Public Investment Commissioners

Annual Report 2004

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Profile

The PIC invests funds on behalf of public sector entities including the Government Employees Pension Fund. The organisation is one of the largest investment managers in the country, with assets under management of R377 billion as at 31 March 2004.

Since 1994 the organisation has undergone a fundamental transformation of its activities from a passive administrator to an asset management operation managing diverse portfolios on behalf of its clients. Restructuring initiatives that are under way are aimed at strengthening the PIC's operational capabilities and enhancing its corporate governance structures.

The PIC Board is comprised of seven commissioners, elected by the Minister of Finance, and is chaired by the Deputy Minister of Finance. The Board is mandated to direct and supervise the organisation's operations, oversee investment activities and administration of assets under management.

PIC clients	% of assets
Government Employees Pension Fund	91.3
Compensation Commissioner	3.2
Associated Institution Pension Fund	2.6
Unemployment Insurance Fund	1.6
Guardian Funds	0.7
Political Office Bearers Pension Fund	0.1
Other*	0.5
	100

** Constitutes a number of clients with smaller portfolios.*

Minister's address to Parliament

Trevor Manuel
Minister of Finance

Speaker of Parliament   September 2004

Madam Speaker

Annual report of the Public Investment Commissioners for 2003/2004

I have the honour, in terms of section 65 (1) of the Public Finance Management Act, 1999 (Act No 1 of 1999) and section 11 of the Public Investment Commissioners Act (Act 45 of 1984), to present the annual report of the Public Investment Commissioners, for the period from 1 April 2003 to 31 March 2004.

TA Manuel, MP
Minister of Finance

Chairman's report

The restructuring process under way reflects the calibre and commitment of the management team. The energy, commitment and passion of this team has been the catalyst in attracting people of a similar calibre

Jabu Moleketi
Chairman

Following a lengthy period of tentative growth, global economic activity improved markedly during the second half of the 2003 calendar year. In South Africa, real gross domestic product rose by some 2%, while real expenditure increased by 4%. The significant recovery in the exchange rate was an important factor in bringing down the inflation rate through heightened competition from imports.

During the second half of 2003, share prices on the JSE Securities Exchange South Africa recovered significantly, despite the sustained firming in the exchange rate. Following an extended bull run in the bond market, long-term interest rates edged marginally higher in the early months of 2004 as inflation declined to the point where most market participants expected it to bottom.

Against this background, the Public Investment Commissioners (PIC) recorded strong results for the year. Funds under management, now totalling R377 billion, generated a blended return of 20.9%*.

The comprehensive restructuring process under way reflects, in no small measure, the calibre and commitment of the senior management team now in place. The restructuring process is detailed by the chief executive on page 10. The energy, commitment and passion the management team has brought to the business permeates every level and has been the catalyst in attracting people of a similar calibre. I look forward to working with this team as it transforms the PIC.

Transformation is close to the heart of the organisation. Internally, as it completes its restructuring in the new financial year, and externally as it participates in the broader transformation of the South African economy. During the year, the PIC participated in the Gold Fields SA and Investec empowerment transactions. As an active shareholder, the organisation is also increasingly becoming the champion of minority shareholders in its drive to ensure robust corporate governance standards in the companies in which it invests. This is a trend that augurs well for the PIC's continued performance as it concentrates on investing in sectors and companies with sustainable growth potential and the capability to contribute to meaningful transformation in the national economy.

I thank the outgoing chairman, Mandisi Mpahlwa, for his valued contribution whilst in office and wish him every success in his challenging new role as trade and industry minister. I also thank the commissioners for the skill and experience they bring to the organisation and their dedication to meeting the PIC's objectives.

Jabu Moleketi, MP
Chairman
(Deputy Minister of Finance)

** As a result of systems limitations, the performance figures have been calculated with reference to closing values as in previous years, and not amended to take into account AC133 fair value adjustments.*

Board of commissioners

Experienced commissioners with a wealth of skills ensure that the PIC fulfils its mandate as an effective asset manager for public sector entities

Jabu Moleketi

MSc (Financial Economics)

Deputy Minister of Finance. He was formerly the MEC for Finance and Economic Affairs in the Gauteng Provincial Government, where he was responsible for, inter alia, provincial budget, economic policy, trade and investment promotion. He also spearheaded Blue IQ.

Veli Ntombela

BA LLB, HDip (Tax Law)

A director at Sizwe Ntsaluba vsp., heading the company's Taxation Services department. He was previously a senior tax consultant at Arthur Anderson and Associates and he held senior positions at Ernst and Young, and Investor's Guide.

Ntombifuthi Mtoba

BA Econ (Hons), BCompt (Hons), CA(SA), HDip (Banking Law)

A partner and chairman at Deloitte. She also serves on a number of boards of different business organisations, professional societies and advisory councils, including the standing committee on the revision of the Bank Act and ministerial panel for the review of the Accounting Profession's Bill. She is a recipient of the 2004 Business Woman of the Year Award.

Jan Strydom

CA(SA), MCom (Acc) (SA)

A long-standing Accountant Member of Special Income Tax Court for Taxation Appeals. He founded Strydoms Incorporated, a firm of Chartered Accountants, established many years ago, which specialises in forensic investigations, litigation, support and the valuation of business enterprises. He serves on a number of boards including GrowthPoint and MTN.

Zakhele J Sithole

MCom (Wits), CA(SA)

Mr Sithole is the executive chairman of accounting firm Sithole Inc. He is also a member of a number of boards and committees, including the Institute of Commercial and Financial Accountants of South Africa and the Advancement of Black Accountants of Southern Africa (ABASA).

Younaid Waja

BCom, BCompt (Hons), CA(SA), HDip Tax Law

Tax and business consultant; founding chairperson and current vice chairman of APF Chartered Accountants. He also serves and served as a member of a number of boards and committees, including the Insider Trading Directorate of the Financial Services Board (FSB). Mr Waja is the founding member and former vice-president of the Association for the Advancement of Black Accountants in Southern Africa (ABASA), and the past chairperson of the Public Accountants and Auditors Board (PAAB).

Ignatius Sehoole

CA(SA)

Executive president of the South African Institute of Chartered Accountants since 2000. He serves on a number of boards and committees, including the International Federation of Accountants (IFAC); the King Commission on Corporate Governance; the Higher Education Quality Committee (HEQC) of the Council on Higher Education and the Development Bank of Southern Africa (DBSA) and chairs the Finance Committee of DBSA.

Board of commissioners and committees

The PIC Board comprises of seven commissioners who are all non-executive and is involved in all the activities of the organisation and its restructuring. The Board's primary task is to direct and supervise the operations of the PIC Secretariat and oversee the investment activities and administration of the portfolio. In executing its duties it constantly reviews all operational policies and oversees their implementation.

The Board normally meets on a quarterly basis. However, special ad hoc meetings are convened whenever the need arises. Regular scheduled meetings of the investment committee and audit committee are also held.

Investment committee

The following Board members served on the investment committee:

Ms Ntombifuthi Mtoba (Chairman)
Mr Jan Strydom
Mr Younaid Waja
Mr Veli Ntombela

Audit committee

The following Board members served on the audit committee:

Mr Ignatius Sehoole (Chairman)
Mr Younaid Waja

PIC Secretariat

The management team comprised the following members:

Mr Brian Molefe (Secretary and Chief Executive Officer)
Mr Willie Bezuidenhout (Chief Financial Officer) (resigned in January 2004)
Ms Monica Khumalo (Head: Property Investments)
Mr Tshepo Mahloele (Head: Corporate Finance and Isibaya Fund)
Dr Dan Matjila (Risk Manager)
Ms Albertinah Ngwezi (Chief Operating Officer)
Mr Leon Smit (Head: Fixed Income)
Ms Catherine Smith (Chief Financial Officer) (resigned in August 2004)
Mr Piet van der Merwe (Head: Equities)

Executive committee

The executive committee comprised the following members during the period under review:
Dr Francois le Roux (Chairman)
Mr Zakhele Sithole

Report of the investment committee

All members of the committee are commissioners and bring a range of skills and appropriate expertise to bear in deliberations

Ntombifuthi Mtoba
Chairman and commissioner

Members

Ms N Mtoba	Chairman and commissioner
Mr Y Waja	Commissioner
Mr J Strydom	Commissioner
Mr V Ntombela	Commissioner

The investment committee is a subcommittee of the Board. All members of the committee are commissioners who are non-executive and bring a range of skills and appropriate expertise to bear in deliberations. Members of the committee have access to external specialist knowledge where required.

The committee meets monthly and makes recommendations to the Board on the adoption or approval of investment policies, the appointment and performance of asset managers and the approval of money market limits.

The committee also reviews investment strategies, including asset allocation. The committee monitors the performance of all investments and PIC compliance with legal requirements and client mandates.

The committee has predetermined levels of authority for investment decisions. The Board is notified of investments that fall within the committee's delegated authority and its approval is sought for investments above the delegated authority.

Ntombifuthi Mtoba
Chairman of the investment committee

Report of the audit committee

Ignatius Sehoole
Chairman and commissioner

There has been an improvement in the internal control environment during the year. The establishment of an internal audit department will accelerate further improvement in future

We are pleased to present our report for the financial year ended 31 March 2004.

Members

Mr I Sehoole	Chairman and commissioner
Mr Y Waja	Commissioner
Mr G Salanje	Independent

Meeting attendance

The terms of reference of the audit committee require that it meets at least three times a year. The audit committee held nine meetings to discuss matters relating to the audit of the financial statements and issues on internal controls and corporate governance.

Audit committee responsibilities

The audit committee has complied with its responsibilities stipulated in section 3.1 of the Treasury Regulations and section 77 of the Public Finance Management Act (PFMA), as amended. The committee has adopted appropriate formal terms of reference as its charter, and has regulated its affairs and discharged its responsibilities in compliance with this charter.

Effectiveness of internal controls

The process of establishing an internal audit department began during the year under review. However, due to difficulties in recruiting internal audit staff, no internal audit activities were undertaken in-house. On an ad hoc basis, where the need for investigation of certain aspects of the organisation's activities was identified, this work was outsourced and results reported to the audit committee.

The committee has reviewed various aspects of internal control during the review period. These discussions included compliance with South African Statements of Generally Accepted Accounting Practice (GAAP), the PFMA, the PIC's policy and procedure manual, the internal audit function and the fraud prevention plan.

There has been an improvement in the internal control environment during the year. Improvements include the appointment of additional staff, with the appropriate level of accounting skills, in the financial administration department. There is still scope for improvement and areas of concern include controls in the properties administration section and compliance with the PFMA. Management has prepared implementation plans, with appropriate timelines, to address significant matters raised in the management reports of the Auditor-General for the 2003 financial year and is in the process of finalising the plans to address the issues raised in the 2004 financial year.

Quality of reports submitted in terms of the PFMA

The committee is satisfied with the content and quality of the reports prepared and issued by the accounting officer during the year. However, it should be noted that not all reports were submitted on time.

Evaluation of financial statements

The audit committee has:

- Reviewed and discussed with the Auditor-General and the accounting officer the audited annual financial statements;
- Reviewed the Auditor-General's management letter and management's response;
- Reviewed changes in accounting policies and practices; and
- Reviewed significant adjustments resulting from the audit.

The committee acknowledges the conclusions of the Auditor-General on the annual financial statements and is of the opinion that the annual financial statements be accepted and read together with the report of the Auditor-General.

The audit committee has evaluated the annual report for the year ended 31 March 2004 and considers that it complies, in all material respects, with the requirements of the PFMA and GAAP, unless otherwise indicated. The committee concurs that the adoption of the going-concern premise in framing the annual financial statements is appropriate.

The audit committee has therefore recommended the adoption of the annual financial statements by the Board of commissioners at its meeting on 25 August 2004.

Ignatius Sehoole
Chairman of the audit committee

Chief executive's report

Efficient service provider for state entities

Brian Molefe
Chief executive officer

Much has been achieved in the review period, but much remains to be done to achieve our vision of being a world-class service provider to state entities

During the 12-month period from 1 April 2003 to 31 March 2004, the fair value of funds under management grew from R308 billion to R377 billion, due primarily to improved equity markets and strong performance of our bond portfolio.

A well-diversified portfolio has enabled the organisation to record positive returns despite unprecedented volatility in equity markets in recent years. The total return on investments for the review period was 20.9%*, with RSA capital market and equities contributing 11.1%* and 45.6%* respectively. A robust risk management framework is being further developed and enhanced to ensure that the PIC continues to manage its risks prudently in a very dynamic environment.

A highlight of the review period was the approval of the PIC's restructuring strategy and the PIC Bill in February 2004 by Cabinet, which will see the creation of a new corporate entity with a new corporate governance structure. The intention of restructuring is to position the organisation as a preferred service provider to public sector entities. Integral to the restructuring is the approval of the PIC Bill by Parliament, the finalisation of a shareholder's compact and articles of association with our shareholder and compliance with the requirements of the FAIS Act. In terms of the restructuring, the PIC will adopt a more competitive remuneration structure guided by a performance management system. This will enable the PIC to attract and retain highly qualified staff.

** As a result of systems limitations, the performance figures have been calculated with reference to closing values as in previous years, and not amended to take into account AC133 fair value adjustments.*

The promulgation of the PIC Bill, expected in the second half of the new financial year, will augment this restructuring and provide the capacity for the organisation to expand its investment staff to manage more functions internally, with concomitant cost savings.

We are particularly pleased to report on the progress made by additional members appointed to the senior management team during the year. This has considerably expanded the depth of skills and experience in the organisation and benefits are already apparent. In brief, a new strategy of the corporate finance and Isibaya Fund division was approved and the team strengthened to manage more investments internally. A dedicated risk management function has been established and global best practices are being introduced. Legacy issues in the property portfolio are being resolved and a suitable information management system is being implemented for more effective property asset management.

Much has been achieved in the review period, but much remains to be done to achieve our vision of being a world-class service provider to state entities. The commitment of our people and the contribution of our senior managers has been the cornerstone of our results and achievements for the year and I thank every one of them. We also thank our outgoing external auditors, KPMG, who were appointed as agents on behalf of the Office of the Auditor-General, who will retire as the PIC's auditors in terms of the Auditor-General's rotation requirements. The Auditor-General will announce the new appointment in due course and we look forward to working with our new auditors.

Outlook

In the new financial year, we will continue to develop our policy of being an active shareholder, in the interests of all stakeholders, and intensify our communication with the companies in which we invest. The finalisation of the PIC Bill will enable us to accelerate our programme of recruitment and retention. We expect to make good progress on implementing our new information technology platform, which will provide enhanced management information and integrate systems across the organisation. Investment markets are expected to perform well, although not at levels experienced within the review period and we will continue to diversify our portfolio to optimise returns for stakeholders.

Brian Molefe
Chief executive officer

Chief operating officer's report

Albertinah Ngwezi
Chief operating officer

The PIC is being restructured to address key challenges, some common to the asset management industry such as attracting and retaining professional skills, others specific to the PIC

Nature of business

The primary responsibility of the PIC is to manage assets on behalf of various public sector entities, ranging from the Government Employees Pension Fund to various other departments that need assets managed for differing periods. Total assets under management are R377 billion as at 31 March 2004.

The mandate of the PIC is to effectively manage these assets internally or sub-contract to external asset managers. Performance – both internal and external – is measured against benchmarks set in agreed client mandates. The strategically diversified client portfolios have weathered market volatility and provided superior returns to clients.

Focus and client strategy

The organisation is being restructured to address key challenges, some common to the asset management industry such as attracting and retaining professional skills, others specific to the PIC including implementation of a technology platform appropriate for a sizeable and diverse portfolio.

In the new financial year, the focus will be on completing the corporatisation of the PIC, recruitment and retention of staff, implementation of information management systems and addressing residual matters raised by the Auditor-General in his report.

We believe that the above initiatives will result in significant benefits to all our clients, in particular with regard to:

- improved investment returns;
- improved risk management;
- improved compliance; and
- improved quality of information.

PIC will endeavour to effect these improvements while retaining a relatively low management fee structure.

Operational review

Operationally, the highlight of the year was the relocation to new offices, which have provided a much-improved working environment, better access for staff, implementation of information management systems and addressing residual matters raised by the Auditor-General in his management report.

In line with the PIC's intensified focus on information technology systems, an IM manager was appointed during the year and the IM team strengthened to manage the implementation of a new technology platform for the organisation over the next three years. This will provide significant benefits to the PIC in the form of enhanced information management systems, divisional interfaces and improved risk and portfolio management.

During the financial year, PIC implemented AC133, with the assistance of PricewaterhouseCoopers. While the project was a success, it highlighted limitations in the PIC's investment administration system, such as the ability to handle some of the valuation methodologies required by AC133. This required that such calculations be performed by using models outside the investment administration system with the resultant increase in the risk of human error. Management has as a priority embarked on initiatives to resolve this matter.

Issues raised by the Auditor-General and parliamentary committees in the previous period have been addressed: a comprehensive risk management function has been established and the organisation is now compliant with Generally Accepted Accounting Practice. Full compliance with the PFMA during the new year and going forward is a management priority.

The human resources function was internally established during the year, in preparation for the expected increase in employee numbers. Contemporary structures and policies are being developed to enable the PIC to attract and retain the calibre of people it will require to become a world-class investment manager.

Key objectives for the 2004/2005 year

- Corporatisation of the PIC to achieve the following:
    1. An organisational structure suitable to the PIC's requirements
    2. Improved governance through compliance with the FAIS Act
    3. Market competitive remuneration structure

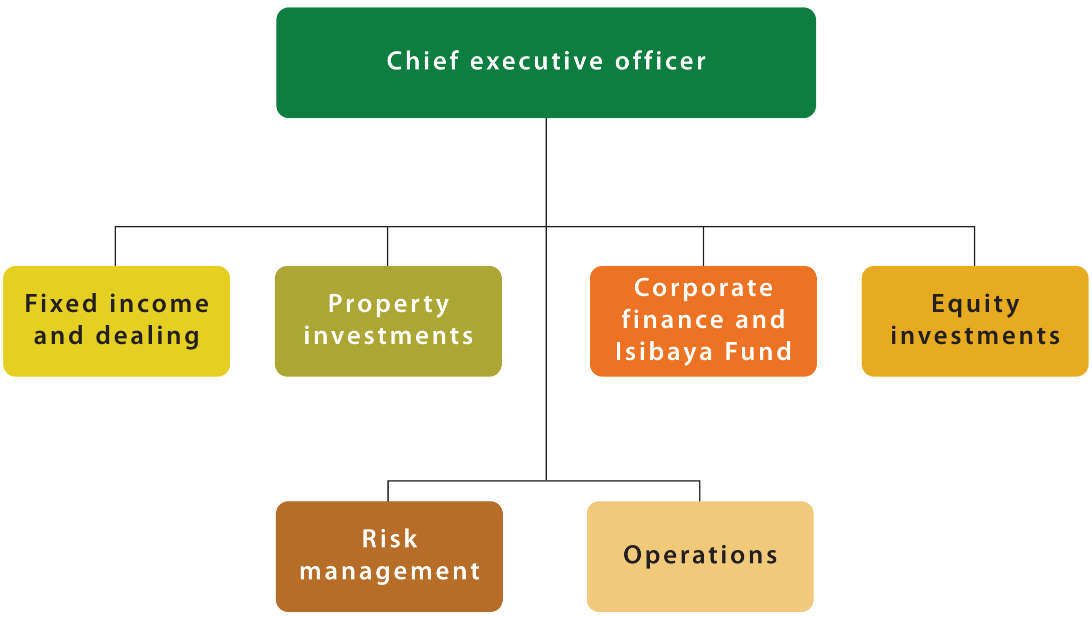
- Recruitment to alleviate staff shortages across all divisions
- Introduction of information management systems suitable to the PIC's requirements
- Establishment of an internal audit function within the PIC

Albertinah Ngwezi
Chief operating officer

Divisional review

The organisation employs a flat operating structure, with divisions reporting to the chief executive officer and to the appropriate Board committee. While each division is fully accountable for its performance, synergies between divisions are optimised and risk management structures encompass all divisions

PIC structure




Fixed income and dealing

Fixed income and dealing

The fixed income division manages all bonds and money market instruments. In line with client mandates, the PIC's policy is to invest funds with domestic banks that have a credit rating higher than A2, government bonds and corporate bond issuances by companies listed on the JSE. In the bond market, PIC invests in the majority of instruments listed on the Bond Exchange of South Africa. All management was in-house except for the municipal bond portfolio, which was managed externally. Post 31 March 2004, the PIC's municipal bond portfolio was sold to Infrastructure Finance Corporation Limited (INCA) for a combination of cash and INCA bonds.

The consolidation of the equities and fixed income dealing activities into a single dealing team during the year has increased the capacity of this division. The team has been appropriately strengthened to manage the enlarged portfolio and will be expanded again in the new financial year. The division is already benefiting from an improved working environment and inter-divisional communication.


Property investments

Property investments

The PIC's property investments division manages a property portfolio of over R3 billion, with about one-third in directly held properties and the balance in listed and unlisted unitised property portfolios which include some of South Africa's premier retail malls, convention centres and hotels. Property management is outsourced to external property management companies. The PIC team of property asset managers ensures that returns are maximised, portfolio performance is enhanced and benchmarks the PIC's performance with similar investments in the market. Investment proposals are carefully analysed against the PIC's property strategy.

During the year, the tender for a property information system for the division was awarded and the system will be commissioned in the second half of the new financial year. This will result in improved information management systems and performance management disciplines. By extending this system to the external property management companies managing the PIC properties, more effective property asset management is expected. In the new financial year, the division will concentrate on strengthening its resources to manage the anticipated expansion of the portfolio.

Corporate finance and Isibaya Fund

Corporate finance and Isibaya Fund

The objective of the corporate finance division is to pursue the transformation of the economic landscape of South Africa by participating in transactions which fall outside the investment criteria for the fixed income and equities divisions. Management of the Isibaya Fund falls within the responsibilities of this division. The allocation to Isibaya Fund is set at 3.5% of the total portfolio. This fund focuses on infrastructure development, black economic empowerment and socially responsible investments. The fund does not invest in gaming or related activities or micro-lending operations. The cost of funding is based on the level of risk for each transaction or project, and finance tenure is medium term (3 – 10 years) in the form of debt, equity or hybrid instruments.

During the year, the division's new strategy was approved, based on the focal areas of infrastructure funding, direct private equity funding (particularly empowerment interventions) and a private equity fund-of-funds approach. The intention is to achieve a better geographic spread of investments and to accelerate empowerment through the creation of operational sponsors, specifically in medium-sized entities with growth potential, and to diversify investments across economic and growth sectors, such as telecommunications, information and communications technology, industrial and infrastructure-focused enterprises.

Equity investments

The intention is to further strengthen the institutional capacity of the corporate finance division in investment appraisal, ongoing management and information management systems.

The division strengthened its team during the year and will continue to increase capacity to manage the private equity portfolio more actively. The management of some of the portfolio which was previously handled externally has now been brought in-house with considerable cost-saving and recovery results.

Equity investments

The equity investments division is responsible for managing equity investments on behalf of the GEPF. The PIC invests in companies listed on the JSE and is one of the largest investors in South African equities. As at 31 March 2004, PIC's equity investments accounted for approximately 8.9% of the JSE's market capitalisation. The PIC manages over R18 billion of equity investments internally through its enhanced index fund and balancing fund. R3 billion is externally managed by third parties through structured product mandates. The balance of R109 billion is managed by five external asset managers:

Futuregrowth, RMB Asset Management, Stanlib, Old Mutual Asset Managers and Sanlam Investment Management. The PIC's approach to investing in listed companies is that of active shareholder participation, focused on stringent corporate governance processes to protect the interests of minority shareholders.

Key developments during the year included:

- The restructuring of the internally-managed equities portfolio to an enhanced index fund;
- Renegotiation of the fee structure and risk parameters for equity portfolios managed externally. As part of this process, new investment management agreements that comply with the requirements of the FSB were negotiated; and
- In line with corporate governance developments globally, the PIC embarked on a more active role as shareholder. The PIC believes that its intensified focus on corporate governance in the companies' whose shares it holds will ultimately enhance returns to the members of its clients.

Key initiatives for the next financial year include:

- Upgrading the portfolio management systems;
- Enhancing internal analytical capabilities through recruitment of appropriately skilled professional staff; and
- Publishing corporate governance guidelines to promote a better understanding of the PIC initiatives in this regard.

Risk management

Risk management

The primary objective of the PIC is to deliver returns for its clients within acceptable risk parameters and to maximise the risk/return profile of all investments. To achieve this, a dedicated risk management function was established during the review period, headed by an experienced risk manager who is refining an existing framework to manage risk more effectively throughout the organisation and to capitalise on the operational strategies of the business divisions. Integral to this framework will be the establishment of a Board risk subcommittee. This committee will be tasked with developing an appropriate enterprise-wide risk strategy.

A priority for the division is to help clients develop and crystallise mandates that will guide benchmarks, investment strategies and performance attribution parameters. This process will underpin compliance with both mandates and regulatory requirements.

The risk management team meets regularly with operating divisions to analyse risks specific to each division. A pilot project on compliance is being developed as is a performance and attribution system for improved controls and performance.

Good progress has been made on implementing an appropriate information technology system that interfaces with all operating divisions for effective risk management. This will be implemented over the 2004/2005 and 2005/2006 financial years drawing on a blend of external and internal expertise to build the financial models that will give the PIC a strong statistical capability, supported by an experienced and appropriately staffed team.

The PIC is implementing a large-scale project to develop a comprehensive risk management framework to identify, measure, monitor, and manage its enterprise-wide risk. World-class IT systems are being installed to ensure accurate and effective data for an optimal risk management function. Highly skilled personnel are being recruited and focused training is enhancing the existing skills base. In-house models have been developed to ensure effective risk management.


Operations

Operations

The purpose of the operations division is to furnish support to the investment divisions. As the organisation expands the demands on this division increase. Although we expect that the PIC will continue to use external specialists where required, we intend to handle most functions in-house. As such, the division assumes responsibility for finance, investment administration, legal and compliance, information management, human resources, internal audit, public relations, customer relations, and special projects. Many of these functions will be strengthened considerably as the organisation expands.

Finance

During the year, the staff complement of the finance department was strengthened with the recruitment of an additional accountant to take specific responsibility for the accounting functions of the operating entity. In addition, appointing additional staff in the investment administration department has allowed for a more logical segregation of duties and enabled finance staff to focus more closely on finance specific issues.

By far the greatest challenge which faced the finance department was the implementation of AC133. This


Finance

Investment administration

process emphasised the shortcomings of existing systems. Developing robust procedures and systems to handle AC133 in an automated manner, both in the interim and as part of the implementation of the new IT platform, is a priority.

Investment administration

Recognising the vital role investment administration plays in the accurate processing of investment activities, and in providing information to clients, the revised organisational structure provides for considerably strengthened capacity in this department, both in terms of technical skills and customer focus. The introduction of the new technology platform begins with the implementation of replacement systems in investment administration. The successful completion of this project with a minimum of disruption to routine activities will be of paramount importance to investment administration and the organisation as a whole.

Information management

The recurring imperatives in the transformation of the PIC are addressing our skills requirements and providing readily available, accurate and appropriate management information. The information management department has been strengthened over the past year which has enabled several crucial projects to be undertaken. Of particular note is the upgrade in the disaster recovery infrastructure and significant improvements in the arrangements for data backup. The most ambitious project is to implement a new technology platform for the organisation. The initial stages of this project are well advanced, drawing on the experience of other organisations that have undertaken a similar task in the recent past to better identify necessary resources at the outset.

Human resources

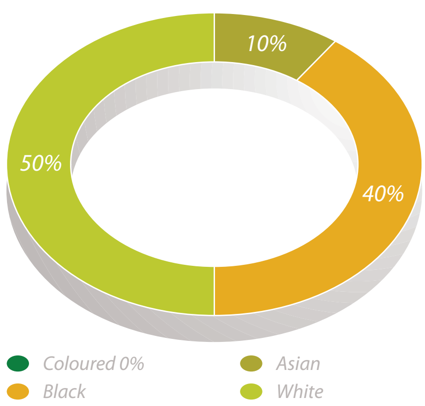
In line with PIC's objective of focusing on attracting and retaining skilled professionals within financial services, an in-house human resources function was established during the period under review. This has enabled us to successfully recruit much needed skills into the organisation and to ensure that focused training is provided to all employees.

The number of employees increased from 48 at the beginning of the financial year to 56 at the end of the financial year. The employment equity profile of the PIC is shown below.

Key successes:

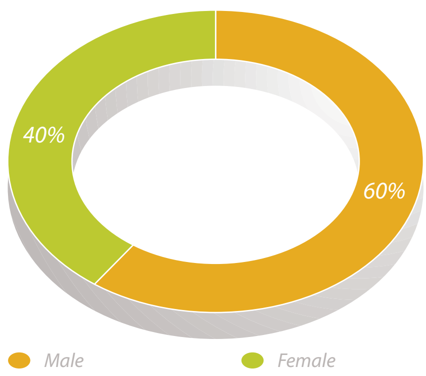
- In November 2003, the Board approved a revised organisational structure for the PIC which will see the number of employees increasing to 110 over the next three years. The process of recruiting to fill key positions is under way;
- A process of reviewing the PIC's current remuneration structure is also under way and is expected to be finalised during the second half of the 2005 financial year; and
- A dynamic team which reflects the demographics of South Africa and is committed to making PIC a success.

*Racial profile – Management**



** Salary level 13 and above*

*Gender profile – Management**



** Salary level 13 and above*

Legal and compliance

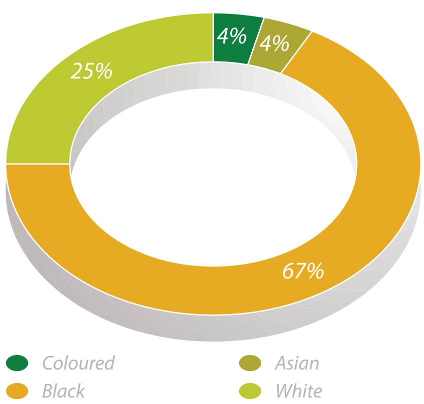
PIC uses a combination of in-house and outsourced legal resources to manage its legal risks. A comprehensive legal review was undertaken which resulted in corrective measures being undertaken to address legal risks identified and to strengthen PIC's control environment.

During the course of the 2005 financial year, PIC's legal and compliance function will be strengthened through the employment of a compliance manager and additional legal resources. This will reduce the PIC's reliance on outsourced services except for specialised areas with resultant cost savings and risk management benefits.

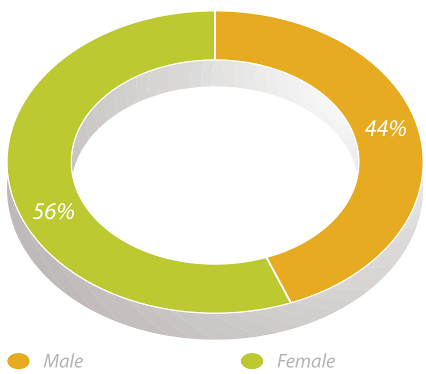
Special projects

A special projects team was established this year. This team has been especially instrumental in ensuring that the PIC's corporatisation project stays on track and in also managing the various projects that are under way with regard to upgrading PIC's information management system.

Racial profile – All PIC employees



Gender profile – All PIC employees



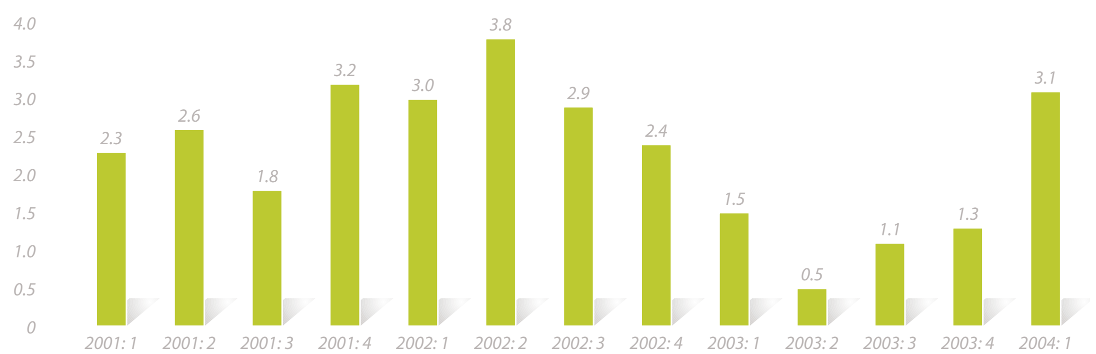
Economic review

Domestic economy recovering

South Africa's sound economic performance was recognised by two international credit rating agencies, which rewarded the country with improved ratings

The lacklustre performance of the world economy continued in 2003 and uncertainty was clearly evident in the behaviour of gold and oil prices. Domestic economic growth decelerated sharply during the second quarter of 2003 as weakness in the world economy resulted in sluggish demand for South African exports.

RSA growth rates (%)



In 2003, the South African economy recorded an annual real gross domestic product growth rate of 2.0%, while on a quarter-to-quarter basis, the lowest annualised growth rate recorded was 0.5% in the second quarter, picking up to 1.1% in the third quarter and 1.3% in the final quarter. The weakness in real output during the greater part of 2003 was concentrated in agriculture and manufacturing. Economic activity, however, picked up noticeably during the first quarter of 2004 when GDP rose by 3.1%. The cumulative effect of the sustained application of expansionary monetary and fiscal policies contributed to the pickup in economic activity.

During the period under review, production prices of imported goods in rand terms declined significantly and these developments were also reflected in consumer prices. The significant recovery in the rand was an important force in bringing down the rate of inflation as evidenced by the 12-month CPIX inflation which receded to 4.0% in December 2003. The significantly-improved inflation outlook motivated the South African Reserve Bank to lower the repurchase (repo) rate on five occasions by a cumulative 550 basis points during the 2003 calendar year.

In addition to driving CPIX inflation down into the target range from September 2003, another monetary policy milestone was reached in February 2004 when the South African Reserve Bank closed out its oversold forward foreign exchange book. In this way, a perceived element of risk and vulnerability in the rand, which had attracted much attention, was laid to rest and the South African Reserve Bank now focuses on gradually strengthening its gold and foreign exchange reserves.

South Africa's sound economic performance was inevitably recognised by two international credit rating agencies, which rewarded the country with improved ratings. The positive sentiment was also reflected in the foreign currency market, where the South African rand remained fairly strong throughout 2003.

Portfolio management

The PIC invests in four major asset categories – fixed income, equities, property and alternative investments

Introduction

The PIC's portfolio performed very well in the review period, reflecting an improved equities market and the benefits of prudent diversification. Highlights of the year included participating in the R4 billion acquisition by Mvelaphanda Investments of a 15% stake in Gold Fields SA and the establishment of an internally-managed enhanced index fund and balancing fund.

For the year, the PIC managed third-party funds with a fair value of R377 billion at 31 March 2004. The asset allocation is shown below, where "other investments" include structured investment products.

Fixed income and dealing

During the year, the scope of this division was expanded to include equity dealing.

Capital markets

Investment in capital markets generated a return of 11.1%* for the year, compared to 24.9% for the prior year. The derivative options strategy and view taken during the period under review produced additional profits of R50 million and great progress was made in disposing of illiquid bonds from enhanced portfolio management.

As domestic inflation declined markedly in 2003, mainly due to rand strength versus major currencies, the local bond market increasingly reflected expectations of decreases in the South African Reserve Bank's repurchase (repo) rate. Local bond yields declined during the year, indicating expectations of lower inflation and the continued pursuit of sound monetary policies.

** As a result of systems limitations, the performance figures have been calculated with reference to closing values as in previous years, and not amended to take into account AC133 fair value adjustments.*

The RSA government yield curve, having shifted downwards, continued to display a strongly inverted shape, with the short end of the curve discounting further aggressive rate cuts by the South African Reserve Bank's monetary policy committee (MPC). Anticipating the shift in the yield curve, the PIC focused on acquiring short-dated bonds, given the attractiveness of the short end of the curve. At the beginning of the period, the asset-allocation model favoured cash and bonds over equities on a one-year view.

Significantly improved prospects for inflation motivated the South African Reserve Bank's MPC to lower the repo rate by 150 basis points at its June 2003 meeting, by 100 basis points to 11.0% per annum in August and by a further 100 basis points in September. Domestic bond yields also declined somewhat further and reached their lowest levels in 24 years.

CPIX inflation receded to 4.0% in December 2003, the lowest since CPIX data became available in 1997, before accelerating marginally to 4.2% in January 2004. Following an extended bull run in the bond market, yields edged marginally higher in the early months of 2004 as inflation declined to the point where most market participants expected it to bottom out. The public sector also started to borrow more funds in the domestic capital market.

In key international markets, long-term bond yields started moving decisively upwards from June 2003, discounting prospects for stronger growth.

In capital markets, the impact of the rand/dollar exchange rate on inflation statistics influences bond yields. The challenge remains to correctly anticipate changes to either the exchange rate or inflation and to estimate the impact on the rates at which bonds will trade.

Money markets

The PIC money market investments yielded a return of 11.0%* for the review period, compared with 14.0% in the previous period.

Money market interest rates declined steadily over the period, in response to decreases in the repo rate which the South African Reserve Bank lowered in response to declining inflationary expectations. The repo rate started at 13.5% in April 2003 and, through monetary easing, was decreased by a total of 550 basis points to reach a year low of 8.0% by December 2003. At 31 March 2004, the repo rate was unchanged at 8.0%.

The prime lending rate was subsequently decreased from 17.0% in April 2003 to 11.5% in December 2003 and remained there for the remainder of the review period.

** As a result of systems limitations, the performance figures have been calculated with reference to closing values as in previous years, and not amended to take into account AC133 fair value adjustments.*

Portfolio management continued

Other money market instrument rates decreased considerably, reflecting the decreasing repo rate. Three-month negotiable certificates of deposit (NCDs) decreased 620 basis points from 13.55% in April 2003 to 7.35% in December 2003. Due to a less-than-expected cut in the repo rate in mid-December 2003, there was an upward trend in money market rates. The three-month NCD ended at 8.2% at 31 March 2004.

Three-month treasury bills started at 12.72% in April 2003, reaching the lowest point for the period in December 2003 at 7.02%. By 31 March 2004, the treasury bill rate was at 7.8%.

With inflation as reflected by CPIX statistics believed to have bottomed out, in the new financial year short rates are expected to drift up slowly and money market activities will capitalise on that trend.

Equity investments

In contrast to the previous year, improved equity markets enabled the PIC total equity portfolio to deliver a return of 45.6%* compared to the decline of 21.4% for the previous year.

The total portfolio is now over R130 billion, of which R18 billion is managed internally by the PIC. In October 2003, the internally managed equity portfolio was split into an enhanced index fund and a balancing fund.

In the first five months of operation up to 31 March 2004, the enhanced index fund outperformed its benchmark.

The balancing fund is essentially a risk management tool intended to mitigate risk in the total PIC equity portfolio.

The performance of the PIC external managers has collectively, for the past three years, exceeded the benchmark by 1.69% on a rolling basis and has accordingly added billions of rands to the value of the portfolio for the benefit of the Government Employees Pension Fund.

During the year, the PIC initiated a programme of shareholder activism aimed at promoting good corporate governance. Evidence shows that companies which follow sound corporate governance principles are less risky investments, and generally provide better returns for shareholders in the longer term. This approach therefore complements the organisation's fiduciary duties to its clients.

A policy of active participation has been adopted by the PIC. By exercising voting rights at shareholders' meetings, the organisation aims to ensure ethical business practices by the boards of listed companies in which it invests.

The PIC will focus on ensuring that corporate governance principles in reports such as King II are implemented, and in cooperating with the JSE to ensure that all listed companies adhere to these principles.

A comprehensive corporate governance policy is under development which covers a variety of issues such as proxy voting and roles of non-executive directors. Once completed, it will be communicated to the companies in which the PIC invests.

Property investments

During the year, the valuation procedures for the property portfolio were amended to enable more accurate year-on-year comparisons. To reduce concentration risk by asset sub-class and geographic location, the portfolio is split between directly-held property investments (23%) and indirectly-held property investments (77%). Geographically, the portfolio is concentrated in Gauteng (62%) and North West (29%) with small investments in Limpopo and Eastern Cape. At 31 March 2004, the directly-held property portfolio was valued at R997 million and delivered a return of 12.2%* for the year, in line with a buoyant property market.

** As a result of systems limitations, the performance figures have been calculated with reference to closing values as in previous years, and not amended to take into account AC133 fair value adjustments.*

To address legal risks and streamline the administration processes, titles for certain properties are being transferred into the name of the relevant client and the cooperation of various government departments in this complex exercise is much appreciated. This process should be completed in the new financial year.

In line with the stated objective of increasing exposure to property to benefit from the relatively steady returns generated by this asset class, investigations into a number of potential investments are under way which could significantly increase the size of this portfolio.

The PIC is reviewing underperforming properties in the portfolio with the aim of either refurbishing and repositioning or disposing of such properties. As a result, the following properties are in the process of being refurbished:

- Central City – R36 million mall refurbishment and construction of value centre
- Temba City – R16 million mall refurbishment and maintenance
- Megacity – R24 million mall refurbishment and maintenance
- Garankuwa – R72 million mall refurbishment and maintenance

Corporate finance and Isibaya Fund

The corporate finance division includes infrastructure and development projects under the Isibaya Fund. The Isibaya Fund achieved a return of 45.9%* for the period under review. The Isibaya Fund, in particular, performed well mainly due to the exposure to the telecommunications sector, particularly the MTN empowerment transaction concluded in the previous period.

The highlight of the year was the PIC participation in conjunction with international financial institutions and commercial banks in the R4 billion acquisition by Mvelaphanda Investments of a 15% stake in Gold Fields SA. This transaction was concluded during the period and the organisation is confident that the empowerment shareholders will, in time, add value and contribute to the sustainability of the transaction. During the year under review, the PIC participated in the Investec empowerment transaction. The emerging trend of cooperation between institutions to realise transformation initiatives is welcomed by the PIC.

Good progress was made in recovering some losses from previously-impaired investments.

With improved internal controls and stringent criteria in place for monitoring investments, the division expects to benefit from the implementation of its new strategy and strong pipeline of potential investments in the new financial year.

Other investments

This category includes structured investment products, guaranteed investment policies, foreign investments and investment policies. The return for the period under review was 6.9%*.

The investments in this portfolio are being reviewed and, where appropriate, the products will be unwound.

** As a result of systems limitations, the performance figures have been calculated with reference to closing values as in previous years, and not amended to take into account AC133 fair value adjustments.*

Risk management statement

Managing risk in volatile markets

Modern asset management requires effective risk management, consistent benchmarking and a commitment to delivering superior returns for all stakeholders

Risk is an integral part of the PIC's business and activities. In October 2002 a risk management framework was developed and adopted by the PIC's Board. The framework was based on existing risk management practices as well as best practice in the asset management industry. A substantial part of this framework has been implemented while other parts are being reviewed to ensure that the framework covers all the aspects of risk in the dynamic financial environment within which the PIC operates.

Risk governance structure

Risk management and overview begins with the Board of commissioners, who review and accept the type and level of risk that the PIC is willing and able to take in its quest for investment returns. To advance this course, the Board has delegated some of its risk-related responsibilities to its subcommittees, being:

- **Investment committee (IC)**
  This committee is responsible for risk across all PIC investments.
- **Audit committee (AC)**
  Responsible for assessing adequacy of operational risk control measures across the organisation.

At operational level, risk is managed by the PIC secretariat and its subcommittees, being:

- **Portfolio management committee**
  This committee is responsible for managing risk in capital markets, equities, money markets and structured investments products. It reports to the IC and the Board.

- **IT steering committee**
  This committee reports to the IC and the Board. It is responsible for information technology and information management-related risk. It manages the disaster recovery plan and business continuity risk as well as the IT infrastructure of the organisation.
- **Property portfolio management committee**
  This committee comprises the CEO, COO and key personnel in the property investment division. It reports to the IC and the Board on risk related to property investments.
- **Corporate finance and Isibaya Fund portfolio management committee**
  This group comprises the CEO, COO and key personnel in the corporate finance and Isibaya Fund division of the PIC. It reports to the IC and the Board on risk related to its investment mandate.

Major risks

The investments managed by the PIC are spread across major asset classes, viz fixed income, equities, property, development capital, infrastructure, private equity and structured investment products.

Asset allocation

	2004 R millions Fair value	2003 R millions Fair value	**2004 Fair value %**	2003 Fair value %
Equities	**131 861**	88 817	**34.94**	28.87
Capital market	**195 719**	167 875	**51.87**	54.57
Loans and advances OBE	**1 332**	475	**0.35**	0.15
Investment properties	**997**	1 327	**0.26**	0.43
Derivatives HFT equity	**725**	446	**0.19**	0.15
Derivatives HFT interest rate	**310**	151	**0.08**	0.05
Special investment products and policies	**10 973**	11 424	**2.90**	3.71
Cash and cash equivalents	**33 628**	34 196	**8.91**	11.12
Investment in associate	**1 305**	1 296	**0.35**	0.42
Accounts receivable	**554**	2 166	**0.15**	0.70
Accounts payable	**(64)**	(536)	**(0.02)**	(0.17)
Total investments	**377 340**	307 637	**100.00**	100.00

The PIC portfolio is thus exposed to the following risks:

Asset risk

- Financial risks – direct and embedded in liabilities:
  – Interest rate risk
- Liquidity risks
  – Equity market risk
  – Concentration risk
  – Investment risk
- Credit risks, spread and default

Operational risk

- Internal and external fraud
- Human error
- Systems failure
- Employment practices and workplace safety
- Clients and business practices
- Execution, delivery and process management
- Legal and regulatory regime change risk

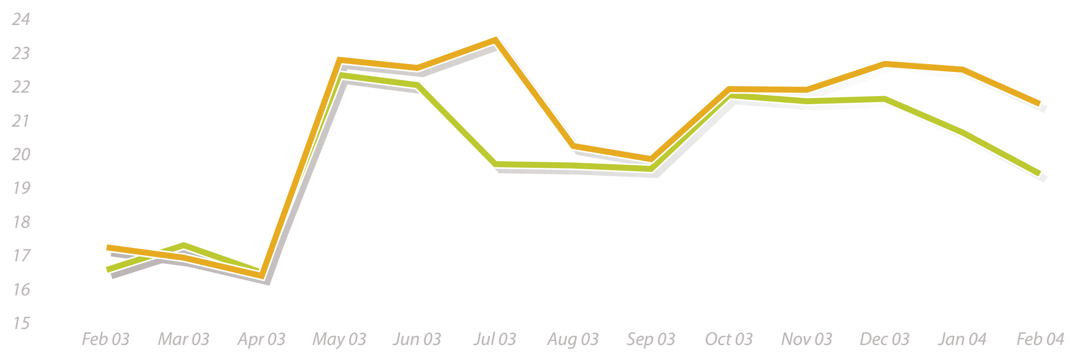
Market risk

Market risk is the risk that changes in financial market prices and rates will impact on the value of assets.

Equity market risk

PIC exposure to equities is about 35% of the total portfolio. Equities are the most volatile asset class and therefore are the biggest source of market risk for the PIC. The Beta of the PIC equity portfolio has been kept around 0.9 relative to the overall FTSE/JSE All Share index. The volatility of this portfolio has been managed at around 20% per annum (pa) compared with market average volatility of 21% pa, thus ensuring that market risk is kept to a minimum. The management of about 80% of the equity portfolio is outsourced to external managers. This gives the PIC exposure to capacity, expertise and a more diversified equity market risk management.

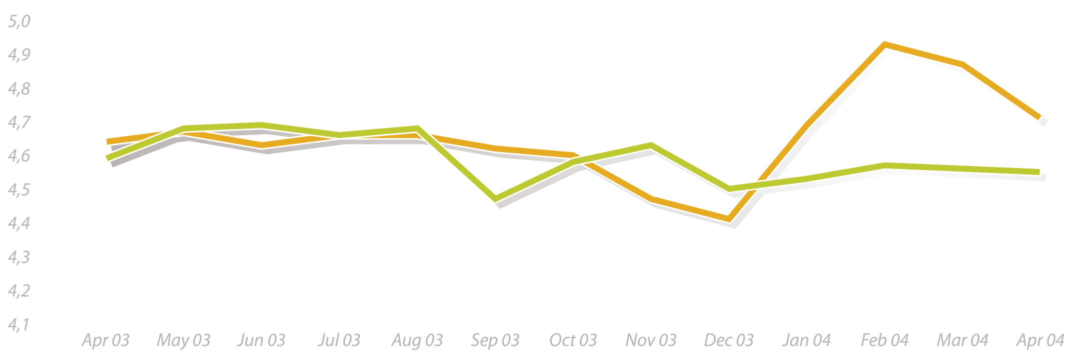
Equity market risk



Interest rate risk

PIC has an exposure of about 52% of assets under management to interest rate instruments. About 88% of the capital market portfolio is invested in government bonds. The fixed income portfolio modified duration, has been managed between the range of -15% and +15% of the BESA All Bond index modified duration, thus ensuring that market risk exposure to this asset class is kept to a minimum. A portion of this portfolio is invested in inflation-linked bonds which provide a natural hedge against inflation. The PIC portfolio modified duration was decreased at the beginning of the year in anticipation of yields rising.

PIC modified duration



Credit risk

Credit risk is the risk that changes in the credit quality of the counterparty may affect the value of the investment. This includes an extreme case of default.

This risk is managed through in-house developed models as well as external credit rating agencies. Money is placed with A-rated obligors only within limits set by the Board.

Loans and advances originated by entity (OBE) account for 0.35% of the total portfolio. Credit risk on this asset class is managed by a combination of guarantees, fixed and variable rates as well as use of derivatives.

Liquidity risk

Liquidity risk is the risk that the organisation may be unable to meet obligations when due, without incurring unacceptable costs.

Assets and liabilities matching is done by the clients who provide the PIC with a mandate that specifies an allocation to liquid assets. The money market investments and cash in the PIC portfolio has been kept at around 9% of assets under management to ensure that the liquidity needs of each portfolio are met. Portfolios with irregular cash flow are invested in money markets and short duration bonds to ensure sufficient liquidity.

Concentration risk

Concentration risk is the risk of loss due to poor diversification.

The equity benchmark has been constructed in such a way that it has lower weight in resources and higher weight in financials and industrials compared to the FTSE JSE All Share index. This benchmark is as diversified as the FTSE JSE All Share index with low concentration risk relative to the overall market resulting in the PIC equity portfolio having low concentration risk.

The fixed income portfolio is heavily weighted towards government stocks and diversified across maturities in line with the BESA All Bond index. The parastatals, corporate and municipal bonds are diversified across issuers and maturities ensuring that concentration risk is minimised.

Investment risk

Investment risk is the risk of loss due to a decrease in the market value of investments.

The property portfolio and Isibaya Fund are the two PIC sub-portfolios most exposed to investment risk because of investments in unlisted securities. The divisions managing these portfolios have seen a marked increase in human capital to ensure proper investment management strategies are put in place to manage investment and other related risks.

Operational risk

The risks stemming from:

- Internal and external fraud
- Human error
- Systems failure
- Employment practices and workplace safety
- Clients and business practices
- Execution, delivery and process management
- Legal and regulatory regime change

Risks of this nature are guarded against by means of comprehensive systems of internal control, annual external audits, risk management programmes and external insurance policies. The primary objective in managing operational risks is to identify possible weak links and to strengthen them.

Fraud prevention plan is under review.
Human error is being minimised by hiring staff with adequate knowledge and experience as well as improving on the technology to minimise human intervention.
Systems failure: An extensive overhaul of PIC's IT infrastructure is under way. The disaster recovery plan has been upgraded.

Annual financial statements 2004

Contents

Auditor-General's report

AUDITOR – GENERAL

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON THE FINANCIAL STATEMENTS OF THE PUBLIC INVESTMENT COMMISSIONERS FOR THE YEAR ENDED 31 MARCH 2004

1. AUDIT ASSIGNMENT

The financial statements as set out on pages 36 to 68 for the year ended 31 March 2004, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996 (Act No 108 of 1996), read with sections 3 and 5 of the Auditor-General Act, 1995 (Act No 12 of 1995) and section 10(b) of the Public Investment Commissioners Act, 1984 (Act No 45 of 1984) (PIC Act). These financial statements, the maintenance of effective control measures and compliance with relevant laws and regulations are the responsibility of the Board of commissioners. My responsibility is to express an opinion on these financial statements, based on the audit.

2. NATURE AND SCOPE

The audit was conducted in accordance with statements of South African Auditing Standards. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statement presentation.

Furthermore, an audit includes an examination, on a test basis, of evidence supporting compliance in all material respects with the relevant laws and regulations which came to my attention and are applicable to financial matters.

I believe that the audit provides a reasonable basis for my opinion.

3. AUDIT OPINION

In my opinion the financial statements fairly present, in all material respects, the financial position of the Public Investment Commissioners (PIC) at 31 March 2004 and the results of its operations and cash flows for the year then ended in accordance with South African Statements of Generally Accepted Accounting Practice (GAAP) and in the manner required by the Public Finance Management Act, 1999 (Act No 1 of 1999) (PFMA).

4. EMPHASIS OF MATTERS

Without qualifying the audit opinion expressed above, attention is drawn to the following matters:

4.1 Control environment

I observed an overall improvement in the risk management process during the current financial year's audit. However, system limitations inter alia have led to extensive manual processing of entries to bring transactions contained in the system in line with GAAP statement AC133, Financial Instruments: Recognition and Measurement. This manual intervention has led to a large number of errors and omissions in the annual financial statements initially submitted for auditing. This resulted in substantial additional audit procedures being conducted to ensure that these errors and omissions were corrected.

4. EMPHASIS OF MATTERS *(continued)*

4.2 Ownership of investment properties

I acknowledge the effort by management to resolve the ownership of investment properties managed on behalf of third parties reflected in the appendix as previously reported. Further mention is made in note 11, investment properties, of the appendix.

4.3 Non-compliance with the PFMA and Treasury Regulations

A number of instances were identified where the PIC did not comply with the PFMA. The more significant issues include the matters referred to in the sub paragraphs below:

4.3.1 Reporting to the executive authority

- The strategic plan was not submitted to the executive authority six months before the start of the financial year as required by Treasury Regulation 30.1.1; and
- Quarterly reports with regard to actual performance and or corrective action relating to the strategic plan were not submitted to the executive authority as required by Treasury Regulation 30.2.1.

4.3.2 Internal auditing

There was no internal audit function in place to regularly review compliance with the control, regulatory and performance frameworks. In addition to being a requirement in terms of section 51(1)(a)(ii) of the PFMA, the nature, magnitude and complexity of the PIC necessitates such a function.

4.3.3 Late submission of financial statements

Section 55 (c) of the PFMA requires financial statements to be submitted to the Auditor-General within two months after year-end, which is 31 May. Although the financial statements were received on the due date, they required numerous changes and were therefore handed back to the PIC in order for these changes to be effected. Revised financial statements were submitted on 26 July 2004 and, after further changes, again on 3 August 2004. A special subcommittee approved these financial statements 25 August 2004 in terms of the delegation given to it by the Board.

4.4 Delayed tabling of the previous year's annual report

Section 65(1)(a) of the PFMA requires that the annual report be tabled in Parliament within one month after the receipt of the audit report. The annual report containing the financial statements for the year ended 31 March 2003 was, however, only tabled in Parliament in November 2003.

4.5 Comparatives

Certain comparatives were reported on in the previous year's financial statements, which contained audit qualifications and matters of emphasis.

5. APPRECIATION

The assistance rendered by the Board and staff of the PIC during the audit is sincerely appreciated.

SA Fakie
Auditor-General

Pretoria
14 September 2004

Board of commissioners' responsibility for the annual financial statements

The report is presented in terms of Treasury Regulations 28.1.1 of the Public Finance Management Act, Act No 1 of 1999, as amended, and is focused on the financial results and the financial position of the PIC. Information pertaining to the PIC's state of affairs, its business and performance are disclosed elsewhere in the annual report. The prescribed disclosure of emoluments in terms of Treasury Regulation 28.1.1 is reflected in note 4 of the annual financial statements.

The annual financial statements of the PIC, which include the annual financial statements "Assets managed on behalf of other parties", as set out in the appendix, are the responsibility of the Board of commissioners and are subject to independent audit by the Auditor-General.

In order for the Board to discharge this responsibility, management has developed and continues to maintain a system of internal controls. The internal controls include a risk-based system of internal accounting and administrative controls designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions executed and recorded in accordance with generally accepted business practices, as well as the entity's policies and procedures. The Board has, however, the ultimate responsibility for this system of internal controls and reviews the effectiveness of its operation primarily through the audit committee.

The annual financial statements for the year ended 31 March 2004 set out on pages 36 to 68 (which includes the appendix "Assets managed on behalf of other parties" set out on pages 50 to 68), have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice and incorporate disclosure in line with the accounting philosophy of the Board and the requirements of the Public Investment Commissioners Act, 1984 (Act No 45 of 1984, as amended) and the Public Finance Management Act, 1999 (Act No 1 of 1999, as amended). The annual financial statements are based on appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The Board believes that the entity will continue to be a going concern in the year ahead and has, for this reason, adopted the going concern basis in preparing the annual financial statements.

These annual financial statements were approved by the Board of commissioners on 25 August 2004 and are signed on their behalf by:

Jabu Moleketi, MP
Chairman of the Board

Income statement

for the year ended 31 March 2004

	Notes	2004 R'000	2003 R'000
Revenue	1.2	**30 467**	21 611
Personnel expenses		**(13 043)**	(9 555)
Depreciation expense		**(1 818)**	(1 473)
Other operating expenses	2	**(17 194)**	(13 216)
Loss from ordinary activities		**(1 588)**	(2 633)
Other operating income	1.3, 3	**8 843**	9 880
Net surplus for the year		**7 255**	7 247

Balance sheet

at 31 March 2004

	Notes	2004 R'000	2003 R'000
ASSETS			
Non-current assets			
Property, plant and equipment	5	**8 159**	2 967
Intangible asset	6	**67**	–
Current assets		**97 389**	89 479
Trade and other receivables	7	**5 381**	3 689
Cash and cash equivalents		**92 008**	85 790
Total assets		**105 615**	92 446
RESERVE AND LIABILITIES			
Reserve			
Contingency reserve	11	**95 475**	88 220
Long-term liability			
Provision for capped leave	8	**–**	326
Current liabilities			
Trade and other payables	9	**10 140**	3 900
Total reserve and liabilities		**105 615**	92 446

Statement of changes in reserves

for the year ended 31 March 2004

	Notes	Contingency reserve R'000	Retained earnings R'000	Total R'000
Balance at 31 March 2002 as previously stated		**79 362**	**–**	**79 362**
Correction of error	12	1 611	–	1 611
Balance at 31 March 2002 restated		**80 973**	**–**	**80 973**
Net surplus for the year		**–**	7 247	7 247
Transfer to contingency reserve		7 247	(7 247)	–
Balance at 31 March 2003		**88 220**	**–**	**88 220**
Net surplus for the year		–	7 255	7 255
Transfer to contingency reserve		7 255	(7 255)	–
Balance at 31 March 2004		**95 475**	**–**	**95 475**

Cash flow statement

for the year ended 31 March 2004

	Notes	2004 R'000	2003 R'000
Net cash inflows from operating activities		**13 244**	8 080
Cash generated by/(utilised in) operations	10	**4 452**	(1 800)
Interest received	3	**8 792**	9 880
Net cash outflows from investing activities		**(7 026)**	(1 235)
Acquisition of property, plant and equipment	5	**(7 166)**	(1 235)
Proceeds on disposal of property, plant and equipment		**210**	–
Acquisition of the intangible asset	6	**(70)**	–
Net increase in cash and cash equivalents		**6 218**	6 845
Cash and cash equivalents at beginning of year		**85 790**	78 945
Cash and cash equivalents at end of year		**92 008**	85 790

1. ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these annual financial statements set out on pages 40 – 42 are set out below and are consistent with those of the previous year. The principal accounting policies applied in the preparation of "Assets managed on behalf of other parties" are disclosed in the appendix.

1.1 Basis of preparation

The annual financial statements are prepared in accordance with, and comply with, South African Statements of Generally Accepted Accounting Practice, the Public Investment Commissioners Act, 1984 (Act No 45 of 1984) and the Public Finance Management Act, 1999 (Act No 1 of 1999). The annual financial statements are further prepared in accordance with the going concern principle under the historical cost basis.

The nature of the Public Investment Commissioners' business is such that all trust and surplus funds, under the control of the government departments, provincial administrations and bodies and institutions approved by the Minister of Finance, which may be available for investment, are payable to the commissioners who are responsible for investing the funds. These funds are managed by the Public Investment Commissioners on behalf of these parties and any income or loss derived there from accrues directly to the above-mentioned parties. The assets managed on behalf of other parties are therefore appended to these annual financial statements in the appendix.

1.2 Revenue

Revenue is recognised on an accrual basis in the period in which the services are rendered and comprises management fees charged to parties on whose behalf the assets are managed.

1.3 Interest

Interest is accrued on a time proportionate basis at the effective interest rate applicable.

1.4 Property, plant and equipment

Property, plant and equipment comprises motor vehicles, furniture, computer equipment, other office equipment and leasehold improvements. Computer equipment includes capitalised development costs. Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Subsequent expenditure relating to an item of property, plant and equipment are capitalised when it is probable that future economic benefits from the use of the asset will be increased and will be realised. All other subsequent expenditure is recognised as an expense in the period in which it is incurred. Property, plant and equipment are depreciated on a straight-line basis at rates which will reduce the book values of the property, plant and equipment to their estimated residual values over their expected useful life.

The following depreciation rates have been applied:

Motor vehicles	20%
Furniture	20%
Computer equipment	33.33%
Other office equipment	20%
Leasehold improvements	20%

Surpluses/(deficits) on the disposal of property, plant and equipment are credited/(charged) to income. The surplus/(deficit) is the difference between the net disposal proceeds and the carrying value of the asset at the date of sale.

1.5 Intangible assets

Expenditure on research activities, undertaken with the prospect of gaining technical knowledge and an understanding are recognised in the income statement as an expense as incurred.

1. ACCOUNTING POLICIES *(continued)*

1.5 Intangible assets *(continued)*

Expenditure on computer software development costs is capitalised if it is technically feasible and it is probable that future economic benefits will be derived from the use of the asset. Capitalised computer software development costs are stated at cost, less accumulated amortisation and accumulated impairment losses.

Amortisation of intangible assets is charged to the income statement on a straight-line basis over an estimated five-year useful life.

Subsequent expenditure related to intangible assets is capitalised when it is probable that future economic benefits from the use of the assets will be increased and will be realised. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

Surpluses/(deficits) on the disposal of intangible assets are credited/(charged) to income. The surplus/(deficit) is the difference between the net disposal proceeds and the carrying value of the asset at the date of sale.

1.6 Impairment of assets

The carrying amount of assets is reviewed at balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount is estimated as the higher of net selling price and value in use. An impairment loss is recognised whenever the carrying amount exceeds the recoverable amount.

In assessing value in use, the expected future cash flows from the asset are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate cash inflows that are largely independent of those from other assets the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is recognised in the income statement whenever the carrying amount of the cash-generating unit exceeds its recoverable amount.

A previously recognised impairment loss is reversed if the recoverable amount increases as a result of a change in the estimates used to determine the recoverable amount, but not to an amount higher than the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognised in prior years.

1.7 Financial instruments

Financial instruments carried on the balance sheet include cash and cash equivalents, trade receivables and trade payables. Financial instruments are initially measured at cost and the particular subsequent measurement methods adopted are disclosed in the individual accounting policy notes associated with each item.

1.7.1 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and at the bank. Cash and cash equivalents are not subject to fair value measurement as the carrying value thereof is deemed to equal the anticipated fair value thereof.

1.7.2 Trade and other receivables

Accounts receivable are stated at cost less impairment losses. An impairment loss is recognised where the recoverable amount of an asset exceeds its carrying amount. The recoverable amount of trade and other receivables is calculated at the present value of expected future cash flows discounted using the original effective interest rate inherent in the asset. Short-term receivables are not discounted.

1.7.3 Trade and other payables

Accounts payable are presented at their respective outstanding balances at year-end. These are subject to normal trade credit terms and relatively short payment cycles.

1. ACCOUNTING POLICIES *(continued)*

1.8 Operating leases

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

1.9 Provisions

Provisions are recognised when the entity 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 can be made of the obligation, as detailed in note 8.

1.10 Employee benefits

The cost of all short-term employee benefits, such as salaries, bonuses, housing allowances, medical, leave payouts and other contributions is recognised during the period in which the employee renders the related service.

1.11 Commitment and contingent liabilities

Items are classified as commitments where the entity commits itself to future transactions or if the items will result in the acquisition of assets.

Transactions are disclosed as contingent liabilities where the entity's obligations depend on uncertain future events, the outflow of resources is not probable or the amount of the obligation cannot be measured reliably.

1.12 Comparatives

Where necessary, comparative figures have been restated. The effect of the restatement was as a result of an underaccrual of management fee income in prior years and has resulted in an increase in the contingency reserve and an increase in accounts receivable of R1 610 929. The comparative figures in the cash flow statement have also been restated. Refer note 12.

		2004 R'000	2003 R'000
2.	**OTHER OPERATING EXPENSES**		
	Other operating expenses include the following:		
	Audit fees	**2 343**	2 096
	– Current year	**2 229**	1 612
	– Underprovision in respect of previous year	**114**	484
	Commissioners' emoluments – (refer note 4.1)	**223**	243
	Operating lease charges – Property	**1 710**	965
	– Equipment	**66**	43
	Professional services	**4 134**	3 459
3.	**OTHER OPERATING INCOME**		
	Other operating income consists of the following:		
	Interest received	**8 792**	9 880
	Surplus on disposal of property, plant and equipment	**51**	–
		8 843	9 880

		Board and subcommittee meeting fees R'000	Expenses R'000	Total R'000
4.	**EMOLUMENTS**			
4.1	**Commissioners**			
	31 March 2004			
	IS Sehoole*	**21**	**3**	**24**
	JHN Strydom†	**35**	**1**	**36**
	V Ntombela†	**39**	**3**	**42**
	Y Waja*†	**58**	**8**	**66**
	ZJ SitholeΔ	**18**	**3**	**21**
	N Mtoba†	**31**	**3**	**34**
		202	**21**	**223**

All the commissioners were in office for the full financial year. The following commissioners have not been included as no emoluments were paid to them during the year: M Mpahlwa and M Ramos. This is due to these commissioners being employed by National Treasury.

	Board and subcommittee meeting fees R'000	Expenses R'000	Total R'000
31 March 2003			
C Turner†	2	–	2
IS Sehoole*	41	7	48
JHN Strydom†	13	–	13
V Ntombela†	39	4	43
Y Waja*†	59	8	67
ZJ SitholeΔ	20	5	25
N Mtoba†	40	5	45
	214	29	243

All the commissioners were in office for the full financial year, except for C Turner, who resigned during April 2002. The following commissioners have not been included as no emoluments were paid to them during the year: M Mpahlwa and M Ramos. This is due to these commissioners being employed by National Treasury.

Notes:

** Audit committee*

† Investment committee

Δ Executive committee

	Basic salary R'000	Pension R'000	Medical R'000	Bonus R'000	Car allow-ance R'000	Other R'000	Total R'000
4. EMOLUMENTS *(continued)*							
4.2 Senior management							
31 March 2004							
B Molefe – Chief executive officer	**358**	**48**	**21**	**18**	**113**	**2**	**560**
A Ngwezi – Chief operating officer	**563**	**–**	**–**	**–**	**–**	**2**	**565**
P van der Merwe – Head of equities	**273**	**39**	**26**	**43**	**72**	**1**	**454**
L Smit – Head of fixed income	**314**	**43**	**17**	**60**	**76**	**2**	**512**
M Khumalo – Head of property investment	**314**	**–**	**–**	**–**	**–**	**–**	**314**
T Mahloele – Head of corporate finance and Isibaya Fund	**575**	**–**	**–**	**–**	**–**	**–**	**575**
Dr D Matjila – Head of risk management	**502**	**–**	**–**	**291**	**–**	**–**	**793**
NK Mlamla – Former chief executive officer	**93**	**13**	**5**	**–**	**30**	**–**	**141**
W Bezuidenhout – Former chief financial officer	**608**	**–**	**–**	**–**	**–**	**2**	**610**
N Maree – Former portfolio manager	**131**	**19**	**14**	**17**	**35**	**–**	**216**
	3 731	**162**	**83**	**429**	**326**	**9**	**4 740**
31 March 2003							
NK Mlamla – Chief executive officer	333	50	16	27	119	11	556
W Bezuidenhout – Chief financial officer	447	–	6	–	25	2	480
N Maree – Portfolio manager	277	42	27	23	84	10	463
	1 057	92	49	50	228	23	1 499

B Molefe was appointed in June 2003 and A Ngwezi was appointed in July 2003. M Khumalo and T Mahloele were seconded in August 2003 and Dr D Matjila was seconded in September 2003. Due to the restructuring of the PIC's organogram, P van der Merwe and L Smit's emoluments were not separately disclosed in the prior year.

NK Mlamla resigned in June 2003, N Maree resigned in August 2003 and W Bezuidenhout resigned in January 2004.

	Motor vehicles R'000	Furniture R'000	Computer equipment R'000	Other office equipment R'000	Leasehold improvements R'000	Total R'000
5. PROPERTY, PLANT AND EQUIPMENT						
31 March 2004						
Carrying amount at 31 March 2003	**23**	**299**	**2 419**	**226**	**–**	**2 967**
Cost	**124**	**724**	**4 860**	**471**	**–**	**6 179**
Accumulated depreciation	**(101)**	**(425)**	**(2 441)**	**(245)**	**–**	**(3 212)**
Additions	**–**	**3 570**	**1 027**	**498**	**2 071**	**7 166**
Disposals	**–**	**(138)**	**–**	**(21)**	**–**	**(159)**
Cost	**–**	**(594)**	**–**	**(105)**	**–**	**(699)**
Accumulated depreciation	**–**	**456**	**–**	**84**	**–**	**540**
Depreciation for the year	**(15)**	**(239)**	**(1 348)**	**(101)**	**(112)**	**(1 815)**
Cost	**124**	**3 700**	**5 887**	**864**	**2 071**	**12 646**
Accumulated depreciation	**(116)**	**(208)**	**(3 789)**	**(262)**	**(112)**	**(4 487)**
Carrying amount at 31 March 2004	**8**	**3 492**	**2 098**	**602**	**1 959**	**8 159**
31 March 2003						
Carrying amount at 31 March 2002	39	416	2 456	294	–	3 205
Cost	124	698	3 676	446	–	4 944
Accumulated depreciation	(85)	(282)	(1 220)	(152)	–	(1 739)
Additions	–	26	1 184	25	–	1 235
Depreciation for the year	(16)	(143)	(1 221)	(93)	–	(1 473)
Cost	124	724	4 860	471	–	6 179
Accumulated depreciation	(101)	(425)	(2 441)	(245)	–	(3 212)
Carrying amount at 31 March 2003	23	299	2 419	226	–	2 967

		2004 R'000	2003 R'000
6.	**INTANGIBLE ASSET**		
	Carrying amount as at 1 April	**–**	–
	Additions	**70**	–
	Depreciation	**(3)**	–
	Cost	**70**	–
	Accumulated depreciation	**(3)**	–
	Carrying amount as at 31 March	**67**	–
7.	**TRADE AND OTHER RECEIVABLES**		
	Trade receivables	**2 766**	2 124
	Sundry debtors	**1 211**	–
	Interest accrued	**570**	921
	Pre-payments	**834**	644
		5 381	3 689
8.	**PROVISION FOR CAPPED LEAVE**		
	Opening balance	**326**	225
	(Decrease)/increase in long-term provision	**(326)**	101
	Closing balance	**–**	326
	The provision for capped leave consists of the vested portion of the long-term leave benefits payable to employees on retirement from public service. However, due to the pending corporatisation of the Public Investment Commissioners, the nature of this liability is now considered to be contingent. The full potential capped leave liability is disclosed under the contingent liability note (refer note 14).		
9.	**TRADE AND OTHER PAYABLES**		
	Trade payables	**9 787**	3 647
	Short-term leave	**353**	253
		10 140	3 900
10.	**CASH GENERATED BY/(UTILISED IN) OPERATIONS**		
	Loss from ordinary activities	**(1 588)**	(2 633)
	Adjusted for non-cash flow items:		
	Depreciation	**1 818**	1 473
	(Decrease)/increase in provision for capped leave	**(326)**	101
	Cash flow before changes in working capital	**(96)**	(1 059)
	Changes in working capital:	**4 548**	(741)
	Increase in trade and other receivables	**(1 692)**	(589)
	Increase/(decrease) in trade and other payables	**6 240**	(152)
		4 452	(1 800)

11. CONTINGENCY RESERVE

The contingency reserve is held in terms of section 5(4) of the Public Investment Commissioners Act 1984 (Act No 45 of 1984).

This reserve will be utilised to fund significant expenses to be incurred in improving the PIC's operations including the upgrade of the PIC's IT infrastructure, human resources costs as a result of the increased headcount and restructuring expenses. The utilisation of this reserve is in terms of Ministerial approval dated 9 September 2004.

12. CORRECTION OF ERROR

The correction of an error arising from the incorrect accounting for accrued management fees over several prior periods and accumulating to a total of R1 610 929 has been adjusted against previously stated accounting funds.

13. POST-RETIREMENT BENEFITS

The Public Investment Commissioners have no liability for post-retirement benefits as these are provided for by the National Treasury.

14. CONTINGENT LIABILITY

The Public Investment Commissioners have a contingent liability for leave pay benefits to the amount of R454 975 (2003: R1 101 016) should employees leave the employment of the Public Investment Commissioners on grounds of ill health or the reaching of their retirement age.

Guarantees amounting to R272 260 (2003: R272 260) in total have been issued to various third parties.

15. TAXATION

The Public Investment Commissioners are exempt from income taxation in terms of section 10(1)(a) of the Income Tax Act No 58 of 1962 which states that the receipts and accruals of the government, any provincial administration or any other state is exempt from income tax; and from value added taxation due to the fact that it is not conducting an enterprise as contemplated in subparagraph (b)(i) of the definition of "enterprise" contained in section 1 of the Value-Added Tax Act, No 89 of 1991.

16. FINANCIAL RISK MANAGEMENT

The Public Investment Commissioners are exposed to credit risk and interest rate risk.

Credit risk is managed in that revenue, consisting of management fees, is deducted directly from funds available on client portfolios.

Interest rate risk is managed by only placing cash and cash equivalents with reputable financial institutions, with appropriate credit ratings. At balance sheet date the effective interest rate applicable to cash and cash equivalents was 7.0% (2003:13.0%). This interest rate is linked to the prime lending rate.

The carrying amounts of the following financial instruments approximate to their fair value: cash and cash equivalents, trade and other receivables and trade and other payables.

17. ASSETS MANAGED ON BEHALF OF OTHER PARTIES

The Public Investment Commissioners are entrusted to manage assets on behalf of other parties.

The assets managed on behalf of other parties and related income are disclosed in the appendix and the fair-value of assets managed on behalf of third parties amounts to R377 340 345 649 (2003: R307 637 132 510).

		2004 R'000	2003 R'000
18.	**COMMITMENTS**		
	Property		
	Total future minimum lease payments	**24 986**	636
	Due within one year	**4 278**	589
	Due after one year but within five years	**20 708**	47
	The Public Investment Commissioners entered into a five-year property lease agreement on 1 February 2004. The terms of the lease agreement was taken into account in determining the future property lease commitments.		
	Equipment		
	Total future minimum lease payments	**1 117**	19
	Due within one year	**516**	19
	Due after one year but within five years	**601**	–

Appendix

Assets managed on behalf of other parties

Contents

Income earned

for the year ended 31 March 2004

	Notes	2004 R'000	2003 R'000
Dividends		**4 125 581**	4 014 785
Net foreign exchange losses		**(371 205)**	(1 533 150)
Interest		**20 714 501**	20 652 069
Net rental income		**173 939**	161 177
Profit on trading in capital market derivatives		**194 415**	22 183
Realised net gains		**6 385 464**	4 601 110
Unrealised net gains/(losses)		**33 804 531**	(15 085 598)
(Loss)/profit on revaluation of investment properties		**(125 033)**	47 700
Share of results in associate	4	**160 337**	134 202
Decrease in provision for impairment	7	**127 690**	460 669
Net income earned	2	**65 190 220**	13 475 147

Assets managed

at 31 March 2004

	Notes	**2004 R'000**	2003 R'000
Investments			
Held for trading	3.1	**339 475 441**	268 059 362
Originated by entity	3.2	**1 445 760**	1 128 724
Investment in associate	4	**1 304 770**	1 296 536
Investment properties	11	**997 006**	1 326 823
Money market investments			
Originated by entity	3.3	**33 627 527**	34 196 307
Total investments		**376 850 504**	306 007 752
Trade receivables	5	**553 861**	2 165 701
Less: Trade payables	6	**(64 020)**	(536 321)
Total assets managed		**377 340 345**	307 637 132
The above investments are funded as follows:			
General funds	12	**19 465 208**	14 705 765
Guardian funds	12	**2 374 303**	1 896 425
Pension funds	12	**355 379 162**	290 953 219
Section 7 funds	12	**121 672**	81 723
Total funds entrusted to the PIC		**377 340 345**	307 637 132

Movement in funds

for the year ended 31 March 2004

		Notes	R'000
Funds at 1 April 2002			293 256 012
Add:	Contributions and income earned		24 727 795
	Contributions received		11 252 648
	Net income earned on investments		13 475 147
Less:	Withdrawals and expenses		(9 252 611)
	Withdrawals of funds		(8 978 442)
	Management fees paid to the Public Investment Commissioners		(21 611)
	Other investment related expenses		(252 558)
Funds at 31 March 2003 as previously stated			308 731 196
Opening balance adjustment due to the adoption of AC133 – transitional adjustment		1.6	(557 709)
Fundamental error		8	(536 355)
Restated funds at 1 April 2003			**307 637 132**
Add:	Contributions and income earned		**77 407 928**
	Contributions received		**12 217 708**
	Net income earned on investments		**65 190 220**
Less:	Withdrawals and expenses		**(7 704 715)**
	Withdrawals of funds		**(7 432 942)**
	Management fees paid to the Public Investment Commissioners		**(30 467)**
	Other investment related expenses		**(241 340)**
Funds at 31 March 2004			**377 340 345**

Notes to the appendix

for the year ended 31 March 2004

INTRODUCTION

The Public Investment Commissioners manage assets on behalf of other parties. As these are not the assets of the Public Investment Commissioners, they are not reflected in the Public Investment Commissioners' annual financial statements, but are presented as an appendix to the annual financial statements.

1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in determining the amounts disclosed in note 17 of the Public Investment Commissioners annual financial statements and in the preparation of this appendix of "Assets managed on behalf of other parties" are set out below and are, unless otherwise indicated, consistent with those of the previous year.

1.1 Basis of preparation

The appendix of "Assets managed on behalf of other parties" is presented in South African rand rounded to the nearest thousand and is prepared in accordance with, and complies with South African Statements of Generally Accepted Accounting Practice. It is furthermore prepared in accordance with the going concern principle using the amortised cost or the historical cost basis, except for certain financial assets and liabilities which are stated at their fair value. These financial assets and liabilities are:

- financial assets classified as held for trading;
- derivative financial instruments;
- investment property; and
- financial instruments elected to be carried at fair value (designated held for trading).

The Public Investment Commissioners fully adopted, with effect from 1 April 2003, the following South African Statements of Generally Accepted Accounting Practice:

- South African Statement of Generally Accepted Accounting Practice, AC111 – "Revenue" ("AC111");
- South African Statement of Generally Accepted Accounting Practice, AC133 – "Financial Instruments: Recognition and Measurement" ("AC133"); and
- South African Statement of Generally Accepted Accounting Practice, AC135 – "Investment Properties" ("AC135").

For further detail refer to note 1.6.

1.2 Associated companies

Investments in associates are accounted for by using the equity method of accounting.

Associated companies are those enterprises in which there is the ability to exercise significant influence, but no control over the financial and operating policies.

Equity accounting involves recognition of the share of the associate's profit or loss for the period under review.

The carrying value in the assets managed statement reflects the share of the net assets and any goodwill on acquisition. The carrying values of investments in associates are reduced to their recoverable amount where these are lower than their carrying values. In instances where the share of the losses of an associate exceeds the carrying value of the associate, the investment in the associate is carried at Rnil value. Additional losses are only recognised to the extent that obligations in respect of the associate have been incurred.

1.3 Revenue recognition

1.3.1 Dividend income

Dividends are recognised on the "last day to trade" for listed shares, and on the "date of declaration" for unlisted shares. Dividend income includes scrip dividends, irrespective of whether there is an option to receive cash instead of shares.

Notes to the appendix

for the year ended 31 March 2004 (continued)

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

1.3 Revenue recognition *(continued)*

1.3.2 *Foreign currency translation*

Foreign currency transactions are converted to South African rand at the spot rate on the transaction date or at an average rate for the period. Monetary assets and liabilities in foreign currencies are translated to South African rand using the rates of exchange ruling at the financial year-end. Translation differences on monetary assets and liabilities are included in the income earned statement for the year. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the reporting currency at the foreign exchange rates ruling at the dates that the values were determined.

1.3.3 *Interest income*

Interest income is recognised on an accrual basis, applying the effective yield on the assets. The effective yield takes into account all directly attributable external costs, discounts or premiums on the advance.

Interest income on impaired advances is thereafter recognised based on the original effective interest rate used to determine the recoverable amount. The difference between the recoverable amount and the original carrying value is released to interest income over the expected collection period of the advance.

1.3.4 *Net rental income*

Net rental income from investment property is recognised in the income earned statement on a straight-line basis over the term of the lease.

1.3.5 *Profit on trading in capital market derivatives*

Profits, losses and fair value adjustments on trading derivative instruments which do not qualify for hedge accounting in terms of AC133, both realised and unrealised, are included in the income earned statement.

1.3.6 *Realised and unrealised gains/losses*

Profits, losses and fair value adjustments on trading financial instruments, both realised and unrealised, are included in the income earned statement.

1.4 Financial instruments

Financial instruments include all assets and liabilities, including derivative instruments, but exclude associated companies, intangible assets and investment properties.

Purchases and sales of financial instruments that require delivery within the time frame established by regulation or market convention (regular way purchases and sales) are recognised at trade date.

1.4.1 *Classification of financial instruments*

For the purposes of AC133, the investments managed by the Public Investment Commissioners are classified as follows:

Financial assets held for trading (HFT)

Assets are considered to be held for trading where they have been acquired or originated principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin or if the asset was designated as held for trading upon initial recognition. In addition, any financial asset that forms part of a portfolio where there is an actual pattern of profit taking is also classified as "held for trading".

Financial assets that do not meet the definition as "held for trading", as above, but are designated as "held for trading" are also included in this category.

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

1.4 Financial instruments *(continued)*

1.4.1 Classification of financial instruments (continued)

Financial assets held for trading (HFT) ***(continued)***
All financial assets held for trading, including derivatives, are measured at fair value.

More specifically, it includes:
- Listed/unlisted equities;
- Unit trusts;
- Government bonds and zero coupon bonds;
- Long dated promissory notes, debentures and fixed deposits;
- Special investment products, that include:
  - Guaranteed investment contracts;
  - Investment policies; and
  - Local and foreign structured investments.

Financial assets originated by the entity (OBE)
Assets falling into this category are loans and receivables originated by the entity, by providing money directly to a debtor other than those created with the intention of short-term profit taking. Originated loans and receivables comprise loans and advances to customers.

All financial assets classified as originated by the entity are valued at amortised cost.

Financial liabilities held for trading (HFT)
A financial liability is considered to be held for trading if it was acquired or incurred principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin. Trading liabilities are measured at fair value. Financial liabilities that do not meet the definition as "held for trading", as above, but are designated as "held for trading" are also included in this category.

1.4.2 Recognition of financial instruments

Financial instruments held for trading are recognised on the date of commitment to purchase the assets. From this date any gains and losses arising from changes in fair value of the assets are recognised.

Derivatives are recognised as assets or liabilities when the holder or writer becomes a party to the contract.

Financial instruments originated by entity are recognised as assets when the entity becomes a party to the contract and as a consequence, has a legal right to receive cash.

1.4.3 Measurement of financial instruments

Financial instruments are measured initially at cost, including directly attributable transaction costs.

Subsequent to initial recognition all trading instruments are measured to fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured, is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities, originated loans and receivables are measured at amortised cost less impairment losses (see 1.4.9). Amortised cost is calculated using the effective interest rate method. Premiums and discounts, including initial costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument.

1.4.4 Fair measurement principles

The fair value of financial instruments is based on their quoted market price at the balance sheet date without any deduction of transaction costs. The fair value of listed trading stocks are determined by reference to quoted bid prices, which may be adjusted where the bid/offer spreads for long dated financial instruments are considered to be significant.

Notes to the appendix

for the year ended 31 March 2004 (continued)

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

1.4 Financial instruments *(continued)*

1.4.4 ***Fair measurement principles (continued)***

For non-trading, illiquid or unlisted financial instruments, the fair value is the amount for which assets or liabilities could be exchanged or settled between knowledgeable, willing parties in an arm's length transaction, determined using various methods and on assumptions that are based on market conditions and risks existing at each year-end date. In the case of long-term debt or investment securities, these methods include using quoted market prices or dealer quotes for the same or similar securities, estimated discount values of future cash flows, replacement cost and termination cost.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimate and the discount rate is a market related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market related measures at the balance sheet date.

The fair value of derivatives that are not exchange traded is estimated at the amount that would be received or paid to terminate the contract at the balance sheet date taking into account current market conditions and the current creditworthiness of the counterparties.

1.4.5 ***Gains and losses on subsequent measurement***

Gains and losses arising from a change in the fair value of trading instruments are recognised in the income earned statement.

1.4.6 ***Specific financial instruments***

Derivative financial instruments

Derivative financial instruments are initially recognised in the assets managed statement at cost (including transaction costs) and subsequently these instruments are remeasured at their fair value. The fair values of publicly traded derivatives are based on quoted bid prices for assets held or liabilities to be issued, and current offer prices for assets to be acquired and liabilities held. The fair value for non-traded derivatives is based on discounted cash-flow models and option pricing models as appropriate. Derivatives are recognised as assets when fair value is positive and as liabilities when fair value is negative. Derivatives embedded in other non-derivative financial instruments, such as the conversion option in a convertible bond, are treated as separate derivatives when:

- the risks and characteristics are not closely related to those of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the host contract is not carried at fair value, with gains and losses reported in income.

More specifically, derivative financial instruments include:

- Equity derivatives; and
- Interest rate derivatives.

Loans and advances to customers

Advances are classified as "originated by the entity" where money is provided directly to a borrower or to a sub-participation agent at drawdown. Originated advances are carried at amortised cost. Third party expenses, such as legal fees, incurred in securing a loan are treated as part of the transaction. All advances are recognised when cash is advanced to borrowers.

Loans and other receivables are reported net of allowance to reflect the estimated recoverable amount.

Sale and repurchase agreements and lending of securities

The financial statements reflect securities sold subject to a linked repurchase agreement (repo's) as trading or investment securities. These instruments are measured at fair value, with changes in fair value reported in the income earned statement. The proceeds from the sale of the securities are reported as liabilities.

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

1.4 Financial instruments *(continued)*

1.4.6 Specific financial instruments (continued)

Sale and repurchase agreements and lending of securities ***(continued)***

Securities that are purchased under agreement to resell at a future date are not recognised. The amounts paid are recognised as loans against security and are included under "Trade receivables" in the assets managed statement. The difference between the sale and repurchase considerations is recognised over the period of the transaction using the effective yield, and is included in interest income.

1.4.7 Derecognition of financial assets and liabilities

A financial asset is derecognised when the entity loses control over the contractual rights that comprise the asset and consequently the substantive risks and benefits associated with the asset are transferred. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is legally extinguished.

Originated loans and receivables are derecognised on the day they are transferred by the entity.

1.4.8 Offset

Where legally enforceable rights exist for recognised financial assets and financial liabilities, and there is an intention to settle the liability and realise the asset simultaneously, or to settle on a net basis, all related financial effects are offset.

1.4.9 Impairment of investments

Financial assets are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If such indication exists, the asset's recoverable amount is estimated.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount.

The amount of the impairment is the difference between the carrying amount and the recoverable amount, calculated as the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate at inception of the financial instrument. Short-term balances are not discounted.

By comparison, the recoverable amount of an instrument measured at fair value is the present value of expected future cash flows discounted at the current market rate of interest for a similar financial asset.

Impairments are reversed through the income earned statement, if the amount of the impairment subsequently decreases due to an event occurring after the initial impairment.

1.5 Investment property

Properties that are held to earn rental income and/or for capital appreciation are classified as investment properties. Investment properties are treated as long-term investments and are revalued on an open market basis and stated at their revalued amounts. These valuations are performed by property valuators in cycles of three years and Commissioners' valuations are used during those years when external valuations are not performed. Surpluses and losses arising from the revaluation of the investment properties are recognised in the income earned statement in the year in which they arise.

Investment property also includes investments in property companies. These wholly owned companies, namely; Van Noppen Properties (Proprietary) Limited, 1/1350 Zwartkop Centurion (Proprietary) Limited and Erf 3342 Phalaborwa (Proprietary) Limited are not consolidated but are accounted for as investment properties, in line with the substance of the investment.

Notes to the appendix

for the year ended 31 March 2004 (continued)

1. PRINCIPAL ACCOUNTING POLICIES *(continued)*

1.6 First time adoption

South African Statement of Generally Accepted Accounting Practice, AC133 – "Financial Instruments: Recognition and Measurement" ("AC133")

The Public Investment Commissioners adopted AC133 on 1 April 2003. The statement is the South African equivalent of IAS39, the International Financial Reporting Standard. The statement introduces fair value accounting to certain classes of financial assets and liabilities such as certain advances, derivative instruments and investments in debt and equity securities. The statement is not applicable to assets such as fixed assets or investments in subsidiaries and associated companies. Fair value changes are reflected in the income earned statement. There are four primary asset categories to which the statement applies:

- Trading assets, typically equities trading portfolios where the intention is to trade with a short-term profit motive, which are fair valued with changes in fair value recorded in the income earned statement;
- Originated assets, such as normal advances, which are carried at amortised cost;
- Held-to-maturity assets, such as certain government bonds, where the intention is to hold the asset until maturity, which are carried at amortised cost; and
- Available for sale assets, such as certain private equity investments where there is no trading intention, which are carried at fair value with unrealised fair value changes reflected in equity until realisation.

AC133 also allows for the designation of any financial instrument as "Held for trading", irrespective of the described categories above, with fair value changes on such assets reflected in the income earned statement. Financial instruments are designated under the various categories on initial recognition. With the exception of assets classified as, or designated as held for trading (which are not reclassified), financial assets are only reclassified in limited circumstances. AC133 is a prospective accounting statement and does not provide for the restatement of comparative numbers. It has comprehensive transitional provisions, which affect opening equity balances.

The implementation of AC133 involved the reclassification of all assets and liabilities to conform with the new requirements of the statement. The opening balances of all assets and liabilities were remeasured as necessary and the adjustments booked against the opening trust fund balances, identified as "Opening balance adjustment due to the adoption of AC133" in the Movement in funds statement. The impact of adopting AC133 on the various asset categories as disclosed in the financial year ended 31 March 2003 is analysed in the table below:

Asset category	R'000
Equities	(461 357)
Development capital	(42 176)
Local special investment products	(945)
Foreign special investment products	2
Local authorities	2 485
Public corporation stocks	(25 644)
Public corporation bills	(30 074)
Total	(557 709)

The AC133 adjustment of R558 million represents a devaluation of 0.18% in the total investment value as at 31 March 2003 as previously disclosed.

South African Statement of Generally Accepted Accounting Practice, AC135 – "Investment Properties" ("AC135")

The Public Investment Commissioners adopted AC135 on 1 April 2003. The statement allows the measurement choice between cost and fair value. The Public Investment Commissioners have adopted the fair value model and therefore valuations of investment properties are required to be performed on an annual basis from which the fair value changes are reflected in income and expenditure. The adoption had no material effect on the values as previously reported, as investment properties had been accounted for at fair value in the 2003 annual financial statements. In the current financial year disclosure has been provided in accordance with the requirements of the statement.

South African Statement of Generally Accepted Accounting Practice, AC111 – "Revenue" ("AC111")

The Public Investment Commissioners adopted AC111 fully on 1 April 2003. Interest is recognised on a time proportionate basis that takes into account the effective yield on the asset. Interest revenue includes the amount of amortisation of any discount, premium or other difference between the initial carrying amount of a debt security and its amount at maturity. The effect of the adoption has been incorporated in the fair value adjustment as a result of AC133. Refer "Movement in funds".

	2004 R'000
2. INCOME PER INVESTMENT CATEGORY	
Investments – Held for Trading (HFT)	
Equities	41 223 836
– Listed local	39 243 961
– Unlisted local	1 854 618
– Listed foreign	56 762
– Unit trusts	68 495
Capital market	18 316 995
– Government bonds	15 176 889
– Government zero coupon bonds	898 132
– Foreign government bonds	(406 505)
– Public corporation bonds	1 710 597
– Promissory notes	247 430
– Debentures	86 268
– Fixed deposits	3 642
– Public corporation zero coupon bonds	600 542
Derivatives	209 265
– Equity	316 366
– Interest rate	(107 101)
Special investment products	1 456 630
– Guaranteed investment contracts	370 599
– Investment policies	359 310
– Local investments	728 058
– Foreign investments	(1 337)
Investments – HFT	61 206 726
Investments – Originated by Entity (OBE)	
Capital market	169 964
– Public corporations	77 126
– Local authority bonds	37 763
– Local authority zero coupon bonds	55 075
Loans and advances	74 075
Investments – OBE	244 039
Investment in associate	160 337
Investment properties	56 709
Money market investments – Originated by Entity (OBE)	
– Certificates of deposit	510 093
– Promissory notes	1 164 023
– Bills	330 637
– Fixed deposits	481 874
– Call accounts	182 119
– Settlement accounts	853 663
Money market investments – OBE	3 522 409
Total investments	65 190 220

The first time adoption of AC133 resulted in the reclassification of investments per investment category, to ensure that the investments were correctly classified in terms of AC133. The benefit of providing comparative income earned figures would not have exceeded the cost involved and thus no comparative information is disclosed.

Notes to the appendix

for the year ended 31 March 2004 (continued)

		2004 R'000	2003 R'000
3.	**APPORTIONMENT OF INVESTMENTS**		
3.1	**Investments – Held for Trading (HFT)**		
	Equities	**131 861 412**	88 817 335
	– Listed local	**126 906 391**	85 507 701
	– Unlisted local	**4 701 003**	2 849 268
	– Listed foreign	**–**	1 240
	– Unit trusts	**254 018**	459 126
	Capital market	**195 605 340**	167 220 973
	– Government bonds	**166 570 928**	138 959 666
	– Government zero coupon bonds	**6 359 739**	6 026 024
	– Foreign government bonds	**436 109**	2 028 077
	– Public corporation bonds	**18 983 405**	18 070 741
	– Promissory notes	**1 295 224**	638 385
	– Debentures	**410 271**	139 066
	– Fixed deposits	**37 448**	37 000
	– Public corporation zero coupon bonds	**1 512 216**	1 322 014
	Derivatives	**1 035 313**	596 722
	– Local equity	**601 938**	293 485
	– Foreign equity	**123 005**	152 421
	– Interest rate	**310 370**	150 816
	Special investment products	**10 973 376**	11 424 332
	– Guaranteed investment contracts	**6 597 965**	6 408 577
	– Investment policies	**2 729 974**	3 740 118
	– Local investments	**1 645 437**	1 268 329
	– Foreign investments	**–**	7 308
	Total investments – HFT	**339 475 441**	268 059 362
3.2	**Investments– Originated by Entity (OBE)**		
	Capital market	**113 286**	653 669
	– Public corporations	**113 286**	29 229
	– Local authority bonds	**–**	497 289
	– Local authority zero coupon bonds	**–**	127 151
	Loans and advances	**1 332 474**	475 055
	Total investments – OBE	**1 445 760**	1 128 724
3.3	**Money market investments – Originated by Entity (OBE)**		
	– Certificates of deposit	**2 884 864**	4 579 768
	– Promissory notes	**12 117 827**	9 727 980
	– Bills	**1 366 964**	2 199 782
	– Fixed deposits	**5 339 491**	3 853 215
	– Call accounts	**1 233 746**	5 510 381
	– Settlement accounts	**10 684 635**	8 325 181
	Total money market investments – OBE	**33 627 527**	34 196 307

Included in held for trading capital market government bonds are bonds with a fair value of R3 701 625 834 (2003: R3 641 652 408) that have been ceded as part of an investment in a structured investment product. These bonds bear interest at a coupon rate of 13.0% (2003: 13.0%), but the guaranteed returns in terms of the structured investment product are limited to 4.0% (2003: 4.0%) on a nominal amount of R3 149 647 067 (2003: R3 149 647 067).

		2004 R'000	2003 R'000
4.	**INVESTMENT IN ASSOCIATE**		
	Opening carrying amount of investment	**1 296 536**	1 298 543
	Share of results in associate	**160 337**	134 202
	Less: Amounts received	**(152 103)**	(136 209)
	Dividends received	**(146)**	(127)
	Interest received	**(151 957)**	(136 082)
	Closing carrying amount	**1 304 770**	1 296 536
	The closing carrying amount consists of the following:		
	Investment in equity	**155 643**	147 409
	Investment in debentures	**1 126 573**	1 126 573
	Accrued debenture interest	**22 554**	22 554
	Closing carrying amount	**1 304 770**	1 296 536
	Commissioners' valuation at 31 March	**1 685 989**	1 550 092

The investment in the associate relates to a 40% shareholding in Pareto (Proprietary) Limited, an unlisted company registered in the Republic of South Africa. Although the company has a 30 June year-end, the management accounts for the period to 31 March 2004 have been used for the equity accounting of the associate which is consistent with the treatment in prior years.

The investment consists of 1 127 700 425 linked units, each consisting of an unsecured convertible debenture of R0.999 and an ordinary share with a par value of R0.001. Negative goodwill that arose on acquisition has been recognised in full in the year of acquisition due to the insignificance thereof.

The summarised financial information of the associate's assets, liabilities and post-acquisition reserves is as follows on 31 March:

	2004 R'000	2003 R'000
Plant and equipment	**867**	666
Investment properties	**3 921 334**	3 727 282
Net current assets	**114 785**	80 028
	4 036 986	3 807 976
Share capital	**2 819**	2 819
Reserves	**807 515**	720 982
Non-current liabilities	**3 208 018**	3 075 159
Current liabilities	**18 634**	9 016
	4 036 986	3 807 976
Revenue	**434 120**	349 738
Profit before taxation and finance cost	**400 842**	336 597
Finance cost	**(353 785)**	(188 654)
Profit before taxation after finance cost	**47 057**	147 943
Income taxation expense	**(46)**	(1 094)
Profit after taxation	**47 011**	146 849
Dividends	**(366)**	(318)
Net profit for the year	**46 645**	146 531

Notes to the appendix

for the year ended 31 March 2004 (continued)

		2004 R'000	2003 R'000
5.	**TRADE RECEIVABLES**		
	Repurchase agreements	**–**	1 583 270
	Outstanding settlements	**562 469**	587 443
		562 469	2 170 713
	Impairment of trade receivables	**(8 608)**	(5 012)
		553 861	2 165 701
6.	**TRADE PAYABLES**		
	Outstanding settlements	**–**	465 845
	National Revenue Fund – refer note 6.1	**64 009**	49 041
	Other trade payables	**11**	21 435
		64 020	536 321
6.1	**National Revenue Fund**		
	Surplus interest payable to National Treasury in respect of:		
	Guardian funds		
	Interest received after Master's costs	**130 501**	206 877
	Interest allocated	**(116 600)**	(159 197)
		13 901	47 680
	Guardian reserve fund		
	Interest received	**1 067**	1 361
		14 968	49 041
	Prior year balance	**49 041**	–
		64 009	49 041
	The interest rate payable on Guardian funds is determined on an annual basis by the Minister of Finance. At the end of each financial year, the amount by which the actual interest earned on the funds exceeds interest calculated at the prescribed rate, is payable to the National Revenue Fund by the Public Investment Commissioners.		
7.	**PROVISION FOR IMPAIRMENT ON INVESTMENTS AND TRADE RECEIVABLES**		
	Included in the carrying values of the various investments are these provisions. The movement has been included in the income earned statement.		
	Balance at the beginning of the year	**522 250**	982 919
	Movement for the year	**(127 690)**	(460 669)
	– Amounts recovered	**–**	7 694
	– Decrease in provision for impairment	**(131 286)**	(283 492)
	– Increase in provision for trade receivables	**3 596**	1 520
	– Investments written off	**–**	(186 391)
	Balance at the end of the year	**394 560**	522 250

8. FUNDAMENTAL ERROR

Based on the information obtained from external parties, amounts were incorrectly indicated as assets managed on behalf of other parties, resulting in the assets being overstated. Details are as follows:

- Overstatement of SIP027 R150 zero coupon bond by R438 179 million; and
- Overstatement of SIP025 R153 final coupon by R98 176 million.

The above two fundamental errors were corrected against the opening retained funds in the current financial year.

9. FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS

Investment activities expose the assets managed on behalf of other parties to various types of risk that are associated with the financial instruments and markets in which they are invested. The most important types of financial risk to which the assets managed on behalf of other parties are exposed, are price risk, credit risk and liquidity risk. Price risk includes market risk, interest rate risk and currency risk.

The nature and extent of financial instruments outstanding at the balance sheet date and the risk management policies employed by the PIC are discussed below:

9.1 Market risk

Market risk is the risk that the value of a financial instrument or investment will fluctuate due to changes in market prices, irrespective of whether those changes are caused by circumstances particular to the "Assets managed on behalf of other parties" or to the investment market in general. Held for trading and derivative instruments are recognised at fair value and all changes in market conditions directly affect "Income earned". Exposure to market risk is formally managed in accordance with risk limits set by senior management and the Board of commissioners.

9.1.1 Equity market risk

Equities are the most volatile asset class and therefore the biggest source of market risk for the portfolio. The beta of the equity portfolio is maintained at levels below 1 relative to the JSE/FTSE All Share index. The management of approximately 80% of the equity portfolio is outsourced to external fund managers who possess both the resources and expertise to adequately address any potential equity market risk. The fair value of the equity portfolio at 31 March 2004 was R131 861 412 000 (2003: R88 817 335 000)

9.1.2 Interest rate risk

Interest rate risk is the risk that the value of a financial instrument or investment will fluctuate due to movements in market interest rates.

Interest rate risk pertaining to fixed interest securities is managed by ensuring that the duration of the investments is in line with that of the all-bond index. The interest rate risk relating to loans and advances is managed by entering into fixed interest rate as well as floating interest rate contracts.

Notes to the appendix

for the year ended 31 March 2004 (continued)

9. FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS *(continued)*

9.1 Market risk *(continued)*

9.1.2 Interest rate risk (continued)

The following table summarises the effective interest rates for local investments:

	Total R'000	Floating rate R'000	Fixed rate Interest R'000	Fixed rate Discount R'000	Non-interest-bearing R'000	Weighted average interest rate Interest	Weighted average interest rate Discount
Equities	131 861 412	–	–	–	131 861 412	–	–
Capital markets (HFT)							
– Government bonds	166 570 928	–	166 534 401	–	36 527	8.71	–
– Government zeros	6 359 739	–	–	6 359 739	–	–	11.76
– Public corporation bonds	18 983 405	–	18 983 405	–	–	10.91	–
– Promissory notes	1 295 224	–	–	1 295 224	–	–	25.59
– Debentures	410 271	–	133 950	–	276 321	15.31	–
– Fixed deposits	37 448	–	37 448	–	–	13.00	–
– Public corporation zeros	1 512 216	–	–	1 512 216	–	–	14.74
Capital markets (OBE)							
– Public corporation bonds	113 286	–	113 286	–	–	16.02	–
Loans and advances OBE	1 332 474	276 194	1 056 280	–	–	9.27	–
Investment properties	997 006	–	121 800	–	875 206	10.15	–
Derivatives (HFT)							
– Equity	601 938	–	–	–	601 938	–	–
– Interest rate	310 370	–	–	–	310 370	–	–
Special investment products (HFT)							
– GICs	6 597 965	6 597 965	–	–	–	2.79	–
– Investment policies	2 729 974	–	–	–	2 729 974	–	–
– Local	1 645 437	–	931 648	–	713 789	2.84	–
Money market (OBE)							
– Certificate of deposits	2 884 864	–	2 884 864	–	–	10.55	–
– Promissory notes	12 117 827	–	–	12 117 827	–	–	9.14
– Bills	1 366 964	–	–	1 366 964	–	–	7.71
– Fixed deposits	5 339 491	–	5 339 491	–	–	8.14	–
– Call accounts	1 233 746	1 233 746	–	–	–	7.49	–
– Settlement accounts	10 684 635	10 684 635	–	–	–	6.85	–
Total	**374 986 620**	**18 792 540**	**196 136 573**	**22 651 970**	**137 405 537**		
Foreign investments							
– Government bonds	436 109						
– Equity derivatives	123 005						
Investment in associate	1 304 770						
Trade receivables/payables	489 841						
Total investments	377 340 345						

The effective interest rates are not always equal to the contractual interest rates. Since the effective interest rate on foreign currency denominated investments is subject to fluctuations in the currency rates these investments have been excluded from the analysis.

9. FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS *(continued)*

9.1 Market risk *(continued)*

9.1.3 Currency risk

Currency risk is the risk that the value of a financial instrument or investment will fluctuate due to changes in foreign exchange rates. Exposure to currency risk exists as certain investments are denominated in foreign currency.

The net exposure to fluctuations in foreign currency exchange rates at the balance sheet date was as follows:

	2004 Foreign currency '000	**2004** R'000	2003 Foreign currency '000	2003 R'000
United States dollar	**88 730**	**559 114**	545 672	4 305 361
– Equities HFT listed foreign	**–**	**–**	157	1 240
– Capital market HFT foreign government bond	**69 209**	**436 109**	207 816	1 639 667
– SIP HFT foreign investments	**–**	**–**	926	7 308
– Derivative HFT equity	**19 521**	**123 005**	19 318	152 421
– Money market call account	**–**	**–**	317 455	2 504 725
Euro				
– Money market call account	**–**	**–**	28 168	242 528
Pound sterling	**1 079**	**12 695**	28 962	361 735
– Money market call account	**–**	**–**	27 881	348 233
– RSA sterling bond	**1 079**	**12 695**	1 081	13 502

The exchange rates used to translate investments in foreign denominated amounts at year-end are rounded to two decimals and were as follows:

	2004 R	2003 R
United States dollar	**6.30**	7.89
Euro	**–**	8.61
Pound sterling	**11.76**	12.49

9.2 Credit risk

Credit risk is the risk that a counterparty to a financial instrument or investment will default on its obligation, in part or in total, thereby causing financial loss in relation to the "Assets managed on behalf of other parties".

This risk is managed through models developed in-house and by external credit rating agencies. Money is placed with A-rated obligors (excluding loans and advances) only within limits set by the Board.

The credit risk pertaining to loans and advances is managed through the use of a combination of derivative structures and guarantees for the credit exposure as appropriate. Loans and advances are approved by the investment committee and the Board of commissioners within the terms of the delegation of authority.

Notes to the appendix

for the year ended 31 March 2004 (continued)

9. FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS *(continued)*

9.3 Liquidity risk

Liquidity risk is the risk that the "Assets managed on behalf of other parties" will not readily convert into cash should the need for funds arise.

Liquidity risk is managed by investing the majority of assets in government stocks and equities in which an active market exists enabling the investments to be efficiently liquidated if necessary to satisfy the clients' cash flow requirements.

The maturity analysis of investments with predetermined maturity values is provided below. For those instruments for which there are no predetermined maturity values, the fair values as at the end of the financial year have been used.

Analysis of fixed maturity investments (at maturity/fair values)

	Within one year R'000	2 – 5 years R'000	6 – 10 years R'000	Over 10 years R'000
Capital markets (HFT)				
Government bonds	1 195 720	32 855 639	73 934 538	32 225 350
Government zero coupon bonds	732 750	5 433 912	1 703 512	2 300 750
Foreign government bonds	436 109	–	–	–
Public corporation bonds	302 500	11 448 000	3 706 000	1 878 897
Promissory notes	924 160	231 863	466 004	–
Debentures	406 263	–	–	–
Fixed deposits	–	37 000	–	–
Public corporation zero coupon bonds	–	1 000 000	1 350 000	–
Capital markets (OBE)				
Foreign government bonds	–	–	–	–
Public corporation bonds	500	158 165	–	–
Loans and advances (OBE)	110 630	397 226	666 145	158 473
Special investment products				
Guaranteed investment contracts	299 243	2 617 073	2 429 285	1 252 363
Investment policies	2 720 479	9 495	–	–
Local investments	1 140 165	505 272	–	–
Derivatives (HFT)				
Equity	724 943	–	–	–
Interest rate	(2 420)	–	312 790	–
Total as at 31 March 2004	**8 991 042**	**54 693 645**	**84 568 274**	**37 815 833**
Total as at 31 March 2003	35 855 418	57 173 052	63 942 318	27 079 074

The maturity analysis is based on the remaining periods to contractual maturity from year-end. The clients retain the responsibility for matching asset and liability profiles for the purpose of asset-liability management.

Notes to the appendix

for the year ended 31 March 2004 (continued)

		2004 R'000	2003 R'000
10.	**OPERATING LEASES**		
	Operating leases are significant to the investment properties. The total minimum future receivables under non-cancellable operating leases are:		
	Not later than one year	**157 768**	152 939
	One year but not later than five years	**348 616**	443 155
	Later than five years	**62 836**	126 066
		569 220	722 160
11.	**INVESTMENT PROPERTIES**		
	Opening carrying value	**1 326 823**	1 183 439
	Revaluation	**(125 033)**	47 700
	Additions	**53 407**	95 688
	Sales	**(258 191)**	(4)
	Closing carrying value	**997 006**	1 326 823

11.1 Revaluation of investment properties

An external revaluation of investment properties was performed as at 31 March 2004. All relevant factors in determining a reasonable value as it would be determined between reasonable and informed purchasers and sellers in an open market situation are taken into account in the revaluation of the investment properties. MJH Bush, from Motseng Marriott Property Services (Proprietory) Limited, who holds a recognised and relevant FRICS MIV (SA) qualification in terms of the Valuers Act (Act No 23 of 1982), performed the revaluation.

11.2 Ownership of investment properties

As at 31 March 2004, there were no title deeds for investment properties valued at R105.6 million. These investment properties relate to properties constructed in Thlabane, Rustenburg, by the Sefalana Employee Benefits Organisation (SEBO), to whom the GEPF is a successor in title. These properties were constructed on state land without proper title to the land being given to SEBO. The PIC is currently engaged in negotiations with the Department of Land Affairs, on behalf of its client the GEPF, to resolve this matter.

The value of the properties is immaterial in relation to the total investments managed by the PIC and in particular, the investments managed on behalf of the GEPF and does not affect the fair presentation of the annual financial statements.

12. CLASSIFICATION OF FUNDS

The Public Investment Commissioners manage funds on behalf of a variety of different entities and have classified them in the following groupings:

General funds

These represent investments made on behalf of entities that are not classified as either pension funds, guardian funds or section 7 funds.

Guardian funds

These are funds which are created under special circumstances. There is a guardian fund associated with each division of the High Court.

Pension funds

These represent funds invested on behalf of pension funds, particularly the Government Employees Pension Fund.

Section 7 funds

These represents various funds that have to be invested with the Public Investment Commissioners as decided by the Minister of Finance in terms of section 7 of the Public Investment Commissioners Act, 1984 (Act No 45 of 1984).

Notes to the appendix

for the year ended 31 March 2004 (continued)

13. COMPARATIVES

The implementation of AC133 resulted in the reclassification of investments into different asset categories. As a result of the new classifications, comparative figures have been adjusted to conform to changes in presentation in the current year.

14. POST-BALANCE SHEET EVENTS

No other significant events, other than normal market movements, have taken place since the balance sheet date.

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