

# Annual Report 2010





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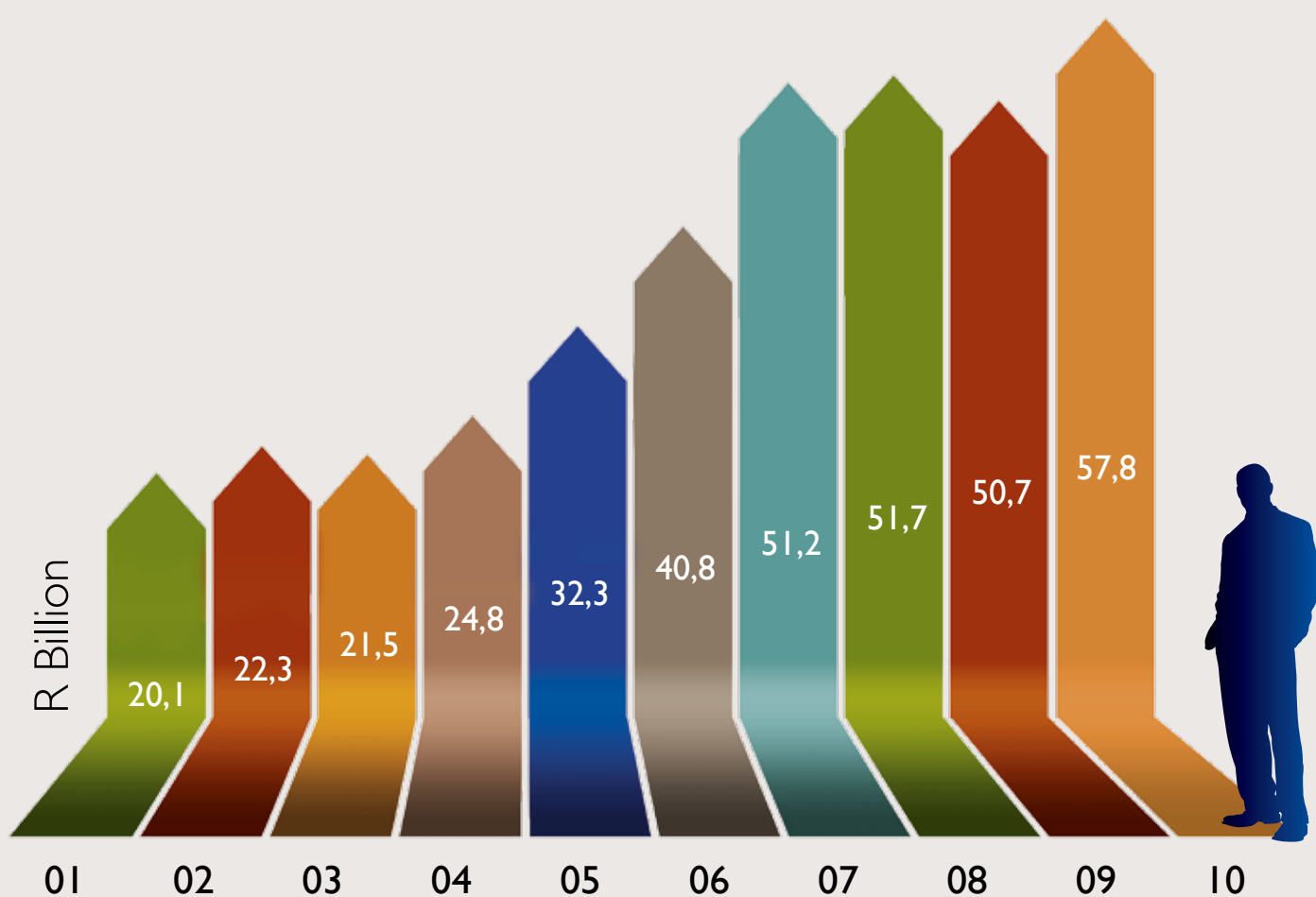
*We focus on our shared responsibilities  
and work together to deliver results.*



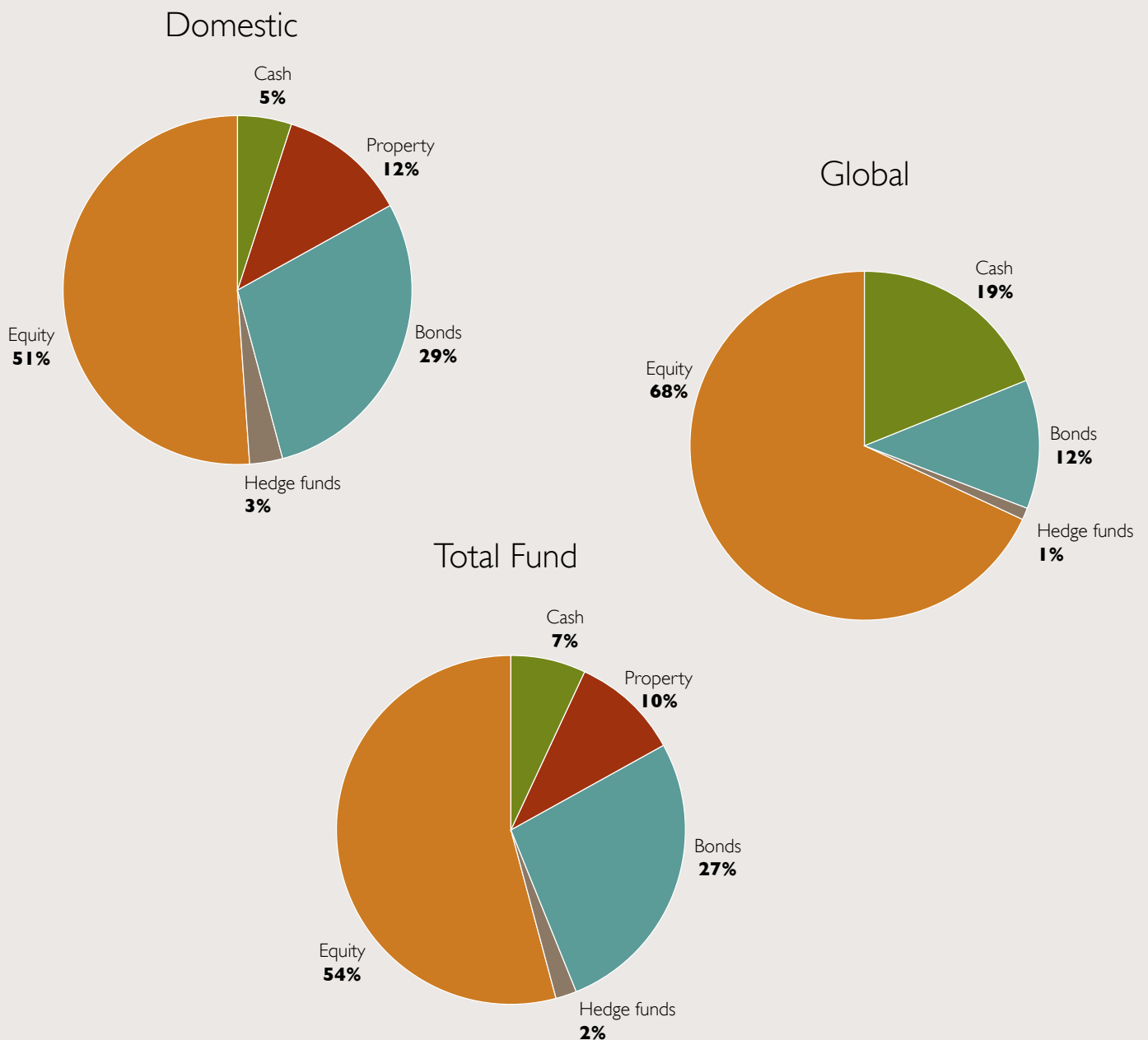




## Growth in Net Assets for the 10 year period ended 30 June 2010



# Asset Allocation percentage as at 30 June 2010



# Chairman's Report

*Honored Members, Pensioners and all stakeholders; it is my privilege to present to you the Fund's financial report for the year ended 30 June 2010.*

## Financial performance of the Fund

The Fund saw markets recovering steadily from the turmoil of the previous year. Consequently, the Fund has benefited significantly from this recovery. Our year on year growth of investment return was approximately 14% in the current year. The table below illustrates the investment return, growth in assets under management and a rolling three-year investment return for the current year.

	2010	2009
Investment return	14,00%	(1,7)%
Assets under management in billions (bn)	R57,8 bn	R50,7 bn
Three year rolling return	4,42%	8,2%

As the table above shows, investment return for the year ended 30 June 2010 was 14% (2009: -1,7%). The assets under management grew to R57,8bn compared to R50,7bn the previous year. This

represents a 14% growth in assets year on year. However, due to the inclusion of poor performance years in the rolling three-year data, the average return over the previous three years went down from 8,2% to 4,42% indicating the severity of the previous downturn in the markets.

Over the longer term (more than 10 year rolling average return), the Fund returns are still looking good.

	1 Year	3 Year	5 Year	10 Year
Actual Return	14,00%	4,42%	12,98%	14,23%

This shows that the Fund still continues to be in a healthy financial situation over the long term.

In order to continue enhancing the returns and play a meaningful role in our economy and the region, we will continue to look for new exciting investment opportunities, both locally and in Africa, outside traditional areas of investments. We will seek suitable partners in order to minimize the risk associated with such investments.

## Restructuring of the Fund

As you may be aware, Eskom went through a period of change of leadership in the year under review with the resignation of its Chairman, Mr Godsell, and the subsequent departure of its Chief Executive, Mr Maroga. These events negatively affected progress on the restructuring of the Fund and the clarification of the status of the Fund.









The values we live by...

Provide **customer focused service** to all clients



We still believe it is appropriate to continue suspending the discussions on these matters until the new leadership of Eskom and the Fund meet to evaluate various options.

Until the various challenges are resolved, however, the Fund is continually expected to meet the retirement benefit needs of its members irrespective of the various factors that we have no control over, for example, the significant salary increases we have experienced in recent times. For as long as this issue remains unresolved, the optimum asset allocation for the Fund will always be a challenge.

### **Valuation of the Fund**

We conduct a statutory valuation of the Fund on a three year basis. The statutory valuation for the year ended 30 June 2009 indicated a deterioration in the actuarial surplus of the Fund, causing a decrease in the funding level from the previous 110% in the 2006 valuation period, to 100%.

The reasons for such a significant deterioration in the Fund's financial health, can be found in the ongoing turbulence in the investment markets and the impact of higher than expected salary increases granted to current employees of Eskom. The issue of salary increases was also covered in the paragraph dealing with restructuring of the Fund above.

As expected the financial health of the Fund improved in line with the recovery of the markets in 2010, and the interim valuation performed as at 30 June 2010 reflected that

the Fund had improved to a funding level of 104%. However until the issues around the structure of the Fund and the impact of salary strains are resolved, the Fund will continue to experience a challenge to achieve fully funded levels.

### **Pension Increases and Bonuses**

When considering pension increases for 1 January 2010, the Board considered the poor investment returns for the preceding year and noted that historical market conditions severely constrained the Fund in what it could afford as annual pension increases. However, the Board also took note of subsequent improvement in market conditions at the time, a factor that allowed the Board to consider a more favourable increase. Consequently, the pension increase with effect from 1 January 2010 was set at 6% with a slightly improved annual bonus also included.

In reviewing pension increases, consideration is always given to levels of inflation and how best we can endeavour to ensure our pensioners maintain their living standards, without jeopardizing the overall financial soundness of the Fund. My sincerest gratitude goes to the members of the Board for the manner in which they always engage and apply their mind to this item of our discussions.

In the meantime we continue to advise our members to remain financially disciplined, as we do not know how long the current market volatility will last.







### **Governance and Management**

The Board has coped with significant matters of governance and continues to strive towards maintaining the highest standard of corporate governance. Based on the principles contained in industry guidelines, for example Pension Fund Circulars, the new King III Report on Corporate Governance in South Africa and various other guidelines, the Board and its Committees continued to perform well and coped with the increased demands brought about by special projects and responsibilities.

### **Visit to the Fund by the Financial Services Board**

We were delighted by the visit of the Compliance Section of the Financial Services Board (FSB) to the Fund. We always strive for perfection as the Fund and the visit enhanced our belief that we can do even better. We thank the FSB officials for their visit to the Fund.

May I also take this opportunity to thank the Fund's management and staff for working tirelessly in supporting the Board in meeting its mandate, while enhancing our compliance with all regulations and relevant legal requirements.

### **Economic Transformation**

#### **Black owned asset management companies**

The Fund continued to pursue its strategic objective to support national economic transformation. This is achieved through selective investments in Socially Desirable and Broad Based Black Economic

Empowerment instruments without compromising the principle of achieving acceptable investment returns.

During the year under review Black owned asset management companies managed assets worth R8,072 billion. This represents 32,9%, of funds managed by all outside managers (2009: 27,1%). The objective is to increase this BEE portion to 40% of assets managed by private asset managers during the 2010/2011 financial year.

### **Socially desirable investments**

We are in the process of re-evaluating and re-defining our role in this sector. Consequently, we have not been aggressively investing in this area.

### **Notices and Acknowledgements**

During the year, our previous Chief Executive, Mr Bonga Mokoena, left the Fund to pursue other career interests. We wish him well in his new environment and thank him for his contribution to the Fund.

Let me also, on behalf of the Fund, welcome our new Chief Executive, Mr Sbu Luthuli, who brings with him an enormous amount of experience in the financial services sector. We welcome him to the EPPF family.

It is heartening to be able to report once again that the Board and its Committees performed at a high level with considerable sacrifice in terms of personal time and other official responsibilities. The Chairpersons of the various Committees displayed

The values we live by...

Operate at all times with **integrity** and respect

commitment and leadership. Once again to every member of the Board I extend my sincere appreciation for a job well done!

During the course of the year we also interacted with various other stakeholders who assisted us, in one way or another, to carry out our responsibilities. One cannot but single out the valued contributions by the senior management team of Eskom under the interim leadership of Mr Mpho Mkwana, who also serves as the Chairman of the Board of Eskom.

We are also delighted to acknowledge the appointment of Mr Brian Dames as Chief Executive Officer of Eskom from 1 July 2010. We wish him well in his new role and may Eskom grow from strength to strength under his leadership.

To our various other stakeholders, including labour organizations, pensioners, active members and asset managers; may the spirit of teamwork that you have always shown continue well into the future.

The past year presented significant difficulties and I am sure the new year will bring its own variety of challenges. However, I remain confident that as a team we shall overcome these challenges and that our commitment to serving our members will be our most important asset. We are always open to suggestions on how to improve our performance, please feel free to forward your comments and contributions to the various structures of the Fund.



Last but not least, as I have been saying for the past few years, my time has come to finally step down as a Chairman of the Fund.

The process of appointing a new Chairman has been completed, with the appointment of Mr Hlengani Mathebula. I am honored to have been part of such a professional organization. May I also ask you to give Mr Mathebula the same support during his term of office.

Wishing you all the best for the future and the 2010 festive season!

**X K MEMANI CA (SA)**  
**CHAIRMAN**

# Corporate Governance



The Eskom Pension and Provident Fund (the Fund) subscribes to the governance principles emanating from The Code of Corporate Practice contained in the King Report on Corporate Governance for South Africa and submits that in all material respects it complied with the Code's principles for the year under review.

## **Corporate Practice and Conduct Board of Trustees**

The Board of Trustees (the Board) of the Fund is comprised of 14 members as constituted below:

- A non-executive Chairperson appointed by the Principal Employer, subject to the Board's approval.
- Six Trustees appointed by the Principal Employer.
- Two Trustees elected by the Pensioners.
- Five Trustees elected by the Members.

The roles of the Chairperson and the Chief Executive are separated with segregated responsibilities and duties.

## **Accountability**

The Board is ultimately accountable and responsible for the performance and affairs of the Fund and to this end, it controls the Fund and Management and is involved in all the activities that are material for this purpose.

## **Meetings**

The Board meets at least once a quarter, and in the year under review, four Board

meetings were held, excluding special meetings.

The Board is appraised of any movements in the beneficial shareholdings of all Trustees of the Fund.

## **Performance Evaluations**

Performance evaluations of the Board is done on a bi-annual basis, with the latest concluded during the year under review.

## **Board Fees**

Board members are compensated for their contribution and participation in meetings.

## **Board Committees**

The following Board Committees exist to assist the Board in discharging its responsibilities in terms of its approved terms of reference and delegated authority:

- Audit and Risk Committee
- Benefits Committee
- Human Resources and Remuneration Committee
- Strategic Investment Committee

## **Audit and Risk Committee**

The Audit and Risk Committee comprises of six Board members, with six meetings held during the 2009/2010 financial year.

Its main objective is the monitoring of quality, integrity and reliability of the Fund's compliance with relevant legislation and statutory requirements and to ensure that an appropriate system of internal control is maintained to protect the Fund.



It also reviews the activities of Internal Audit, the function of which has been outsourced.

The Committee is also responsible for the evaluation of the independence, objectivity and effectiveness of the External Auditors, as well as for the review of accounting and auditing concerns identified by the External Audit.

#### Benefits Committee

The Benefits Committee comprises of six Board members, with six meetings held during the 2009/2010 financial year under review.

The Benefits Committee oversees and directs the Fund's retirement fund operations on behalf of the Board.

#### Human Resources and Remuneration Committee

The Human Resources and Remuneration Committee comprises of five Board members and one external expert, with six meetings held during the 2009/2010 financial year under review.

The Human Resources and Remuneration Committee provides guidance on all human resources and remuneration matters.

#### Strategic Investment Committee

The Strategic Investment Committee consists of five Board- and five external members, with six meetings held during the period under review.

The Strategic Investment Committee's key responsibility is to attend to the investment affairs of the Fund in accordance with the Fund's rules and relevant statutory requirements.

#### Committee Performance Evaluations

Performance evaluations of Board Committees are done, as is the case with the Board, on a bi-annual basis.

#### Committee Fees

Only the external expert members of the Human Resources and Remuneration Committee and Strategic Investment Committee are compensated for their contribution and participation in committee meeting proceedings.

#### Board and Committee Members' Training

Board- and Committee members' training is considered essential to ensure members are able to properly execute their responsibilities and duties.

During the 2009/2010 financial year Board- and Committee members attended a number of training and information sessions applicable to the pension fund industry.

#### Fund Administration

The following Management Committees are operational in the Fund under the auspices of the Board and its committees:

- Executive Management Committee

- Medical Panel
- Procurement Committee
- Risk Management Committee
- Sub-Committee of the Benefits Committee

#### Medical Panel

The Medical Panel consists of three independent medical practitioners, one Medical Advisor seconded by the Principal Employer, the Fund's Legal and Technical Services Manager as well as the Fund's Retirement Fund Operations Manager.

The Medical Panel meets on a monthly basis and is chaired by one of the independent medical practitioners. During the period under review twelve meetings were held.

The role of the Medical Panel is to assess the health condition of members of the Fund applying for ill-health retirement benefits, in accordance with the relevant provisions contained in the rules of the Fund, and to make recommendations to the Board in this regard.

#### Executive Management Committee (Exco)

The Exco comprises of the Chief Executive, Chief Investment Officer, Retirement Fund Operations Manager, Human Resources Manager, Legal and Technical Services Manager, IT Manager, Chief Financial Officer,





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**Diversity** is our strength

Executive Manager Strategy and Projects, Risk and Compliance Manager and the Corporate Secretary.

The Exco is chaired by the Chief Executive and meetings are held on a monthly basis with ad hoc meetings called when necessary. During the period under review fourteen meetings were held.

The Exco assists the Chief Executive in guiding and controlling the overall direction of the Fund and in exercising executive oversight, and is responsible for ensuring the effective management of day-to-day operations of the Fund.

#### Procurement Committee

The Procurement Committee comprises of the Chief Executive, Chief Financial Officer, Legal and Technical Services Manager, Risk and Compliance Manager and Corporate Secretary.

The Committee is chaired by the Fund's Chief Executive with meetings being held at least once every quarter. During the period under review the Committee have held seven meetings.

The Committee is responsible for the promotion of good practice, transparency and ethical behaviour in the Fund's procurement activities in terms of the objectives of the Fund's Procurement Policy.

#### Risk Management Committee

The Risk Management Committee comprises of the Chief Executive, Legal and Technical Services Manager, Risk and Compliance Manager, Investment Management Unit Representative, IT Manager, Chief Financial Officer, Retirement Fund Operations Manager, Executive Manager Strategy and Projects, one Board member and representatives from Internal Audit.

The Committee is chaired by the Fund's Chief Executive with three meetings held during the 2009/2010 financial year.

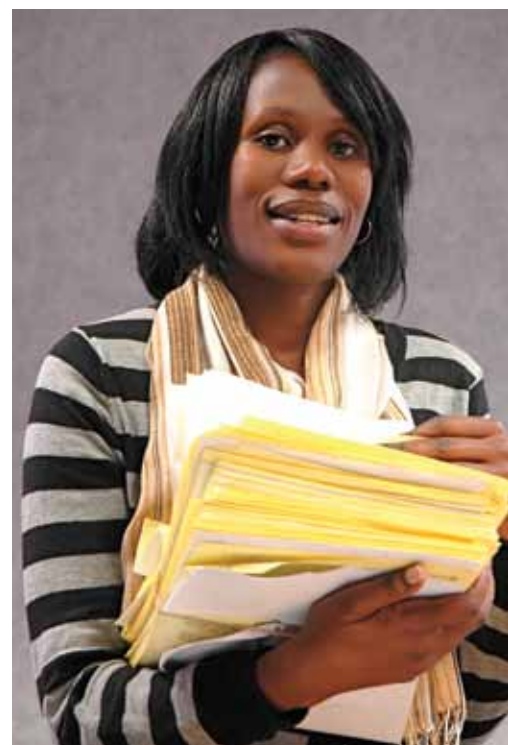
The Committee is responsible for ensuring that an effective and integrated risk management process is implemented and maintained for the Fund.

#### Sub-Committee of the Benefits Committee

The Sub-Committee of the Benefits Committee comprises of the Chief Executive, Retirement Fund Operations Manager, Statutory Controller and Executive Manager Strategy and Projects.

The Sub-Committee is chaired by the Chief Executive with meetings held on a monthly basis, with thirteen meetings conducted during the year under review.

The Sub-Committee is responsible for approving advances on installment lumpsums registered with the Fund on behalf of the Board (Benefits Committee).







# Summary of Benefits



The benefits are in terms of the Rules as they applied in 2009/2010. The Rules are reviewed by the Board and registered by the Financial Services Board and approved by the South African Revenue Services for income tax purposes. In the event of a conflict between this summary and the Rules of the Fund, the relevant provisions of the Rules will apply.

## **1. Eligibility conditions**

All permanent employees of participating employers who are under the age of 65, are eligible for membership of the Fund.

## **2. Retirement benefits**

### **2.1 Ill-Health Retirement:**

A member may retire at any age as a result of ill-health, provided that the Board approves a recommendation by the Medical Panel in this regard. The benefit is calculated by making provision for a pension based on the member's pensionable emoluments and pensionable service accrued up to the actual retirement date plus 75% of the service that would have been completed from that date to the pensionable age.

### **2.2 Early Retirement:**

A member may retire early after reaching age 55. The benefit is a pension calculated in terms of the pension formula, reduced by the penalty factor of 3,9% per year for each year before age 63.

### **2.3 Normal Retirement:**

The compulsory retirement age is 65, however, members may retire early from age 63 without penalties, subject to the employer's conditions of service. The benefit is based on 2,17% of annual average pensionable emoluments over the last year before retirement, for each year of pensionable service.

### **2.4 Commutation**

A member may commute up to one-third of his/her annual pension at the retirement date. The lump sum amount is calculated using fixed commutation factors. The remainder of the pension benefit will be used to pay a monthly pension to the pensioner for the rest of his/her life and after his/her death, a reduced pension for the rest of the life of the remaining spouse.

## **3. Pension increases**

Pensions are increased on 1 January in each year in accordance with the Fund's Pension Increase Policy.

## **4. Death benefits**

### **4.1 Death before retirement:**

On the death of a member a lump sum equal to twice the member's annual pensionable emoluments is payable and distributed in terms of the provisions of Section 37C of the Pension Funds Act.

*Plus*

A widow's/widower's pension of the first 60% of the member's potential pension is

payable. This pension is calculated as if the member had remained in service and attained age 65, based on current pensionable emoluments.

*Plus*

A child's pension of 30% of the pension to which the member would have been entitled if he/she had remained in service to the normal retirement date, in respect of a single eligible child. The children's pension will increase to 40% in respect of two or more eligible children.

If there are no spouse's or children's benefits payable, there shall be paid to the member's estate, the greater of:

- a lump sum equal to the member's annual pensionable emoluments.

*Plus*

10% of the final average pensionable emoluments per year of pensionable service.

*Or*

Twice the member's annual pensionable emoluments.

### 4.2 Death after retirement:

On the death of a pensioner, a lump sum equal to R3 000 is paid to the surviving spouse or the estate.

*Plus*

A pension to the surviving spouse/s equal to 60% of the deceased

pensioner's pension at retirement before commutation, including any subsequent increases.

*Plus*

A further pension of 30% (one child) or 40% (two or more children) of the deceased pensioner's pension at retirement before commutation (including any subsequent increases) in respect of any eligible children.

### 4.2.1 But

If no spouse's pension is payable, the percentage in respect of a single eligible child is increased to 60% of the deceased pensioner's pension at retirement before commutation including any subsequent increases. For two or more children, the total percentage is increased to 100% of the deceased pensioner's pension at retirement before commutation including any subsequent increases.

### 4.2.2 And

If there are no spouse's or children's benefits payable, a benefit equal to the excess of the amount of a lump sum (as specified below) over the total benefits paid to the pensioner until the time of death is paid to the estate.

The lump sum consists of the following:  
An amount of R3 000

*Plus*

The greater of the following two calculations:

1. Twice the annual pensionable emoluments at retirement less pension benefits received since retirement.

*Or*

2. Annual pensionable emoluments at retirement plus 10% of the final average pensionable emoluments per year of pensionable service, less pension benefits already received.

### 4.3 Death of a deferred pensioner:

The death benefit of a deferred pensioner differs materially from the above and interested parties can contact the Fund for more details.

## 5. Withdrawal benefits

### 5.1 Withdrawal due to Voluntary Resignation, Abscondment or Dismissal:

In case of a withdrawal benefit due to resignation, abscondment or dismissal a cash benefit is payable. This is the prescribed minimum benefit in terms of the Pension Fund's Second Amendment Act.

The benefit is the greater of:

First calculation - The capital value of the member's accumulated past contributions plus interest after December 2001. The interest rate must





*We are incredibly proud of the effort that our Fund staff has put in over the past year – thank you.*

compare reasonably with the actual rate of investment return, net of fees and costs, that the Fund has earned on its assets.

Or

Second calculation - The Fair Value.

The Fair Value pension is the amount of pension that a member has earned for past service up to the date of leaving the Fund, based on the member's pensionable emoluments at the date of leaving the Fund. The capital value of the amount is calculated using financial assumptions, approved by the Registrar of Pension Funds.

## 5.2 Withdrawal due to retrenchment (before age 50):

In the event of retrenchment, the benefit payable is the greater of:

- Either of the two calculations in 5.1; or

Third calculation - In the event of a negotiated cash settlement or retrenchment of a member, a benefit of three times the member's own annual contributions becomes payable. The Fund must then pay to the member the greater of the first, second, or third calculations.

## 5.3 Retrenchment (aged 50 or older):

If a member has 10 years continuous

service, he/she qualifies to receive a pension instead of a lump-sum benefit as approved by the employer.

The employer compensates the Fund accordingly.

## 6. Deferred Pension Option

A member may, instead of taking cash benefit, elect to become a deferred pensioner and may be granted a benefit equal to the actuarial value, as determined by the Actuary, in respect of completed service.

This deferred benefit reverts to the deferred benefit scheme and may only be accessed from age 55.

## 7. Contribution rates

Currently, all members contribute at a rate of 7,3% of pensionable emoluments except in the case of certain categories of members who still contribute at lower rates. A member may undertake to pay additional voluntary contributions to the Fund for the purposes of adding such additional benefits as the Fund may determine.

The employer contributes at a rate of 13,5% of pensionable emoluments in respect of members.



# The Board of Trustees

## *Employer-Appointed Trustees*



**X K Memani** – Employer Appointed  
(Chairperson: Board of Trustees)  
September 2000

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**A Jeawon** – Employer Appointed  
(Chairperson: Audit and Risk Committee)  
April 2005

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**J M Maisela (Ms)** – Employer Appointed  
(Chairperson: Human Resources and  
Remuneration Committee)  
August 2004

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**S M Mamorare (Ms)** – Employer Appointed  
May 2010

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**T J Matsau** – Employer Appointed  
April 2005

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**B Smith (Ms)** – Employer Appointed  
May 2010

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**Adv N K Tsholanku** – Employer Appointed  
June 2008

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*Member-Elected Trustees (includes Pensioner-Elected,  
Bargaining Council and Non-Bargaining Council Elected Trustees)*



**M A P Tseki** – Member Elected  
(Chairperson: Benefits Committee)  
May 1999

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**M N Bailey** – Member Elected  
November 2003

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**B Blignaut** – Member Elected  
March 2002

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**W E Green** – Pensioner Elected  
June 2008

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**G J Kruger** – Member Elected  
June 2008

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**D Macatha** – Member Elected  
June 2008

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**W J Swart** – Pensioner Elected  
June 2008

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# Chief Executive's Report

*It is my privilege and pleasure to present my maiden overview of the Fund's Administration activities for the financial year ended 30 June 2010 and to reflect on the progress made towards achieving the goals of the Fund as determined by the Board of Trustees.*

Having taken over the role of Chief Executive and Principal Officer of the Fund with effect from April this year, I immediately engaged with all the stakeholders to establish and understand the things that work well and the challenges facing the Fund to ensure that the Fund was on track to achieve the current goals.

In line with the Fund's goals the Fund management Team has been focused on streamlining our operations and managing costs, reviewing our IT strategy, improving on our customer service and continuing to improve returns on assets under management.

## **I. ENVIRONMENTAL OVERVIEW**

### **I.1 Economic Outlook**

The 2010 financial year was ushered in by very optimistic sentiments for the recovery of the global economy. This optimism was soon negated in the first quarter by the emergence of the sovereign debt crisis in Southern Europe, expected lower growth in China as a result of inflation and sluggish growth in demand in the US as a result of unemployment.

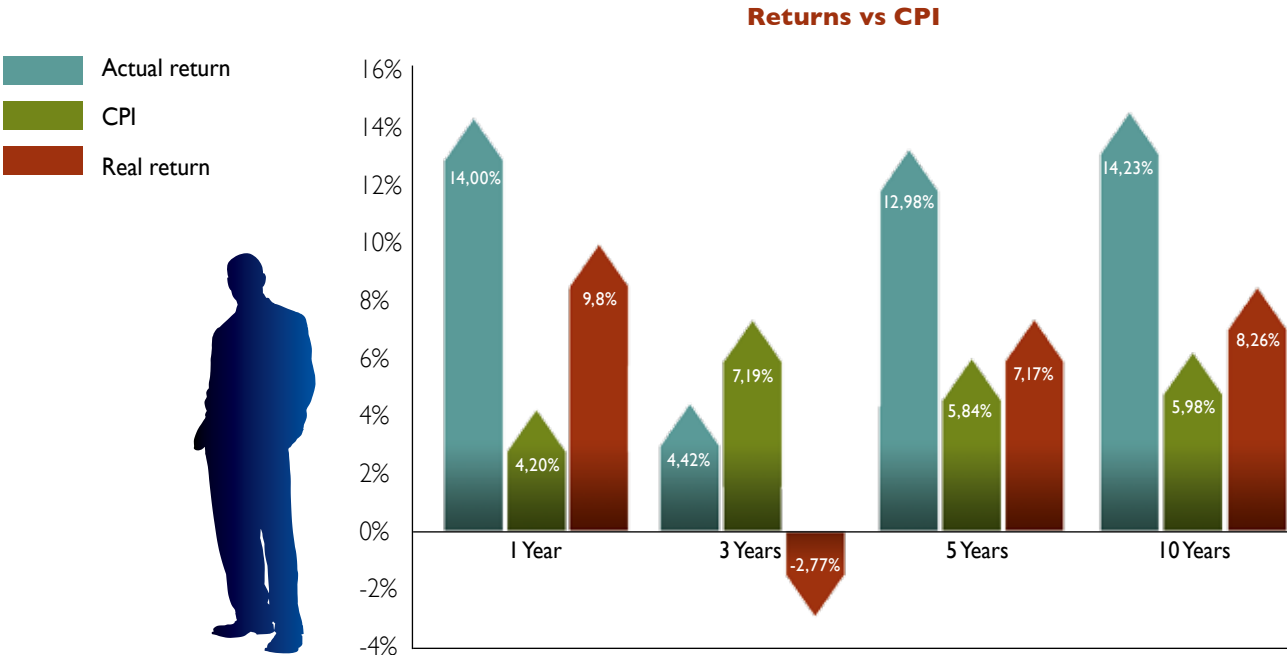
The SA economy was sustained by strong infrastructural investments leading to the 2010 World Cup. After the successful hosting of the World Cup, SA has managed to showcase itself as an investment- and tourism destination, which should help stimulate the economy.

### **I.2 Internal Environment**

The Fund began the year looking into completing the implementation of a new administrative system (project "FUFUWE") to improve efficiencies as well as position itself with the capacity of being able to administer a defined contribution scheme. The new system implementation project started some three years ago as a five month project. A lot of resources in the form of management time, dedicated project staff and consultants were dedicated to finalising the implementation process. Despite all this commitment from the Fund, the implementation of this administration system could not be finalised. Given all









The values we live by...

Provide **superior performance** through service excellence

the challenges in implementing the new system, management took a decision not to continue with the implementation.

This decision requires going back to the drawing board to look at a new road map to improve efficiencies in the Fund Administration, Fund Investment Management as well as gearing the Fund with the capability of administering a defined contribution scheme.

This setback has in the meantime resulted in the upgrade of the existing mainframe-based Administration system to improve efficiencies under the current status quo.

## 2. KEY PRIORITIES FOR THE YEAR ENDED 30 JUNE 2010

The Fund had the following priorities as agreed to by the Board for the year ended 30 June 2010:

Key Priority	Weighting
Investment returns	40%
Efficient Administration	35%
- Cost management	15%
- Operational Excellence	10%
- Customer Service	10%
Black Economic Empowerment	10%
Fund Restructuring	7,5%
Multi-Fund Administration	7,5%

### 2.1 Investment Performance

The Fund's Investment Management Unit continued to strive to achieve to earn a net real Rand return of at least 4,5% per annum.

#### 2.1.1 Investment Returns

The investment return for the year ended 30 June 2010 was 14% compared to a CPI of 4,20% for the same period, resulting in a positive real return of 9,8%.

The Fund's investment returns over a 10 year period are reflected below:

	1 Year	3 Years	5 Years	10 Years
Actual return	14,00%	4,42%	12,98%	14,23%
CPI	4,20%	7,19%	5,84%	5,98%
Real return	9,8%	-2,77%	7,17%	8,26%

The Fund outperformed its target for the financial year ended 30 June 2010, but achieved a negative rolling 3-year real return of -2.77%. This underperformance was the result of the negative returns sustained in 2008 and 2009 due to the global financial crisis. The 5- and 10-year performance remains satisfactory despite the setbacks over the past three years.

#### 2.1.2 Investment Strategy

During the year the Board approved a revised Investment Policy Statement after an extensive Asset Liability Modelling process. The Investment Management Unit has already initiated a process to align the portfolio with the approved strategic asset allocation.





The Fund became a signatory to the United Nations Principles for Responsible Investing (UNPRI), which is a set of global best practices for responsible investments.

These principles uphold mainly:

- Incorporating Environmental, Social and Governance (ESG) issues into investment analysis and decision-making processes,
- being active owners and incorporating ESG issues into our ownership policies and practices, and
- seeking appropriate disclosure on ESG issues by the entities in which we invest.

In line with the Fund's objective of being a responsible investor it made

The values we live by...

### Professionalism guides our business approach

commitments of R150 million to the Old Mutual Housing Impact Fund aimed at affordable housing projects in underdeveloped areas.

The Fund also changed the benchmark for all equity portfolios to the FTSE/JSE Shareholder Weighting Index (SWIX) as the previous index had been a customized index (FTSE/JSE All Share Index with a 50% Resources weighting) which often led to differences in the calculation of returns by the Fund, consultants and various asset managers.

#### 2.1.3 Internally Managed Portfolios

The in-house equity portfolio implemented a top down investment strategy which places more emphasis on macro factors and sector allocation.

The six-month period since the implementation of the revised strategy is too short to truly demonstrate its effectiveness, as a period of at least 12 months is the typical time frame for analysis of investment performance.

Having said that, the portfolio's under-performance relative to the benchmark was a marginal -0,6% over the six months to June 2010, compared to -1,3% over the preceding six months to December 2009.

During the year the Absolute Return Fund was established with an initial capital of R750 million.

#### 2.1.4 Property Investments

The Fund is a 60% shareholder in Pareto Ltd, a property investment company. The full year net income of R688,1 million available for distribution to unit holders, was 8.9% above the prior year actual of R631,7 million.

The valuation of Pareto properties as at 30 June 2010 stood at R10,797 billion compared to R10,834 billion (at 30 June 2009) in respect of the previous year.

During the financial year the Fund acquired a 60% ownership interest in Business Venture Investments No 1630 (Pty) Limited. Business Venture Investments No 1360 (Pty) Limited acquired 50% of Menlyn Park Shopping Centre and the Cavendish Square and Connect from Old Mutual for R2.5billion.

The transfer of the 50% property ownership interest purchased by Business Venture Investments No 1360 (Pty) Limited occurred subsequent to year end. Thus the Fund continues to enhance its premium property portfolio.

#### 2.2 Efficient Administration

Given the prevailing economic conditions the Fund continued to focus on always servicing its stakeholders with quality service in a cost effective manner. This was underpinned by a strong focus on cost management,

streamlined operational excellence whilst not compromising on customer service.

### 2.2.1 Cost Management

The Finance Department continued to drive cost management throughout the organisation for the year. This process commenced with the breaking down of the annual budget approved by the Board into monthly budgets.

On a monthly basis each department continued to do a detailed analysis of their actual costs against the approved budget and explain any variances.

The monthly pensioner payroll was processed on time throughout the year. Our call centre reported very few exceptional complaints about payments not received, which, when analysed, revealed that there were very few dynamic and unconventional cases.

A summary of the Fund Administration costs for the year ended 30 June 2010 is provided below:

The reduction in Administration costs is testimony to the disciplined cost management processes adopted by management.

### 2.2.2 Operational Excellence and Customer Service

#### 2.2.2.1 Fund Operations

The main challenge faced by the Fund Operations Department, besides beginning the year with a vacancy left by the departure of the previous Manager was the fact that there were too many vacancies occupied by temporary staff. This was a result of a decision taken to complete the project FUFUWE implementation prior to filling any vacancies. The position of the Manager: Fund Operations was filled in the second quarter of the year.

Given the above situation it was difficult to commit resources towards training and development of staff which resulted in certain inefficiencies arising. This situation has subsequently been addressed by advertising and filling all

key positions within Fund Operations. Training and development of staff will commence soon in order to ensure that staff is equipped with the skills required to achieve operational excellence.

Despite these challenges the Fund Operations managed to:

- i) Successfully settle all benefit claims where administration requirements were fully in place within 7 days.
- ii) Ensure that the pensioner payroll was processed on time.
- iii) Improve the death in-service benefit allocation processes through the work done by the Fund's Social Workers.
- iv) Communicated with our stakeholders through the various newsletters and site visits.
- v) Attend to a significant number of enquiries and provided support through the call centre and physical walk in centres.

#### 2.2.2.2 Human Resources

The Human Resources Department is another department that started the year without a leader. The position of Human Resources Manager was filled in the second quarter of the year.

Some of the challenges that our Human Resources function dealt with included initiating a review of all policies and procedures, talent management and succession planning.

	Actual 2010 R 000	Actual 2009 R'000
Personnel costs	39 000	39 275
Other Administration costs	34 431	37 057
<b>Total Fund Administration costs</b>	<b>73 431</b>	<b>76 332</b>



The Human Resources Department has also made noticeable strides towards enhancing the Fund's performance management system, resolving audit issues, improving personal development plans and providing support in normalising the Fund Operations Department's high level of vacancies.

### *2.2.2.3 Legal and Technical Services*

Legal and Technical Services continued to provide support to the Board and its Committees as well as legal services to the entire organisation. Legal also acted as the custodian of maintaining and updating the Fund rules.

During the year through our legal services we maintained our relationship with the FSB and effectively dealt with pensioner complaints.

Legal continued its vital role to ensure the legal soundness of our legal agreements. Another area which was managed through our legal services was the initiation of a process to restructure Pareto Ltd to comply with Regulation 28 of the Pension Funds Act. This Pareto restructuring matter is still ongoing, with the Fund in the process of applying for an exemption from the FSB.

### *2.2.2.4 Risk and Compliance*

The Risk and Compliance Department continued to monitor asset manager compliance against the signed mandates and no significant instances of non compliance were noted for the year.

The Risk and Compliance Department actively participated in monthly Investment Management Unit meetings as well as in the quarterly asset manager report back sessions.

The Department also provided input into new mandates signed with Independent Franchise Partners, a new international asset manager appointed during the year.

During the year our Risk and Compliance Manager was nominated to the Conflicts Committee of the Pan African Infrastructure Development Fund.

The head count in this Department was increased to two in order to strengthen the capacity. Risk and Compliance also continued to support the Audit and Risk Committee of the Board and maintained the organisational risk register.

### *2.2.2.5 Information Technology*

Given the delays that project FUFUWE experienced, the IT department had to formulate a contingency plan as Eskom had indicated that they would be moving away from the mainframe they were sharing with the Fund as at 30 June 2010. This posed a risk that the Fund would not have support for the mainframe after June 2010.

The Fund successfully negotiated a licensing arrangement with full system support for a two year period. The contingency plan was fully activated and signed off during July 2010.



The values we live by...

We are **flexible** enough to meet and exceed the expectations of our stakeholders



#### 2.2.2.6 Corporate Secretariat and Facilities Department

The Corporate Secretariat continued to provide support to the Board and its Committees. In total 77 Board-, Board Committee- and Executive Committee meetings were held during the year.

### 2.3 Black Economic Empowerment

The Fund continues to take pride in championing and driving Black Economic Empowerment not only in the Financial

Services Sector, but on a wide basis including all of its procurement activities.

In the asset management area, 33% of the Fund's domestic external mandates had been allocated to Black Asset Managers as at 30 June 2010 (27,1% as at 30 June 2009). This places the Fund in line to achieve its objectives of allocating 40% of the domestic external mandates to Black Asset Managers.

In pursuit of the Fund's objectives,

the Fund engaged a consultant to conduct an assessment of the status of transformation in the Asset Management Industry.

The study focused on Ownership, Management Control, Employment Equity, and Skills Development elements of the BBBEE Scorecard. These elements have a collective weighing of 60% in the Scorecard, and are viewed as being the most critical to sustainable transformation.

The study highlighted that in most of the asset management companies, the investments teams were still largely untransformed, while administration and client servicing teams had the highest representation of Black individuals. It must however be noted that a number of asset management companies have already initiated programs to bridge the gaps.

The Fund will be engaging with the asset management companies to discuss the findings and to solicit commitment to their plans to bridge the gaps.

The Fund's total "other" BEE spend was R18,4 million (R16,8 million in 2009), excluding asset managers. We are in the process of setting up a centralised procurement function within the Fund to further streamline our procurement activities.

### 2.4 Fund Restructuring

The Fund has been engaged in discussions with Eskom on the issue of introducing a

defined contribution (DC) option for quite some time. Whilst there appears to be general agreement on the fact that a DC option should be implemented, there have been different views on how to go about implementing this decision.

The Fund's Actuary has advised that if this issue is not adequately addressed the Fund could find itself in an adverse financial position in the next 3 to 4 years. The Fund is continuing its discussions with Eskom to resolve this matter.

### 2.5 Multi-Fund Administration Capability

In order to position the Fund as a Multi-Fund Administrator it is critical that we create new solutions especially from a system enablement point of view. With the decision not to continue with project FUFUWE, we are in the process of reviewing our road-map. This process will assist in ensuring that we enhance our entire IT processes and platform to continue running an efficient and effective administration.

## 3. KEY PRIORITIES FOR 2011

Fund Management engaged in a process of reviewing the Key Priorities for the Fund. After extensive review of the Key priorities the Board of Trustees agreed to the following priorities:

The key priorities for 2011 recognise that we are operating in a very dynamic and highly regulated environment. The Fund has to evolve in order to maintain a culture of high excellence. To do this we need to focus on the Fund's intangible assets being its Human Capital.





Key Priorities for 2011	Weighting
1. Development of leadership capability	15%
Corporate Compliance and Governance	15%
2. Fund Restructuring	5%
Compliance and Governance with laws and Regulations	10%
Operational Efficiency	20%
Multi-Fund Administration Capability	5%
3. Customer Service	5%
Cost Management	5%
Efficient Administration	5%
4. Investment Returns	40%
5. BBBEE	10%

#### 4. CONCLUSION

On behalf of the Fund's Executive Management, I would like to express our thanks and appreciation to our Board of Trustees and Board Committee members, all our stakeholders and to all the Fund's staff members who have shown commitment to serving all our members and those that depend on them.

Following a tenure of 10 years as the Chairman of the Board of Trustees, Mr Kennedy Memani is stepping down as the Fund's Chairman. His immense contribution to the Fund during his tenure is recognised and honoured by all the Fund's stakeholders. Under his stewardship, the Fund's assets grew to R57,8 billion at 30 June 2010, from R20,1 billion in 2001.

Mr Memani's visionary leadership is evident from the investment growth

levels achieved by the Fund, despite the global recessionary economic conditions experienced from during 2008 and the latter part of 2009.

The Board's special thanks goes towards his contribution in having ensured the many key strategic issues and challenges faced by the Fund were dealt with prudently under his factual approach, the manner in which he achieved consensus and his consistent displayed passion for the welfare of the Fund and its members.

My personal thanks also goes towards his exemplary leadership and support which has positively contributed towards my transition into the Fund environment during the past eight (8) month period, since having joined the Fund in April 2010.

Mr. Hlengani Mathebula replaces Mr. Memani as the new Chairperson, and

on behalf of the Board of Trustees, we look forward to continue serving and acting in the interest of the Fund, under his fruitful and insightful leadership.

We are confident that Mr Mathebula will continue to steer the Fund in the best interest of its main stakeholders, the active Members, Pensioners and Beneficiaries.

I look forward to a fruitful 2011 financial year.

**SIBUSISO LUTHULI, CA (SA)**  
**CHIEF EXECUTIVE AND**  
**PRINCIPAL OFFICER**

# Annual Financial Statements

**STATISTICAL REVIEW** as at 30 June 2010

## Investment performance

	1 Year	2 Years	3 Years	5 Years	10 Years
	%	%	%	%	%
Interest-bearing	9,2	11,9	9,4	8,5	11,2
Equity	20,0	0,6	-0,5	12,9	14,2
Property	6,3	8,7	11,7	20,6	19,4
<b>Total assets</b>	<b>14,0</b>	<b>5,9</b>	<b>4,4</b>	<b>13,0</b>	<b>14,2</b>

## Net assets (Rm)

	2010		2009		2008		2007		2006
		%		%		%		%	
Interest-bearing	22 563	39	21 994	44	21 389	41	16 907	33	12 325
Equity	31 424	54	24 503	48	27 110	52	30 319	59	24 934
Property	5 205	9	5 136	10	4 607	9	4 231	8	3 398
Other	(1 349)	(2)	(967)	(2)	(1 407)	-2	(294)	0	142
<b>Net assets</b>	<b>57 843</b>	<b>100</b>	<b>50 665</b>	<b>100</b>	<b>51 699</b>	<b>100</b>	<b>51 163</b>	<b>100</b>	<b>40 799</b>
Contributions received (Rm)	2 132		1 618		1 487		1 045		1 089
Benefits awarded (Rm)	2 350		1 833		2 209		1 867		1 510
Members (number)	39 671		38 223		36 130		33 385		32 057
Pensioners (number)	34 243		33 867		33 850		36 017		34 752
Ratio of members to Pensioners	1,16		1,13		1,06		0,93		0,92

- Note: The number of pensioners includes children receiving pensions

## STATEMENT OF NET ASSETS AND FUNDS at 30 JUNE 2010

	Notes	2010 R'000	2009 R'000
<b>ASSETS</b>			
<b>Non-current assets</b>		59, 193,842	51, 634,322
Office furniture and equipment		1,485	1,646
Investments	1	59,192,357	51,632,676
<b>Current assets</b>		2,267,294	1,925,877
Accounts receivable		2,017,977	1,865,503
Contributions receivable	2	244,530	55,537
Cash at bank		4,787	4,837
<b>Total assets</b>		<b>61,461,136</b>	<b>53,560,199</b>
<b>FUNDS AND LIABILITIES</b>			
<b>Funds and surplus account</b>			
<b>Accumulated funds</b>		56,583,973	49,555,523
- Normal retirement		54,430,615	47,610,169
- Additional voluntary contribution scheme		204,416	202,877
- Performance bonus scheme		1,948,942	1,742,477
<b>Reserves</b>			
Reserve accounts		1,259,240	1,109,764
<b>Total funds and reserves</b>		57,843,213	50,665,287
<b>Non current liabilities</b>		25,510	16,945
Unclaimed benefits		25,510	16,945
<b>Current Liabilities</b>		3,592,413	2,877,967
Benefits payable	4	804,656	619,419
Transfers payable		117,491	-
Accounts payable		2,668,416	2,253,494
Accruals		1,850	5,054
<b>Total funds and liabilities</b>		<b>61,461,136</b>	<b>53,560,199</b>



## STATEMENT OF CHANGES IN NET ASSETS AND FUNDS

for the year ended 30 JUNE 2010

	Notes	Normal Retirement R'000	Additional Voluntary Contribution Scheme R'000	Performance Bonus Scheme R'000	Accumulated Funds R'000	Reserve accounts R'000	Total 2010 R'000	Total 2009 R'000
Contributions received and accrued	2	1,729,701	12,304	390,408	2,132,413	-	2,132,413	1,617,898
Net investment income	3	7,469,381	-	-	7,469,381	-	7,469,381	(742,022)
Return allocated to schemes		(62,358)	6,507	55,851	-	-	-	-
<b>Less:</b>								
Administration expenses		(73,431)	-	-	(73,431)	-	(73,431)	(76,332)
<b>Net income before transfers and benefits</b>		9,063,293	18,811	446,259	9,528,363	-	9,528,363	799,544
<b>Transfers and benefits</b>		(2,093,371)	(17,272)	(239,794)	(2,350,437)	-	(2,350,437)	(1,832,955)
Transfers from other funds		-	4,092	-	4,092	-	4,092	11,539
Transfers to other funds		(190,757)	-	-	(190,757)	-	(190,757)	(119,131)
Benefits	4	(1,902,614)	(21,364)	(239,794)	(2,163,772)	-	(2,163,772)	(1,725,363)
Net income after transfers and benefits		6,969,922	1,539	206,465	7,177,926	-	7,177,926	(1,033,411)
<b>Funds and reserves</b>								
<b>Balance at beginning of year</b>		47,610,169	202,877	1,742,477	49,555,523	1,109,764	50,665,287	51,698,698
Transfer between reserve accounts		(149,476)	-	-	(149,476)	149,476	-	-
<b>Balance at end of year</b>		54,430,615	204,416	1,948,942	56,583,973	1,259,240	57,843,213	50,665,287

# Notes to the Financial Statements for the year ended 30 June 2010

## Principal accounting policies

The following are the principal accounting policies used by the Fund.

## Purpose and basis of preparation of financial statements

The financial statements are prepared in accordance with the Regulatory Reporting Requirements for Retirement Funds in South Africa, the rules of the Fund and the provisions of the Pension Funds Act in South Africa. The financial statements are prepared on historical cost and going-concern bases except where specifically indicated in the accounting policies below:

## Financial Instruments

A financial instrument is any contract that gives rise to both a financial asset of one entity and a financial liability or equity instrument of any other entity. A financial asset or a financial liability is recognised when its contractual arrangements become binding and is derecognised when the contractual rights to the cash flows of the instrument expire or when such rights are transferred in a transaction in which substantially all risks and rewards of ownership of the instrument are transferred.

Financial instruments carried on the statement of net assets and funds, include cash and bank balances, investments, housing loans, receivables and accounts payable.

Financial instruments are recognised on acquisition using trade date accounting, which includes transaction costs. Subsequent to initial recognition, these instruments are measured as set out below.

## Investments

Investments are classified at fair value through the statement of changes in net assets and funds and are measured at fair value.

## Loans (other than housing loans) – loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determined payments that are not quoted in an active market other than those that the Fund intends to sell in the short term or that is designated as at fair value through the statement of changes in net assets and funds. Loans and receivables are measured at fair value.

## Debentures

Debentures comprise investments in listed and unlisted debentures.

## Listed debentures

The fair value of listed debentures traded on active liquid markets is based on regulated exchange quoted ruling closing prices at the close of business on the last trading day on or before the statements of net assets and funds date.

## Unlisted debentures

Unlisted debentures are financial assets with fixed or determinable payments and fixed maturity. Fair value is estimated using pricing models or by applying appropriate valuation techniques such as discounted cash flow analysis or recent arm's length market transactions in respect of the unlisted debenture.

## Bills and bonds

Bills and bonds comprise investments in government or provincial administra-

tion, local authorities, participating employers, subsidiaries or holding companies and corporate bonds.

## Listed bills and bonds

The fair value of listed bills and bonds traded on active liquid markets is based on regulated exchange quoted ruling closing prices at the close of business on the last trading day on or before the statements of net assets and funds date

## Unlisted bills and bonds

A market yield is determined by using appropriate yields of existing bonds and bills that best fit the profile of the instrument being measured and based on the term to maturity of the instrument. Adjusting for credit risk, where appropriate, a discounted cash flow model is then applied, using the determined yield, in order to calculate the fair value.

## Investment property

A property held for long-term yields or capital appreciation that is not occupied by the Fund is classified as investment property. Investment properties comprise freehold land and buildings and are carried at fair value.

Investment properties are reflected at valuation on the basis of open-market fair value adjusted, if necessary, for any difference in the nature location or condition of the specific asset at the statement of net assets and funds date. If the open-market valuation information cannot be reliably determined; the Fund uses alternative valuation method such as discounted cash flow projections or recent prices on active markets for transactions of similar nature. These valuations are performed by

independent valuation experts every years. Investment property that is being redeveloped for continuing use as investment property or for which that market has become less active continues to be measured at fair value.

Property located on land that is held under operating lease is classified as investment property as long as it is held for long term rental yields and is not occupied by the Fund. The initial cost of the property is the lower of the fair value of the property and the present value of the minimum lease payments. Subsequent to initial recognition the property is measured at fair value.

The fair values are the estimated amounts for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction.

Changes in fair value are recorded by the Fund in the statement of net changes in assets and funds. Properties under development are carried at cost, less adjustments to reduce the cost to recoverable amount if appropriate.

### Equities

Equity instruments consist of equities with primary listing on the JSE, equities with secondary listing on the JSE, foreign listed equities and unlisted equities.

Equity instruments designated as fair value through the statement of net changes in assets and funds by the Fund are initially recognised at fair value on trade date.

#### Listed equities

Equity instruments are subsequently measured at fair value and the fair value adjustments are recognised in the statement of net changes in assets and funds. The fair value of equity instruments with standard terms and conditions and traded on active liquid markets is based on regulated exchange

quoted ruling closing prices at the close of business on the last trading day on or before the statements of net assets and funds date.

#### Unlisted equities

If a quoted closing price is not available i.e. for unlisted instruments, the fair value is estimated using pricing models, or by applying appropriate valuation techniques such as discounted cash flow analysis or recent arm's length market transactions in respect of equity instruments.

### Preference shares

#### Listed preference shares

The fair value of listed preference shares traded on active liquid markets is based on regulated exchanged quoted ruling closing prices at the close of business on the last trading day on or before the statement of net assets and funds date.

#### Unlisted preference shares

In respect of unlisted preference shares, the fair value is determined by applying appropriate valuation techniques such as discounted cash flow analysis or recent arm's length market transactions in respect of preference shares.

### Insurance policies

#### Non - linked insurance policies

Non – linked insurance policies with insurers are valued on the basis of the policyholder's retrospective contribution to assets (i.e. accumulation at the actual investment return achieved on gross premiums.)

### Collective investment scheme

Investments in collective investment schemes are valued at fair value which is the quoted unit values, as derived by the collective investment scheme administrator with reference to the rules of each particular collective investment scheme, multiplied by the number of units.

### Derivatives

Derivative market instruments consist of options, equity linked instruments, futures/forward – SAFEX/foreign, currency swaps and interest rate swaps.

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from regulated exchange quoted market prices in active markets, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. The fund does not classify any derivatives as hedges in a hedging relationship.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidence by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) based on a valuation technique whose variables include only data from observable markets.

#### Options

Options are valued using option pricing modules.

#### Futures/forwards

The fair value of publicly traded derivatives is based on quoted closing prices for assets held or liabilities issued, and current offer prices for assets to be acquired and liabilities held.

#### Swaps

Swaps are valued by means of discounted cash flow models, using the swap curve from a regulated exchange (BESA) to discount fixed and variable rate cash flows, as well as to calculate implied forward rates used to determine



the floating interest rate amounts. The net present values of the fixed leg and variable leg of the swap are offset to calculate the fair value of the swap.

### Investment in participating employer

Investments in participating employer(s) comprise loans and investments in unlisted equities.

### Cash and cash equivalents

Cash and deposits comprise cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are measured at fair value.

### Reserves

Reserve accounts comprise particular amounts of designated income and expenses as set out in the rules of the Fund and are recognised in the period in which such income and expenses accrue to the Fund.

### Transfer to and from the Fund

Section 14 and 15B transfers to or from the Fund are recognised on the date of approval of the scheme or arrangement of transfer of business by the Financial Services Board, as contained in the approval certificate from the Registrar.

Individual transfers (Section 13A(5) transfers) are recognised on the earlier of receipt of the written notice of transfer (Recognition of Transfer) or receipt of the actual transfer value.

All the above transfers are measured at the values as per the section 14 application or the value of the transfer at effective date of transfer adjusted for investment return or late payment interest as guided by the application.

### Accounts receivable

Accounts receivable are financial assets measured initially at fair value and subsequently measured at amortised cost

using the effective interest rate method, less any allowance for impairment.

### Accounts payable

Accounts payable are financial liabilities measured initially at fair value, net of transaction costs that are directly attributable to the liability and subsequently measured at amortised cost using the effective interest rate method.

### Impairment

#### Impairment of loans and receivables

A provision for impairment of loans and receivables is established when there is objective evidence that the Fund will not be able to collect all amounts due according to their original terms.

### Contributions

Contributions are measured at the fair value of the consideration received or receivable.

Contributions are accrued and recognised as income in accordance with the actuarial recommendations, and the rules of the retirement fund. Contributions received are apportioned between retirement funding and funding for risk and other expenses. The apportionment is governed by the rules of the Fund and actuarial recommendations.

Voluntary contributions are recognised when they are received from annual payments or accrued where monthly recurring payments are made.

Any contributions outstanding at the end of the reporting period are recognised as a current asset – contribution receivable. Any contributions received in advance at the end of the reporting period are recognised as a current liability – accounts payable.

#### Interest charged on late payment of contributions

Compound interest on late payments

or unpaid amounts and values shall be calculated for the period from the first day of the month following the expiration for the period in respect of which the relevant amounts or values are payable or transferable until the date of receipt by the Fund.

### Benefits

Benefits payable and pensions are measured in terms of the rules of the Fund. Benefit payments and monthly pension payments are recognised as an expense when they are due and payable in terms of the rules of the Fund. Any benefits not paid at the end of the reporting period are recognised as a current liability – benefits payable and/or due.

### Investment income

#### Dividends

Dividend income is recognised in the statement of changes in net assets and funds when the right to receive payment is established – this is the last date to trade for equity securities. For financial assets designated at fair value through the statement of changes in net assets and funds, the dividend income forms part of the fair value adjustment.

#### Interest

Interest income in respect of financial assets held at amortised cost is accounted for in the statement of changes in net assets and funds using the effective interest rate method.

#### Rentals

Rental income is accounted for in the statement of changes in net assets and funds on a straight-line basis over the period of the rental agreement, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished. Property expenses shall be recognised in the statement of changes in net assets and funds under net investment income.

### Collective investment schemes' distribution

Distribution from collective investment schemes are recognised when the right to receive payment is established.

### Income from policies with insurance companies

Income from investment policies from insurance companies is included in the adjustment to the movement of the financial asset.

### Interest on late payment of contributions and / or loans and receivables

Interest on late payment of contributions and / or loans and receivables is accounted for in the statement of changes in net assets and funds using the effective interest rate method.

### Adjustment to fair value

Gains or losses arising from changes in the fair value of financial assets at fair value through the statement of changes in net assets and funds are presented in the statement of changes in net assets and funds in the period in which they arise.

### Expenses incurred in managing investments

Expenses in respect of the management of investments are recognised as the service is rendered.

### Administration expenses

An expense is recognised if it is probable that any future economic benefit associated with the item will flow to or from the Fund and the item has a cost or value that can be measured with reliability.

Expenses incurred in the administration of retirement funds are recognised in the statement of changes in net assets and funds in the reporting period to which they relate.

In the event that an expense has not been paid at the end of a reporting period the

liability will be reflected in the accounts payable note. If the expense was paid in advance or overpayment occurred, the applicable amount will be disclosed under the accounts receivable note.

### Accounting policies, changing in accounting estimates and errors

The fund applies adjustments arising from changes in accounting policies and errors prospectively. The adjustment relating to a change in the accounting policy or error is therefore recognised in the current and future periods affected by the change.

### Related parties

In considering each possible related-party relationship, attention is directed to the substance of the relationship and not merely the legal form.

If there have been transactions between related parties, the Fund shall disclose the nature of the related party relationship as well as the following information for each related party relationship:

- The amount of the transactions;
- The amount of outstanding balances;
- Their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in the settlement;
- Details of guarantees given or received;
- Provisions for doubtful debts related to the amount of outstanding balances; and
- The expense recognised during the period in respect of bad or doubtful debts due from related parties.

### Depreciation

#### Office furniture and equipment

The Fund carries office furniture and equipment at historical cost less depreciation and impairment, except

for land which is carried at cost less impairment. Historical cost includes expenses that are directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Fund and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Office furniture and equipment are depreciated on a straight line basis at rates calculated to reduce the book value of these assets to estimated residual values over their expected useful lives.

The periods of depreciation used are as follows:

Computer equipment	3 years
Furniture and fittings	5 years
Office equipment	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of net assets and funds date. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Gains or losses on disposals are determined by reference to the carrying amount of the asset and the net proceeds received, and are recorded in statement of changes in net assets and funds on disposal.

**I. Investments****I.1 Investment summary**

	Notes	Local	Foreign	Total 2010	Total 2009	Fair value 2010	Categorised Per IAS 39
		R'000	R'000	R'000	R'000	R'000	
Cash and deposits		5,889,929	1,702,702	7,592,631	7,919,984	7,592,631	Fair value
Debentures		317,011	-	317,011	286,888	317,011	Fair value
Bills, bonds and securities		12,942,172	957,052	13,899,224	13,360,768	13,899,224	Fair value
Investment properties	I.3	201,500	-	201,500	187,445	201,500	Fair value
Equities:							
- Equities with primary listing on JSE		19,236,553	-	19,236,553	14,832,829	19,236,553	Fair value
- Equities with secondary listing on JSE		4,720,541	-	4,720,541	4,506,277	4,720,541	Fair value
- Foreign listed equities			5,394,946	5,394,946	3,694,339	5,394,946	Fair value
- Unlisted equities		816,010	-	816,010	97,928	816,010	Fair value
Linked insurance policies		592,200	-	592,200	504,054	592,200	Fair value
Private equity		518,760	76,660	595,420	477,013	595,420	Fair value
Preference shares		143,676	-	143,676	286,419	143,676	Fair value
Collective investment schemes		392,486	-	392,486	310,173	392,486	Fair value
Derivative market instruments		(11,441)	-	(11,441)	(22,236)	(11,441)	Fair value
Investment in participating employer(s)	I.2	5,301,600	-	5,301,600	5,190,795	5,301,600	Fair value
<b>Total</b>		<b>51,060,997</b>	<b>8,131,360</b>	<b>59,192,357</b>	<b>51,632,676</b>	<b>59,192,357</b>	



**I. Investments (continued)**

I.2 Investments in participating employer(s)

	At beginning of year	Additions	Fair value adjustments	At end of year
	R'000	R'000	R'000	R'000
Equity Share	2,875,573	-	(122,718)	2,752,855
Unlisted Debentures	2,073,475	-	-	2,073,475
Pareto Limited	4,949,048	-	(122,718)	4,826,330
Eskom bonds	241,747	288,539	(55,016)	475,270
<b>Total</b>	<b>5,190,795</b>	<b>288,539</b>	<b>177,734</b>	<b>5,301,600</b>

I.3 Investment properties

	At beginning of year	Disposals	Additions	Fair value adjustments	At end of year
	R'000	R'000	R'000	R'000	R'000
Office complexes	191,200	-	-	10,300	201,500
<b>Total</b>	<b>191,200</b>	<b>-</b>	<b>-</b>	<b>10,300</b>	<b>201,500</b>

Investment properties were revalued on 30 June 2010 by an independent valuator.

## 2. Contributions received and accrued

	At beginning of year	Towards retirement	Contributions received	At end of year
	R'000	R'000	R'000	R'000
Member contributions - received and accrued	21,185	600,503	523,876	97,812
Employer contributions - received and accrued	34,024	1,129,198	1,016,504	146,718
Money Purchase Schemes				
- Additional voluntary contribution	328	12,304	12,632	-
- Performance Bonus	-	390,408	390,408	-
<b>Total</b>	<b>55,537</b>	<b>2,132,413</b>	<b>1,943,420</b>	<b>244,530</b>
Towards retirement	2,132,413			
Towards re-insurance	-			
Statement of changes in net assets and funds	2,132,413			

## 3. Net investment income

	2010 R'000	2009 R'000
Income from property investments	433,256	400,345
Interest	406,265	373,247
Rental	26,991	27,098
Dividends	632,487	1,310,307
Interest	1,460,912	1,832,891
Profit on sale/redemption of investments	8,907,856	13,962,030
- Equities	3,641,362	1,432,767
- Futures	3,247,828	10,520,234
- Gilts and Semi gilts	530,953	1,133,830
- Foreign exchange	1,468,027	862,602
- Other (money market, properties and carries)	19,686	12,597
Loss on sale/redemption of investments	(5,395,191)	(14,834,098)
- Equities	(749,056)	(1,570,091)
- Futures	(3,068,678)	(10,111,318)
- Gilts and Semi gilts	(342,373)	(628,578)
- Foreign exchange	(1,235,084)	(2,509,668)
- Other (money market, properties and carries)	-	(14,443)
Security lending fee	17,828	17,520
Private equity fees	339	255
Other income	1,223	819
Less: Expenses incurred to manage investments	(169,890)	(129,263)
Rental expenses	(17,877)	(13,822)
Futures booking fees	(310)	(472)
Lending expenses	(1,071)	(454)
Portfolio management fees	(129,090)	(100,745)
Private equity management fees	(21,542)	(13,770)
Other	-	-
Fair value adjustment of investments	1,580,561	(3,302,828)
<b>Total</b>	<b>7,469,381</b>	<b>(742,022)</b>



#### 4. Benefits

	At beginning of year	Benefits for current period	Return allocated	Payments/ (Transfers)	At end of year
	R'000	R'000	R'000	R'000	R'000
Monthly pensions	14,736	1,298,084	-	(1,300,824)	11,996
Lump sums on retirement					
Pensions commuted	150,890	124,680	-	(186,828)	88,742
Lump sums before retirement					
Death and disability benefits	20,964	70,833	-	(83,277)	8,520
Withdrawal benefits	190,865	285,528	-	(40,606)	435,787
Divorce benefits	-	40,585	-	(40,585)	-
Retrenchment benefits	-	1,408	-	(889)	519
Schemes					
Additional voluntary benefits	-	21,364	-	(21,364)	-
Performance Bonus benefits	-	239,794	-	(239,794)	-
Trust monies	241,964	74,049	7,447	(64,368)	259,092
<b>Total</b>	<b>619,419</b>	<b>2,156,325</b>	<b>7,447</b>	<b>(1,978,535)</b>	<b>804,656</b>
Benefits for current year	2,156,325				
Return allocated	7,447				
<b>Statement of changes in net assets and funds</b>	<b>2,163,772</b>				

Note: Included in the payments/transfer column is a transfer of R11 715 000 to unclaimed benefits.



### 5. Risk management policies

- **Solvency risk**

Solvency risk is the risk that the investment returns on assets will not be sufficient to meet the Fund's contractual obligations to members.

Continuous monitoring by the Board and the Fund's actuary takes place to ensure that appropriate assets are held where the Fund's obligation to members are dependent upon the performance of specific portfolio assets and that a suitable match of assets exists for all other liabilities.

- **Credit risk**

Credit risk is the risk that a counter-

party to a financial instrument will fail to discharge an obligation, and cause the Fund to incur a financial loss.

The Board monitors receivable balances on an ongoing basis with the result that the Fund's exposure to bad debts is not significant.

- **Legal risk**

Legal risk is the risk that the Fund will be exposed to contractual obligations which have not been provided for. Legal representatives of the Fund monitor the drafting of contracts to ensure that rights and obligations of all parties are clearly set out.

- **Cash flow risk**

Cash flow risk is the risk that future cash flows associated with monetary financial instruments will fluctuate in amount. In the case of a floating rate debt instrument, for example, such fluctuations result in a change in the effective interest rate of the financial instrument, usually without a corresponding change in its fair value. The Board of Trustees monitors cash flows by using monthly cash flow projections.

- **Currency risk**

Currency risk is the risk that the value of an instrument will fluctuate in Rands due to changes in foreign exchange rates. The Fund's exposure to currency risk is mainly in respect of foreign investments made

on behalf of members of the Fund for the purpose of seeking desirable international diversification of investments. The Board of Trustees monitors this aspect of the Fund's investments and limits it to 15% of total assets.

- **Liquidity risk**

Liquidity risk is the risk that the Fund will encounter difficulty in raising funds to meet commitments associated with financial instruments. The Fund's liabilities are backed by appropriate assets and it has significant liquid resources.

- **Market risk**

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices or market interest rates.

- **Investments**

Investments in equities are valued at fair value and therefore susceptible to market fluctuations. Investments are managed with the aim of maximising the Fund's returns while limiting risk to acceptable levels within the framework of statutory requirements.

Continuous monitoring takes place to ensure that appropriate assets are held where the liabilities are dependent upon the performance of specific portfolios of assets and that a suitable match of assets exists for all non-market related liabilities.



# Auditor's Report

## *To the Board of the Eskom Pension and Provident Fund*

### **Report on the Summarised Financial Statements**

The summarised financial statements set out on pages 33 to 44 have been derived from the financial statements of Eskom Pension and Provident Fund for the year ended 30 June 2010. These summarised financial statements are the responsibility of the Fund's trustees. Our responsibility is to express an opinion on whether these summarised financial statements are consistent, in all material respects, with the regulatory financial statements from which they were derived.

We have audited the regulatory annual financial statements of Eskom Pension and Provident Fund for the year ended 30 June 2010, from which the summarised financial statements were derived, in accordance with International Standards on Auditing.

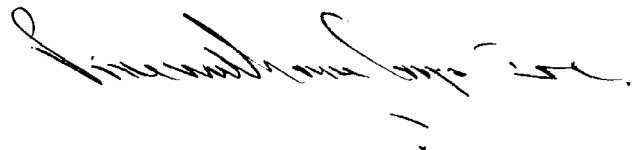
In our report dated 18 November 2010, we expressed an unqualified opinion on the regulatory financial statements from which the summarised financial statements were derived.

In our opinion, the summarised financial statements are consistent, in all material respects, with the financial statements from which they are derived.

For a better understanding of the Fund's financial position and its financial performance for the year ended 30 June 2010 and of the scope of our audit, the summarised financial statements should be read in conjunction with the regulatory financial statements from which the summarised financial statements were derived and our audit report thereon.

### **Restriction on use**

The regulatory financial statements are prepared for regulatory purposes in accordance with the basis of preparation applicable to retirement funds in South Africa, as set out in the notes to the regulatory financial statements. Consequently, the financial statements and related auditor's report may not be suitable for another purpose.



**PricewaterhouseCoopers Inc**

Director: GJ Kapp

Registered Auditor

Johannesburg

18 November 2010

# Actuarial Report

## *Particulars of financial condition of the Fund as at 30 June 2010*

An interim actuarial valuation was carried out as at 30 June 2010. In respect of this valuation, I can comment as follows:

1. Net assets available for benefits – R57 843 million.
2. The actuarial value of the net assets available for benefits, for the purposes of comparison with the actuarial present value of promised retirement benefits – R57 699 million.
3. The actuarial present value of promised retirement benefits, split into vested and non-vested benefits – R44 106 million vested, and R0 non-vested.
4. Contingency reserve account balances – R11 273 million.
5. The projected unit method was adopted for the valuation, which is unchanged from the method used at the last statutory valuation. The contingency reserves comprise a solvency reserve calculated as the estimated additional amount required, to the extent that sufficient assets are available, to ensure that the liabilities and assets are matched on a substantially risk-free basis, a contribution reserve equal to the expected present value of the future contribution shortfall for the current membership, and a pension increase affordability reserve equal to the excess of the notional pensioner account over the pensioner liability and solvency reserve. This approach is unchanged from the last statutory valuation.
6. The key financial assumptions are that investment returns will exceed salary inflation by 4,50% per annum (unchanged from the previous valuation) before allowing

for an age-related promotional scale. Future pension increases were assumed to be equal to the assumed consumer price inflation rate of 5,00% per annum (6,00% at the previous valuation). The yield used to calculate the solvency reserve was equal to the assumed yield on index-linked bonds at the valuation date, adjusted for real salary increases and asset management fees. The approach is unchanged from the previous valuation.

7. There is a shortfall between the fixed contribution rate payable in terms of the rules and the actuarially required rate. At the valuation date this shortfall amounted to 0,56% of pensionable salaries (0,71% at the previous valuation), or some R51 million in the year following the valuation date.
8. In my opinion the Fund was in a sound financial condition as at 30 June 2010 for the purposes of the Pension Funds Act, 1956.

Prepared by me:



**David K Little**

**VALUATOR**

*Fellow of the Faculty of Actuaries*

In my capacity as the valuator of the Fund and as an employee of Fifth Quadrant Actuaries and Consultants  
13 November 2010



# Executive Management



**SPC Luthuli**  
Chief Executive and Principal Officer



**JM Buthane** Legal and Technical



**SV Dube** Human Resources



**A Gaqa** Risk and Compliance



**J M Hattingh** Corporate Support



**P Ho** Investment Management



**LS Mateza** Investment Management



**SA Mosiane** Information Technology



**PM Masha** Finance



**PH Shuenyane** Operations

**B I Steyn** Strategy and Projects



# Administration Details

## **Eskom Pension and Provident Fund**

Fund registration number 12/8/564/2

## **Registered office**

Moorgate House, Hampton Park South, 24 Georgian Crescent East, Bryanston East, 2152

## **Postal address**

Private Bag X50, Bryanston, 2021, South Africa

Telephone: +27 11 709 7400

Fax: +27 11 709 7554

## **Website address**

[www.eppf.co.za](http://www.eppf.co.za)

## **Benefit administrator**

Self-administered

## **Auditors**

PricewaterhouseCoopers Inc., Private Bag x36, Sunninghill, 2157

## **Actuaries**

Fifth Quadrant Actuaries and Consultants, Private Bag X30, Rondebosch, 7701

## **Investment administrators**

During the year under review approximately 69% of the total assets (excluding property) was managed by external asset managers, while the balance was managed in-house.

## **Domestic asset managers:**

Afena Capital (Proprietary) Limited; Argon Asset Management (Proprietary) Limited; Blue Ink Investments (Proprietary) Limited; Coronation Asset Management (Proprietary) Limited; Element Investment Managers (Proprietary) Limited; 27Four Investment Managers (Proprietary) Limited; Investec Asset Management (Proprietary) Limited; Kagiso Asset Management (Proprietary) Limited; Oasis Asset Management Limited; Old Mutual Investment Group (South Africa) (Proprietary) Limited; Pan African Asset Managers (Proprietary) Limited; Rand Merchant Bank Asset Management (Proprietary) Limited; Sanlam Investment Management (Proprietary) Limited; and Sygnia Asset Management (Proprietary) Limited.

## **International asset managers:**

BlackRock Investment Management (UK) Limited; European Credit Management Limited; Independent Franchise Partners LLP; Morgan Stanley Investment Management Limited; RCM Global Investors (UK) Limited; Russell Investments Limited; and SEI Investment Management Corporation.

*Making sure that we have the right  
systems and processes in place to  
meet our Fund's needs.*



