EPPF ANNUAL REPORT | 2012

CUSTOMER FOCUS

INTERGRITY

DIVERSITY

SUPERIOR PERFORMANCE

PROFESSIONALISM

FLEXIBILITY

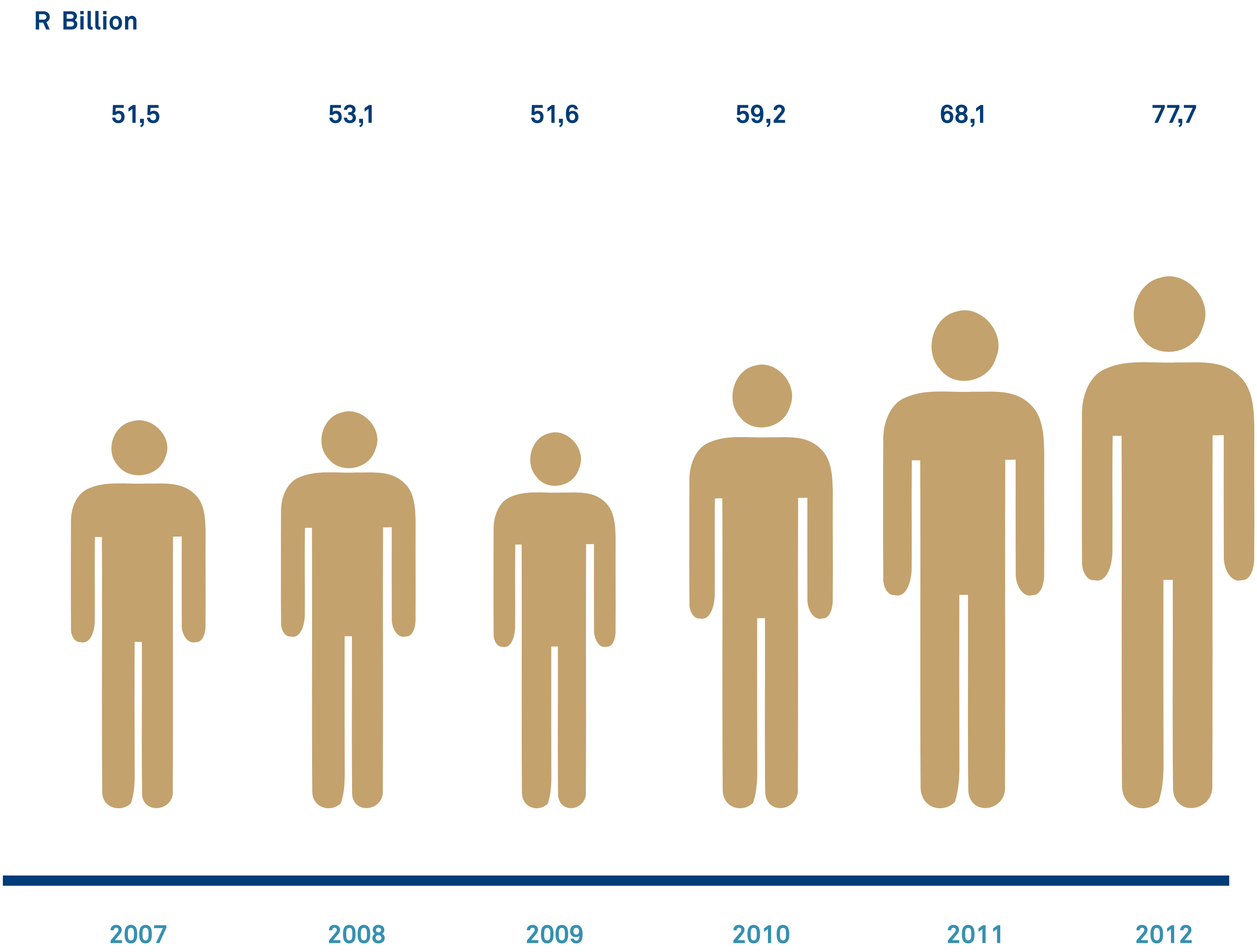
Eskom
Pension and Provident Fund

Contents

To be more efficient in the administration and investment of our member's benefits.

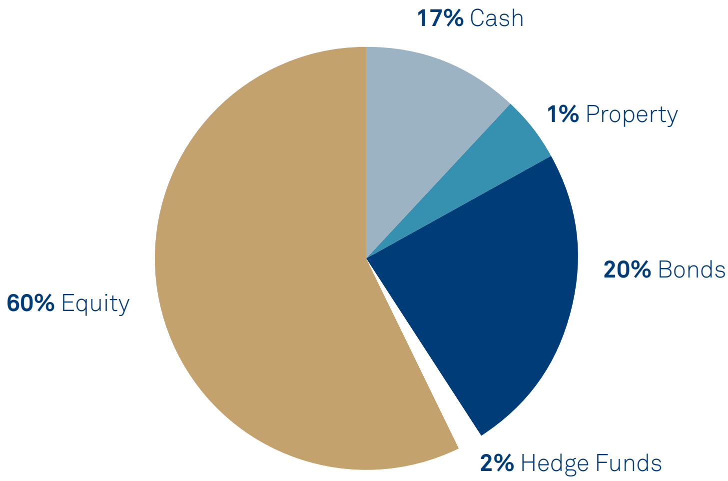
Eskom Pension and Provident Fund

Growth in total Investments for the 6 Year Period Ended 30 June 2012

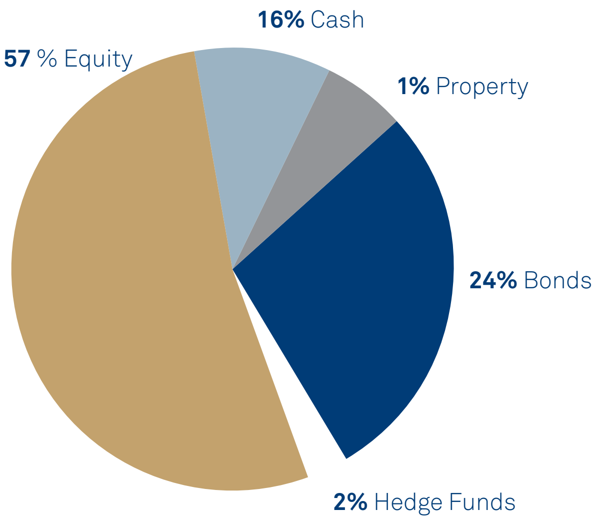


Asset Allocation Percentage as at 30 June 2012

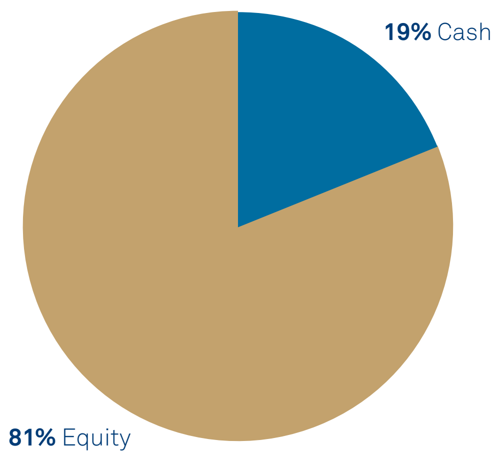
TOTAL FUND



DOMESTIC



INTERNATIONAL



Chairman's Report

Honoured Members, Pensioners and Stakeholders; it is my privilege to present to you the Eskom Pension and Provident Fund's annual report for the year ended 30 June 2012.

I am pleased to note that during the 2012 financial year, the Fund continued to serve all of its stakeholders and has again shown significant growth. In terms of assets under management, the Fund had investment assets of R77,7 billion as at 30 June 2012 (from R68,1 billion in 2011) and the membership base has increased to 88 478 from 85535 in 2011.

The EPPF remains one of the largest defined benefit retirement funds in the country. The "hybrid" financial structure of the Fund, where the Fund has a Defined Benefit structure underpinned by a Defined Contribution funding structure, remains. However, during the year under consideration significant progress has been made to address this situation and in this report I will provide more detail in this regard.

In terms of investment performance, the Fund continued to benefit from the sound investment foundation of the previous year and again this year we are delighted to report a significant outperformance of the Fund's investment targets. A significant event was the conclusion of the sale of the Fund's holding in Pareto Ltd and the sale of the Fund's Parktown Property.

In terms of governance, the Fund conducted its 4-yearly Trustee election process and whilst we bade farewell to a number of Trustees, the Fund welcomed an equal number of new trustees to the Board.

RESTRUCTURING OF THE FUND

Significant progress has been made to proceed towards the restructuring of the Fund. A Review Team was established to advise the Principals (The Fund and Eskom) on ways and means to take the restructuring initiative forward and this Review Team has subsequently completed and presented its report. The Fund as well as Eskom have accepted the recommendations of the Review Team and engagement has started to proceed towards the next phase, namely implementation of this project. There remain however, a number of challenges to overcome, but we are confident on the way forward.

In this regard the Board has decided to further engage with Eskom to discuss possible ways and means to secure the benefits of the DB section of the Fund after restructuring has taken place. This is work in progress and will be concluded during the next financial year.

FINANCIAL PERFORMANCE OF THE FUND

The Fund continued to benefit from the recovery in local and international asset markets. Our year on year growth of investments was approximately 13,61%, thus achieving an outperformance of 3,1% for the year. The table below illustrates the investment return, growth in assets under management and the rolling 3 year investment return for the year.

As illustrated above, investment return for the year ended 30 June 2012 was 13,61% (2011: 16,7%). Assets under management grew to R77,7 bn compared to R68,1 bn the previous year. Especially noteworthy is the 3-year rolling return which has now improved to 14,84% (annualized), which is well above the actuarial target of 4,5% real return.

Over the longer term, (more than 5-year rolling average return) the Fund returns are still looking positive. Over the rolling 5-year period, the Fund has returned 8.63% (annualized) compared to CPI of 6.40%. Over the rolling 10-year period, the Fund has returned 14.07% com-

	2012	2011
INVESTMENT RETURN	13,61%	16,7%
ASSETS UNDER MANAGEMENT	R 77,7 bn	R 68,1 bn
THREE-YEAR ROLLING RETURN	14,84%	9,4%

pared to CPI of 5.59%. This shows that the Fund continues to be in a healthy financial position on a long term basis.

During the year under consideration the Fund approved and started to implement a revised investment strategy to align assets with liabilities more closely. This remains work in progress as rebalancing the investment portfolio cannot be achieved within a short period of time in a relatively small South African market, given the size of the Fund. Add to this the large amount of cash and assets gained from the Pareto transaction and the reason for proceeding with care becomes more necessary.

VALUATION OF THE FUND

We conduct a statutory valuation of the Fund on a three year basis. Such statutory valuation was conducted for the financial year ended June 2012. In respect of this valuation, there was a significant improvement in the financial health of the Fund, resulting mainly due to good investment performance, but also attributable to the influx of new, younger, members as a result of the Employer's recruitment drive for its expansion programme.

Again it is well known that the financial strength of the Fund depends on various factors such as the rate of salary increases granted by the Employer and the performance of the investment markets. This situation will continue until the issues around the structure of the Fund are finalised.

PENSION INCREASES AND BONUSES

When considering pension increases for 1 January 2012, the Board considered the improved investment returns for the preceding year and also took note of further subsequent improvement in market conditions at the time, which allowed the Board to consider a favourable increase. Consequently, the pension increase with effect from 1 January 2012 was set at 7,7%. In addition, an annual bonus to pensioners was declared.

The Board is acutely aware of the effect of real levels of inflation and the financial strains experienced by pensioners. However, the Board has to find the middle way to best meet the needs of our pensioners to maintain their living standards, but also to preserve the overall long-term financial soundness of the Fund. My sincerest gratitude goes to the members of the Board for the manner in which they engage and apply their minds to this item of our discussions.

Looking forward it is evident that investment market volatility will remain a constant factor to consider in our investment approach and our stakeholders must be aware that future increases are highly dependant on affordability.

GOVERNANCE AND MANAGEMENT

The Fund successfully carried out the Trustee Election project in May 2012. In terms of the Rules of the Fund several serving Trustees were not eligible to be re-elected. Consequently, the following Trustees resigned from the Board:

Mr A Jeawon (Trustee and Chairman of the ARC)
Ms J M Maisela (Trustee and Chairperson of the HRRC)
Mr M A P Tseki (Trustee and Chairman of the Benefits Committee)
Mr T J Matsau (Trustee and Member of the HRRC)
Mr B Blignaut (Trustee and Member of the HRRC)

I wish to sincerely acknowledge the contributions of these Trustees who have now left us and express my gratitude to them for the having served the Fund in an exemplary manner.

We also had the opportunity to welcome the new Trustees who have been appointed as Trustees and particularly wish the new Trustees a rewarding experience as members of the Board.

The Board continued to improve and review issues of governance and continued to strive towards maintaining the highest standard of corporate governance. Based on the principles contained in industry guidelines such as the Pension Fund Circulars, the King III Report on Corporate Governance in South Africa and various others, the Board and its Committees continued to perform well with the increased demands brought about by special projects and responsibilities.

STRATEGIC PROJECTS

During this financial year, the Board approved a project with significant strategic stature, namely to design, articulate and implement a holistic Information Technology Roadmap. This project would not only bring the

Fund in line with Information Technology Governance as recommended by King III, but also make provision for the replacement of the Fund's ageing member and pensioner administration system.

I am pleased to report that the project on the whole was completed within the timelines determined and a successful transition from the old "Legacy" administration system to the new Omni system was achieved. This project also included the replacement of the financial accounting system with the Omni2Financials application. For IT projects of this nature and magnitude, this represented a significant achievement and I wish to congratulate the entire team who worked so hard to make the project a success.

The one major remaining issue around compliance with Regulation 28 of the Pension Funds Act, more specifically relevant to property holdings, has been addressed and the Board took note of the successful outcome relevant to the selling of the Fund's holding in Pareto Ltd. Again, I wish to acknowledge the efforts and contributions of our team in ensuring the success of this strategic initiative.

In terms of general governance and compliance I also wish to take this opportunity to thank Fund 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

During the year the Fund revised its BBBEE Policy. The revised policy which was launched in February 2012 has clear targets and timelines. It also has clear penalties for non-compliance

The Fund continues to pursue its strategic objective to support national economic transformation 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 R13.985 million. This represents 42.7%, of the funds managed by external managers (2011: 32.9%).

The Fund has subscribed to the United Nations Principles for Responsible Investing (UNPRI). UNPRI encourages funds to become responsible investors by taking Environmental, Social and Governance (ESG) issues into consideration when making investment decisions.
In terms of Socially Desirable Investments, the Fund has completed a 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

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

During the year we also worked closely with various other stakeholders who assisted us in one way or another, to carry out our responsibilities. In this regard we acknowledge the valued contributions by the senior management team of Eskom under the leadership of the Chief Executive Officer, Mr Brian Dames.

The past year rewarded us with significant achievements that paved the way for future growth and successes. There were equally significant challenges during the year under consideration, but on reflection those were overcome and transformed into successes in the spirit of a team effort. I am certain that the new financial year will bring its own challenges, but I remain confident that 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.

I would like to take this opportunity to thank the staff at EPPF for their continued commitment to the Fund and for the successful implementation and management of the Fund's strategy under the leadership of the Chief Executive.

Wishing you all the best for the future.

HLENGANI MATHEBULA

CHAIRMAN

16 November 2012

Chief Executive's Report

It gives me great pleasure to present the Fund's investment and administrative activities for the year ending 30 June 2012 and to reflect on the achievements as well as challenges encountered during the year under review.

Henry Ford once said that *"Coming together is the beginning; keeping together is progress; and working together is success"*. The year ending 30 June 2012, is a year in which the Board of Trustees, the Management Team and all EPPF staff worked together to achieve success.

1. ENVIRONMENTAL OVERVIEW

1.1 Economic Outlook

Global equity markets had a poor year, with most developed markets ending down for the year, the MSCI Developed World index returning -4,42%, and the MSCI emerging markets haemorrhaging to record a loss of -15,67% for the year. The fairly muted losses in the developed world index belie the extreme volatility which has manifested in those markets over the year.

The picture was very different in the capital markets, with bond yields breaking record new lows with each suggestion of further crisis in Europe, as investors sought refuge in the fixed income market. Investors shunned bonds from the affected Euro zone periphery region, with Spanish yields flirting with 7% yields. The global equity markets clearly suffered without the stimulus administered by US quantitative easing measures in the previous few years.

Unlike most other equity markets, the local equity markets had a good run for the year ended 30 June 2012, with the SWIX, which serves as our equity benchmark, achieving a positive return for the year of 13,31%. Despite the general drawdown that we saw in August and October 2011, Industrials and Financials had a good performance for the year in aggregate. The performance for Financials has not been purely derived from financial stocks, but has been boosted by the exceptional performance of property stocks in the sector.

The property sector has been the darling of the market since the last quarter of 2011, with all the big names in the index hitting all time highs. This performance has also been boosted by falling yields in the bond market, and investors looking for decent yields resorted to property stocks.

The performance of the investment markets for the 12-month period to June 2012 can be summarised as follows:

Key International Indicators Returns to June 2012	1 Month	3 Months	6 Months	1 Year
MSCI World	+5,15%	-4,86%	+6,29%	- 4,42%
MSCI Emerging Markets	+3,91%	-8,77%	+4,12%	-15,67%

Note: The above changes reflect total USD returns.

Key South African Indicators Returns To June 2012	1 Month	3 Months	6 Months	1 Year
All Share	+1,85%	+0,98%	+7,04%	+9,24%
All Bond	+3,34%	+5,19%	+7,68%	+14,59%
Cash	+0,44%	+1,37%	+2,77%	+5,46%

Note: The above changes reflect total returns.

1.2 Internal Environment

The financial year ending 30 June 2012 was a challenging but very exciting year. The Fund began the year focusing on the implementation of the IT Roadmap. The main objectives of the Information Technology (IT) Roadmap are pillared around cost reduction, improved efficiencies (as a result of integrated systems and electronic workflows) and creating the ability to administer a DC scheme. The IT Roadmap has fifteen initiatives with one of the flagship initiatives being the replacement of the Member Administration System and Financial Accounting System. The Fund continued to focus on tackling head-on the issue pertaining to the introduction of a Defined Contribution (DC) scheme. The joint EPPF and Eskom DB/DC Review Team consisting of Fund and Eskom representatives concluded its work and presented its recommendations both to the Fund and Eskom. The Fund Board resolved to accept the recommendations of the joint Review Team, subject to the clarification of and agreement with all stakeholders of key items like the benefit structures and the possibility of an Employer guarantee on the remainder of the DB fund. This project is ongoing and both the Fund and Eskom continue to engage on this matter.

The Fund successfully negotiated and concluded the sale of its 60% investment interest in Pareto Limited to the Government Employees Pension Fund represented by the Public Investment Corporation (PIC). This transaction was one of the largest property transactions to be concluded in South Africa yet. The conclusion of this transaction resolved a long standing problem of non-compliance with Regulation 28 wherein the Fund held more than 5% of its total assets in a single property investment.

During the 2012 financial year the Fund conducted Trustee elections, which resulted in six new Trustees joining the Fund.

2. KEY PRIORITIES FOR THE YEAR ENDING 30 JUNE 2012

The Fund had the following priorities as agreed to by the Board for the year ending 30 June 2012:

Key Priorities	Weighting
Investment Returns	40%
People Development	10%
BBBEE	10%
Fund Restructuring	20%
IT Road Map Implementation	10%
Operational Efficiency	10%

2.1 Investment Performance (Investment Management Unit)

The Fund continued to make progress in strengthening the skills and enhancing capacity within the Investment Management Unit (IMU) as the assets of the Fund grew further and the Fund continued to focus on the implementation of the Investment Strategy.

2.1.1 Investment Returns

The 30 June 2012 financial year was a fair year for local investors, with local markets providing positive returns not far off long-term averages, as a result of recovery from under-performance in previous periods. The assets of the Fund grew from R68,1 billion to R77,7 billion over the financial year. This was in part due to gains from market performance and good asset allocation on the part of the Fund.

The primary investment objective of the Fund is to earn a net real Rand investment return of 4,5% per annum over the long term. For scorecard purposes the performance evaluation is based on a rolling 3-year period. However markets are cyclical and a more meaningful assessment of the long-term performance can be derived from the 5- and 10-year rolling periods.

The investment return for the year to 30 June 2012 was 13,61%. This number compares very favourably to CPI of 5,47% for the same period, resulting in a positive real return of 8,14%.

The Fund's investment returns over various periods are reflected below:

	1 Year	3 Years	5 Years	10 Years
Actual return	13,61%	14,84%	8,63%	14,07%
CPI	5,47%	4,89%	6,40%	5,59%
Real return	8,14%	9,95%	2,23%	8,48%

The Fund outperformed the targeted 4,5% real return for the financial year ended 30 June 2012 and also outperformed the target over a rolling 3-year period at 9,95%. This is a significant improvement from the rolling 3-year underperformance which was -0,42% as at 30 June 2011. Part of the outperformance came from the realisation of the Pareto transaction which was concluded during the year under review.

The actual return achieved relative to the Strategic Asset Allocation benchmark return was as follows:

Actual return	13,61%
Strategic Asset Allocation	11,19%
Benchmark return	11,19%
Excess return	3,42%

2.1.2 Investment Strategy

As a result of the disposal of its holding in Pareto Limited, the Fund conducted a review of its Asset Liability Model. This exercise indicated that the Fund should revise its Strategic Asset Allocation. The Board of Trustees has approved the revised Investment Policy Statement incorporating the amendments to the Strategic Asset Allocation.

The Fund's Strategic Asset Allocation at 30 June 2012 compares as follows to the Actual Asset Allocation:

Asset class	Strategic Allocation (Current)	Asset Allocation (Proposed)	Asset Allocation 30 June 2012
Domestic			
Equities	45%	38,1%	44,2%
Nominal bonds	10%	0%	12,3%
Inflation-linked bonds	14%	25%	11,6%
Property	10%	5%	5,3%
Cash	2%	2%	8,5%
Hedge funds	-	-	2,2%
International			
Offshore equities	15%	24,9%	13,1%
Offshore bonds	0%	0%	-
Africa equities	3%	5%	-
Offshore cash	1%	0%	2,8%
Hedge funds	-	-	-
Total	**100%**	**100%**	**100%**

Most notable in terms of the change in allocation is the significant increase in the foreign equity allocation, taking the Fund from a long-term allocation of 15% to a long-term allocation of 24,9%. However, given that the Euro zone crisis is expected to remain with us for some time and that some economists estimate that it could take up to eight years to be resolved, the Fund has to take caution in aligning to the revised Strategic Asset Allocation.

The Fund intends, as a first step, to align with the lower limit of the asset allocation range of 19,9% of foreign equity exposure, and implement this over an 18-month period. The Fund is also investigating tactical asset allocation alternatives to some of the foreign equity exposure, as well as methods of protecting it against the foreign equity risk that is manifesting in global markets.

2.1.3 Internally Managed Portfolios

Following Mr Patric Ho's departure shortly after the end of this financial year, the Fund took a strategic decision to wind up this portfolio (Absolute Return Portfolio). The departure of Mr Ho was a sad loss for the Fund given the strategic and support role he had played. During his tenure as the then Fund Chief Investment Officer he guided the Fund through the 2008 market crash, ensuring the Fund was least impacted by the financial crisis. The size of this portfolio was approximately R1,1 billion at 30 June 2012. The Fund has applied these funds to the increased offshore equity component. The Fund will, going forward, consider other instruments to provide further tactical asset allocation opportunities.

The internal Inflation-linked bond and Government bond portfolios continued to track the benchmark, as per their mandates. The money market portfolio also continued to give the marginal performance above its benchmark.

The internal listed equity portfolio was one of only three managers out of thirteen domestic equity managers to outperform the Fund's listed domestic equity benchmark, the SWIX, for the year to 30 June 2012. We believe the investment made into this internal capability will continue to show dividends going forward, as well as contribute to efficient cost and resource management by the Fund.

The Fund is in the process of reviewing its long-term strategy of gaining investment exposure to the rest of Africa. The Fund has historically indicated that it will access Africa via listed equity mandates, although in practice private equity mandates have manifested. To this end, the Fund is in the process of enhancing capacity within the Private Equity team.

In comparison to the previous financial year, the deal flow environment has improved. The prior year emphasis by the Fund's Private Equity managers was on active portfolio management, restructuring and salvaging of unprofitable deals. During the past year more managers have concluded new transactions and the exit environment has improved.

The Fund has evaluated a number of opportunities available within the markets during the year, but due to some of these opportunities not meeting the Fund's standards in terms of amongst other issues, the quality of the track record, quality, experience and capabilities of management teams, most of those opportunities had to be declined. However, the Fund did make investments in those opportunities that did not meet its requirements.

Given that the Fund almost reached the upper limits of its approved private equity capacity, the Board approved an increase in the private equity capacity from R1bn to R1,5bn to reflect the increased size of the Fund, and to maintain the private equity allocation of the Fund at around 3% of total assets of the Fund.

No new investments were made in the Socially Desirable Investments (SDI) portfolio, although several proposals were evaluated. Fund management initiated a process of reviewing the policy governing the portfolio, and this project is currently under way.

2.1.4 Property Investments

Sale of shareholding in Pareto Limited and Business Venture Investments No. 1360 (Proprietary) Limited (BVI)

The sale of the Fund's shareholding in Pareto and BVI was one of the largest property transactions ever concluded in South Africa. The transaction was finally concluded on 20 January 2012 following the approval from the Competition Tribunal granted on 14 December 2011. The Fund concluded the transaction at a selling price R6,855 billion (of which R5,855 billion was received in cash and R1 billion was received in the form of an asset swap). This translated into a blended yield of 6,8% which compares very favourably with other yields achieved in other recent property transactions.

2.1.4.1 Re-Investment of the Pareto and BVI proceeds

Part of the rationale for the Fund to disinvest in Pareto and BVI was to resolve the Regulation 28 issue of holding more than 5% of the Fund's total assets in a single property investment. Following this disposal the Fund conducted an Asset-Liability Modelling, which indicated that the Fund needed to reduce its asset allocation in the property asset class from the almost 9% with the investment in Pareto and BVI to 5% .

2.1.4.2 Directly Owned Properties

One of the Fund's directly owned properties, 21 Wellington Road, Parktown, was sold to Zenprop Properties for R118 million. The transfer took place during November 2011 and the Fund received full payment of the sale price immediately after the transfer.

The Fund owns Hampton Park South Office Park, the property that is partly occupied by the Fund's administration centre. The net income for the year ending 30 June 2012 is R6,4 million compared to R5,8 million in the prior year.

2.1.5 Responsible Investing

The Fund maintained its status as a signatory to the United Nations Principles for Responsible Investing (UNPRI), which is a set of global best-practice guidelines for responsible investment. The Principles include, among others:

- 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.

The Fund has appointed an external service provider to provide the monitoring, proxy voting, and reporting services to ensure that the Fund honours its responsibilities as an active asset owner and incorporates ESG issues into its policies and practices.

The Fund also became a signatory to the Code for Responsible Investing in SA (CRISA), which upholds principles similar to that of the UNPRI, and which came into effect on 1 February 2012. In terms of these Codes, the Fund must apply the Principles of Responsible Investing, or explain why it does not. The Fund has benefited from collaboration with other asset owners in dealing with ESG issues at investee companies, and intends to develop engagement in this area.

The Fund also completed its first assessment as a signatory of the UNPRI, which was fairly complimentary, given that it was the Fund's first year of participation. The Fund has been developing conversations with managers regarding their practices, in order to understand the alignment of their processes with the objectives of the Fund. The Fund has introduced the assessment of ESG issues into its due diligence processes, based on the practice guidelines issued by the UNPRI.

2.2 Efficient Administration

Given the prevailing challenging economic conditions, the Fund continued to focus on always providing its stakeholders with quality service in a cost effective manner. This was underpinned by a strong focus on cost management and streamlined operational excellence whilst not compromising on customer service.

2.2.1 Cost Management

The Finance Department consists mainly of two functions, namely, accounting services and investment administration services. The department continued to facilitate the process of downward cost management throughout the organisation.

This process is facilitated by breaking down the annual budget into monthly budget benchmarks which are used by the individual departments to perfom a detailed analysis of their actual costs against the approved budget and to be able to account for any variances.

At each EXCO meeting both the departmental and organisational actual costs against budget, with explanations for variances, are presented. Prior to incurring any expenditure the delegated authority has to ensure that the expenditure is budgeted for and that the Fund receives value for money.

The department also provided investment administration services, playing a vital role in the finalisation and settlement of the Pareto transaction and subsequent movement of the relevant funds. The investment administration, similar to previous years received a clean audit report from the Fund's internal auditors.

The Finance team played a pivotal role in the Information Technology Roadmap (Project E'novit), firstly by supporting the Retirement Fund Operations department in ensuring that the first payroll on the new system was successful and also working towards the decommissioning of the Great Plains Accounting system and migration to OMNI2Financials. Finance also championed a project to review and update all the Fund Policies and Procedures.

A summary of the Fund's Administration costs for the year ended 30 June 2012 is provided below:

	Actual 2012 R '000	Actual 2011 R'000
Personnel costs	50,387	43 440
Other Administration costs	66,963	50 829
Fund Administration costs	**117,350**	**94 269**

As can be noted from the above table, the category "Other Administration Costs", which represents administration costs less staffing costs, grew by 32% from 2011 to 2012. The main cost driver continued to be IT-related costs. Since the Fund is in the process decommissioning the Mainframe legacy administration system and migrating to a new administration system, very limited maintenance was done on the old system.

2.2.2 Operational Excellence and Customer Service

2.2.2.1 Fund Operations

During the year under review, the department faced a series of challenges, including the departure of the previous Retirement Fund Operations (RFO) Manager.

Following the departure of the previous RFO Manager Mr Jerry Buthane was appointed as the new RFO Manager.

At operational level the challenges facing the RFO department were consistently difficult and the RFO had to maintain day-to-day operations, while playing a pivotal role in Project E'novit. As part of this project the department had to conduct a review of the process flows in order to align the work streams and improve efficiencies.

External tracing agents were engaged during the year to locate beneficiaries whose benefits remained unclaimed in the unclaimed benefit account.

The Communication strategy was revised and approved by the Board during the year.

Fund Operations also managed to:

i) Successfully settle all benefit claims where administration requirements were fully in place, within 7 days.

(ii) Improve the death in-service processes through the work done by the Fund's Social Workers.

(iii) Filled the vacant position of Communications Manager with the appointment of Ms Wisani Nghalaluma in January 2012. A Communications Practitioner will be appointed with effect from September 2012.

(iv) Communicate with our stakeholders through the regular newsletters (two of the three newsletters for the year; have already been distributed), web-based communication, and site visits as part of the mobile office initiative.

(v) Designed the responsible investing report for IMU (the report is on the EPPF website).

(vi) Organised the Fund's revised BBBEE Policy launch to the asset management industry.

(vi) Successfully ran and completed the Trustee election project within the stipulated timelines.

(vii) Currently implementing the administration system replacement project.

(viii) Compile stakeholder communication during the implementation of Project E'novit.

(vx) Handle a vast number of enquiries and provided support through the call centre.

2.2.2.2 Human Resources

During the year the Fund launched the ICAS Wellness Programme. Employees and their immediate family members who have personal, financial and/or work-related issues can either voluntarily go to ICAS or be referred by their managers to ICAS. This initiative has taken off fairly well with utilisation of up to 10%.

The Human Resources Department (HRD) ensured that vacancies were filled within reasonable timelines throughout the year.

The HRD has played a critical role in Project E'novit, assisting with the project's change management and support work stream. The HRD arranged several project-related staff functions as and when certain milestones were achieved and continued to monitor the softer people-related issues to ensure that the project was a success.

Since Project E'novit had to take priority, unfortunately certain other activities planned by the HRD had to be postponed to the 2013 financial year. The major projects postponed were mainly the Executive Development plans, as well the "Blu Print" initiative. The Fund did exceed its Employment Equity targets, with only the category of People with Disabilities that still requires improvement.

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 to the entire organisation. This department also acted as the custodian for maintaining and updating the Fund rules and facilitated rule amendment numbers 5 and 6, which provided the ability to effect transfers to preservation funds on the sale of an Employer in terms of Section 194 of the Labour Relations Act. Legal and Technical Services also facilitated the updating and registration of the rules as per the recommendations of the FSB.

During the year through our Legal and Technical Services department we maintained our relationship with the FSB and effectively dealt with all enquiries from the Pension Fund Adjudicator and members.

The Legal and Technical Services department also played a vital role in ensuring that legal agreements that were concluded with external parties, were correct and protected the Fund's interests.

Legal and Technical Services played a vital role in the vetting the sale agreements of the Pareto transaction. The department also played a critical role in the finalisation of all the agreements with the service providers in Project Enovit. Lyverne Wenman was appointed Legal and Technical Services Manager following the appointment of Jerry Buthane as RFO Manager.

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.

During the year, the Risk and Compliance Manager continued to represent the Fund on the Conflicts Committee of the Pan African Infrastructure Development Fund.

Risk and Compliance also support the monitoring function of the Audit and Risk Committee and maintained the organisational risk register, as well as monitoring compliance and risk management throughout the Fund. The department participated extensively in the risk management of Project E'novit.

The previously vacant position of Assistant Risk and Compliance Officer was filled during the year with the appointment of Ms Levern Forley.

2.2.2.5 Information Technology

Following the termination of project Fufuwe, the IT department was tasked with the development of a new IT Roadmap. The Roadmap considered the entire IT landscape of the Fund, identifying all the platforms and applications in use. The exercise revealed that the Fund had too many fragmented platforms and applications which caused inefficiency and were not cost effective.

The Roadmap then further identified 15 initiatives that were necessary to change the IT landscape and progress the Fund to an efficient and cost effective organisation.

The Roadmap was finalised and approved by the Board during the year and mainly covers the following issues:

- Reduction of IT costs;
- Improvement of operational efficiency;
- Improvement of customer service;
- IT governance and IT risk management;
- Capacity to host a DC option; and
- Multi-fund administration.

In the area of efficient administration and focussing on cost reduction, the IT Department successfully engaged with T-Systems (the service provider responsible for the Mainframe system) and reached agreement on cost reductions during the year, which assisted the Fund to achieve savings on administration costs.

2.2.2.6 Corporate Secretariat and Facilities

The Corporate Secretariat and Facilities department continued to provide support to the Board, its Committees and Management. In total 99 Board, Board Committee and Executive Committee meetings were held during the year. Corporate Secretariat facilitated the smooth functioning of all these meetings and ensured that the Board and all its structures adhered to stringent governance at all times.

During the year Corporate Secretariat facilitated the review of the terms of reference of Management and Board Committees as well as the review of certain policies such as the Trustee Remuneration Policy and Trustee Training Policy. Corporate Secretariat also assisted in ensuring that the Board-appointed DB/DC Implementation Task Team functioned well and fulfilled its mandate. The department played a critical role in assisting with the governance structures of Project E'novit.

2.2.2.7 Strategy and Projects

In fulfilling its role as a multi-disciplined internal strategic and project management advisory, the Strategy and Projects department was involved in a broad spectrum of the activities of the Fund. In its overhead monitoring and advisory role this Department assists the Chief Executive and Fund Management to facilitate consistent quality assurance and to ensure that activities are aligned with the overhead strategic objectives of the Fund.

During the year the Fund embarked on two major projects of strategic importance, the most important of which was the IT Roadmap Project. This project, initiated in the dark shadow of the previous IT system replacement project, included a vital sub-project, namely to replace the Fund's ageing administration system. A more detailed report on the considerable success that has been achieved with this project, within a limited time span, is provided elsewhere in this report.

The other major project involved the revival of the Fund Restructuring Project. The Strategy and Projects department was tasked to coordinate the activities of a special Review Team established by the Principals and the project was concluded to the phase where the Review Team Report was submitted to, and accepted by, the Board of Trustees. The report and the Board resolution have been submitted to the Principal Employer and further feedback from the Employer is being awaited. Significant to note is that the project for Fund Restructuring will be supported by the IT Roadmap project which, when completed, will ensure that the Fund, for the first time in its history, will have true multi-fund administration capability with a state-of-the-art administration system in place.

The Trustee Election Project commenced during 2011 and was successfully completed well ahead of project target date.

In line with its objectives, the department further assisted with various mainstream projects, such as the Policy Review Project (ongoing); the Evidence of Survival Project; and review of the Communication Strategy.

3. Black Economic Empowerment

The Fund takes pride in championing and driving Broad-Based Black Economic Empowerment in the asset management industry as well as in its normal procurement activities. In November 2011, the Fund revised its BBBEE policy and the revised policy has clear targets, timelines for compliance and penalties for non-compliance. The revised policy was publicly launched during a business briefing on 15 February 2012 and received positive acclaim in the open press. The revised policy now also provides for a window period of 12 months for service providers to comply, and provides that those who fail to comply with the minimum requirements of the policy will face the possibility of penalties ranging from the Fund recalling at least 10% of its assets from the particular manager. Further steps were taken towards the allocation of at least 40% of domestic external mandates to black asset managers over a three-year period with intermediate targets of 25% for 2009, 33% for 2010 and 40% for 2011.

As at 30 June 2012, 43% of the Fund's domestic external mandates were allocated to black asset managers. This is an improvement from the 33% achieved as at 30 June 2011.

The current BBBEE policy of the Fund requires asset managers to obtain a minimum Level 3 rating to qualify to do business with the Fund. As at 30 June 2012, four asset managers had a Level Four rating. Fund management has engaged with the Level Four fund managers to ensure that they are implementing measures to ensure a higher level of BBBEE compliance and transformation in general.

4. Fund Restructuring

The Fund has been engaged in discussions with Eskom on the issue of introducing a DC Option for quite some time. Whilst there is general agreement on the fact that a DC Option should be implemented, there have been different views on the implementing aspect.

During the year the Board continued to engage Eskom on this important project. This resulted in the mandate and terms of reference of the Joint Task Team comprising Fund and Eskom representatives being amended and extended to further unpack the options that were initially presented to the Fund and Eskom. A new Joint DB/DC Review Team was established. The Review Team recommended that Option 1 should be the preferred option, subject to engagement and consultation with all stakeholders. Option 1 recommends that members may have a choice to voluntarily migrate to a DC scheme. Those members who wish to remain behind in a DB scheme may also choose to do so.

It was further recommended that for those remaining behind a salary cap would have to be introduced. The Joint Review Task Team also noted that the issue of an Employer guarantee for the remainder of the DB scheme should still be considered and that benefit structures should be further unpacked.

5. FSB Compliance Monitoring

During the year under review the Fund held various meetings with the FSB to update the FSB on various matters including the progress made by the Fund on resolving some of the issues the FSB had raised during their compliance visit in 2010. In particular, the Fund's Chairman, the Chief Executive and the Legal and Technical Services Manager met with the FSB to discuss the background and rationale surrounding the delays in the registration of the Fund rules and also to appraise the FSB on the developments around Project E'novit.

6. Stakeholder Engagement

The Fund has continued to engage with Eskom to deal with issues surrounding the implementation of a DC Option. As part of this stakeholder management, the Board has met with Eskom Executive Management, represented by the Eskom Financial Director. The Chairman and the Chief Executive of the Fund have also met and engaged with the Chairman of the Eskom Board.

The Fund continued to maintain its relationships with regulators, members and associated organisations like the IRF and POA.

7. Key Priorities For 2013

The Board approved the key priorities listed below for the 2013 financial year at its meeting of May 2012. Management has already had a session to agree on the key actions required to achieve these priorities and these have been communicated to all staff.

Key Priorities	Weighting
Investment Returns	40%
People Development	10%
BBBEE	10%
Target Operating Model	40%
o Embed and Optimise IT Road Map	15%
o Operational Efficiency	10%
o Fund Restructuring (DB/DC)	15%

7.1 IT Road map Implementation

Deloitte was appointed in October 2011 to be the implementation partner for the IT Roadmap project.

In January 2012, Global ASP was appointed as the service provider to implement an OMNI member administration system and OMNI2 Financials Financial Accounting System. The key highlights of the new system is that it reduces the IT-related costs. It also provides for integration, automation and electronic workflows which will improve efficiency. Implementation commenced in February 2012.

At the end of June 2012, the payroll was processed on the new system. Subsequent to this both the PBS (pensioner system) and the PBB (active member system) have been decommissioned and processing is now on the new system. Whilst we experienced teething problems the new systems are stabilising. The Fund will proceed to focus on completing the remainder of some of the other initiatives that have not yet been completed on the roadmap. Parallel to the new system implementation the Fund re-evaluated its Business Operating Model. The exercise indicated that whilst the current Operating Model was sound it was not integrated and was characterised by too many manual interventions which caused inefficiencies. The new system will address some of these shortcomings. The approach is then to imbed the new system followed by optimisation to enhance efficiencies. This process should take up to 18 months to fully complete.

The commitment demonstrated by Staff to make this project a success must be recognised. Staff members worked excessive hours and consecutive weekends for a considerable period to meet stringent timelines.

Conclusion

The financial year ending 30 June 2012 presented the Fund with various highly demanding challenges other than those which could be categorised as "routine". In particular the situation regarding the Fund's IT environment and the Fund Restructuring initiative demanded intensive and prolonged interaction with various stakeholders, but these challenges were met and the Fund emerged at the end of the financial year celebrating significant achievements in those areas.

Investments and financial modelling remain a crucial point on the Fund agenda and while the past financial year has seen severe volatility in this regard, management has coped well and with the support of the Board of Trustees, the Fund has emerged stronger than ever before. The future will again present challenges and problems, but management is confident that the administration is well positioned to meet and deal with those as they may arise.

In conclusion I want to take this opportunity to thank the Board for the guidance they have provided during this financial year under the leadership of the Chairman. I also want to thank my fellow executive members for the unwavering support they have provided me in guiding the Fund through a tough and challenging but exciting year. A BIG THANK YOU to all EPPF staff for the commitment they have demonstrated in ensuring that phase one of Project E'novit is a phenomenal success. Without their commitment this project would never have succeeded!

SIBUSISO LUTHULI, CA(SA)

CHIEF EXECUTIVE

16 November 2012

Corporate Governance

The Eskom Pension and Provident Fund subscribes to the governance principles emanating from the Code of Corporate Practices contained in the King Report on Corporate Governance for South Africa and submits, that in all material respects, it has complied with the Code's principles for the year under review. The corporate governance framework ensures that the Board plays a leading role in the strategic guidance of the Fund and the effective monitoring of management in terms of their duties and responsibilities towards members, pensioners and other stakeholders of the Fund.

Corporate Practice And Conduct

The Board of Trustees

The Board, in keeping with the relevant legislation and statutory requirements as well as the Fund's Rules, comprises 14 Board members as constituted below:

- A non-executive Chairman appointed by the Principal Employer, subject to the approval of the Board. The roles of the Chairman and Chief Executive/Principal Officer are separated with segregated responsibilities and duties.
- Six Board members appointed by the Principal Employer, one of whom shall be deemed by the Principal Employer to be an expert.
- Two Board members elected by the pensioners.
- Five Board members elected by the members, of whom at least two shall be members of the Fund.

The Board, both appointed and elected members, consists of individuals with diverse backgrounds and expertise, each of whom adds value and brings independent judgement to bear on the Board's deliberations and decision-making processes, all to the best interest of the Fund's membership and stakeholders.

Term of Office

The term of office for the Board is four years. Board members cannot serve for more than two consecutive terms.

Board Duties and Responsibilities

The Board has a fiduciary duty to act in good faith, with due diligence and care, and in the best interests of the Fund, members, pensioners as well as all other stakeholders, being ultimately accountable and responsible for the performance and affairs of the Fund, thereby providing strategic direction and leadership, ensuring good corporate governance and ethics, determining policy, agreeing on performance criteria and delegating the detailed planning and implementation of policy to Management.

Board Proceedings

The Board is also responsible for managing a successful and productive relationship with the Principal Employer and relevant stakeholders.

The Board meets at least once a quarter and monitors Management's compliance with policy and its achievements against pre-determined objectives. Additional meetings may be convened when major issues arise that need urgent resolution

Five Board meetings were held during the period under review.

A structured approach is followed for delegation, reporting and accountability, which includes reliance on various Board Committees. The Chairman guides and monitors the input and contribution of the Board, members. The Board has approved a Board Charter which forms part of the Fund Governance Framework that provides guidance to the Board members in discharging their duties and responsibilities. They also have unrestricted access to relevant information.

Board and Committee Performance and Evaluations

Performance evaluations of the Board and its Committees are currently done on a bi-annual basis. The Chief Executive is appraised by the Chairman of the Board in consultation with the Board, whilst the Board appraises the performance of the Chairman.

Board and Committee Fees

Board and Committee members are compensated for their contribution to the Board and the Committees on which they serve, the fee structure is reviewed on an annual basis, with the membership of Committees revised with the appointment of a new Board.

Board and Committee Training

Board and Committee member training is considered essential to enable them to execute their fiduciary duties and responsibilities in a knowledgeable and confident manner.

Board and Committee members attended a number of training sessions, conferences and seminars during the year under review.

Board Committees

A number of Board Committees exist in order to assist the Board in managing its affairs in a structured way.

Each Committee operates within the ambit of its defined terms of reference and delegated authority as approved by the Board which continues to review the performance and effectiveness of these Committees on a regular basis.

The Board determines whether there is a need for Committees focusing on specific areas of the Fund's activities, with the following Board Committees currently operational:

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

Audit and Risk Committee (ARC)

The Audit and Risk Committee comprises six Board members. Seven Audit and Risk Committee meetings were held during the 2012 financial year. Meetings are attended by the External as well as the Internal Auditors, the Chief Executive, Chief Investment Officer, Chief Financial Officer, Executive Manager Strategy and Projects and the Risk and Compliance Manager. Other members of staff attend by invitation.

External and Internal Auditors have unrestricted access to the Chairman of the Committee as well as to the Chairman of the Board.

The Committee is constituted as a Committee of the Board and serves in an advisory capacity thereto. It assists the Board to discharge its duties relating to the safeguarding of Fund assets, monitoring the operation of systems and controls, review of financial information and the preparation of annual financial statements which are provided to Fund stakeholders and others. It 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 and Internal Auditors, as well as for the review of accounting and auditing concerns identified by External and Internal Audit.

The Committee assumes the responsibility for the governance of the Fund's Information Technology aligning it with the performance and sustainability objectives of the Fund.

Benefits Committee (BC)

The Benefits Committee comprises six Board members. Seven Benefits Committee meetings were held during the 2012 financial year. Meetings are normally attended by the Chief Executive, Legal and Technical Services Manager, Client Services Manager, Retirement Fund Operations Manager, Executive Manager Strategy and Projects as well as other members of staff who are invited to attend meetings from time to time.
The Benefits Committee is delegated the authority to oversee and direct the retirement fund operations on behalf of the Board.

Human Resources and Remuneration Committee (HRRC)

The Human Resources and Remuneration Committee comprises five Board members and one external expert, with the Chief Executive and Human Resources Manager in attendance.

Six Human Resources and Remuneration Committee meetings were held during the period under review.

The Human Resources and Remuneration Committee:

- Influences and approves Human Resource policies and strategies and monitors compliance with all relevant legislation, statutory requirements and best corporate practices.
- Determines Executive Management remuneration and the remuneration policy framework and makes recommendations to the Board in this regard.
- Ensures the Executive Management remuneration policy and practice is in accordance with best corporate practices.

Strategic Investment Committee (SIC)

The Strategic Investment Committee comprises five Board members and four outside experts. Meetings are attended by the Chief Executive, Chief Investment Officer, Investment Multi-Manager, Chief Financial Officer and Risk and Compliance Manager. The Committee is chaired by the Board's Chairman.

Five Strategic Investment Committee meetings were held during the 2012 financial year. 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, such as Regulation 28 of the Pension Fund's Act No 24 of 1956.

Management Committees

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

- Executive Committee
- Procurement Committee
- Information Technology Steering Committee
- Risk and Compliance Committee
- Medical Panel
- Health and Safety Committee
- Sub-Committee of the Benefits Committee

Executive Management (EXCO)

The EXCO comprises the Chief Executive, Chief Financial Officer, Chief Investment Officer, Retirement Fund Operations Manager, Human Resources Manager, Legal and Technical Services Manager, Information Technology Manager, Executive Manager Strategy and Projects, Risk and Compliance Manager and the Corporate Secretariat.

The Committee is chaired by the Chief Executive and meetings are held on a monthly basis with ad hoc meetings called when necessary.

The Committee assists the Chief Executive in exercising executive oversight and is also responsible for ensuring the effective management of the daily operations of the Fund.

Procurement Committee (PC)

The Procurement Committee comprises the Chief Financial Officer, Legal and Technical Services Manager, Risk and Compliance Manager, Retirement Fund Operations Manager and the Corporate Secretary.

It is chaired by the Chief Financial Officer with Committee meetings being held at least every quarter.

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 and B-BBEE Policies.

Information Technology Steering Committee (ITSC)

The IT Steering Committee consists of the Chief Financial Officer, Risk and Compliance Manager, Information Technology Manager, Retirement Fund Operations Manager, Executive Manager Strategy and Projects, with other members of staff attending by invitation.

The Committee is chaired by the Chief Financial Officer and convenes on a quarterly basis with ad hoc meetings called as and when required.

The primary focus of the Committee is the promoting of improved communication and IT services and recognising the partnership(s) required for successful IT deployment in the Fund.

Risk Management Committee (RMC)

The Risk Management Committee comprises the Chief Executive, Legal and Technical Services Manager, Risk and Compliance Manager, Chief Investment Officer, Retirement Fund Operations Manager, Information Technology Manager, Chief Financial Officer, Executive Manager Strategy and Projects, one Board member and one Internal Audit member. It is chaired by the Fund's Chief Executive with Committee meetings held on a quarterly basis.

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

Medical Panel (MP)

The Medical Panel comprises three independent medical practitioners, one Eskom Medical Advisor who also has an Alternate, the Fund's Legal and Technical Services Manager and the Retirement Fund Operations Manager as well as other members of staff who are invited to attend meetings from time to time.

Monthly Medical Panel meetings are chaired by Dr. N. D. Munisi who is an the independent medical practitioners.

The role of the Medical Panel is to, in accordance with the provisions of Rule 25(4) of the Fund, assess the health condition of members of the Fund applying for ill-health retirement benefits, and to make recommendations to the Board relevant to such applications.

Health and Safety Committee (HAS)

The Health and Safety Committee consists of the Corporate Secretary, Facilities Manager, Principal Clerk: Corporate Services, Facilities Co-ordinator, Management Accountant and representatives from Human Resources as well as Risk and Compliance.

The Committee is chaired by the Corporate Secretary and convenes on a quarterly basis.

The purpose of the Committee is to initiate, promote, maintain and review measures of ensuring the health and safety of staff.

Sub-Committee of the Benefits Committee (SCBC)

The Sub-Committee of the Benefits Committee comprises the Chief Executive, Retirement Fund Operations Manager, Legal Advisor, Executive Manager Strategy and Projects and the Benefits Processing Manager.

The Sub-Committee is chaired by the Chief Executive with meetings being held on a monthly basis.

The Sub-Committee is responsible for approving advances on instalment lump sums registered with the Fund on behalf of the Board.

Board of Trustees

Employer appointed

Mr. H. C. Mathebula
Banker
South African Reserve Bank
Trustee (Chairman)
Strategic Investment Committee (Chairman)
Appointed: Nov 2010

Ms. J. L. Kilani CA(SA)
General Manager Group Tax
Eskom
Trustee
Audit and Risk Committee (Chairperson)
Human Resources and Remuneration Committee (Member)
Appointed: June 2012

Ms. S.M. Mamorare
General Manager
Chief Learning Officer
Eskom
Trustee
Benefits Committee (Member)
Human Resources and Remuneration Committee (Chairperson)
Appointed: May 2010

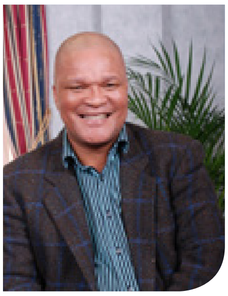
Ms. B. Smith CA(SA)
Internal Consulting
Eskom
Trustee
Audit and Risk Committee (Member)
Strategic Investment Committee (Member)
Appointed: May 2010

Adv. N. K. Tsholanku
General Manager – Office of the Chairman
Eskom
Trustee
Audit and Risk Committee (Member)
Strategic Investment Committee (Member)
Appointed: June 2008

Mr. M. S. Abrahams CA(SA)
Finance Business Partner Wires
Eskom
Trustee
Audit and Risk Committee (Member)
Strategic Investment Committee (Member)
Appointed: June 2012

Ms. L.M. Khangala
Attorney
Trustee
Benefits Committee (Member)
Human Resources and Remuneration Committee (Member)
Appointed: June 2012

Member elected



Mr. M.M. Mojapelo
NUMSA Part- Time
Shop Steward
Officer Acquire
Eskom
Trustee
Benefits Committee (Chairman)
Appointed: June 2012

Mr. W.E. Green
Pensioner - Durban
Trustee
Audit and Risk Committee
(Member)
Appointed: June 2008

Dr. W.J. Swart
Pensioner - Johannesburg
Trustee
Benefits Committee
(Member)
Appointed: June 2008

Mr. G.J. Kruger
Financial Manager
Eskom
Trustee
Audit and Risk Committee
(Member)
Appointed: June 2008

Mr. D. Macatha
NUM - Treasury
General
Trustee
Benefits Committee
(Member)
Appointed: June 2008

Mr. I. G. Smith
Shop Steward- Full Time
Solidarity
Trustee
Benefits Committee (Member)
Human Resources and
Remuneration Committee
(Member)
Appointed: June 2012

Ms. T. F. Madlala
Electrical Engineering
M&V Project Manager
Eskom
Trustee
Human Resources and
Remuneration Committee
(Member)
Appointed: June 2012

Summary of Benefits

The benefits reflected below are in terms of the Rules of the Fund applied in 2012 financial year. The Rules are 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 and are reviewed by the Board as and when required.

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 a 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 communication factors. The remainder of the pension benefit is 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 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/widower's pension of the first 60% of the member's potential pension is payable. The pension is calculated as if the member had remained in service and attained age 65, based on the 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 until 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, a benefit will be paid to the member's estate equal to 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 R3000 is paid to the surviving spouse 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.

If there is no spouse's pension 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 the time of retirement before commutation, including any subsequent increases.

If there are no spouse's or children's benefits payable, a benefit equal to the excess amount of the 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 comprises the following:

-A lump sum of R3000;

Plus

The greater of the two following calculations:

i. Twice the annual pensionable emoluments at retirement, less the pension benefits received since retirement;

Or

ii. The 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 Funds 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 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: Fair Value – the Fair Value pension is the amount of the 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 a retrenchment, the benefit payable will be equal to the greater of:

-Either of the of two calculations in 5.1 above;

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 Withdrawal due to retrenchment after age 50

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 will compensate the Fund accordingly.

6. Deferred Pension Option

A member may, instead of taking a 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. The deferred benefit reverts to the deferred benefit scheme and may only be accessed from age 55.

7. Contribution Rates

Currently, all members contribute to the Fund 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.

Executive Management

Mr. Sibusiso Luthuli (CA) SA Chief Executive and Principal Officer

- B.Com Accounting (University of Zululand)
- Post Graduate Diploma in Accounting (University of Durban Westville)
- Chartered Accountant (SA)

Mr Sibusiso Luthuli is the Chief Executive and the Principal Officer and joined the Fund in April 2010.

Ms. Nopasika Lila (CA) SA Chief Financial Officer

- Chartered Accountant (SA)
- Post Graduate Certificate in Corporate Governance (Rand Afrikaans University)
- Management Development Programme (Gordon Institute of Business Science (GIBS))
- Higher Certificate in Financial Markets & Instruments (Academy of Financial Markets)

Ms Nopasika Lila is the Chief Financial Officer. She joined the Fund in December 2010.

Ms. Linda Soga Mateza Chief Investment Officer

- Bachelor of Arts (Rhodes University)
- Bachelor of Commerce (University of KwaZulu Natal)
- Bachelor of Commerce Honours (UNISA)
- Masters in Finance and Investments (Wits University)

Ms Linda Soga Mateza is the Chief Investment Officer. She joined the Fund in September 2008.

Mr. Jerry Buthane Retirement Fund Operations

- BProc (University of the North);
- HDip Tax Law (RAU)

Mr Jerry Buthane is the Retirement Fund Operations Manager. He joined the Fund in September 2005.

Ms. Sinikiwe Dube Human Resources

- BA Law (University of the Witwatersrand)
- BA Hons (University of the Witwatersrand)

Ms Sinikiwe Dube is the Human Resources Manager. She joined the Fund in August 2009.

Ms. Annie Mosiane Information Technology

- BSc Appl. Comp. Sc. (University of Fort Hare)
- BSc Honours Appl. Comp. Sc. (University of Fort Hare)
- Management Development Programme (University of Bophuthatswana)

Ms Annie Mosiane is the Information Technology Manager. She joined the Fund in October 2002.

Ms. Lyverne Wenman Legal and Technical Services

- BComm (Law) (University of Pretoria)
- LLB (University of Pretoria)
- Admitted as an attorney
- ILPA (Life) – Certificate of Competence (University of the Free State)

Ms Lyverne Wenman is the Legal and Technical Manager. She joined the Fund in August 2012.

Mr. Ben Steyn Strategy and Projects

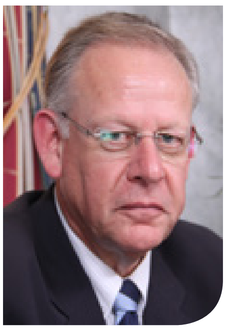
- BAdmin Hons(University of the Free State)
- MBA (University of North West)

Mr Ben Steyn is the Executive Strategy and Projects Manager. He joined the Fund in July 1999.

Mr. Ayanda Gaqa Risk and Compliance

- BTech (Internal Auditing)
- Post Graduate Diploma in Financial Planning (University of Free State)
- CERTIFIED FINANCIAL PLANNER®
- Certified Compliance Professional (Compliance Institute of SA)

Mr Ayanda Gaqa is the Risk and Compliance Manager. He joined the Fund in July 2007.



Mr. Johann Hattingh Corporate Secretariat

Mr Johann Hattingh is the Fund Secretariat. He joined the Fund in November 1992.

Annual Financial Statements

Approval Of The Annual Financial Statements

The annual financial statements of Eskom Pension and Provident Fund are the responsibility of the Board of Trustees. The Board of Trustees fulfils this responsibility by ensuring the implementation and maintenance of accounting systems and practices are adequately supported by internal financial controls. These controls, which are implemented and executed by the Fund, provide reasonable assurance that:

- the Fund's assets are safeguarded;
- transactions are properly authorised and executed; and
- the financial records are reliable.

The summarised annual financial statements set out on pages 38 to 51 have been prepared for communication purposes with limited disclosure compared to the regulatory financial statements, which are compiled in terms of the Regulatory Reporting Requirements for Retirement Funds in South Africa. The regulatory financial statements have been prepared and reported to the Financial Services Board (FSB). The summarised financial statements set out on pages 38to 51 have been prepared in accordance with the criteria set out on page 40 of the notes of the summarised financial statements.

The regulatory financial statements have been reported on by the independent auditors, PricewaterhouseCoopers Inc. who were given unrestricted access to all financial records and related data, including minutes of all relevant meetings. In addition the independent auditors, PricewaterhouseCoopers Inc, reported on whether the summarised financial statements derived from the regulatory financial statements that the Board of Trustees believes that all representations made to the independent auditors during their audit were valid and appropriate. The report of the independent auditors is presented on page 52.

These financial statements:

- were approved by the Board of Trustees on 16 November 2012;
- are certified by them to best of their knowledge and belief to be correct;
- fairly represent the net assets of the Fund at 30 June 2012 as well as the results of its activities for the period then ended; and
- are signed on behalf of the Board of Trustees by the Chairman and two Board of Trustees.

Eskom Pension and Provident Fund

STATISTICAL REVIEW
AS AT 30 JUNE 2012

Investment Performance

	1 Year %	2 Years %	3 Years %	5 Years %	10 Years %
Interest-bearing	12,2	10,6	10,1	9,9	9,6
Equity	11,1	17,4	18,2	6,3	15,0
Property	36,1	21,1	16,0	15,4	20,8
Total Assets	13,9	15,4	14,9	8,7	14,1

Net Assets (Rm)

	2012	%	2011	%	2010	%	2009	%	2008	%
Interest -bearing	30 353	40	24 557	36	22 563	39	21 994	44	21 389	41
Equity	47 100	61	37 537	56	31 424	54	24 503	48	27 110	52
Property	318	0	5 993	9	5 205	9	5 136	10	4 607	9
Other	(834)	(1)	(559)	(1)	(1 349)	(2)	(967)	(2)	(1 407)	-2
Net assets	76 937	100	67 488	100	57 843	100	50 665	100	51 699	100
Contributions received (Rm)	2 532		2 276		2 132		1 618		1 487	
Benefits awarded (Rm)	2 189		2 266		2 350		1 833		2 209	
Members (number)	44 258		41 808		39 671		38 223		36 130	
Pensioners (number)	34 771		34 294		34 243		33 867		33 850	
Ratio of members to Pensioners	1,27		1,22		1,16		1,13		1,06	

STATEMENT OF NET ASSETS AND FUNDS AT 30 JUNE 2012

	Notes	2012 R'000	2011 R'000
Assets			
Non-current assets		77, 772,446	68, 087,952
Office furniture and equipment	-	1,272	1,211
Investments	1	77,771,174	68,086,741
Current assets		1,277,685	1,287,173
Accounts receivable	-	883,268	976,048
Contributions receivable	-	392,698	302,926
Cash at bank		1,719	8,199
Total Assets		**79,050,131**	**69,375,125**

FUNDS AND LIABILITIES

Funds and surplus account

Accumulated funds		59,842,257	66,107,825
- Normal retirement		56,898,038	63,494,271
- Additional voluntary contribution scheme		245,581	226,959
- Performance bonus scheme		2,698,638	2,386,595
Reserves			
Reserve accounts	-	17,095,000	1,379,965
Total funds and reserves		76,937,257	67,487,790
Noncurrent liabilities		45,539	35,944
Unclaimed benefits	-	45,539	35,944
Current Liabilities		2,067,335	1,851,391
Benefits payable	-	496,777	594,632
Transfers payable	-	-	87,869
Accounts payable	-	1,555,847	1,160,515
Accruals	-	14,711	8,375
Total Funds And Liabilities		**79,050,131**	**69,375,125**

STATEMENT OF CHANGES IN NET ASSETS AND FUNDS FOR THE YEAR ENDED 30 JUNE 2012

	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 2012 R'000	TOTAL 2011 R'000
Contributions received and accrued	2	2,224,231	17,198	290,143	2,531,572	-	2,531,572	2,275,533
Net investment income	3	9,224,408	-	-	9,224,408	-	9,224,408	9,584,791
Return allocated to schemes		(32,166)	7,877	24,289	-	-	-	
Less: Administration expenses		(117,350)	-	-	(117,350)	-	(117,350)	(94,269)
Net income before transfers and benefits		11,299,123	25,075	314,432	11,638,630	-	11,638,630	11,766,055
Transfers and benefits		(2,180,321)	(6,453)	(2,389)	(2,189,163)	-	(2,189,163)	(2,265,807)
Transfers from other funds		-	6,241	-	6,241	-	6,241	6,272
Transfers to other funds		(55,073)	-	-	(55,073)	-	(55,073)	(87,869)
Benefits		(2,125,248)	(12,694)	(2,389)	(2,140,331)	-	(2,140,331)	(2,184,210)
Net income after transfers and benefits		9,118,802	18,622	312,043	9,449,467	-	9,449,467	9,500,248
Funds and reserves								
Balance at beginning of year		63,494,271	226,959	2,386,595	66,107,825	1,379,965	67,487,790	57,987,542
Transfer between reserve accounts		(15,715,035)	-	-	(15,715,035)	15,715,035	-	-
Balance at End of Year		**56,898,038**	**245,581**	**2,698,638**	**59,842,257**	**17,095,000**	**76,937,257**	**67,487,790**

Notes to the Financial Statements for the Year Ended 30 June 2012

Principal Accounting Policies

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

Purpose And Basis Of Preparation Of Financial Statements

The summarised annual financial statements were derived from the regulatory annual financial statements which were compiled in terms of the Regulatory Reporting Requirements for Retirement Funds in South Africa.

The purpose of the summarised annual financial statements is to give a broad overview of the financial position of the Fund without providing the level of detail as per the regulatory financial statements as indicated below:

- The summarised information contained in the statement of net assets and funds and notes thereto, reflects a snapshot view of the Fund's investments highlighting the different classes of assets held.
- The statement of changes in net assets and funds highlights return on investments for enhanced understanding and provides a summary of contributions received and benefits expensed for the financial year.

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 are 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 administration, 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 methods such as discounted cash flow projections or recent prices on active markets for transactions of a similar nature. These valuations are performed by independent valuation experts every year. 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 the 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).

Linked Policies

If the policy is unitised, the value is equal to the market value of the underlying units. Other listed or market-related policies are valued at the market value of the underlying assets of each policy, in line with the insurer's valuation practices.

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/forwards – 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 model.

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 bonds.

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.

Transfers 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 rec-

ognised 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 the 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.

Provisions, Contingent Liabilities And Contingent Assets

Provisions

Provisions are recognised when the fund has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the statement of net assets and funds date, as determined by the judgment of the Board of Trustees of the fund.

Contingent liabilities

A contingent liability is not recognised in the statement of net assets and funds, but disclosed in the notes to the financial statements, unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets

A contingent asset is not recognised in the statement of net assets and funds, but disclosed in the notes to the financial statements when an inflow of economic benefits is probable.

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 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 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 / 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.

Leases

Leases in which significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentive received from the lessor) are charged to the statement of changes in net assets and funds on a straight-line basis over the period of the lease.

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
Motor vehicles	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.

1. INVESTMENTS

1.1 Investment Summary

	Notes	Local R'000	Foreign R'000	Total 2012 R'000	Total 2011 R'000	Fair value 2012 R'000
Cash and deposits		10,906,663	2,304,257	13,210,920	9,425,050	13,210,920
Debentures		469,059	-	469,059	413,904	469,059
Bills, bonds and securities		15,665,409	-	15,665,409	13,861,311	15,665,409
Investment properties	2.3	89,700	-	89,700	196,500	89,700
Equities:						
- Equities with primary listing on JSE		28,621,333	-	28,621,333	23,307,266	28,621,333
- Equities with secondary listing on JSE		7,434,802	-	7,434,802	6,293,451	7,434,802
- Foreign listed equities		-	9,221,593	9,221,593	6,269,378	9,221,593
- Unlisted equities		18,636	-	18,636	5,611,631	18,636
Linked insurance policies		817,543	-	817,543	698,263	817,543
Private equity		805,976	134,648	940,624	880,673	940,624
Preference shares		163,302	-	163,302	159,978	163,302
Collective investment schemes		466,868	-	466,868	439,821	466,868
Derivative market instruments		(25,478)	-	(25,478)	(14,942)	(25,478)
Investment In participating employer	2.2	676,863	-	676,863	544,457	676,863
Total		**66,110,676**	**11,660,498**	**77,771,174**	**68,086,741**	**77,771,174**

1.2 Investments in Participating Employer

Description	At beginning of year R'000	Disposals R'000	Additions R'000	Fair value adjustments R'000	At end of year R'000
Eskom Holdings SOC Limited	544,457	57,521	51,914	138,013	676,863
Total	**544,457**	**57,521**	**51,914**	**138,013**	**676,863**

1.3 Investment Properties

	At beginning of year R'000	Disposals R'000	Additions R'000	Fair value adjustments R'000	At end of year R'000
Office complexes	196,500	95,600	-	(11,200)	89,700
Total	**196,500**	**95,600**	**-**	**(11,200)**	**89,700**

2. CONTRIBUTIONS RECEIVED AND ACCRUED

	At beginning of year R'000	Towards retirement R'000	Contributions received	At end of year R'000
Member contributions - received and accrued	106,315	776,297	744,790	137,822
Employer contributions - received and accrued	196,611	1,447,934	1,389,669	254,876
Money Purchase Schemes				
- Additional voluntary contribution	-	17,198	17,198	-
- Performance Bonus	-	290,143	290,143	-
Total	**302,926**	**2,531,572**	**2,441,800**	**392,698**

Towards retirement	2,531,572
Toward re-insurance	-
Statement of changes in net assets and funds	2,531,572

3. NET INVESTMENT INCOME

	2012 R'000	2011 R'000
Income from property investments	**258,096**	**517,041**
Interest	240,167	489,272
Rental	17, 929	27,769
Interest	**1,472,516**	**1,248,182**
Profit on sale/ redemption of investments	**15,248,840**	**6,683,808**
- Equities	3,847,554	2,302,027
- Futures	3,491,956	2,469,485
- Gilts and Semi gilts	216,298	199,556
- Foreign exchange	2,746,719	1,695,962
- Properties (Pareto and BVI)	1,157,523	-
- Other (money market and carries)	3,788,790	16,778
Loss on sale/ redemption of investments	**(5,175,246)**	**(3,809,939)**
- Equities	(521,929)	(256,229)
- Futures	(3,393,193)	(2,356,175)
- Gilts and Semi gilts	(61,626)	(99,601)
- Foreign exchange	(1,197,076)	(1,080,308)
- Other (money market, properties and carries)	(1,422)	17,626
Security lending fee	**12,499**	**17,172**
Other income	**5,734**	**885**
Less: Expenses incurred to manage investments	**(194,660)**	**(159,567)**
Rental expense	(10,433)	(14,878)
Futures booking fees	(349)	(294)
Lending expenses	(528)	(305)
Portfolio management fees	(161,490)	(126,761)
Private equity management fees	(21,860)	(17,339)
Fair value adjustment on investments (a)	**(2,403,371)**	**5,087,239**
Total	**9,224,408**	**9,584,791**

(a) Included in fair value adjustment is dividend income amounting to R1,346,465 (2011: R1,018,408) (R'000) in terms of Regulatory Reporting Requirement for Retirement Funds in South Africa.

4. BENEFITS

	At beginning of year R'000	Benefits for current period R'000	Return allocated R'000	Payments/ (Transfers) R'000	At end of year R'000
Monthly pensions	12,596	1,519,840	-	(1,516,909)	15,527
Lump sums on retirement					
Pensions commuted	115,312	243,951	-	(297,958)	61,305
Lump sums before retirement					
Death and disability benefits	3,985	116,939	-	(91,245)	29,679
Withdrawal benefits	176,103	104,252	-	(204,380)	75,975
Divorce benefits	-	52,620	-	(51,193)	1,427
Retrenchment benefits	2,303	(2,419)	-	-	(116)
Schemes					
Additional voluntary benefits	-	12,694	-	(12,694)	-
Performance Bonus benefits	-	2,389	-	(2,389)	-
Trust monies	284,333	71,400	18,665	(61,418)	312,980
Total	**594,632**	**2,121,666**	**18,665**	**(2,238,186)**	**496,777**

Benefits for current year	2,121,666
Return allocated	18,665
Statement of changes in net assets and funds	**2,140,331**

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. Solvency risk also relates to the inability of the Fund to pay its debts in full and not being able to cover losses regardless of the source, type or size of the losses.

Continuous monitoring by the Fund and the Fund's actuary takes place to ensure that appropriate assets are held where the Funds 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 counter-party to a financial instrument will fail to discharge an obligation, and cause the Fund to incur a financial loss.

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

The Fund's assets are only invested through investment managers who are section 13B compliant. Investment managers must report regularly on the steps taken to identify and manage the credit risk. The Fund monitors the exposure to credit risk.

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 Fund monitors its cash flows on a monthly basis.

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 Fund monitors this aspect of the Fund's investments.

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

REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARISED FINANCIAL STATEMENTS TO THE TRUSTEES OF THE ESKOM PENSION AND PROVIDENT FUND

The summarised financial statements, which comprise the summary statement of funds and net assets as at 30 June 2012, and the summary statements of the revenue account, statement of changes in accumulated funds, statement of changes in underlying funds for the year then ended, and related notes, as set out on pages 38 to 51 are derived from the audited regulatory financial statements of the Eskom Pension and Provident Fund for the year ended 30 June 2012. We expressed an unmodified audit opinion on those audited regulatory financial statements in our report dated 16 November 2012.

The summarised financial statements do not contain all the disclosures required by the Regulatory Reporting Requirements for Retirement Funds in South Africa. Reading the summarised financial statements, therefore, is not a substitute for reading the audited regulatory financial statements of the Eskom Pension and Provident Fund.

Trustees' Responsibility for the Summarised Financial Statements

The fund's trustees are responsible for the preparation of the summarised financial statements in accordance with the basis described on page 40.

Auditor's Responsibility

Our responsibility is to express an opinion on the summarised financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810, "Engagements to Report on Summary Financial Statements."

Opinion

In our opinion, the summarised financial statements derived from the regulatory financial statements of the Eskom Pension and Provident Fund for the year ended 30 June 2012 are consistent, in all material respects, with those audited regulatory financial statements, on the basis described on page 40.

Restriction on use

The audited regulatory financial statements are prepared for regulatory purposes in accordance with the basis of preparation indicated in the notes of the audited financial statements of the funds. Consequently, the audited regulatory financial statements and related auditor's report as well as the summarised financial statements and related auditor's report, may not be suitable for another purpose.

PricewaterhouseCoopers Inc.
Director:
Registered Auditor
Johannesburg

16 November 2012.

Actuarial Report

Particulars of the financial condition of the Fund as at 30 June 2012

A statutory actuarial valuation was carried out as at 30 June 2012. In respect of this valuation, I can comment as follows:

1. The fair value of the net assets of the Fund after deduction of current liabilities and any liabilities arising from the pledging, hypothecation or other encumbering of the assets of the Fund – R76 937 million.

2. The actuarial value of the net assets for the purposes of comparison with the accrued liabilities of the Fund –R76 753 million.

3. The actuarial present value of promised retirement benefits – R51 851 million vested, and R0 non-vested.

4. Contingency reserve account balances – R19 188 million.

5. The projected unit method was adopted for the valuation, which is unchanged from the method used at the last 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 5,50% per annum (6,00% at the previous statutory 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. Members contribute at 7,3% of pensionable salaries and the employers contribute 13,5%. There is a marginal excess contribution relative to the fixed contribution rate payable in terms of the rules. At the valuation date this surplus amounted to 0,07% of pensionable salaries (0,71% shortfall at the previous statutory valuation).

8. In my opinion the Fund was in a sound financial condition as at 30 June 2012 for the purposes of the Pension Funds Act, 1956.

David K Little

VALUATOR

Fellow of the Faculty of Actuaries; Fellow of the Actuarial Society of South Africa
In my capacity as the valuator of the Fund and as an Associate of Towers Watson (Pty) Ltd

12 November 2012


ONLY THE BEST CREW

Fund Administration Details

Administration Details
Eskom Pension and Provident Fund
Fund Registration Number 12/8/564/2

Registered Office of the Fund
Moorgate House, Hampton Park South, 24 Georgian Crescent East, Bryanston East, 2125

Postal Address
Private Bag X50, Bryanston, 2021, South Africa

Contact Details
Telephone: +27 11 709 7400
Fax: +27 11 709 7554

Website
www.eppf.co.za

Benefit Administrator
Self-administered

External Auditors
PricewaterhouseCoopers Inc., Private Bag X36
Sunninghill, 2157

Internal Auditors
KPMG, Private Bag X9, Parkview 2122;
Sizwe Ntsaluba Gobodo, PO Box 2930, Saxonwold, 2132

Actuaries
Towers Watson (Pty) Ltd
Private Bag X30, Rondebosch, 7701

Investment Administrators
During the year under review, approximately 68% of the total assets (excluding property) were managed by external asset managers, while the balance was managed in-house.

Domestic Asset Managers

Taquanta Asset Management (Proprietary) Limited
Catalyst Fund Management (Proprietary) Limited
Stanlib Asset Management (Proprietary) Limited
Meago Trading (Proprietary) Limited
Blue Ink Investment (Proprietary) Limited
Afena Capital (Proprietary Limited)
Argon Asset Management (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)
Sygnia Asset Management (Proprietary) Limited.

International Asset Managers

BlackRock Investment Management (UK) Limited
Independent Franchise Partners LLP
Morgan Stanley Investment Management Limited
RCM Global Investors (UK) limited
SEI Investment Management Corporation
Aberdeen Fund Management Limited