
Trade and other receivables	14	48,942,686	1,512,371	48,023,054	1,512,371
Cash and cash equivalents	16	1,133,872,886	1,344,807,329	1,133,801,782	1,344,522,588
TOTAL ASSETS		**5,024,388,100**	**5,176,540,435**	**5,002,721,998**	**5,173,091,281**
Net assets and liabilities					
Net Assets		**4,724,393,268**	**4,793,229,508**	**4,722,096,653**	**4,786,671,102**
Trust capital	17	2,468,431,472	2,468,431,472	2,468,431,472	2,468,431,472
Accumulated surplus		2,255,961,796	2,324,798,036	2,253,665,181	2,318,239,630
Non-current liabilities		**28,576,638**	**6,139,899**	**9,249,151**	**9,249,151**
Deferred tax	35	-	563,705	-	-
Liabilities directly associated with non-current assets classified as held for sale	11	28,576,638	5,576,194	9,249,151	9,249,151
Current liabilities					
Trade and other payables	18	271,418,194	377,171,028	271,376,194	377,171,028
Total Liabilities		**299,994,832**	**383,310,927**	**280,625,345**	**386,420,179**
TOTAL NET ASSETS AND LIABILITIES		**5,024,388,100**	**5,176,540,435**	**5,002,721,998**	**5,173,091,281**

Statement of Financial Performance

for the year ended 31 March 2018 (continued)

	Notes	Group 2018 R	Group 2017 R	Trust 2018 R	Trust 2017 R
Revenue	20	**389,969,158**	**362,544,526**	**392,479,676**	**373,035,544**
Sundry income	21	17,797,759	59,071,624	17,797,759	59,071,624
Total Revenue		**407,766,917**	**421,616,150**	**410,277,435**	**432,107,168**
Administration expenses	22	(251,484,831)	(240,482,440)	(251,484,831)	(240,478,294)
Net operating income		**156,282,086**	**181,133,710**	**158,792,604**	**191,628,874**
Impairment charge	23	(153,676,329)	(212,880,880)	(153,676,329)	(212,880,880)
Investment write-offs		(62,874,550)	(26,670,332)	(62,874,550)	(26,670,332)
Net loss before fair value adjustments		**(60,268,793)**	**(58,417,502)**	**(57,758,275)**	**(47,922,338)**
Fair value gains/(losses)		**(7,357,880)**	**(269,354,592)**	**(6,816,174)**	**(269,354,592)**
– Investments in associates	6	(29,133,068)	(132,477,044)	(29,133,068)	(132,477,044)
– Investments at fair value – non associate equity investments	7.1	49,696,634	(132,185,336)	49,696,634	(132,185,336)
– Investments at fair value – unincorporated equity investments	7.2	(19,221,670)	(13,794,528)	(19,221,670)	(13,794,528)
– Fair value adjustments – investments in subsidiaries'	11	-	-	541,706	-
– Investments held-for-trade	12	(8,699,776)	9,102,316	(8,699,776)	9,102,316
Deficit before non-current asset held for sale		**(67,626,673)**	**(327,772,094)**	**(64,574,449)**	**(317,276,930)**
Deficit from non-current asset held for sale	11	(1,773,272)	(562,164)	-	-
Deficit before taxation		**(69,399,945)**	**(328,334,258)**	**-**	**-**
Taxation	35	563,705	(49,549)	-	-
Deficit for the year		**(68,836,240)**	**(328,383,807)**	**(64,574,449)**	**(317,276,930)**

Statement of Changes in Net Assets

for the year ended 31 March 2018

	Trust capital R	Accumulated surplus R	Total R
Group			
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**	**4,793,229,508**
Deficit for the year	-	(68,836,240)	(68,836,240)
Balance at 31 March 2018	**2,468,431,472**	**2,255,961,796**	**4,724,393,268**
	Note 17		
Trust			
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**
Deficit for the year	-	(64,574,449)	(64,574,449)
Balance at 31 March 2018	**2,468,431,472**	**2,253,665,181**	**4,722,096,653**
	Note 17		

Cash Flow Statement

for the year ended 31 March 2018

		Group		Trust	
	Notes	2018 R	2017 R	2018 R	2017 R
Cash inflows/(outflows) from operating activities	26	**(349,072,337)**	**3,506,220**	**(348,194,704)**	**3,511,432**
Cash receipts from other income		18,989,759	59,071,624	17,797,759	59,071,624
Cash paid to suppliers and employees		(368,062,096)	(55,565,404)	(365,992,463)	(55,560,192)
Cash inflows/(outflows) from investing activities		**136,995,514**	**(79,241,676)**	**137,473,898**	**(77,755,530)**
Additions to property, plant and equipment	4	(1,094,797)	(2,304,253)	(1,094,797)	(2,304,253)
Additions to intangible assets	5	(1,099,043)	(130,243)	(1,099,043)	(130,243)
Investment disbursements	27	(445,271,876)	(766,960,405)	(445,271,876)	(766,960,405)
Dividends received		42,944,962	161,970,700	42,944,962	161,970,700
Interest receipts		73,313,320	84,405,479	73,311,704	84,403,624
Repayments on originated loans, leases and preference shares		468,202,948	429,277,046	468,682,948	430,765,047
Proceeds from sale of investments		-	14,500,000	-	14,500,000
Net cash flows from non-current assets held for sale		1,142,380	1,775,999	-	-
Decrease in cash and cash equivalents		**(210,934,443)**	**(73,959,457)**	**(210,720,806)**	**(74,244,098)**
Cash and cash equivalents at beginning of the year		**1,344,807,329**	**1,418,766,786**	**1,344,522,588**	**1,418,766,686**
Cash and cash equivalents at end of the year	16	**1,133,872,886**	**1,344,807,329**	**1,133,801,782**	**1,344,522,588**

Statement of Comparison of Budget and Actual

for the year ended 31 March 2018

	Notes	Trust Approved Final Budget R	 Actual R	 Variance R
Revenue	28.1	**418,648,111**	**392,479,676**	**(26,168,435)**
Sundry income	28.2	52,028,800	17,797,759	(34,231,041)
Total Income		**470,676,911**	**410,277,435**	**(60,399,476)**
Expenses				
Compensation of Employees		(200,552,818)	(162,599,693)	37,953,125
Use of Goods and Services		(86,231,497)	(88,885,138)	(2,653,642)
Total Expenses	28.3	**(286,784,314)**	**(251,484,831)**	**35,299,483**
Net Operating Income		**183,892,596**	**158,792,604**	**(25,099,992)**
Impairment charge	28.4	(183,555,434)	(153,676,329)	29,879,105
Write-offs		-	(62,874,550)	(62,874,550)
Net Income before fair value adjustments		**337,162**	**(57,758,275)**	**(58,095,437)**
Net fair value losses	28.5	-	(6,816,174)	(6,816,174)
Surplus/(deficit) for the year		**337,162**	**(64,574,449)**	**(64,911,611)**

Notes to the Financial Statements

for the year ended 31 March 2018 (continued)

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, Surgetek (Pty) Ltd and Zastrovect (Pty) Ltd may differ from those of National Empowerment Fund Trust, due to different bases of accounting framework.

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, IFRS 7 disclosure, and IFRS 5 – Non current assets held for sale and discontinued operations.

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 Projects 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.

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

Notes to the Financial Statements

for the year ended 31 March 2018 (continued)

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 Investment Property

Investment property is property (land or building – or part of a building- or both) held by the owner to earn rentals or for capital appreciation or both. Investment property is initially recognised at cost and subsequently at fair value with changes in fair value recognised in profit or loss.

1.9 Non-current assets held for sale

Non-current assets held for sale are 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 IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations. In terms of IFRS 5, 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.

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 measured in terms of the applicable standard and impaired in terms of IFRS 5 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.

1.10 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.

1.11 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

1.11 Financial assets (continued)

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 recognised in the statement of financial performance (profit and loss). Upon identification and separate disclosure, the host contracts are accounted for and measured applying the rules of the relevant category of that financial instrument with the embedded derivate portion being recognised 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 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.

1.12 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.

Notes to the Financial Statements

for the year ended 31 March 2018 (continued)

1.13 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.

1.14 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.

1.15 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.

1.16 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

1.16 Critical accounting estimates and judgements in applying accounting policies (continued)

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.

1.17 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.

1.18 Events after reporting date

An entity should adjust its financial statements for events after the reporting date; and the disclosures that an entity should give about the date when the financial statements were authorised for issue and about events after the reporting date.

This Standard also requires that an entity should not prepare its financial statements on a going concern basis if events after the reporting date indicate that the going concern assumption is not appropriate.

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

There were no new standards adopted in the current financial year.

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.

Notes to the Financial Statements

for the year ended 31 March 2018 (continued)

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 four 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.

GRAP 110 – Living and Non-living Resources

The objective of this Standard is to prescribe the recognition, measurement, presentation and disclosure requirements for living resources; and disclosure requirements for non-living resources. 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.

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*	2018 R	2017 R
Standard Bank	Baa3	328,723,487	518,260,834
First National Bank	Baa3	8,291,665	4,814,384
South Africa Reserve Bank	Baa3	795,059,395	772,976,478
Rand Merchant Bank	Baa3	1,725,592	48,467,283
Total Cash held with banks (Trust)		**1,133,800,139**	**1,344,518,979**
Subsidiary current account (Standard Bank)	Baa3	71,104	284,741
Total balance for Group		**1,133,871,243**	**1,344,803,720**

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). *Ratings quoted are Moody's March 2018 updates.

The impairment methodology utilised by the Trust results in originated loans 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. These loans are regularly monitored due to 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.

Notes to the Financial Statements

for the year ended 31 March 2018 (continued)

3. Risk management (continued)

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

	Group		Trust	
	2018 R	2017 R	2018 R	2017 R
Originated Loans				
Normal monitoring and performing loans	1,434,981,717	1,477,199,026	1,601,608,414	1,621,580,538
Close monitoring	165,468,083	44,245,204	165,468,083	44,245,204
Partly/fully impaired	527,001,348	629,159,523	527,001,348	641,000,884
	2,127,451,148	**2,150,603,753**	**2,295,087,905**	**2,306,826,626**
Finance Leases				
Normal monitoring and performing leases	186,017,812	219,777,855	186,017,812	219,777,855
Close monitoring	10,723,970	10,090,717	10,723,970	10,090,717
Partly/fully impaired	36,405,169	70,747,095	36,405,169	70,747,095
	233,146,951	**300,615,667**	**233,146,951**	**300,615,667**
Preference Shares				
Normal monitoring and performing preference shares	5,000,000	54,035,662	5,000,000	54,035,662
Close monitoring		-	-	-
Partly/fully impaired	-	20,479,430	-	20,479,430
	5,000,000	**74,515,092**	**5,000,000**	**74,515,092**

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.

3. Risk management (continued)

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

Collateral held in favour of impaired loans	Land and buildings R	Plant and equipment R	Furniture, other equipment and office equipment R	Motor vehicles R	TOTAL R
2018					
Book Value	1,578,277,826	661,290,882	318,730,378	269,376,730	2,827,675,816
Fair value	749,716,692	209,037,222	96,728,001	83,363,812	1,138,845,727
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

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 (2018 – 89%: 2017 – 91%) 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.

Notes to the Financial Statements

for the year ended 31 March 2018 (continued)

3. Risk management (continued)

The Trust individually assesses the effect of interest rate risk in a series of scenario and sensitivity analyses of each individual transaction that the Trust funds. In these scenarios the impact of an interest rate change is assessed against the businesses' ability to meet the increased charge in lending rates out of own cash flows. The decision to grant funding to applying businesses is fundamentally based on these sensitivity analyses. The underlying risk therefore within the range of interest rate changes run in sensitivity analyses is the business risk associated with the approval of loans to applying businesses. This business risk is assessed regularly by the Post Investment Department of the Trust and is assessed on a risk rating scale as follows performing (low risk deals), impairments (medium risk deals) and workouts (high risk deals). As at 31 March 2018, the portfolio was assessed from this risk rating approach as follows:

Trust

	2018		2017	
Category	% by number	% by value	% by number	% by value
Performing	68%	71%	65%	71%
Impaired	29%	22%	33%	27%
Close Monitoring	3%	7%	2%	2%

Group

Performing	68%	70%	65%	69%
Impaired	29%	24%	33%	29%
Close Monitoring	3%	7%	2%	2%

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.

3. Risk management (continued)

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

	2018			2017		
	Carrying Amount R	Interest earned R	Sensitivity of 1% effective adjustment R	Carrying Amount R	Interest earned R	Sensitivity of 1% effective adjustment R
Originated loans	1,871,980,594	199,899,348	18,719,806	1,825,909,319	193,541,221	18,259,093
Cash and cash equivalents	1,133,801,782	73,311,704	11,338,018	1,344,522,588	84,688,797	13,445,226
Total effect on Profit/Loss	**3,005,782,376**	**273,211,052**	**30,057,824**	**3,170,431,907**	**278,230,018**	**31,704,319**

Group

Originated loans	1,741,416,134	197,387,214	17,414,161	1,706,758,743	183,048,348	17,067,587
Cash and cash equivalents	1,133,872,886	73,313,320	11,338,729	1,344,807,329	84,690,652	13,448,073
Total effect on Profit/Loss	**2,875,289,020**	**270,700,534**	**28,752,890**	**3,051,566,072**	**267,739,000**	**30,515,661**

3.2.2 Foreign exchange risk

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

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

3.2.3 Price risk

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

The investment in MTN was transferred to the Trust at subscription date value and 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.

Notes to the Financial Statements

for the year ended 31 March 2018 (continued)

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
3. Risk management (continued)					
Hospitality Property Fund B	2,883,617	11.75	33,882,500	37,270,750	30,494,250
Interwaste Holdings Limited	12,500,000	0.85	10,625,000	11,687,500	9,562,500
MTN Ltd	10,114,866	119.02	1,203,871,351	1,324,258,486	1,083,484,216
Total			**1,248,378,851**	**1,373,216,736**	**1,123,540,966**

3.3 Liquidity risk

The Trust was historically capitalised 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 (2017:R2 297 431 472 – note 17). Historically funding for operations was also advanced by **the dti** in the form of transfer funds. These were matched against operational expenditure for the year and to the extent there was some level of operational surplus or deficit, then this was transferred or offset to Accumulated Surplus once approval is granted in this respect from National Treasury.

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

Proceeds raised on asset management retail product subscriptions are transferred to capital through profit and loss. This capital is managed separately and utilised for the purposes of reapplication into asset management activities and other related investments in consultation with **the dti** and National Treasury.

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

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

	Motor Vehicles R	Computer Equipment R	Audio Visual Equipment R	Office Equipment R	Furniture and Fittings R	Leasehold Improvements R	Paintings R	Total R
4. Property and equipment								
2018								
Opening 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**	**1,946,563**
Movement for the year								
Additions	-	1,009,274	-	-	49,277	36,246	-	1,094,797
Net Disposal	-	(148,317)	-	-	-	-	-	(148,317)
Disposals/ Derecognition at cost	-	(106,109)	-	-	-	-	-	(106,109)
Depreciation on disposed/derecognised assets	-	(42,208)	-	-	-	-	-	(42,208)
Depreciation	-	(855,640)	-	(15,428)	(8,191)	(87,485)	(2,916)	(969,660)
	-	5,317	-	(15,428)	41,086	(51,239)	(2,916)	(23,180)
Closing Balance								
Cost	996,957	5,414,130	40,299	338,338	502,411	821,002	149,790	8,369,036
Accumulated depreciation	(996,957)	(3,956,550)	(40,297)	(287,097)	(436,551)	(574,743)	(47,349)	(6,445,653)
Net Book Value	**–**	**1,457,579**	**2**	**51,241**	**65,860**	**246,260**	**102,441**	**1,923,383**
Group property includes an investment property 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								**23,583,383**
Gross carrying amount of fully depreciated assets still in use	**996,957**	**2,726,056**	**40,298**	**259,331**	**423,408**	**399,819**	**5,000**	**4,850,869**

Notes to the Financial Statements

for the year ended 31 March 2018 (continued)

	Owned Motor Vehicles R	Computer Equipment R	Audio Visual Equipment R	Office Equipment R	Furniture and Fittings R	Leasehold Improvements R	Paintings R	Total R
4. Property and equipment (continued)								
2017								
Opening								
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
Disposals/ Derecognition at cost	(294,200)	(1,468,559)	(38,696)	(174,510)	(2,775,843)	(4,497,358)	(2,098)	(9,251,264)
Re-classification	-	6,274	40,298	222,899	(274,471)	-	5,000	–
Depreciation on disposed/derecognised assets	293,854	1,108,525	22,287	(4,203)	2,111,756	4,458,448	559	7,991,226
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**	**1,946,563**
Group property includes an investment property 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								23,606,563
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

	2018 R	2017 R

5. Intangible assets

	2018 R	2017 R
Computer software		
Opening Balance		
Cost	280,199	13,808,821
Accumulated amortisation	(185,341)	(13,805,512)
Net Book Value	**94,858**	**3,309**
Movement for the year:		
Additions	1,099,043	130,243
Disposal/Reclassification – Cost	–	(13,658,865)
Disposal/Reclassification – Amortisation	–	13,648,733
Amortisation	(52,431)	(28,562)
Closing Balance	**1,046,612**	**91,549**
Cost	1,379,242	280,199
Accumulated amortisation	(237,772)	(185,341)
Net Book Value	**1,141,470**	**94,858**

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

	2018 R	2017 R
Investments at cost	**272,585,048**	**237,957,904**
– Opening balance	237,957,904	231,964,756
– Additions	44,628,037	4,860,300
– Transfers to non-associate equity investments	(467)	(1,000,560)
– Transfers from unincorporated joint ventures and investments	2,000,000	–
– Transfer to subsidiary (Delswa Pty Ltd)	–	(5,095,900)
– Transfer from originated loans	–	14,230,289
– Write off	(12,000,426)	(7,000,961)
– Disposal	–	(20)
Fair value adjustments	**(187,822,724)**	**(170,033,443)**
– Opening balance	(170,033,443)	(42,376,988)
– Disposal	–	19
– Transfer to subsidiary (Delswa Pty Ltd)	–	5,095,899
– Transfers to non-associate equity investments	(656,212)	(7,275,677)
– Write-off fair value adjustments	11,999,999	7,000,348
– Fair value (loss)/gains	(29,133,068)	(132,477,044)
Net investment in associates	**84,762,324**	**67,924,461**

Notes to the Financial Statements

for the year ended 31 March 2018 (continued)

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	2018 Interest held (%)	2017 Interest held (%)
Unlisted:			
Africa Rising (Pty) Ltd	Financial Services	0.0%	25.0%
Allimor Footwear (Pty) Ltd	Manufacturing	30.0%	30.0%
Amazin Hotels (Pty) Ltd	Tourism and Entertainment	20.0%	20.0%
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	25.1%	25.8%
Cyclocor Motlekar (Pty) Ltd	Construction	0.0%	30.0%
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 and Entertainment	49.0%	49.0%
Graskop Gorge Lift Company (Pty) Ltd	Tourism and Entertainment	26.1%	26.1%
Hoogland Farm (Pty) Ltd	Agriculture	50.0%	0.0%
Imbaza Mussel (Pty) Ltd	Agro Processing	25.0%	30.0%
Inca Concrete Masonry (Pty) Ltd	Construction	0.0%	35.0%
Janitone (Pty) Ltd	Telecommunication	0.0%	41.0%
Jaff and Company (Pty) Ltd	Textiles	30.0%	0.0%
Joy House Academy (Pty) Ltd	Education	45.0%	0.0%
Karbochem Co-generation (Pty) Ltd	Energy	30.0%	30.0%
Kenako (Pty) Ltd	Pharmaceuticals	49.0%	49.0%
Mabele Fuels (Pty) Ltd	Energy	20.1%	20.1%
Magoveni Pharmaceuticals (Pty) Ltd	Pharmaceuticals	25.0%	25.0%
Mayborn Investments 67 (Pty)Ltd	Tourism and Entertainment	0.0%	33.4%
M-Care Operating Company (Pty) Ltd	Healthcare	22.5%	22.5%
M-Care Property Company (Pty) Ltd	Healthcare	22.5%	0.0%
M-Care Management Company (Pty) Ltd	Healthcare	30.0%	0.0%
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	0.0%	30.0%
Petrocom (Pty) Ltd	Energy	30.0%	30.0%
Pretamix (Pty) Ltd	Services	49.0%	24.0%
Pyratrade (Pty) Ltd	Agro Processing	30.0%	30.0%
Quartile Capital (Pty) Ltd	Financial Services	0.0%	30.0%
Rapid Purple Waters Trading (Pty) Ltd	Agro Processing	25.0%	45.0%
Rhino Ridge Lodge (Pty) Ltd	Tourism and Entertainment	33.3%	33.3%
Royal Thonga Safari Lodge (Pty) Ltd	Tourism and Entertainment	36.0%	0.0%
SA Metals (Pty) Ltd	Mining	29.0%	29.0%
Safepak (Pty) Ltd	Manufacturing	34.0%	34.0%
Salamax (Pty) Ltd	Manufacturing	40.0%	30.0%
Sehwai Exploration Drilling (Pty) Ltd	Mining	45.0%	0.0%
Stutt Brick Company (Pty) Ltd	Construction	49.0%	45.0%
Super Grand Agric (Pty) Ltd	Agro Processing	30.0%	30.0%
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%
Willowvale (Pty) Ltd	Property	45.0%	45.0%

Name	Voting power 2018	Voting power 2017	Equity at Fair Values 2018 R	Equity at Fair Values 2017 R
6. Investment in associates (continued)				
Unlisted:				
Africa Rising (Pty) Ltd	0.0%	25.0%	–	2,174,228
Allimor Footwear (Pty) Ltd	30.0%	30.0%	683,297	30
Amazin Hotels (Pty) Ltd	20.0%	20.0%	6,479,443	19,138,388
Business Venture Investments (Pty) Ltd	30.0%	30.0%	1	30
Colliery Dust Control (Pty) Ltd	40.1%	40.1%	15,818,464	12,329,347
Crowie Holdings (Pty) Ltd	25.1%	25.8%	2,378,978	3,615,364
Cyclocor Motlekar (Pty) Ltd	0.0%	30.0%	–	30
False Bay Bricks (Pty) Ltd	30.0%	30.0%	1,779,216	766,232
Ga Matlala Roof Tiles and Bricks (Pty) Ltd	30.0%	30.0%	300	300
Global Wheel (Pty) Ltd	36.0%	32.0%	189,695	32
Golden Dice Foods (Pty) Ltd	49.0%	49.0%	49	495,034
Gradoscope (Pty) Ltd	49.0%	49.0%	1	1
Graskop Gorge Lift Company (Pty) Ltd	26.1%	26.1%	32,858,000	1,100,000
Hoogland Farm (Pty) Ltd	50.0%	0.0%	50	–
Imbaza Mussel (Pty) Ltd	30.0%	30.0%	704,449	1,236,785
Inca Concrete Masonry (Pty) Ltd	0.0%	35.0%	–	1
Janitone (Pty) Ltd	0.0%	41.0%	–	3,800,180
Jaff and Company (Pty) Ltd	30.0%	0.0%	1	–
Joy House Academy (Pty) Ltd	45.0%	0.0%	14,870,000	–
Karbochem Co-generation (Pty) Ltd	30.0%	30.0%	–	1
Kenako (Pty) Ltd	49.0%	49.0%	–	1
Mabele Fuels (Pty) Ltd	20.1%	20.1%	–	606,476
Magoveni Pharmaceuticals (Pty) Ltd	25.0%	25.0%	1	333
Mayborn Investments 67 (Pty)Ltd	0.0%	33.4%	–	656,379
M-Care Operating Company (Pty) Ltd	22.5%	22.5%	2,250	30
M-Care Property Company (Pty) Ltd	22.5%	0.0%	1	–
M-Care Management Company (Pty) Ltd	30.0%	0.0%	300	–
Middelsdrift Dairy (Pty) Ltd	40.0%	40.0%	1	1
Mohale (Pty) Ltd	45.0%	45.0%	450	450
Mopadi Molamu (Pty) Ltd	20.0%	20.0%	200	200
Nyonende Investments (Pty) Ltd	0.0%	30.0%	–	150
Petrocom (Pty) Ltd	30.0%	30.0%	30	30
Pretamix (Pty) Ltd	24.0%	24.0%	240	240
Pyratrade (Pty) Ltd	30.0%	30.0%	1	30
Quartile Capital (Pty) Ltd	30.0%	30.0%	–	37
Rapid Purple Waters Trading (Pty) Ltd	25.0%	45.0%	1,318,498	2,128,246
Rhino Ridge Lodge (Pty) Ltd	33.3%	33.3%	333	1,135,746
Royal Thonga Safari Lodge (Pty) Ltd	26.5%	0.0%	36	–
SA Metals (Pty) Ltd	29.0%	29.0%	–	1
Safepak (Pty) Ltd	34.0%	34.0%	1,921,016	14,230,323
Salamax (Pty) Ltd	40.0%	30.0%	–	3,153,416
Sehwai Exploration Drilling (Pty) Ltd	45.0%	0.0%	112	–
Stutt Brick Company (Pty) Ltd	45.0%	45.0%	1	1
Super Grand Agric (Pty) Ltd	30.0%	30.0%	45	45
Unique Engineering (Pty) Ltd	49.0%	49.0%	3,650,567	490
Value Cement (Pty) Ltd	25.8%	25.8%	1	31
Vastek Trading (Pty) Ltd	30.0%	30.0%	–	309
Willowvale (Pty) Ltd	45.0%	45.0%	2,106,297	1,355,513
			84,762,324	**67,924,461**

Notes to the Financial Statements

for the year ended 31 March 2018 (continued)

		2018 R	2017 R
7.	**Investments at fair value**		
7.1	**Non-associate equity investments**		
	Opening Balance	**1,564,946,871**	**1,597,145,359**
	Movements	**50,353,584**	**(32,198,488)**
	MTN shares – fair value adjustments	(30,142,301)	(133,500,150)
	Transfers from Associates	656,679	7,276,237
	Additions	271	99,784,140
	Unlisted securities – fair value adjustments and write-offs	79,838,935	1,314,814
	Disposal	–	(7,073,529)
	Fair value balance as at end of the year	**1,615,300,455**	**1,564,946,871**
	Net fair value loss on the face of the Statement of Financial Performance	**49,696,634**	**(132,185,336)**
	Non- associate investments include:		
	Listed securities:		
	– Equity securities : RSA (MTN Shares)	1,203,871,351	1,234,013,652
	Unlisted securities:		
	Securities not traded on an active market	411,429,104	330,933,219
	Beat FM	196	–
	Busamed (Pty) Ltd	398,758,999	317,329,996
	Class A Trading 253 (Pty) Ltd	–	3,428,299
	Connex (Pty) Ltd	6,185,556	1
	Dabchick Wildlife Reserve (Pty) Ltd	1	–
	Ekhamanzi Farming (Pty) Ltd	170,000	170,000
	Elgin Engineering (Pty)	1	–
	Gaanahoek (Pty) Ltd	1	–
	Gidani (Pty) Ltd	–	1
	Inkwali Fabrication (Pty) Ltd	–	1
	Ithuba Holdings (Pty) Ltd	–	1
	Liciatron (Pty) Ltd	1	–
	Kenako Medical (Pty) Ltd (equity options)	–	1,085,411
	Marolien (Pty) Ltd	1	–
	Mayborn Investments (Pty) Ltd	1,856,892	–
	Motseng Investment Holdings (Pty) Ltd	5	5
	MSG Africa Broadcasting (Pty) Ltd	178	–
	Nyonende Investments (Pty) Ltd	1	–
	On Digital Media (Pty) Ltd	1	1
	Rhythm FM	196	–
	Saambegin (Pty) Ltd	500	–
	Sky Rink Studios (Pty) Ltd	130	130
	Solms Delta Wine Estate (Pty) Ltd	5	–
	Thin Film (Pty) Ltd	1	1
	Ubumbano Rail (Pty) Ltd	1	1
	Western Breeze Trading 297 (Pty) Ltd	51	1,643,133
	Zulimar Trading (Pty) Ltd	4,456,387	7,276,238
		1,615,300,455	**1,564,946,871**

	2018 R	2017 R

7. Investments at fair value (continued)

7.2 Unincorporated joint ventures and investments

	2018 R	2017 R
Unincorporated equity investment fair value through profit and loss	**101,452,039**	**84,229,369**
Opening Balance	84,229,369	85,428,841
Additions	19,222,670	12,800,528
Transfer to Associate – Joy House Academy	(2,000,000)	–
Transfer from Associates – iVac Bio	–	1,000,000
Cost of derecognised transactions	–	(15,000,000)
Fair value movements	**(101,434,039)**	**(84,211,369)**
– Balance brought forward from prior year	(84,211,369)	(85,414,841)
– Fair value (losses)	(19,221,670)	(13,794,528)
– Fair value of transfers to Associates	1,999,000	–
– Fair value on derecognised transactions	–	14,998,000
Net investment in fair value through profit and loss financial assets	**18,000**	**18,000**
Total investments held at fair value through profit and loss	**1,615,318,455**	**1,564,964,871**
Net fair value loss on the face of the Statement of Financial Performance	(19,221,670)	(13,794,528)

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 %
7. Investments at fair value (continued)				
2018				
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	12,918,577	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	2,878,195	1,000	22%	22%
Jalo Enterprise	6,658,206	1,000	50%	50%
Travallo (Pty) Ltd	539,826	1,000	49%	49%
Gemilatex (Pty) Ltd	1,648,630	1,000	20%	20%
iVac Bio (Pty) Ltd	3,066,000	1,000	74%	50%
Mendi Rail and Engineering (Pty) Ltd	9,762,500	1,000	49%	49%
Techteledata (Pty) Ltd	300,000	1,000	50%	50%
Nyamane Agro-foods Holdings (Pty) Ltd	1,396,219	1,000	50%	50%
Van Der Tlale (Pty) Ltd	1,455,381	1,000	30%	30%
Lebombo Agricultural Secondary Co-Operative Ltd	3,328,505	1,000	49%	49%
	101,452,039	**18,000**		

Investment	Investment at cost R	Fair value R	Interest in project/ joint venture %	Effective voting on joint steering committee %

7. Investments at fair value (continued)

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**		

*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.

**This project became operational during the year and therefore its cost has been reclassified as an Assocate of the Trust.

Notes to the Financial Statements

for the year ended 31 March 2018 (continued)

	Group		Trust	
	2018 R	2017 R	2018 R	2017 R
8. Originated loans				
Opening balance	**2,150,603,753**	**2,329,802,705**	**2,306,826,626**	**2,449,216,170**
Net movement for the year	**(23,152,605)**	**(179,198,952)**	**(11 738 721)**	**(142,389,544)**
Loans disbursed	364,327,901	502,310,709	364,327,901	502,310,709
Interest capitalised	197,387,214	183,048,348	199,899,347	193,541,221
Loan repayments	(414,934,077)	(399,458,752)	(414,934,077)	(399,458,752)
Write-offs	(181,380,015)	(440,492,437)	(181,380,015)	(440,492,437)
Transfer to investment in associates	-	(14,230,289)		(14,230,289)
Transfer from preference shares	15,500,000	11,000,000	15,500,000	11,000,000
Transfer from/(to) non-current asset held for sale	(8,901,751)	(26,316,535)	-	-
Capital Raising Fees	4,848,123	4,940,004	4,848,123	4,940,004
Closing balance	**2,127,451,148**	**2,150,603,753**	**2,295,087,905**	**2,306,826,626**
Provision for Impairment	**(386,035,014)**	**(443,845,010)**	**(423,107,311)**	**(480,917,307)**
– Opening balance	(443,845,010)	(631,757,233)	(480,917,307)	(668,829,530)
– Impairments for the year	(102,459,874)	(225,737,512)	(102,459,874)	(225,737,512)
– Transfer from Preference Share	–	(3,598,038)	–	(3,598,038)
– Write-offs	160,269,870	417,247,773	160,269,870	417,247,773
	1,741,416,134	**1,706,758,743**	**1,871,980,594**	**1,825,909,319**
Net Originated Loan balance	**1,741,416,134**	**1,706,758,743**	**1,871,980,594**	**1,825,909,319**
Current Portion	512,683,870	315,865,877	512,683,870	315,865,877
Long Term Portion	1,228,732,264	1,390,892,866	1,359,296,724	1,510,043,442

		2018 R	2017 R
9.	**Preference shares**		
	Opening Balance	74,515,092	109,243,578
	Net movement for the year	**(61,515,092)**	**(34,728,486)**
	Interest capitalised	6,725,546	5,188,359
	Repayments	(3,042,400)	(4,250,000)
	Preference shares re-classified to originated loans	(15,500,000)	(11,000,000)
	Write-off	(49,698,238)	(24,666,845)
	Closing balance	**13,000,000**	**74,515,092**
	Provision for Impairment	**(8,000,000)**	**(23,774,367)**
	– Opening balance	(23,774,367)	(65,643,518)
	– Impairments for the year	7,840,107	14,027,321
	– Transfer to Originated Loan	–	3,598,038
	– Write-offs	7,934,260	24,243,792
	Net Preference shares balance	**5,000,000**	**50,740,725**

Notes to the Financial Statements

for the year ended 31 March 2018 (continued)

		2018 R	2017 R
10.	**Finance lease receivables**		
	Opening Balance	300,615,667	175,976,017
	Net movement for the year	**(67,468,716)**	**124,639,650**
	Additions	19,964,897	147,449,743
	Raising fee capitalised	–	2,718,117
	Interest capitalised	24,081,219	13,767,827
	Repayments	(50,706,471)	(27,056,294)
	Write-offs	(60,808,361)	(12,239,743)
	Closing balance	**233,146,951**	**300,615,667**
	Provision for Impairment	**(43,603,426)**	**(45,355,224)**
	– Opening balance	(45,355,224)	(56,424,278)
	– Impairments for the year	(59,056,563)	(1,170,689)
	– Write-offs	60,808,361	12,239,743
	Net Finance Lease Receivable balance	**189,543,525**	**255,260,443**
	Gross investment in leases due	**266,954,903**	**346,028,174**
	– within one year	57,772,151	57,284,157
	– in second to fifth year inclusive	194,240,520	145,244,973
	– after 5 years	14,942,232	143,499,044
	Less: Unearned finance income	(33,807,952)	(45,412,507)
	Present value of minimum lease payments receivable	233,146,951	300,615,667
	Less: Allowance for uncollectable minimum lease payments	(43,603,426)	(45,355,224)
	Present value	**189,543,525**	**255,260,443**
	Present value of minimum lease payments due		
	– within one year	41,209,403	38,480,613
	– in second to fifth year inclusive	157,692,191	124,335,947
	– after 5 years	14,240,107	137,799,107
		213,141,701	300,615,667
	Less: Allowance for uncollectable minimum lease payments	(23,598,176)	(45,355,224)
	Carrying amount of minimum lease payments	**189,543,525**	**255,260,443**
	Net Finance Lease Receivable balance	**189,543,525**	**255,260,443**
	Current Portion	41,209,403	38,480,613
	Long Term Portion	148,334,122	216,779,830

The average lease term is 5 years (2017:5 years) and the average effective lending rate is 7.5% (2017:9.39%).

		2018 R	2017 R
11.	**Non-current assets held for sale and investment in subsidiaries**		
11.1	**Investment in Subsidiaries (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	1
	Nefcorp SOC Limited	100	100
	Surgetek (Pty) Ltd	541,706	–
	Investment in subsidiaries	6,719,911	6,178,205
11.2	**Non-Current asset Held for Sale (Group)**		
	Revenue	267,203,538	263,921,480
	Expenses	(269,540,522)	(265,384,930)
	Pre-tax (loss)	(2,336,984)	(1,463,450)
	Taxation	563,712	901,286
	Net surplus / (deficit) from non-current assets held for sale	(1,773,272)	(2,722,318)
	Amortised value of loans transferred from originated loans	138,426,058	95,921,219
	Equity investment	2	2
	Amounts recognised directly in net assets in relation to non-current assets held for sale	(30,702,961)	5,335,779
	Liabilities	28,576,638	5,576,194
	Non-current assets held for sale	**136,299,737**	**106,833,194**

The NEF has 3 subsidiaries classified as held for sale: Zastrovect Investments (Pty) Ltd, Delswa (Pty) Ltd and Surgetek (Pty) Ltd. Surgetek (Pty) Ltd became a 100% subsidiary in the 2018 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.

Notes to the Financial Statements

for the year ended 31 March 2018 (continued)

		2018 R	2017 R
12.	**Investments held for trade**		
	Fair value balance at beginning of year	53,207,276	44,104,960
	Fair value (losses)/gains	(8,699,776)	9,102,316
	Fair value balance at end of year	**44,507,500**	**53,207,276**
	Investments held for trade		
	Listed securities		
	Interwaste Holding Ltd	10,625,000	13,125,000
	Hospitality Fund B	33,882,500	40,082,276
		44 507 500	**53 207 276**
13.	**Current asset held for sale**		
	Opening balance	829,600	3,000,000
	Additions	2,042,300	1,859,200
	Disposal	(2,871,900)	(1,029,600)
	Write-off	–	(3,000,000)
	Closing balance	**–**	**829,600**

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.

		2018 R	2017 R
14.	**Trade and other receivables (trust)**		
	Deposits	1,822,863	1,237,868
	Dividend receivable	45,516,897	–
	Other receivables	683,294	274,503
	Trust total	**48,023,054**	**1,512,371**
	National Empowerment Fund Corporation SOC Limited	919,632	–
	Group total	**48,942,686**	**1,512,371**

The Trustees consider the carrying amount of trade and other receivables to approximate its fair value.

	Group			
	2018		2017	
	Carrying amount	Fair value	Carrying amount	Fair Value
	R	R	R	R

15. Financial assets

Loans and receivables	**1,983,982,713**	**1,983,982,713**	**2,014,272,282**	**2,014,272,282**
- Originated loans	1,741,416,134	1,741,416,134	1,706,758,743	1,706,758,743
- Preference shares	5,000,000	5,000,000	50,740,725	50,740,725
- Finance leases	189,543,525	189,543,525	255,260,443	255,260,443
- Trade and other receivables	48,023,054	48,023,054	1,512,371	1,512,371
Investments held at fair value	**1,615,318,455**	**1,615,318,455**	**1,564,964,871**	**1,564,964,871**
- Unlisted non-associate equity investments	411,429,104	411,429,104	330,933,219	330,933,219
- Listed non associate equity investments	1,203,871,351	1,203,871,351	1,234,013,652	1,234,013,652
- Unincorporated equity investments	18,000	18,000	18,000	18,000
Investment in associates	**84,762,324**	**84,762,324**	**67,924,461**	**67,924,461**
Investments held for trade	**44,507,500**	**44,507,500**	**53,207,276**	**53,207,276**
- Listed equity	44,507,500	44,507,500	53,207,276	53,207,276
Total	**3,728,570,992**	**3,728,570,992**	**3,700,368,890**	**3,700,368,890**

	Trust			
Loans and receivables	**2,115,466,805**	**2,115,466,805**	**2,133,422,858**	**2,133,422,858**
- Originated loans	1,871,980,594	1,871,980,594	1,825,909,319	1,825,909,319
- Preference shares	5,000,000	5,000,000	50,740,725	50,740,725
- Finance leases	189,543,525	189,543,525	255,260,443	255,260,443
- Trade and other receivables	48,942,686	48,942,686	1,512,371	1,512,371
Investments held at fair value	**1,615,318,455**	**1,615,318,455**	**1,564,964,871**	**1,564,964,871**
- Unlisted non associate equity investments	411,429,104	411,429,104	330,933,219	330,933,219
- Listed non associate equity investments	1,203,871,351	1,203,871,351	1,234,013,652	1,234,013,652
- Unincorporated equity investments	18,000	18,000	18,000	18,000
Investment in associates	**84,762,324**	**84,762,324**	**67,924,461**	**67,924,461**
Investments held for trade	**44,507,500**	**44,507,500**	**53,207,276**	**53,207,276**
- Listed equity	44,507,500	44,507,500	53,207,276	53,207,276
Total	**3,860,055,084**	**3,860,055,084**	**3,819,519,466**	**3,819,519,466**

Notes to the Financial Statements

for the year ended 31 March 2018 (continued)

15. Financial assets (continued)

Fair value hierarchy

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

	Level 1 R	Level 2 R	Level 3 R	Total R
2018				
Financial assets at fair value through profit and loss	**44,507,500**	**–**	**84,780,324**	**129,287,824**
Associates	–	–	84,762,324	84,762,324
Unincorporated equity investments	–	–	18,000	18,000
Investments held for trade	44,507,500	–	–	44,507,500
Non-associate equity investments	**1,203,871,351**	**–**	**411,429,104**	**1,615,300,455**
Listed equities	1,203,871,351	–	–	1,203,871,351
Unlisted equities	–	–	411,429,104	411,429,104
Total	**1,248,378,851**	**–**	**496,209,428**	**1,744,588,279**
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**

15. Financial assets (continued)

Reconciliation of financial assets held at fair value

	Level 1 R	Level 2 R	Level 3 R	Total R
2018				
Opening balance for the year	1,287,220,928	–	398,875,680	1,686,096,608
Additions – Cost	–	–	63,851,278	63,850,978
Sales/Transfers	–	–	1,998,273	1,998,573
Fair value adjustments recognised in profit and loss	(38,842,077)	–	31,484,197	(7,357,880)
Closing balance	**1,248,378,851**	**–**	**496,209,428**	**1,744,588,279**
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	(124,397,835)	–	(144,956,758)	(269,354,593)
Closing balance	**1,287,220,928**	**–**	**398,875,680**	**1,686,096,608**

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.

15. Financial assets (continued)

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
2018			
Associates	84,762,324	847,623	8,476,232
Unincorporated equity investments	18,000	180	1,800
Unlisted equities	411,429,104	4,114,291	41,142,910
	496,209,428	**4,962,094**	**49,620,943**
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**

	Notes	2018 R	2017 R
16. Cash and cash equivalents			
In relation to the cash flow statement, cash and cash equivalents comprise the following:			
Bank balances			
– Current accounts		327,642,758	21,121,072
– Short-term bank deposits		806,157,381	1,323,397,907
– Cash on hand		1,643	3,609
Trust total		**1,133,801,782**	**1,344,522,588**
Subsidiary current account		71,104	284,741
Group Total		**1,133,872,886**	**1,344,807,329**

The effective interest rate on short term deposits was 6.16% (2017 – 6.5%). Cash reserves also include R205 547 483 (2017: R392 549 566) attributable to all third party contributions being funds that remain undisbursed as at year end. Refer to notes 24.2 and 24.3 for committed cash reserves.

	Notes	2018 R	2017 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**

	Notes	2018 R	2017 R
18. Trade and other payables			
Trade payables		4,482,023	5,228,709
Lease accrual		430,641	434,246
External contributions	24.4	214,679,394	311,450,269
Bursary scheme and sponsorship		-	2,584,012
Accruals		**51,784,136**	**57,473,792**
- Performance awards		40,719,849	39,245,377
- Supplier accruals		3,532,615	12,128,458
- Leave pay		7,531,672	6,099,957
Trust total		**271,376,194**	**377,171,028**
National Empowerment Fund Corporation SOC Limited		42,000	–
Group total		**271,418,194**	**377,171,028**

The carrying amount of trade payables approximates fair value and is payable within 30 days.

Notes to the Financial Statements

for the year ended 31 March 2018 (continued)

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
	Department of Tourism
	Investments in associates
	Investments in subsidiaries

Related party balances in respect of Investments in Associates and Subsidiaries

		Loans receivable before impairment		Investments at cost	
	% 2018 Holding	2018 R	2017 R	2018 R	2017 R
Africa Rising (Pty) Ltd	**0.0%**	–	–	2,510	2,510
Allimor Footwear (Pty) Ltd	**30.00%**	7,163,960	8,172,523	30	30
Amazin Hotels	**20.0%**	41,068,784	38,055,803	19,138,388	19,138,388
Business Venture Investments (Pty) Ltd	**30.0%**	19,337,777	18,710,006	30	30
Colliery Dust Control (Pty) Ltd	**40.1%**	–	–	401	12,984,766
Crowie Holdings (Pty) Ltd	**25.1%**	3,087	6,225,377	25,000,000	27,761,526
Cyclocor Motlekar (Pty) Ltd	**0.0%**	–	62,964,017	–	30
Delswa Trading (Pty) Ltd (Subsidiary)	**100.0%**	47,838,285	45,600,344	1	1
False Bay Bricks (Pty) Ltd	**30.0%**	–	7,750,000	300	300
Ga Matlala Roof Tiles and Bricks (Pty) Ltd	**30.0%**	17,682,936	6,319,145	300	300
Global Wheel (Pty) Ltd	**32.0%**	49,659,970	53,260,187	32	32
Golden Dice Foods (Pty) Ltd	**49.0%**	12,434,487	12,278,910	49	49
Gradoscope (Pty) Ltd	**49.0%**	13,367,351	12,131,414	11,300,000	11,300,000
Graskop Gorge Lift Company (Pty) Ltd	**26.1%**	32,431,989	–	2,200,000	1,100,000
Hoogland Farm (Pty) Ltd	**50.0%**	-	–	50	–
Imbaza Mussel (Pty) Ltd	**25.0%**	4,491,451	5,487,624	300	300
Inca Concrete Masonry (Pty) Ltd	**0.0%**	6,215,716	7,750,000	4,800,350	350
Jaff and Company (Pty) Ltd	**30.0%**	-	–	18,000	–
Janitone (Pty) Ltd	**0.0%**	25,368,432	22,316,646	3,800,180	3,800,000
Joy House Academy (Pty) Ltd	**45.0%**	-	–	8,543,080	–
Karbochem Co-generation (Pty) Ltd	**30.0%**	–	84,060,040	12,000,000	12,000,000
Kenako (Pty) Ltd	**49.0%**	–	–	6,071,189	6,071,189
Mabele Fuels (Pty) Ltd	**20.1%**	–	15,000,000	62,356,475	61,750,000
Magoveni Pharmaceuticals (Pty) Ltd	**25.0%**	10,952,657	9,833,821	333	333
Mayborn Investments 67 (Pty)Ltd	**0.0%**	17,597,366	20,398,415	334	334
M-Care Operating Company (Pty) Ltd	**22.5%**	28,211,886	–	2,250	30
M-Care Property Company (Pty) Ltd	**22.5%**	-	–	2,250	–

	% 2018 Holding	Loans receivable before impairment 2018 R	2017 R	Investments at cost 2018 R	2017 R
19. Related party transactions (continued)					
M-Care Management Company (Pty) Ltd	30.0%	–	–	300	–
Middelsdrift Dairy (Pty) Ltd	40.0%	6,710,626	6,541,065	4,500,040	4,589,036
Mohale (Pty) Ltd	45.0%	14,780,637	15,176,681	450	450
Mopadi Molamu (Pty) Ltd	20.0%	9,451,764	9,285,222	200	200
National Empowerment Fund Corporation SOC Ltd (Subsidiary)	100.0%	25,261,490	23,229,357		–
Petrocom (Pty) Ltd	30.0%	25,642,386	21,229,516	30	30
Pretamix (Pty) Ltd	49.0%	–	–	240	240
Pyratrade (Pty) Ltd	30.0%	18,010,026	17,335,361	30	30
Quartile Capital (Pty) Ltd	0.0%	22,390,027	37,440,027	37	37
Rapid Purple Waters Trading (Pty) Ltd	25.0%	22,667,293	23,666,720	450	450
Rhino Ridge Lodge (Pty) Ltd	33.3%	24,111,698	23,491,355	770	333
Royal Thonga Safari Lodge (Pty) Ltd	36.0%	10,650,420	–	36	–
SA Metals (Pty) Ltd	29.0%	–	–	40,000,000	40,000,000
Safepak (Pty) Ltd	34.0%	–	–	14,230,323	20
Salamax (Pty) Ltd	40.0%	630,938	630,938	3,153,417	3,154,417
Sehwai Exploration Drilling (Pty) Ltd	45.0%	–	–	112	–
Stutt Brick Company (Pty) Ltd	49.0%	–	12,648,565	30,499,181	45
Super Grand Agric (Pty) Ltd	30.00%	12,280,701	11,413,166	45	45
Surgetek (Pty) Ltd (Subsidiary)	100.00%	541,706	–	100	–
Unique Engineering (Pty) Ltd	49.0%	–	12,903,445	490	490
Value Cement (Pty) Ltd	25.8%	45,939,895	41,578,567	31	31
Vastek Trading (Pty) Ltd	30.0%	–	–	309	309
Willowvale (Pty) Ltd	45.0%	17,730,649	19,329,710	450	450
Zastrovect Investments (Pty) Ltd (Subsidiary)	100.0%	67,281,893	55,027,706	6,178,104	251

Notes to the Financial Statements

for the year ended 31 March 2018 (continued)

	Note	Group 2018 R	Group 2017 R	Trust 2018 R	Trust 2017 R
20. REVENUE					
Interest – cash		73,313,320	84,405,479	73,311,704	84,403,624
Interest – preference shares		6,725,546	5,188,359	6,725,546	5,188,359
Interest – originated loans		197,387,214	183,048,348	199,899,348	193,541,221
Interest - finance leases		24,081,219	13,767,827	24,081,219	13,767,827
Interest – other		–	285,173	–	285,173
Dividends		88,461,859	75,849,340	88,461,859	75,849,340
		389,969,158	**362,544,526**	**392,479,676**	**373,035,544**
21. SUNDRY INCOME					
Bad debts recovered		8,353,061	2,414,962	8,353,061	2,414,962
Other income		7,332,636	19,843,186	7,332,636	19,843,186
Profit on disposal of equity investment		–	7,511,375	–	7,511,375
External contributions		2,112,062	29,302,101	2,112,062	29,302,101
		17,797,759	**59,071,624**	**17,797,759**	**59,071,624**

	Note	Trust 2018 R	2017 R
22. Administration expenses			
Net operating income is arrived at after taking into account:			
Auditors' remuneration		**2,882,552**	**2,096,189**
– For external audit fees		1,786,643	1,501,622
– Internal audit– outsourced fees		1,095,909	594,567
Professional fees		**22,162,297**	**11,394,769**
– Human resources		372,449	114,000
– Information technology		1,116,242	1,940,116
– Legal fees		16,423,328	6,305,908
– Finance		98,977	54,090
– Risk management		400,534	843,995
– Strategy		397,316	332,672
– Investments		3,353,451	1,803,988
Depreciation	4	**969,660**	**1,207,831**
– Motor vehicles		–	55,940
– Computer equipment		855,640	658,440
– Audio visual equipment		–	33,673
– Office equipment		15,428	191,645
– Furniture and fittings		8,191	140,544
– Paintings		2,916	7,093
– Leasehold improvements		87,485	120,496
Trustees and senior management emoluments	25	**19 357 183**	**19,606,927**
Amortisation of intangible assets	5	**52,431**	**28,562**
Repairs and maintenance		**773,672**	**921,016**
Operating lease rentals		**12,880,199**	**13,294,845**
– Property rental		11,420,029	11,818,402
– Equipment rental		1,460,170	1,476,443
Total staff costs		**162,599,693**	**154,855,984**
- Salaries and other benefits		150,630,166	143,315,402
- Provident fund contributions		11,969,527	11,540,582
Headcount at year end		161	161

Notes to the Financial Statements

for the year ended 31 March 2018 (continued)

	Group		Trust	
	2018	2017	2018	2017
	R	R	R	R
23. Impairment charge				
Originated loans	102,459,874	225,737,512	102,459,874	225,737,512
Preference shares	(7,840,107)	(14,027,321)	(7 840 107)	(14,027,321)
Finance leases	59,056,563	1,170,689	59,056,563	1,170,689
Impairment for the year	**153,676,329**	**212,880,880**	**153,676,329**	**212,880,880**
24. Commitments				
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			8,684,804	7,137,070
Later than 1 year but not later than 5 years			6,921,894	3,451,366
			15,606,698	**10,588,436**

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.

	Group		Trust	
24.2 Undrawn loans and investments				
Not later than 1 year			**578,103,436**	**619,808,312**

Payment will be made out of cash reserves.

	Group		Trust	
24.3 Loans and investments approved and committed, but not yet contracted				
Not later than 1 year			**461,303,932**	**355,328,129**

Payment will be made out of cash reserves.

	Trust	
	2018 R	2017 R

24. Commitments (continued)

24.4 External Contributions

	2018 R	2017 R
Unconditional contributions recognised in Sundry Income		
Opening balance	164,998,716	91,515,363
Total income	69,762	102,480,944
- Contributions received	–	102,372,363
- Interest earned on contributions received	69,762	108,581
- Funds disbursed	(22,852,693)	(28,997,591)
- Contributions available for investment	142,215,785	164,998,716
Conditional Funding		
Other Conditional Contributions recognised in current liabilities		
Opening Balance	28,671,905	16,964,940
- Contributions received	38,000,000	22,969,145
- Funds disbursed	(18,605,688)	(11,262,180)
	48,066,217	**28,671,905**
DRDLR – Conditional Contributions recognised in current liabilities		
Opening Balance	282,778,365	100,467,000
- Contributions received	9,000,000	391,785,434
- Capitalised Interest	18,457,243	-
- Funds disbursed	(143,622,431)	(209,474,069)
	166,613,177	**282,778,365**
Total contributions available for future disbursements*	**356,895,179**	**476,448,986**

Approvals for the current year amounted to R10 920 000 (2017: R435 492 376) whilst disbursements for the year amounted to R289 226 835 (2017: R248 203 840).

Included in the funds disbursed under conditional contributions is an amount of R132 713 523, for DRDLR transactions, which were made into Attorneys trust accounts and are awaiting finalisation of the conveyancing process.

*Note that these balances are included in values in note 24.2 and 24.3 above.

Notes to the Financial Statements

for the year ended 31 March 2018 (continued)

	Basic R	Bonuses and performance payments R	Long term bonus payments R	Provident fund contributions R	Other contributions R	Fees to Non-Executive Trustees Other R	Total R
25. Trustees and senior management emoluments							
Year ended 31 March 2018							
Executive trustees:							
P Mthethwa (CEO)	3,063,373	1,788,721	-	612,675	57,888	-	5,522,657
I Pule (CFO)	1,811,335	738,344	-	217,360	80,859	-	2,847,898
	4,874,708	**2,527,065**	**–**	**830,035**	**138,747**	**–**	**8,370,555**
Senior Management:							
S Molepo (Divisional Executive)	2,051,860	1,038,812	-	307,779	83,568	-	3,482,019
H Makhathini (Divisional Executive)	1,739,544	1,072,284	-	260,932	144,093	-	3,216,853
M Dayimani (General Counsel)	1,649,484	1,007,026	-	247,423	117,146	-	3,021,079
	5,440,888	**3,118,122**	**–**	**816,134**	**344,807**	**–**	**9,719,951**
Non-executive trustees:							
*Z Ntlangula	–	–	–	–	–	137,943	137,943
*N Pascal	–	–	–	–	–	196,727	196,727
*A Makwetla	–	–	–	–	–	262,758	262,758
R Garach (Chairman)	–	–	–	–	–	351,616	351,616
*J Williams	–	–	–	–	–	317,633	317,633
	–	**–**	**–**	**–**	**–**	**1,266,677**	**1,266,677**
TOTAL	**10,315,596**	**5,645,187**	**–**	**1,646,169**	**483,554**	**1,266,677**	**19,357,183**

*The non-executive trustee remuneration reflected above represents service betweem 1 April to 17 December 2017 due to term of these trustees coming to an end.

	Basic R	Bonuses and performance payments R	Long term bonus payments R	Provident fund contributions R	Other contributions Other contributions R	Fees to Non-Executive Trustees Other R	Total Total R
25. Trustees and senior management emoluments (continued)							
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**

Notes to the Financial Statements

for the year ended 31 March 2018 (continued)

	Group		Trust	
	2018 R	2017 R	2018 R	2017 R
26. Notes to the cash flow statement				
Reconciliation of net (deficit)/surplus to cash flows from operating activities:				
Deficit for the year	**(68,836,240)**	**(328,383,807)**	**(64,574,449)**	**(317,276,930)**
Adjustment for:	**(127,052,948)**	**47,484,058**	**(131,314,739)**	**36,381,327**
Depreciation and amortisation	1,022,091	1,236,393	1,022,091	1,236,393
Interest received on cash and cash equivalents	(73,313,320)	(84,405,479)	(73,311,704)	(84,403,624)
Interest accrued on investments	(228,193,979)	(202,004,534)	(230,706,113)	(212,497,407)
Sundry income	(300,000)	-	(300,000)	-
Loss on disposal of fixed assets	148,317	962,994	148,317	962,994
Profit on disposal of Investments	-	(7,511,375)	-	(7,511,375)
Deficit from non-current asset held for sale	1,773,272	562,164	-	-
Capital raising Fee	(4,848,123)	(6,481,558)	(4,848,123)	(6,481,558)
Write-offs	62,874,550	26,670,332	62,874,550	26,670,332
Dividends received	(44,643,960)	(161,970,700)	(44,643,960)	(161,970,700)
Impairment of investments	153,676,329	212,880,880	153,676,329	212,880,880
Fair value adjustments	7,357,880	269,354,592	6,816,174	269,354,592
Enterprise Development Allocation	(2,042,300)	(1,859,200)	(2,042,300)	(1,859,200)
Taxation	(563,705)	49,549	-	-
Operating deficit before working capital changes	**(195,889,188)**	**(280,899,749)**	**(195,889,188)**	**(280,895,603)**
Working capital changes	**(153,183,149)**	**284,405,969**	**(152,305,516)**	**284,407,035**
Decrease/(Increase) in trade and other receivables	(47,430,315)	86,071,050	(46,510,683)	86,071,050
(Decrease)/Increase in trade and other payables	(105,752,834)	198,334,919	(105,794,833)	198,335,985
Net cash inflows/(outflows) from operating activities	**(349,072,337)**	**3,506,220**	**(348,194,704)**	**3,511,432**
27. Additional investment in core activities				
Originated loans	364,327,901	502,310,709	364,327,901	502,310,709
Investments in Associates	44,628,037	4,860,300	44,628,037	4,860,300
Non associate equity investments	271	99,784,140	271	99,784,140
Unincorporated equity investments	19,222,670	12,800,528	19,222,670	12,800,528
Finance leases	19,964,897	147,449,743	19,964,897	147,449,743
Non-cash additions*	(2,871,900)	(245,015)	(2,871,900)	(245,015)
Total disbursements	**445,271,876**	**766,960,405**	**445,271,876**	**766,960,405**

*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

Revenue is lower than budget mainly due to lower interest earned on investments as a result of lower disbursement made that budgeted.

28.2 Other income

The unfavourable variance is as a result of external unconditional contributions that were anticipated to be received in the current financial year, as well as low capital raising fee received due to low disbursement activity.

28.3 Total expenses

R35 million of the saving on total expenses is mainly as a result of a reduced head count of 161, against a budget of 185.

28.4 Impairments

The impairment charge for the year is R30 million lower that budget due to continued active portfolio monitoring. However this is also impacted by unbudgeted write offs of R63 million during the year, with a net unfavourable variance of R33 million.

28.5 Fair value (losses) and gains

The unbudgeted net fair value loss of R6.8 million comprises R79.8 million net gain on non associate equity positions (mainly led by R81 million gain on BusaMed). This fair value gain is however reduced by R38.8 million fair value loss on listed equities (mainly MTN which declined by R30 million). Further fair value losses were recorded on associates (R29.1 million) and unincorporated joint ventures (R19.2 million).

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 has a tax exemption effective as 25 April 2017.

33. Contingent liability

33.1 NEF application to perfect security defended by client

A summons has been received from a client with a loan facility to defend an NEF application to perfect the Trust's security. Our attorneys are preparing submissions against the guarantors' claim for loss of income estimate of R450 million, and based on legislation, it is expected that the matter will be settled in favour of the NEF.

33.2 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.

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

A recently dismissed employee instituted a case for unfair dismissal against the NEF defended after year end. The NEF believes that the case can be favourably defended. The case is still on-going and the outcome of the matter cannot be reliably predicted and measured at reporting date and consequently no provision has been recognised.

Notes to the Financial Statements

for the year ended 31 March 2018 (continued)

34. Segment reporting

The NEF has offices throughout 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	145,671,917	1,530,660	2,029,811	1,206,211	2,598,517	3,042,590	1,835,127	3,124,226	1,560,634	162,599,693
Other Operating Expenses	84,751,202	555,040	371,513	758,456	538,866	216,922	425,559	613,148	654,431	88,885,138
Total Base Costs	**230,423,119**	**2,085,700**	**2,401,324**	**1,964,667**	**3,137,383**	**3,259,512**	**2,260,686**	**3,737,374**	**2,215,065**	**251,484,831**
Non-current assets per region										
Property and equipment at cost	29,203,800	60,683	60,930	36,671	34,429	13,549	24,727	18,010	470,127	29,922,927
Accumulated depreciation	(5,908,020)	(60,683)	(58,178)	(36,671)	(34,429)	(13,549)	(24,727)	(6,904)	(196,382)	(6,339,544)
Net carrying amount	**23,295,780**	**–**	**2,752**	**–**	**–**	**–**	**–**	**11,106**	**273,745**	**23,583,383**

	2018 R	2017 R
35. Taxation		
Deferred tax		
– Opening balance	563,705	514,156
– Current year	(563,705)	49,549
	–	**563,705**

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. It should be further noted that the NEF is now a registered VAT vendor.

The South African Revenue Service (SARS) confirmed that the application for exemption from income tax for National Empowerment Fund Corporation SOC Limited has been approved. Income Tax Exemption has been granted in terms of section 10(1)(cA)(ii) of the Act. The exemption approval is subject to review on an annual basis by the Tax Exemption Unit upon receipt of the annual income tax return.

Administration

31 March 2018

Trustees	Mr R Garach (Chairman) Ms P Mthethwa (CEO) Ms I Pule (CFO) *Mr Ernest Kwinda *Mr Sipho Reginald Zikode *Ms Lerato Cynthia Molefe *Ms Nonkqubela Maliza *Ms Nthabiseng Moleko

*New Non-executive Trustee appointments, effective 05 April 2018.

Outgoing Trustees whose term expired 17 December 2017:

	Ms Angie Makwetla Ms Nomalanga Pascal Ms Zukiswa Ntlangula Ms Jacque Williams
Bankers	Standard Bank Limited First National Bank Limited Rand Merchant Bank South African Reserve Bank
Auditors	SNG Grant Thornton
Business address	West Block 187 Rivonia Road Morningside 2057
Postal address	P.O. Box 31 Melrose Arch Melrose North 2076
Registered address	West Block 187 Rivonia Road Morningside 2057

Notes

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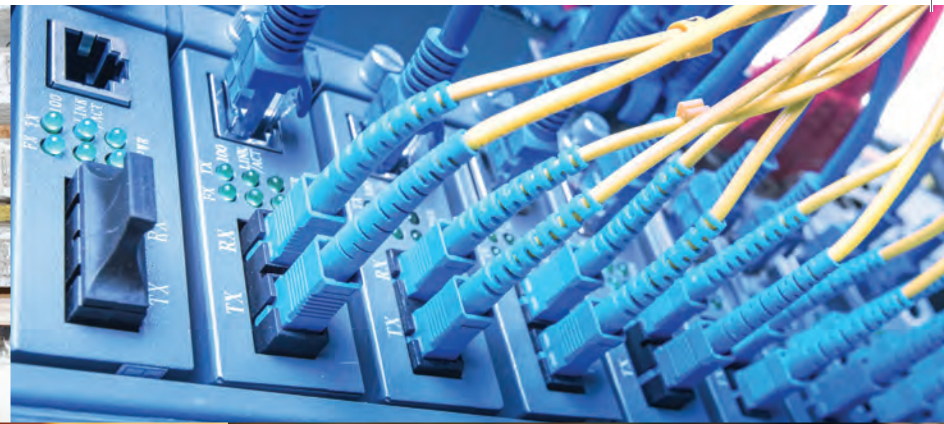




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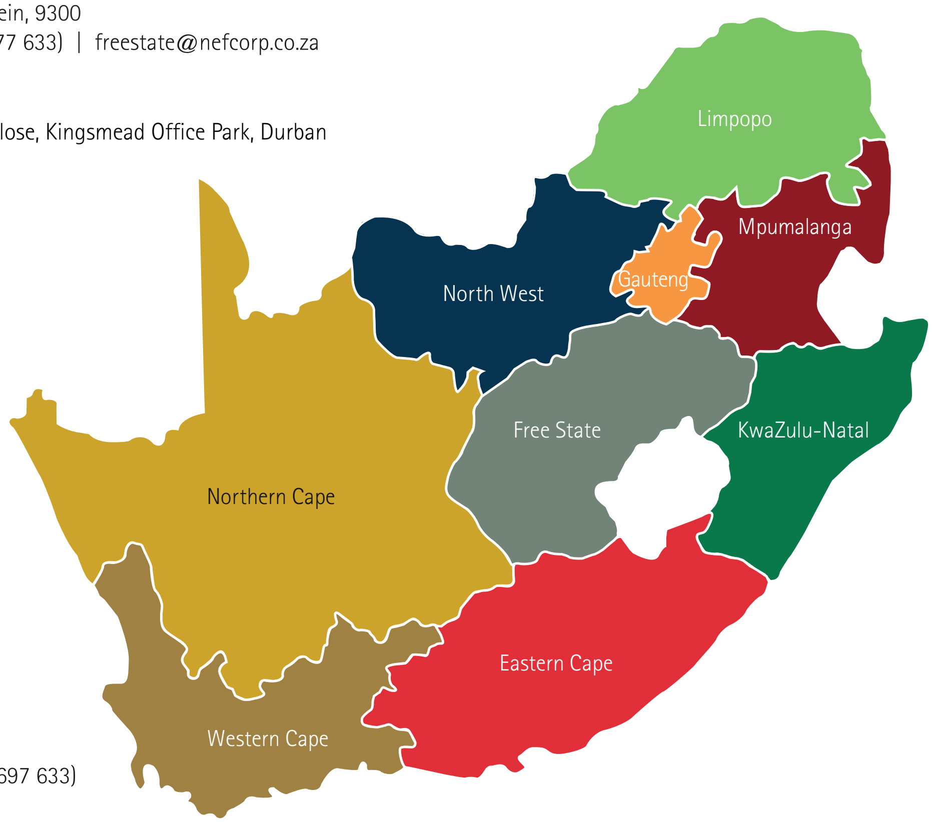

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