REPORT OF THE CHIEF FINANCIAL OFFICER

Ms Innocentia Pule

Embedding integrated thinking

New Developments and Updates

The 2016 Group results include two investment entities that the NEF has taken control over. These are Zastrovect Investment (Pty) Ltd (trading as Goseame Open Market - Goseame) and Delswa (Pty) Ltd. Goseame is a fresh produce retailer based in Limpopo while Delswa is in textile manufacturing, more specifically corporate wear, based in the Northern Cape. Delswa went into distress due to poor management. Like in the case of Goseame, which was taken over in 2014, the NEF stepped into the management role of the entity mainly to preserve the jobs that were at risk especially in that part of the country.

The accounting treatment of investments that are temporarily taken over by the Trust is in terms of GRAP100: Discontinued Operations by treating such entities as disposal groups acquired exclusively with a view to dispose of them once they have been stabilised. The Minister of Finance has granted PFMA compliance exemption of Goseame and Delswa for a period of three years, ending June 2017 and July 2019 respectively. The Trust is actively pursuing the disposal of both entities hence the application of GRAP100 accounting treatment.

National Empowerment Fund Corporation SOC Limited (NEFCorp SOC Ltd) is a wholly owned established subsidiary of the Trust which was incorporated in 2002 to facilitate asset management activities of the Trust. The company currently owns an investment property, which is the property on which Goseame conducts business. The rental income from Goseame is currently the only source of income for this entity. GRAP6 consolidation was performed for this subsidiary.

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

Annual highlights

Portfolio collections

R541 million

20% up on 2015

R103 million

raised for Enterprise & Supplier Development

29.18%

procurement from black women-owned entities

(14.53% in 2015)

Financial Performance Overview of the Trust

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

Rm	5 year CAGR	5 year average	Annual Growth	2015/16	2014/15	2013/14	2012/13	2011/12
Financial Position								
Cash and Cash equivalents	-8%	1 648	-2%	1 419	1 448	1480	1 689	2 202
Financial market assets	0%	1 774	-33%	1 412	2 116	2254	1 686	1 403
Investment in development activities	8%	2 123	1%	2 368	2 344	2284	1 976	16 40
Other assets	10%	48	1331%	93	6	14	71	58
Total assets	**0%**	**5 593**	**-11%**	**5 292**	**5 915**	**6 032**	**5 422**	**5 303**
Current liabilities	34%	80	198%	188	63	56	49	44
Trust capital & reserves	-1%	5 634	-13%	5 104	5832	5976	5 976	5 259
Financial Performance								
Interest on development activities	13%	177	-5%	206	218	193	146	112
Interest on cash investments	-10%	96	0%	83	83	76	102	147
Total interest	3%	273	-4%	289	301	269	258	249
Dividends from development activities	627%	5	-4%	7	7	7	3	0
Dividends from financial market assets	10%	110	5%	137	130	109	86	86
Other income	83%	31	3 526%	101	3	20	24	5
Fair value gains/(losses)	80%	-10	302%	-656	-163	550	251	-34
(Loss)/Profit on disposal of investments	-231%	9	-	58	–	-	-	-15
Operating expense	4%	211	15%	237	206	200	219	192
Impairments	33%	238	127%	445	196	152	290	105
Surplus/(deficit) for the year	163%	-32	499%	**-747**	**-125**	**604**	**114**	**-6**
Operating surplus/(deficit) for the year	-226%	-22	-339%	**-91**	**38**	**53**	**-138**	**28**
Financial Ratios								
Cash and Cash equivalents to total assets		29,7%		26,8%	24,5%	24,5%	31,2%	41,5%
Net Return on assets		-0,8%		-14,1%	-2,1%	10,0%	2,1%	-0,1%
Return on investment (before impairments)		8,7%		9,5%	9,4%	8,8%	8,8%	6,8%
Return on investment (after impairments)		-1,3%		-3,5%	1,3%	2,1%	-6,6%	0,4%
Operating expenses to income		50,3%		40,2%	46,9%	49,2%	59,0%	56,4%
Impairment charge ratio		11,0%		18,8%	9,3%	6,7%	14,7%	6,4%

Net development investment portfolio kept steady at 1% increase year on year while interest income on development activities declined by 5%, mainly due to increasing impaired loans since the prior year. Portfolio income earned in the year was however boosted by R58 million realised profit on a partial disposal of one of our associates, resulting in pre-impairment return of 9.5% (9.4% in 2015) which is 17bps below average prime interest rate over the financial year. This below prime result is an indication of the distress that our investments have gone through in an environment of interest rate hikes. Rates are forecasted to continue on an upward trajectory for the rest of the 2016 calendar year, before any reprieve is expected.

Cash balances were maintained around R1.4 billion over the year, following a net decrease/consumption of R29.7 million in the year. It should however be noted that about R1.1 billion of this cash was committed as at year end. Whilst disbursements increased by 36% to R683.9 million in 2016, collections from investments as well as proceeds from sale of investments comprised 79% (89% in 2015) of disbursements made in the year. This combined with Enterprise and Supplier Development (ESD) contributions received in the year of R103 million (R6.25 million in 2015) have mainly assisted in moderating the net cash consumption for the year. We have managed to innovatively work with the legislative amendments made to the Codes of Good Practice to continue partnering with all our contributors in the future.

The majority of our dividend income continues to flow from MTN shares, R132.5 million accrued for the year; with the rest flowing from other listed and unlisted investments.

At 68% (67% in 2015), human capital costs continue to be the single largest overhead for the NEF. This proportion continues to be favourably maintained below the global average of 70%. The proportion of support staff to professional staff has been maintained at two professional staff to one support staff member.

Operating expenses have increased by 15% mainly as a result of the continued recruitment for key vacancies. As indicated in the prior year, the cost of new staff members who joined the organisation during the second half of the 2015 financial year was fully incurred during 2016. Despite this increase in costs, the Trust has reported a healthy jaws ratio (difference between growth in income and operating expenses) of 19% (6% in 2015). The reported 34% increase in total income was mainly driven by unconditional grants received as well as the realised profit on disposal of investments.

Cost to income ratio has also reduced to 40.2% from 46.9% reported last year, remaining comfortably below the long term targeted range of between 54% and 58%. The NEF will continue to sustainably enhance its income sources while managing its costs to ensure that these positive gains are not eroded in the medium to long term horizons.

Despite increased active portfolio management interventions over the past three years, we have seen more and more of our investees struggling. Market conditions, which are mostly marred by slow economic growth, high inflation and an upward interest rate environment, have resulted in provision impairments charge of R407.2 million (R167.4 million in 2015) and write offs of R37.4 million (R28.3 million in 2015).

The Trust delivered an operating deficit (i.e. net result before fair value gains) of R91.4 million which is a material shift from the R38.1 million operating surplus reported in 2015, mainly as a result of increased impairment and write off charges.

Net fair value losses of R655.8 million are mainly made up of the mark to market (mtm) valuation of the MTN shares (from share price decrease R205.00 in 2015 to R135.20 in 2016), and represent unrealised net losses in equity positions. These fair value entries are in compliance with GRAP requirements and are the main contributor to the net reported deficit for the year at R747.2 million. This material deficit has resulted in the reduction of total assets of the Trust from R5.9 billion to R5.3 billion.

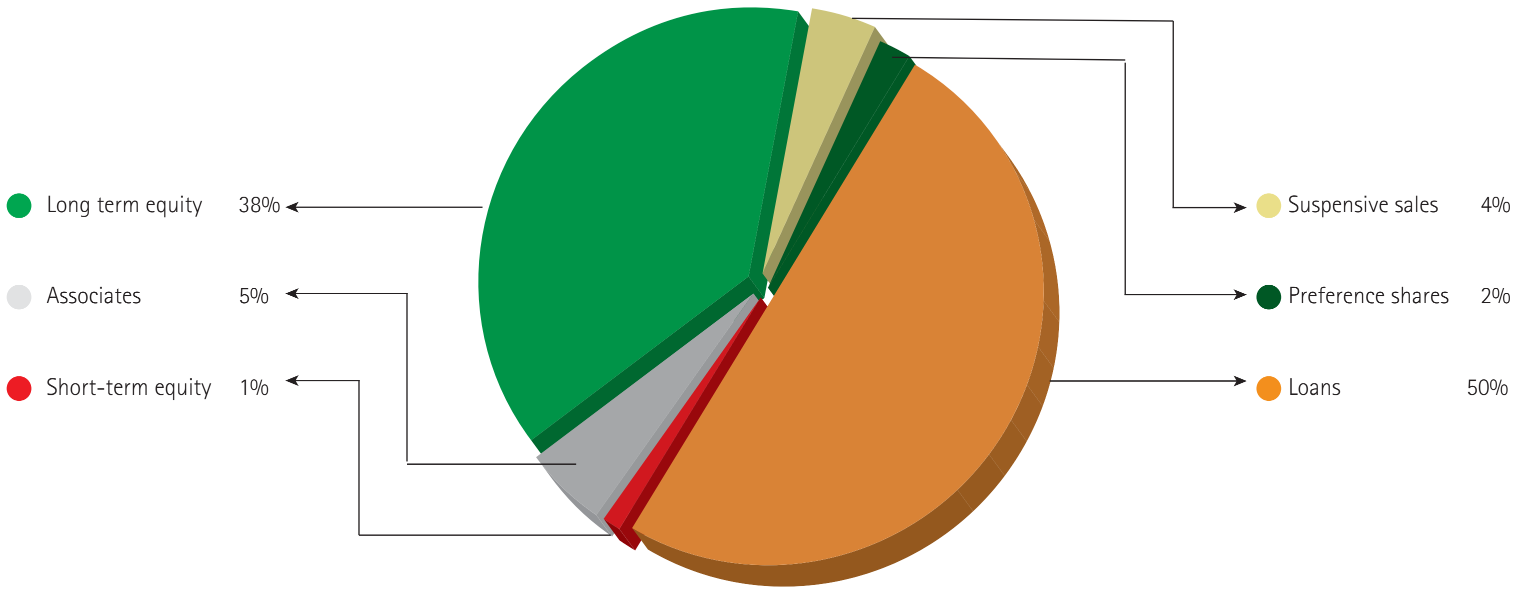
Sustainability of our Portfolio

Our portfolio make-up as reflected in Figure 1 indicates that interest bearing lending remains a focus for the NEF. Loans, preference shares and suspensive sale advances (excluding mtm impact in respect of the MTN shares since 2013) have increased to 56% from 52%. The portfolio skew in favour of non-equity instruments provide the NEF with the required element of predictable cash flows though this must be done in full consideration of the level of loans in moratorium at that specific reporting date.

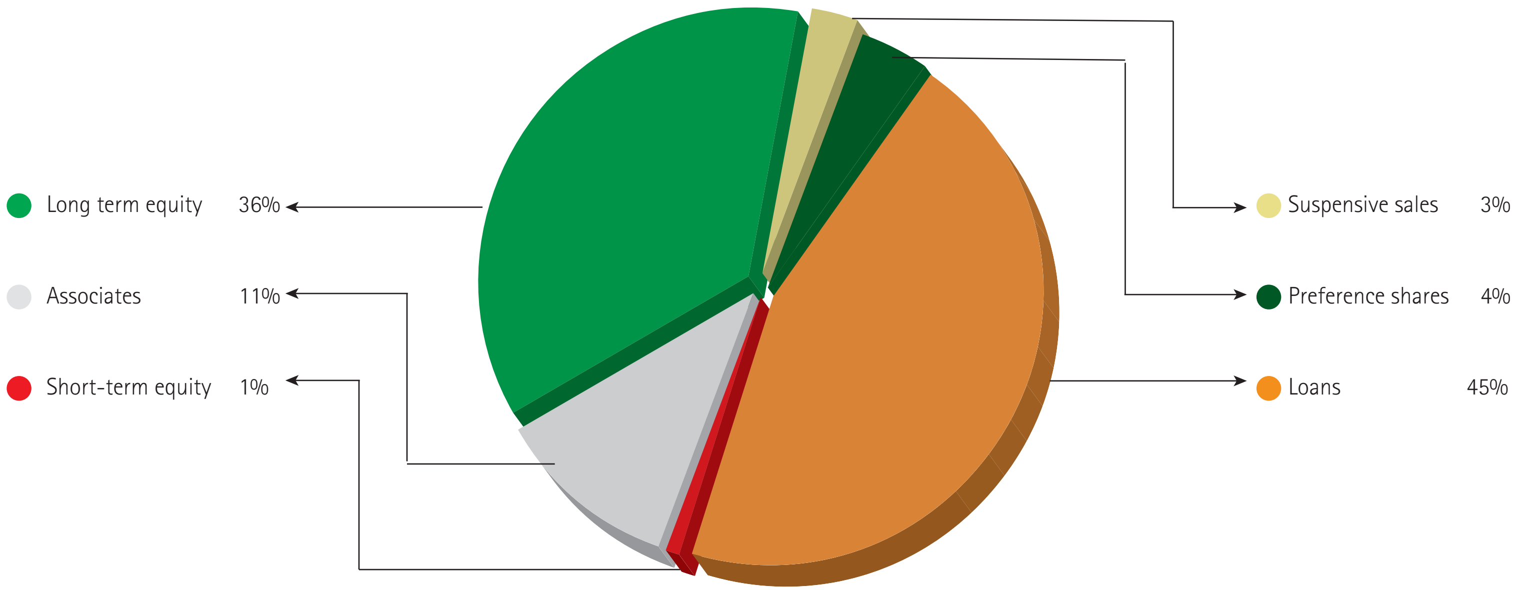
> *"As a country, we should be proud of the successes gained through the broad-based black economic empowerment legislative framework so far. But, despite the much celebrated gains, there are still segments of our economy that experience major challenges. This is evidenced by the low participation of black people in critical economic spheres".*
>
> *His Excellency President Jacob Zuma at the inaugural Black Industrialists Indaba, Gallagher Convention Centre, Midrand 25 March 2015*

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

2016



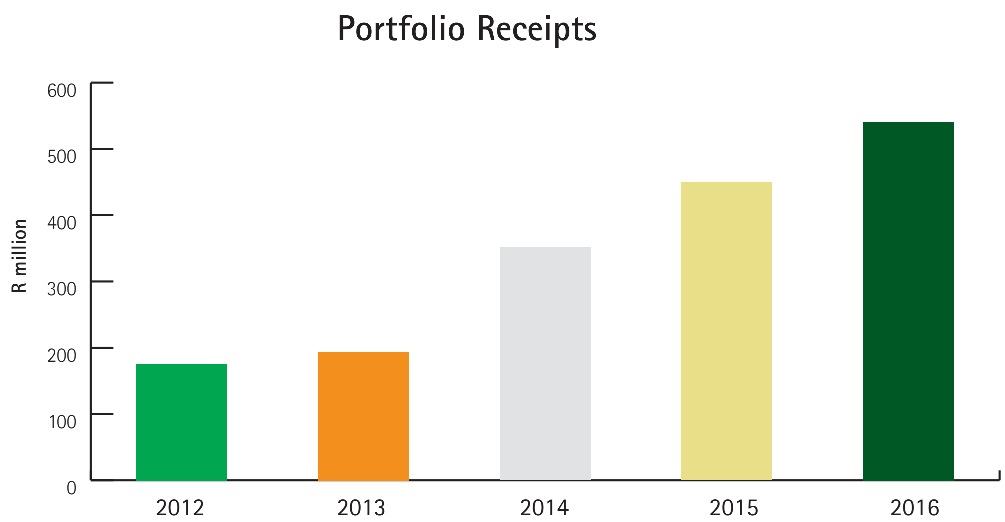
2015



Reported income before impairments, fair value movements and dividends, is a key indicator of the operational sustainability of the fund. At R210 million (2015:R97 million), this indicator accounts for the ability for cash and investments to sustain the operational overheads of the NEF.

The collection ratio (measured as receipts as a percentage of installments raised) at 97% has increased from the prior year's 84%. Total portfolio collection and proceeds from disposal of equity investments at R540.6 million is 20% higher than total portfolio collections made in 2015 and is the highest ever recorded collection amount since inception. Figure 2 below demonstrates collections made by the NEF since 2012. Over the last five years, the NEF has collected over R1.7 billion from its investees.

Figure 2: Portfolio Receipts per year



We have further continued to closely monitor the level of loans in moratorium, which we aim to keep ranging between 35% and 40% of the carrying value of the loan book. We have managed to reduce this ratio to 31% (30% in 2015) as the impact of new disbursements were tampered down by existing loans that came out of moratorium and started paying as scheduled.

Portfolio impairment provisioning in the year increased to 24.41% from prior year's 19.08%; mainly as a result of the tough economic environment. Write offs of R119.7 million were made in the year (R193.8 million in 2015) following a long process of recovery. Whilst management is currently of the view that the chances of recovery at this point are negligible, the legal processes of bad debt recovery where applicable will continue. Whilst impaired loans have increased to 29% by number from 17% (refer note 3.2.1 of Consolidated Annual Financial Statements), it is pleasing to note that performing loans have been maintained around 70% year on year.

Fair value movements on equity positions (excluding MTN) at an unrealised gain of R50.3 million have materially increased from prior year's unrealised loss of R31.6 million. This was mainly as a result of unrealised fair value gains from associates which are largely SPF operational projects where new equity partners were introduced during the year. These fair value gains are a demonstration of the value that the NEF's seed capital has unlocked for these projects.

IT Management

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

- provide strategic leadership for IST through the alignment of IST strategic objectives and activities with enterprise strategic objective and processes;
- prioritise IST investment initiatives and deliver final approvals and recommendations on proceeding with proposed IST projects;
- ensure open communication between the IST department and the other functional units of the National Empowerment Fund so as to promote collaborative planning;
- monitor and manage the IT spent and return on investment;
- monitor IST related risks and ensure that the risks are adequately managed within the IT department; and
- ensure effective IT Governance is in place within the department.

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

Investee Profile:

iMbewu Fund

Boniswa Corporate Solutions (Pty) Ltd

Boniswa Corporate Solutions (Pty) Ltd is a 100% black woman owned business with a staff complement of 130 employees. The company is a multi-disciplinary telecommunications services and resources company that was established in 2004 and has experience in various disciplines of telecommunications including wireless technologies, optic fibre, copper cable works, civil works and network support services for both fixed line and wireless systems. Boniswa Corporate Solutions provides site infrastructure to Vodacom and other telecommunication companies in South Africa and the SADC region. The company currently has its head offices in the Gauteng Province, with satellite offices in their

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

- two business application projects (version upgrades)
- two infrastructure related projects (Electronic back-up solution and related disaster recovery plans)

The IT department under the guidance of the IST Steering Committee managed to fully deliver 3 of the 4 (75%) of set projects by year end. The only project that was outstanding at year end which was initially intended to be fully commissioned by August 2015 experienced further delays due to staff resignations and lack of capacity in finalising the testing. The cost of the project has however not been impacted by these delays.

We continued to enhance IT governance through the formulation or updating of policies and standard operating procedures. Whilst the general control environment continues to be assessed as weak by internal auditors, we have managed to clear 10 of the 12 (83%) of the findings that we had at the beginning of the year. Continued enhancement of our control environment and overall risk management will main a key focus in the year ahead. We aim to achieve this through three major projects during the 2017 financial year, namely:

- an independent governance review of our IT environment;
- a holistic infrastructure management review; and
- a business process re-engineering review.

We remain committed to ensuring stability of the IT systems, with 99.63% system availability attained during the year as well as securing our IT environment with regular penetration testing and annual health checks and constant monitoring of both our IT infrastructure and applications. With cybersecurity remaining a key risk for all organisations, we have ensured that there is a raised level of awareness of this risk within the NEF and will continue to enhance our controls to mitigate this risk in our environment.

Supply Chain Management

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

The NEF issued five (05) public tenders (Request for Proposals - RFP) which were evaluated against the process set out in the NEF Supply Chain Management Policy, the National Treasury Supply Chain Management Regulations and Preferential Procurement Policy Framework Act and all of the relevant practice notes.

Table 1: Public Tenders issued and considered (RFP)

Tender	Tender Number
On-Line Business Planner Toolkit	RFP: NEF 01/2015
Simulated Entrepreneurial Training	RFP: NEF 02/2015
Business Process Re-engineering	RFP: NEF 03/2015
Social Facilitation Panel	RFP: NEF 04/2015
Security Services	RFP: NEF 05/2015

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

The Procurement Committee is tasked with monitoring progress against Broad Based Black Economic Empowerment (B-BBEE) procurement targets and for the financial year R56.5 million of our procurement spend was procured from 319 suppliers. R34.2 million (60.56%) (reduced from 62.9% in 2015) of our procurement expenditure has been with majority (50.1% to 100%) black owned suppliers. Of this amount, we procured R16.5 million (29.18%) from Black Women Owned businesses. We are proud of the current year achievement which is a significant shift from the 14.53% achieved in 2015.

Table 3: BEE Ownership levels reported

BEE Status -Ownership		Number of suppliers	Percentage by number	Value (Rm)	Percentage by value
1.	75.1% - 100%	158	49.53%	32.2	56.95%
2.	50.1% – 75%	9	2.82%	2.0	3.61%
3.	25.1% – 50%	36	11.29%	8.5	14.97%
4.	0% – 25%	116	36.36%	13.8	24.47%

Supply Chain Management practices have 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 2016.

Focus for the year ahead

The NEF's recapitalisation and sustainability remains a key focus for the Board. There has been very little progress on the business capitalisation process since the preferred decision for the NEF to be an arm's length subsidiary of the IDC. Management, with the guidance of the Board has continued to tightly manage available resources, source long term capital and explore innovative ways to ensure that we continue with our work.

Our power is in our human capital capabilities which have allowed us to synergistically support other public entities to roll out their programmes. Through some of the programmes we have been involved in, for example the work done with the Department of Rural Development and Land Reform (DRDLR), we have demonstrated that the NEF is ready and able to broadly contribute to governmental policies and priorities around the transformation of our economy.

The South African economic outlook remains subdued in the short term, we will therefore continue to closely support our investees to ensure both their and our sustainability through the trough in preparation for when the tide turns.

The continued enhancement of our IT environment, more specifically around governance, security and improving efficiencies is also a major focus for us in the medium term.

Acknowledgements

Rolling out the Integrated Report and observing the transformation with which integrated thinking is being increasingly embedded within the organisation has been the most fulfilling part of this journey. To the staff that have assisted to put this report together, following a sterling first report issued in 2015, thank you!

I'm grateful to all dedicated staff of the NEF who hold the NEF flag high in their patriotic delivery of the results we have profiled in this report. Difficult economic and business conditions are set to continue, I am however confident in our resolve and capabilities as a team to weather the storm. To the Executive team, the Board and the Audit Committee, thank you for your continued support through the year. It is a privilege to serve alongside you.

Ms Innocentia Pule

Chief Financial Officer

Investee Profile:

iMbewu Fund

Dikwata Harvesting (Pty) Ltd

Dikwata Harvesting (Pty) Ltd (Dikwata Harvesting) is a newly established company that has an off-take agreement with SAPPI Forests (SAPPI). The business is a registered entity owned by Emmanuel Tokollo Mashile who is a 100% shareholder. The business specialises in mechanised harvesting of timber in the Highveld. They are harvesting different species of Eucalyptus trees, transporting the timber to the depot, offloading and loading of timber from the depot into train wagons to Sappi Saiccor. The business operations are based in Piet Retief Mpumalanga.

Dikwata Harvesting will employ 24 people, most of whom will have forestry and harvesting background and former employees of the previous contractor. The NEF has invested R9.9million for the acquisition of plant equipment, trucks to transport timber and for working capital.