

REPORT OF THE TRUSTEES

This report sets out the results achieved by the National Empowerment Fund (NEF) against Key Performance Indicators to be found in the Strategic Plan for the years 2008 – 2012. The focus of this report will be fiscal year 2008/9, where both qualitative and quantitative results will be examined as befits a Development Finance Institution (DFI). Further, the report is distinctively divided between the Core and Support functions of the NEF in recognition of the fact that delivery on mandate would be impossible without a well-rounded organisation, which the Board and management have built.

THE HISTORY OF THE NEF

The NEF was established by the National Empowerment Fund Act No 105 of 1998 (the NEF Act), with the purpose of promoting and facilitating Black economic equality and transformation. Its mandate and mission is to be a catalyst of BB-BEE. The NEF, in recognition of the national character of its mandate, is committed to maximising its reach to all provinces in pursuit of its mandate to promote BB-BEE participation in the South African economy. As such, the NEF has organised itself and crafted interventions specifically designed to nurture the entrepreneurial spirit of Black people in South Africa, and in so doing, move the country towards its goal of an inclusive economy.

With this Report, the Board of Trustees present to the government, the Parliament and people of the Republic of South Africa an account of how the NEF is discharging its mandate as the driver of BB-BEE, and how its mandate seeks to bring real economic opportunities into the hands of many.

Strategic Planning Framework

In order to implement its mandate, the NEF has developed a three-year Strategic Plan for the years 2008/09 to 2010/11. The strategy was developed through a broad consultative process. The consultation started with internal divisional strategic planning meetings. The output of this exercise was tabled for further refinement at the combined Executive and Management Committee strategic workshop that took place in November 2007 and then again at the end of February 2008. In March 2008, the NEF Board of Trustees approved the final version of the Strategy and Business Plan.

Accordingly, the Board of Trustees challenged each division of the NEF in respect of the articulation of their respective strategies for the coming years to examine the planned activities and outputs to effectively respond to the injunction: **"What are we as the NEF, doing in this area of focus, which is extraordinary, in the implementation of our mandate."** This document therefore elaborates on the NEF's strategic responses to this challenge.

In addition, the NEF completed an Annual Business Plan for 2009/10. This Business Plan reflects the details regarding the planned approvals and disbursements for the Fund Management Division and associated activities for 1 April 2009 to 31 March 2010. The business plan has also outlined the planned activities of the three core divisions for the same period, namely Asset Management, Fund Management and the recently established Strategic Projects Fund, including a finance and resource plan to support the implementation of the core strategies.

THE QUEST FOR ECONOMIC CITIZENSHIP FOR ALL

As a direct result of apartheid's social engineering, Black people (African, Coloured and Indian) were largely excluded from the economic mainstream, consigned largely to small retail activity, small-scale farming and jobs/careers where capital could not be accumulated. The result has been that collectively, Black South Africans own less than 15% of the national economy, despite their constituting over 85% of the population.

New leadership: Three tools to deliver on mandate

The appointment of the second Board of Trustees in November 2005, following the appointment of the current Chief Executive Officer (CEO), Ms Philisiwe Buthelezi, saw the scene set for the overall revamp of the operations and strategic plan of the NEF. This strategic plan added another leg to the NEF mandate, which built on the Fund Management Division (FMD) and the Asset Management Division (AMD) with the introduction of Strategic Projects Fund (SPF).

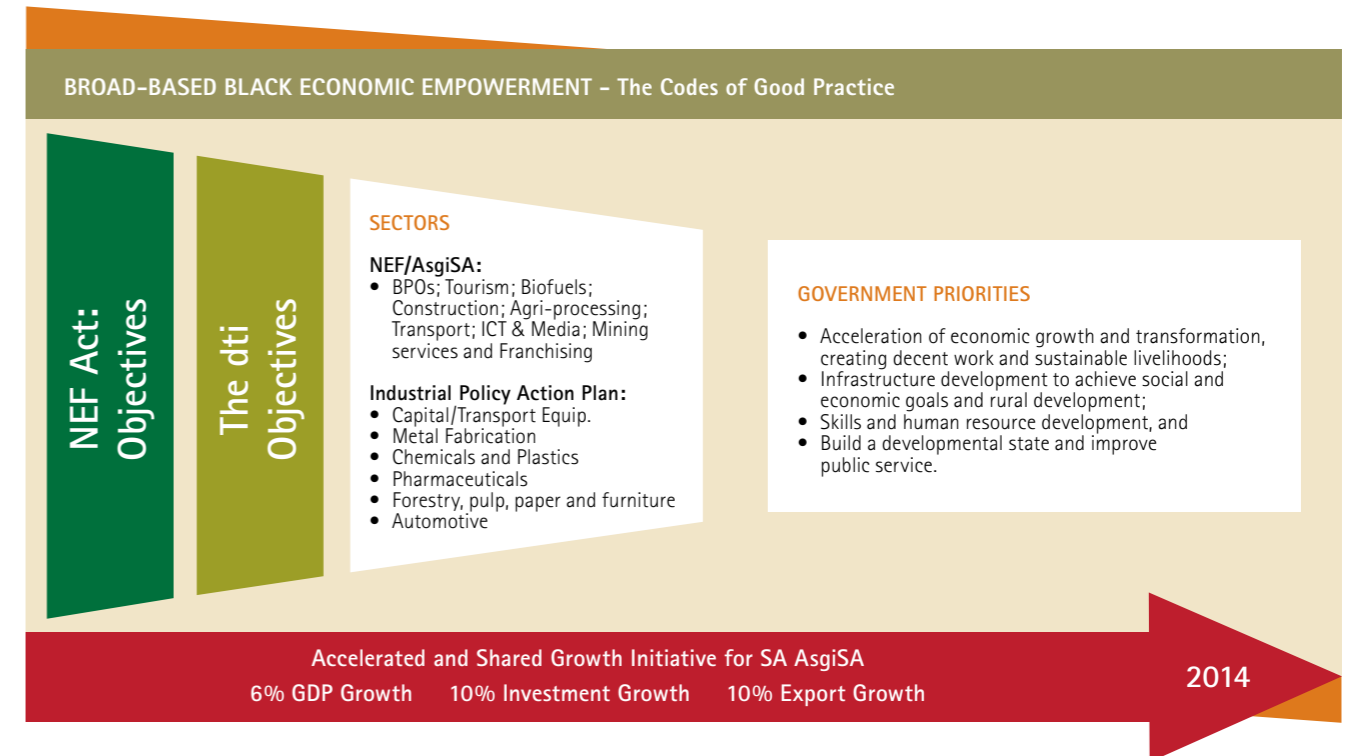


Figure 1: The Strategic Planning Framework

As stated previously, the report of the Trustees will highlight the core divisions of the NEF as well as what is euphemistically called the support divisions as a means of fully reflecting how the NEF delivers on its mandate.

CORE DIVISIONS

The NEF implements its mandate in three distinct ways:

- Firstly, it provides financial and non-financial solutions across a range of sectors to advance sustainable Black economic participation in business enterprises through its Fund Management Division.
- Secondly, it structures equity-based retail products to ensure meaningful economic participation and maximised economic benefits through promoting savings and investment activities to a broad base of Black people through its AMD: and
- Thirdly, through its Strategic Projects Fund, the NEF plays a central role in early stage projects by identifying, initiating, scoping and developing projects aligned to the AsgiSA Strategy in partnership with industry experts and financiers. These projects, once identified, will be taken through four-stages in project development phases which are Scoping, Pre-feasibility, Bankable Feasibility and Financial Closure in similar way to typical venture capital finance.

The SPF allows the NEF the ability to secure and warehouse for BEE equity stakes in large-scale investments at low valuations due to early stage project participation.

Since inception up to 31 March 2009 the NEF approved 177 transactions worth R1.4 billion, and 160 transactions of R978 million were disbursed. As at 31 March 2009, transactions included in work-in-progress total 50 deals worth R1.077 billion. By percentage, 67% of the portfolio by value has been disbursed to buy equity in White-owned businesses on behalf of Black entrepreneurs; and 82% of the portfolio by number has been disbursed to Black entrepreneurs starting up or expanding their own businesses.

By number, 75% of the portfolio is based on loan funding and 25% of the portfolio is in loan and equity funding. However, by value 31% of the portfolio is based on loan funding and 69% of the portfolio is in loan and equity funding; 76% of NEF's funds are invested in deals below R5 million and 24% above R5 million. The NEF's R978 million invested portfolio has leveraged a further R1.980 billion worth of third-party funding.

	(R) Value	% By Value	By Number	% By Number
Early Stage	R217 m	22.3%	101	63.0%
Development Stage	R103 m	10.5%	30	18.8%
Later Stage	R658 m	67.3%	29	18.2%
	R978 m	100%	160	100%

Table 1: Raison D'être of the NEF's Programmatic Interventions

Investment Methodology and Portfolio

The NEF's investment methodology enables the institution to pursue national priorities such as BB-BEE, the dti's industrial policy objectives and the targeted government programmes such as the AsgiSA. The AsgiSA is a plan by government to boost the country's growth to 6% and halve poverty and unemployment by 2014.

FUND MANAGEMENT

The Fund Management Division (FMD) was established in 2006 and began its activities in earnest with the appointment of the current CIO and senior management team to promote and support business ventures pioneered and run by Black people.

The programmatic interventions for the year under review are set out below.

Business Planner

The NEF identified the writing of business plans as one of the key challenges faced by Black entrepreneurs. After investigating this market failure, the NEF developed an online tool available free to the public on the NEF's website. This tool is a step-by-step guide designed to help entrepreneurs in the compilation of a business plan including financial projections.

The salient features of the business planner are as follows:

- The output (business plan) is institutionally agnostic – meaning once produced it can be taken to any of the DFIs or other financial institutions, and
- The Financial Projections model is currently available in five languages, namely xiTsonga, seSotho, siZulu, English and Afrikaans.

While the tool became available on-line during the third quarter of the year under review, the national and provincial launches of the business planner will take place in the next financial year.

Rural and Community Development Fund

The Board has approved the establishment of a dedicated Rural and Community Development Fund (RCDF) to address the funding requirements of rural and community development projects in various provinces. An amount of R300 million has been allocated to the fund. Some of the projects that have been funded to date include Amajuba Berries and Middlesdrift Dairies.

The NEF is particularly proud of its RCDF in that its creation is a direct result of the NEF understanding the needs of its target market, and aligning itself with national policy.

Mentorship Programme

The mission of the Post-Investment Unit is to provide non-financial business support to NEF investees for the purpose of bolstering their operational capacity. Accordingly, one of the initiatives of the Post-Investment Unit is the mentorship programme through which the NEF provides advice on business processes. The Unit is grounded in the philosophy of "turn around, don't liquidate", which is a recognition of the NEF's developmental role.

The provincial deployment and rollout plan of the mentors has commenced and will continue beyond financial year 2012. The mentorships panel consists of 77 mentors, with representatives from each of the provinces, and the NEF itself provides mentorship to its investees without charging any fees. It is hoped that the mentorship programme will be adopted as a standard for the investing of capital in the SME sector.

National Footprint – SME Strategy

In an attempt to better serve its market the NEF has identified the need to "go where its clients are", as such, it has developed a strategy for its SME programme. The concept is a simple one and entails the establishment of NEF presence in provinces that have been underserved by the organisation to stimulate "deal flow" and to be seen as a funder of first choice by local entrepreneurs.

While the modalities of presence are still being developed, it is envisaged that the NEF will employ a combination of a "co-location" or "go it alone" strategy as is practical under the circumstance. The Provinces to be targeted will be: (i) Limpopo; (ii) Northern Cape; (iii) Mpumalanga; (iv) North West; (v) Eastern Cape and (vi) Free State.

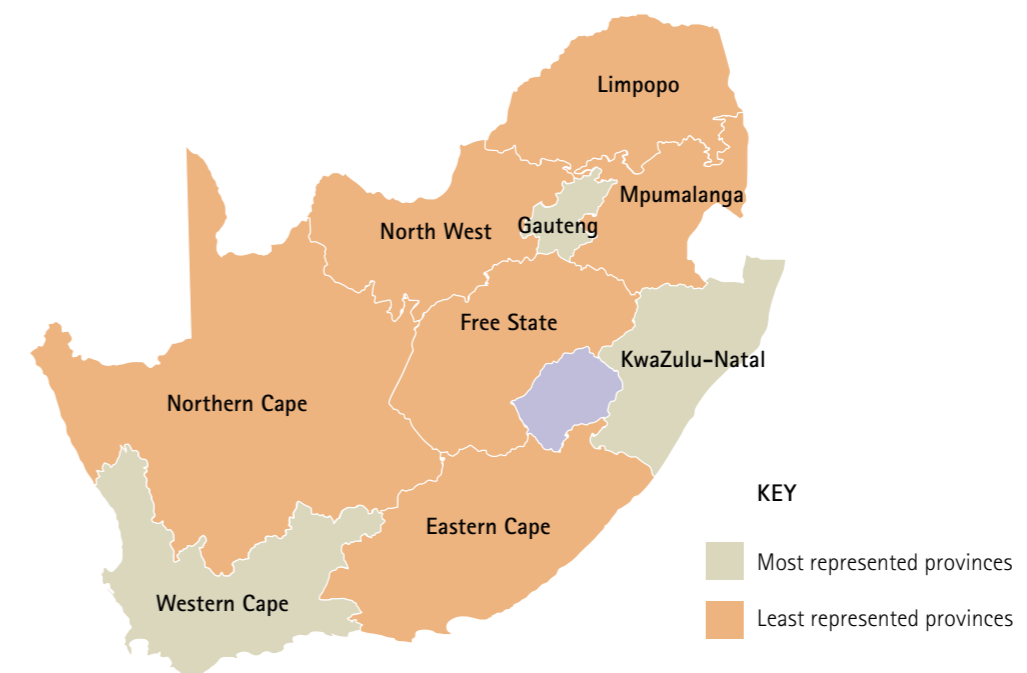


Figure 2: The NEF Small and Medium Enterprises National Footprint Strategy

ASSET MANAGEMENT

The Asset Management Division (AMD) is one of the NEF's key interventions in delivering on its mandate. The AMD was established in 2006/7 and began activities in earnest, building up to a peak in 2007/8 with the launch of the NEF Asongwe Share Scheme.

The AMD was created specifically to address the above objectives that the NEF Asongwe Share Scheme was launched targeting more than 86 000 beneficiaries. Asongwe has provided an exceptional empirical and sociological foundation upon which future strategic interventions will be devised. These interventions are:

- Ensure that new products are aimed at accessible subscription levels and structures so that lower income groups are not excluded,
- Address geographic access to product offerings through targeted communication campaigns, engagement with provincial governments and the existing NEF Asongwe share register, and
- Capitalise on the NEF Asongwe share register with future offers allowing the Black public diversification opportunities and extend the reach of future offers through this channel.

Mandate

In discharging its mandate, the AMD is guided by the following two imperatives:

- Provide Black people with direct and indirect opportunities to acquire share interests in state-owned and private business enterprises; and
- Encourage and promote investments, savings and meaningful economic participation among Black people.

AMD is also assisted by the following four legal and policy instruments:

(i) the NEF's founding Act of 1998; (ii) the BB-BEE Act of 2003; (iii) the Policy Framework for an Accelerated Agenda for the Restructuring of State-Owned Commercial Enterprise (August 2000), which requires the NEF to broaden empowerment with State-Owned Commercial Enterprise (SOCE) allocations through individual and collective share ownership; and (iv) the Cabinet Memorandum No. 32 of 29 November 2000, which was adopted on 6 December 2000, nominating the following SOCE equity allocation for transfer to the NEF.

Asset	Shareholding %	Status
MTN Group	1.5	Received by NEF
Telkom	5	Not yet received
SAA	5	Not yet received
ACSA	10	Not yet received
Connex travel	10	Received by NEF
Viamax	10	Not yet received
Syncat	10	Not yet received
Transwerk Perway	10	Not yet received
Sentech	10	Not yet received
Uthingo*	5	Received by NEF
SAFCOL	10	In discussion

* The company Uthingo is currently undergoing a winding-down application

Table 2: Designated State Allocated Investments

The success of the NEF Asongwe Share Scheme in the 2007/2008 financial year positioned the NEF as an unrivalled authority in Black Public Offers (BPOs). The NEF's expertise in BPOs resulted in Sasol soliciting the NEF's strategic advice and services for their "SASOL Inzalo" BPO in the foregoing financial year. This advisory work comprised counsel on the offer structure, marketing and communications as well as investor education. It is with endorsement that the Board can assert that the AMD has been successfully implementing its mandate.

The AMD remains driven to inculcate a culture of savings and investment among Black people. The NEF has remained actively involved through its investor education programme in encouraging Asongwe Investors after the expiry of the 12 month lock-in period, to retain their shares and thus qualify for their bonus shares. This educational intervention on the part of the NEF's AMD has led to increased understanding of investment instruments and has resulted in a mere 5.7% of the Asongwe investors having traded their shares.

The AMD is also involved in a number of programmes meant to drive Black participation in the shareholding of SOCEs and to increase the understanding of Black people in financial instruments.

Other AMD programmes are set out below and represent the full scope of AMD programmatic offerings in support of the NEF's mandate.

South African Forestry Company Limited (SAFCOL)

The NEF has made good progress on securing the in-principle support for the transfer of the SAFCOL equity allocations from the Department of Public Enterprises (DPE) with conclusion herein being expected in the second quarter of the new financial year. The allocation strategy presented here is unique and again bears testimony to the capability of the NEF in the design of effective broad-based ownership schemes, along with the desired support mechanisms to assist in their successful implementation.

Gidani

The decision to increase the NEF's allocation in Gidani to 10%, from an original 5% when the current National Lottery operating licence was awarded in 2008, demonstrates government's recognition of the NEF's unique successes with Asongwe. Asongwe shares were sold for R73,84 in June 2007 and have grown by an average 60% throughout the investment period, despite the economic downturn.

The dti has been engaged with respect to the Gidani shares culminating in a way forward that should see the Gidani shares transferred to the NEF balance sheet by the close of the third quarter of 2009/2010.

Retail Integration and Enterprise Development

The AMD has also considered the implementation of a further retail product and an Enterprise Development Fund which are both in the process of scenario testing and planning. Both products will deepen the NEF mission of achieving the broadest based empowerment for our people and, in the case of the retail sector, transform an area of our economy that has undergone minimal transformation.

Investor Education

The NEF will in the years 2009 – 2011 be conducting 74 seminars on investor literacy, in all the provinces of the Republic, to promote a culture of savings and investment among our communities. The investor education programme will start in July 2009 in Northern Cape and end in February 2011 in Limpopo Province.

The seminars will serve the following purpose:

- Facilitation by accredited facilitators with examples and case studies in local languages,
- Facilitation of interactive education seminars to provide the target audience with the necessary tools on how to save/invest with the different financial products and savings options available in the market, and
- Providing the audience with an education booklet which becomes a reinforcement tool.

The AMD will continue to identify gaps in transformation and actively intervene through design and implementation of solutions aimed at sectoral transformation and enhancing general enterprise performance on each element of the BEE scorecard.

Another potent arrow in the quiver of the NEF, and the third pillar of its intervention ability is the Strategic Projects Fund (SPF), which is to provide Black people access into early stage and greenfields projects. The SPF and its activities for the year under review are set out as follows:

STRATEGIC PROJECTS FUND

Strategic Projects Fund (SPF) mandate within the NEF is to play a central role in early stage projects by identifying, initiating, scoping and developing projects aligned to the AsgiSA Strategy in partnership with industry experts and financiers.

Once identified projects are taken through four-stages in project development which are: (i) Scoping; (ii) Pre-feasibility; (iii) Bankable Feasibility; and (iv) Financial Closure in similar way to typical venture capital finance. The SPF allows the NEF the ability to secure and warehouse for BEE equity stakes in large scale investments with "long-lead-times" at low valuations due to early stage project participation in the following sectors:

- Renewable energy
- Mining and minerals beneficiation
- Agro processing
- Tourism
- Business process outsourcing
- Infrastructure

Milestones

An example of a deal concluded by the SPF would be Thin Film Solar Technologies (TFST), a new €83 million production facility located in Paarl, Western Cape. The main shareholders are Venfin, Central Energy Fund and Photovoltaic Technology Intellectual Property (Pty) Ltd. Operational Company – Thin Film Solar Technology (Pty) Ltd (TFST).

The transaction entailed an opportunity for the NEF to warehouse a 6.2% shareholding for BEE in the development of 30 Mega Watt peak "Green power" production plant in the Western Cape, Paarl. The plant will hold the master licence for Africa and manufacture photovoltaic cells. The NEF invested R37 million in the R830 million TFST project. Upon completion the project will create 150 direct jobs and will generate €300 million of foreign exchange through its first six years of sales. The thin film Photovoltaic solar panel is used as an alternative source of electricity and is a renewable energy source.

Yet another success of SPF has been Renu Energy a bio-fuel facility located in the KwaZulu-Natal, which uses forestry waste to create pellets that are used in Europe as fuel for electricity generation. Once it reaches capacity, Renu will also contribute positively to the nation's balance of payments by generating hard currency in exchange for product.

EMPOWERMENT DIVIDEND

The achievements outlined above all speak to what the NEF has describe and termed the "empowerment dividend" that the NEF is mandated to foster.

The NEF measures and assess its impact not only on the basis of financial return, but in accordance with what we refer to as the Empowerment Dividend or Social Internal Rate of Return (SIRR). The SIRR by definition has to be multiples of an Internal Rate of Return (IRR) as the social impact of the NEF's investing has to manifest itself in more than financial return.

SPF, AMD and FMD are thus all drivers of the NEF's Empowerment Dividend. The overall BB-BEE score as calculated in the balanced scorecard is thus used as a principal measure of the contribution that the business under consideration is going to make to the furthering of BB-BEE. This score and subsequent progress in meeting its targets is evaluated at the date that funding is approved as well as subsequent to this through the post investment monitoring function of the NEF.

Targets in respect of BB-BEE are not specifically set at this stage, though minimum eligibility criteria are in place against each specific product offering.

The Empowerment Dividend elements are as follows:

- **Participation by Black women** – the NEF emphasises the empowerment of women by providing for an additional weighting for Black women participation, over and above that allocated in the balanced scorecard. The target for women's participation is 40% of the BEE ownership level supported in each transaction. While the current performance of 31% is admittedly low, the Board believes that future programmatic interventions such as the Business Plan toolkit, to be discussed later in this report, will mitigate those market failures which impede the entry of Black women entrepreneurs in the economic mainstream.

It is instructive that the phenomenally successful NEF Asonge Share Scheme of 2007 revealed a greater propensity among Black women to invest in higher asset classes. Women, however, still have lesser means of economic participation. By number, more women than men subscribed, nearly meeting the 50% planned allocation. By value, however, women subscribed for 39% of the 50% allocation.

	Rand Invested	Number of Jobs	Existing Jobs	New Jobs	Rand per Job
Acquisition Funding	R459 m	2 409	1 595	814	121 248
Capital Market	R64 m	4 507	4 444	63	14 220
Entrepreneurs Fund	R102 m	1 288	474	814	82 275
Franchise	R52 m	503	80	423	86 825
Liquidity and Warehousing	R150 m	3 981	3 696	285	74 386
Procurement	R91 m	1 225	352	873	56 585
Project Finance	R29 m	1 131	274	857	27 071
Rural and Community	R31 m	822	0	822	0
Total Portfolio	R978 m	15 866	10 915	4 951	53 060

Table 3: The NEF Job Creation Programme

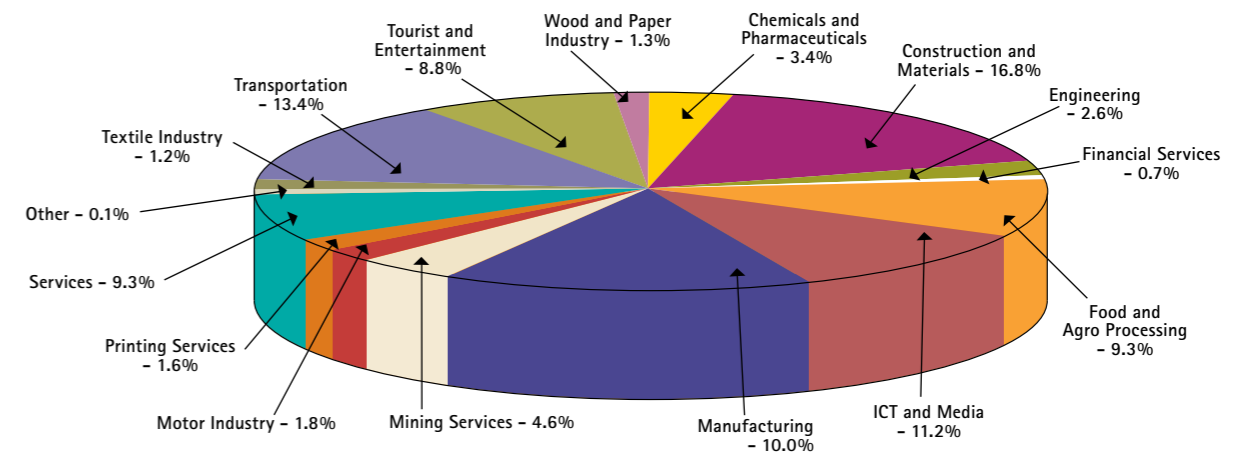


Figure 3: NEF Invested Portfolio by Sector by Value as at 31 March 2009

"For me an important area where the NEF is making a significant difference is in investor education, which is meant to help more and more people to save and invest."

Ms Agnes Mukwevho – Facilities

- **Job Creation** – Contribution towards employment creation and the number of jobs created per rand invested or jobs sustained through expansion type activities. Targets in terms of job creation are not specifically set though the results are monitored by business stage and against industry reported job investment levels and costs.
- **Investment in Priority Growth Sectors** – The number of investments facilitating Black ownership and control of existing and new enterprises in the priority sectors of the economy as identified by the AsgiSA and the National Industrial Policy Framework (NIPF).
- **Geographic Spread** – Geographic spread of investments and contribution towards increased economic activity across all provinces, particularly in areas of regional economic disadvantage. Targets in terms of geographic spread are set to attempt to surpass the respective provinces relative contribution to national Gross Domestic Product (GDP).
- **Investment Return** – The real return that each Fund realises on capital employed, after the impairment ratios experienced for that fund, as a combined measure of debt, equity and quasi equity invested. Investment return targets aim to achieve a real return of the equivalent of the risk free rate of return for iMbewu Fund and at least an 18% IRR for Corporate Fund and Strategic Projects Fund. The activities above are made possible by the support functions of the NEF which assist in driving and delivering on mandate.

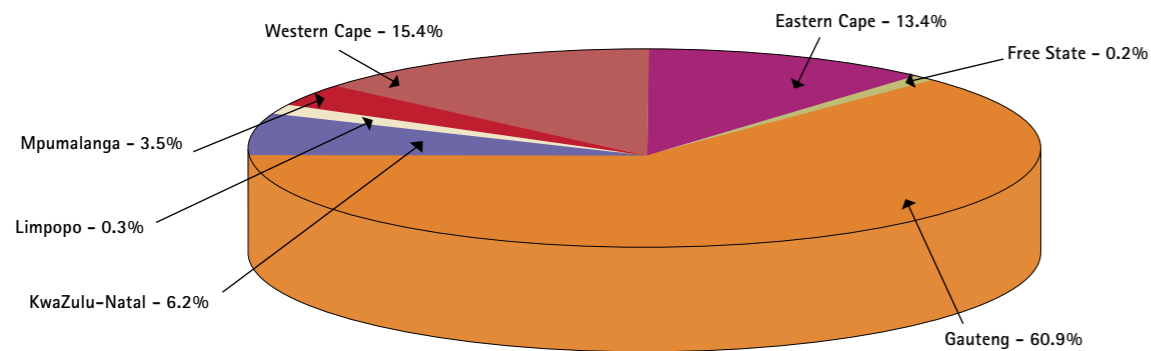


Figure 4: NEF Invested Portfolio by Region by Value as at 31 March 2009

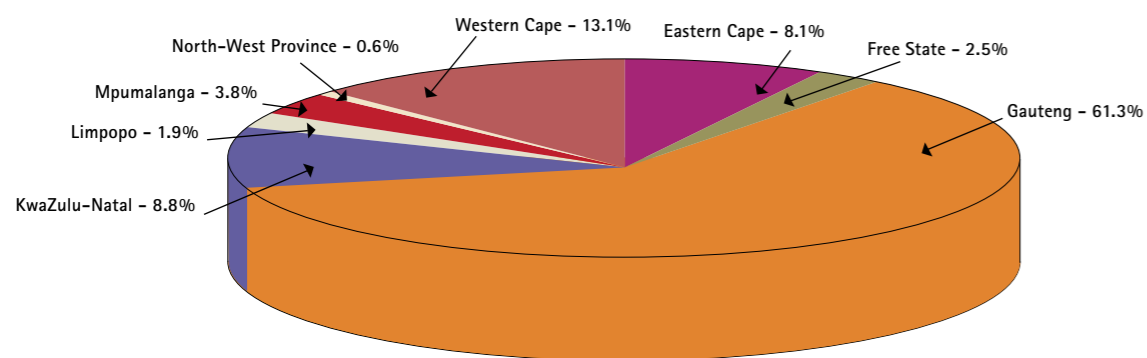


Figure 5: NEF Invested Portfolio by Region by Number as at 31 March 2009

While the statistics above largely mirror the country's GDP dynamics, the NEF cannot neglect the Northern Cape, North West, Limpopo, Free State and Mpumalanga Provinces. Similarly, the Board believes that the NEF can optimise its funding footprint in the Eastern Cape, KwaZulu-Natal and the Western Cape, in order to bridge the economic divide on a national scale. Accordingly, and as discussed in the latter part of this Report, the NEF will be adopting a number of meaningful and effective measures to maximise its visibility and to take its value proposition more aggressively across the country, and to provide innovative financial and non-financial support to Black entrepreneurs countrywide, into the hands of many.

We are encouraged, however, that the results of the NEF Asonge Share Scheme, which was oversubscribed by 13% when the results were declared in 2007, revealed a greater provincial response from the targeted Black public, as outlined below:

Province	Allocation %	Subscriptions	Subscriptions %	Over/Under Subs (-)
Eastern Cape	13.5%	R35,283,118	4.0%	- 71%
Free State	6.3%	R22,073,204	2.5%	- 60%
Gauteng	21.5%	R434,221,613	48.8%	127%
KwaZulu-Natal	21.4%	R191,039,774	21.5%	1%
Limpopo	10.5%	R44,372,407	5.0%	- 52%
Mpumalanga	7.3%	R33,205,804	3.7%	- 49%
Northern Cape	2.2%	R7,495,183	0.8%	- 62%
North West	7.5%	R29,947,841	3.4%	- 55%
Western Cape	9.8%	R91,594,913	10.3%	5%
	100.0%	R889,233,857	100.0%	

Table 4: Results of the NEF Asonge Share Scheme by Province

When the results were declared, the allocations by province were planned in accordance with population statistics, but the actual subscriptions indicated significantly more personal investment capacity in Gauteng. In pursuit of the strategic objective to encourage a culture of savings and investment among Black people, allocations from undersubscribed provinces were transferred to oversubscribed provinces, and as a result of overwhelming interest shown in Asonge, the Board approved a further 1 376 058 shares for the share scheme worth R103 million to match the 13% oversubscription level.

FINANCE

The Net Asset Value is used as a key measure of the increasing critical mass of the Trust at each reporting date. This has increased and appreciated to a level of R4.6 billion as at 31 March 2009 and is supported by Capital and Reserves as depicted in the Figure 6.

The reported accumulated surplus is represented largely by the re-allocation from the fair value non-distributable reserve (NDR) "transfer" of the value unlocked by the Asonge Share Scheme. This entailed the offering of half of the 1.5% MTN share portfolio held by the NEF to investors by means of a subscription process, the proceeds of which had to now be accounted for in accumulated surplus.

Trust capital now represents the total transfers received for fund management purposes from the dti, through the annual Parliament voted budget.

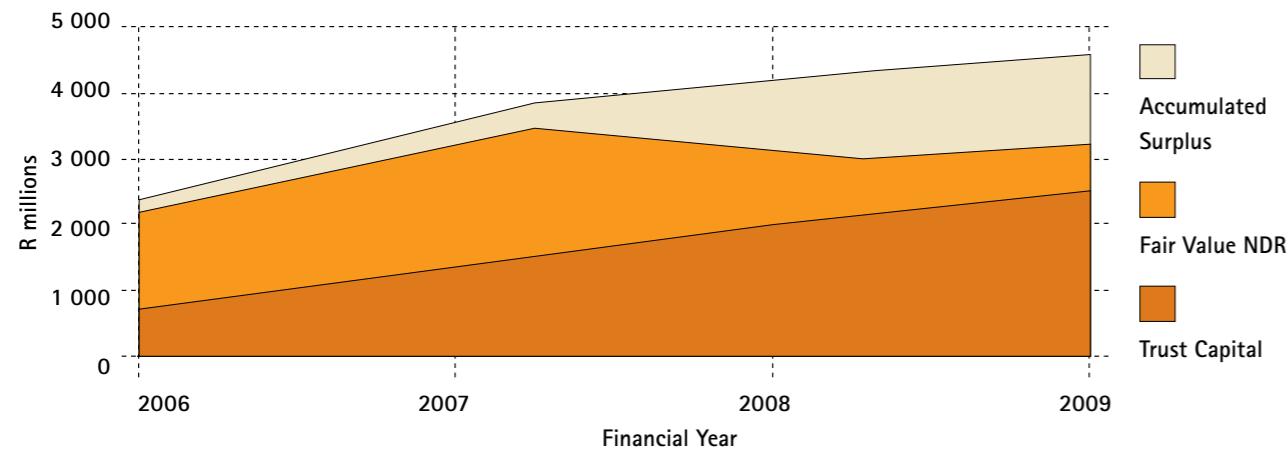


Figure 6: Capital and Reserves

CAPITAL AND RESERVES

The above capital and reserves have been applied in terms of actual activity to March 2009 as well as projected activity for the two years to March 2011:

A further measure that the NEF watches closely each year is the impairment ratio of originated loans as an indicator of the viability of the businesses the NEF Fund Management Division is investing in. This ratio is considered at an overall level, inclusive of any write-offs each year, so as to present a complete perspective. It is further considered at an individual fund level, that is, for the Corporate Fund and for the iMbewu Fund. The year ending March 2009 saw write-offs being reported for the first time since accounting for the Fund management activities of the NEF.

This was in fact merely an accounting entry to the write-off account, since the affected investments were already fully impaired in previous financial years. The legal collection process had, however, not been fully concluded with the intention to collect what security could be collected on these non-performing loans.

The overall impairment plus write-off ratio for this financial year was 24% (2008: 19%) of the cost value of the originated loans portfolio. This comprised a 15% impairment ratio plus 9% of the loans portfolio being written off this year. This overall ratio was up from the previous year and is symptomatic of the increasing business risk the loans portfolio demonstrates, largely as a result of the difficult economic situation under which these companies traded and the business risk associated with the SME businesses being supported. A total of 22% of the value of the portfolio is reported as early stage business and 57% of the value of the write-offs in fact were early stage businesses.

This ratio of failure is unfortunately consistent with industry norms. Notwithstanding this, the NEF's Post-Investment Unit actively monitors each transaction in the portfolio. The written-off transactions, however, date back to the years up to 2004/5 and 2005/6 at a time where this Unit was not yet in place. We expect that this Unit's involvement will lessen write-offs for transactions, especially start-ups that were funded in the years from 2006/7.

Effective interest earned on the loans portfolio increased to 14% for the year (2008: 12%) but after impairments, the loans portfolio yielded an annualised return of 2% per year.

The unlisted equity portfolios are still young in terms of fund management maturity and though are being fair valued each year, will not demonstrate the intended returns for some years still. These yielded R5,9 million (2008: R9,6 million) in dividends as reported in the Annual Financial Statements.

The most reportable investment activities in the AMD were the treasury management of the cash proceeds yielded from the Asonge Share Scheme offered in the previous financial year, which yielded R130 million in interest income (2008: R22 million), an effective 11.5% for the year, and the need to provide for the bonus share to be awarded in the next financial year. This provision of R121 million this year, reflects the expected fair value charge to the income statement to be incurred at the time of awarding the bonus share in September 2009.

Operations

The operational activities required to sustain the core investing activities for the year were financed entirely out of finance income this financial year. This need arose following the virement of the NEF 2008/9 voted transfer through the Medium Term Budget Policy Statement which was presented to Parliament in November 2008 by the Minister of Finance.

This was undertaken in consultation with the NEF by the dti since the NEF clearly has been able to demonstrate its sustainability of operational expenditure being borne out of investment and financing activity income. This scenario is unlikely to re-occur in the next financial year since voted transfers for operations have been received in full at the date of this report. It is uncertain that the Medium-Term Expenditure Framework (MTEF) has made provision for further funding for the NEF, both for investment and operations activities. The Board is aware of this possible scenario and is working closely with management on the capitalisation needs and scenarios over this MTEF period.

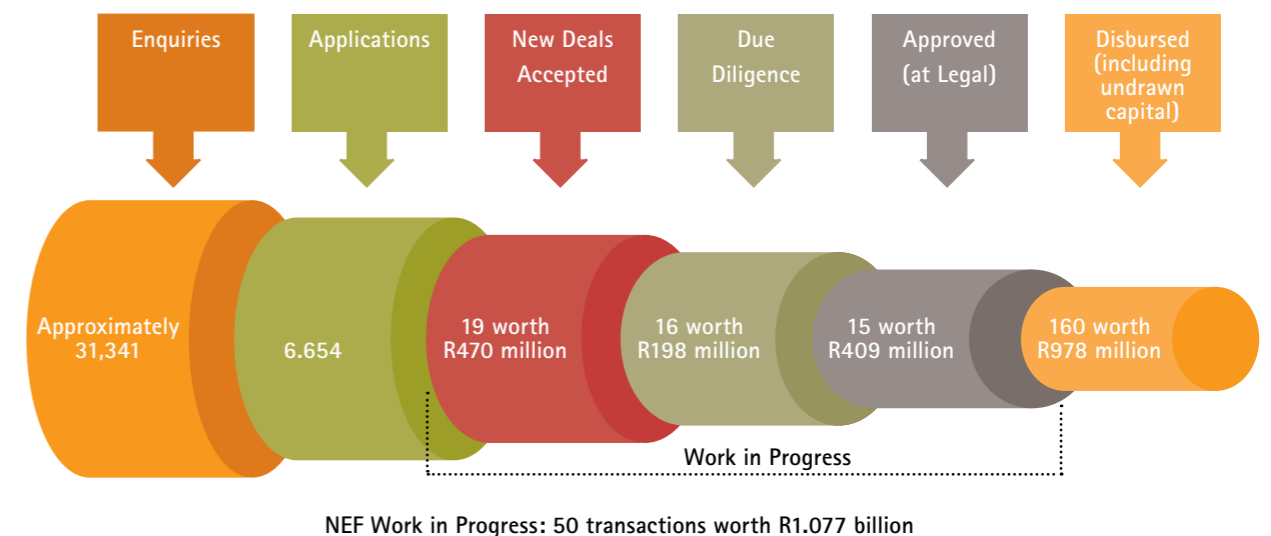


Figure 7: NEF Process Report as at 31 March 2009

Expenditure

Expenditure trends have grown in line with the rolling three-year strategic plans of the NEF. The operational costs for the NEF of R108 million (2008: R83 million) were maintained within the budget set for the financial year of R135 million (2008: R100 million), with some savings being incurred in the human resource costs budgeted for, though the NEF only reported a vacancy rate of 15% as at the end of the year (2008: 26%). This improvement is as a result of the recruitment plans put in motion by a better managed HR department at the NEF.

Travel expenditure has been separately disclosed from this financial year to fully disclose all expenditure in line with government's expenditure management initiatives.

Expenditure by nature may be specifically commented on as follows:

- Professional fees were largely represented by legal expenses incurred through the newly appointed legal counsel panel, tasked with assisting with drafting of transaction agreements plus collections on defaulting loans. Some consulting fees were incurred in the areas of Information Technology as part of the outsourced model followed in this financial year. There is, however, increasing in sourcing taking place in this area which will be reflected in the next year's expenditure trends;
- Marketing activities increased in line with the increased campaign plans for promoting the brand awareness and product awareness of the NEF;
- Personnel costs represent 62% of total costs incurred (2008: 61%) since the NEF staff complement is largely comprised of investment professionals (50% of total staff).

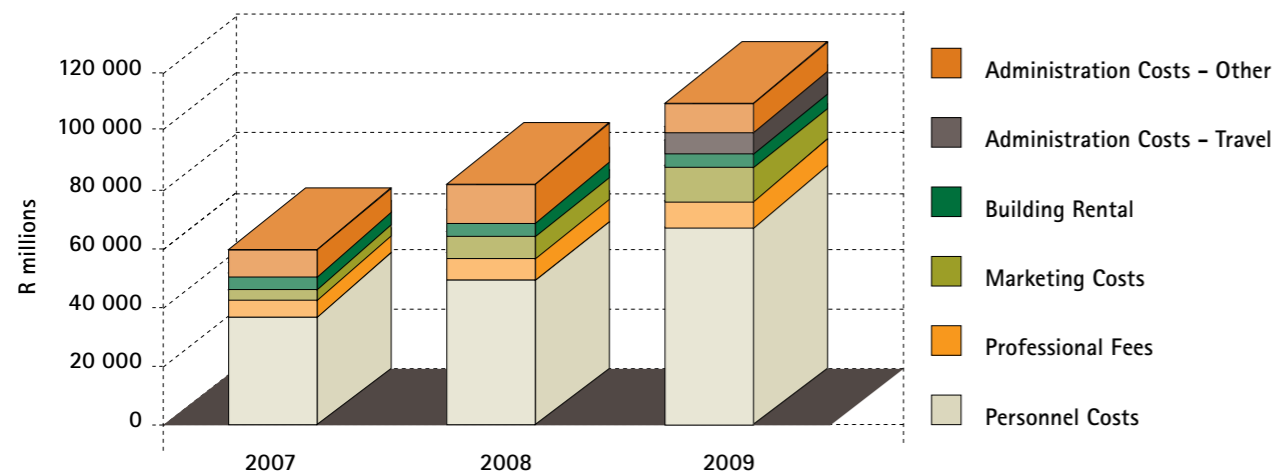


Figure 8: Operations Expenditure

Cash Management

The NEF management embarked on an active cash management programme this year, supported by an initiative to establish a fully functional treasury operations department. The latter is still undergoing Board and National Treasury review and approval and is set to be implemented in the next financial year.

Cash management activities resulted in annualised returns of 11% being earned on cash invested with the NEF appointed banks (2008: 10.5%). R1.055 billion of the cash on hand (2008: R0.925 billion) was as a result of the NEF Asonge Share Scheme retail offer and is still subject to National Treasury approval for the NEF to retain this cash for investment activities.

Therefore of the cash on hand, R1.5 billion is available for investment activities of the NEF as reflected below:

	2009	2008
	R000's	R000's
CASH AND CASH EQUIVALENTS		
Trust capital for investments	R1,391,592	R1,250,046
Interest earned on cash	R157,067	R142,320
Proceeds on Asonge Share Scheme (incl. interest)	R1,055,529	R925,391
	R2,604,188	R2,317,757

Table 5: Cash and Cash Equivalents as at 31 March 2009

Procurement

The NEF, by the nature of its mandate, supports preferential procurement through its Supply Chain Management Policy which strives to procure the bulk of its goods and services from BB-BEE suppliers. The assessment of NEF suppliers thus focuses on all elements of the scorecard over and above ownership only, though ownership does also play a key role in the assessment.

During the year under review the NEF achieved procurement spend as detailed below:

	Owership >25.1%	Owership >50.1%	Total Procurement
Value of goods procured	R36,404,031	R28,785,188	R42,768,720
% of goods procured	85%	67%	

Table 6: Preferential Procurement Activity Report as at 31 March 2009

"Access to finance is made even more difficult by the fact that many aspiring entrepreneurs with good ideas do not know how to put together a good business plan. The NEF provides a real solution to address this challenge."

Mr Nthato Makhubo – Pre-Investment Unit

INFORMATION TECHNOLOGY

Project Siyasebenza update

As the NEF's business model grew over the years, the business needed to streamline processes and implement integrated business systems to support the business model. The primary objective of the project was to re-engineer existing business processes in line with best practice and implement supporting systems.

The envisaged systems needed to fulfil the following:

- electronic document management,
- electronic workflow,
- enhanced management information reporting, and
- automated process controls.

End Product of the Project Siyasebenza

The final deliverable of project Siyasebenza is an integrated end-to-end system that enables the business to meet both its operational and reporting goals from a single repository of NEF information. The integrated system is composed of the following line of business systems:

- CreditEase (Loans Management),
- Microsoft Dynamics ERP (HR, Finance, Procurement),
- Microsoft Dynamics CRM (Fund Management Division),
- Microsoft SharePoint Portal (Intranet, Document Management),
- Microsoft Business Portal (Requisition Management, Leave Management, Workflow), and
- Management Information Reporting

The greatest business benefit is the standardisation of business processes across the organisation built on a common system platform. To further support users and entrench the process culture, standard operating procedures were developed for each department and made available on the Intranet.

Formulation of an IST strategy

Key components of the envisaged In-service Training Strategy (IST strategy) will be built on high availability of computing platforms, leveraging the current IT investment, developing internal support competency and implementing a risk and governance framework.

Strategic Drivers

- leverage the current IT resources in respect of full functionality,
- infrastructure modernisation,
- competency and skills development,
- readiness for regional presence,
- cost containment,
- standardisation of processes, procedures and methods, and
- risk management and governance.

Given the drivers set out here, an IST road map was designed to help us achieve specific objectives as set out in the different departmental strategies. The road map comprises two aspects of IST, namely IT operations and the enablement of business strategies.

Infrastructure Modernisation

One of the key deliverables of Project Siyasebenza was the modernisation of the infrastructure in terms of servers, databases and user workstations. The server and database landscape was fully converted to cope with the demands of the new line of business systems. The user workstation modernisation project will be concluded in the second quarter of the 2010 financial year.

Project Siyasebenza: Phase 2

Phase 2 of Project Siyasebenza will focus more on introducing new business capabilities, business process optimisation and ongoing enhancements. Some high-level requirements have been identified by line managers and planning for their analysis phase is already underway.

Human Capital

The NEF has seen tremendous growth during the last financial year with the headcount growing from 86 employees at the beginning of the financial year to 104 end, with a total of 35 new employees being appointed. This significantly reduced the vacancy rate to 14.5%. The rate of attrition also decreased and this is attributed to the NEF's implementation of retention initiatives.

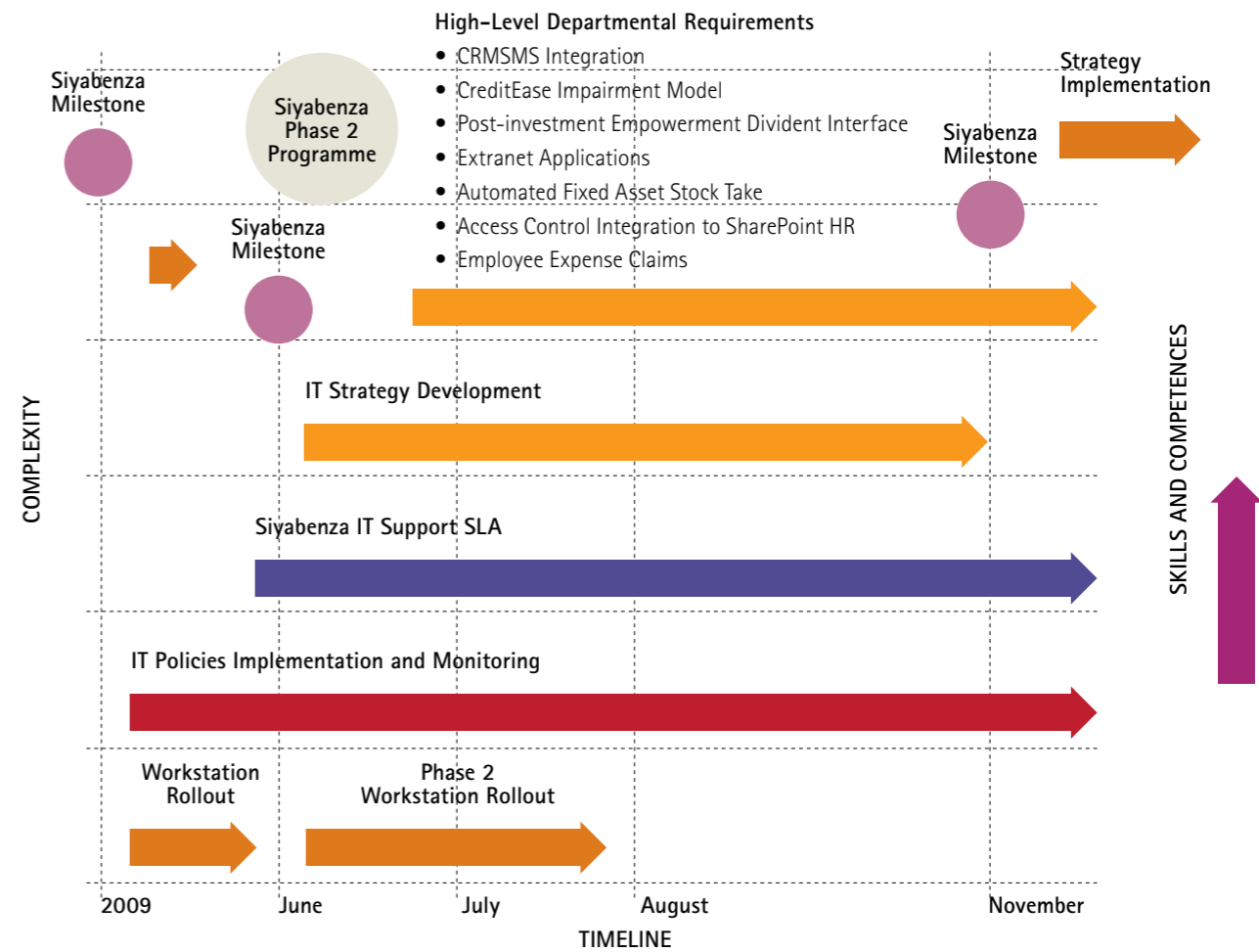


Figure 9: First Road Map

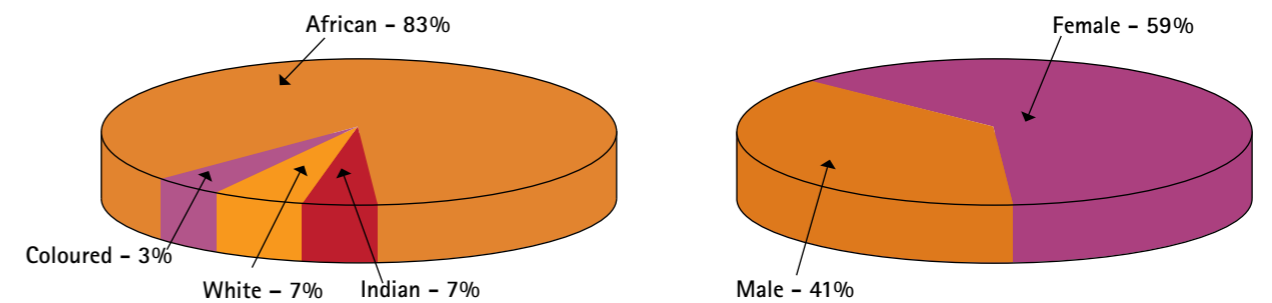


Figure 10: NEF EE Report

The HR department has also migrated from being an administrative function to that of a strategic partnership role, which has led to HR and the various departments working together more effectively to achieve the NEF's mandate. As an academy of excellence involved in the implementation of a unique mandate, training and development has continued apace, with several employees successfully completing various qualifications ranging from degrees, certificates, diplomas, MBAs, CA qualifications and short courses as a result of a comprehensive study assistance programme that will equip employees with the knowledge and skills required to perform at or above required organisational levels.

Level of Employee	No	%	Permanent	Contact
1 Top Management	3	2.9%	3	-
2 Senior Management	12	11.5%	7	-
3 Middle Management	7	6.7%	7	-
4 Professional	48	46.2%	48	-
5 Clerical	34	32.7%	31	3
GRAND TOTAL	104	100%	101	3

Table 7: Levels of Employees

The implementation of the Long-Term Incentive Scheme can be cited as another success aimed at retaining key skilled individuals within the NEF as the competition and demand for experienced and skilled staff remains a challenge for all employers. The employee wellness programme, which offers staff ongoing health management, psycho-social support, work-life balance, financial and legal advice was launched in January 2009 and bears further testimony to a caring employer of choice, and by so doing increases productivity, decreases absenteeism and reduces staff turnover. A breakdown of the employee levels within the organisation are presented in Table 7. The race and gender breakdowns are presented in Figure 10.

Allocation of M and C budget – 40 %	Contribution to GDP (2007)	Contribution to GDP (2007)	Allocation of M and C budget – 60%
Northern Cape	2.2%	33.5%	Gauteng
North West	6.5%	16.2%	KwaZulu-Natal
Limpopo	6.9%	14.5%	Western Cape
Mpumalanga	6.9%	7.8%	Eastern Cape
Free State	5.4%		
Per Annum	28%	72%	Per Annum

Table 8: Allocation of Marketing and Communications budget

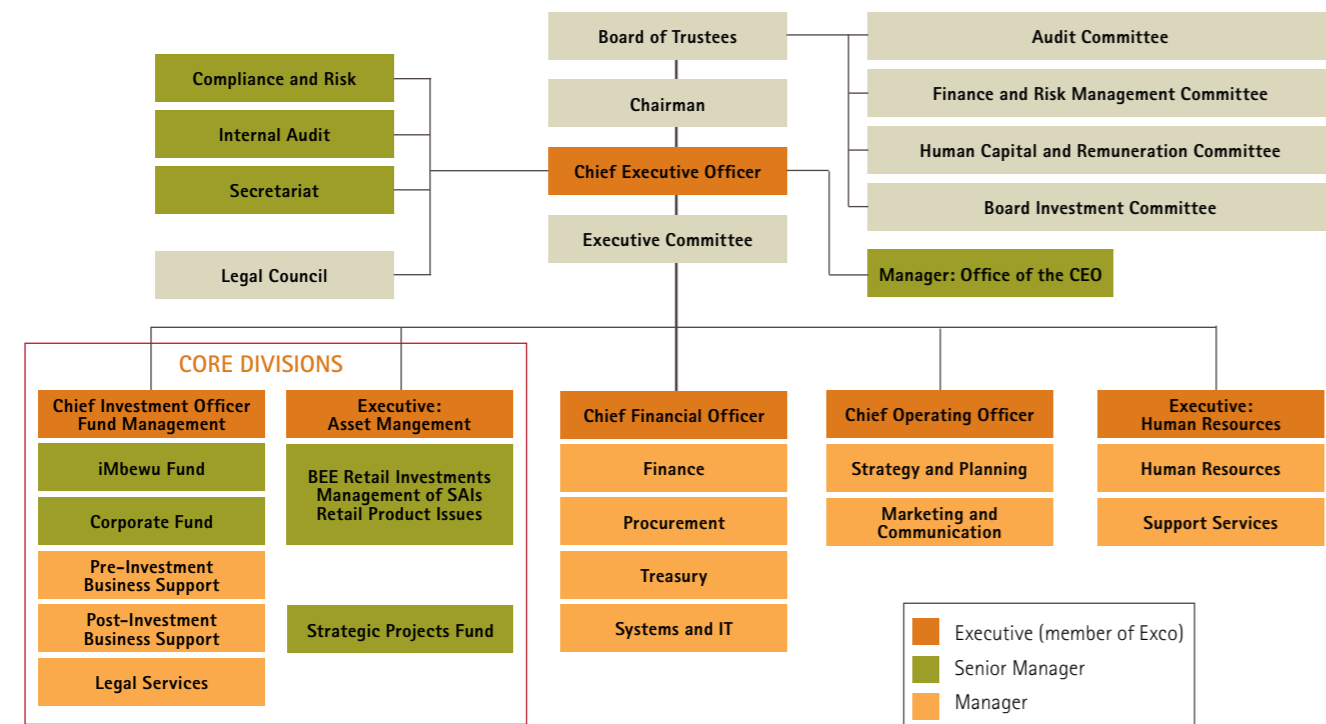


Figure 11: Organisational Structure

MARKETING AND COMMUNICATIONS

The NEF's Marketing and Communications Strategy recognises the strategic and political imperative for the NEF to communicate its value proposition to all the provinces of the Republic. Accordingly, the NEF has directed its Marketing and Communications department to commit 40% of its advertising budget to those provinces where the NEF has historically had lower investment presence, namely Northern Cape, North West, Limpopo, Mpumalanga and Free State, as outlined in Table 8.

The Board believes that this strategic imperative, which effectively and deliberately targets five provinces, committing a percentage of the advertising spend which is proportionally higher than that of their collective contribution to GDP, gives practical expression to the NEF's commitment to taking its products and services across all provinces in a manner reminiscent of the NEF Asongwe Share Scheme.

The NEF has adopted the same approach in respect of media relations, which will see the department supporting various initiatives discussed hereunder, namely the launch of the Business Planner and the Mentorship programme, as well as the Investor Education campaign, as follows:

- craft and distribute press releases to local media,
- invite local media to seminars, provincial launches and related activities,
- arrange for local media interviews, and
- advertise in local media.

BEE Summits

Along with the dti, local and provincial governments and other Development Finance Institutions, the NEF will embark on a national road show that will entail two visits to each province, culminating in a National BEE Summit.

The objectives of this initiative are:

- to communicate basic information about BB-BEE to people at the very lowest levels of the South African Economy,
- to provide an engagement platform to interact on a regular basis with low-income groups across the provinces, and
- to provide government departments and with corporates a platform to communicate the best way for SMMEs to access procurement and enterprise development opportunities on a sustainable basis.

The Provincial Roundtable Strategy

The BEE roundtable strategy is an ongoing initiative whose objective it is to optimise the NEF's regional invested portfolio through intensive local interaction and communication engagements with a variety of stakeholders.

Typically, these include:

- MECs for Finance, Economic Affairs and Agriculture,
- Rural and community leaders,
- Constituency Members of Parliament,
- local Development Finance Institutions (DFIs),
- local entrepreneurs and co-operatives, and
- the mass media.

Of note should be the fact that "roundtable" engagements will continue in conjunction with the provincial launches of the Business Planner and the Mentorship programme.

STRATEGY AND PLANNING

The Strategy and Planning Unit is responsible for championing and driving the strategic planning process to ensure that the strategies of all internal divisions are aligned to the mandate of the NEF. As part of this process the Unit strives to ensure that the strategic process is informed by sound environmental analysis, and in doing so, serves as an internal consultant to all units within the NEF, monitoring the performance of the NEF, and driving the use of new and improved business tools such as the Balanced Scorecard.

"Our Development Finance Institutions in general are playing an enhanced role during the present economic crisis through financing public investments and drawing private finance into public investment programmes. Most of our DFIs are in a sound financial position, and are well-placed to play a greater role in providing loans or liquidity in support of government's economic objectives."

The Hon. Mr Pravin Gordhan – Minister of Finance

THE LEGAL SERVICES UNIT

The Legal Services Unit (LSU) provides legal support services to the FMD and to the broader NEF. The LSU is tasked with drafting legal agreements, assisting with legal due diligence reviews and managing registration of the relevant NEF security/collateral as well as providing support to the Post Investment Unit. The Legal Unit's strategy focuses on providing a professional and efficient service to internal clients while also being a knowledge centre with regards to all matters of law and developments within the legal fraternity. To give effect to this vision, the Unit will provide regular updates on *inter alia*:

- Tax Law, which will deal directly with the often complex tax issues around restructuring of SPVs or acquisitions, options, etc, such as STC, CGT and VAT.
- Competition Law to provide an update on the amendments to the Competition Act of 1998 as well as deal with matters of concern around mergers and acquisitions.
- The Companies Bill - to be promulgated early in 2010, seeks to overhaul the existing Companies Act No. 61 of 1973 and contains critical amendments that will influence the NEF's transactions *inter alia*, Business Rescue (dealing with potential insolvencies of companies), Section 38 and structures of public and private companies and close corporations in general.
- Consumer Protection Bill - The bill deals with responsibilities of suppliers of goods and services and consumer entitlements.

CONCLUSIONS

The mandated objectives of the NEF are a constant source of reflection for the Board, Executive and Independent Committee Members. In seeking to deliver on its mandate issues of corporate governance, accountability, transparency and fairness, legislative developments and the government's regulatory requirements, are infused in all activities of the organisation.



Mr Ronnie Ntuli
Board Chairman



Ms Philisiwe Buthelezi
Chief Executive Officer

