Eskom Pension and Provident Fund

2016 ANNUAL REPORT

Invested in our *members*

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NAVIGATION

PAGE REFERENCES
Refers readers to information elsewhere in this report

WEBSITE
Indicates that additional information is available on our website

The annual report is available on **www.eppf.co.za**
email **info@eppf.co.za**

ABOUT THIS REPORT

THE THEME OF THIS REPORT IS OUR ROLE IN LEADING TRANSFORMATION

The EPPF views Broad-Based Black Economic Empowerment (B-BBEE) as a critical initiative for inclusive and sustainable economic growth and prosperity in South Africa. We actively seek to be a leader in transformation within our operating environment and to this end, we have:

- put policies in place that favour the procurement of goods and services from black owned or empowered businesses, including the manner in which we invest our members' assets;
- created an incubator investment programme for the support of emerging black managers who have the requisite skills and experienced professionals in their businesses; and
- made presentations in support of transformation at various industry stakeholder forums and conferences.

Transformation is important in our country, it is for that reason that we - Eskom Pension and Provident Fund - have chosen it as our theme for this annual report. We have included a special report on our commitment to transformation which is found on page 13. We hope that it will be an insightful read which will trigger progressive conversations in your own environments.

INTEGRATED REPORTING

EPPF has begun a process of moving towards integrated reporting in order to align with international best practice and to improve our ability to communicate and the readability of the Annual Report. Of utmost importance is the ability to:

- improve the quality of information that we make available to our stakeholders;
- demonstrate how we drive value for our members and other stakeholders in a sustainable manner;
- outline the interconnectivity of our organisational activities including stakeholder engagement; and
- promote integrated thinking across the organisation as opposed to limiting it to the annual report compilation.

In this report, we have introduced a Value Creation Model which outlines the EPPF's six capitals (financial, human, natural, social and relationship, manufactured, intellectual) and how these drive value by transforming inputs into organisational activities and outcomes.

We have also included a Stakeholder Engagement Report which provides a summary of our stakeholder relationships, how we engage them and how we create value for them. An analysis of our stakeholders provides a foundation for determining risks and opportunities for achieving the Fund's strategic objectives.

NEW VISUAL IDENTITY

In the 2016 financial year, we introduced a new visual identity to the organisation as part of strengthening the EPPF's brand within its stakeholder group. The colour palette brings warm colours and we are making use of human imagery representing our members. Our new slogan, "invested in our members", conveys the very core of our purpose, which is to maximise benefits to our members. Furthermore, we have responded to the results of the member surveys on communication preferences by translating some of our PowerTalk and PensionerTalk newsletter articles into additional languages i.e. Afrikaans, isiZulu, SeSotho.

We believe that the new visual identity speaks more to the people-based organisation that we are and increases the level of engagement with our members.

Invested in our
members

FUND HIGHLIGHTS

ASSETS UNDER MANAGEMENT GREW TO
R129.9 billion

NEW BOARD OF FUND TOOK OFFICE FOR THE NEW TERM BEGINNING
1 June 2016

ELECTRONIC VOTER CAMPAIGN LED TO A **45%** INCREASE IN OVERALL VOTER PARTICIPATION.

Invested in our *members*

100% OF DOMESTIC ASSET MANAGERS IN OUR MULTI-MANAGEMENT PORTFOLIO HAVE A

Level 1 to 3 B-BBEE rating

53% OF THE DOMESTIC ASSETS IN THE MULTI-MANAGEMENT PORTFOLIO HAVE BEEN ALLOCATED TO MANAGERS THAT HAVE MORE THAN

50% black ownership

WE ARE COMMITTED TO TRANSFORMATION

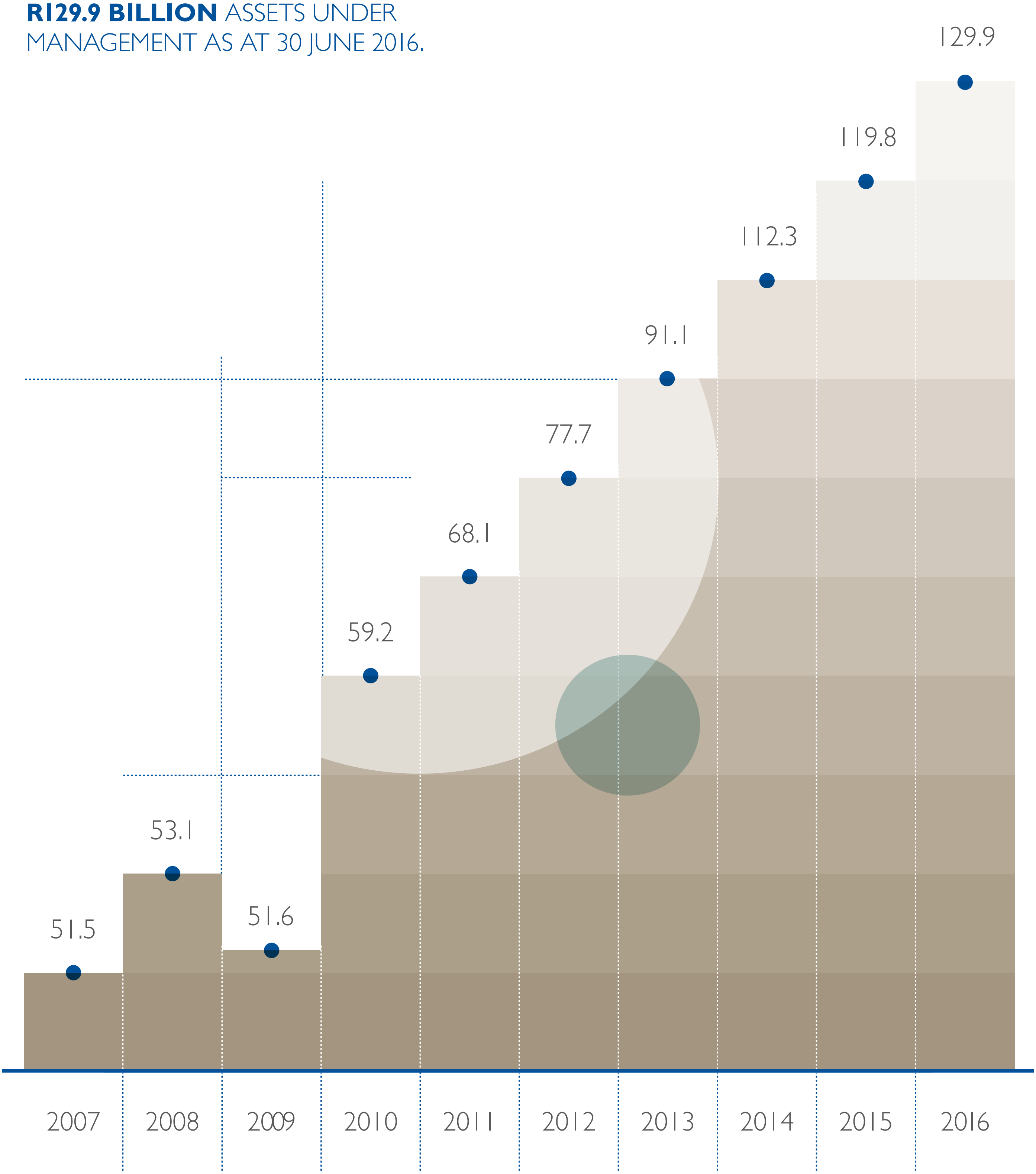
Our B-BBEE Policy

FOR INVESTMENTS GUIDES OUR MANAGER ALLOCATION

FUND ASSETS UNDER MANAGEMENT

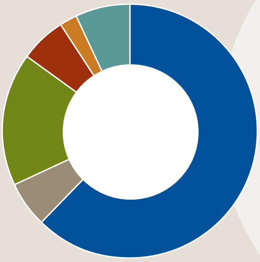
TOTAL ASSETS UNDER MANAGEMENT FOR THE TEN-YEAR PERIOD TO 30 JUNE 2016

THE EPPF IS THE SECOND LARGEST RETIREMENT FUND IN ASSET SIZE, IN THE COUNTRY, WITH **R129.9 BILLION** ASSETS UNDER MANAGEMENT AS AT 30 JUNE 2016.



*ASSET ALLOCATION
AS AT 30 JUNE 2016

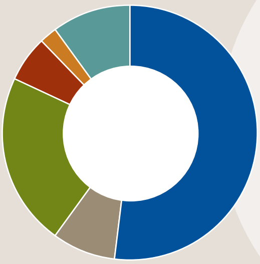
TOTAL FUND



Equities	63%
Nominal bonds	6%
Inflation linked bonds	17%
Cash	5%
Hedge funds	2%
Property	7%

R129.9 billion

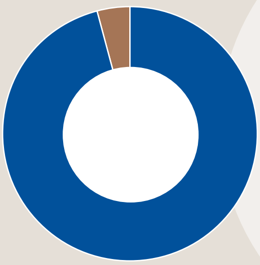
DOMESTIC



Equities	52%
Nominal bonds	8%
Inflation linked bonds	22%
Cash	6%
Hedge funds	2%
Property	10%

R97 billion

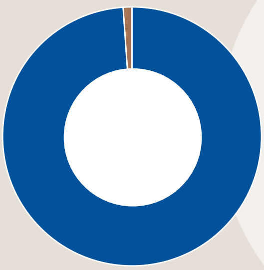
INTERNATIONAL



Equities	96%
Cash	4%

R28.8 billion

AFRICA EXCLUDING SOUTH AFRICA



Equity	99%
Cash	1%

R4 billion

** The asset allocation outlined in this report is based on all-inclusive market values.*
The asset allocation outlined in the Annual Financial Statements based on clean market values.

ABOUT US

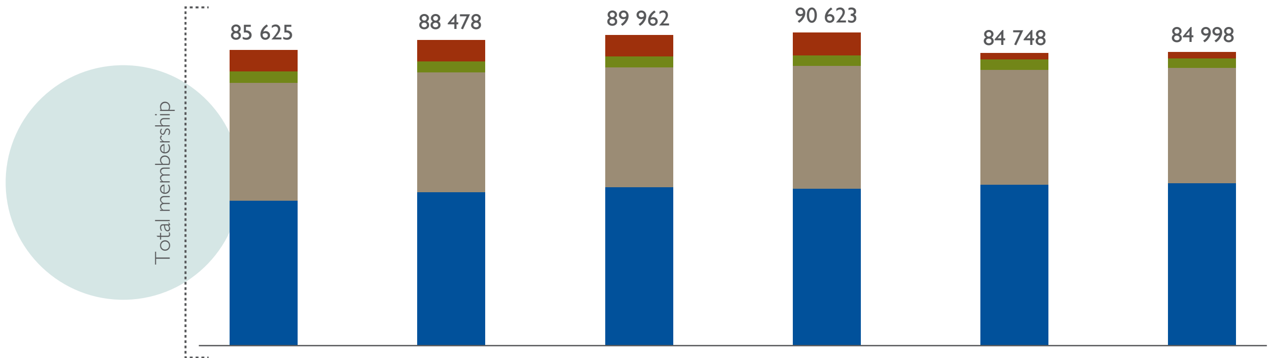
The Eskom Pension and Provident Fund ("the EPPF" or "the Fund") is a defined benefit pension fund that is registered as a self-administered pension fund in terms of the Pension Funds Act of 1956 and is approved as a pension fund in terms of the Income Tax Act of 1962.

We provide retirement, withdrawal, ill-health and death benefits to our members. Our members are divided into four categories: active/in-service members, deferred pensioners, pensioners and beneficiaries. We also administer unclaimed benefits. The EPPF has 113 permanent staff members who are also members of the Fund.

Our complete membership base has averaged approximately 87 000 members over the past six years.

The Fund is structured to provide a full suite of services that include the administration of member contributions, in-house investment management services and the administration of claims and benefits.

EPPF MEMBER DATA – 30 June 2011 to 30 June 2016

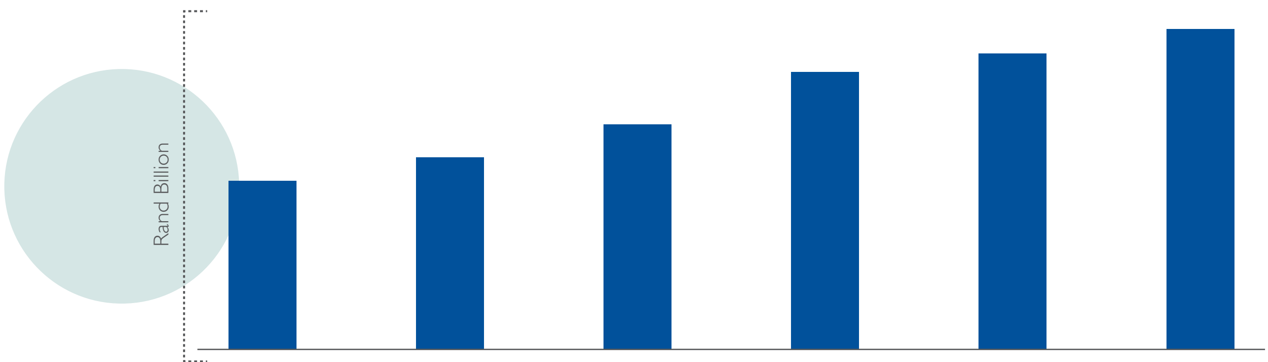


	2011	2012	2013	2014	2015	2016
Unclaimed Benefits	6 286	6 266	6 303	6 606	2 017	1 926
Deferred Members	3 237	3 183	3 121	3 149	2 941	2 781
Pensioners	34 294	34 771	34 823	35 491	33 328	33 350
Active	41 808	44 258	45 715	45 377	46 462	46 941

The EPPF is one of the largest retirement funds in South Africa by asset size with assets under management valued at R129.9 billion at 30 June 2016.

We have grown the Fund's assets under management by approximately R61.8 billion in the past six years to R129.9 billion as at 30 June 2016.

EPPF ASSETS UNDER MANAGEMENT – 30 June 2011 to 30 June 2016



	2011	2012	2013	2014	2015	2016
Market Value	68.1	77.7	91.1	112.3	119.8	129.9

SUMMARY OF BENEFITS

The benefits reflected below are in terms of the rules of the Fund applied in the 2016 financial year. The rules are reviewed by the Board and registered by the Financial Services Board and approved by the South African Revenue Services for income tax purposes. In the event of a conflict between this summary and the rules of the Fund, the relevant provisions of the rules will apply.

1. ELIGIBILITY CONDITIONS

All permanent employees of participating employers who are under the age of 65 are eligible for membership in 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 a 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 commutation factors. The remainder of the pension benefit will be used to pay a monthly pension to the pensioner for the rest of his/her life; and after his/her death, a reduced pension for the rest of the life of the remaining spouse.

3. PENSION INCREASES

Pensions may be 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 is 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 deceased member's annual pensionable emoluments.

4.2 Death after retirement

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

Plus

A pension to the surviving spouse/s equal to 60% of the deceased pensioner's pension at retirement before commutation, including any subsequent increases.

Plus

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

But

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.

SUMMARY OF BENEFITS CONTINUED

And

If there is no spouse's or children's benefits payable, a benefit equal to the excess amount of the lump sum, as specified below, is paid to the pensioner until the time of death. The lump sum comprises the following:

- A lump sum of R3 000

Plus

The greater of the two following calculations:

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

Or

2. 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 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 incurred on its assets;

Or

Second calculation: The fair value pension which 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 the 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

Most 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.

OUR VALUE CREATION MODEL

EPPF'S SIX CAPITALS

The Six Capitals represent value drivers that can shape the organisation for growth in stakeholder value and the long-term sustainability of the Fund. The EPPF recognises the Six Capitals as key inputs in its value creation model.

FINANCIAL CAPITAL

- Contributions from our members which enable us to sustainably grow the assets and the organisation, with the goal of providing benefits for our members.
- ***R129.9 billion assets under management; 8.4% growth in assets under management for the year ended 30 June 2016***

HUMAN CAPITAL

- The EPPF's employees are also members of the Fund and have a strong alignment of interest with the rest of the EPPF members. Attraction and retention of talent is a core value in our Formula for Success which is demonstrated by the calibre of our staff and our commitment to their development.
- ***113 employees; Wits Business School annual intake for leadership development course; Personal Development Plans (PDP) encourage self-managed learning for all staff; Study bursaries and training for employees as per the Learning and Development Policy***

MANUFACTURED CAPITAL

- Our governance, business processes, leading systems as well as physical and IT infrastructure enable us to manage the organisation in a prudent and professional manner.
- ***Board of Fund and Board Sub-committees; IT systems for member administration and finance, investment administration, investment market data feeds, MS exchange and internet services, investment risk budgeting, website hosting/maintenance, LAN, WAN; New walk-in centre established in East London, bringing the total number to three including Johannesburg and Emalahleni***

INTELLECTUAL CAPITAL

- The nature of the organisation's purpose – to provide benefits for members – is such that trust is important. The EPPF's reputation, institutional knowledge and experience are intangible assets that have been built over time and have instilled confidence from our stakeholders.
- ***New visual identity and slogan: "invested in our members"; Winner of the 2016 Africa Investor Award for Infrastructure Initiative of the Year; "Procurement for Transformation" presentation at the annual Batseta Winter Conference; EPPF Investment Policy Statement; Member data ownership and management***

SOCIAL AND RELATIONSHIP CAPITAL

- The relationships that we have with our key stakeholders – our members, employees, the Board of Trustees, the Financial Services Board, the Employer (Eskom Holdings SOC Limited), our service providers and the retirement fund industry.
- ***Our Communication Strategy guides stakeholder engagement activity; Corporate membership with various organisations that affect our stakeholders; EPPF B-BBEE Policy and commitment to transformation***

NATURAL CAPITAL

- The effect of our operations on the environment.
- ***Signatory to the United Nations Principles for Responsible Investing (UNPRI); We subscribe to the Code for Responsible Investing in South Africa (CRISA); Responsible ownership approach which considers Environmental, Social and Governance (ESG) issues in the way we invest our members' assets***

GOVERNANCE

Diverse and experienced Board of Fund with a commitment to good corporate governance

Board of Fund comprises of 14 members, elected and appointed by members and the employer

MEMBER AND CORPORATE COMMUNICATION DIVISIONS ENSURE THAT STAKEHOLDER ENGAGEMENT IS EFFECTIVE INCLUDING NATIONAL ROADSHOWS, WALK-IN CENTRES, CALL CENTRE, CRISIS COMMUNICATION, MEDIA, BRANDING, ETC.

INPUT	OPERATIONS		OUTPUT
Processing of in-service members' contributions	Investment management on behalf of our members to grow their assets	Processing of claims and benefits	Provision of pension, death, withdrawal and ill-health benefits to our members
Leading member administration platform and organisational systems.	• Dedicated Investment Management Unit overseeing in-house and outsourced mandates. • Commitment to transformation in the allocation of assets. • Focus on being responsible investors on behalf of members.	• Robust internal processes at each stage of the value creation process. • Methodical approach to determining benefits, utilising actuarial factors to ensure the sustainability of the EPPF as well as the fair and impartial treatment of all members.	Team of social workers investigates claims and provides counselling to beneficiaries when it's required.

INTERNAL SUPPORT: Communications, Data Management, Tracing and Investigations, Risk Management, IT, Legal, Finance and Human Resources

VALUE CREATED:

Administration on behalf of 46 941 active members, 33 350 pensioners, 2 781 deferred members and 1 926 unclaimed benefits; R4 billion processed claims in the 2016 financial year; 8.4% growth in assets under management to a total of R129.9 billion in the year to 30 June 2016; 53.2% of the assets under management allocated to managers with more than 50% black ownership; one new walk-in centre in East London which brought the number of walk-in centres to three in total

STAKEHOLDER ENGAGEMENT

The EPPF takes a proactive approach to stakeholder engagement and, in line with our corporate communication strategy, our aim is to achieve meaningful stakeholder engagement by focusing on three key objectives:

1. **Cement** THE ROLE WE PLAY TO EACH OF OUR STAKEHOLDERS
2. **Create** AND SUSTAIN A POSITIVE IMAGE/REPUTATION OF EPPF
3. **Encourage** TWO WAY PARTICIPATION WITH OUR KEY STAKEHOLDERS

We identify two broad stakeholder segments and depending on the type of stakeholder, we seek to engage or inform.

OUR PRIMARY STAKEHOLDER GROUP IS MADE UP OF THE MEMBERS WHOSE BENEFITS WE ADMINISTER.

OUR MEMBERS

Members: We utilise telephonic, electronic, print and face-to-face interactions to engage with all of our members who are employed by Eskom Holdings SOC Limited, Roshcon and Eskom Rotek Industries.

EPPF EMPLOYEES

EPPF employees: All permanent EPPF employees are also members of our pension fund and we engage with them as employees and members of our pension fund.

Our secondary stakeholder group comprises of institutions or stakeholders whose responsibility is to protect the interests of our primary stakeholder group. Stakeholders within the first tier of our secondary stakeholder base tend to be industry focused and their intervention is through overseeing the governance and regulatory structures in the South African pension funds industry. The other tier of our secondary stakeholder pool is more directly involved in the daily operations of our organisation and is primarily responsible for overseeing our operations as well as partnering with us in servicing our primary stakeholders.

REGULATORY OR INDUSTRY STAKEHOLDERS

Regulators: We abide by the recommendations that have been set out by the Financial Services Board and the regulations of the Pension Funds Act 24 of 1956. We engage with the regulator through various channels including the submission of our annual financial statements and regular due diligence visits.

Industry: we are members of the two major industry organisations within South Africa, Batseta and the Institute of Retirement Funds (IRF). We share and transfer our skills and knowledge to other pension funds when requested.

OUR PARTNERS

Employer: Eskom and its subsidiaries is the only employer that the EPPF provides pension administration services for. We keep Eskom informed of developments within EPPF through our annual report, our website and regular meetings.

The EPPF's Board of Fund: The Board of Fund's main responsibility is to provide strategic direction for the organisation in the interest of all our members. We engage with the Board on a regular basis through Board meetings and sub-committees of the Board.

Service providers: Our service providers are carefully selected based on their ability to help us achieve our operational objectives. We hold regular meetings with our service providers in order to keep the flow of information constant throughout our contract period with them.

WE ENGAGE WITH OUR STAKEHOLDERS THROUGH THE FOLLOWING CHANNELS:

Eskom Pension and Provident Fund

OUR MEMBERS

- Website
- Newsletters
- Annual report
- Call centre
- Member and pensioner presentations/roadshows
- Walk-in centres in Johannesburg, East London and Emalahleni

INDUSTRY

- Website
- Annual report
- Institute of Retirement Funds membership
- Batseta membership including EPPF Principal Officer's position as Vice-Chairperson

REGULATORS

- Submission of annual reports and fund valuation reports
- Compliance due diligence visits
- Rule registration and amendments
- Stakeholder meetings with the office of the Pension Funds Adjudicator
- Retirement Fund industry information circulars

SERVICE PROVIDERS

- Presentations to the Procurement Committee
- Service Level Agreements
- Annual report
- Regular communication

Eskom

EMPLOYER

- Monthly operational meetings
- Ad hoc consultations on issues of mutual interest

BOARD OF TRUSTEES

- Quarterly Board meetings
- Sub-committee meetings
- Annual Board and Staff Lunch
- Regular communication

EMPLOYEES

- Full service internal communication function
- Quarterly business update events
- Annual Board and Staff Lunch
- Newsletters

FORMULA FOR SUCCESS

The Formula for Success is the organisational 'blue print' or method for creating and establishing the desired DNA of an organisation. This DNA defines the culture and standard by which the organisation has chosen to operate and every stakeholder in that organisation will then live and breathe that blue print to ensure success.

The Formula has been defined through a collaborative and participative process and staff worked collectively to discover the core inspirational DNA of the EPPF. Through this process of discovery, the Fund defined its culture, strategy, identity, differentiators, people qualities and how it will deliver on its strategic objectives to its internal and external clients, to maximise its success for the years to come.

The Formula responds to the following questions in order to define the Fund's blue print for success:

1. What does the Fund stand for?
2. How can the Fund staff streamline and simplify it's services in order to impress and exceed the expectations of their internal and external customers?
3. How does the Fund staff provide truly superior experiences?
4. What drives the Fund's business positively?
5. What inhibits the Fund's success?

The Formula is presented as a visual mathematical formula comprising of eight "Top-line Enablers" and eight "Bottom-line Disablers", where each enabler and disabler is represented by a unique icon. The "Top-line Enablers" articulate those values and habits which the Fund strives to do more of, and the "Bottom-line Disablers" articulate the values and habits that are to be avoided in order to achieve the Fund's Formula for Success.

In the year under review, the Fund highlighted the top-line enablers as the focus area, as it strived to attain and maintain the desired valves and habits.

OUR VALUES


Teamwork and collaboration


Attract, develop and retain talent

Can do attitude


Proactive planning and organisation


Integrity, honesty and respect


Compliance and governance


Outstanding customer focus


Strong leadership and management

OUR COMMITMENT TO TRANSFORMATION

The EPPF launched its first Broad Based Black Economic Empowerment (B-BBEE) Policy in 2009 in recognition of the transformation imperative and the role that the Fund could fulfil in leading the change. After implementation of the policy, the Fund became concerned about the slow uptake of the policy by its service providers as well as the generally slow pace of transformation in the South African savings industry as a whole. The Fund was then driven to commission a survey on transformation in the industry where the results indicated that:

1. Investment managers were generally not proactive in effecting transformation. Instead, they acted in response to requirements by legislation and asset owners.
2. Where Trustees of retirement funds have driven transformation, investment managers have complied.
3. Within the investment management firms, investment teams were largely untransformed.
4. An apparent skills gap for black staff was in existence and investment managers were attempting to bridge the gap, albeit at a slow pace.
5. Overall, the Fund's wariness about the meaningful progress of transformation was confirmed by the results of the survey.

COMPLIANCE REQUIREMENTS OF THE EPPF B-BBEE POLICY

We revised the B-BBEE Policy in 2011 to include timelines for compliance and stipulate penalties for non-compliance. The compliance requirements of the Policy are outlined below:

	Asset Managers	Stock Brokers	Emerging Black Asset Managers	Private Equity Funds and Social Desirable Investments
B-BBEE Rating	Level 3 or above	Level 3 or above	Level 3 or above	Level 3 or above
Ownership and Management Control	Board: minimum 50% black representation	Board: minimum 50% black representation	Ownership: 50% black ownership	Preference is given to companies that are at least 50% black owned
	Executive directors: minimum 50% black representation	Executive directors: minimum 50% black representation	Board: minimum 50% black representation	
	Top management: minimum 40% black representation	Top management: minimum 40% black representation	Top management: minimum 50% representation	
Employment Equity	Achieve the threshold of 40% for each employment equity target	Year 1: achieve the threshold of 40% for each employment equity target		
	Year 2-3: achieve the threshold of 40% for each employment equity target	Year 2-3: achieve the threshold of 40% for each employment equity target		
Other			Less than R10 billion assets under management	

OUR COMMITMENT TO TRANSFORMATION CONTINUED

Table: Compliance Requirements of the EPPF B-BBEE Policy

Category	Target Points	Threshold (40% compliance target)	Compliance Target (Years 2007 – 2011)	Compliance Target (Years 2012 – 2018)
Black representation of people living with disabilities as a percentage of total employees adjusted for gender	2	0.8%	2%	3%
Black representation on senior management adjusted for gender	5	17.2%	43%	60%
Black representation on middle management adjusted for gender	4	25.2%	63%	75%
Black representation on junior management adjusted for gender	4	27.2%	68%	80%

Table: Employment Equity Scorecard, DTI, Codes of Good Practice, Code 300

The EPPF allocates 10% of its domestic external portfolio mandates exclusively to emerging black asset managers. 7.5% of this allocation is reserved for companies with a minimum track record of three years and more than R5 billion assets under management. The remaining 2.5% is allocated to companies with less than R5 billion assets under management.

IMPLICATIONS OF NON-COMPLIANCE

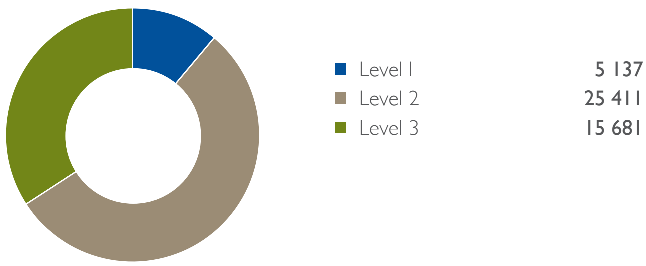
For investment managers, each year of non-compliance results in a 10% reduction of the EPPF's allocation and should the non-compliance persist, the mandate is placed under review. In the case of service providers other than investment managers, each case is dealt with on its individual merits.

Two investment managers have been penalised since inception of the policy whereby the Fund reduced its allocation to each of them by 10% in 2013. Both managers were compliant the following year.

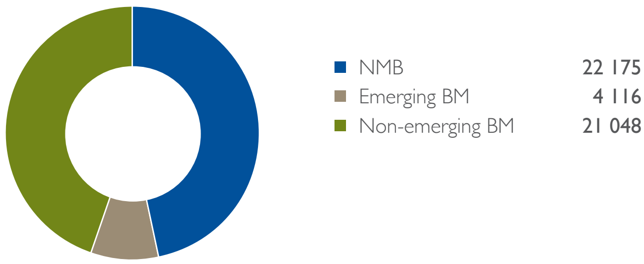
TRANSFORMATION IN THE EPPF PORTFOLIO

The Fund has an allocation of 100% of external, domestic mandates invested with investment managers that are Level 1 to 3 contributors to B-BBEE. A total of 53.2% of external domestic mandates are allocated to black investment managers. Out of the allocation of domestic, external mandates that's been given to black investment managers, 44.4% has been allocated to non-emerging black managers with the remaining 8.7% to emerging black investment managers.

AUM BY B-BBEE RATING (R'm)



AUM SPLIT BY EMERGING VS NON-EMERGING MANAGERS (R'm)



Key	
BM	Black Manager
NBM	Non-black Manager

The allocation of domestic, external mandates to black investment managers has grown significantly over the past five years, where it was below 30% in June 2011.

ALLOCATION OF DOMESTIC AND EXTERNAL MANDATES (%)

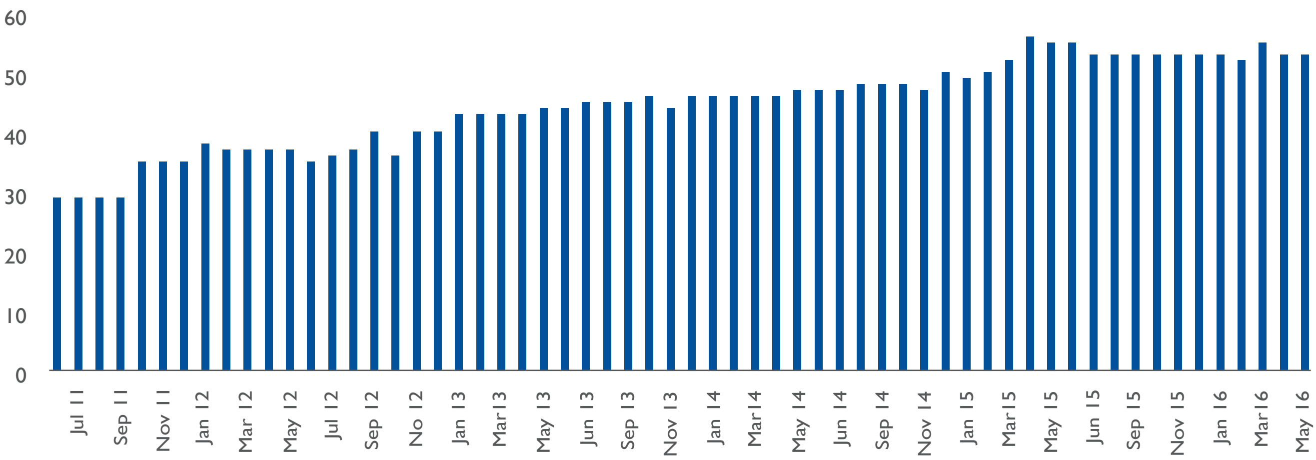


Figure: EPPF's allocation of domestic, external mandates

It's been pleasing to see the growth of investment management businesses that the Fund has invested with. The EPPF has seen the majority of these businesses grow from strength to strength as witnessed by the increase in staff head count, number of clients and assets under management. Furthermore, many of the black investment managers have produced excellent investment returns where the EPPF's allocation to them has not been at the expense of product excellence.

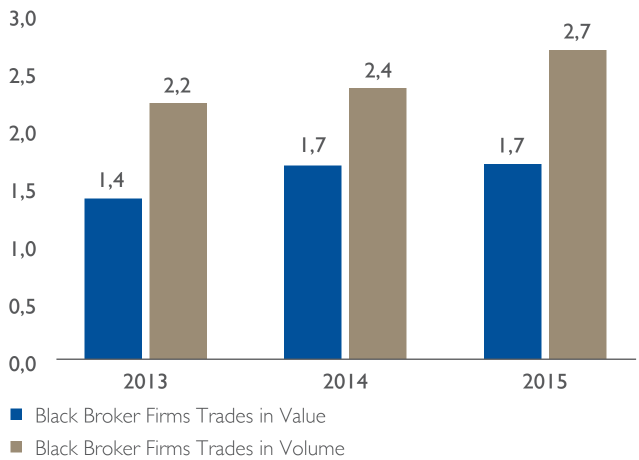
OPPORTUNITY TO FURTHER TRANSFORMATION IN THE INDUSTRY

We believe that while we've seen some progress in transformation in the industry, it's largely concentrated in investment management companies. This presents an excellent opportunity for asset owners to drive meaningful transformation across the full value chain including investment consultants, multi-managers, brokers as well as private equity and socially desirable investment managers. We believe that the collaboration of asset owners is also critical for maximising effectiveness.

Stock Brokers

The first black brokerage firm was registered in 1996, however evidence shows that the number of black brokerage firms has declined over the past 10 years. At this point, the market activity of black brokerage firms is very low, despite the significant increase in market trading activity since 1996. As asset owners, we have an important role in encouraging the dialogue around transformation in this space and working towards applying policies that require investment managers to allocate to black brokers.

VALUE AND VOLUME OF TRADES BY BLACK BROKERAGE FIRMS (%)



Source: Black Broker's Forum– 2015

Value of Black Brokerage vs Total JSE Trades

	2013	2014	2015
Rand Value of Black Brokerage Firms Trades	R110 billion	R136 billion	R169 billion
Rand Value of Total JSE Trades	R3 981 billion	R4 050 billion	R5 015 billion

Source: Black Broker's Forum – 2015

OUR COMMITMENT TO TRANSFORMATION CONTINUED

Private Equity

The evidence of a small number of transformed private equity firms is an indication that it's a difficult space for black managers to participate in. The EPPF's private equity portfolio currently has 35% black owned, controlled and managed companies with a view to increase this allocation over time. Private equity funds that only invest in Africa are still expected to comply with transformation requirements.

As the EPPF, we encourage private equity firms to actively drive transformation, including the underlying portfolio companies. We also have plans to put policies in place which include penalties for non-compliance.

Developmental Investments

Developmental investments offer a great opportunity to effect meaningful transformation and need a greater focus. The EPPF's Developmental Investments (DI) Policy directs the EPPF's strategy in contributing to South Africa's social and economic development through high impact, targeted investments.

We require the companies that are appointed by the Fund to facilitate socially desirable investments that comply with the same transformation criteria as private equity managers, although this is assessed on a case by case basis.

The support of black small to medium enterprises is one of the focus areas of our DI policy where:

1. Preference is given to "medium" enterprises as defined by the National Small Business Act.
2. Preference is given to small, black enterprises as defined by the B-BBEE code of conduct.
3. It's acknowledged that medium enterprises have the most potential for job creation and making a notable contribution to sustainable economic development.

CONCLUSION

The EPPF, along with other asset owners needs to collaborate in order for the transformation agenda to be more effectively promoted and implemented where asset owners choose to provide leadership. There's an opportunity for retirement funds to compile their own transformation policies in order to drive change and impose penalties for non-compliance. Monitoring of the progress of transformation is important and as the EPPF, we monitor our allocation of assets and overall procurement to black businesses. We also monitor the growth and progress of black businesses in terms of employment, assets under management, product development etc.

The full value chain of services needs attention from a transformation perspective, particularly brokers where their allocations are extremely low relative to the total JSE trades.

Retirement funds can make a significant contribution to the multi-dimensional transformation of this country while ensuring that the interests of their members continue to be supreme priority.

BOARD OF FUND REPORT

It is an honour for us to present to you the EPPF's annual report for the financial year ended 30 June 2016.

We join the new Board term that commenced on 1 June 2016 after an extensive election and appointment process by the various membership constituencies of the Fund. As you may be aware the board consists of 14 trustees appointed and elected in terms of the Rules of the Fund. Half of the 14 Board members are appointed by the employer while the other half is elected by members and pensioners as follows – two elected by pensioners, two elected by active members of the Fund from the non-bargain component while three are elected by the bargaining component of active members one each from the recognised trade unions National Union of Mineworkers (NUM), National Union of Metalworkers of South Africa (NUMSA) and well as Solidarity respectively.

Subsequent to 30 June 2016 there was one employer appointed trustee vacancy on the Board which arose as a result of the resignation by Ms Jacqui Kilani from the Board. This vacancy has been filled by Mr Muvenda Rufus Khomola effective 1 December 2016.

Along with the term of the previous Board, the term of the previous Chairman of the Board, Mr Hlengani Mathebula came to an end. The Board has advised the participating employer to fill the vacancy that has arisen and, in terms of the Rules, recommend a Chairman for Board consideration and approval.

The election process was a vibrant one with new communication and technology means introduced for the first time in the history of the Fund in order to maximise member participation.

We look forward, as a collective, to positively contribute on the good work that our predecessors have already started. We are grateful and thank the previous Board Members and Chairman that had served the Fund during the previous term of the Board.

We join the Fund during a difficult time in the investment markets where both the world and local economies are going through difficult times with a lot of uncertainty and headwinds regarding growth. This has made it that much more difficult for investments to yield positive returns, however, the Fund's robust investment strategy once again proved resilient and the Fund return was positive for the year and remains strong in the longer term of three to five years.

The Fund's assets were R129.9 billion as at 30 June 2016 (R119.8 billion on 30 June 2015). The investment return for the financial year was 9.8% (7.68% on 30 June 2015) compared to the Fund's target of inflation plus 4.5% which is equivalent to 11.0%. The three-year rolling return was at 13.9%, five-year 14.6% and 10-year 12.8%.

The Fund's proposed restructuring remains a priority; we are looking forward to gaining some traction on this important matter. The "hybrid" financial structure of the Fund, where the Fund has a Defined Benefit structure with a Defined Contribution financial underpin, remains a major risk over the long term and measures to address this situation are still being sought by all stakeholders.

It is pleasing to note that the actuarial valuation results of the Fund remain healthy and indicate that the Fund is solvent although the funding level (actuarial surplus) is at a lower level from the previous financial year.

Fund membership remained steady during the year throughout all categories indicating the maturity of the Fund and recruitment activities of the employer which have been conservative over the last few years.

Restructuring of the Fund

The Board had previously accepted the recommendations of a special Joint Restructuring Task Team, a joint endeavour with Eskom, on the way forward with the proposed move towards a Defined Contribution (DC) option in the Fund.

It is the intention of the Board to resuscitate the meetings and refresh the membership of the Task Team. In the meantime, it is our understanding that consultations are ongoing at the employer/employee bargaining forum.

We remain positive that finality will eventually be reached on this important aspect which aims to deal with the long-term sustainability of the Fund. As the Board we will be working closely with the task team to seek ways of moving this forward in a responsible manner.

Financial performance of the Fund

It was difficult to extract meaningful returns from the markets during this financial year due to the subdued climate of uncertainty in the local and international markets. However, through that the Fund still managed to post positive returns.

The Fund's return for the year was 9.8% (2015: 7.68%), thus achieving a moderate underperformance of 1.1% (2015: (1.61%)) for the year compared to the target. The table below illustrates the investment return, growth in assets under management and a rolling three-year investment return for the current year.

	2016	2015
Investment return	9.8%	7.68%
Assets under management	R129.9 billion	R119.8 billion
Three-year rolling return	13.9%	16.61%

BOARD OF FUND'S REPORT CONTINUED

We are cautiously optimistic about future investment returns in the longer term while we expect very difficult times in the short to medium term. The risk is high that returns might be lower than current and may even be negative but our dedicated team will keep hands on deck to navigate these difficult times.

We'll continue to focus on managing the assets responsibly and do our best to protect the Fund from negative impact of the environment. We'll therefore continuously review the investment strategy to ensure that it is appropriate for the Fund liabilities as well as the risk and reward realities of the current financial markets.

Valuation of the Fund

The Pension Funds Act requires that pension funds carry out statutory valuations every three years. The last statutory valuation was carried out by the Fund's actuary for the financial year ended 30 June 2015 as reported in the last annual report. The results then indicated that the Fund is still in a sound financial position in that the assets are adequate to cover the promised benefits (liabilities). The actuarial surplus was 10% or R10.6 billion. The Board has, however, adopted a policy of carrying out actuarial valuations every financial year in order to ensure that it is continuously in tune with the financial health of the Fund. The latest actuarial valuation was carried out at 30 June 2016, the results indicated that there was an actuarial surplus of 6% or R7.8 billion. This shows a decrease of the actuarial surplus of the previous year a result of, among others, the difficult investment environment. The valuation also highlighted a widening contribution shortfall from the last statutory valuation.

The financial strength of the Fund depends on various factors such as the rate of salary increases granted by the Employer, the mortality experience and the performance of the investment markets. This situation will continue until the issues around the structure of the Fund are resolved which, as mentioned, are well underway towards a lasting solution.

The Board therefore has to remain focused on ensuring that the long-term stability and solvency is carefully managed by taking into account the future sustainability of the Fund as it steers the Fund forward.

Pension increases and bonuses

The Board, after taking into account the financial health of the Fund, declared a pension increase for 1 January 2016.

The pension increase that was granted with effect from 1 January 2016 was a general across-the-board increase of 5% (2015: 6.5%) while the Board was also again in a position to approve the payment of an annual discretionary bonus to pensioners.

The Board continues to strive to grant increases that assist the pensioners to counter the effects of inflation on earnings and was fortunate that the Fund was able to afford increases above the inflation target (CPI) for the past five years. An annual discretionary bonus was also declared and paid. The Board hopes that this assisted pensioners to cope with the financial demands they experience on an ongoing basis.

As previously indicated, the financial markets are increasingly making it difficult for the Fund to earn significant returns as before. This has a direct impact on the financial health of the Fund. It is therefore important to note that in future it might be difficult to grant similar increases and bonuses, if at all.

Governance and management

The Board strives to conduct its business in line with best practice standards of good corporate governance while discharging its responsibilities and oversight functions in accordance with the Rules of the Fund and the Pension Fund's Act.

As mentioned earlier, the term of the previous Board ended on 31 May 2016 with the current Board assuming office from 1 June 2016, following the appointment and election process by the Employer, members and pensioners.

We wish to thank the previous Board and Chairman for their contribution to the Fund during their tenure.

Strategic imperatives

One of the most important objectives that we need to always keep at the forefront of what we do is maintaining and keeping the Fund solvent and sustainable for the long-term benefit of all members and pensioners. We need to ensure that we deliver on the promised benefits in the Rules of the Fund.

This therefore means that we need to strive for excellence in what we do – from optimally managing investments, cost management, robust processes and superior customer service.

If we get these right not only will we be able to keep the Fund in a sound financial footing but will ensure that our members and pensioners have a good experience when interacting with the Fund.

We are mindful of the regulatory developments in the country that might have an impact on the Fund such as the draft social security and draft default preservation proposals. We'll keep close to these and other developments to ensure that the Fund is in a better position to respond accordingly.

Acknowledgements

We recognise the good work and progress that was made during the previous Board term. On behalf of the Fund we thank our colleagues for their dedication and sacrifice in order to fulfil the very demanding task of steering the Fund forward.

We thank the many stakeholders who have been working with the Fund in different capacities including but not limited to the auditors, asset managers, the actuaries and other service providers who've made it possible for the Fund to deliver the good work it has over the years.

The Registrar of Pension Funds and the Pension Funds Adjudicator play and important role in ensuring that we conduct ourselves in a regulatory sound manner. Their continuous counsel and guidance is appreciated.

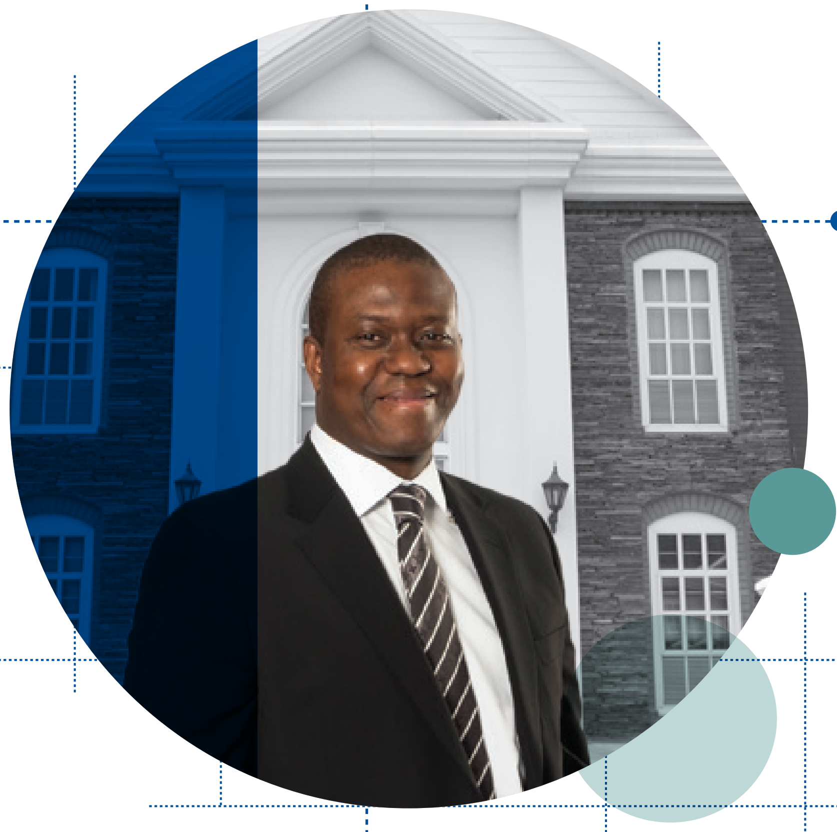
We acknowledge the teamwork and cooperation provided by the team at Eskom which enabled us to serve our members better.

We thank Sibusiso, the Chief Executive and Principal Officer of the Fund and his team for all the support and hard work they put in to ensure that the Fund delivers on its promises to our stakeholders.

Looking forward to a successful year ahead!

Board of Fund
5 December 2016

CHIEF EXECUTIVE'S REPORT



"We are committed to transformation"

BLACK ECONOMIC EMPOWERMENT

The EPPF is committed to leading transformation through its investing and overall procurement activities. This is especially evident in the manner in which assets have been allocated to investment managers, with 100% of the Fund's domestic assets being managed by businesses that have achieved a Level one to three B-BBEE rating. Non-emerging black managers have an allocation of 44.5% of domestic mandates in the multi-management portfolio, while emerging black managers have an allocation of 8.7%. This brings the total allocation to black managers to 53.2% of the Fund's total domestic mandates.

The EPPF prides itself on being an advocate for transformation in the industry which includes the formulation of internal policies that reflect our commitment. The EPPF has been one of the earliest investors in a number of black businesses and it has been a privilege to see these companies grow from strength to strength over the years. Moreover, we have been impressed by the competence levels of the majority of black managers that we have invested with, as demonstrated by their good investment performance.

The Fund's intention is to continue to challenge itself by asking the right questions, transforming the full value chain of service providers and collaborating with other industry change agents to make an even greater impact in the foreseeable future.

In line with the theme of this annual report, "Leading Transformation", we have included a special EPPF report on transformation. We hope that you will enjoy the read and be inspired to find your place in driving the transformation of our industry.

STAKEHOLDER ENGAGEMENT

The King IV Report on Corporate Governance places specific emphasis on retirement funds' establishment and management of stakeholder relationships. Understanding the importance of the Fund's stakeholders, we have created a separate Stakeholders Engagement Report for the first time. The Stakeholders Engagement Report articulates the role of each of our stakeholders and how we engage them. We believe that a concerted effort to refine our stakeholder engagement activities presents an excellent opportunity to maximise value for them, especially for our members.

ENVIRONMENTAL OVERVIEW

Economic outlook

The financial year ended 30 June 2016 was eventful and characterised by both global and local events that caused market volatility. The events at times presented both opportunities and challenges, but overall, gave rise to difficult conditions for investors to generate healthy investment returns.

We saw marked weakness in the Rand against the Dollar over the year which contributed to inflation in the second half of 2015. Much of the Rand weakness was due to a decline in emerging markets' growth. The Rand saw a recovery in the first half of 2016 as South Africa's new Minister of Finance sought to allay fears of a downgrade and political uncertainty.

Oil prices fell on the back of weak global growth and excess supplies of oil, especially in the United States (US). Discussions around the US meeting its energy needs through gas also depressed oil prices since they constitute a large part of the oil demand. The prices rebounded as Opec threatened to reduce supply. The US monetary policy reversal also had the effect of weakening commodity prices.

The precious commodities like gold and platinum rebounded during January 2016 and maintained their rally throughout the second half of the 2016 financial year (FY16).

The shock and uncertainty around Brexit caused spectacular falls in the UK stock markets and around the world. This may have a negative impact on growth and job creation.

The world also experienced heightened international terrorism which discouraged foreign investment and tourism.

Political tensions in South Africa accompanied by labour problems muted growth and indeed, the attendant threat of a downgrade kept the markets nervous. Investors also exercised caution around the South African market as they watched how elections would turn out, as an indicator of political maturity and stability.

The annualised asset class returns of for the financial year ended 30 June 2016 were as follows:

Asset class	1 year	3 years p.a.	5 years p.a.
SA Equities (SWIX)	4.1%	14.8%	15.7%
SA Bonds (ALBI)	5.3%	6.3%	7.9%
SA Inflation-Linked Bonds (CILI)	8.5%	8.3%	9.6%
Cash (STeFI)	6.9%	6.2%	5.9%
Listed Property (SAPY)	11.0%	14.3%	18.5%
Global Equities (MSCI all country) in Rands	16.2%	20.7%	22.7%
Headline CPI	6.3%	5.9%	5.7%

Internal Environment

The Fund's membership grew from 84 748 to 85 645 members over the FY16. The Fund continued to grow the assets under management notwithstanding the volatility in global and local capital markets. Over the past three years to 30 June 2016, the Fund's assets have grown from R91.1 billion to R129.9 billion.

The past financial year has also been characterised by the execution of some important initiatives and projects at the Fund.

The Communications Strategy was enhanced to strengthen the EPPF's reputation, simplify messaging and take a more strategic approach to its implementation. One of the outputs of this change has been the delivery of a fresh visual identity which better speaks to our members, including the introduction of a new slogan: "invested in our members".

In response to the member survey of communication preferences, we took a decision to increase the number of walk-in centres and therefore, face-to-face interactions with our clients. In FY16, we established a new walk-in centre in East London, which services the Eastern Cape region. In the next financial year, we plan to add the same capacity in KwaZulu-Natal and the Western Cape.

CHIEF EXECUTIVE'S REPORT CONTINUED

The Commutation and Money Purchase Conversion Factors which are used to calculate the retirement lump sum on statutory pensions and monthly pensions on voluntary or deferred pensions, were amended to better reflect the life expectancy of EPPF pensioners. The Fund implemented a multi-channel change communication strategy to ensure that members are informed about the changes. The implementation date for the new factors is 1 September 2016, after the FY16.

The BarraOne risk budgeting system was successfully implemented, thus strengthening the Fund's investment process and decision-making. The system has enabled a single framework for the execution of the investment strategy, whereby expectations are consistently managed across the investment process in order to achieve the Fund's objectives.

Trustee elections were successfully managed and resulted in the appointment of a new Board of Trustees, effective 1 July 2016. The proactive communication and introduction of digital voting platforms led to a marked increase in the participation rate.

Audit findings in the previous financial year catalysed the data clean-up project as well as the moving of the majority of the administration system functions internally.

While it's been a challenging year, it's also been encouraging to see the EPPF receiving recognition for excellent work as evidenced by the Africa Investor Award for Infrastructure Initiative of the Year. The EPPF was nominated alongside pension funds from Kenya, Uganda, South Africa and Denmark and was the overall winner of the prestigious award.

KEY PRIORITIES FOR THE YEAR ENDING 30 JUNE 2016

The Fund had the following priorities as agreed to by the Board for the year ended 30 June 2016:

Key priorities	Weighting
Investment returns	**45%**
People development	**15%**
B-BBEE	**5%**
Target operating model	**35%**
IT roadmap	15%
Operational efficiency	10%
Fund restructuring	10%

INVESTMENT PERFORMANCE

The Fund ended the year with R129.9 billion assets under management as at 30 June 2016, Approximately R40 billion of the Fund's assets are managed internally by the EPPF's Investment Management Unit. Despite the challenging market conditions, the Fund has generated meaningful excess returns over one, three, five and 10-year periods.

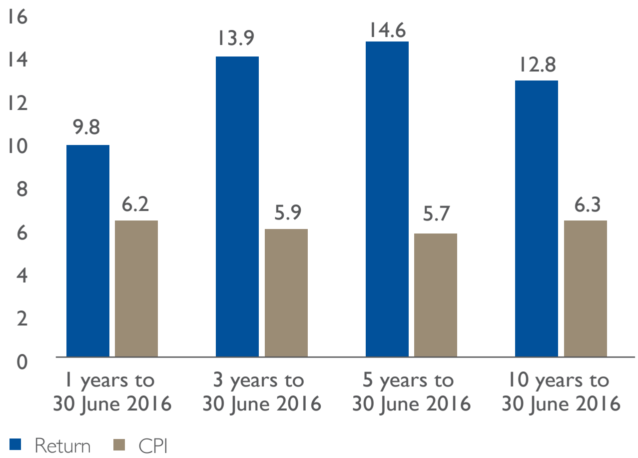
Investment returns

The Fund's assets under management grew from R119.8 billion to R129.9 billion over the past year.

The Fund's investment objective is to achieve a real return of 4.5% per annum over the long term. For scorecard purposes, the performance evaluation is based on a rolling three-year period. However, a more meaningful assessment of the long-term performance can be derived from the five and 10-year rolling periods.

The investment return for the year ended 30 June 2016 was 9.8% which exceeded the CPI return of 6.27% over the same period, resulting in a positive real return of 3.47% for the year.

The Fund's investment returns relative to the benchmark (CPI) are presented in the chart below:



It's pleasing to see that the Fund's return exceeded the benchmark return across all the measurement periods, with greater excess returns over the longer term periods.

The Fund's return relative to the SAA benchmark was as follows:

Actual return	9.8%
Strategic asset allocation return	8.5%
Excess return	1.3%

The SAA return assumes that the Fund was fully invested as per the new SAA for the full year which was not the case. The Fund return against the SAA can be more reliably used as a measure looking forward, once the Fund's portfolio has been fully aligned.

Investment strategies and policies

The Fund's Investment Policy Statement (IPS) is reviewed annually and during the year, it included the new strategic asset allocation (SAA) and the enhanced risk budgets. The Asset Liability Modelling (ALM) process is reviewed every three years and was conducted during the financial year through a robust process in consultation with Alexander Forbes, RisCura and Willis Towers Watson. This exercise resulted in formulation of the new SAA.

In February 2016, the total allocation to the Private Equity Portfolio was increased from R4.5 billion to R6 billion which is approximately 5% of the Fund's assets under management.

The Fund's allocation to the Development Impact Investments portfolio increased from R1.5 billion to R2 billion. New commitments include allocation to renewable energy, education and healthcare investments.

The Fund's current SAA relative to that of the previous year is outlined below:

Asset class	Strategic asset allocation (Previous)	Strategic asset allocation (New)	Actual Asset Allocation (30 June 2015)	Actual Asset Allocation (30 June 2016)
Domestic				
Equities	38.1%	43%	37.5%	39%
Nominal bonds	–	5%	6.1%	5.6%
Inflation-linked bonds	25%	12%	16.0%	16.6%
Property	5%	8%	6.0%	7.2%
Cash	2%	2%	4.8%	4.6%
Hedge funds	–	–	1.7%	1.7%
International				
Developed markets equities	24.9%	23%	24.2%	21.3%
Emerging markets equities	–	2%	–	–
Africa (excluding SA) equities	5%	5%	1.4%	3.1%
Offshore cash	–	–	2.3%	0.9%
Total	**100%**	**100%**	**100%**	**100%**

We anticipate that it may take at least 24 months to align the portfolio given the significant shift from the previous to the new SAA.

Responsible investing

The EPPF subscribes to the principles of the United Nations Principles for Responsible Investment (UNPRI) and the Code for Responsible Investing in South Africa (CRISA). To facilitate this process, the Fund has engaged an external service provider to provide the coordination of proxy voting and reporting services to ensure that the Fund honours its responsibilities as an active asset owner by incorporating economic, social and governance (ESG) issues into its policies and practices.

The Fund was represented in the annual general meetings of most of the companies that it invests in as participated in engagement activities where required.

Efficient administration

The management of costs remains a critical priority for the Fund in order to create sustainable value for stakeholders. Cost management at the Fund is balance by a relentless pursuit of operational excellence and exceptional customer service.

Financial management

The EPPF's Finance Department has three core functions:

1. Financial management
2. Pension benefits accounting (accounting services)
3. Investment administration

As part of these responsibilities, the Finance Department produces the Fund's annual financial statements and coordinates the role of both the external and internal auditors' activities.

CHIEF EXECUTIVE'S REPORT CONTINUED

During the past financial year, the Finance Department's achievements include the following:

- Facilitating internal and external audits during the year.
- Cost reduction initiatives to ensure that expenditure across all the EPPF's departments is within budget.
- Facilitating the review of policies and procedures across the organisation.
- Systems review and implementation amongst which included:
  - StatPro performance and attribution
  - IDU budgeting system
  - Instrumental in Barra risk budgeting project

Participated and played a monumental role in the implementation of the risk budgeting tool, Barra.

The operating costs of administration were 9.5% below budget at 30 June 2016. A summary of the Fund's administration costs for the year ended 30 June 2016 is outlined below:

	Actual (R'000)	Budget (R'000)	Variance (R'000)	Variance (%)
Personnel costs	78 889	93 647	14 758	15.7
IT services	34 294	35 191	897	2.5
Other costs	48 753	50 021	1 268	2.5
Total	161 936	178 859	16 923	9.5

OPERATIONAL EXCELLENCE AND CUSTOMER SERVICE

Fund operations

The Retirement Fund Operations (RFO) department set ambitious goals for itself and made good progress in closing the majority of them.

The Communications Strategy was revised and expanded to encompass corporate, member and internal communication for the inclusion and benefit of a broader set of stakeholders. The new visual identity was rolled out, which makes use of warmer welcoming colours and speaks strongly to the people-based nature of the organisation. Other initiatives which form part of the new strategy include the translation of member newsletters into additional languages, crisis communications and the introduction of technological platforms for communication.

Following the outcome of the member communication preferences survey, the RFO department aimed to increase opportunities for face-to-face member interactions. To this end, Retirement Fund Consultants were employed in Johannesburg and East London where a new regional office was also established.

The process re-engineering initiative has increased the department's efficiency and reduced the number of unclaimed benefits. Process re-engineering has been implemented hand-in-hand with cost optimisation which has seen the elimination of non-value adding activity.

A focused effort on data clean-up has enabled a successful fund valuation process and removal of the actuarial reserve.

Human Resources

The Human Resources played a critical role in providing strategic support to the organisation through the attraction and development of the Fund's human capital.

Human resources facilitated the recruitment of individuals into key positions. The majority of the Fund's employment equity targets were met, barring women in middle management, Africans in junior management and people with disabilities. The Fund will apply greater focus to these shortcomings in the coming year.

The second group of second tier managers successfully completed the Managing and Leading People course at Wits Business School. Performance management training was also offered to the broader organisation.

Two employee wellness days were executed during the year with the objective of increasing employee engagement.

Succession planning was also prioritised, particularly for the role of the Chief Executive, in partnership with the Human Resources and Remuneration Sub-committee of the Board.

Quarterly employee surveys measuring the effectiveness of the Formula for Success/Bluprint were conducted throughout the year. The surveys enable employees to anonymously express their views about the organisation's progress. Very importantly, individual departments host feedback and ideas sharing sessions with staff members around the outcomes of the surveys.

Legal and Corporate Secretariat

The year was particularly eventful for this department where we saw the amalgamation of three functions; Corporate Secretariat, Facilities, Legal and Technical Services; into one department. Under the new structure, the team has remained steadfast in achieving its objectives across legal, corporate secretariat and facilities services.

The achievements of the legal team include:

- Formalising the Fund's procurement of external legal services.
- Considerable cost saving by taking over the majority of the legal services which were previously outsourced to external service providers.
- Continuously monitoring the regulatory environment.
- Initiating and conducting the Fund's readiness assessment to comply with the Protection of Personal Information Act (POPI).
- Vetted approximately 90 contracts to ensure that the EPPF's interests are protected at all times.
- Leading the amendment of the Fund Rules which have been submitted to the Registrar of Pension Funds for approval and registration.
- Successfully managing member, former member and beneficiary complaints.

Corporate secretarial services resulted in successful Board, Board Sub-committee and Management committee meetings throughout the year, facilitating a total of 89 meetings excluding ad hoc meetings.

The facilities team provided immense support to the organisation and achieved a clean Health and Safety Audit. The team has also led the EPPF's refurbishment project which is aimed to be completed in the next financial year.

Risk and Compliance

Risk and Compliance continued to 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.

As an important part of its overall risk and compliance monitoring mandate, Risk and Compliance monitored asset managers' compliance against their signed mandates. Monitoring of the Fund's exposure to foreign investments as per Regulation 28 of the Pension Funds Act continues and was flagged when the EPPF exceeded its limit due to market movement and the depreciation of the Rand.

Risk and Compliance participated in the due diligence exercises for the appointment of new asset managers as well as the annual due diligence review of the existing asset managers.

In an effort to be proactive, training sessions were conducted on regulatory and business continuity issues. Risk register and policy reviews also took place in order to mitigate the Fund's risks and vulnerabilities.

Trustee elections were led by the Risk and Compliance Manager where the electronic nomination and voting was introduced for the first time. As a result, the Fund saw a remarkable increase participation and engagement levels of members.

The Risk and Compliance Manager continued to represent the Fund in various governance structures.

Information Technology

Operational efficiency was at the core of the IT strategy for the year. IT embarked on a project to move certain functions from the administration system provider in-house where user maintenance is performed by the IT Department.

When the risk budgeting framework was put in place, the IT Department was instrumental in setting up the technology components in order to enable the streamlining of processes.

A vendor management framework was put in place to govern the relationship between the Fund and its IT service providers as the robust management of service providers is key to the effectiveness of the IT function.

The IT Department continued to manage the internal environment in terms of hardware, backup of data, providing a helpdesk service to the organisation and supporting business continuity management from a technology perspective.

The IT Manager retired in December 2015 and the Fund is looking to fill the position into the role. With the exception of the IT Manager vacancy, the department has been operating at full capacity from a human capital perspective. IT staff were given systems and management skills training at various points throughout the year.

Strategy and projects

The Project Management Office (PMO) ensured ongoing alignment to the EPPF's strategy with the goal of standardising project management policies, processes and methods. The process took into account the common challenges of people, processes and tools which are common across various organisations.

PMO also implemented the Project Portfolio Office (PPO), a cloud-based application which enables collaboration within the PMO team as well as standardised reporting on project activities. PPO's project governance functionality ensures that the project life cycle is aligned with supporting templates and required approvals before commencing to the next phase of any project.

PMO completed 15 projects for the year with an additional five projects pending and five projects that have not yet started.

CHIEF EXECUTIVE'S REPORT CONTINUED

Fund restructuring

There has been minimal progress on the matter of restructuring the Fund by introducing a defined contribution scheme. The Board did, however, review the Commutation Factors and Money Purchases Conversion Factors and is in the process of reviewing the contribution shortfall.

CONCLUSION

It has been a difficult year, but I believe that the Fund has implemented a successful strategy which has ensured that the key objectives have been met. In the year ahead, we will continue to be diligent in the conversion of business process inputs into true and meaningful value for our stakeholders.

I would like to thank our Board of Fund for the guidance that they have given me over the past year and over their term of office. As we welcome a new Board, I would like to extend a sincere and special message of gratitude to outgoing Trustees without whom none of our successes would have been possible. I would like to wish them well in their future endeavours and hope that they will extend the same level of commitment and professionalism that they extended to the EPPF over their term of office. To our newly elected and re-elected Trustees, I look forward to working with you and making a positive impact on the organisation.

I would also like to thank the executive team for their unwavering support, hard work and commitment. I would like to thank each EPPF staff member for their contribution and dedication to making this financial year a success.

Sibusiso Luthuli CA(SA)
Chief Executive and Principal Officer
5 December 2016

ACTIVE OWNERSHIP APPROACH
EXECUTIVE SUMMARY

The Fund recognises its fiduciary obligation to act as an *active and responsible owner* to safeguard and grow the Fund's assets in order to deliver sustainable long-term performance to its beneficiaries. The EPPF recognises that environmental, social, and governance (ESG) issues have a material effect on the long-term performance and sustainability of returns generated by the companies they are invested in. Active ownership is a means of managing this risk and safeguarding the Fund's investments.

Our responsible ownership approach

The Fund embraces an all-inclusive approach to responsible investing across its investments as opposed to a section of the portfolio. Responsible Investing to EPPF means, investing in a manner that takes into account the impact of its investments on wider society, and the natural environment today and into the future. It means integrating environmental, social and governance factors (ESG) into how its investments are managed.

Consistent to this responsible ownership strategy, in 2009/10 the Fund adopted revised Proxy Voting Policy and Guidelines to guide the discharge of its ownership obligations. InkunziESG, a specialist responsible ownership consultant, was appointed to assist the Fund in actively implementing and managing its proxy voting and engagement activities at the beginning of 2012, the Fund advanced its active ownership focus by adopting an Engagement Policy and a Focus Engagement Programme for 2012. The engagement policy and programme completes the Fund's responsible investing approach in line with the UNPRI, to which the Fund became a signatory in 2010.

Proxy Voting and corporate engagement are the two legs of responsible ownership. This Annual Responsible Ownership Disclosure is a record of the Fund's active ownership activities for the financial year ended June 2016. The report, in conjunction with the quarterly Proxy Voting Reports and disclosures (Q1, Q2, Q3, Q4), are made in line with CRISA principle 5, which states: *"Institutional investors should be transparent about the content of their policies, how the policies are implemented and how CRISA is applied to enable stakeholders to make informed assessments."* and resonates with UNPRI principle 6: *"We will each report on our activities and progress towards implementing the principles."*

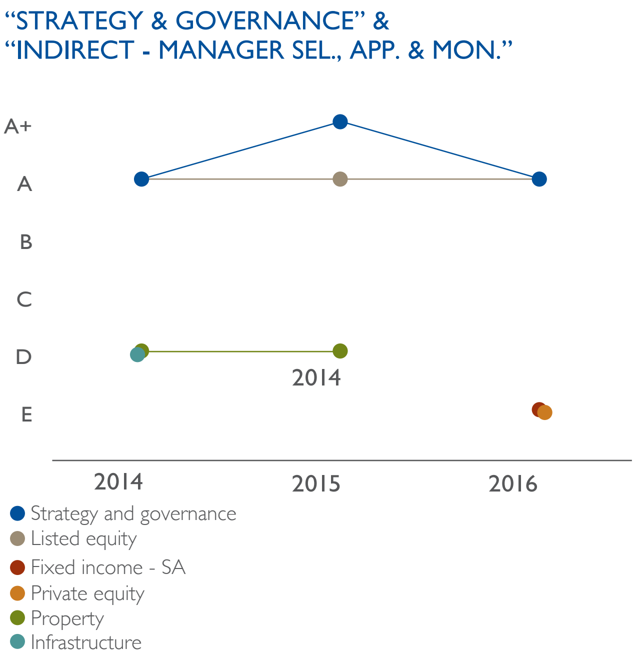
Policies, principles and processes

The Fund is a signatory to the UNPRI principles, which provide a framework for implementing its activities and processes. In line with Regulation 28, the overarching responsible investing goal is embedded in the Fund's Investment Policy Statement. The detailed EPPF Proxy Voting Policy and Guidelines, along with the Engagement Policy set out the guidelines on the Fund's activities. Each year, the Fund adopts a focused engagement programme as a means of evaluating and benchmarking the impact and effect of its responsible investing efforts. The Engagement Programme: 2015/2016 outlines the goals, activities, and objectives for the year under review.

UNPRI assessment

The UNPRI is used to benchmark and evaluate the Fund's responsible ownership programme against global institutional investors. The six guiding principles provide a framework for the Fund to measure its responsible investing policies, programmes and implementation against international peers. In 2016, the Fund participated in the UNPRI Assessment. The Fund continued to receive positive reviews from the assessment indicating the robustness of our responsible investing implementation.

ACTIVE OWNERSHIP APPROACH CONTINUED
EXECUTIVE SUMMARY



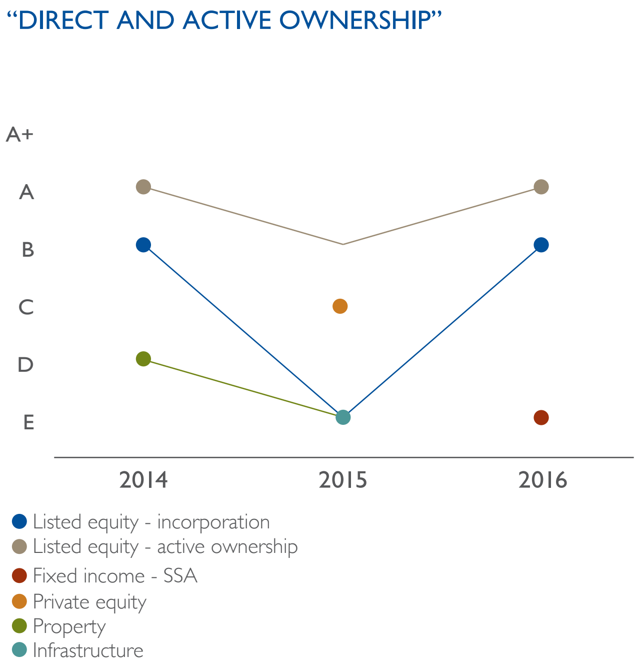


Fig: 2016 UNPRI Assessment Scorecard.

As shown above, EPPF continued to perform exceptionally well, scoring an aggregate A. This demonstrates the thoroughness of the Fund's responsible investing approach and implementation. In the core pillars of *active ownership*, the Fund scored an A in *engagement* and an A+ in proxy voting. This is a marked improvement from the last assessment and confirms the Fund's continued and improved approach to proxy voting and corporate engagement. Yearly, the Fund reviews its proxy voting guidelines and corporate engagement programme in line with prevailing ESG challenges and demands in its investments.

PROXY VOTING

EXECUTIVE SUMMARY

Quarterly highlights

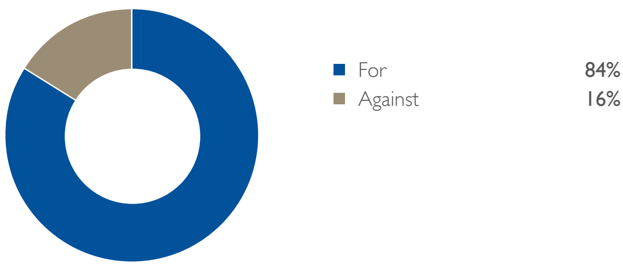
This section outlines the Fund's proxy voting activities for the financial year ended 30 June 2016.

The Fund believes that active proxy voting is an essential part of our fiduciary and responsible ownership duty. Voting at companies' shareholder meetings is one of the key means by which the Fund exerts influence on companies it is invested in and exercises its fiduciary responsibilities. The Funds' proxy voting activities were guided by the *EPPF Proxy Voting Policy and Guidelines 2015/2016*

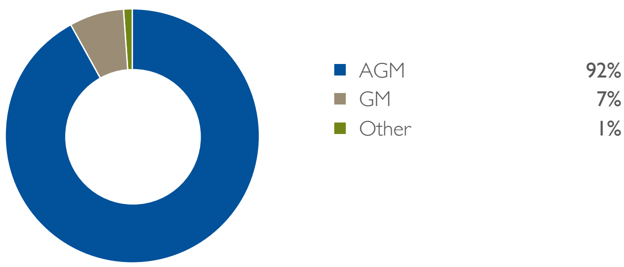
In keeping with the Fund's commitment to disclose its responsible investing activities, this report provides a detailed review and analysis of the Fund's activities in line with its Proxy Voting Policy and Guideline.

The fund voted on 2 901 resolutions for the year under review.

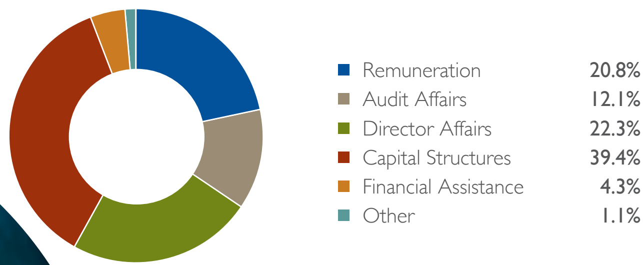
FUND VOTED ON ALL RESOLUTIONS



TYPE OF MEETINGS VOTED ON

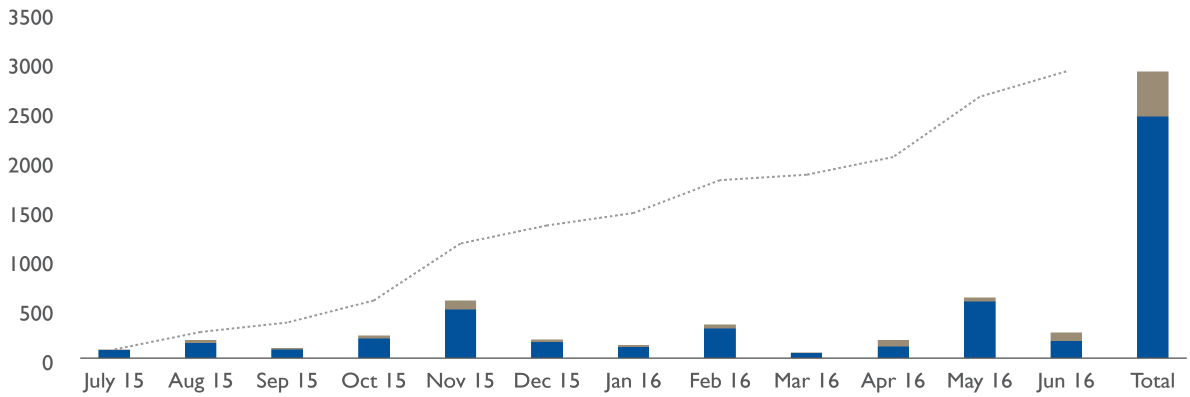


BREAKDOWN OF THE AGAINST VOTE



PROXY VOTING CONTINUED

THE FUND'S VOTING ACTIVITY ACROSS THE QUARTER



	July 15	Aug 15	Sep 15	Oct 15	Nov 15	Dec 15	Jan 16	Feb 16	Mar 16	Apr 16	May 16	Jun 16	Total
For	78	149	84	193	488	156	108	295	45	111	568	167	2 442
Against	5	29	11	31	89	27	18	38	10	68	43	90	459
Cumulative votes	83	261	356	580	1157	1340	1466	1799	1854	2033	2644	2901	

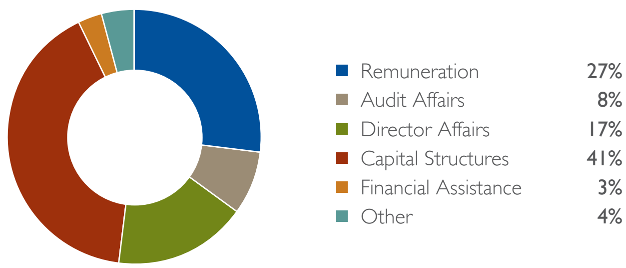
It opposed 16% of the resolutions and supported management in 84% of the instances.

Against vote

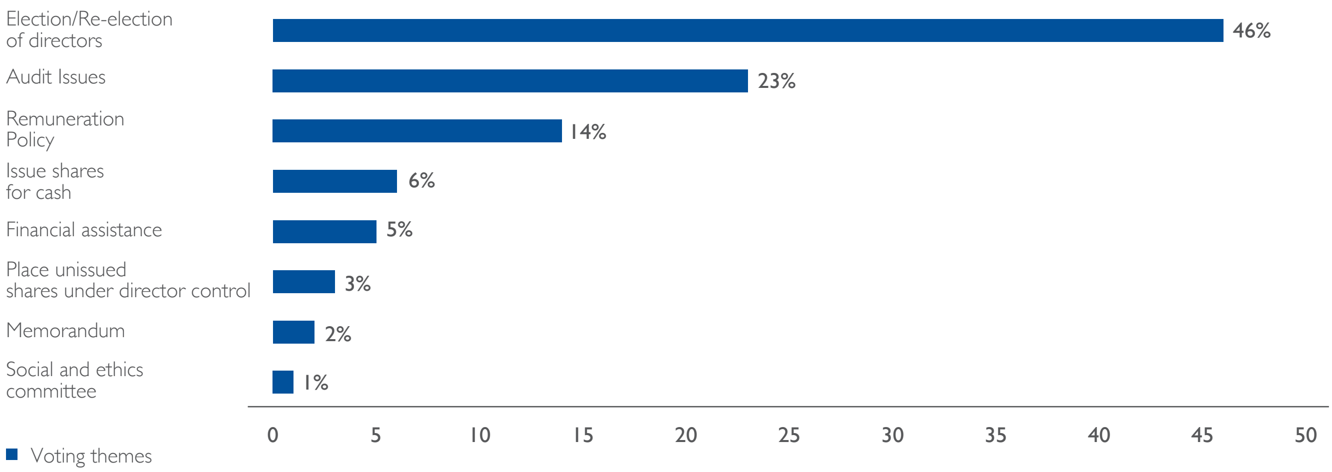
The Fund opposed resolutions on remuneration, audit affairs, director affairs, capital structure and financial assistance. Remuneration continued to be an active voting item with the Fund opposing excessive pay structures and remuneration policies that are not aligned to company performance.

Director-related resolutions dominated the voting period with 46% of the voting roll. Remuneration continued to feature highly on the agenda with 14% of the vote.

RESOLUTIONS THAT THE EPPF OPPOSED (%)



VOTING THEMES (%)



THE FUND BELIEVES THAT ACTIVE PROXY VOTING IS AN ESSENTIAL PART OF OUR **fiduciary and responsible ownership duty.**

THE FUND VOTED ON 2 901 RESOLUTIONS FOR THE YEAR UNDER REVIEW

VOTING AT COMPANIES' SHAREHOLDER MEETINGS IS ONE OF THE KEY MEANS BY WHICH THE FUND EXERTS **influence on companies it is invested in and exercises its fiduciary responsibilities.**

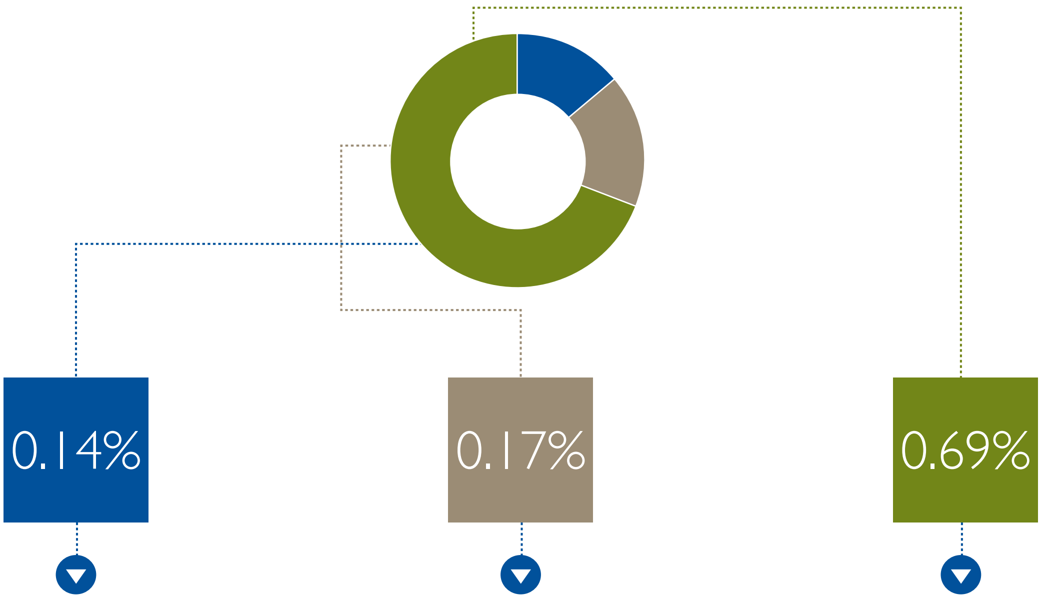
ENGAGEMENT

ENGAGEMENT SUMMARY AND HIGHLIGHTS

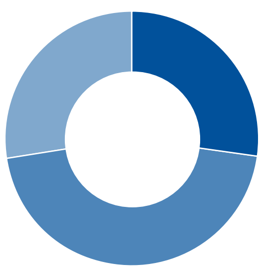
Annually the Fund reviews its engagement programme and engagement focus areas. Executive remuneration, ESG risks in construction and mining sectors, and broad corporate governance weaknesses were the focus engagement areas for the year. The Fund participated in the following engagements in the year under review.

24 companies were engaged on a variety of ESG issues. Corporate governance issues relating to remuneration, board structure and independence constituted most of the engagement (**69%**). **17%** of the issues raised were of a social nature while environmental issues made up with **14%.**

ESG ISSUES ENGAGED (%)

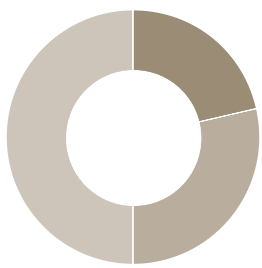


ENVIROMENTAL AFFAIRS (%)



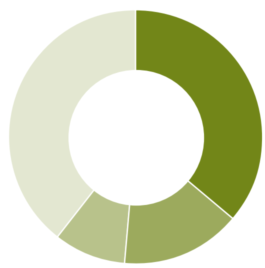
Risk Management	0.27%
Disclosure	0.45%
Sustainability	0.27%

SOCIAL ISSUES (%)



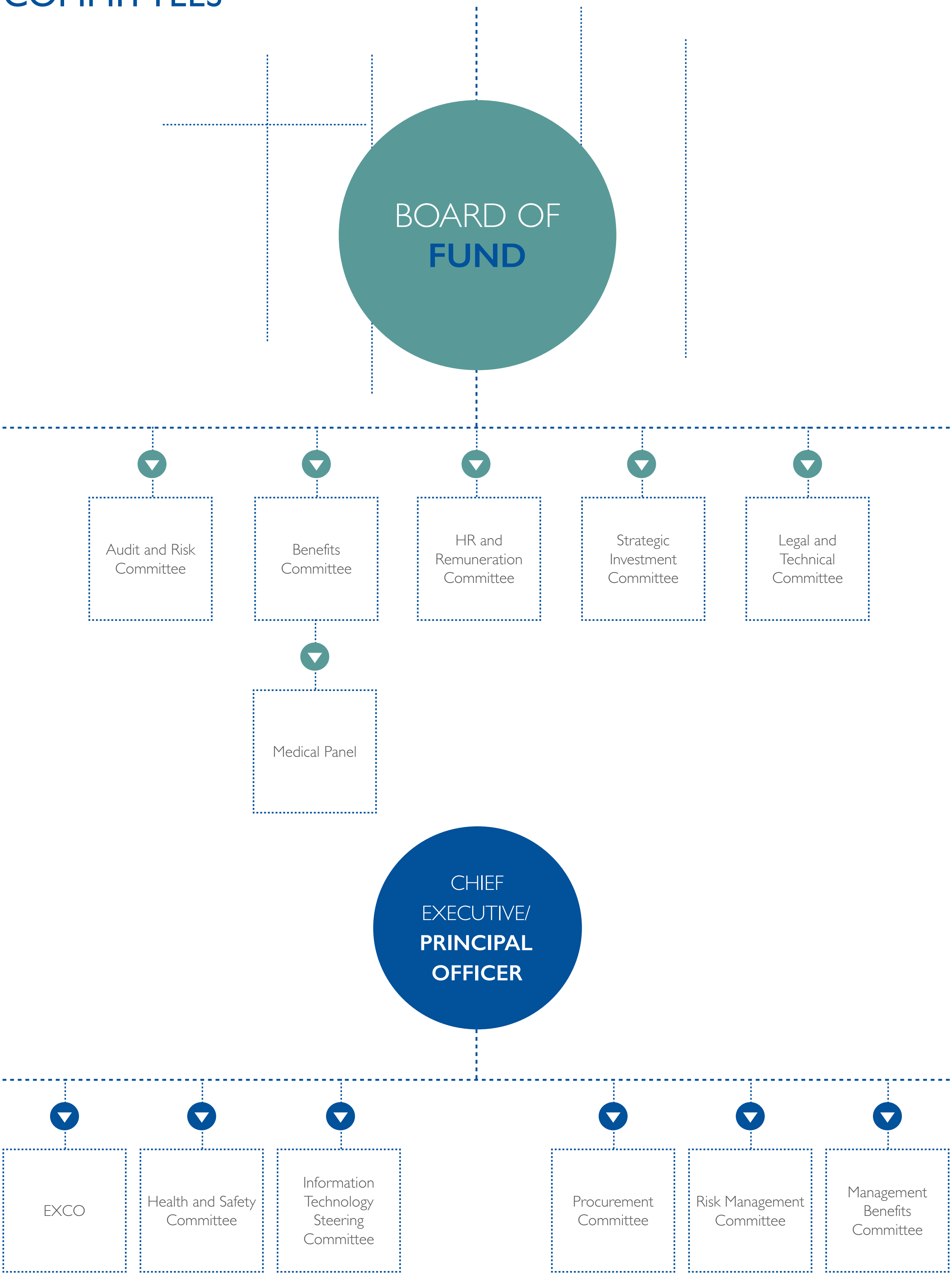
BBBEE	0.21%
Safety	0.29%
Sustainability	0.50%

GOVERNANCE ISSUES (%)



Board Affairs	0.36%
Stakeholder Issues	0.15%
Shareholder Affairs	0.09%
Remuneration	0.39%

BOARD OF FUND, BOARD AND MANAGEMENT COMMITTEES



BOARD OF FUND

EMPLOYER APPOINTED TRUSTEES

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1 MS MANTUKA MAISELA

Employer appointed
Appointed June 2016
Board of Trustees (Member)
Human Resources and Remuneration Committee (Chairperson)
Legal and Technical Committee (Member)

Qualifications

Masters of Management
Post Graduate Diplomja in Management
Leadership Development Programme (Chairperson)
Production Management

2 MS DAWN JACKSON

Employer appointed
Appointed June 2016
Board of Trustees (Member)
Legal and Technical Committee (Chairperson)
Audit and Risk Committee (Member)

Qualifications

Teacher's Diploma
Bachelor of Arts
Bachelor of Laws (LLB)

3 MR MANDLA MALEKA

Employer appointed
Appointed June 2016
Board of Trustees (Member)
Audit and Risk Committee (Chairperson)
Strategic Investments Committee (Member)

Qualifications

Bachelor of Economics (Hons),
Master of Economics
Executive Development Programme (EDP)

4 MS MAYA BHANA, CA (SA)

Employer appointed
Appointed June 2016
Board of Trustees (Member)
Strategic Investment Committee (Member)
Audit and Risk Committee (Member)

Qualifications

Master of Commerce (M.Com)
Chartered Accountant (SA)

5 MS SIBULELE MVANA

Employer appointed
Appointed June 2016
Board of Trustees (Member)
Benefits Committee (Member)
Human Resources and Remuneration Committee (Member)

Qualifications

Bachelor of Science in Electrical Engineering
Management Development Programme (MDP)

6 MS JACQUI KILANI, CA (SA)

Employer appointed
Re-appointed June 2016. Resigned July 2016
Board of Trustees (Member)
Audit and Risk Committee (Member)
Human Resources and Remuneration Committee (Member)

Qualifications

Bachelor of Laws
Bachelor of Commerce
Post Graduate Diploma in Accounting
Chartered Accountant (SA)

MEMBER ELECTED TRUSTEES

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7 MR ALLEN JOHN MORGAN

Pensioner elected
Elected June 2016
Board of Trustees (Member)
Strategic Investment Committee (Chairperson)
Audit and Risk Committee (Member)

Qualifications

BSc. B. ENG
Electrical Engineer's Certificate of Competency
Management Development Programme
Executive Development Programme

8 MR IVAN SMITH

Member elected – Solidarity
Re-elected trustee
Re-elected June 2016
Board of Trustees (Member)
Benefits Committee (Chairperson)
Human Resources and Remuneration Committee (Member)

Qualifications

Management Development Programme

9 MS THEMBEKA FLAVIONA MADLALA

Member elected
Re-elected trustee
Re-elected June 2016
Board of Trustees (Member)
Audit and Risk Committee (Member)
Human Resources and Remuneration Committee (Member)

Qualifications

Electrical Engineering
Project Management
Quality Management
Internal Audit Technician
Middle Management Programme
Master of Business Administration (MBA)

10 MR BEN STEYN

Pensioner elected
Elected June 2016
Board of Trustees (Member)
Benefits Committee (Member)
Legal and Technical Committee (Member)

Qualifications

Bachelor of Admin (Honours) – Industrial Psychology
Master of Business Administration (MBA)
Accounting, Income Tax and Auditing – FPI Diploma
Advanced Certificate in Leadership
Certificate in Futures and Options
Certificate in Financial Derivatives

11 MS HELEN DIATILE

Member elected – NUM
Elected June 2016
Board of Trustees (Member)
Strategic Investment Committee (Member)
Human Resources and Remuneration Committee (Member)

Qualifications

Certificate of Management Mancosa
Master of Business Administration (MBA)
Project Management

12 MS PAULINA NDLELA

Member elected – NUMSA
Elected June 2016
Board of Trustees (Member)
Benefits Committee (Member)
Legal and Technical Committee (Member)

Qualifications

N3/N4 Business Studies
N5 Secretarial (Commerce)
N6 Computer Practice
NC (OR)
Ms Excel XP Level 1 - 3

13 MR KHEHLA SHANDU

Member elected
Elected June 2016
Board of Trustees (Member)
Benefits Committee (Member)
Audit and Risk Committee (Member)

Qualifications

Bachelor of Technology in Electrical Engineering (BTech.)
Master of Business Administration (MBA)
Certificate: Registered Persons Examinations – Equity Markets

Further information www.eppf.co.za

CORPORATE GOVERNANCE

"The real mechanism for corporate governance is the active involvement of the owners." Louis Gerstner

CORPORATE PRACTICE AND CONDUCT

The Board of Trustees (BOT)

The Board is comprised of 14 Trustees, constituted as follows:

- A non-executive Chairman appointed by Eskom subject to the approval of the Board.
- Six Trustees appointed by Eskom, one of whom shall be deemed by Eskom to be an expert.
- Two Pensioner Trustees elected by pensioners.
- Five Member Trustees elected by members, of whom at least two Trustees shall be non-bargaining unit members, with the other three Trustees being elected from the labour organisations recognised by Eskom to be representing employees.

The Board is represented by individuals with diverse backgrounds, skills and experience, each of whom adds value and brings independent judgement to bear on the Board's deliberations and decision-making processes, all in the best interest of the Fund's membership and stakeholders.

Term of office

The term of office for the Board is four years. In the year under review, the Fund held a successful election process to elect/appoint new Trustees. The term of the new Trustees began on 1 June 2016 and will subsist until 31 May 2020.

Board of Trustees duties and responsibilities

Each individual Trustee and the Board as a collective owe a fiduciary duty to the Fund to act in good faith, with due diligence and care, to avoid conflicts of interests and act with impartiality in respect of all its members and pensioners, being ultimately accountable and responsible for the performance and affairs of the Fund. The Board is responsible for directing, controlling and overseeing the operations of the Fund in accordance with all laws applicable to the Fund, and in accordance with the Rules of the Fund. It further provides strategic guidance, direction and leadership, ensuring good corporate governance and ethics, determining policy, agreeing on performance criteria and delegating the detailed planning and implementation of policy and decisions to management.

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

Board of Trustees proceedings

The Board convenes at least once a quarter and monitors management's compliance with policy and its achievements against predetermined objectives. Additional/special meetings may also be called when there are pressing matters to be dealt with in between scheduled meetings.

During the year under review, seven Board meetings were held, three of which were special meetings.

The Board operates within the framework of a structured and approved Governance Framework which contains clear delegations, the Board Charter, the Charters of the various Board Committees and Management Committee Charters. The Chairman of the Board presides over the meetings of the Board, guides and monitors the input and contribution of the Trustees. Trustees also have unrestricted access to Fund information.

Board of Trustees and Committee evaluations

Evaluations of the Board and its committees are done on a biannual basis. During the year under review, the Board commissioned an independent evaluation conducted by a reputable audit firm, which revealed that the Board has healthy governance principles, but there is room for improvement. The recommendations have been noted and will be attended to. Evaluation of the committees will be conducted in the ensuing year.

The Chief Executive is appraised by the Chairman in consultation with the Chairperson of the Human Resources and Remuneration Committee and the Board, whilst the Board assesses the performance of the Chairman.

Board of Trustees and Committee members' fees and membership

Trustees and Committee members are compensated for their contribution to the Board and the committees in which they serve. The fee structure is reviewed on an annual basis in terms of the Board and Committee Member Remuneration Policy. Membership to committees is revised as and when the need arises. Appointment of experts to certain committees (Strategic Investment Committee, Medical Panel, etc.) is also reviewed on an annual basis.

Board of Trustees and Committee member training and induction

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

Trustees and Committee members had attended a number of training sessions, conferences and seminars during the year under review. A compulsory induction session was also held to induct new Trustees at the beginning of the term.

Board committees

The Board has established committees that are responsive to the nature of the Fund's business, and assist to advance the Fund's business efficiently. Authority to the Committees has been delegated and their terms of reference, lifespan, role and functions have been outlined in the Governance Framework.

The duties and responsibilities of the members of the committees are in addition to those duties and responsibilities that they have as Trustees.

Deliberations of the committees do not reduce the individual and collective responsibilities of the Trustees with regard to their fiduciary duties and responsibilities, and they continue to exercise due care and judgement in accordance with their legal obligations.

The Board has established five well-structured committees to assist with the management of its functions.

Each committee operates within the ambit of its defined terms of reference and delegated authority as approved by the Board.

The following committees have therefore been established to focus on a specific area(s) of the Fund's activities:

- Audit and Risk Committee
- Benefits Committee
- Human Resources and Remuneration Committee
- Legal and Technical Committee
- Strategic Investment Committee
- Medical Panel

Audit and Risk Committee (ARC)

The Audit and Risk Committee consists of six Trustees which includes the Chairperson. Five Audit and Risk Committee meetings had been held during the 2015/2016 financial year. Meetings are normally attended by the internal and external auditors, the Chief Executive, Chief Financial Officer, Chief Investment Officer, Legal and Corporate Secretariat Manager and the Risk and Compliance Manager. Other members of staff attend by invitation.

External and internal auditors have unrestricted access to the Chairperson of this 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 to avert risks, review of financial information and the preparation of annual financial statements. It reviews the activities of Internal Audit, the function of which had 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 the External and Internal Audit.

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

Benefits Committee (BC)

The Benefits Committee consists of six Trustees inclusive of the Chairperson.

Six Benefits Committee meetings had been held during the 2015/2016 financial year. Meetings are normally attended by the Chief Executive, Retirement Fund Operations Manager, Legal and Corporate Secretariat Manager, Legal Advisor and the Customer Services Manager as well as other members of staff who are invited to attend meetings from time to time. The Committee is further supported by the Medical Panel.

The Benefits Committee is delegated with the authority to oversee and direct the retirement fund operations on behalf of the Board. It also considers and approves benefit payments as per the approved terms of reference of the Committee.

Human Resources and Remuneration Committee (HRRC)

The Human Resources and Remuneration Committee consists of five Trustees and one external expert, including the Chairperson, with the Chief Executive and Human Resources Manager in attendance.

Five Human Resources and Remuneration Committee meetings had been held during the period under review.

The Human Resources and Remuneration Committee is delegated with the authority to, *inter alia*:

- review and recommend to the Board, all Human Resource policies and strategies;
- determine executive management remuneration and the remuneration policy framework and makes recommendations to the Board in this regard; and
- ensure the executive management remuneration policy and practices are in accordance with best corporate practices.

Legal and Technical Committee (LTC)

The Legal and Technical Committee consists of five Trustees, inclusive of the Chairperson. The meetings are normally attended by the Chief Executive, the Chief Financial Officer, the Chief Investment Officer, the Legal and Corporate Secretariat Manager and the Risk and Compliance Manager.

CORPORATE GOVERNANCE CONTINUED

Three Legal and Technical Committee meetings had been held during the 2015/2016 financial year. The Legal and Technical Committee is responsible for exercising the oversight role over the legal affairs of the Fund in accordance with the Fund Rules and statutory requirements.

Strategic Investment Committee (SIC)

The Strategic Investment Committee consists of five Trustees and five external experts which also includes the Chairman. Meetings are normally attended by the Chief Executive, Chief Financial Officer, Chief Investment Officer, Investment Multi-Manager, Risk and Compliance Manager and the Legal and Corporate Secretariat Manager.

Four Strategic Investment Committee meetings had been held during the 2015/2016 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, Investment Policy Statement and the relevant statutory requirements e.g. Regulation 28 of the Pension Funds Act, No 24 of 1956.

Medical Panel (MP)

The Medical Panel comprises three independent medical practitioners, one Eskom Medical Advisor, who also has an alternate, as well as other members of staff who are invited to attend meetings from time to time.

The monthly Medical Panel meetings are chaired by one of the independent medical practitioners.

Eleven meetings of the Medical Panel were held during the 2016 financial year. The role of the Medical Panel is to, in accordance with the provisions stipulated in Rule 25(4) of the Fund Rules and all amendments thereto, assess the health condition of members of the Fund applying for ill-health retirement benefits and to make recommendations to the Benefits Committee and Board of Trustees on the medical status of these members.

EXECUTIVE MANAGEMENT

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1 **MR SIBUSISO LUTHULI CA(SA)**
Chief Executive and Principal Officer
Bachelor of Commerce in Accounting
Postgraduate Diploma in Accounting
Chartered Accountant (SA)
He joined the Fund in April 2010.

2 **MS NOPASIKA LILA CA(SA)**
Chief Financial Officer
Chartered Accountant (SA)
Postgraduate Certificate in Corporate Governance
Higher Certificate in Financial Markets and Instruments
Management Development Programme
Leadership Programme
She joined the Fund in December 2010.

3 **MR NDABEZINHLE MKHIZE, CAIA, CFA**
Acting Chief Investment Officer
Bachelor of Science in Actuarial Science
Chartered Financial Analyst (CFA)
Chartered Alternative Investment Analyst (CAIA)
He joined the Fund in May 2014

4 **MR KISHORE JOEY SANKAR**
Retirement Fund Operations Manager
Bachelor of Commerce in Management
Master of Information Technology
Prince 2 and Information Technology Infrastructure Library (ITIL) Practitioner
He joined the Fund in July 2014.

5 **MS SINIKIWE DUBE**
Human Resources Manager
Bachelor of Arts in Law and Industrial Sociology
Bachelor of Arts (Honours) in Industrial Sociology
She joined the Fund in August 2009.

6 **MR AYANDA GAQA CFP® CFE**
Risk and Compliance Manager
Bachelor of Technology in Internal Auditing
Postgraduate Diploma in Financial Planning
Certified Financial Planner®
Compliance Practitioner
Certified Fraud Examiner
He joined the Fund in July 2007.

7 **MS MASEAPO KGANEDI**
Legal and Corporate Secretariat Manager
Baccalaureus Procurationis Degree (BProc)

Diploma, Legislative Drafting
Master of Laws (LLM) in Corporate Law
Certificate in Corporate Governance
She joined the Fund in May 2015.

8 **MS MAHLATSE RAMORITING**
Acting IT Manager
National Diploma Information Technology
Bachelor of Commerce (Honours) – Business Informatics
Prince II Practitioner
She joined the Fund in September 2014.

Further information www.eppf.co.za

MANAGEMENT COMMITTEES

The following management committees have been established:

- Executive Committee
- Health and Safety Committee
- Information Technology Steering Committee
- Medical Panel
- Procurement Committee
- Risk and Compliance Management Committee
- Management Benefits Committee

Executive Management Committee (Exco)

The Exco comprises the Chief Executive, Chief Financial Officer, Chief Investment Officer, Retirement Fund Operations Manager, Legal and Corporate Secretariat Manager, Information Technology Manager, Risk and Compliance Manager and the Human Resources Manager. The Committee is chaired by the Chief Executive and meetings are held on a monthly basis with *ad hoc* meetings held as when it is 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.

A total of ten Exco meetings, excluding *ad hoc* and special meetings, were held in the 2015/2016 financial year. Exco is authorised to form management sub-committees and in particular administration committees, to assist with the execution of its duties. In exercising the powers and authorities delegated to it, Exco shall act in accordance with, and subject to, the directives and requirements as may be laid down from time to time by the Board of Trustees.

Health and Safety Committee (HAS)

The Health and Safety Committee consists of the, Facilities Manager, Principal Clerk: Corporate Services, Facilities Coordinator, and representatives from Human Resources, Risk and Compliance, Investment Administration and Retirement Fund Operations.

The Committee is chaired by the Facilities Manager and convenes on a quarterly basis.

Four Health and Safety Committee meetings were held in the 2015/2016 financial year. The purpose of the Committee is to initiate, promote, maintain and review measures of ensuring the health and safety of all employees of the Fund.

Information Technology Steering Committee (ITSC)

The IT Steering Committee consists of the Chief Financial Officer, Chief Investment Officer, Retirement Fund Operations Manager, Risk and Compliance Manager, Information Technology Manager and an Outside Expert Member with other members of staff attending by invitation.

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

Six IT Steering Committee meetings were held in the 2015/2016 financial year. 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.

Procurement Committee (PC)

The Procurement Committee comprises the Chief Financial Officer, Legal and Corporate Secretariat Manager, IT Manager, Risk and Compliance Manager and the Retirement Fund Operations Manager.

It is chaired by the Chief Financial Officer with committee meetings being held on a monthly basis.

Ten meetings of the Procurement Committee were held during the 2015/2016 financial year. 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.

Risk and Compliance Management Committee (RMC)

The Risk Management Committee comprises the Chief Executive, Chief Financial Officer, Chief Investment Officer, Risk and Compliance Manager, Legal and Corporate Secretariat Manager, Retirement Fund Operations Manager, Information Technology Manager, and one Internal Audit member. It is chaired by the Fund's Chief Executive with committee meetings held on a monthly basis.

Six meetings of the Risk Management Committee were held during the 2015/2016 financial year. The Committee is responsible for ensuring that an effective and integrated risk management process is functional and maintained for the Fund.

Management Benefits Committee (MBC)

The Management Benefits Committee comprises the Chief Executive, Legal Advisor, Retirement Fund Operations Manager, Benefits Processing Manager and Risk and Compliance Manager as well as other members of staff who attend meetings by invitation.

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

Twelve meetings of the Management Benefits Committee were held during the 2015/2016 financial year. The Committee is responsible for approving advances on installment lump sums registered with the Fund on behalf of the Benefits Committee and the Board of Trustees.

ANNUAL FINANCIAL STATEMENTS

The annual financial statements of the Eskom Pension and Provident Fund ("the Fund") are the responsibility of the Board of Trustees. The Board of Trustees fulfils this responsibility by ensuring that 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 43 to 55 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. The summarised financial statements set out on pages 43 to 55 have been prepared in accordance with the principal accounting policies set out on page 45 to 50.

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 or not the summarised financial statements were derived from the regulatory financial statements. 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 represented on page 56.

These financial statements:

- were approved by the Board of Trustees on 5 December 2016;
- are certified by them to the best of their knowledge and belief to be correct;
- fairly represent the net assets of the Fund at 30 June 2016 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 acting Chairperson and two trustees.

STATISTICAL OVERVIEW

AS AT 30 JUNE 2016

INVESTMENT PERFORMANCE

Description	1 year %	2 years %	3 years %	5 years %	10 years %
Interest-bearing	8.3	7.2	8.3	8.9	9.0
Equity	10.3	8.6	16.3	16.4	13.4
Property	12.7	20.7	16.0	20.7	18.0
Total assets	**9.8**	**8.8**	**13.9**	**14.6**	**12.8**

NET ASSETS (RM)

Description	2016	%	2015	%	2014	%	2013	%	2012	%
Interest-bearing	**35 752**	**27.51**	37 275	31.3	31 946	29	27 712	31	30 353	40
Equity	**94 175**	**72.46**	82 249	69.1	80 128	72	62 746	69	47 100	61
Property	**115.0**	**0.9**	286	0.2	259.0	–	655.0	1.0	318.0	–
Other	**(78)**	**(0.6)**	(729)	(0.6)	(528)	(1)	(871)	(1)	(834)	(1)
Net assets	**129 964**	**100**	**119 081**	**100**	**111 805**	**100**	**90 242**	**100**	**76 937**	**100**
Contributions received (Rm)	**3 416**		2.99		3 024		2.74		2 276	
Benefits awarded (Rm)	**3 998**		4 059		3 091		2.62		2 189	
Members (number)	**46 941**		46 462		45 377		45 715		44 258	
Pensioner (number)	**33 350**		33 328		35 491		34 823		34 771	
Ratio of members to pensioners	**1.40**		1.39		1.28		1.31		1.27	

STATEMENT OF NET ASSETS AND FUNDS

AT 30 JUNE 2016

	Notes	2016 R'000	2015 R'000
ASSETS			
Non-current assets		**129 958 018**	119 813 128
Plant and equipment	1	**8 362**	3 492
Investments	2	**129 949 656**	119 809 636
Current assets		**2 033 946**	1 860 407
Accounts receivable		**1 481 602**	1 614 254
Contributions receivable	3	**537 517**	239 650
Cash at bank		**14 827**	6 503
Total assets		**131 991 964**	121 673 535
FUNDS AND LIABILITIES			
Funds and surplus account			
Accumulated funds		**95 935 712**	87 512 375
– Normal retirement		**90 873 847**	82 879 495
– Additional voluntary contribution scheme		**520 577**	452 513
– Performance bonus scheme		**4 541 288**	4 180 367
Reserves			
Reserve accounts		**33 543 000**	31 569 000
Total funds and reserves		**129 478 712**	119 081 375
Non-current liabilities			
Unclaimed benefits		**134 566**	135 198
Current liabilities		**2 378 686**	2 456 962
Benefits payable		**991 691**	864 826
Transfers payable		**883**	17 239
Accounts payable		**1 347 014**	1 541 898
Accruals		**39 098**	32 999
Total funds and liabilities		**131 991 964**	121 673 535

STATEMENT OF CHANGES IN NET ASSETS AND FUNDS

FOR THE YEAR ENDED 30 JUNE 2016

	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 2016 R'000	Total 2015 R'000
Contributions received and accrued	3	3 015 620	26 458	374 741	3 416 819	–	**3 416 819**	2 989 554
Net investment income	4	11 488 093	–	–	11 488 093	–	**11 488 093**	8 451 667
Allocated to unclaimed benefits		(17 125)	–	–	(17 125)	–	**(17 125)**	–
Other income	5	25 078	–	–	25 078	–	**25 078**	26 492
Less: Administration expenses		(174 829)	–	–	(174 829)	–	**(174 829)**	(180 770)
Net income before transfers and benefits		14 336 837	26 458	374 741	14 738 036	–	**14 738 036**	11 286 943
Transfers and benefits		(4 007 759)	(29 472)	(322 835)	(4 360 066)	–	**(4 360 066)**	(4 058 687)
Transfers from other funds		–	12 656	–	12 656	–	**12 656**	5 433
Transfers to other funds		(315 912)	–	–	(315 912)	–	**(315 912)**	(202 480)
Benefits	6	(3 691 847)	(42 128)	(322 835)	(4 056 810)	–	**(4 056 810)**	(3 861 640)
Net income after transfers and benefits		10 329 078	(3 014)	51 906	10 377 970	–	**10 377 970**	7 228 256
Funds and reserves								
Balance at the beginning of the year		82 879 495	452 513	4 180 367	87 512 375	31 569 000	**119 081 375**	111 805 257
Transfer between accumulated funds		279 866	5 135	(285 001)	–	–	**–**	–
Unclaimed benefit adjustments		–	–	–	–	–	**–**	8 266
Prior period adjustments		19 367	–	–	19 367	–	**19 367**	39 596
Transfer between reserve accounts		(1 974 000)	–	–	(1 974 000)	1 974 000	**–**	–
Investment return allocated								
Current members		(659 959)	65 943	594 016	–	–	**–**	–
Balance at the end of the year		90 873 847	520 577	4 541 288	95 935 712	33 543 000	**129 478 712**	119 081 375

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2016

PRINCIPAL ACCOUNTING POLICIES

The following are the principal accounting policies used by the Fund. These policies have been applied consistently to all years presented, unless otherwise specifically stated.

PURPOSE AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The annual financial statements are prepared in accordance with the Regulatory Reporting Requirements for Retirement Funds in South Africa, the rules of the Fund and the provisions of the Pension Funds Act.

The annual financial statements are prepared on the historical cost and going-concern basis, except where specifically indicated in the accounting policies below:

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

PLANT AND EQUIPMENT

The Fund carries assets classified as plant and equipment at historical cost less accumulated depreciation and impairment. Historical cost includes expenses that are directly attributable to the acquisition of the items.

Subsequent costs are included in the assets' 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 statement of changes in net assets and funds during the financial period in which they are incurred.

Assets 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:

	Years
Motor vehicles	5
Furniture and fittings	5
Office equipment	5
Computer equipment	2-3

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.

FINANCIAL INSTRUMENTS

Measurement

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, receivables and accounts payable.

Financial instruments are initially measured at cost as of trade date, which includes transaction costs.

Profit or loss on the sale/redemption of investments are recognised in the statement of changes in net assets and funds at transaction date.

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 and receivables

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

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 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 at the statement of net assets and funds date. In the open-market valuation information cannot be reliably determined; the Fund uses alternative valuation method such as discounted cash flow projections or recent prices on active markets for transactions of similar nature. 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.

The open-market fair value is determined annually by independent professional valuators.

Changes in fair value are recorded by the fund in the statement of changes in net assets and funds.

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 changes in net assets and funds by the Fund are initially recognised at fair value on trade date.

Listed equities

Equity instruments are subsequently measured at fair value and the fair value adjustments are recognised in the statement of changes in net 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.

Private equity

Private equity investments are investments in equity capital that is not quoted on a public exchange. Private equity investments are valued in accordance with the International Private Equity and venture Capital Valuation Guidelines.

Specialist securities include:

(a) **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.

(b) **Exchange traded funds**

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

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 or market-related policies

If the policy is unitised, the value is equal to the market value of the underlying units. Other linked or market-related policies are valued at the market value of the underlying assets for 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 manager with reference to the rules of each particular collective investment scheme, multiplied by the number of units.

Derivative market instruments

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 remeasured at their fair value. Fair values are obtained from regulated exchange quoted market prices in active markets, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. The fund does not classify any derivatives as hedges in a hedging relationship.

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

Options

Options are valued using option pricing modules.

Futures/forward contracts

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 debt securities (bills and bonds). Refer to the bills and bonds accounting policy for the measurement criteria applied.

HEDGE FUNDS

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

Listed hedge funds

Hedge fund investments are subsequently measured at fair value and the fair value adjustments are recognised in the statement of changes in net assets and funds. The fair value of hedge fund investments 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 statement of net assets and funds date.

Unlisted – where investor (fund) has no right to the underlying instrument – investment partners

Hedge fund investments are subsequently measured at fair value and the fair value adjustments are recognised in the statement of changes in net assets and funds. The value of the financial asset owned by the fund is measured in relation to the percentage holdings by each investment partner in the total fair value of the hedge fund. 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 hedge fund instruments.

Unlisted – where investor (fund) has a right to the underlying instrument

Hedge fund investments are subsequently measured at fair value and the fair value adjustments are recognised in the statement of changes in net assets and funds. As the fund has the right to the underlying instrument, a look through principle is applied, and the underlying instrument are separately measured and disclosed. 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 the hedge fund instrument.

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.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

CASH AND CASH EQUIVALENTS

Cash and equivalents 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.

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.

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 year in which such income and expenses accrue to the fund.

PROVISIONS CONTINGENT LIABILITIES, CONTINGENT ASSETS AND ACCRUALS

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. Where the effect of discounting to present value is material, provisions are adjusted to reflect the time value of money.

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.

Accruals

Accruals are recognised when the Fund has earned income or incurred an expense as a result of a past event or constructive obligation and an inflow or outflow of economic benefits is certain and a reliable estimate of the amount can be made.

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 rules of the Fund. Contributions received are applied to fund in advance for benefits due in terms of the rules, and to meet expenses of the Fund. The allocation of contributions towards expenses 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 year are recognised as a current asset – contribution receivable. Any contributions received in advance at the end of the reporting year are recognised as a current liability – accounts payable.

NET INVESTMENT INCOME

Net investment income comprises of dividends, interest, rentals, collective investment schemes, distribution, income from policies with insurance companies and adjustment to fair value.

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. Property expenses are recognised in the statement of changes in net assets and funds under net investment income.

Collective investment schemes' distribution

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

Income from policies with insurance companies

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

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

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

Adjustment to fair value

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

Expenses incurred in managing investments

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

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 year are recognised as a current liability – benefits payable.

UNCLAIMED BENEFITS

Benefits which remain outstanding for a period of 24 months or more, are classified from benefits payable to unclaimed benefits. Interest is allocated to unclaimed benefits in terms of the rules of 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/arrangement of transfer of business by the Financial Services Board, as contained in the approval certificate from the Registrar.

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

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

Any known transfer payable outstanding at the end of the reporting period are recognised as a current liability – transfers payable.

ADMINISTRATION EXPENSES

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

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

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 discloses 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 year in respect of bad or doubtful debts due from related parties.

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 years affected by the change.

IMPAIRMENT

Asset impairment tests are applied annually to assets whose measurement basis is historic cost or historic cost as adjusted for revaluations. An impairment loss is recognised when the asset's carrying value exceeds its recoverable amount. Impairment losses are initially adjusted against any applicable revaluation reserve then expensed in the statement of changes in net assets and funds.

The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. Fair value less costs to sell is the amount obtainable from the sale of the asset in an arm's length transaction between knowledgeable, willing parties, less cost of disposal. Value in use is the present value of estimated future cash flows expected to flow from the continuing use of the asset and from its disposal at the end of its useful life.

If the recoverable amount of an asset subsequently exceeds the carrying value resulting from the application of its accounting policy, an impairment reversal is recognised to that extent. The impairment reversal is applied in reverse order to the impairment loss.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

RETURNS ALLOCATED TO SCHEMES

Interest allocated to the additional voluntary contribution and performance bonus schemes is at rates determined by the Board of the Fund on the advice of the actuary. No expenses are presently allocated to these schemes as the rules of the Fund do not currently cater for this.

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 are charged to the statement of changes in net assets and funds on a straight-line basis over the period of the lease.

1. PLANT AND EQUIPMENT

Current year

Gross carrying amount	Computer equipment and software R'000	Furniture and fittings R'000	Motor vehicles R'000	Total R'000
Cost at beginning of year	5 987	3 228	308	9 523
Additions	6 092	480	–	6 572
Disposals	(1 094)	(182)	–	(1 276)
At end of year	10 985	3 526	308	14 819
Accumulated depreciation and impairment				
At beginning of year	(4 039)	(1 843)	(149)	(6 031)
Depreciation charges	(1 061)	(428)	(56)	(1 545)
Accumulated depreciation on disposals	972	147	–	1 119
At end of year	(4 128)	(2 124)	(205)	(6 457)
Net carrying amount at end of year	6 857	1 402	103	8 362

Prior year

Gross carrying amount	Computer equipment and software R'000	Furniture and fittings R'000	Motor vehicles R'000	Total R'000
Cost at beginning of period	8 622	5 015	308	13 945
Additions	1 048	1 023	–	2 071
Disposals	(3 683)	(2 810)	–	(6 493)
At end of year	5 987	3 228	308	9 523
Accumulated depreciation and impairment				
At beginning of period	(6 700)	(4 010)	(82)	(10 792)
Depreciation charges	(929)	(363)	(67)	(1 359)
Accumulated depreciation on disposals	3 590	2 530	–	6 120
At end of year	(4 039)	(1 843)	(149)	(6 031)
Net carrying amount at end of period	1 948	1 385	159	3 492

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

2. INVESTMENTS

2.1 Investment summary

	Notes	Local R'000	Foreign R'000	Total 2016 R'000	Total 2015 R'000	Fair value current year R'000
Cash		6 051 841	1 033 561	**7 085 402**	8 930 260	7 085 402
Commodities		405 994	–	**405 994**	779 476	405 994
Debt instruments including Islamic debt instruments		26 146 215	–	**26 146 215**	24 975 645	26 146 215
Investment properties and owner occupied properties*	1.3.	115 000	–	**115 000**	111 000	115 000
Equities (including demutualisation shares)		57 668 092	18 433 138	**76 101 230**	66 884 166	76 101 230
Insurance policies		1 448 973	–	**1 448 973**	1 409 490	1 448 973
Collective investment schemes		491 311	12 970 301	**13 461 612**	13 000 489	13 461 612
Hedge funds		691 599		**691 599**	–	691 599
Private equity funds		1 400 267	665 788	**2 066 055**	1 431 693	2 066 055
Derivative market investments		(77 764)	–	**(77 764)**	(27 429)	(77 764)
Investment in participating employer(s)	1.2.	2 505 340	–	**2 505 340**	2 314 846	2 505 340
Total		**96 846 868**	**33 102 788**	**129 949 656**	**119 809 636**	**129 949 656**

* *The land and buildings consist of an office block situated on Erf 21 Bryanston East. The land and buildings were revalued by an independent valuator. The valuation was performed as a 30 June 2016. The valuator used the following assumptions in determining the fair value of the land and buildings: Competent property management is in place, reasonably stable economic conditions and stable interest rates which influence real estate values. Assumption on lease expiry that the rental achievable may increase if the rent lagged the market or revert to market value if higher than market. The fair value was determined by reference to section 13 of the JSE regulations regulating listed company property transactions as effective March 2013. The valuation is also in accordance with the International Standard Seventh Edition Publication as updated 2005 and IFRS fair value considerations has been applied to the market value calculation. If the land and buildings had been carried at the cost model, the value of the land and buildings would have been R47 197 133.*

2.2 Investments in participating employer(s)

Description	At beginning of year R'000	Additions R'000	At end of year R'000
Debt instruments	2 314 846	190 494	**2 505 340**
Total	**2 314 846**	**190 494**	**2 505 340**

2.3 Investment properties and owner occupied investments

Current year

Description	At beginning of year R'000	Additions R'000	Fair value adjustments R'000	At end of year R'000
Office complex	**111 000**	**1 720**	**2 280**	**115 000**
Total	**111 000**	**1 720**	**2 280**	**115 000**

Previous year

Description	At beginning of year R'000	Additions R'000	Fair value adjustments R'000	At end of year R'000
Office complex	100 300	2 521	8 179	111 000
Total	**100 300**	**2 521**	**8 179**	**111 000**

3. CONTRIBUTIONS

	At beginning of year R'000	Towards retirement R'000	Contributions received R'000	At end of year R'000
Member contributions – received and accrued	81 798	1 052 672	(1 053 339)	**81 131**
Employer contributions – received and accrued	155 803	1 962 948	(1 967 640)	**151 111**
Additional voluntary contributions – members	2 039	26 458	(26 200)	**2 297**
Performance bonus scheme member contributions	10	374 741	(71 773)	**302 978**
Total	**239 650**	**3 416 819**	**(3 118 952)**	**537 517**
Towards retirement	–			**3 416 819**
Toward re-insurance and expenses	–			**–**
Statement of changes in net assets and funds	**–**			**3 416 819**

4. NET INVESTMENT INCOME

	2016 R'000	2015 R'000
Income from investments	**3 952 506**	3 503 124
Dividends	**2 348 489**	2 048 803
Interest	**1 595 568**	1 449 553
Rentals	**8 449**	4 768
Profit on sale/redemption of investments	**25 279 442**	17 942 687
Loss on sale/redemption of investments	**(18 495 474)**	(9 119 154)
Fair value adjustment on investments[(a)]	**1 204 938**	(3 509 600)
	11 941 412	8 817 057
Less: Expenses incurred in managing investments	**(453 319)**	(365 390)
Total	**11 488 093**	**8 451 667**

5. OTHER INCOME

	2016 R'000	2015 R'000
Securities lending	**25 078**	**26 492**
Total	**25 078**	**26 492**

Note (a) – Fair value adjustments on investments.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 JUNE 2016

6. BENEFITS

	At beginning of year R'000	Benefits for current period R'000	Return allocated R'000	Payments R'000	Transfer to unclaimed benefits R'000	At end of year R'000
Monthly pensions	142 833	2 460 169	–	(2 480 692)	–	122 310
Lump sums on retirement						
Pensions commuted	78 237	566 928	–	(541 881)	–	103 284
Lump sums before retirement						
Death and disability benefits	74 278	112 588	–	(84 055)	(5 142)	97 669
Withdrawal benefits	136 988	763 388	–	(690 041)	(2 846)	207 489
Divorce benefits	16 804	63 393	–	(73 643)	–	6 554
Trust monies	415 111	32 515	57 829	(51 070)	–	454 385
Interest on late payment of benefits	575			(575)	–	–
Total	864 826	3 998 981	57 829	(3 921 957)	(7 988)	991 691
Benefits for current year	–					3 998 981
Return allocated	–					57 829
Statement of changes in net assets and funds	–					4 056 810

7. RISK MANAGEMENT POLICIES

The Board of Fund has overall responsibility for the establishment and oversight of the Fund's risk management policies. The Board of Fund has established the Audit and Risk Committee, which is responsible for developing and monitoring the Fund's risk management policies. The committee reports regularly to the Board of Fund on its activities.

The Fund's risk management policies are established to identify and analyse the risks faced by the Fund, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Fund's activities.

Solvency risk

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

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

The Board monitors receivable and investment balances on an ongoing basis with the result that the Fund's exposure to bad debts or poor investment return is not significant. An appropriate level of provision is maintained for receivable balances.

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 instrument 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 owing to changes in foreign exchange rates. The Fund's exposure to currency risk is mainly in respect of foreign investments made on behalf of members of the Fund for the purpose of seeking desirable international diversification of investments.

The Board of Fund monitors this aspect of the Fund's investments and limits it to 25% of total assets.

Liquidity risk
Liquidity risk is the risk that the Fund will encounter difficulty in raising funds to meet commitments associated with financial instruments.

The Fund's liabilities are backed by appropriate assets and it has significant liquid resources.

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

Price risk
Price risk is the risk that the value and/or future cash flows of a financial instrument will fluctuate as a result of changes in market prices.

Interest rate risk
Interest rate risk is the risk that the value and/or future cash flows of financial instruments will fluctuate as a result of changes in interest rates.

The Fund monitors exposures to interest rate risk by using monthly cash flow projections.

AUDITOR'S REPORT

REPORT OF THE INDEPENDENT AUDITOR ON THE SUMMARISED FINANCIAL STATEMENTS TO THE BOARD 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 2016, and the summary statement of changes in net assets and funds for the year then ended, and related notes, as set out on pages 43 to 55 are derived from the audited regulatory financial statements of the Eskom Pension and Provident Fund for the year ended 30 June 2016. We expressed an unmodified audit opinion on those audited regulatory financial statements in our report dated 9 December 2016. Our auditor's report on the audited regulatory financial statements contained an "Other Matters" paragraph.

The Board of Fund's responsibility for the summarised financial statements

The Board of Fund is responsible for the preparation of the summarised financial statements in accordance with the basis described on pages 45 to 50.

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 audited regulatory financial statements of the Eskom Pension and Provident Fund for the year ended 30 June 2016 are consistent, in all material respects, with those financial statements, on the basis described on pages 45 to 50.

Other matters

The "Other Matters" paragraph in our audit report dated 9 December 2016 states that the supplementary information contained in Schedule IA to the audited regulatory financial statements, has been extracted from the Fund's underlying records that were the subject of our engagement. The paragraph also states that we have compared the totals reflected in Schedule IA to the totals reflected in the Fund's underlying accounting records to determine whether such totals have been correctly extracted. The paragraph furthermore states that we have not performed any additional procedures to substantiate the disclosures of the individual totals included in Schedule IA and accordingly do not express an audit opinion on this schedule. The paragraph does not have an effect on the summarised financial statements or our audit opinion thereon.

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.

Restriction on use

The audited regulatory financial statements are prepared for regulatory purposes in accordance with the basis of preparation indicated in the notes to the audited regulatory financial statements of the Fund. 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: GJ Kapp
Registered Auditor

Johannesburg
9 December 2016

REPORT OF THE VALUATOR

FINANCIAL YEAR: 30 JUNE 2016

Particulars of financial condition of the Fund as at 30 June 2016

An annual actuarial valuation was carried out as at 30 June 2016. 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 – R129 330 million.
2. The actuarial value of the net assets for the purposes of comparison with the accrued liabilities of the Fund – R129 077 million.
3. The actuarial present value of promised retirement benefits – R87 665 million vested, and R0 non-vested.
4. Contingency reserve account balances – R33 543 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 can be 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 (if any) of the notional pensioner account over the pensioner liability and solvency reserve.
6. The key financial assumptions are that investment returns will exceed salary inflation by 3,80% per annum (4,00% at 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 6,70% per annum (6,30% at the previous valuation). The yield used to calculate the solvency reserve was equal to the assumed yield on index linked bonds at the valuation date, adjusted for real salary increases and asset management fees. The approach is unchanged from the previous valuation.
7. Members contribute at 7,3% of pensionable salaries and the employers contribute 13,5%. There is a contribution shortfall relative to the fixed contribution rate payable in terms of the rules. At the valuation date this shortfall amounted to 3,47% of pensionable salaries (2,51% shortfall at the previous statutory valuation).
8. In my opinion the Fund was in a sound financial condition as at 30 June 2016 for the purposes of the Pension Funds Act, 1956.

Prepared by me:

David K Little

Valuator

Fellow of the Actuarial Society of South Africa

In my capacity as the valuator of the Fund and as an Associate of Towers Watson Proprietary Limited, a Willis Towers Watson company.

5 December 2016

FUND ADMINISTRATION DETAILS

ESKOM PENSION AND PROVIDENT FUND

Fund registration number 12/8/564

REGISTERED OFFICE OF THE FUND

Isivuno House, EPPF Office Park
24 Georgian Crescent East, Bryanston East, 2191

POSTAL ADDRESS

Private Bag X50, Bryanston, 2021, South Africa

CONTACT DETAILS

Telephone: +27 11 709 7400
Fax: +27 11 709 7554
Share Call/Tollfree: 0800 114 548

WEBSITE

www.eppf.co.za

BENEFIT ADMINISTRATOR

Self-administered

EXTERNAL AUDITORS

PricewaterhouseCoopers Incorporated
Private Bag X36, Sunninghill, 2157

INTERNAL AUDITORS

Ernst and Young Advisory Services
Private Bag X14, Sandton, 2194
Nkonki Incorporated
PO Box 1503, Saxonwold, 2132

ACTUARIES

Towers Watson Proprietary Limited
Private Bag X30, Rondebosch, 7701

INVESTMENT ADMINISTRATORS

During the year under review, approximately 62% of the total assets (excluding unlisted property) were managed by external asset managers, while the balance was managed in-house.

DOMESTIC ASSET MANAGERS

Aeon Investment Management Proprietary Limited
Afena Capital Proprietary Limited
Aluwani Capital Partners Proprietary Limited
Argon Asset Management Proprietary Limited
Benguela Global Fund Managers Proprietary Limited
Blue Ink Investments Proprietary Limited
Catalyst Fund Managers SA Proprietary Limited
Cachalia Capital Proprietary Limited
Coronation Fund Managers Proprietary Limited
First Avenue Investment Management Proprietary Limited
Investec Asset Management Proprietary Limited
Kagiso Asset Management Proprietary Limited
Legacy Africa Fund Managers Proprietary Limited
Matrix Fund Managers Proprietary Limited
Mazi Capital Proprietary Limited
Meago Trading Proprietary Limited
Mergence Investment Managers (Pty) Ltd
Mianzo Asset Management Proprietary Limited
Oasis Asset Management Proprietary Limited
Old Mutual Investment Group Proprietary Limited
Pan-African Asset Management Proprietary Limited
Perpetua Investment Management Proprietary Limited
Stanlib Asset Management Proprietary Limited
Sygnia Asset Management Proprietary Limited

INTERNATIONAL ASSET MANAGERS

Aberdeen Asset Management
Allianz Global Investors GmbH
Ashmore Group PLC
Black Rock Investment Management (UK) Limited
Drakens Capital (Pty) Ltd
Duet Asset Management Limited
Morgan Stanley Investment Management Limited
PineBridge Investments Europe Limited
SEI Investments (Europe) Limited
State Street Bank and Trust Company
Veritas Asset Management LLP

NOTES

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Invested in our
members