PUBLIC INVESTMENT CORPORATION
100 YEARS

Integrated Report 2011

Celebrating **100 years** of success

1911 – 2011

PUBLIC INVESTMENT
CORPORATION
100 YEARS

Contents

Financials

Preface

A new reporting discipline

The third King Report on Corporate Governance (King III) makes key recommendations concerning the nature and style of reporting as well as disclosure. This is in line with growing international trends in corporate responsibility. The view is that reports based largely on financial information do not provide sufficient insight to enable stakeholders to form a comprehensive picture of the organisation's performance or of its ability to create and sustain value, especially in the context of growing environmental, social and economic challenges. King III urges entities to adopt the principles of Integrated Reporting. An Integrated Report is essentially an integration of sustainability and financial reporting and aims at effective communication with stakeholders.

The stress is on substance over form and focuses on transparent disclosure of information that is material, relevant, accessible, understandable and comparable with the past performance of the reporting organisation. It is further proposed that Integrated Reporting should be formalised as part of every company's reporting process, that it should take place at least once a year and that all such reports be accompanied by independent assurance.

The Integrated Reporting initiative is part of a world-wide trend, the overarching objective of which is to enable stakeholders to assess the ability of an organisation to create and sustain value over the short, medium and long term. Accordingly, readers of an Integrated Report should be able to determine whether the organisation's governing structure has sufficiently applied its collective mind to identifying the social, environmental, economic and financial issues that impact on the organisation's business and whether these issues have been appropriately incorporated into its strategy and reporting.

The scope and boundary of this report

This is a landmark report from several points of view. It looks back with a degree of pride on a century of accomplishment in the service of South Africa's public sector and the country's people at large. It reflects on the salient financial achievements in a year characterised by definite signs of recovery from the woes that have plagued many of the world's economies in the immediate past. Most importantly, it turns the page on historic reporting processes and introduces a new discipline which concerns itself with examining corporate accomplishment, not only from the viewpoint of financial performance, but adds to the Corporation's views and actions on a range of other considerations relating to sustainability. This includes examining and disclosing, where relevant, all factors that may influence the assessment or decision-making of stakeholders, including the Corporation itself. This new form of reporting, Integrated Reporting, has been motivated by the realisation that the continued success of organisations is inextricably linked with three interdependent sub-systems – society, the environment and the global economy. This report, therefore, contains information which the Board of Directors believes to be essential to those wishing to make a meaningful assessment of the Corporation's ability to create and sustain value over the short, medium and long term.

Minister's note to Parliament

Mr Pravin Gordhan
Minister of Finance

Speaker of Parliament

I have the honour, in terms of section 65 of the Public Finance Management Act, 1999 (Act No. 1 of 1999), to present the Integrated Report of the Public Investment Corporation Limited, for the period 1 April 2010 to 31 March 2011.

PJ Gordhan
Minister of Finance
September 2011

The Public Investment Corporation Limited (PIC) has a century of experience in managing public sector funds.

PIC is wholly owned by the South African Government and invests funds on behalf of public sector entities, mainly pension, provident, social security and guardian funds.

1911 to 2011 – 100 years of service

The Public Investment Corporation (PIC) serves as a principal asset management vehicle for the public sector of the Republic of South Africa. The roots of the PIC stretch back to 1911 and the founding of the Public Debt Commissioners. In 1984 the organisation was transformed into the Public Investment Commissioners (Act No. 45 of 1984). On 1 April 2005, following the promulgation of the Public Investment Corporation Act, 2004, the PIC transformed into the dynamic, modern asset management operation it is today.

The PIC's role is to grow and safeguard the assets entrusted to its care and to be both vigilant and tireless in pursuit of methods by which these assets can be enhanced, whilst, at the same time, continually exploring avenues through which its investment interventions might benefit the broader South African population, particularly the disadvantaged. This it does through the sound application of these resources into influencing economic development and thinking.

The PIC is wholly owned by the South African Government and the Minister of Finance is the shareholder representative. The entities on behalf of which the PIC invests funds include mainly pension, provident, social security and guardian funds. The most significant of these are the Government Employees Pension Fund (GEPF), the Unemployment Insurance Fund (UIF), the Associated Institutions Pension Fund (AIPF), the Compensation Commissioner Pension Fund (CC:PF) and the Compensation Commissioner Fund (CC).

The PIC allocates its resources to equitably satisfy all clients.

The PIC operates in a complex legislative and regulatory environment. As a public entity, the Corporation's financial management and governance must comply with the Public Finance Management Act, 1999. As a financial services provider, registered with the Financial Services Board (FSB), the PIC operates in line with the Financial Advisory and Intermediary Services (FAIS) Act, 2002. The organisation utilises FSB-compliant investment mandates to manage clients' assets and benchmarks its performance against the market. The Corporation's performance record shows consistent delivery of returns in line with clients' mandates and on par with, or above market benchmarks. We believe that healthy returns are a result of responsible investment policies and practices.

As a signatory to both the United Nations Principles of Responsible Investment (UNPRI) and the United Nations Global Compact (UNGC) PIC reports annually, on how it places social, environmental and governance issues at the heart of its investments and adheres to international best practice. In order to safeguard discipline and the predictability of outcomes, stringent corporate governance standards apply to all PIC operations and personnel, as well as to the partners it contracts with.

This year the PIC celebrates a century of responsible and successful management of public sector funds and it is an appropriate moment not only to look back on the building blocks that constitute 100 years of progress, but also to consider the elements that will be necessary to ensure continued success.

More significantly, this centenary uniquely coincides with PIC firmly reaching a trillion rands in assets under management. This is no small achievement.

We would like to share this magnificent result with all economic players who have made it possible. In particular we would like to celebrate with our clients who have trusted us with their nest eggs throughout the long and hopeful years.

Together we have delivered.

Ministers of Finance for the Republic of South Africa for the period 1911 – 2011

	Term of office
HC Hull	1910 – 1912
JC Smuts	1912 – 1915
DP de V Graaff	1915 – 1916
H Burton	1916 – 1917
T Orr	1917 – 1920
H Burton	1920 – 1924
NC Havenga	1924 – 1939
JH Hofmeyer	1939 – 1948
C Sturrock	1948
NC Havenga	1948 – 1954
EH Louw	1954 – 1956
JFT Naude	1956 – 1961
TE Donges	1961 – 1967
N Diederichs	1967 – 1975
OPF Horwood	1975 – 1984
BJ du Plessis	1984 – 1992
DL Keys	1992 – 1994
CF Liebenberg	1994 – 1996
T Manuel	1996 – 2009
P Gordhan	2009 – 2011

Source: Centenary of The Public Investment Corporation: A Historical Perspective

1911 – 1984

The Public Debt Commissioners Act of 1911 was one of the first pieces of legislation to be passed by Parliament of the Union of South Africa, which had come into effect a year earlier, in 1910, with the merger of the previously separate colonies of the Cape; Natal; Orange Free State and Transvaal. The Public Debt Commissioners was established with a mandate to manage investments on behalf of the state sector for debt management. In the early stages of its development, the Public Debt Commissioners invested trust funds of the government as well as the South African Railways and Harbours. By 1924 this entity was augmented by the funds of provincial administrators.

By the mid-1920s, the Public Debt Commissioners had extended its influence, acquiring additional responsibilities and granting loans to local governments. It was also permitted to establish the Government Sinking Fund which provided for “unproductive debt” to be redeemed over 40 years (SA Financial Sector Forum 2001). The Public Debt Commissioners created a pool of government money, largely from pension funds, allowing the government to borrow from itself.

Chairperson and Secretary of the Commissioners for the period 1911 – 1984

Year	Chairperson of the Commissioners	Secretary
1911	HC Hull	JJI Middleton
1912 – 1914	JC Smuts	
1915	DP de V Graaff	
1916	H Burton	
1917 – 1919	T Orr	
1920 – 1923	H Burton	FW Meadley
1924 – 1938	NC Havenga	
1939 – 1947	JH Hofmeyer	BP Muller
1948 – 1954	NC Havenga	WH Maskew
1955	EH Louw	
1956 – 1957	JFT Naude	
1958 – 1964	TE Donges	
1965 – 1974	N Diederichs	N Owen-Smith
1975 – 1984	OPF Horwood	JH O’Reilley

Source: Centenary of The Public Investment Corporation: A Historical Perspective

1984 – 2004

The Public Investment Commissioners Act No. 45 of 1984 changed the organisation’s primary focus from debt management to investment management. This aim was enhanced by the appointment of commissioners (then called Public Investment Commissioners) with the power to invest funds on behalf of public bodies. In terms of its legal framework, the scope and responsibility of the commissioners were closely linked to the Minister of Finance, who acted as the Chairperson. The advent of democracy in 1994 ushered in a wide-ranging restructuring of the PIC, the most significant development being that while, in the past the PIC had invested primarily in government stocks, without any obligation to submit competitive tenders, at that stage it had to buy all its stocks on a competitive basis.

In 1995 the Public Investment Commissioners announced the formation of the Isibaya Fund, made up of a portion of PIC investments under management, which are set aside to invest in Socially Responsible Investments. The investments managed through Isibaya Fund were targeted at economic growth transformation.

This centenary uniquely coincides with PIC firmly reaching a trillion rands in assets under management.

Chairperson and Secretary of the Commissioners for the period 1985 – 2004

Year	Chairperson of the Commissioners	Secretary
1985 – 1992	BJ du Plessis	S Davies
1993 – 1994	DL Keys	GP Pieterse
1995	CF Liebenberg	WJ Badenhorst
1996 – 1998	F le Roux	RW Burton
1999 – 2000	G Marcus	F le Roux (Acting)
2000 – 2003	M Mpahlwa	N Mlamla
2003 – 2004		B Molefe

Source: Centenary of The Public Investment Corporation: A Historical Perspective

2004 – 2011

The South African Parliament passed the Public Investment Corporation Act in 2004, in terms of which Public Investment Commissioners were legally formalised as corporate asset managers.

This placed great emphasis on human capital development which directly led to the newly formed Public Investment Corporation conducting a skills audit to establish clarity on current and desired skills. One of the outcomes was the launch in October 2009 of a new development initiative that promotes cross-functional teamwork, organisational effectiveness and personal performance.

A further consequence was major procedural changes. Each client's specific investment objectives are now expressed in a detailed client investment mandate (detailed under "Client Mandates" later in this report). All client mandates are individually negotiated with the client concerned and approved by the Financial Services Board, with which the PIC is registered as a financial services provider.

Today, the Public Investment Corporation operates very much like a typical asset management firm, driven by predetermined objectives and with the distinction that it is wholly owned by the state and has an additional mandate to contribute towards economic development.

Chairperson and Company Secretary for the period 2004 – 2011

Year	Chairperson of the Board	Company Secretary
2004	J Moleketi	M Satekge
2006 – 2008		P Macheka
2009 – 2011	N Nene	WJF Louw

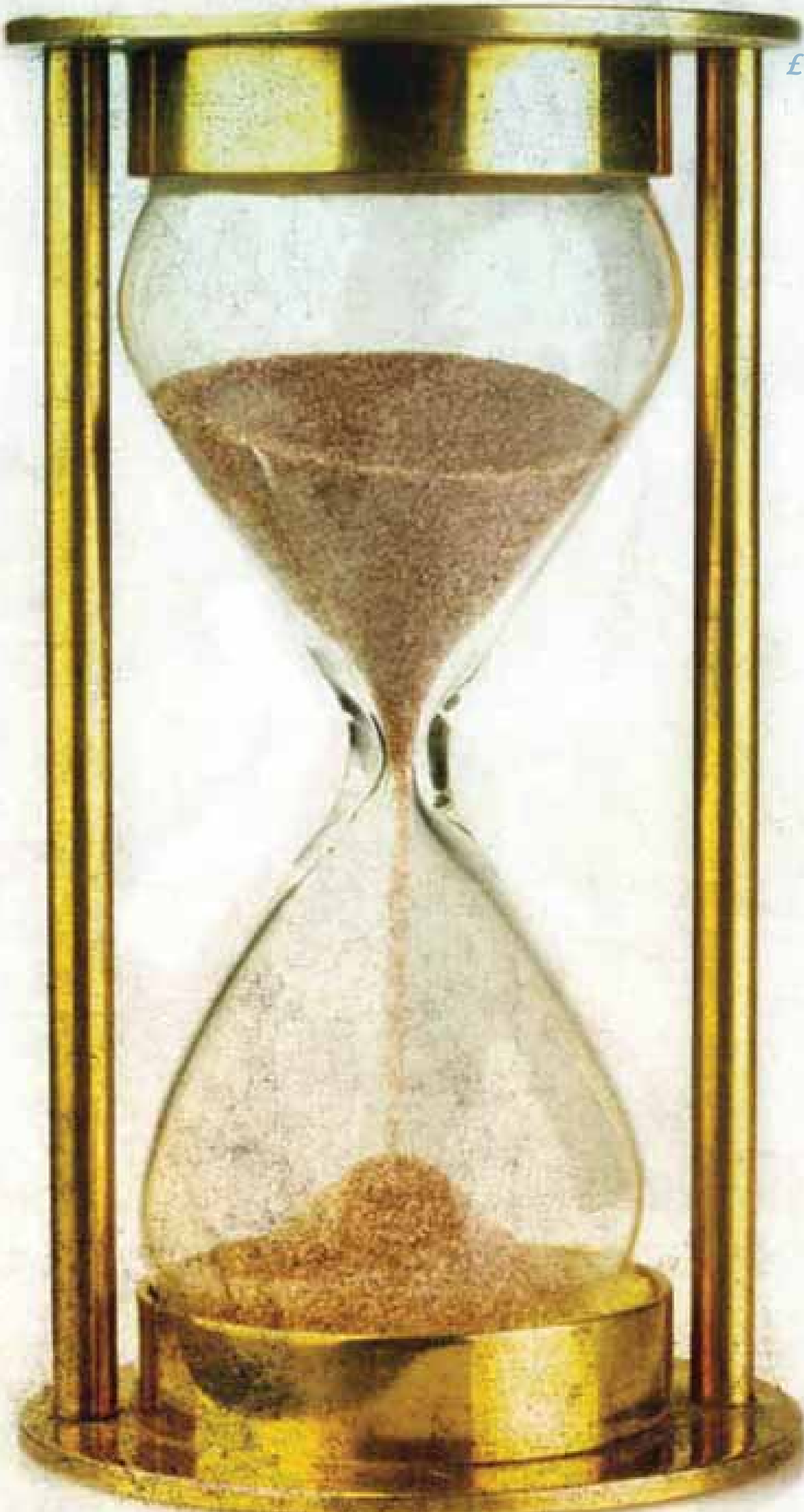
Chief Executive Officer for the period 2005 – 2011

Year	Chief Executive Officer
2005 – 2010	B Molefe
2010 – 2011	D Matjila (Acting)
2011	E Masilela

PIC 100 year history

Year	Political Heads	History
		1911 – 1951
1911 – 1951	L Botha JC Smuts JBM Hertzog DF Malan	The Public Debt Commissioners was established with a mandate to manage trust funds placed in the care of government. The clients at that stage were the South African Railways and Harbours, however, by 1924 this included the funds of the provincial administrators. Average economic growth for the period 1911 – 1960 was at 6.1%.
		1952 – 1961
1952 – 1961	JG Strijdom HF Verwoerd	South Africa became a Republic and established the rand as its currency: Assets under management (AUM) R1.6 billion.
		1962 – 1984
1962 – 1984	CR Swart JF Naude JJ Fouche J de Klerk NJ Diederichs M Viljoen BJ Vorster PW Botha	PIC's primary focus changed from debt management to investment of funds on behalf of the public sector. Economic growth, highest in 1965 at 8.9%.
		1985 – 1999
1985 – 1999	PW Botha C Heunis FW de Klerk N Mandela	PIC announces formation of Isibaya Fund. Economic growth, lowest decline 1992 at 2.1%.
		2000 – 2004
2000 – 2004	T Mbeki	PIC changes from Public Investment Commissioners to Public Investment Corporation Limited, being from a statutory commission to a statutory company. Economic growth averaged 3.6% for the period.
		2005 – 2010
2005 – 2010	T Mbeki K Motlanthe J Zuma	On 1 April 2005, following the promulgation of the Public Investment Corporation Act, 2004, the PIC transformed into the dynamic asset manager it is today. Economic growth receded in 2009 to –1.8%.
		2011
2011	J Zuma	PIC celebrates 100 years of existence with assets under management of over R1 trillion.

Assets under management
R1 000 000 000 000



£106.4 million

R1.6 billion

R12 billion

R94 billion

R377 billion

R911 billion

R1.03 trillion

Vision

To meet or exceed our clients' investment objectives and commitments to stakeholders

Mission statement

The PIC – having been established by an Act of Parliament to provide for the investment by the Corporation of certain monies received or held by, for or on behalf of the Government of the Republic and certain bodies, councils, funds and accounts – will:

- *Deliver investment returns in line with client mandates*
- *Create a working environment that will ensure that the best skills are attracted and retained*
- *Be a beacon of good corporate governance and*
- *Contribute positively towards South Africa's development*

The principal purpose of the PIC is to invest certain monies received or held by, for or on behalf of the Government of the Republic and certain bodies, councils, funds and accounts.

As citizens and custodians of substantial assets generated by the labour of generations of South Africa's public sector employees, the PIC has a responsibility to conduct its affairs, not just effectively, but also with integrity, transparency and in an exemplary fashion. It would be fair to say that all business organisations have a similar duty, but the onus on the PIC in this respect is particularly marked and the Corporation makes a point of underlining this aspect of its affairs on an on-going basis to employees and stakeholders alike. There is considerable emphasis on the fact that the PIC is an organisation with values that the Corporation's leadership, management and employees have agreed to and strive to live by in order to achieve the purpose; vision; mission; goals and objectives of the PIC.

Values

Integrity. As a business that invests public sector funds the PIC unequivocally and steadfastly follows an ethical and professional code that:

- Values openness, honesty, consistency and fairness;
- Strives to be fair in all its dealings and to act in good faith;
- Takes action against unethical and fraudulent behaviour;
- Endeavours to employ people with integrity;
- Expects its employees to commit to be good ambassadors for the PIC in all things and at all times;
- Embraces its role and responsibilities with humility; and
- Undertakes to make a positive difference to society.

Results driven. The PIC accepts that its clients and other stakeholders expect results and is committed to do everything possible to achieve the required deliverables. The PIC:

- Commits to serving its customers;
- Defines and communicates expectations;
- Advocates an attitude of "doing it right the first time!";
- Keeps to its commitments and promises;
- Learns from experience and is not afraid to concede fault;
- Strives for continuous improvement;
- Encourages and fosters innovation and creativity; and
- Promotes, encourages and celebrates success.

Caring for PIC people. In order to consistently deliver in line with its mandate and to the satisfaction of its clients and the shareholder, the PIC has to maintain an employee pool that is motivated, competent and committed. It is people that make the PIC what it is and the Corporation would not function without them. Thus the PIC values its people collectively and individually. The PIC:

- Embraces diversity;
- Treats people with integrity and empathy;
- Expects people to treat each other with respect;
- Creates a learning environment and encourages the development and growth of people;
- Encourages teamwork and interdepartmental support;
- Shares its experience and knowledge to develop skills and talents;
- Fosters and supports career development within the Corporation;
- Values each individual's time and input; and
- Encourages the effective communication of relevant information.

Accountability. The PIC believes that its success rests on the preparedness of employees to take responsibility for both the successes and failures of the organisation. The PIC expects its people to:

- Be prepared to take responsibility and face the consequences of their actions;
- Stand as one when collective decisions are made;
- Recognise that the PIC is a collegiate and take each other to task in a supportive environment;
- Commit to owning up to performance failures as and when necessary and to dealing with the causal factors appropriately and effectively;
- Collaborate with each other in achieving ever-improving organisational results; and
- "Play the ball, not the person" – be driven by principle at all times.

Financial sustainability. Since the PIC relies on the management fees it levies for the continuation of the service it provides, the Corporation has to prioritise its financial sustainability. In this respect, all involved must ensure and remember that:

- Excellent customer service is everybody's business and is paramount;
- All PIC personnel must strive to build the Corporation as the public sector asset manager of choice;
- The generation of business is a key priority;
- Cost consciousness is key in all PIC activities;
- Wasteful expenditure is futile effort;
- The clear focus is on the bottom line; and
- Clear communication of annual financial expectations and progress, throughout the year, to the relevant parties is essential.

Assets under management R1 trillion!!

PIC assets **exceed R1 trillion** in the year of celebrating its centenary.

"PICeed's" programme intake increased by 33% since inception

Our PICeed programme started in February 2007 with three graduates. During 2009 another four graduates and two interns joined the programme. **On 1 February 2011 14 new PICeeds were recruited**, leaving us with a group of 20 PICeeds. Since inception of the programme, nine candidates have been appointed on a permanent basis.

Developmental investments as vanguard of Isibaya Fund

R45 billion earmarked for developmental investments, R6 billion invested as at 31 March 2011. The focus is on social and economic infrastructure development, environmental sustainability, job creation, enterprise development and broad-based black economic empowerment while generating returns for the client. This has a potential to benefit the bigger portfolio due to good economic contributions made by developmental investments.

V&A Waterfront back in South Africa's hands

The acquisition of the V&A Waterfront has ensured that the ownership of one of the most prestigious properties in South Africa is vested in a South African worker base. **The purchase of 50% of the V&A Waterfront in Cape Town was the most significant purchase that the PIC undertook on behalf of the GEPF in the year ended March 2011.** This investment was valued at approximately R4.85 billion. This purchase is focused on improving the GEPF property portfolio mix by adding premium grade office space, premium retail and development opportunities for growing this portfolio segment over the medium term. The client benefits from a solid economic and capital growth, while the country benefits from economic contributions from the tourism market that our asset creates.

Property division consolidation finalised

2010 was a significant year for the PIC property business as it was the year in which it concluded the **amalgamation of Advent Asset Management into the PIC Properties Division as well as the acquisition of CBS Property Management business**, to form a new properties division called PIC Real Estate Asset Managers.

PIC has a new home – flagship property development

The PIC moved from its previous offices in Glenfield Office Park to the very recently completed **Riverwalk Office Park in Pretoria**, which encompasses all the aspects of sustainable and responsible property investment. This development by the property team has become a **benchmark for commercial office development**.

Foreign investment – revision of mandate

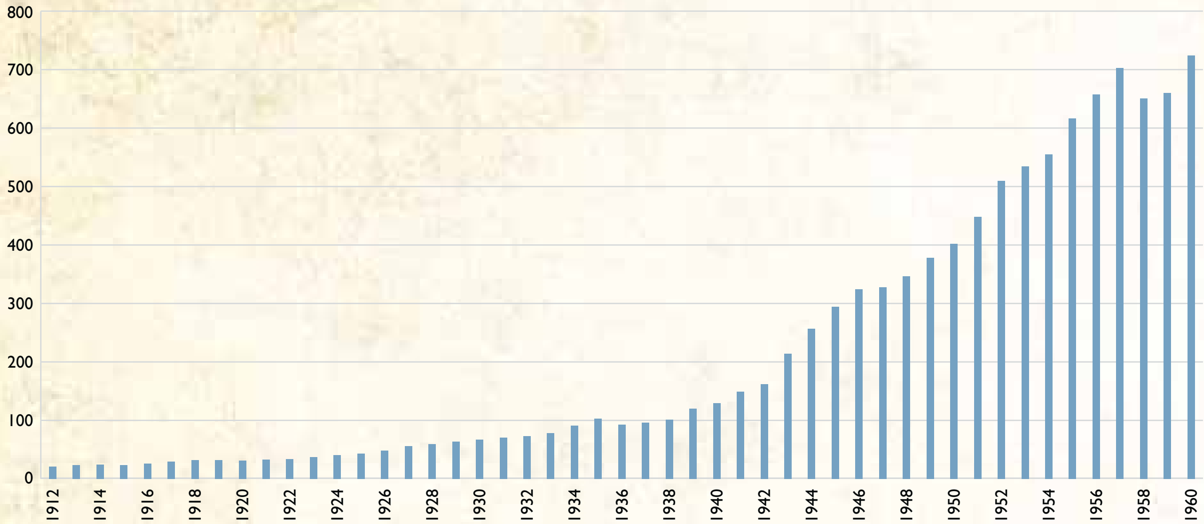
The GEPF revised mandate allows for 5% offshore investments and 5% in Africa. As at 31 March 2011, **R25 billion has been invested in equities offshore.**

PIC clients

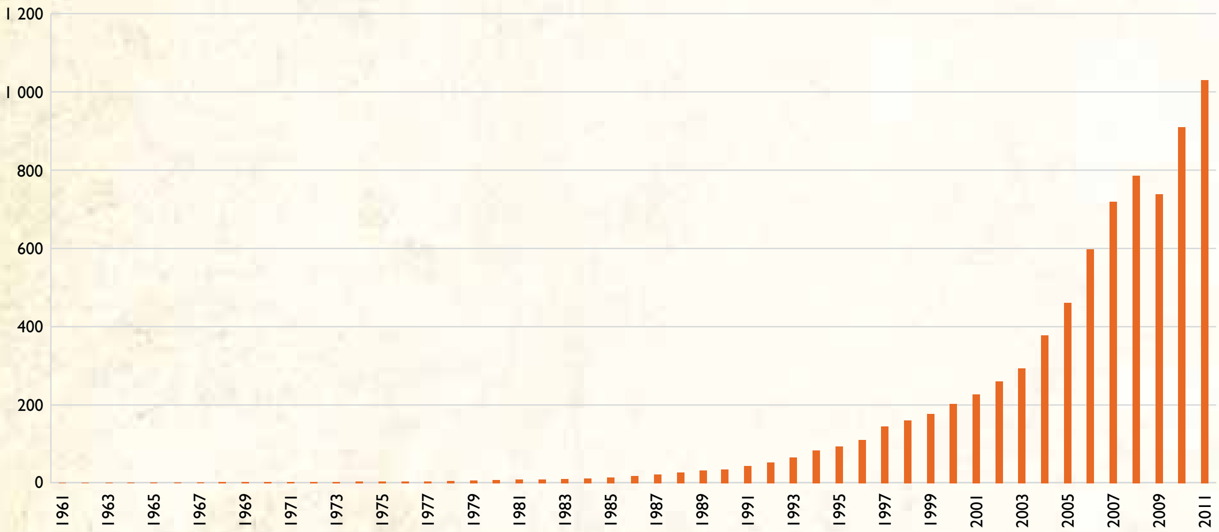
PIC clients are 23 public sector pension, provident, social security, development and guardian funds in South Africa. Collectively the PIC's assets under management (AUM) as at 31 March 2011 were R1.032 trillion.

Assets under management by the PIC since its establishment in 1911 have grown from R1.6 billion as at 31 March 1961 to R377 billion as at 31 March 2004 when it was corporatised and then to R910 billion as at 31 March 2010 and finally in the year of its centenary R1.032 trillion as at 31 March 2011.

Total assets under PIC management: 1911 – 1960 (£m)



Total assets under PIC management: 1961 – 2011 (Rb)

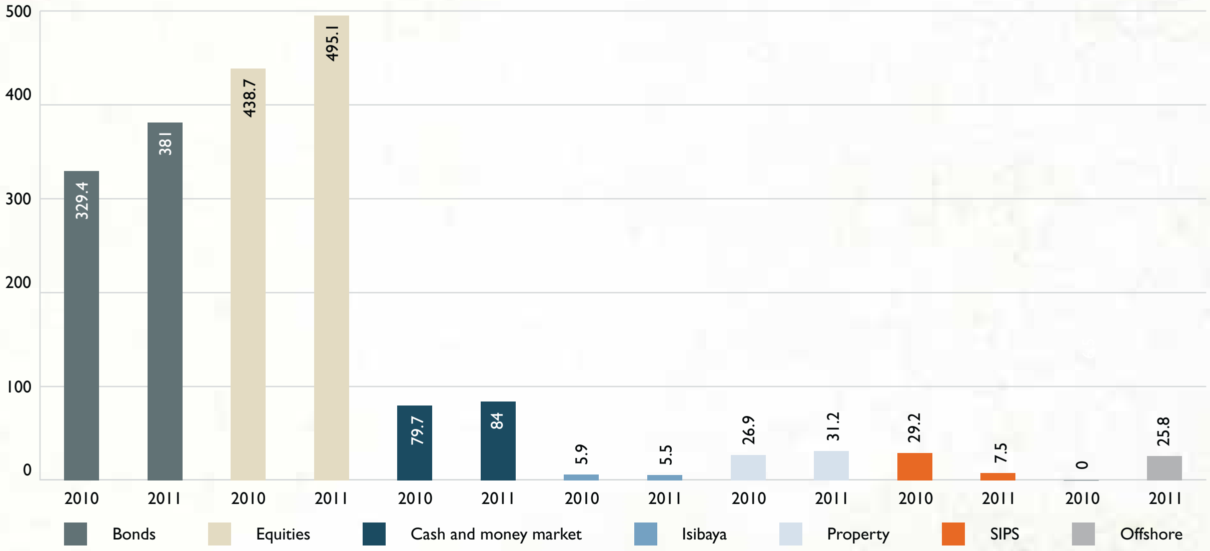


The GEPF, which accounts for almost 89% of assets under management, has entrusted assets worth R923 billion to the Corporation. PIC's other major clients are the Unemployment Insurance Fund, Associated Institutions Pension Fund, Compensation Commissioner Fund and Pension Fund.

Our clients as at 31 March 2011	% of assets under management
Government Employees Pension Fund (GEPF)	89
Unemployment Insurance Fund (UIF)	5
Compensation Commissioner: Pension Fund (CC:PF)	1
Compensation Commissioner Fund (CC)	2
Associated Institutions Pension Fund (AIPF)	1
Other*	2
Total	100

** Constitutes various clients with smaller portfolios*

Asset allocation as at 31 March 2011 (Rb)



Client mandates are the cornerstone

Each client's specific investment objectives are expressed in a detailed client investment mandate which is individually negotiated, prescribing the desired asset allocation, benchmarks, risk parameters expected returns, reporting requirements and management fees.

Comprehensive investment service provider

PIC investment mix includes:

- Fixed income investments in bonds and money markets;
- Equities listed on the Johannesburg Securities Exchange (JSE), unlisted equities and privately held equities;
- Properties in the office, industrial, commercial and retail sectors; and
- Developmental investments through Isibaya Fund, which focuses on social and economic infrastructure development, environmental sustainability, job creation, enterprise development and broad-based black economic empowerment.

PIC also provides solutions for clients requiring specialised investment products such as equities, index tracking and capital preservation products. To cater for the varying investment objectives of clients and to keep abreast of investment developments in the market place, PIC continually explores new investment products and services.

Chairman's report

Mr Nhlanhla Nene
Chairman

Although the immediate past period has been characterised by doubt as to whether the economy is approaching a phase of economic recovery or not, all indications show that we might be entering a new upward economic cycle *albeit* soft. This new cycle brings new challenges and opportunities for the PIC. As a result of these mildly positive developments, together with its own investment capacity, the management team of the PIC raised the assets under management to a figure of more than a trillion rand. This is an especially significant development, given the fact that the PIC is celebrating 100 years since it was first established in 1911.

The Board of the PIC acknowledges that government is in the process of reforming the social security system in South Africa. The Minister of Finance, Mr Pravin Gordhan, stated it clearly in the 2011 Budget Speech, when he said that "Proposals are now well advanced for alignment and consolidation of these social security arrangements, together with the introduction of a mandatory basic retirement savings plan. Over R9 billion a year is currently spent to administer our fragmented social security system. An integrated and better coordinated social security system will offer better protection to vulnerable households, at a lower administrative cost."

Whilst the PIC is not familiar with the precise nature of the changes referred to, it is expected that some of these changes will affect the client base of the PIC. In turn, the PIC is determined to contribute and rely on the delivery of this programme through the provision of cost effective services. This will be the most significant contribution as it will be providing a crucial response to the very fact that triggered the reform.

The process of consolidating the properties businesses of the PIC has been completed. On 31 March 2011, the PIC absorbed the CBS Property Management business into the PIC Real Estate Asset Managers (PIC REAM) division. What now remains to be done is to capitalise on the benefits of the property business consolidation. It is expected that over the next three years the bottom line of the PIC will steadily increase *albeit* with an initial dip during 2012.

The PIC remains active in promoting Environmental, Social and Governance (ESG) issues in the South African marketplace. In the year under review, through the drafting of the Code for Responsible Investing in South Africa (CRISA), our nation, together with the United Kingdom, has become one of only two countries in the world with a code guiding institutional investors.

In promoting good governance, the PIC has a clear obligation to practise what it preaches. In pursuit of this aim, the PIC has, based on the matrix that it uses to rate the investee companies on the JSE, rated itself and used that rating to improve its governance practices.

The PIC remains active in promoting Environmental, Social and Governance (ESG) issues in the South African marketplace. In the year under review, through the drafting of the Code for Responsible Investing in South Africa (CRISA), our nation, together with the United Kingdom, has become one of only two countries in the world with a code guiding institutional investors with regard to responsible investing. The PIC, together with the GEPF, was a key proponent of, and participant in, this process.

In promoting good governance, the PIC has a clear obligation to practise what it preaches. In pursuit of this aim, the PIC has, based on the matrix that it uses to rate the investee companies on the JSE, rated itself and used that rating to improve its governance practices.

The Board has changed its composition with the inclusion of Ms Tsakani Matshazi, Mr Patrick Mngconkola and Mr Roshan Morar into the directorate. Their appointments filled the directorate vacancies.

In my previous report we stated that Mr Brian Molefe had agreed to remain with the PIC until the end of July 2010. The new CEO of the PIC, Mr Elias Masilela commenced his term on 1 February 2011. Dr Daniel Matjila graciously agreed to act as the CEO between the time that Mr Molefe left and Mr Masilela started. We thank Dr Matjila for his sterling work during this period.

Mr Elias Masilela, the CEO of the PIC, comes with a long and distinguished history of involvement with pension and social security policy. This will make him more sensitive to the needs of the PIC clients, almost all of whom are in that area. With Mr Masilela at the helm of the PIC, the Board is confident that the PIC will continue to exceed its clients' investment objectives as well as its commitment to stakeholders.

The Chief Operating Officer, Ms Albertinah Kekana, has notified the Board that she intends to leave the PIC with effect from 1 July 2011. The Board would like to thank Ms Kekana for her contribution to PIC over the years. The Board is in the process of finding a suitable replacement.

In this, the centenary year of the PIC, I wish to thank successive commissioners, predecessor Board members, as well as the various management teams and staff members of the PIC in all its forms. I happily acknowledge that without them we would not be celebrating our centenary this year, nor would we be in a position to make plans to remain sustainable for the next 100 years.

I would also like to express gratitude to my fellow Board members. It is they who have helped steer the PIC ship through the stormy seas of economic upheaval to a safe haven in which it has become the excellent, well managed, asset manager of choice for the public sector.

The Board, in turn, appreciates the competence, commitment and loyalty of management and staff of the Corporation, without which the PIC would not have become the biggest and most successful asset manager for public sector funds both in South Africa and on the African continent.

Mr Nhlanhla Nene
Chairman

Report on past and future strategies by the CEO

Mr Elias Masilela
Chief Executive Officer

Overview

Marking our centenary as an organisation, the PIC can proudly state that it has grown the assets under management to more than R1 trillion from R461.5 billion in 2005 when it was corporatised, and from £106.4 million in 1912, at the end of the first year since the Corporation was established as the Public Debt Commissioners. In 1961 when South Africa became a Republic and established the rand as a currency, the assets under management were R1.6 billion. It can be illustrated that the best growth was recorded in recent years, driven mainly by diversification into growth assets (equities). PIC can therefore justly claim having delivered 100 years of investment excellence and that is why the PIC stands out amongst asset managers on the continent and globally.

During the period ending 31 March 2011, the fair value of the assets under management of the PIC was R1.032 trillion, an increase of over 13% from the previous period (31 March 2010: R910.9 billion).

During the period from 2000 to 2011, assets under management have grown steadily over the 11-year period, increasing at a compound rate of 15% per annum versus average inflation of 6% over the same period. This implies a real growth rate in assets of 9% over this period.

The marked growth in assets under management recorded in recent years can be attributed to the strong economic performance experienced over the same period. At 5.6% annual growth, in the years 2006 and 2007, it recorded a peak in economic performance. Subsequent to this peak, global economic growth decelerated as the world financial crisis unfolded, leading to the deepest global downturn in recent history. Domestic economic growth receded to (1.8%) in 2009. Fortunately, the recession was short-lived. The economy recovered the year after and confidence was restored in the stock market. Though the economy is still below the pre-crisis level, it has somewhat recovered and is expected to hover around the 3% level.

A trillion rand of assets under management is a landmark achievement for South Africa and the African continent. However, this does not detract us from responsibly managing each and every cent entrusted into our custody.

The V&A Waterfront deal has ensured that the ownership of one of the most prestigious properties in South Africa is vested in the hands of the South African worker base.

The PIC delivers 100 years of investment excellence and that is why we stand out amongst asset managers on the continent and globally.

Over the years, the financial sector has defined the growth of the economy and has become the proverbial growth engine for South Africa. Since 2000, the sector has grown at an annual rate of 9.1%, compared to broader economic growth of 3.6%. Growth in employment has also been very strong: over the same period, the number of people employed in the sub-sector increased by 24.5% and the financial sector has become one of the fastest-growing employers in South Africa. The total assets of the sector have also grown significantly, registering nominal compound average growth of 12.3% between 2000 and 2010. Financial sector assets now stand at 252% of gross domestic product (GDP). However, as with most financial sectors, South Africa's has become more globally connected and concentrated, potentially exposing the country to significant risks.

Because of South Africa's sound macroeconomic fundamentals and a robust financial regulatory framework, we suffered proportionately less from the financial crisis compared to other countries, with job losses of close to 1 million jobs. Growth has finally recovered, though at a significantly lower level than in 2007.

Contrary to what is observed elsewhere in the world, in particular among the Organisation for Economic Co-operation and Development (OECD) countries, South Africa's size and dynamism of the financial sector does not seem to be having the same economic effect. This can be attributable mainly to the intermediation mechanism. In order to improve on this mechanism one of the principals of the PIC, namely the GEPF, has taken it upon itself to tighten the mandate to make the developmental aspect of investment explicit and paramount.

Investment review

The portfolio has seen net growth of R120 billion of which equities and bonds account for more than 90% of the increase.

Equities

Last year we reported that the PIC was in the process of restructuring the equities portfolio. This was successfully concluded in June 2010. Therefore, the subsequent outperformance of the equities benchmarks was driven purely by active value-adding decisions undertaken by the PIC investment team. This has been supported by improved internal capacity and will result in both a reduction in the cost paid by our clients and an ongoing focus on low-risk strategies going forward.

Foreign equities

Furthermore, a significant change in the asset allocation is due to the GEPF mandate requirement to invest a portion of its assets in offshore equity. At the end of the financial year, 3% of GEPF assets were invested in foreign equities, which translates into 2.5% of the total assets under management.

Structured Investment Products

The decline in Structured Investment Products (SIPS) is due to the repatriation of this asset class from external asset managers. These are now managed in-house and the repatriation has saved the client approximately R69 million per annum in management fees.

Fixed income

The year 2010 saw significant gains in global bond markets with yields testing new levels on the downside. The declines in local bond yields can be attributed to better-than-expected inflation figures, foreign inflows, and deterioration in the outlook for economic growth. We are proud to report that the fixed income portfolio outperformed the relevant benchmarks for all the funds under their management.

Properties

As custodians of a significant part of the public purse, we at the PIC, believe that it is important for our property strategy not only to focus on returns generated but to make a positive change to the social fabric. We have proven that the creation

The environmentally friendly PIC corporate headquarters in Riverwalk Office Park, Pretoria

of relevant physical infrastructure, together with productive communal spaces, can have significant impact on the quality of life of the majority of South Africans. We can deliver value to our clients while making meaningful additions to much needed infrastructure, thus benefiting all of society.

It has been the focus of the fund to create, among other initiatives, retail infrastructure in townships, both urban and rural. This has placed services, jobs and formal community spaces in erstwhile dormitory townships. These investments have made the GEPF a trailblazer and creator of markets.

Today, township retail has grown to become an important segment of the South African economy and part of the mainstream investments. It is a market largely created by the PIC. This is a key intervention, which the average South African can see and touch. These developments radically transform the environments and neighbourhoods in which they are located.

The purchase of 50% of the Victoria & Alfred (V&A) Waterfront in Cape Town was the most significant purchase that the PIC undertook on behalf of the GEPF in the year ended March 2011. This investment was valued at approximately R4.85 billion. This purchase follows a decision to enhance the GEPF property portfolio mix by adding premium grade office space, premium retail and development opportunities for growing this portfolio segment over the medium term.

The V&A Waterfront deal has ensured that the ownership of one of the most prestigious properties in South Africa is vested in the hands of the South African worker base. Increasingly, more and more South African workers command an increasing value of capital, which implies an increased ability to determine their own destinies. The future of South Africa's retirement funding can truly be made brighter by such forward looking investments. The client will enjoy a predictable and sustainable income and capital growth. Furthermore, South Africa contributes to GDP growth from this asset in terms of tourism.

The property portfolio returned 15.7%, outperforming its benchmark by 3.1%.

Isibaya Fund

Exposure of Isibaya Fund decreased from R5.9 billion to R5.5 billion. This is mainly due to the unwinding of the private equity portfolio as investments matured.

There is currently a strong deal pipeline in Infrastructure, SMME and Private Equity. We expect to invest over R3 billion in Developmental Investments.

The PIC has developed and piloted an ESG framework for measuring the impact of Isibaya's unlisted investments in terms of issues such as job creation, job retention, poverty alleviation, BBBEE transformation and regional upliftment.

Isibaya Fund has outperformed its benchmark by 3.3%. If the Afrisam Investment is taken into account the return is below benchmark by 0.3%. The improvements in the investment performance were made possible by the

improving economic situation, as well as the disciplines that the Corporation has introduced to improve its investment and risk management processes, together with the necessary operational support.

Operational review

In line with our values, we confirm that the Corporation is sustainable and has achieved its targeted financial ratios. The selection of these ratios was based on the objective of ensuring that the Corporation remains a sustainable entity that performs on par with, if not better than the best in the asset management industry. The Corporation has achieved an EBIT (Earnings Before Interest and Taxes) of 48% (38% in 2010). Due to the high reliance on skilled personnel and specialised information technology, PIC has been through a process of increasing its capacity whilst maintaining its efficiency. The PIC is spending less than 55% and 9% of revenues respectively on these inputs.

This ratio will increase as we scale our operations to implement the new GEPF offshore investment requirements. Nonetheless, the Corporation remains profitable. The objective of the PIC is not merely to maximise profit, but, equally, to maximise broader economic benefits to all its clients.

Key operational developments for the year under review

2010 was a significant year for the PIC property business as it was the year in which it concluded the amalgamation of Advent Asset Management into the PIC Properties Division as well as the acquisition of CBS Property Management business to form a new properties division called PIC Real Estate Asset Managers (PIC REAM). Through this division the PIC is the largest real estate company in South Africa (listed and unlisted).

The primary driver for improving the divisional structure of the PIC property business was to enable the PIC to respond to and manage the strategic challenges it faces over the coming years. These challenges arise from the change in the investment mandate from the GEPF and the resulting significant planned growth in the property portfolio of the PIC.

Today, township retail has grown to become an important segment of the South African economy and part of the mainstream investments.

Strategic priorities for the next 10 years include:
- Grow the property assets under management;
- Outperform IPD benchmarks;
- Streamline Property Management business (service and profitability);
- Enhance management capabilities; and
- Incorporate ESG into the Property Investment process.

The PIC through PIC REAM is a member of the Green Building Council of South Africa (GBSA) and the South African Property Owners Association (SAPOA).

Moving offices

The PIC moved from its previous offices in Glenfield Office Park to the very recently completed Riverwalk Office Park in Pretoria, which encompasses all the aspects of sustainable and responsible property investment.

Due to inherent economic gains the PIC is specifically committed to principles 8 and 9 of the Global Compact, which require signatories to "undertake initiatives to promote greater environmental responsibility; and encourage the development and diffusion of environmentally friendly technologies". Although there is much room for improvement in this area, these principles inspired the design of the PIC new corporate headquarters.

Contribution to the skills base

The PIC believes in investing in the development of its own employees. This was shown during the financial year of 2010 – 2011 where more than R4 million was spent on human capital development. Employees of the PIC were supported in their own personal progression of formal studies in the form of bursaries and study leave. This was even extended with the development of a policy to support dependent family members with tertiary educational fees. The PIC invested further in its employees management skills across all levels of the business. For the lower level management group a foundation Management Development Programme had its first two graduate groups during the 2010 – 2011 year. The Management Development Programme for middle managers took pride in a success rate of 71%. These programmes are accredited by the University of South Africa (UNISA).

The technical skills of our professional staff were not forgotten with their wide variety of courses and technical developing programmes, which ensure that continuous improvement and market leader status are maintained.

The PIC embarked on the further expansion of a programme to develop its own timber, in the form of the PICeeds programme. This programme consists of a three year CA training programme (registered by SAICA), a two year graduate programme specialising in investments and a two year internship programme focusing on the operational areas of the business.

Our PICeeds programme started in February 2007 with three graduates. This resulted from an extensive recruitment drive during which PIC recruiters visited seven universities across South Africa. In 2008, one graduate was recruited into the programme.

During 2009 another three graduates and three interns joined the programme. Subsequently the programme was redesigned and enhanced. These programmes are supported by the different relationships developed over the last few years with universities nationwide. During 2010, following a fresh recruitment drive, 14 new PICeeds were recruited, and joined the PIC on 1 February 2011.

The PIC is not only benefiting from the crops of these universities, but also investing in growing the youth. The PIC has had numerous interventions where assistance was given to students, by providing lectures, advice on different career opportunities and assisting them in judgement of their final investment projects and providing constructive feedback.

The PIC resource pool has grown to 296 employees as at 31 March 2011 compared to 195 employees in the last financial year. The growth is due to the amalgamation of PIC REAM division. This reflects not only the growth and development of the Corporation, but also that the PIC is becoming an employer of choice.

Implementation of Great Plains

The Finance Department has introduced a new financial IT system (Great Plains), and it is envisaged that the system will grow with the business over the next 15 to 20 years. This system will landmark visible change in the way PIC does business, as we strive to enhance procurement processes to a paperless environment. As a signatory to both the United Nations Principles for Responsible Investments (UNPRI) and the United Nations Global Compact (UNGC), the PIC is pleased to be embarking on this environmentally friendly initiative.

Implementation of Charles River Investment Management system

In the previous financial year PIC implemented Charles River for Fixed Income investments. To further improve the decision making process, Charles River was implemented for Equities during this financial year. This will allow for live monitoring of equity positions and enhance the pre and post trade compliance capabilities.

Performance against predetermined objectives

The PIC has, in line with the PFMA, agreed with the Executive Authority, in terms of the Shareholders' Compact and Corporate Plan, on a set of predetermined objectives for the 2010/11 financial year which include, but are not limited to the following:

- Investments
  - Deliver investment performance which exceeds the set benchmarks;
  - Contribute positively to the development of South Africa; and
  - Meet the return objectives for invested funds.

- Operations
  - Conduct sustainable and efficient PIC operations;
  - Attract and retain the best skills within the PIC;
  - Ensure effective governance and improved internal controls; and
  - Deliver high standards of client services and focused solutions.

The overall performance of the PIC against these objectives was reviewed by the Board of Directors and is reported upon on page 56.

Appreciation

The successes of the PIC, as recorded in this Integrated Report, could not have been achieved without solid and steady guidance from the Board as well as the effort of the PIC team guided by the principled aims and values we have set for ourselves. I wish to thank the Chairman of the Board, all Board members and all team members of the PIC for going beyond the call of duty to ensure that the Corporation continues to meet and even exceed our clients' investment objectives, as well as honouring the commitments we have made to our stakeholders.

Mr Elias Masilela
Chief Executive Officer

Board of Directors

PIC is governed by a Board of Directors with 13 members, nine of whom are non-executive directors, excluding the traditionally non-executive Chairman.

The Board's overarching role is to maintain sound corporate governance within the PIC. As such, its responsibilities include appointing executive management, developing and approving corporate strategies, ensuring an effective governance framework, overseeing risk management and ensuring that PIC business is managed prudently and responsibly.

With the addition of the PIC REAM division, the Board is now assisted by five Board committees, namely the Directors' Affairs Committee (DAC), the Audit and Risk Committee (ARC), the Investment Committee (IC), the Human Resources and Remuneration Committee (HR & Remco) and the new PIC REAM Committee.

In October 2010, the Board welcomed the appointment of three new directors. Board members are appointed by the Minister of Finance, who represents PIC shareholder, the South African government, on the grounds of their knowledge and experience, mainly in the financial services environment. No fewer than seven directors on the current Board are chartered accountants, whilst the other six directors hold advanced qualifications in fields such as financial economics, business leadership, applied mathematics and tax law.

1

2

1. Mr Nhlanhla Musa Nene
   Chairperson

   - Deputy Minister of Finance of the Republic of South Africa from November 2008
   - Chairperson of the PIC Board and Chairperson of the Directors' Affairs Committee of the PIC Board
   - BCom (Hons) in Economics (University of the Western Cape)
   - Advanced Diploma in Economic Policy (University of the Western Cape)
   - Diploma in Marketing Management (DMS)
   - Certificate in Economics (University of South Africa)
   - Co-Chairperson of the Joint Budget Committee from 2002 to 2005
   - Chairperson of the Portfolio Committee on Finance from 2005 to November 2008

2. Mr Elias Masilela
   Chief Executive Officer

   - Member of the PIC Board, the Investment Committee and the PIC REAM Committee
   - BA Social Sciences (Economics and Statistics) (University of Swaziland)
   - MSc Economic Policy and Analysis (Money & Banking and International Economics) (Addis Ababa University)
   - Chairman of Ingagaru Property Investments, January 2007 to date
   - Chairman of Economic Research Southern Africa (ERSA), June 2007 to date
   - Chairman of Number 43 Trelawney Park kwaMagogo Trust, July 2007 to date
   - Shareholder of Development Network Africa (Pty) Limited, January 2008 to date
   - Non-executive member of the Institute of Retirement Funds (IRF), August 2009 to date

3

4

3. Ms Albertinah Kekana
   Chief Operating Officer

   - CA(SA)
   - Bachelor of Commerce (University of Cape Town)
   - Postgraduate Diploma in Accounting (University of Cape Town)
   - Advanced Management Programme (Harvard Business School)
   - Serves on the Investment Committee of the Eskom Pension and Provident Fund
   - Member of the Boards of Airports Company of South Africa, Advent Asset Management, CBS Property Management, Community Property Company and Harith Fund Managers

4. Dr Daniel Matjila
   Chief Investment Officer

   - Member of the PIC Board, Investment Committee and the PIC REAM Committee
   - BSc (Hons) in Applied Mathematics (Fort Hare University)
   - MSc Applied Mathematics (Rhodes University)
   - PhD in Mathematics (University of the Witwatersrand)
   - Postgraduate Diploma in Mathematical Finance (Oxford University)
   - Senior Management Programme (University of Pretoria)
   - Advanced Management Programme (Harvard Business School)
   - Serves on the Boards of Entabeni Holdings and AfriSam

5 6

5. Ms Tsakani Matshazi

Independent non-executive director (appointed in December 2010)

- Member of the PIC Board, the Audit and Risk Committee and the Investment Committee
- CA(SA)
- Bachelor of Commerce (Accounting)
- Higher Diploma in Accounting
- CFA Level 1
- Member of the Boards of Izingwe Holdings (Pty) Limited and Gauteng Services Appeal Board
- Administrator of the Energy and Water SETA
- Co-founder and former Executive Director/CFO of Izingwe Holdings
- Chairman of CA Charter Council
- Past President of ABASA
- Member of the BEE Advisory Council
- Former Trustee of the Old Mutual South Africa Broad-Based Employee Share Trust
- Former member of the Boards of Aberdare Cables (Pty) Limited, Peters' Papers (Pty) Limited, Onelogix Limited, SAICA, IRBA, Empowerdex
- Former Committee member of the FAIS Ombudsman

6. Mr Patrick Mngconkola

Independent non-executive director (appointed in December 2010)

- Member of the PIC Board, the Human Resources and Remuneration Committee and the Audit and Risk Committee
- BTech in Business Administration
- Bachelors Degree in Human Resources Management
- National Diploma in Police Administration
- Diploma in Personnel and Development Management
- Course in Project Management
- Executive Mentorship Programme
- Programme in Forensic & Investigative Auditing
- Trustee on the Government Employees Pension Fund
- Chairperson of the Investment Committee of the Government Employees Pension Fund
- Experienced and innovative manager with diversified skills especially in the field of Finance, Supply Chain Management and Human Resources Management

7 8

7. Mr Roshan Morar

Independent non-executive director (appointed in December 2010)

- Member of the PIC Board, the Investment Committee and the PIC REAM Committee
- CA(SA)
- Bachelor of Commerce (Accounting)
- Diploma in Accounting
- Certified Fraud Examiner
- Member of the South African Institute of Chartered Accountants (SAICA)
- Member of the Independent Regulatory Board of Auditors
- Member of the South African Institute of Tax Practitioners
- Member of the Institute of Directors South Africa
- Member of the Institute of Internal Auditors
- Member of the Association of Certified Fraud Examiners
- Member of the Institute for Public Finance and Auditing
- Member of the Association for the Advancement of Black Accountants of South Africa
- Member of the Black Management Forum

8. Ms Moira Moses

Independent non-executive director

- Member of the PIC Board, the Audit and Risk Committee and the Human Resources and Remuneration Committee
- BA
- Management Advancement Programme (Wits Business School)
- CEO Transnet Capital Projects
- Transnet Limited Non-executive Director (resigned in 2005)
- MTN Group Limited Non-executive Director (resigned in October 2006)
- Viamax (Pty) Limited Chairperson of the Board (resigned October 2007)
- Previous Managing Director of Land Rover, Jaguar and Volvo
- Alternate Trustee of GEPF
- Board member of the Thusanang Trust

9

10

9. Mr Veli Ntombela

Independent non-executive director

- Member of the PIC Board, the Investment Committee and the Audit and Risk Committee
- BA (Law), LLB, LLM (Tax Law), HDip Tax Law
- Tax Specialist and Director in charge of SizweNtsaluba VSP Taxation Services
- Previously worked for Ebony Financial Services (Pty) Limited, Arthur Andersen and Ernst & Young

10. Mr Ignatius Sehoole

Independent non-executive director

- Member of the PIC Board, Chairman of the Audit and Risk Committee and member of the Human Resources and Remuneration Committee, the PIC REAM Committee and the Directors' Affairs Committee
- CA(SA)
- Executive President of the South African Institute of Chartered Accountants (resigned during July 2009)
- Chairman of the Developing Nations Committee of the International Federation of Accountants (IFAC)
- Board Member of the Global Accounting Alliance (GAA) (resigned during July 2009)
- Committee Member of the King Committee on Corporate Governance (resigned during July 2009)
- Chairman of the Audit Committee for the National Treasury
- Serves on the Accounting Standards Board (ASB)
- Member of the Standing Advisory Committee on Company Law
- Trustee Member of the Thuthuka Project, SAICA (resigned during July 2009)
- Board Member of Harith and member of its Human Resources and Remuneration Committee
- Vice-President of the South and East Africa region, MTN Group Limited

11

11. Mr Zakhele Sithole

Independent non-executive director

- Member of the PIC Board, Chairman of the Human Resources and Remuneration Committee and member of the Audit and Risk Committee and the Directors' Affairs Committee
- CA(SA)
- BCom Accounting (University of Zululand)
- B Accountancy (University of the Witwatersrand)
- HDip Tax Law (University of the Witwatersrand)
- HDip Company Law (University of the Witwatersrand)
- Member of SAICA
- Member of the Board of Governors of the University of Zululand
- Member of the Board and Chairman of the Audit Committee of South African Airways
- Member of the Board and Chairman of the Audit Committee of Allied Technologies Limited
- Member of the Board and Chairman of the Board of Command Holdings Limited
- Audit Committee member of EDI Holdings
- Member of the GEPF Board
- Member of Growthpoint Properties Limited


12


13

12. Mr Jan Strydom

Independent non-executive director

- Member of the PIC Board, Chairman of the Investment Committee, member of the Human Resources and Remuneration Committee and the Directors' Affairs Committee
- CA(SA)
- BCom (Acc), MCom (Acc)
- Retired founding member of Strydoms Inc, Chartered Accountants, a firm specialising in business valuations and litigation support
- Member of the Board, Audit Committee and Risk Management Committee of MTN Group Limited
- Member of the Board, Audit Committee and Chairman of the Risk Management Committee of GrowthPoint Properties Limited
- Senior Member of the Special Income Tax Court for Taxation Appeals

13. Mr Younaid Waja

Independent non-executive director

- Member of the PIC Board, the Audit and Risk Committee, The PIC REAM Committee and the Investment Committee
- CA(SA)
- BCom, BCompt (Hons) and HDip Tax Law
- Practising Tax and Business Consultant
- Member of the Board, Audit Committee and Procurement Committee of Pareto Limited
- Member of the Board, Audit Committee and Risk Committee of Imperial Holdings Limited
- Member of the Board and Audit Committee of Blue IQ Investment Holdings (Pty) Limited
- Member of the Board and Audit Committee of Supplier Park Development Company (Pty) Limited
- Member of the Telkom Board
- Trustee of the Diabo (Telkom Employees' Share) Trust
- Black Business Council founding member and former vice-president of the Association for the Advancement of Black Accountants in Southern Africa (ABASA)
- Former member of the Income Tax Special Court
- Former Director of Finance of the South African Tennis Association

Executive Committee

1

2

1. Mr Elias Masilela
   Chief Executive Officer

   - Member of the PIC Board, the Investment Committee and the PIC REAM Committee
   - BA Social Sciences (Economics and Statistics) (University of Swaziland)
   - MSc Economic Policy and Analysis (Money & Banking and International Economics) (Addis Ababa University)
   - Chairman of Ingagaru Property Investments, January 2007 to date
   - Chairman of Economic Research Southern Africa (ERSA), June 2007 to date
   - Chairman of Number 43 Trelawney Park kwaMagogo Trust, July 2007 to date
   - Shareholder of Development Network Africa (Pty) Limited, January 2008 to date
   - Non-executive member of the Institute of Retirement Funds (IRF), August 2009 to date

2. Dr Daniel Matjila
   Chief Investment Officer

   - Member of the PIC Board, Investment Committee and the PIC Ream Committee
   - BSc (Hons) in Applied Mathematics (Fort Hare University)
   - MSc Applied Mathematics (Rhodes University)
   - PhD in Mathematics (University of the Witwatersrand)
   - Postgraduate Diploma in Mathematical Finance (Oxford University)
   - Senior Management Programme (University of Pretoria)
   - Advanced Management Programme (Harvard Business School)
   - Serves on the Boards of Entabeni Holdings and AfriSam

3

4

3. Ms Albertinah Kekana
   Chief Operating Officer

   - CA(SA)
   - Bachelor of Commerce (University of Cape Town)
   - Postgraduate Diploma in Accounting (University of Cape Town)
   - Advanced Management Programme (Harvard Business School)
   - Serves on the Investment Committee of the Eskom Pension and Provident Fund
   - Member of the Boards of Airports Company of South Africa, Advent Asset Management, CBS Property Management, Community Property Company and Harith Fund Managers

4. Ms Kameshni Naidoo
   Chief Financial Officer

   - CA(SA)
   - Bachelor of Accountancy (University of KwaZulu-Natal)
   - Certificate in the Theory of Accounting Science (CTA) (University of KwaZulu-Natal)
   - Advanced Certificate in Auditing (University of Johannesburg)
   - Serves on the Board of Harith (alternate director) and is a member of its Audit Committee
   - Member of the South African Institute of Chartered Accountants

5

6

5. Mr Roy Rajdhar
Acting General Manager: Isibaya Fund

- CA(SA)
- Bachelor of Accounting Science (University of South Africa)
- Post Graduate Diploma in Accounting (University of KwaZulu-Natal)
- Higher Diploma in Tax Law (University of Johannesburg)
- Member of the Board of Makalani Investment Holdings Limited
- Member of the South African Institute of Chartered Accountants

6. Ms Petro Dekker
General Manager: Corporate Services

- BCom Accounting (University of Pretoria)
- BCom (Hons) Business Management (Unisa)
- Programme in Investment Analysis and Portfolio Management (Unisa)
- Serves on the Board of CBS Property Management and Advent Asset Management

7

8

7. Mr Maqhawe Dlamini
General Manager: Listed Equities

- Chartered Financial Analyst, South Africa
- BSc (University of Swaziland)
- MBA (University of the Witwatersrand)
- Chief Investment Officer: Metal Industries Benefit Fund Administrators 2006 to 2009

8. Mr Leon Smit
General Manager: Fixed Income and Dealing

- BCom
- Certificate in Treasury Management
- RPE Qualification

9

9. Mr Wayne van der Vent
General Manager: Properties

- BA (Law) (University of Cape Town)
- Chairperson, Build a Better Society
- Trustee of Partners in Afterschool Care Projects
- Member of the Boards of ACSA, Pareto, Community Property Company and Advent Asset Management

10

10. Dr Enoch Zulu Xaba
General Manager: Risk and Compliance

- BSc (Hons) Applied Mathematics (Fort Hare University)
- MSc Applied Mathematics (Unisa) (cum laude)
- PhD Applied Mathematics (University of California at Berkeley)
- Executive Development Programme (Wits Business School)
- Member of the Board of Trustees, Audit and Risk Committee and Investment Committee of Eskom Pension and Provident Fund 2004 to 2010

Corporate governance is used as a tool to direct and control the PIC.

Corporate governance is used as a tool to direct and control the PIC. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in PIC, such as the Board of Directors, Executive Committee managers, the PIC clients as well as other stakeholders. It also spells out the rules and procedures for making decisions on the Corporation's affairs.

Complying with these provisions provides not only the structure through which PIC objectives are set, but also the means of attaining those objectives and monitoring performance.

PIC's key objective is to invest certain monies received or held, for or on behalf of the Government of South Africa and certain other bodies, councils, funds and accounts. This requires us to conduct our business at the highest levels of corporate governance. Issues such as transparency, accountability and business ethics are key to achieving our objective. We are proud of our reputation in the financial markets and need to ensure that PIC continues to be held in high esteem globally. Our Mission also states that the PIC will be a beacon of good corporate governance and as such the Board addresses, as far as practical and in the best interest of the PIC, the principles which have been adopted in the Code of Corporate Governance contained in King III.

Unlike your typical asset manager, the PIC has an explicit dual mandate in terms of the Minister of Finance being shareholder and the clients whose monies we invest. This mandate is to ensure that the PIC is a world-class and responsible public entity by putting an executive team in place with clear targets to be achieved. The directors are accountable and ultimately responsible for all actions of the Board, Board committees and management, as well as ensuring that the PIC is run in accordance with the mandate described in the PIC Memorandum and Articles of Association. The Board further ensures that the various stakeholder interests, such as those of the employees, the clients, the Government and the community in which the business operates, are balanced and receive the required attention.

The Board is structured in such a manner that the majority of its directors are independent, non-executive directors, which means that they are not involved in the daily running of the Corporation. Whilst it is the Board as a whole which is the final authority, executive and non-executive directors are likely to contribute in different ways to its work and are accountable to the shareholder for creating and delivering value through the effective governance of the Corporation.

The Chairman of the Board is a non-executive director and the role of the Chairman is separate from that of the Chief Executive Officer. The PIC is aware that in terms of King III, Board chairmanship should preferably be held by independent directors. The PIC Board is chaired by the Deputy Minister of Finance, due to the fact that the Government Employees Pension Fund (GEPF) is a defined benefit fund that is underwritten by Government. All directors are able to take independent professional advice in furtherance of their duties, if necessary.

In February 2011 Mr Elias Masilela was appointed CEO and executive director while Mr Sebenzile Mngconkola, Ms Tsakani Matshazi and Mr Roshan Morar were appointed as independent non-executive directors in December 2010.

Non-executive directors have two particularly important contributions to make to the governance process as a consequence of their independence from executive responsibility. Neither contribution is in conflict with the unitary nature of the Board. The first contribution is in reviewing the performance of the Board and of the executives. The second is to take the lead where potential conflicts of interest in the Boardroom arise.

The Board is fully committed to ensuring that the highest standards of corporate governance are observed throughout the PIC and its subsidiaries, so that the affairs of the PIC are conducted with integrity and the highest level of professionalism. The objective thereof is to safeguard the PIC clients' investments and ultimately enhance their value. The Board recognises that the specific interests of the executives and the wider interests of the PIC may at times diverge. On such occasions, the independent non-executive directors are well placed to help resolve such situations.

The Board is responsible for overall strategy, acquisition and investment policy, approval of major capital expenditure projects and consideration of significant financing matters. It also monitors the exposure to key business risks and reviews the strategic direction of individual trading subsidiaries, their annual budgets, their progress towards the achievement of those budgets and their capital expenditure programmes. As part of this process, the Chief Executive Officer and senior executives annually present their strategic plans to the Board for review and approval.

The Board also considers employee issues and key appointments and ensures that, as part of succession planning, it familiarises itself with the executive team at meetings (both formal and informal). Considerable attention is given to leadership development throughout the Corporation in order to develop and retain a pool of talented individuals. All directors receive appropriate training on appointment and then subsequently, as appropriate.

Where subsidiaries have separate Boards of Directors, the minutes of their meetings are circulated to and reviewed by the Board of Directors.

Skills, knowledge, experience and attributes of directors

The Board considers that the non-executive directors and the executive directors collectively have the range of skills, knowledge and experience necessary to enable them to effectively govern the business. The non-executive directors contribute experience, understanding of the financial sectors in which the PIC operates with knowledge of world capital markets and an understanding of the health, safety, environmental and community challenges that the PIC faces. The appointment of three new non-executive directors during the past year also added fresh ideas to the Board. The executive directors bring additional perspectives to the Board's work through a deep understanding of PIC business.

Board Charter

The Board is governed by a Charter that sets out the framework of accountability, responsibility and duty of the Board to the Corporation. The elements of the Board Charter are derived from various sources, including the Public Investment Corporation Act, 2004, the Public Finance Management Act, 1999, King III and the Companies Act, 1973. A corporate governance review of the Board Charter and the Terms of Reference of the different Board committees was conducted.

The Board Charter, which is reviewed annually, provides for various responsibilities and/or duties of the Board. These include, but are not limited to:

- Having ultimate responsibility for regulatory compliance;
- Ensuring that the PIC complies with all relevant laws, regulations and codes of business practice, as well as ensuring that reporting by the Board is comprehensive;
- Setting appropriate policies and confirming that necessary processes are implemented to ensure the integrity of the internal controls and risk management of the PIC;
- Agreeing with the PIC objectives and strategies and ensuring that procedures are in place for monitoring and evaluating the implementation of these strategies, policies and business plans for achieving those objectives;
- Annually reviewing and assessing achievements against objectives;
- Reviewing and monitoring the performance of the Chief Executive Officer and the executive team;
- Establishing the values of the PIC in support of its mission and establishing principles and standards of ethical business practice in support of such values;
- Reviewing and approving the PIC annual business plan and budget;
- Reviewing, approving and reporting on the PIC annual financial statements;
- Reviewing, monitoring and reporting on the PIC integrated sustainability management;
- Reviewing Board and committee mandates at least annually and approving recommended changes;
- Ensuring that an adequate budget and planning process exists, that performance is measured against budgets and plans and that the annual budget is approved; and
- Considering and approving the annual financial statements, dividend announcements and notices to the shareholder and considering and agreeing on the basis for assessing the going concern status of the PIC.

Delegation of authority and effective control

The Board retains effective control over the operations of the PIC through a well-developed governance structure that comprises various Board committees. These committees regularly report to the Board in terms of their agreed mandates. Management performance is monitored through effective and regular reporting against Board-approved strategies and budgets.

A comprehensive Delegation of Authority framework is in place to ensure timeous and effective implementation of the Board's strategy. The Delegation of Authority does not divest the Board of its responsibilities and is reviewed on an annual basis. The Board retains the prerogative to withdraw any given delegation of authority at any time.

Access to information

In order to facilitate effective control, the information needs of the Board are assessed on a continual basis. Board members can request any further information they require from management.

The Board considers access to information as a cornerstone of good corporate governance and has unrestricted access, collectively and by individual directors, to all PIC information, records, documents and property to enable it to discharge its responsibilities. Non-executive directors have access to management and may meet separately with management without the attendance of executive directors. Prior to every scheduled Board meeting, the non-executive directors meet without the presence of management.

The provision made for access to information applies to the Board as a whole, as well as to the committees of the Board. All Board and committee mandates specify that members are entitled to take independent advice at the Corporation's expense.

Board meetings

The Board has a formal schedule of matters reserved to it and meets quarterly, with additional meetings whenever deemed necessary. Where directors are unable to attend a meeting personally, video and teleconference facilities are made available to include them in the proceedings and enable their participation in discussions. Five Board meetings were held during the year in review, four of which were scheduled meetings in terms of the Board Charter.

Directors are afforded the opportunity to provide inputs in the agenda and are provided with comprehensive Board documentation at least five days prior to each of the scheduled meetings to enable the Board to reach objective and well-informed decisions. The tabling of documents at Board meetings as well as round robin resolutions is done only on an exceptional basis. No round robin resolutions were passed during the year under review.

The Board meets with management annually for two full days to debate and agree on proposed strategies and to consider long-term issues.

Issues are openly debated at Board meetings and directors are free to question or challenge the opinions of others. Both non-executive and executive directors commit to the collective decision-making processes of the Board.

The Company Secretary attends all Board meetings and ensures that accurate and adequate records are kept of the proceedings of Board meetings and decisions taken.

Directors' attendance at Board meetings:

Director	May 2010	Jul 2010	Nov 2010	Jan 2011	Feb 2011	Total
Mr N Nene	X	✓	✓	✓	✓	4 out of 5
Ms T Matshazi*				✓	✓	2 out of 2
Mr P Mngconkola*				✓	✓	2 out of 2
Mr R Morar*				✓	✓	2 out of 2
Ms M Moses	✓	✓	X	✓	✓	4 out of 5
Mr V Ntombela	✓	✓	✓	✓	✓	5 out of 5
Mr A Rhoda**	✓					1 out of 1
Mr I Sehoole	✓	✓	✓	✓	X	4 out of 5
Mr Z Sithole	✓	✓	✓	✓	✓	5 out of 5
Mr J Strydom	✓	✓	✓	✓	✓	5 out of 5
Mr Y Waja	✓	✓	✓	✓	✓	5 out of 5
Ms A Kekana (COO)	✓	✓	✓	X	✓	4 out of 5
Mr E Masilela*** (CEO)					✓	1 out of 1
Dr D Matjila (CIO)	✓	✓	✓	✓	✓	5 out of 5
Mr B Molefe**** (CEO)	✓	✓				2 out of 2

* *Ms Matshazi and Messrs Mngconkola and Morar were appointed as non-executive directors in December 2010, effective from 1 October 2010*
** *Mr Rhoda resigned on 17 July 2010*
*** *Mr Masilela was appointed as executive director on 16 February 2011*
**** *Mr Molefe resigned on 30 July 2010*

Board effectiveness

The Board, through the Directors' Affairs Committee, evaluated its performance and considered its effectiveness during the year. The evaluation process was overseen by KPMG, who submitted a positive evaluation report to the Board. The Board is committed to addressing areas of improvement as identified through the evaluation process.

Board sub-committees

The Board has established and mandated a number of committees to which certain of its functions have been delegated. All these committees comprise a majority of independent, non-executive directors and are all chaired by an independent non-executive director.

The permanent committees of the Board are the:

- Directors' Affairs Committee;
- Audit and Risk Committee;
- Investment Committee;
- Human Resources and Remuneration Committee; and latterly
- PIC Real Estate Asset Managers Committee.

As stated earlier, during the 2010/11 financial year the PIC consolidated its properties businesses with the amalgamation of Advent Asset Management, PIC Properties and the acquisition of the CBS Property Management Group which was absorbed into PIC Real Estate Asset Managers (PIC REAM), a division of PIC on 1 April 2011. This led to the Board establishing a fifth sub-committee, namely the PIC REAM Committee whose purpose it is to assist the Board in discharging its statutory duties and its oversight responsibilities in relation to the management of property investments.

Each committee operates under approved Terms of Reference. These mandates describe:

- The extent of the committee's powers;
- The responsibilities and duties delegated to it;
- Its membership;
- Its role and function;
- Procedures for reporting to the Board; and
- Its authority to act.

At Board meetings, a summary of the decisions taken by each committee is submitted and the Chairman of each committee reports on the committee's activities.

Directors' Affairs Committee

The Board has delegated to the Directors' Affairs Committee (DAC) its responsibilities and roles in respect of the composition of the Board and Board committees. Its purpose is to provide a focus on corporate governance that will enhance corporate performance and ensure on behalf of the Board that the PIC corporate governance system is effective. The DAC comprises the Chairman of the Board and the Chairmen of the other Board committees. Should one of the Chairmen of the Board committees not be able to attend the DAC meetings, such Chairman may nominate one of his/her committee members to be a member of the DAC.

The DAC's key terms of reference include:

- Setting criteria for the nomination of directors and committee members of the Board and subsidiaries and identifying, evaluating and recommending nominees for appointments;
- Identifying, evaluating and nominating directors and PIC employees to be appointed as PIC representatives on the Boards of Investee Companies;
- Considering corporate governance best practice;

Directors' attendance at Directors' Affairs Committee meetings

Director	May 2010	May 2010	Aug 2010	Nov 2010	Jan 2011	Total
Mr N Nene	✓	X	✓	✓	✓	4 out of 5
Mr I Sehoole	✓	✓	✓	✓	✓	5 out of 5
Mr Z Sithole	✓	✓	✓	X	✓	4 out of 5
Mr J Strydom	✓	✓	✓	✓	✓	5 out of 5

- Conducting an annual assessment of the performance of the Board and reviewing the effectiveness of all Board committees; and
- Periodically reviewing the format and content of the Board and committee structures and mandates.

The DAC has a formal and transparent procedure in place for the recommendation of remuneration for non-executive directors. Non-executive directors are paid attendance allowances for Board and Board committee meetings that they attend, as well as a retainer fee. Directors' fees are approved at the Annual General Meeting by the shareholder. The remuneration of each director for the financial year ended 31 March 2011 is disclosed on page 99.

Meetings

The DAC held five meetings during the year. Directors' attendance of these meetings is shown in the table above.

Audit and Risk Committee

The PIC financial reporting and the adequacy as well as effectiveness of its system of internal control and risk management is overseen by the Audit and Risk Committee, which comprises seven independent non-executive directors. PIC risk management processes are detailed in the risk management review. The risk framework endorsed by the Board is fundamental to the management of risk.

The Corporate Laws Amendment Act provides that the Chairman of the Board may not be the Chairman of the Audit and Risk Committee.

All members of the Audit and Risk Committee are independent. They all have requisite financial competence and none of the members have any personal financial interest, non-manageable conflicts of interests arising from cross-directorships or day-to-day involvement in the running of the Corporation. The Chief Executive Officer, external and internal auditors as well as relevant members of management are required to attend Audit and Risk Committee meetings.

The Audit and Risk Committee specifically oversees:

- The integrity of the financial statements;
- The appointment, qualifications, independence and performance of the external auditors as well as the integrity of the audit process as a whole;
- The performance and leadership of the internal audit function;
- The effectiveness of the system of internal controls and risk management;
- Compliance with applicable legal and regulatory requirements;
- Reviews of accounting policies and proposed changes thereto;
- Reviews of reports on material defalcations; and
- Compliance by management with constraints imposed by the Board.

The ARC has access to all sources of information that it may require from within the PIC. In addition, the committee or its individual members may, if they deem it necessary in the course of discharging their responsibilities, seek guidance and counsel from external experts at the PIC's cost. The ARC has authority to invite any person that it deems necessary in the discharge of its duties, including PIC employees/officers and external advisors, to attend its meetings.

Statement of material breakdowns

During the period under review, nothing came to the attention of the Audit and Risk Committee to suggest that any material breakdown had occurred in the functioning of the PIC systems, procedures and controls which could lead to material losses, contingencies or uncertainties that would require disclosure in the financial statements.

Meetings

The ARC meets on a quarterly basis and additional meetings are held as and when required. Each Audit and Risk Committee meeting is held before the Board meeting to ensure that all critical issues highlighted are brought timeously to the attention of the directors. The minutes of the ARC meetings are available to the Board as a whole as and when required.

The committee membership and attendance at the six meetings held during the financial year ended 31 March 2011 were as follows:

Directors' attendance at Audit and Risk Committee meetings

Director	May 2010	May 2010	May 2010	Jul 2010	Oct 2010	Feb 2011	Total
Mr I Sehoole	✓	✓	X	✓	✓	✓	5 out of 6
Ms T Matshazi*							
Mr P Mngconkola*							
Ms M Moses	X	X	X	✓	✓	✓	3 out of 6
Mr V Ntombela	✓	✓	✓	✓	✓	✓	6 out of 6
Mr A Rhoda**	✓	✓	X				2 out of 3
Mr Z Sithole	✓	✓	✓	X	✓	✓	5 out of 6
Mr Y Waja	✓	✓	✓	✓	✓	✓	6 out of 6

** Ms Matshazi and Mr Mngconkola were appointed as members of the ARC, effective 1 March 2011*
*** Mr Rhoda resigned on 17 July 2010*

Investment Committee

The purpose of the Investment Committee is to assist the Board to discharge its statutory duties and its oversight responsibilities in relation to investment activities. This is achieved by monitoring the investment mandates, policy, strategy and strategy implementation of all investments managed by PIC as well as delegated investment decisions. The Investment Committee consists of seven members, of whom five are independent non-executive directors and two are executive directors.

Meetings

The Terms of Reference of the Investment Committee provides that the committee meets at least 10 times during the year with additional meetings at the discretion of the Chairman of the Investment Committee. During the period under review, the Investment Committee held 16 meetings, 11 of which were scheduled meetings in accordance with the Terms of Reference.

Attendance at Investment Committee meetings during the 2010/11 financial year is shown in the following table.

Directors' attendance at Investment Committee meetings

Director	Apr 2010	Apr 2010	Apr 2010	May 2010	May 2010	Jun 2010	Jul 2010	Jul 2010	Aug 2010	Sept 2010	Oct 2010	Nov 2010	Dec 2010	Feb 2011	Feb 2011	Mar 2011	Total
Mr J Strydom	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	16/16
Ms T Matshazi*																✓	1/1
Mr R Morar*																✓	1/1
Mr V Ntombela	✓	✓	✓	✓	✓	X	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	15/16
Mr A Rhoda**	✓	X	✓	✓	✓	✓	X										5/7
Mr Y Waja	✓	✓	✓	X	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	15/16
Dr D Matjila (CIO)	✓	✓	✓	X	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	15/16
Mr E Masilela*** (CEO)																✓	1/1
Mr B Molefe**** (CEO)	✓	X	✓	X	X	X	X	X									2/8
Ms A Kekana***** (COO)	✓	X	✓	X	✓	✓	✓	✓	✓						✓		8/10

** Ms Matshazi and Mr Morar were appointed as members of the IC, effective 1 March 2011*
*** Mr Rhoda resigned on 17 July 2010*
**** Mr Masilela was appointed as executive director on 16 February 2011*
***** Mr Molefe resigned on 30 July 2010*
****** Ms Kekana is the alternate member to the CEO*

PIC REAM Committee

The PIC REAM Committee was established to assist the Board to discharge its statutory duties and its oversight responsibilities in relation to the management of property investments. This is achieved by monitoring the investment mandates, policy, strategy and strategy implementation of property investments managed by the PIC. The PIC REAM Committee consists of six members, of whom four are independent non-executive directors and two are executive directors.

Meetings

The PIC REAM Committee held five meetings during the year ended 31 March 2011, with attendance as follows:

Directors' attendance at PIC REAM Committee meetings

Director	Aug 2010*	Aug 2010*	Nov 2010	Feb 2011	Mar 2011	Total
Mr I Sehoole	✓	✓	✓	✓	✓	5 out of 5
Mr R Morar**					✓	1 out of 1
Mr Z Sithole	✓	✓	X	✓	✓	4 out of 5
Mr Y Waja	✓	✓	✓	✓	✓	5 out of 5
Dr D Matjila	✓	✓	✓	✓	✓	5 out of 5
Mr E Masilela***					✓	1 out of 1

** The inaugural meeting of the PIC REAM Committee was held on 16 – 17 August 2010*
*** Mr Morar was appointed as a member of the PIC REAM Committee, effective 1 March 2011*
**** Mr Masilela was appointed as executive director on 16 February 2011*

Human Resources and Remuneration Committee

The Human Resources and Remuneration Committee (HR & Remco) comprises four independent non-executive directors.

The purpose of the HR & Remco is to:

- Ensure a formal and transparent procedure for developing policies on executive remuneration and performance as well as recommending remuneration packages for executive directors;
- Consider policies regarding the conditions of employment, remuneration and benefits of PIC employees as well as all aspects related to these;
- Approve the policies and principles of the performance bonus scheme and criteria to be applied within the PIC, which is based on corporate as well as individual performance; and
- Ensure compliance with all relevant laws and regulations.

The executive directors are invited to HR & Remco meetings but do not participate in discussions concerning their own remuneration packages.

Meetings

HR & Remco held six meetings during the year ended 31 March 2011, with attendance as follows:

Directors' attendance at Human Resources and Remuneration Committee meetings

Director	May 2010	Sept 2010	Jan 2011	Jan 2011	Feb 2011	Feb 2011	Total
Mr Z Sithole	✓	✓	✓	✓	✓	✓	6 out of 6
Ms M Moses	✓	X	X	X	✓	✓	3 out of 6
Mr I Sehoole	X	✓	✓	✓	✓	✓	5 out of 6
Mr J Strydom	✓	✓	✓	✓	✓	✓	6 out of 6
Mr P Mngconkola*							

** Mr Mngconkola was appointed as a member of the HR & Remco, effective 1 March 2011*

Company Secretary

The Company Secretary is responsible to the Board for ensuring that Board procedures are complied with and advising the Board on governance matters. All directors have access to the Company Secretary for advice and services. The Board appoints and removes the Company Secretary. To enable the office to fulfil its duties, the Company Secretary has been fully empowered by the Board and has complete access to people and resources to facilitate this.

Going concern

The Board considers the going concern concept in the context of its deliberations on the annual financial statements. The facts and assumptions underlying the Board's assessment are documented. In accordance with the requirements of the Companies Act, the Board records its approval of the annual financial statements and its opinion on going concern aspects on pages 62 to 64 of the report.

Code of Ethics

The Board has adopted a Code of Ethics to promote proper standards of conduct, sound and prudent practices for the PIC, its employees in dealing with stakeholders, including clients, suppliers as well as customers. PIC employees are committed to managing its affairs in an ethical and disciplined manner.

Fraud Prevention Policy

PIC has a formalised Fraud Prevention Policy to prevent and detect fraudulent activities to protect the Corporation's assets under management from any form of dishonest or unethical conduct. The Fraud Prevention Policy declares that PIC management and all employees should adopt the highest standards of honesty, propriety, personal integrity and accountability and be fully attentive to misappropriations, irregular transactions and other unlawful conduct affecting PIC. The Fraud Prevention Policy also sets out the fraud discovery reporting procedures and warns employees of the disciplinary action taken against fraudulent conduct. To promote the achievement of this, management has contracted with a "whistle blowing" company.

Anti Money-Laundering Policy

Anti Money-Laundering is a term mainly used in the financial and legal industries to describe the legal controls that financial institutions and other regulated entities must observe to prevent or report money-laundering activities.

The Board has approved and adopted an Anti Money-Laundering Policy for the PIC to ensure that the Corporation is not compromised by unlawful activities associated with money laundering and financing of transactions. PIC employees are given regular updates on the latest changes in procedures and developments on money-laundering. Part and parcel of this communication is training to promote the understanding of employees' fundamental responsibility in adhering to the procedures for verifying customers and reporting suspicious transactions.

Compliance

The PIC Compliance Officer oversees the adoption of governance as well as other best practices by PIC business units to ensure that the Corporation complies with all financial services and other relevant legislation. Whilst the PIC Board remains ultimately responsible for compliance with legislation, the Compliance Officer is responsible for the implementation processes. During the reporting period, the PIC Compliance Manual and compliance risk management plans were updated. A number of internal compliance reviews were also conducted, with a view to assessing general compliance and PFMA compliance. All compliance officers are required to perform their duties with the level of due skill, care and diligence expected of a responsible and competent person operating within the compliance framework. The Compliance unit is responsible for:

- Drafting compliance policies
- Facilitating the implementation of compliance processes using the compliance risk-management methodology in line with international best practice
- Monitoring and reviewing implemented compliance processes
- Providing a central point of reference for advice and consultation on compliance-related issues
- Facilitating compliance education and awareness programmes and
- Establishing and enhancing a compliance culture throughout the PIC.

The Board and the Audit and Risk Committee oversaw the PIC compliance with statutory and regulatory requirements throughout the year.

Conclusion

The PIC Board is alert to the changing nature of the governance landscape in the financial services sector and the fact that new governance requirements will come into effect in the coming financial year. The Board has familiarised itself with the implications of the amendments to the Companies Act and King III. The Board is also ensuring that the Corporation is preparing itself for the implementation of the Companies Act, 2008 that will take effect during the 2011/12 financial year. The Board, as the body charged with overall responsibility for PIC governance, is anxious to ensure that the Corporation is fully prepared for these developments. The Board remains committed to being well informed and attentive in respect of all existing and future governance obligations. Most importantly, in the context of the present document, the Board wishes to adhere to the recommendations made in King lll with respect to integrated reporting.

Declaration by the Company Secretary

In terms of section 268(G) of the Companies Act, 1973, as amended (the Companies Act), I hereby declare that, to the best of my knowledge and belief, the Public Investment Corporation Limited (PIC) has lodged with the Registrar of Companies, for the financial year ended 31 March 2011, all such returns as are required of a public company in terms of the Companies Act and that all such returns are true and up to date.

Ms Wilhelmina JF Louw
Company Secretary

Audit and Risk Committee report

The PIC has prepared an Integrated Report which effectively integrates a sustainability report and a financial report.

The PIC Audit and Risk Committee is a formal committee of the Board which functions within documented terms of reference and complies with all relevant legislation, regulation and governance codes.

As at 31 March 2011, the Audit and Risk Committee consisted of six independent non-executive directors, namely:
- Mr I Sehoole (ARC Chairman)
- Mr P Mngconkola (appointed in October 2010)
- Ms T Matshazi (appointed in October 2010)
- Mr Y Waja
- Mr Z Sithole
- Mr V Ntombela
- Mr A Rhoda (resigned July 2010)

The Audit and Risk Committee is pleased with the increase in its membership of non-executive directors. This increases the skill and depth, further strengthening the effectiveness of the Audit and Risk Committee's role in supporting the Board.

Overview of activities

The Audit and Risk Committee held four meetings in 2010/11 to fulfil its role of assisting the Board to meet its fiduciary responsibilities, with the emphasis on the integrity of financial reporting and the effectiveness of the compliance, risk management and internal audit functions.

Internal audit

Internal Audit uses a risk-based approach to determine the annual audit plan and audits operational and Information Technology (IT) risk. For both functions, the main focus is on risk management, governance management and control. The ARC approved the audit plan for 2010/11 at the beginning of the financial year and also approved the annual revision of the Internal Audit Charter, which governs the internal audit and especially its independence, objectivity and access to records.

The Internal Audit staff complement was increased from five to eight members, reflecting the importance attached to the internal auditing function within the PIC. The division continues to report functionally to the Audit and Risk Committee and administratively to the Chief Executive Officer, ensuring greater distance from the operations of the PIC, which is in line with best practice in internal auditing.

This year saw the benchmarking of the setup and functioning of the Internal Audit division at PIC. A Quality Assessment Review (QAR) was performed on the Internal Audit function for the first time and at the conclusion of this process the members of the ARC expressed their satisfaction with the results of the QAR.

Integrated report

In line with King III's recommendations, the PIC has prepared an Integrated Report which effectively integrates a sustainability report and a financial report.

In respect of the sustainability aspect, the Audit and Risk Committee has approved PIC strategy and implementation timeline for sustainability reporting as follows:
- Sustainability compliance: Application Level C
- Implementation timeline: Financial Year
- Application Level C: 2010/2011
- Application Level C verified by Internal Audit: 2011/2012
- Application Level C+ independently verified: 2012/2013

ISAE 3402 (International Standard on Assurance Engagements)

In response to the PIC business of providing asset management services, an ISAE 3402 report was issued for the 2010/2011 financial year. This report focused on internal controls both manual and automated and the effectiveness thereof, as it relates to the PIC assets under management. The portfolios covered were equities, capital and money markets, Isibaya and properties.

Risk and compliance

Compliance

In line with regulators' requirements, guidance received from the Compliance Institute South Africa and best practice, the Compliance office performs the following functions:
- Trains and advises staff on relevant legislation;
- Monitors the extent to which the PIC complies with its internal policies and procedures, legislation and regulations thereto; and
- Reports to the Audit and Risk Committee and regulators.

There were no material breaches of legislation or client complaints reported during the year.

The six reviews that the Compliance office conducted during the year, focused on the PIC Finance department, Supply Chain Management department, Company Secretariat, PIC Real Estate Asset Managers division, Isibaya department and CBS Property Management (Pty) Limited. The Audit and Risk Committee accepted the above review reports and noted the recommendations thereto.

The Compliance office trained staff on the PIC Anti Money-Laundering Rules, which are derived from the Financial Intelligence Centre Act No. 38 of 2001 (FICA) and the Personal Account Trading Policy, which is drawn from the Securities Services Act No. 36 of 2004.

The Compliance office reviewed the Compliance Risk Management Plans and added seven pertinent legislations:
- Prevention of Organised Crime Act No. 121 of 1998
- Protected Disclosures Act No. 26 of 2000
- Protected Disclosures Act No. 207 of 2000
- Preferential Procurement Policy Framework Act of 2000
- Financial Institutions Protection of Funds Act No. 28 of 2001
- Regulation of Interception of Communication and Provision of Communication related Information Act No. 70 of 2002
- Promotion of Constitutional Democracy Against Terrorist and Related Activities Act No. 33 of 2004.

Following its initiative to raise PIC employees' awareness of the whistle-blowing forum, the Compliance office ensured that all reports submitted through the whistle-blowing hotline were adequately responded to and managed by Internal Audit.

Risk

Operational Risk Management (ORM) bases the enterprise risk management on the generally accepted Committee of Sponsoring Organisations of the Treadway Commission (COSO) Enterprise Risk Management (ERM) standard. The current risk register was compiled early in the current financial year through a risk identification and assessment workshop with management. ORM, together with management, developed appropriate risk responses for each risk identified. The risk register together with the risk responses was approved by the Audit and Risk Committee and subsequently by the Board early in the financial year. The Audit and Risk Committee has monitored the implementation of the risk responses to the top 10 risks during the course of the year. A similar approach was adopted to manage the fraud risks.

PFMA responsibilities

The Audit and Risk Committee has complied with its responsibilities as stipulated in section 3.1 of 15 March 2005 Treasury Regulation (Gazette No. 27388) and section 77 of the Public Finance Management Act (PFMA), as amended. Furthermore, the ARC has regulated its affairs and discharged its responsibilities in accordance with its formal terms of reference.

With regard to the PFMA reports of the accounting officer, the ARC is satisfied with the content and quality of the reports prepared and issued during the year.

Evaluation of financial statements

The annual financial statements of the PIC for 2010/11 have been audited and, in reviewing these, the Audit and Risk Committee has:

- Discussed the financial statements with the Auditor-General and the accounting authority;
- Reviewed the Auditor-General's management letter and management response;
- Confirmed that there were no changes in accounting policies and practices; and
- Confirmed that no adjustments resulted from the audit.

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

Having evaluated the Integrated Report for the year ended 31 March 2011, the ARC is of the opinion that the report complies in all material respects with the requirements of the PFMA and GAAP. The ARC concurs with the adoption of the going concern premise in framing the annual financial statements.

At its meeting on 15 July 2011, the ARC recommended the adoption of the annual financial statements by the PIC Board.

Mr Ignatius Sehoole
Chairman – Audit and Risk Committee

The PIC has embraced sustainability in all its facets by placing social, governance and ethical matters at the heart of its business.

Introduction

The PIC works on the premise and belief that long-term value creation is not achievable through short-term solutions or at the expense of future generations or through moral decay. Therefore, the PIC remains committed to the implementation of sustainability issues from both an operational as well as investment perspective. The PIC values and business processes underpin its strategic approach to sustainability and reflect its desire to preserve the future for all its stakeholders. The PIC is a proud signatory to both the United Nations Global Compact as well as the United Nations Principles for Responsible Investments. The PIC is conducting its business in such a way as to live up to these principles and will continue on its sustainability journey with conviction and commitment, believing that its continued success depends on its ability to share its successes with other stakeholders, enhancing their lives and their own ability to be successful.

The United Nations Global Compact

The PIC has embraced sustainability in all its facets by placing social, governance and ethical matters at the heart of its business. The PIC values and business processes underpin its strategic approach to sustainability and reflect the desire to preserve the future for all its operations. The PIC continues to be a responsible citizen at all levels. The PIC continues to support the Global Compact and its principles on human rights, labour issues, the environment and anti-corruption. In the period under review the PIC addressed the ten principles in the following ways:

Human rights

Principle 1: *Businesses should support and respect the protection of internationally proclaimed human rights and*

Principle 2: *make sure that they are not complicit in human rights abuses*

As a Public Entity and responsible corporate, the PIC complies with all South African legislation. Human rights are enshrined in the Constitution of the Republic of South Africa. South Africa is a member of the International Labour Organisation (ILO) and has ratified the ILO instruments. These requirements have been included in South African labour legislation which is applicable to the PIC.

Human rights are central to PIC legitimacy and are principally addressed in the PIC Code of Conduct and Ethics which includes: acting according to the law; acting fairly; properly exercising powers; explaining the reasons for decisions; being honest; truthful and conscientious. Each employee of the PIC has a copy of the Code of Conduct and Ethics and new employees are issued with copies when they join the Corporation. Internal policies, procedures and practices prohibit any violation of human rights. Any breach of these is treated seriously and will result in disciplinary action.

Employee health (physical as well as mental) is an important component of creating value for employees and for this purpose the PIC has contracted an external service provider to provide the PIC staff and their immediate family members with an Employee Wellness Programme, free of charge. All PIC employees are subscribed to the programme. During the period under review the PIC also had a PIC health day where all employees had their cholesterol, blood sugar levels and blood pressure tested on site. Dieticians were also available to give advice to staff members.

The PIC has an HIV/AIDS policy and through its Employee Wellness Programme, also provides assistance to employees living with this disease. Programmes which cover education and prevention are also frequently run. Employees are continually encouraged to know their status and to look after themselves and others accordingly. Condoms are available on site, free of charge. Each year on 1 December, the PIC celebrates International Aids Day and free testing as well as counselling is provided to PIC employees. For the period under review four qualified nurses were available for this purpose.

All PIC employees enjoy the benefits of a medical aid scheme and pension fund.

Broad-based black economic empowerment (BBBEE) is very important in the South African context and is embedded in the PIC recruitment and procurement policies. The PIC policy is to promote employment equity at all levels of the organisation, including its Board. On the Board, 84% of the members are historically disadvantaged individuals and black employees (Africans, Coloureds and Indians) account for 79.05% of PIC employees and women for 57.10%. At executive management level, Africans accounted for 100% of the executives and women for 33%.

Race and gender representation of PIC employees:

Gender/Race	Employees	Percentage
Male/African	67	22.6
Female/African	90	30.4
Male/Coloured	16	5.4
Female/Coloured	29	9.8
Male/Indian	15	5.1
Female/Indian	17	5.7
Male/White	29	9.8
Female/White	33	11.2
Total	296	100

Labour

Principle 3: *Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining*

Principle 4: *the elimination of all forms of forced and compulsory labour*

Principle 5: *the effective abolition of child labour and*

Principle 6: *the elimination of discrimination in respect of employment and occupation*

Whilst employees may use established grievance procedures which prohibit victimisation, the PIC is committed to eliminating any form of discrimination in respect of employment and occupation. The PIC practises freedom of association which enables employees to join trade unions.

The PIC maintains transparency and worker consultation in decision-making through meetings and other forums.

Employment equity policies have been implemented that are inclusive of race, gender and people with disabilities to ensure that the PIC is an organisation that is representative of all the people of South Africa. The PIC complies fully with the Employment Equity Act.

The PIC has a target of 2% for disabled persons for the next financial year as the PIC currently has only three disabled employees. It should be stated that the PIC former headquarters were not accessible to disabled persons, a matter which received all the necessary attention in its new headquarters.

Alignment of the PIC business plan with its skills requirements is critical. Demand and supply of required skills and competencies within all business units are assessed, skills levels defined and timeframes set for the filling of vacancies. A combination of internal development (talent management), internal promotions and external recruitment forms part of the recruitment strategy of the PIC. The PIC also has a graduate programme in place, recruiting graduates from various South African universities and assisting them with practical training within different divisions in the PIC. In the 2009/2010 financial year the PIC recruited three graduates and three interns. The total figure has grown to 20 in the current year.

There is no child or forced or compulsory labour at the PIC or any of its subsidiaries. Such employment is illegal and against the PIC internal values, standards, policies and procedures. Established recruitment practices are followed in 100% of the appointments made at the PIC for the period under review and no instances of child labour have been found. Current screening practices will highlight any under-age applicants.

Surveys are conducted amongst employees to determine their levels of job satisfaction. These surveys are anonymous to ensure there is no victimisation.

Environment

Principle 7: *Businesses should support a precautionary approach to environmental challenges*

Principle 8: *undertake initiatives to promote greater environmental responsibility and*

Principle 9: *encourage the development and diffusion of environmentally friendly technologies*

Given the increasing negative impact of climate change on the global economy, the PIC has renewed its focus on environmental standards. The PIC is in the process of re-looking its environmental footprint and in the new financial year there will be a much bigger focus on the carbon footprint of the PIC as an operational entity with the formal establishment of a sustainability committee.

Currently processes have been put in place to measure energy and water consumption as well as paper usage at all PIC offices. Employees are encouraged to be more environmentally friendly by limiting printing and by recycling efforts. Business travel will be scaled down due to improved video conferencing facilities.

The highlight during this year was moving the PIC corporate headquarters to an environmentally friendly building (green building). Some of the features of this building include lights that are operated by movement sensors to reduce electricity consumption; many features to maximise the use of natural light; lights that get brighter or dim depending on the natural lighting in the building; automatic sun screens to provide additional shade to reduce reliance on air conditioners and the use of grey water. In the 2011/12 financial year the PIC will register with the Carbon Disclosure Project. Measures will be put in place to measure the PIC carbon footprint. Targets will be set and measures implemented to decrease the carbon footprint. In the first year it will be a self assessment with full participation in subsequent years.

Anti-corruption

Principle 10: *Businesses should work against corruption in all its forms, including extortion and bribery*

The PIC is governed by the Constitution of the Republic of South Africa, the Public Investment Corporation Act, the Public Finance Management Act, the Companies Act as well as the King Codes on Corporate Governance and its own Corporate Governance Policy. In addition to the prevailing legislative environment, internal policies and procedures at the PIC prohibit any corrupt behaviour. Criminal behaviour is not tolerated and formal charges will be laid against any perpetrator. Integrity is a core PIC value and the organisation is committed to the highest standards of ethical behaviour in all its actions and decisions. This ethical awareness also influences the PIC engagement with suppliers and other stakeholders, as well as its investment decisions.

The PIC has a whistle blowing hotline which is in operation 24 hours a day, every day of the week. This hotline ensures the anonymity of any person reporting a complaint. All fraud and corruption allegations are investigated and reported to the Audit and Risk Committee of the Board. During the period under review only one instance of possible fraud was reported on the whistle blowing hotline and after a thorough investigation which was overseen by the Chairman of the Audit and Risk Committee it was found that there was no fraud committed and the case was closed.

Where possible and practical, the PIC will pursue full recovery of all losses resulting from acts of fraud and corruption.

The PIC has various policies in place aimed at the prevention of fraud and corruption, and dealing with the declaration of interests, ethics and acceptance of gifts, among others. Facilitated by the Human Resources, Compliance and Legal divisions of the PIC, structured sessions take place with all employees and Board members emphasising proper conduct to ensure compliance with legislation and internal values, standards, policies and procedures.

The PIC has an internal audit function which reports functionally to the Audit and Risk Committee. The terms of appointment of the Internal Audit Manager as well as her performance assessment are conducted by the Audit and Risk Committee.

United Nations Principles for Responsible Investments

The PIC has adopted a belief system that incorporates economic, social and institutional considerations into investment decisions. This approach to investment management is consistent with increasing global concern and awareness around sustainability issues. The United Nations-backed Principles for Responsible Investment Initiative (UNPRI) is a network of international investors working together to put the six Principles for Responsible Investments into practice.

The Principles were conceived by the investment community. They reflect the view that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios and therefore must be given appropriate consideration by investors if they are to fulfil their fiduciary (or equivalent) duty. The Principles provide a voluntary framework by which all investors can incorporate ESG issues into their decision-making and ownership practices and so better align their objectives with those of society at large. The PIC lived up to these principles in the following ways:

Principle 1: *We will incorporate ESG issues into investment analysis and decision-making processes*

The PIC commitment to ESG matters in the investment process is informed by the belief that:

- Sound environmental management forms an essential part of sustainable economic growth and social development which lead to sustainable businesses;
- Social matters need to be addressed especially in a society such as South Africa with its discriminatory past. For any business to be sustainable it has to take broader society (all stakeholders and not only shareholders) into account in its decision making processes; and
- Good governance practices mitigate the risk of corporate failure and that ultimately will lead to enhanced long-term returns.

There are currently ESG policies in place in the Equities as well as the Fixed Income and Dealing divisions. In the Isibaya Division an ESG questionnaire is used to assess the ESG impact of investments and there is currently a process underway to finalise an ESG policy for PIC REAM.

Principle 2: *We will be active owners and incorporate ESG issues into our ownership policies and practices*

The PIC has developed an ESG Rating Matrix which is used to score listed companies on their performance in all three fields of corporate governance, namely environmental, social and governance performance. The Matrix is a joint venture between the PIC and the Unit for Corporate Governance in Africa at the University of Stellenbosch Business School. The main aspirations of the Matrix are to:

- Help shape corporate behaviour;
- Encourage transparency;
- Encourage a paradigm shift to focus on the creation of long-term value and the role of business in society; and
- Create a body of knowledge against which to evaluate South African companies.

Ultimately, the Matrix is viewed as a developmental tool, aimed at assisting companies to improve their corporate governance performance and reporting.

The Matrix incorporates existing PIC Governance Principles and South African corporate governance standards and reflects on key debates in terms of international best practice and standards, for example the UN Global Compact and UN Principles for Responsible Investment. It recognises that governance is structural, systemic and relational and that sound governance practices require a commitment to all stakeholders. It further highlights the interaction between disclosure, compliance and performance, with an emphasis on performance. To encourage transparency there is an explicit focus on disclosure – the Matrix only makes use of publicly available information with the result that no indicator can be scored without public disclosure.

In the 2010/2011 financial year the Top 40 JSE listed companies were scored and the results were used in engagements with these companies on their ESG performance. Of the Top 40 companies the PIC had engagements with 33 on their scores. The PIC also had a substantial number of engagements with companies in which it is invested that do not form part of the JSE Top 40. During the last quarter of the financial year the Matrix was revised taking into account initiatives such as King III. ISO 26000 and the new Companies Act. The Matrix was then applied to the Top 100 JSE listed companies.

The bulk of the PIC assets under management are assets of the Government Employees Pension Fund (GEPF) (approximately 90%). The GEPF is also a signatory to the UNPRI and the Head of Actuarial and Investments at the GEPF is the chairman of the UNPRI South African Network. The GEPF and PIC have established an ESG Working Group which researches ESG matters in listed companies and engages companies on ESG matters. The ESG Working Group is in the process of analysing the scoring results of the Top 100 companies. The intention is to have in person engagements with the bottom 15 companies in each of the three (ESG) fields.

Where engagements seem not to have the desired effect, the PIC will take the issues up in a public forum such as shareholder meetings. The PIC will also take it to other forums such as the UNPRI South African Network or the UNPRI Emerging Markets Disclosure Project (UN EMDP). The participants in the UN EMDP include the PIC, GEPF, Element Investment Management (which is one of the PIC external asset managers), foreign representatives of the UNPRI and foreign investment managers such as Calvert Group. In the past year five companies, which were not included in the JSE SRI Index, were engaged through the UN EMDP and in the 2011/12 financial year another five companies will be engaged through this project.

The PIC, especially through its Isibaya Fund, invests significantly in socio-economic development including skills development. Refer pages 47 to 52 for report on Isibaya Fund.

Principle 3: *We will seek appropriate disclosure on ESG issues by the entities in which we invest*

The PIC was one of the key role-players involved in initiating the drafting of the Code for Responsible Investing in South Africa (CRISA). The PIC was also represented on the core drafting committee of this Code. This committee released its draft code on responsible investment on 1 September 2010 for public comment. Following this the

Code was finalised for launch during July 2011. Principle 1 of the Code states that "An institutional investor should incorporate ESG considerations into its investment analysis and activities as part of the delivery of superior risk-adjusted returns to the ultimate beneficiaries". The Code requires both asset owners and institutional investors to incorporate ESG issues in investment processes. It also requires these institutions to have policies dealing with ESG matters publicly available and to disclose voting records. The adoption of this Code will make South Africa the second country after the United Kingdom which has an institutional investors code.

The PIC is one of only a few asset managers that has its Corporate Governance Code as well as proxy voting records available on its website (www.pic.gov.za).

***Principle 4:** We will promote acceptance and implementation of the Principles within the investment industry*

The PIC works closely with its external managers to promote the implementation of the UNPRI. During the 2010/11 financial year the PIC conducted a survey amongst its 20 external managers to raise awareness of ESG matters.

The results were as follows:

Questions	Yes %
Are you a signatory to the UNPRI?	35
Are ESG metrics contained in your written investment policy?	25
Do you do ESG research and does it feed into your company valuations?	35
Do you engage companies on their ESG practices?	55
Does your voting policy cover ESG issues?	60
On how many of the stocks in the portfolio did you vote?	90
Do you use proxy voting as an engagement tool?	50
Do you collect your own information from companies on ESG?	50
Did you ask companies for data on ESG performance, impact, risks and opportunities?	20

The PIC is working with its external managers to improve these figures.

***Principle 5**: We will work together to enhance our effectiveness in implementing the Principles*

The PIC is an active member of the UNPRI South African Network and the UN EMDP. It also participates in the Association for Savings and Investments in South Africa (ASISA) ESG sub-committee. The PIC was also instrumental in the establishment of the CRISA drafting committee.

The PIC is represented on the Chair in Responsible Investment at the University of South Africa as well as the Unit for Corporate Governance in Africa at the University of Stellenbosch. The PIC is a frequent participant at both UNPRI and UN Global Compact events and conferences. The PIC Senior Corporate Governance Specialist also lectures at the University of Stellenbosch to various Master Degree programmes on responsible investing and shareholder activism. The PIC also contributed to a submission to the National Treasury to amend regulation 28 of the Pension Fund Act to incorporate ESG issues in all asset classes.

***Principle 6:** We will each report on our activities and progress towards implementing the Principles*

The PIC is one of few asset managers to publicly disclose its voting records. The Corporate Governance Policy of the PIC is also a public document available on its website (www.pic.gov.za).

Financial sustainability

The Corporation's business strategy is supported by its financial strategy. The long-term goal for all at the PIC is to continue to strike a suitable balance between high-grade profitability and excellent service delivery to clients. In this endeavour we use the term financial sustainability, which allows us to focus on both areas with neither gaining precedence over the other.

Sustainability is key and maintaining this fine balance between service delivery and profitability is critical. PIC is at the fulcrum and balance is maintained by:

- Allocating budgetary resources to grow the organisation over a period of time; and
- Directly linking and aligning the budget allocation of each business unit to business initiatives.

Conclusion

There can be no doubt that ESG elements can no longer be ignored to ensure a sustainable future. They should be included as fundamental considerations not only in the investment decision-making process but also in the way in which the PIC conducts its operations. While the PIC is committed to addressing ESG concerns through the UNPRI and UN Global Compact, it is equally, if not more, important that it has elected to adopt these principles regardless of the obligation this imposes on the Corporation. The PIC recognises that it is amongst the market leaders when it comes to integrating ESG elements into investment decisions. It also acknowledges that there is an opportunity to improve before the PIC, as an operational entity, is amongst the leaders. In this regard we will embark on an active process of establishing a sustainability committee and re-looking the way in which we are conducting our business. This process will include working together with other role players in the financial sector to ensure a sustainable future.

Economic and market review

Global economy

Following the deepest global downturn in recent history, economic growth broadened and solidified in the first quarter of 2010. It remained subdued in the second and third quarters and rebounded again in the last quarter of the year. In the meantime monetary policy has been highly expansionary with interest rates at record low levels. Fiscal policy has also provided major stimulus in response to the deep downturn, leading to a rebound in growth in industrial production.

Economies that were off to a strong start in the latter part of 2009 continued solidly in the first quarter of 2010. However, the recovery was at varying speeds and uneven, that is, more robust in emerging economies led by Asian economies and tepid in advanced economies with the US ahead of the Euro zone and Japan. This positive start-off led the International Monetary Fund in April 2010 to project 4.2% world growth for 2010.

The second quarter was, however, characterised by a concerning sovereign debt crisis. This is predominantly at the back of the fiscal stimuli that were used as key intervention to the crisis. As a result, most of the economies experienced rising debt levels, however, Portugal, Italy, Ireland, Greece and Spain stood out and ended seeking bail-out from the European Union and International Monetary Fund. The symptom of the Greek crisis was the collapse of the euro to the US dollar in May followed by the plunge in global markets. The Greek crisis weakened the euro against the US dollar from 1.35 in March to 1.22 by the end of June. Market re-pricing of risk picked up pace and capital flowed to safe haven investments. This crisis fuelled fears globally that the world economy may slip into recession again. To allay these fears, the US authorities embarked on quantitative easing (QE2). The launch of quantitative easing resulted in the US dollar weakening against the euro, ending at 1.33 in December.

Commodity prices increased in line with global recovery especially in the first quarter of 2011, with Brent crude oil price rising by 32% from US$71.46 a barrel in January, to US$94.75 in December. Due to the slow recovery, the rise in commodity prices had less inflationary impact. The low levels of capacity utilisation and well-anchored inflation expectations managed to keep inflation at low levels for the year as a whole.

Despite these challenges, economies recorded positive growth rates in 2010 as shown in the graph at the bottom of the page.

Performance of selected economies

	Real GDP y/y %			Inflation rate y/y %		
	2008	2009	2010	2008	2009	2010
Emerging economies	6.1	2.7	7.2	9.2	5.1	6.2
Advanced economies	0.2	(3.3)	2.9	3.4	0.1	1.6
China	9.6	9.2	10.3	5.9	(0.7)	3.3
India	6.1	6.7	10.4	8.3	10.9	13.2

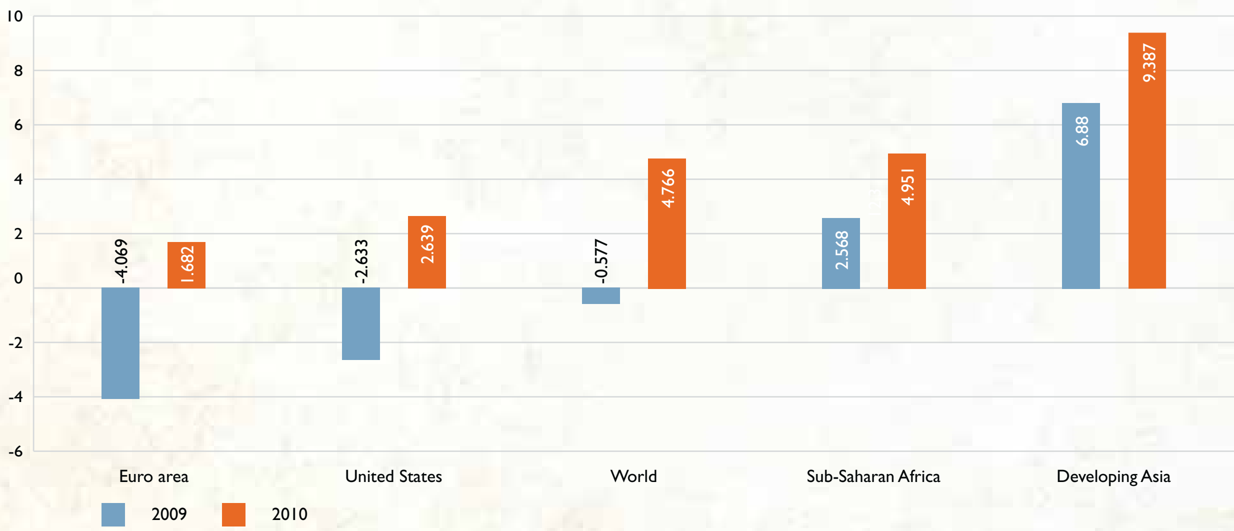
Source: IMF WEO database April 2011

Currencies and commodity prices

	2010q1	q2	q3	q4	2011q1
Rand/$	7.289	7.667	6.957	6.618	6.752
Euro/$	1.350	1.222	1.362	1.338	1.415
Pound/$	0.658	0.669	0.636	0.640	0.623
Yen/$	93.580	88.430	83.570	81.110	83.360
Gold $/ ounce	1 115	1 244	1 307	1 405	1 439
Platinum	1 644	1 533	1 655	1 770	1 766
Brent crude oil $	82.7	75	82.3	94.8	117.4

Source: INet-Bridge

Annual change in real GDP (%)



Source: IMF WEO database April 2011; INet-Bridge, PIC estimates

In short, the recovery in global economic activity is continuing at varying speeds. The threat of deflation has faded and consumer prices have resumed an upward trajectory. Commodity prices remain high and capital inflows have favoured emerging markets.

The domestic environment

Domestic economic indicators staged a subdued inflation environment, moderate economic growth underpinned by an accommodative monetary policy and a continued strength in the currency against major currencies and in particular the US dollar.

The Greek sovereign crisis coupled with the US quantitative easing, wider interest differentials between US and South Africa as well as the narrowing of the domestic current account deficit saw a renewed inflow of capital back to emerging markets and specifically to South Africa. For 2010 as a whole, cumulative inflows (bonds and equities) amounted to R80.9 billion, an increase from R69.8 billion recorded in 2009. This helped the rand to strengthen from R7.44/$ in January to R6.80/$ in December. The current account balance narrowed from 4% of GDP in 2009 to 2.8% of GDP in 2010.

CPI inflation remained subdued throughout 2010, decelerating to 4.3% from 7.1% in 2009. The rand/dollar strengthened from R8.40 to R7.30 last year, the slowdown in food inflation from 9.7% to 1.4% as well as moderation of housing services from 7.8% to 6.5% which underpinned the lower inflation rate. The combination of falling inflation and slow economic recovery therefore prompted the Monetary Policy Committee to continue with its accommodative policy, easing further to 5.5% by January 2011.

In line with global recovery, economic growth in the first quarter of 2010 confirmed that the South African economy was indeed out of recession, having recorded a third successive positive growth. While manufacturing production continued to lead the economy, other sectors lagged. Overall the tertiary sector contributed more than 50% to the economy and the rest came from both the primary and secondary sectors (32%). Real GDP averaged 2.8% in 2010 compared to a contraction of 1.7% in 2009.

From the demand side, the restocking process, that is, inventory build-up in expectation of strong demand ahead, boosted economic growth especially in the first half of the year. The low interest rate and inflation environment, falling debt service costs as well as high disposable income supported household consumption expenditure, which more than reversed the contraction of 2% in the recession year (4.4% in 2010). As sustained yet significantly lower, gross fixed capital formation by public corporations proved not enough to offset the higher negative growth from both government and private investment. The negative contribution from net exports was not surprising given the strength of the rand which particularly supported imports.

Investment implications

The economy has recovered from recession and consumer confidence has firmed up. Investors have channelled their money back into equities and bonds from the money market. Equity market performance moderated following a strong rebound last year, nevertheless it still recorded a healthy positive return.

Returns on equities measured by the All-Share Index continued to outperform other asset classes, up by 15.2%

Domestic macro-economic indicators

	2009	Q1	Q2	Q3	Q4	2010
Final Consumption Expenditure	**(0.4)**	**2.8**	**5.0**	**5.1**	**5.0**	**4.5**
Households	(2.0)	2.3	4.7	5.5	5.2	4.4
General Government	4.8	4.4	5.9	3.7	4.3	4.6
Gross Fixed Capital Formation	**(2.0)**	**(8.0)**	**(5.2)**	**(1.5)**	**0.2**	**(3.6)**
General Government	(3.7)	(15.0)	(12.9)	(9.7)	(5.2)	(10.7)
Public Corporations	26.8	5.4	3.7	2.5	2.4	3.5
Private Business Enterprises	(8.7)	(10.6)	(6.2)	(0.8)	0.7	(4.2)
Change in Inventories Rm	**(34 492)**	**(7 889)**	**(7 641)**	**(857)**	**1 083**	**(3 826)**
Gross Domestic Expenditure	**(1.7)**	**0.7**	**4.3**	**6.3**	**5.4**	**4.2**
Exports of Goods and Services	(19.4)	(0.8)	7.0	7.7	4.9	4.7
Imports of Goods and Services	(17.3)	(3.2)	12.3	19.3	11.3	9.9
GDP at Market Prices q/q		**4.8**	**2.8**	**2.7**	**4.4**	
GDP at Market Prices y/y	**(1.7)**	**1.4**	**2.9**	**3.4**	**3.7**	**2.8**
C/A balance – ratio to GDP	**(4.0)**	**(4.6)**	**(2.9)**	**(3.1)**	**(0.6)**	**(2.8)**
CPI	**7.1**	**5.7**	**4.5**	**3.5**	**3.5**	**4.3**
Repo Rate	**7.0**	**6.5**	**6.5**	**6.0**	**5.5**	**5.5**
10 yr bond yield (Sagb10)	**9.0**	**8.6**	**8.9**	**7.9**	**8.1**	**8.1**

Source: INet-Bridge, PIC estimates

in March 2011, a marked deceleration from 44.1% recorded the previous year. The consumer sector performed well last year supported by the low interest rate environment, underpinning the industrial sector. The outperformance in equities is attributed to the returns delivered by industrials (21.6%), resources (13%) and financials (6.9%) sectors over the same period.

Benchmark returns (%)

ALSI	15.2
Full SWIX	15.4
Bonds (Nominal)	8.3
Bonds (Inflation-linked)	12.3
Money market	6.5
Listed property	15.4

The switch in asset classes from conventional bonds to equities late last year, as well as renewed fears of inflation in the beginning of the year, led to lower conventional bond returns and higher inflation-linked bond returns of 8.3% and 12.3% respectively. Money market returns were the lowest at 6.5% in line with a low and flat monetary policy.

Outlook

Global outlook

World economic growth is expected to be around 4.5% in 2011, slightly lower than the previous year. The emerging market economies are growing strongly, supported by the net inflows of capital, while advanced economies are expected to pick up pace. The current challenges, such as the high debt levels and the food and energy price shocks, will determine the direction of monetary policy. Some economies, including China, have already started tightening while most of the advanced economies are still reluctant. Inflation is now trending upwards but will remain at low levels in 2011 underpinned by excess capacity. There are indications that unemployment is starting to fall, but it remains high by historical standards.

Domestic outlook

The South African economy is recovering but remains well below the pre-crisis level. High frequency indicators suggest that strong economic growth lies ahead, supported by strong consumption and government expenditure. In addition, there are signs that fixed capital formation will start picking up in the second half of the year, in which case economic growth will be sustained. Real GDP is hence forecast to average 3.5% in 2011.

Rising commodity prices are pushing inflation higher but the current level of the rand will keep inflation within the target band in 2011. Monetary policy will likely observe cost-push factors before they respond. Nevertheless, the next move will be up.

Given that the economy is at an early upswing cycle, that is, consumer confidence is improving and economic growth is increasing, the equity market becomes an attractive investment. The rising inflation as well as expected tightening in the repo rate will yield good returns for inflation-linked bonds and cash in the long term. Conventional bonds remain unattractive.

Introduction

The economy has recovered from the global recession supported by the major fiscal stimuli across countries. This has led to a rebound in the financial markets and this has benefited our assets under management and generally the performance of the portfolios.

Portfolio performance review 2010/11

The fair value of assets under management as at 31 March 2011 totalled R1.032 trillion, compared to R910.9 billion as at 31 March 2010. These assets were managed in four main asset classes, namely listed equities, fixed income investments, properties and the unlisted socially responsible investments.

The following is a review of key client portfolios and the performance of PIC's four investment divisions during the 2010/11 financial year.

Performance of key client portfolios

PIC's top four clients are the Government Employees Pension Fund (GEPF), the Unemployment Insurance Fund (UIF), the Compensation Commissioner Fund (CC) and the Compensation Commissioner Pension Fund (CC:PF). Together, these four clients account for 97% of the assets under PIC management.

GEPF

GEPF is Africa's largest pension fund and manages pensions and other benefits for government employees in South Africa. Owing to the long-term nature of GEPF's liabilities and the size of funds under management, its investment strategy focuses on diversification and long-term investment time horizons.

GEPF performance

The listed portion of the GEPF's portfolio return was 12.6% versus benchmark return of 13% representing an excess return of -38 basis points (bps). The main driver of performance was the overweight position in equities and bonds. The robust investment process started one year ago is yielding the desired result. The incorporation of the Black-litterman Tactical Asset Allocation model and the rebalancing masterclass in the investment decision-making process has produced the desired results.

Equities

Composite Equities delivered a return of 15.3% versus a benchmark return of 15.5% producing negative excess returns of 20 bps net of costs. This was due to the poor performance of British American Tobacco (BTI) which was formally included in the equity benchmark by the client. Excluding BTI the composite outperformed the benchmark by 24 bps.

The internally managed equities delivered excess returns of 16 bps. The sector-rotation strategies have paid off handsomely.

The externally managed equities delivered excess returns of 48 bps. There is still room to generate more excess returns by actively managing this portfolio of managers. A review is being undertaken to optimise the number of managers. An appropriate level of tracking error will need to be taken to ensure better alpha production.

Fixed Income

The GEPF's Capital Market portfolio has outperformed its benchmark by 37 bps with most of the positive contribution coming from conventional bonds. The fund returned 9.6% for the 12 months to 31 March 2011. The positive performance can be attributed to successful active management of duration and relative value strategies.

Properties

Total Property portfolio outperformed benchmark by 234 bps. Properties returned 15.2% for the 12 months to 31 March 2011. A blended benchmark for the properties portfolio has been used consisting of (50% IPD) + (30% CPI + 5%) + (20% SA Listed property). Listed property and net income realised in the directly held properties were the largest contributors to performance.

The Community Property Fund also outperformed its benchmark in the Investment Property Databank (IPD) for the period ending December 2010.

Isibaya Fund

Isibaya Fund outperformed its benchmark, the SA Government 10 year bond Index +5% by 334 bps. The Fund returned 17.4% for the 12 months to 31 March 2011. If the Afrisam Investment is taken into account, the return is below benchmark by 0.3%.

Unemployment Insurance Fund (UIF), Compensation Commissioner Pension Fund (CC:PF) and Compensation Commissioner Fund (CC)

As social security funds, these clients have investment mandates that allow for very limited risk and are more focused on short-term liquidity and capital preservation. Overall, all three client portfolios outperformed the relevant benchmarks.

Unemployment Insurance Fund (UIF)

The Fund's assets returned 9% for the 12 months to 31 March 2011 and the portfolio outperformed its benchmark by 74 bps.

Compensation Commissioner Pension Fund

For the 12-month period, the Fund's assets returned 10.2% and the portfolio outperformed its benchmark by 34 bps.

Compensation Commissioner Fund

For the 12-month period, the Fund's assets returned 8.4% and the portfolio outperformed its benchmark by 42 bps.

Asset classes

Fixed income

The year 2010 saw significant gains in global bond markets with yields testing new levels on the downside. The declines in local bond yields can be attributed to better than expected inflation readings, foreign inflows and the deterioration in the outlook for economic growth.

The South African bond market experienced a highly volatile period during 2010, mainly on the back of significant inflows of funds from offshore investors in search of higher yielding assets in emerging markets, as the relatively low yields in developed markets debt offered little or no incentive. South Africa attracted record capital inflows in 2010 and indeed foreign buying swayed the demand/ supply function by driving long bond yields to below perceived fair value levels. Foreign purchases of South African bonds exceeded R72 billion in the year 2010, more than double the previous high of R30 billion in 2006. This drove emerging market yields to very low levels in the second half of the year. However, the bullish trend in bond yields slowed down towards the end of the year as signs of growth in the domestic economy began to emerge. Profit-taking by offshore investors also drove yields higher across most emerging markets, as funds were withdrawn from this seemingly overbought asset class. Due to increased demand, bond issuance became far less of a problem than initially envisaged and expectations that CPIX inflation would remain well-contained within the target range over the longer term helped in limiting the potential upside to bond yields during the mild sell off.

The R157 bond (maturing 2015) started the year trading at 8.4% and ended the year at 7.3% after trading as high as 8.6% and a low of 6.9% during the year. The R186 bond (maturing 2026) started the year trading at 9.1% and ended the year at 8.3% after trading as high as 9.4% and a low of 7.8% during the year.

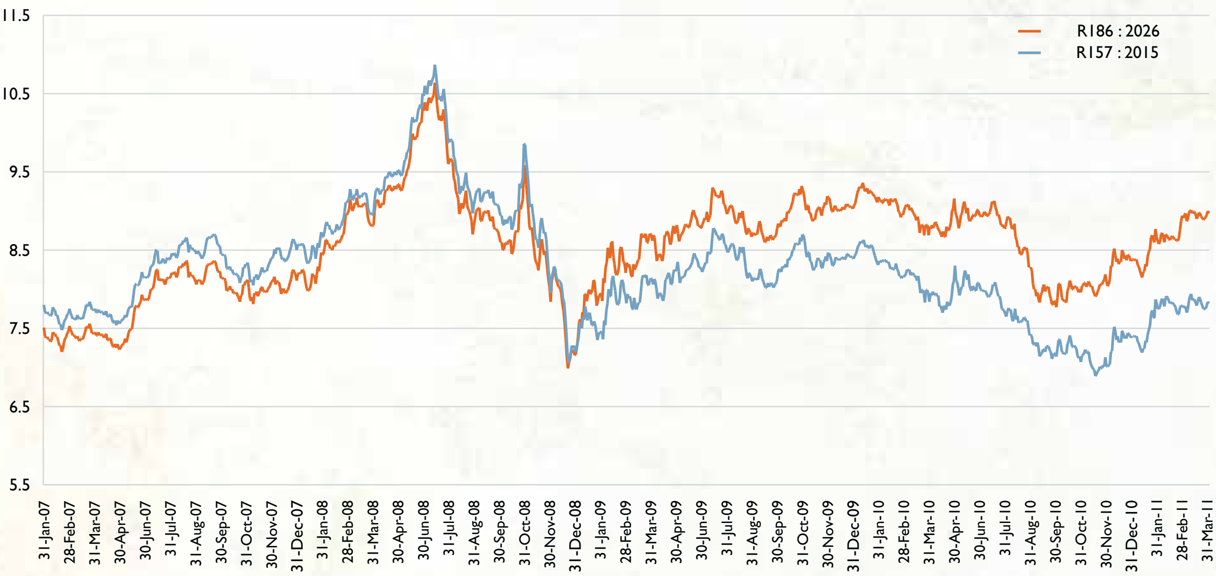
The single most important factor in determining a better than expected inflation outcome during the year 2010 has been the performance of the rand. The rand began the year 2010 trading at 7.39/$ and ended the year at 6.62/$ after trading as high as 7.95/$ towards the second half of the year. The rand was the second best performing currency versus the USD in 2010 out of a basket of 25 emerging market currencies, returning 11.5%.

The South African bond yield curve steepened significantly during the last quarter of the year as a result of the outflows from the bond market sending longer-term bond yields higher while shorter-term yields remained mostly anchored.

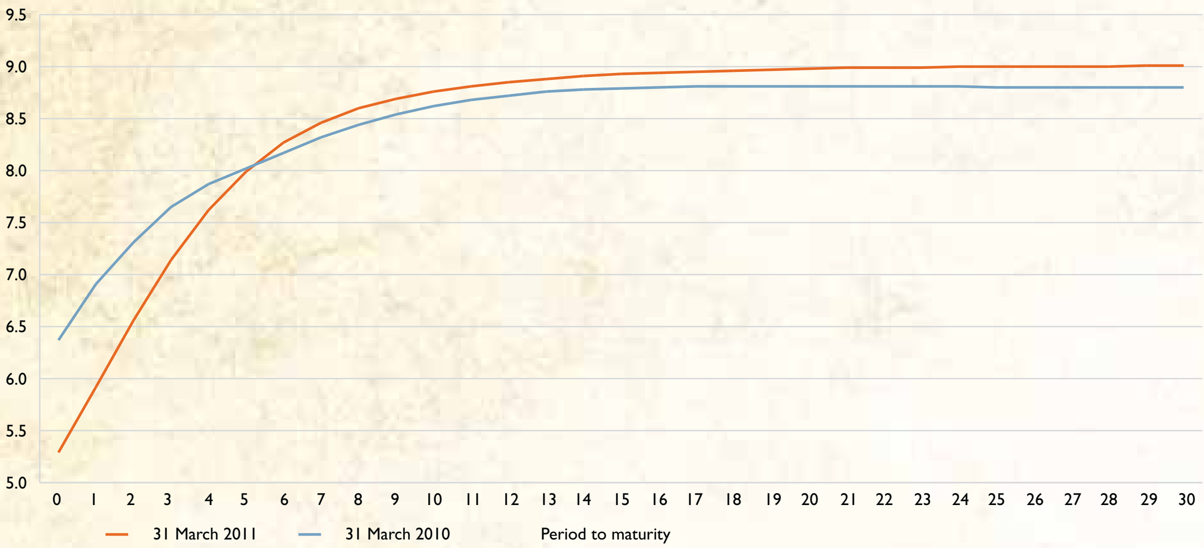
This was evidenced by the R186/R157 spread beginning the year 2010 at 64 bps and ending the year at 97 bps after reaching a high of 116 bps and a low of 61 bps.

With regard to inflation-linked bonds, real yields followed nominal yields lower to record lows during the year on the back of both local and offshore buying interest. The benchmark R197 bond (maturing 2023) started the year trading at 3.2% and ended the year at 2.7% after reaching a low of 2.5% and a high of 3.4%. The R189 bond (maturing 2013) was also lower at the end of the year at 1.3% after starting the year at 2.2%.

RSA bond yields



Yield curve (%)



In terms of bond performance, the ALBI (All Bond Index) returned 15% in 2010, outperforming Inflation-linked bonds and cash (11% and 7% respectively). Equities were, however, the best performing asset class for the year, returning 19%.

Money market rates trended lower for most of the year in anticipation of further rate cuts by the South African Reserve Bank Monetary Policy Committee (MPC). The 3-month Jibar started the year at 7.2% and ended at 5.6%. The 12-month Jibar started the year at 8.2% and ended at 6%, a decline of 225 bps. The spread between the 3 and 12-month Jibar rates started the year at 96 bps and ended at 38 bps after reaching a low of 21 bps. The spread between the two rates only started widening again towards the end of the year as market sentiment was for an end to the rate cutting cycle by the MPC. Signs of improving economic activity and slight increases in the inflation rate also supported the widening shift in spreads.

The fixed income portfolio outperformed the relevant benchmarks for all the funds under their management.

Listed equities

Equity market performance

The equity markets started the new financial year on a weak note driven by sovereign debt concerns. The ensuing re-pricing of debt in Europe led to a collapse in the euro as well as to risk aversion, which in turn resulted in safe haven flows that benefited the dollar. Investors at this point started pricing in a second recession, which prompted the US authorities to embark on quantitative easing (QE2) in order to prevent such recession. With investor fears allayed, the market posted very strong gains in the following two quarters, leading to the JSE All Share Index returning 15.2% by the end of the financial year. The market performance was led by the industrial sector which posted a gain of 21.6%, followed by resources at 13% and the laggard was Financials which recorded a return of 5.8%.

Equity market outlook

The equity market outlook is still positive with return expectations of about 15% for the new financial year driven by a combination of higher earnings expectations of about 25% and some market de-rating from the current elevated level. Emerging markets will continue to underpin the demand story for commodities in particular. China's policy on tightening as a result of inflation fears will not have a major impact on growth as the policy rate is not expected to surpass the last peak. The Chinese property market bubble, however, remains an investment risk only to the extent that the policy makers overreact to the same extent they did in 2008, which resulted in a notable economic slump in that market. We remain confident that the lessons learned in 2008 are still too fresh in their minds for that experience to be repeated. Developed economies are posting a mild recovery, led by the US. The dollar could come under renewed pressure as Europe tightens rates ahead of the US. A weak dollar could add more momentum to commodity prices and the performance of emerging market economies.

Inflation worries globally have led to investors effecting an asset rotation away from fixed income to equities. We view this development as a further positive for the equity markets for the next year.

The PIC equity investment approach

The PIC Listed Equity investment approach is that of Core and Satellite. The core mandate is managed internally and the high risk satellite mandates outsourced to external managers. The portfolio split in the past was, however, skewed more towards external managers and hence the resultant equity risk profile rendered higher than the equity risk budget provided for. The internal equity portfolio also included the strategic portfolio that houses strategic investments. The concentration of these four investments in the strategic portfolio led to a significant skew towards these four investments in the total equity portfolio, which led to a riskier equity portfolio than the equity risk level dictated by the investment mandate. The listed equity portfolio had to restructure in order to restore the core satellite investment utility in line with the equity investment mandate. The equity restructuring was conducted at two levels in order to address the risk profile issue.

Restoration of the core satellite investment approach to the equity portfolio

The decision to restructure the equity portfolio, which took place a couple of years ago, was meant to realign the equity risk level back to that dictated by the investment strategy. The first level was to address the core satellite split by recalling some external mandates. The second level was to realign the internal equity risk profile by rebalancing the strategic portfolio to eliminate the dominance of the strategic investments in the core portfolio.

In addressing the core satellite portfolio split, some existing external mandates were recalled and new ones issued at the same time. The effect of this exercise was a net increase of the core portfolio to about 75% of total equities. The recalled portfolios were aggressively positioned and required some rebalancing in order to bring them in line with the core portfolio profile.

In addressing the high-risk core portfolio profile, as a result of the recalled assets, as well as the asset concentration in the strategic portfolio, a rebalancing exercise was conducted to restore the correct core equity profile. The rebalanced portfolio consisted of the recalled assets as well as the strategic portfolio. The target portfolio was the equity benchmark of the SWIX index. The rebalancing exercise was completed at the end of June 2010 when the portfolio's benchmark risk, as measured by tracking error, reached the 0.5% target limit.

The rebalancing period lasted 18 months from the date of commencement in January 2009. The relative performance of the transition portfolio during the rebalancing period vs the SWIX benchmark was (4.8%). This was due to the fact that the dominant Sasol and MTN shares significantly underperformed the market during this period.

The core satellite profile of the equity portfolio was fully restored and the fund risk was brought back to mandated levels in the process. The total equity fund is now within its tracking error risk budget limit of 1.5%. The core portfolio targets a tracking error limit of 0.5% whilst the external portfolios target a minimum of 3.5% as per the nature of their utility in the core satellite equity investment approach.

Equity performance review

The GEPF listed equities portfolio outperformed its benchmark by 0.3%* and in the process grew total assets under management from R818 billion to R923.4 billion over the financial year under review. A strategic decision to increase the equity weighting versus the benchmark made a marginal contribution to the growth in the size of the equity portfolio as well.

The internal component of the portfolio outperformed the benchmark by 0.2%. This was largely driven by a sector call that favoured the consumer sector. Stock-level decisions that also contributed to the outperformance registered included overweighting in outperforming shares. All these relative calls are implemented within the core equity guideline of low risk. This, of course, means that the outperformance derived at this portfolio level will not contribute to significant outperformance of the equity fund. The outperformance utility is expected from the satellite portfolios that are multi managed.

The multi-managed component also outperformed the benchmark by a healthy 0.6%. The outperformance was, however, substantially higher than that achieved internally, owing to the difference in mandates between these two portfolios. Notably fund managers that contributed to this performance were Coronation, Sanlam, Kagiso and Mazi Capital.

Equity performance enhancement initiatives

The benefit of the fund restructuring has resulted in the good performance posted in the very first year after the conclusion of the exercise. Going forward, further initiatives have to be undertaken to ensure that the equity fund is positioned for outperformance.

The internal investment process has identified four value-added variables that will be targeted for outperformance. The first three variables are sector allocation, sub-sector allocation and stock selection. The internal portfolio decisions will be tracked over time to ensure that all three outperformance variables contribute positively on an ongoing basis. The last variable to be targeted will be stock lending. Stock lending fees provide the fund with a couple more basis points in returns which can add to overall outperformance. Given that the core portfolio trades on the margin, the equity fund has adequate capacity to add value using stock lending. The new Regulation 28 now provides for this exercise to be undertaken by pension funds. It is a value-added variable that will be carefully explored and discussed with our stakeholders before implementation.

The multi-management value-add variables are limited to style or theme selection as well as manager selection. The internal multi-management process will be reviewed to ensure that these variables are captured in the investment process within that space. Given that the bulk of the outperformance of the equity portfolio is to be derived from multi-management, it is imperative that the multi-management process receives the attention that its utility in the fund deserves.

The PIC equity portfolio will continue to be managed in a manner that separates the alpha and beta generating functions (the core satellite approach), in order to achieve the focus that is needed to optimally execute these roles.

Properties

The author Walter Lippmann said that "Private property was the original source of freedom and is still its main bulwark". As a tangible asset, property can directly affect people's hopes, moods and spirits and is a significant factor in a country which continues to grapple with endemic inequalities. It is, therefore, important that the PIC property strategy focuses not only on returns generated but also on engineering positive changes in the social fabric. The GEPF portfolio aims not only to make a difference, but to show that a difference can be made by investing time, thought and funding in facilities ranging from the creation of communal spaces to physical infrastructure – services which can have a significant impact on the quality of life of the majority of South Africans.

It has been the focus of the fund to create, among others, retail infrastructure in townships, both urban and rural.

** Adjusted for equity purchases relating to mandate changes around the fourth quarter of 2011.*

This has placed services, jobs and formal community spaces in erstwhile dormitory townships.

These investments have made the GEPF a trailblazer and creator of markets. Today, township retail has grown to become an important part of the South African economy and part of the mainstream investments.

The PIC intends to continue in this tradition and will remain focused on the environmental, social and governance aspects of investment by creating and marketing products and developments. For example, the PIC very recently completed the Riverwalk Office Park in Pretoria, which epitomises all the aspects of sustainable and responsible property investment. This development has become a benchmark for commercial office development.

These developments, within both the social and environmental arenas, have been achieved without sacrificing returns. The GEPF property portfolio outperformed its benchmark.

Value of the portfolio

As at March 2011, the market value of the GEPF property portfolio was R31.2 billion, against R26.9 billion in March 2010, returning 15.7%. These values are based on valuations conducted by independent valuers and approved by the PIC Board.

Sector	Returns %	Benchmark returns %
Directly held	12.4	13.3
Indirectly held	10.8	9.1
Listed	22.0	15.4
Total	15.7	12.6

Part of the R2.5 billion investment resulted in malls like this one in Kanyamazane

PIC's biggest client, the GEPF, in conjunction with Growthpoint Property Limited has purchased Cape Town's V&A Waterfront for R9.7 billion. This means that one of South Africa's prime properties once again securely rests in the hands of South African workers

The table below splits the property portfolio holdings into the listed, directly held and indirectly held property portfolios.

Sector	Value at March 2010 R thousand	Capital investment R thousand	Capital disinvestment R thousand	Value at March 2011 R thousand
Directly held (excl. developments)	6 759 654	–	(38 520)	6 941 372
Indirectly held	9 857 193	492 800	–	11 021 123
Listed	10 275 658	2 142 377	(61 210)	13 190 927
Developments	25 363	–	–	–
Total	26 917 868	2 635 177	(99 730)	31 153 422

These increases can be ascribed to:

- Increased capital values due to well-maintained properties which are well tenanted, with low vacancy rates; and
- The indirectly held portfolio:
  - o The Pareto portfolio acquired 50% of Menlyn Mall in Pretoria and Cavendish Square in Cape Town. These investments have greatly enhanced the portfolio and have ensured that Pareto remains the pre-eminent super-regional retail fund in South Africa; and
  - o Based on its success within township retail, the Community Property Fund increased its ownership of the Tembisa Shopping Centre to 100%.

The total property portfolio accounted for 3.4% of GEPF assets under management as at 31 March 2011 compared to 3.3% in March 2010.

Acquisitions

The PIC is focused on growing the GEPF property portfolio through investments in properties that generate long-term, sustainable income and capital returns in strategic investment nodes throughout South Africa.

The most significant acquisition that the PIC undertook on behalf of the GEPF in the year ended March 2011 was the purchase of 50% of the V&A Waterfront in Cape Town. This investment was valued at approximately R4.85 billion.

Investment performance (continued)

This purchase is in line with a plan to improve the GEPF property portfolio mix by adding premium grade office space, premium retail and development opportunities for growing this portfolio segment over the medium term.

In addition, the V&A Waterfront is and can be a growing driver for tourism which, in turn, is a catalyst for job creation. The V&A Waterfront is currently the top tourist destination in South Africa and it is the intention of the PIC and GEPF to ensure that this attraction is enhanced.

The acquisition of the V&A Waterfront has ensured that the ownership of one of the most prestigious properties in South Africa is vested in a South African worker base.

Portfolio performance in 2010/2011

Directly held properties

This component of the PIC portfolio consists of properties in which PIC's main client, the GEPF, holds the title deeds. The directly held portfolio continues to focus on high quality office and industrial properties. The office component now represents 68% of the directly held portfolio and consists of Premium grade and A grade offices in prominent locations.

As at 31 March 2011, the portfolio was valued at R6.94 billion, compared to R6.79 billion in March 2010, as depicted in figure 1.

The table below shows the total returns of the portfolio in comparison with the returns recorded by the market benchmark, the Investment Property Databank (IPD).

	Directly held	IPD
Capital return	2.2%	4.1%
Income return	10.0%	8.9%
Total return	12.4%	13.3%

Indirectly held properties

This portfolio consists of investments in ACSA, Pareto Limited, CBS Property Group and the Community Property Fund.

During 2010/2011, the value of indirectly held properties increased by 11.8%, rising from R9.86 billion at the end of March 2010 to R11.02 billion at 31 March 2011, as depicted in figure 2.

Listed properties

This consists of investments in property investment companies listed on the JSE. As at 31 March 2011 the listed portfolio was valued at R13.2 billion, compared to R10.3 billion at the end of March 2010.

These investments outperformed the J253T listed property benchmark, largely due to the overweight position in GrowthPoint. The PIC portfolio produced a total return of 22% in 2010/11 against the benchmark return of 15.4%.

Conclusion

The property portfolio has assembled strong assets which will return good performance in both the medium and long term. The PIC will continue to develop niche markets in the area of environmental, social and governance.

The PIC continued with its programme of consolidating the separate property management entities under a single governance arrangement, in the creation of a single division, PIC Real Estate Asset Managers. A subcommittee of the Board was constituted with a direct and focused oversight over this division. This strengthened governance and improved service delivery is evidenced in the improved results and the sustainable value being added to client mandates.

Figure 1

Directly held property portfolio (including developments) property value March 2011 (Rb)

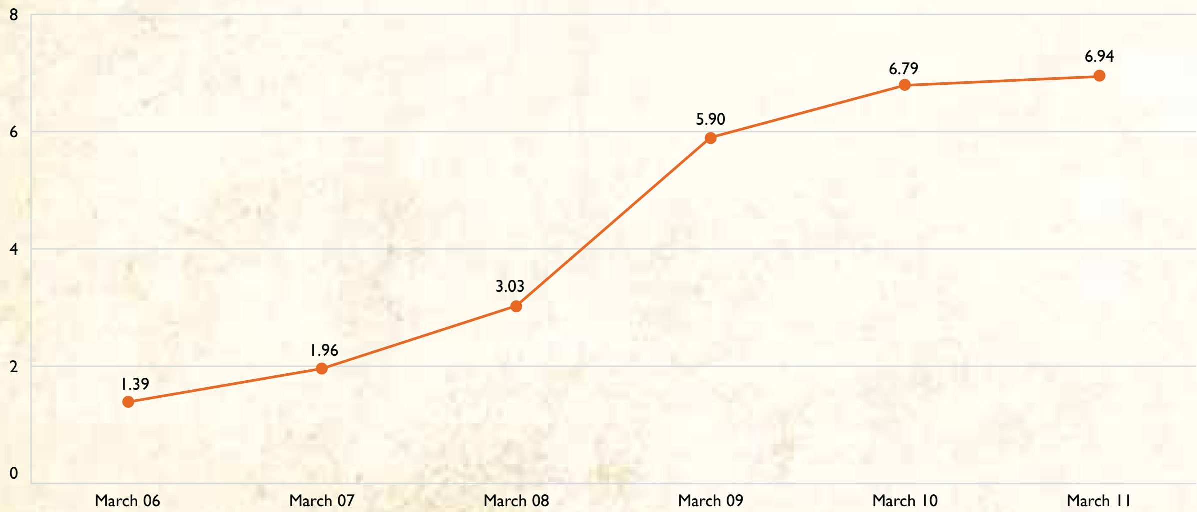
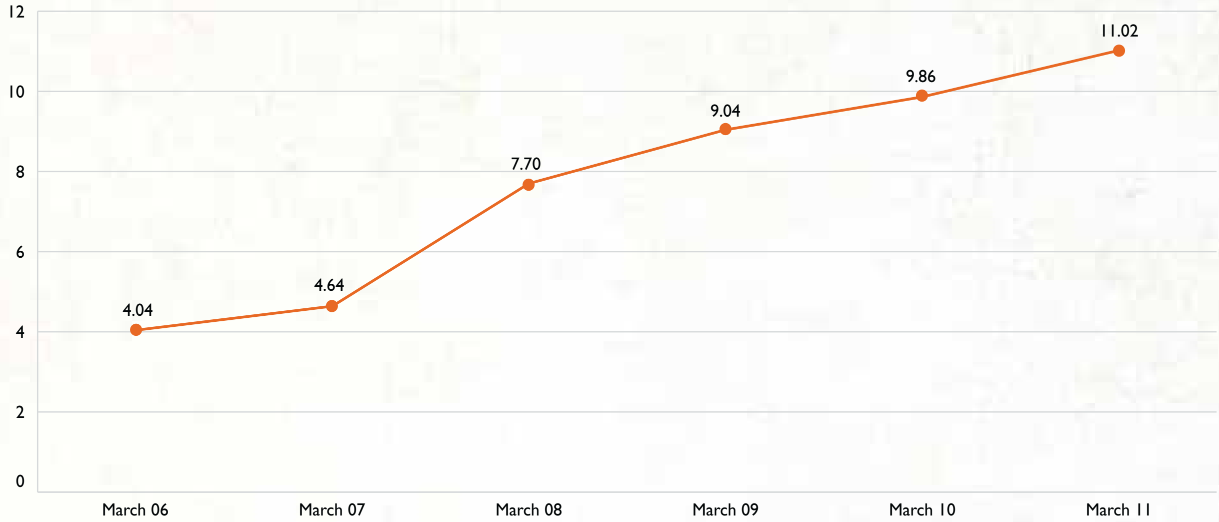
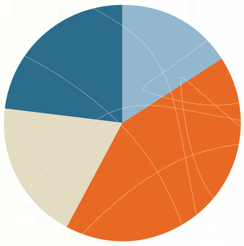


Figure 2

Indirectly held property portfolio property value March 2011 (Rb)



Indirectly held property portfolio (by market value) (Rb)



ACSA	16%
Pareto	42%
CBS	19%
Community property company	23%

Developmental investments (Isibaya Fund)

During the year under review the GEPF published its Developmental Investment ("DI") Policy which seeks to make investments in infrastructure (both economic and social) projects and also on projects which promote environmental sustainability, enterprise development as well as high job creation projects. An allocation of 5% of total GEPF assets under management, approximating R45 billion, has been allocated to these priority areas. As at 31 March 2011, the assets under management and undrawn project commitments, to high social impact projects, amounted to approximately R9 billion, representing 20% of the total funds allocated.

Investments in projects which are developmental in nature have long implementation timelines as they require detailed implementation plans and, in certain instances, regulatory consents. Therefore, there will typically be a lag as to when the social benefits accrue. During the year under review, Isibaya Fund committed approximately R2.5 billion to projects which will have long lead times for implementation. This is particularly the case in affordable housing projects as well as development and improvement of educational infrastructure.

Key categories of investments include:

- **Economic infrastructure**, which includes projects in energy, telecommunications, logistics, commuter transport and water infrastructure. Of the R45 billion total allocation, approximately R18 billion has been allocated for investment in economic infrastructure projects. As at 31 March 2011, R1.2 billion was committed and invested in projects in road infrastructure and telecommunications.

- **Social infrastructure**, which includes projects in education, affordable housing and healthcare. An amount of approximately R9 billion has been allocated for investment in social infrastructure projects. As at 31 March 2011, R3.3 billion has been committed and invested in projects focusing on affordable housing and education infrastructure. R1.13 billion of the allocation is committed towards the development and improvement of education facilities as well as accessibility to quality education within the social infrastructure investment pillar.

  The funding is aimed at improving the efficiency in the delivering of school infrastructure, ensuring effective management of these schools and facilities as well as an improvement in the quality of health services provided. The funding will also provide low-income families with more options for affordable, quality and accessible schooling. Further to this, R130 million is earmarked to be invested in Eduloan (Pty) Limited to build capacity to advance study loans to qualifying students. The project is expected to advance in excess of 19 000 student-loans to students coming from households, in the middle income group. These households earn more than R100 000 per annum, but do not meet the requirements to qualify for funding from the existing schemes.

  Isibaya Fund is engaging the Department of Higher Education and Training with a view to scale access to funding for students from historically disadvantaged backgrounds.

- **Economic growth and transformation**, investments in sectors that foster growth, job creation and broad-based black economic empowerment particularly in those priority sectors identified by government's Industrial Policy Action Plan 2 ("IPAP2"), including agriculture, agro-processing, alternative energy and environmental projects. An amount of approximately R9 billion has been allocated for investments in SMMEs, high job creation and transformation projects. As at 31 March 2011, R455 million has been committed and invested in projects focusing on agro-processing, rural micro-enterprise development and SMMEs. Approximately 8 000 SMMEs were advanced loans by Isibaya Fund through micro-finance intermediaries. An estimation of 11 175 jobs were created or sustained as a result of the above investments. More than 90% of the beneficiaries of funding were women, based in rural and peri-urban areas.

- **Environmental sustainability** focused on renewable energy generation, clean technology and in firms, funds and projects active in the environmental goods and services sector. An amount of approximately R9 billion was allocated for investment in these projects. Isibaya Fund has approved, during the year under review, a commitment of R50 million for a Fund which primarily focuses on renewable energy and clean technology.

For all four pillars, Isibaya Fund will maintain a balance between social impact and financial returns. The Fund has developed an ESG framework for measuring the impact of Isibaya's unlisted investments in terms of issues such as job creation, job retention, poverty alleviation, BBBEE transformation and regional upliftment. Social impact metrics will be developed for different categories of investments and this will be infused in the investment process.

One of the cornerstones of the DI Policy is for the GEPF to act as a catalyst in attracting other investors into developmental projects. During the year under review, the PIC has made commitments totalling approximately R2.5 billion in two key priority areas of education and affordable housing. It is envisaged that other investors will make similar commitments which will assist in accelerating service delivery in these areas.

All investments made by PIC must espouse the principles set out in the BBBEE Codes of Good Practice. As a minimum, the PIC will invest in projects which are at least Level 4 in terms of these Codes and where there is an undertaking to improve BBBEE after the investment has been made.

Refocused strategy supports socially responsible investments

During the year under review R3.04 billion worth of deals were approved under their respective pillars with over R350 million disbursed during the current year. The investment in developmental investment projects has seen the exposure to private equity reduced from 84% to under 50% compared to the previous financial year. Some key highlights relating to deals concluded during the year under review include the following:

Old Mutual Housing Impact Fund

The Housing Impact Fund's primary objective is to invest in low-cost housing and ancillary projects and plans to meet this objective by focusing mainly on affordable housing delivery. The total fund size is R10 billion with the GEPF participation being R1 billion.

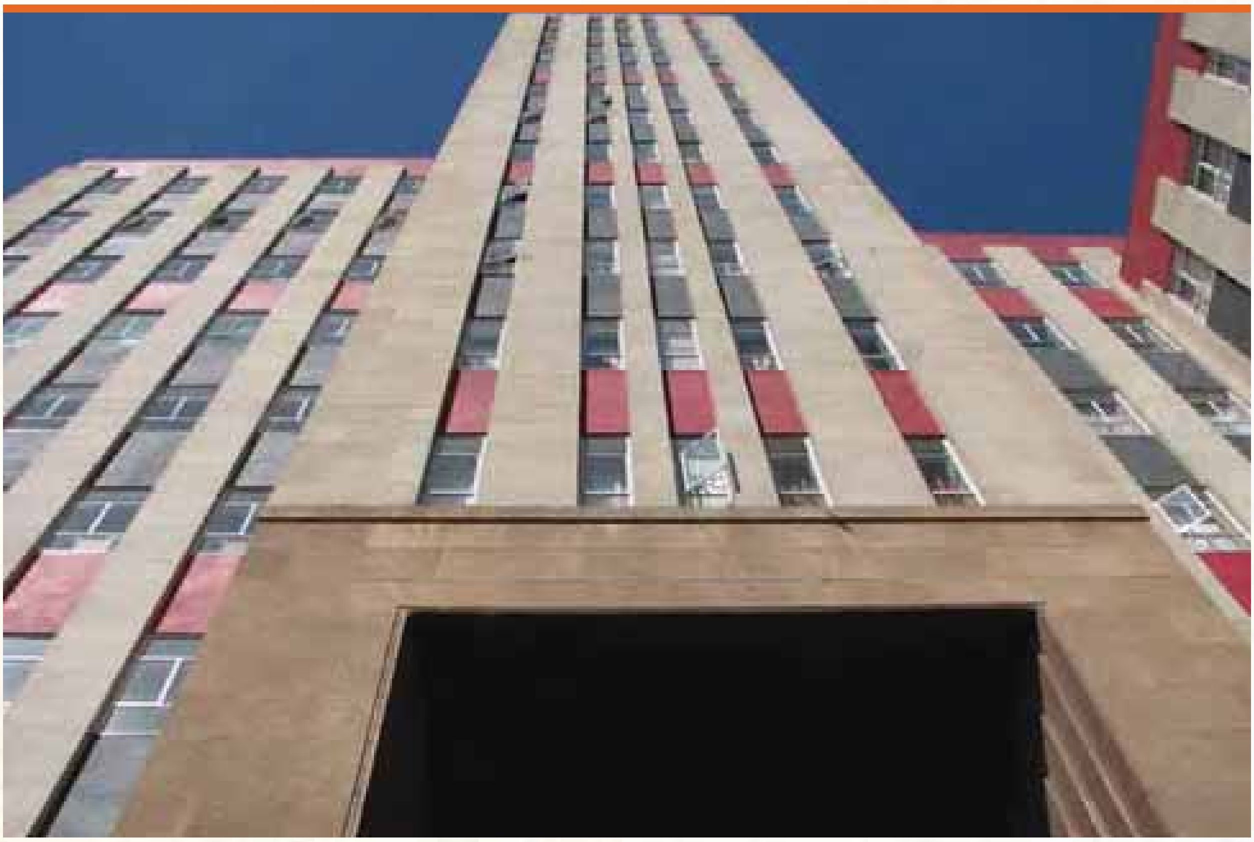
The Housing Impact Fund's investment strategy is to focus on investments to provide housing for members of the public earning less than R15 000 per month (60% of the Fund), while 40% will be earmarked for those earning between R15 000 and R30 000 per month.

It is anticipated that the Housing Impact Fund will provide approximately 150 000 housing units, by way of either greenfield developments or rental accommodation, over the next five to eight years and will have a significant impact on housing finance availability.

The various projects the Housing Impact Fund will invest in will create job opportunities for contractors and part-time employees. In addition, developers commonly establish a Labour Desk for the express purpose of employing and enhancing the skills of people from the local community.

International Housing Solutions affordable development in Midrand

International Housing Solutions affordable development in Protea Glen, Soweto



International Housing Solutions building upgrade in Johannesburg

Johannesburg Housing Company inner city rental accommodation which is a new development

Johannesburg Housing Company
PIC made a R300 million loan facility commitment to the Johannesburg Housing Company (JHC), which was established in 1995 as a Section 21 company and a registered not-for-profit organisation.

Over the past 14 years, the JHC has developed innovative solutions to meet the housing needs of low- and moderate-income people seeking a home in the city. Through slum clean-ups, building upgrades, refurbishments and conversions, as well as new-build projects, JHC has developed more than 3 300 homes. The company now owns 27 buildings and provides homes to more than 9 000 men, women and children.

JHC has identified four projects that will significantly increase its rental units under management. These projects consist of major refurbishments of two existing housing facilities, the conversion of an existing office building and a new affordable housing development.

Through its affordable rental units, the JHC contributes towards filling the gap in affordable rental accommodation for households earning between R3 500 and R12 000 per month.

Mazwe Financial Services
The PIC approved a loan facility amounting to R45 million to Mazwe Financial Services (Pty) Limited (MFS). MFS provide loans of up to R50 000 to employed persons in order to pay student fees, start or expand a micro-enterprise, effect home improvements, consolidate debt, or for emergency purposes. The GEPF loan will be used by MFS to increase loans mainly to employees of the Passenger Rail Agency of South Africa and five municipalities. The GEPF loan will be used exclusively for on-lending to employees using a payroll deduction-based methodology.

Woman's Development Business Micro-Finance
PIC has further approved a R20 million revolving loan facility to Woman's Development Business Micro Finance

The PIC funds Women's Development Business (WDB) which provides micro-finance to poor rural women to help them lift themselves and their families out of poverty and also enhance their position in their households and communities

(WDB). The core business of WDB is to provide income-generating micro-finance to poor rural women to help them lift themselves and their families out of poverty and also enhance their position in the households and communities. GEPF funds will support WDB expansion plans across identified poverty nodes of South Africa in KZN; Limpopo; Eastern Cape and Mpumalanga. The businesses have a far-reaching developmental impact, as they create jobs and generate income for better nutrition, education and housing for household members and neighbours.

Small Enterprise Foundation

The PIC provided a loan facility of R20 million to the Small Enterprise Foundation (SEF) which is a non-profit NGO which began operations in 1992. The aim of SEF is to work towards the elimination of poverty and unemployment by encouraging and nurturing self-employment. SEF focuses on existing, but generally marginal micro-enterprises and provides them with micro-loans. It strictly targets women who live below the poverty line.

SEF provides micro-loans to women entrepreneurs in order to alleviate poverty in a sustainable manner by enabling the poor to increase their income through micro-credit. It also assists them in the accumulation of savings and starting or expanding their micro-enterprises. These women are based in rural areas of Limpopo; Eastern Cape; Mpumalanga and North West Province. The GEPF loan will be used to increase the access to finance for poor rural entrepreneur women. SEF focuses its lending on the poorest communities.

Kurland-Covie MTN Zakhele Share Trust

The PIC provided funding to Kurland-Covie MTN Zakhele Share Trust amounting to R28.8 million to fund the GEPF participation in the second MTN BEE transaction announced on 15 July 2010. The purpose of the MTN Zakhele Offer is to provide the black public with an opportunity to participate in the ownership of MTN.

The beneficiaries of the Trust consist of 479 people from the Kurland Village and Covie farm in the Southern Cape

Typical dwelling of Kurland-Covie MTN Zakhele Shares Trust beneficiaries

Kurland-Covie community créche established by the community themselves through grant money near Port Elizabeth. The beneficiaries are all black people and suffer from poverty and unemployment with related low standards of education and healthcare, among others. The investment will result in some poverty alleviation for its beneficiaries on the termination of the investment period of six years.

Socio-economic impact on investments

In the year under review, the Government Employees' Pension Fund (GEPF) advised the PIC about its change of strategy and undertaking to be a responsible and positive investor, which looks for healthy returns for its members and pensioners while directly contributing to South Africa's economic development and correcting social backlogs.

The GEPF's commitment to the Developmental Investment (DI) policy will ensure that we generate positive sustainable long-term returns and also have a measurable social, economic and environmental impact. Some of the socially useful outcomes will help make South Africa more competitive economically, contribute to job creation and also support transformation.

Isibaya Fund Trajectory

Over the next five years, the PIC will accelerate investments into private equity and developmental investments that will include social and economic infrastructure, environmental sustainability, job creation, enterprise development and broad-based black economic empowerment.

The PIC will invest about R45 billion in Africa to benefit from one of the world's fastest-growing regions. The PIC will initially focus on markets based on size and liquidity.

As an investment opportunity, Africa continues to offer huge growth and high return opportunities. The pace of economic growth in sub-Saharan Africa was more than double that in South Africa over the past 10 years, according to International Monetary Fund (IMF) data. Growth in the region might accelerate to 5.5% this year from 5% last year, the IMF has predicted.

The PIC also wants to contribute to the continent's development, the way its already doing in South Africa.

Dr Daniel Mmushi Matjila
Chief Investment Officer

Risk management statement

Introduction

The investment of client funds to achieve the best possible risk-adjusted return is a core function and objective of the PIC. The PIC deems risk management to be a core competency that forms an integral component of its processes. The PIC clients, inclusive of PIC Operations Fund (PICOF), dictate specific risk parameters in accordance with their risk appetite, which is expressed in formal investment mandates. However, the ultimate responsibility for risk management oversight lies with the PIC Board of Directors. The Board determines the overall risk policy and culture but relies on management to operate within the established control structures and approved frameworks. The Board has accordingly delegated responsibility for implementation of the PIC Risk Framework to management, thereby promoting a culture of ownership and accountability.

Senior management has an active role in the risk processes of the PIC and is responsible for maintaining and enforcing compliance with the Risk Management Framework and policies. Senior management also ensures consistent adoption of policies and procedures for measuring, managing and reporting risk. The Board is kept abreast of developments through formal reporting structures.

Risk governance structures

The following Board committees have been delegated to deal with risk-related responsibilities in the Corporation:

- The Investment Committee is responsible for matters related to PIC investment activities, investment policy and strategy implementation; and
- The Audit and Risk Committee is responsible for the integrity of the financial reporting, safeguarding of assets, the operation of adequate systems and controls, effective risk management and audit processes, ensuring good corporate governance and compliance with all statutory and regulatory requirements.

The PIC management assumes operational responsibility across all business areas, with risk managed by the following management committees:

- **The Portfolio Management Committee** is responsible for all listed investment management activities, including mitigating risks that arise in investments in capital markets, money markets, equities and externally managed funds;

- **The Valuations Committee** is responsible for considering the valuations of unlisted investments and making recommendations to the Board for approval;

- **The Information Management Steering Committee** is responsible for information technology and information management-related risks. It also manages the PIC disaster recovery plan and business continuity risk, as well as the IT infrastructure of the Corporation and reports to the Executive Committee; and

- **The Executive Committee** is responsible for the day-to-day operations of PIC, reviewing and recommending to the Investment Committee any new business and investment opportunities that may arise across all investment classes.

Risk function

The Risk division is represented on all PIC committees and reports to the Chief Executive Officer. The division, led by the General Manager: Risk and Compliance, is responsible for the following risk-management objectives:

- Instilling a culture of risk-management and ownership within the Corporation;
- Promoting an awareness and understanding of risk across all levels of the organisation; and
- Managing risks, within the approved risk appetite of PIC and that of its clients.

In fulfilling its risk-management responsibilities, the Risk division focuses on four functions, namely credit risk, market risk, performance and attribution and operational risk. The division's risk-management activities comprise the implementation of the PIC risk framework and policies.

Key risks

During the course of conducting its business, the PIC Operation Fund (PICOF) is exposed to a variety of risks that may arise due to any number of reasons that are inherent to the investment management process. These risks are managed in accordance with the investment mandate and within established and approved risk management policies and procedures. They include limit setting on individual assets, sectors and asset classes, while being cognisant of the relationships between assets and the benefits of diversifying investment risk. A summary of major risks that are of particular significance to PICOF is presented below.

PIC Operations Fund (PICOF)

At 31 March 2011 the PICOF fund was invested in cash and short-term money market instruments only.

Effective asset allocation

Asset allocation in %

Asset class	31 March 2010 %	31 March 2011 %
Money market	99.99	99.86
Trading cash	0.01	0.14
	100	100

Asset allocation in rands

Asset class	31 March 2010 R thousand	31 March 2011 R thousand
Money market	32 462 054	393 568
Trading cash	4 008	567
	32 466 062	394 135

Market risk

Market risk refers to the risk of a change in the actual or effective market value or earnings of a portfolio of financial instruments, caused by a move in market variables such as equity, bond and commodity prices, interest rates, credit spreads, correlations and implied volatilities in these variables.

The operational controls implemented to manage risks arising from market volatility include:

- Management of monies in accordance with investment mandates, which dictate the investment parameters, maximum holdings and investment limits;
- Portfolio review by virtue of daily access to portfolio information and regular reporting;
- Monitoring of positions against mandate limits; and
- Auditing by internal and external auditors.

Interest rate risk
Interest rate risk is defined as the potential financial loss as a result of adverse movements in interest rates that affect the value of bonds, money market instruments and other interest rate sensitive assets.

PICOF has exposure to interest rate-sensitive instruments as stated above. The investment mandate prescribes that the assets should be managed in line with liquidity needs and liability profiles.

PICOF interest rate sensitivity analysis
The tables below reflect the interest rate sensitivity analysis of the money market portfolio for the FY2011 and FY2010

Spread movement as at 31 March 2011				
(basis points)	(200)	(100)	100	200
Profit/(loss) (R thousand)	3 033	1 508	(1 492)	(2 968)
% change	0.77	0.38	(0.38)	(0.75)

Spread movement as at 31 March 2010				
(basis points)	(200)	(100)	100	200
Profit/(loss) (R thousand)	2 543	1 264	(1 251)	(2 489)
% change	0.78	0.39	(0.38)	(0.77)

Liquidity risk
Liquidity risk is the risk of being unable to close out open financial instrument positions quickly enough and in sufficient quantities at near-market prices to avoid adverse financial impacts as a result of there being insufficient volume in the market (or where the market is suspended or closed).

The PICOF's strategic asset allocation stipulates a range of 60% to 100% of the total holdings that must comprise liquid assets. The maturity analysis for interest bearing assets at year end was as follows:

Months	FY2010 31 March R thousand	%	FY2011 31 March R thousand	%
< 6	147 244	42	314 677	80
> 6	205 783	58	78 891	20
	353 027	100	393 568	100

Credit risk
This refers to the risk that a borrower or counterparty to a financial transaction will fail to perform according to the terms and conditions of the contract, thus causing the holder of the claim to suffer a loss in cash flow or market value.

Factors that influence PIC credit decisions include credit-rating, assessments of the general operating environment, the competitive market position of a counterparty or issuer, reputation, deal tenor, the level and volatility of earnings, corporate governance, risk management policies, liquidity and capital management.

Credit risk is managed according to the mandate parameters and PIC internal credit risk policy. Credit mitigation techniques are transaction-dependent but may include, where appropriate, the right to be furnished with collateral or an equity injection by counterparties, particularly in unlisted investments. No collateral was held on PICOF for the period under review, which is consistent with previous periods.

The PIC also utilises various models to guide limit setting as well as credit ratings from external rating agencies. Limits are approved by the relevant committees, in accordance with the Board-approved delegation of authority. Risk reports on these exposures are regularly submitted to the Portfolio Committee, Investment Committee, Audit and Risk Committee and Board. Impairment tests are undertaken according to PIC-approved guidelines and such approvals are in accordance with the delegation of authority.

At 31 March 2011, the credit rating distribution on interest-bearing exposures for PICOF was as follows:

	31 March 2011 R thousand	31 March 2011 %	31 March 2010 R thousand	31 March 2010 %
AAA	99 935	25	95 163	29
AA+	0	0	60 120	18
AA	192 193	49	19 174	6
AA-	71 293	18	122 983	38
A+	30 712	8	31 186	9
	394 133	100	328 626	100

Concentration risk

Concentration risk is the risk of losses arising due to poor diversification within funds. This relates to both credit and market risk, as excessive concentrations in a particular or correlated asset class, sector, issuer, term structure or financial instrument type can result in undesirable risk exposures. PIC manages this risk in accordance with the investment mandates and approved policies, which dictate the level of concentration.

Operational risk

Operational risk is defined as the direct or indirect loss resulting from inadequate or failed internal processes, people and systems from external events.

Risk of this nature is managed through systems of internal control and annual external audits, as well as continual internal audits to review the effectiveness of the control environment, risk management programmes and external insurance policies.

Dr EZ Xaba
General Manager: Risk and Compliance

Performance against pre-determined objectives

Goal/Objective	Target	Outcome	Notes
Conduct sustainable and efficient PIC Operations	Quantum of funds invested in African equities as per client mandate	Proposal to invest in African equities developed and presented to client. Client has prioritised investments in the rest of the world (ex Africa), PIC is ready to invest in African equities	Portfolio construction and manager selection for listed equities, including incubation manager selection to be completed in line with mandate during 2011/12
	Achieve earnings before interest and tax margin (profitability) of 15.00%	43%	
	Implement the Isibaya Fund growth strategy as per approved implementation plan	Achieved	
	Return on equities (not group level) of 15%	28%	
Deliver investment performance which exceeds the set benchmarks	Build capacity to manage SIPS in-house	SIPS are currently managed in-house	
Diversify the revenues of the PIC	Implementation of approved client diversification strategy	Achieved. One new mandate signed	
	Implementation of the unitised product offering	In process. Product available for RDP	
	Implementation of scrip lending	Administration outsourcing options identified	No client mandate currently allows for scrip lending
	Research other income generating strategies and products	Achieved	
Attract and retain the best skills within the PIC	Reduce the annual staff turnover to less than 17.00%	Staff turnover is 8.6%	
Deliver investment performance which exceeds the set benchmarks	Reorganise and grow the properties portfolio through a consolidated properties business for the PIC	Achieved	
Effective governance and improved internal controls	Compliance at 60% of the PIC Governance Framework	Achieved	
	Assess the PIC level of maturity regarding the selected Governance Framework	Achieved	PIC has selected COBIT
	Improve the monitoring and evaluation of PIC strategies and plans through implementing a corporate plan and BSC tracking system (manual)	Achieved	
	Implement Risk Management Plan	Achieved	
	Roll out of Integrated EWR to PIC subsidiaries	Not applicable	PIC no longer has subsidiaries
Effective management of the PIC talent pool	Optimise the new PIC recruitment process and induction programme	Achieved	
	Optimise the benefits that inform the PIC value proposition to employees	Achieved	

Goal/Objective	Target	Outcome	Notes
Conduct sustainable and efficient PIC Operations	Enhance exception reporting within the Customer and Stakeholder relationship management system	In process	Electronic system is being procured
	Conduct independent Client Satisfaction Survey (incl. of Isibaya Fund investee)	Achieved	
Contribute positively to the development of South Africa	Engage companies that are not compliant to the PIC corporate governance scoring matrix for FY ending 2010	Achieved	
	Development Oriented Investments/ Socially Responsible Investments: Isibaya & Fixed Income investment processes subject to Environmental, Social, and Governance (ESG)	Achieved	
	Review effectiveness of investment philosophy and process	Achieved	
	New process to improve the monitoring and review of externally managed portfolios	Achieved	
	Review the Fixed Income Portfolio and manager diversification	Work in progress	
	Review and implement credit enhancement strategies	Achieved	
	Publish three papers on Corporate Governance	Two papers completed, one is being finalised	
Deliver high standards of client services and client focused solutions	0% breaches of client SLA in terms of reporting	5% of reports were outside the client SLA	The office move contributed to breaches
	90% of client queries resolved within a 48 hours timeframe	97.4%	
	Client satisfaction survey result – score of 4.8 out of 5	Achieved a score of 4.1 out of 5	
	Investment return (Bps) relative to client benchmark for: @ GEPF > 10 @ UIF > 15 @ CC > 15 @ Other Funds > 7.5	Achieved	
Invest funds in funds targeted for development	Gross total quantum invested in Isibaya Funds to be R14 billion	R13.9 billion	

Performance against pre-determined objectives (continued)

Goal/Objective	Target	Outcome	Notes
Meet return objectives for invested funds	Investment Return (General) (Isibaya): 10 year bond + 500 bps	Not achieved	One transaction adversely affected performance of Isibaya
	Performance to exceed benchmarks by 50% of average tracking error assumed (internally managed funds)	42%	Performance was affected by the strategic and the transition funds which were implemented as per client decisions
	Performance to exceed benchmarks by 50% of average tracking error assumed (externally managed funds)	47%	
	Investment return for Infrastructure (Isibaya): 10 year bond + 500 bps	Achieved	
	Investment return for Dinamane (Isibaya): 10 year bond	Achieved	
	Directly-held portfolio total return to meet or exceed the IPD benchmark (Properties)	Not achieved	
	Listed portfolio total return to meet or exceed the J253T Index (Properties)	Achieved	
Effective management of the PIC talent pool	More than half of PIC employees to have undergone skills development	63.9% (166 out of 260) employees have undergone skills development	

Contents

The reports and statements set out below comprise the Group financial statements presented to the shareholder:

Report of the Auditor-General to Parliament on the Public Investment Corporation Limited

for the year ended 31 March 2011

Report on the financial statements

Introduction

I have audited the accompanying financial statements of the Public Investment Corporation Limited, which comprise the statement of financial position as at 31 March 2011, and the statement of comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, and the accounting authority's report as set out on pages 63 to 99.

Accounting authority's responsibility for the financial statements

The accounting authority is responsible for the preparation and fair presentation of these financial statements in accordance with South African Statements of Generally Accepted Accounting Practice and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA), and the Companies Act of South Africa, 1973 (Act No. 61 of 1973), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

As required by section 188 of the Constitution of the Republic of South Africa, 1996 (Act No. 108 of 1996) and section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), my responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with International Standards on Auditing and *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Public Investment Corporation Limited as at 31 March 2011, and its financial performance and cash flows for the year then ended in accordance with South African Standards of Generally Accepted Accounting Practice and the requirements of the Public Finance Management Act of South Africa and Companies Act of South Africa.

Report on other legal and regulatory requirements

In accordance with the PAA and in terms of *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*, there were no findings on the annual performance report as set out on pages 56 to 58 and material non-compliance with laws and regulations applicable to the public entity.

Predetermined objectives

There were no material findings on the annual performance report concerning the presentation, usefulness and reliability of the information.

Compliance with laws and regulations

There were no findings concerning material non-compliance with applicable laws and regulations regarding financial matters, financial management and other related matters.

Internal control

In accordance with the PAA and in terms of *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. There are no significant deficiencies in internal control that resulted in a qualification of the auditor's opinion on the financial statements and/or findings on predetermined objectives and/or material non-compliance with laws and regulations.

Other reports

Agreed upon procedures engagements

As requested by the Public Investment Corporation Limited, two engagements were conducted during the year under review concerning reporting to the regulating body, Bond Exchange of South Africa. The first is with respect to the implementation and maintenance of internal controls and risk management, and the second relates to evaluating the adequacy of the fidelity insurance cover. The two reports covered the period 1 April 2010 to 31 March 2011 and were issued on 30 June 2011.

As requested by the Public Investment Corporation Limited, an engagement was conducted during the year under review concerning reporting to the regulating body, Financial Services Board, regarding the amount of money and assets at year end held by the provider on behalf of clients, and that such money and assets were, throughout the financial year, kept separate from those of the business of the provider, and in the case of non-compliance, the extent thereof; and any other information required by the Registrar. The report covers the period 1 April 2010 to 31 March 2011, and was issued on 30 July 2011, within six months after the year end of the Provider as requested by the Registrar.

Auditor-General

AUDITOR GENERAL
SOUTH AFRICA

Pretoria
30 July 2011

Directors' responsibilities and approval

The directors are required by the Companies Act of South Africa, 1973, to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the Group as at the end of the financial year and the results of its operations and cash flows for the year then ended, in conformity with South African Statements of Generally Accepted Accounting Practice and in terms of Treasury Regulation 28.1.1 of the Public Finance Management Act, 1999 (Act No. 1 of 1999, as amended). The external auditors are engaged to express an independent opinion on the annual financial statements. The prescribed disclosure of emoluments in terms of Treasury Regulations 28.1.1 is reflected under the "disclosure of remuneration" section.

The annual financial statements are prepared in accordance with South African Statements of Generally Accepted Accounting Practice. They are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the Group and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the Board of Directors sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the Group and all employees are required to maintain the highest ethical standards in ensuring the Group's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the Group is on identifying, assessing, managing and monitoring all known forms of risk across the Group. While operating risk cannot be fully eliminated, the Group endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the Group's cash flow forecast for the year to 31 March 2012 and, in the light of this review and the current financial position, they are satisfied that the Group has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements have been audited by the Auditor-General, who was given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the Board of Directors and sub-committees of the board. The directors believe that all representations made to the independent auditors during their audit are valid and appropriate.

The external auditors are responsible for independently reviewing and reporting on the Group's annual financial statements. The annual financial statements have been examined by the Group's external auditors and their report is presented on pages 60 to 61.

The Group annual financial statements set out on pages 68 to 99, which have been prepared on the going concern basis, were approved by the Board of Directors on 29 July 2011 and were signed on its behalf by:

Mr Nhlanhla Nene
Chairman (Non-executive)

Mr Elias Masilela
CEO (Executive)

Directors' report

The directors have the pleasure in presenting their report for the year ended 31 March 2011.

Nature of business

Main business and operations

The Public Investment Corporation Limited (PIC), the holding company of the Group, is incorporated and domiciled in the Republic of South Africa. It is a Schedule 3B state owned entity as defined in the Public Finance Management Act, 1999 (PFMA).

The Group provides investment management services primarily to public sector entities. It invests and operates principally in South Africa, with the exception of its associate Harith Fund Managers (Pty) Limited (Harith), which invests in infrastructure of the African continent. The annual financial statements set out fully the financial position, results of operations and cash flows of the Group and the company for the year ended 31 March 2011.

Going concern

The directors have reviewed the financial budgets with their underlying business plans for the period to 31 March 2012. In light of the current financial position, we consider it appropriate that the annual financial statements be prepared on the going concern basis.

Financial results

Profit attributable to shareholders is R110 million (2010: R72 million) for the year and this is 53% higher than the prior year.

The Group's business model was designed and developed to focus on sustainability. The financial strategy is directly aligned to the three year corporate plan, hence there is monthly monitoring of financial targets as well as cost containment implemented throughout the year.

Revenue year on year has increased by 42% (2010: -21%). Revenue is primarily management fees earned which are calculated on the market value of assets under management. The assets under management have recovered and increased when compared to the 2009/10 performance in line with the performance of the South African economy.

Company and Group figures are the same for 2011 and hence only the company annual financial statements are disclosed for 2011. The only subsidiary of the Group, Advent, has been dormant for the financial year ended 31 March 2011.

Subsequent events

Subsequent events are set out in note 36.

Accounting policies

The following International Financial Reporting Standards were applied prior to the commencement dates in the current year:

IFRS 9 Financial Instruments

The impact on the results of the Group in adopting the above policy is not material and affects disclosure (refer to note 39). Comparatives are not restated in line with the early adoption relief.

Share capital

There were no changes in the authorised or issued share capital of the companies in the Group during the year under review. There are no shares held in reserve. The Group does not operate a share incentive scheme except for Harith. The PIC company operates a long-term incentive scheme which is a cash based scheme which has no correlation or relationship with the PIC shares.

Refer to note 14.

Subsidiary and associates

Subsidiaries

Advent is the sole subsidiary of the PIC Group for the year ended 31 March 2011. There were no changes in the Advent shareholding 2011: 100% (2010: 100%). Advent is dormant and in the process of being deregistered. The assets of Advent were purchased by the PIC company and combined to form the PIC REAM division. Refer to note 5.

Associates

The Public Investment Corporation has a 46% (2010: 46%) shareholding in Harith. Refer to note 6.

Employee benefits
Refer to note 41.

Code of Corporate Practices and Conduct
The Group complies with the recommendations of the Code of Corporate Practices and Conduct included in the King III Report on Corporate Governance.

Dividends
No dividends were declared or paid to the shareholder during the year (2010: R79 million).

Directors
The composition of the Board of Directors during the year is given on pages 18 to 21 of the annual report. The directors are all of South African nationality.

Mr Athol Rhoda (non-executive) resigned on 17 July 2010.

Mr Brian Molefe's (executive) extended fixed term contract ended on 30 July 2010.

Ms Tsakani Matshazi, Mr P Sebenzile Mngconkola and Mr Roshan Morar were appointed as non-executive directors in December 2010, effective from 1 October 2010.

Mr Elias Masilela was appointed as the Chief Executive Officer from 1 February 2011 and as an executive director on 16 February 2011 by the Minister of Finance, who is the shareholder representative.

Secretary
The secretary of the company is Wilhelmina Louw.

Ultimate holding company
The company's ultimate holding company is the National Government of the Republic of South Africa. The shareholder representative is the Minister of Finance. PIC's oversight department is the National Treasury.

Special resolutions
No special resolutions were passed during the year under review.

Auditors
The Auditor-General of South Africa is the registered auditor of the PIC company and Group.

Disclosure of remuneration
According to the Treasury Regulations section 28 and the PFMA section 55, the annual financial statements must include a report by the Accounting Authority which must include the disclosure of remuneration in respect of all members of the Accounting Authority, which is the PIC non-executive and executive directors, its subsidiary and the senior management.

The detail of the disclosure is included in the disclosure of remuneration on page 99.

Financial report

Introduction

This review is to provide further insight into the financial performance and position of the Group in the context of the environment in which we operate.

Economic overview of the country in which we operate

The Group primarily operates in South Africa. In the first six months of the 2009/10 financial year the South African economy was in a recession. This turned around in the last quarter of the 2009/10 financial year. The South African economy was still in the recovery stages in the current financial year with stabilisation in the latter six months of this financial year.

Operating performance

The performance of the Group was impacted by the economic environment within which it operates. The effect of the economic recovery was complemented by a careful management of costs which has resulted in the increase in net profits disclosed in the table below. The following table illustrates the high level performance of the Group for the past three years:

Description	**Group 2011 R million**	Group 2010 R million	Group 2009 R million
Revenue	**347**	310	390
Operating Expenses	**246**	229	211
Net Profit	**111**	72	158
Net assets	**561**	447	418

The operating expenditure of the Group is primarily driven by employee and IT costs. This represents between 55% to 65% of the revenue of the Group and 75% to 85% of operating expenditure in a financial year. Our people and IT infrastructure investment is seen as a key component to improving and exceeding service delivery to our clients.

Dividends

Our policy is to pay a dividend to our shareholder which is dependent on the results of the PIC Company over a three year period. The factors reviewed, as per the approved dividend policy, are the cash position, net profit and reserves over a three year period ensuring that the company remains a going concern. For the year under review the Group did not pay a dividend (2010: R78.911 million).

Changes in the Group

There have been no changes to the Group holdings in the current financial year except for Advent whose operations were absorbed into PIC's operations and the subsidiary company discontinued. The assets and personnel of Advent were acquired by the PIC Company effective from 1 April 2010. The only change is in the presentation of the annual financial statements as the Group annual financial statements is the same as the company annual financial statements hence we have not presented a separate column for Group 2011 for the 2010/11 financial year.

Restructuring of the properties portfolio

At the beginning of 2009/10 the PIC Group embarked upon the restructuring of the properties portfolio that is managed on behalf of its clients.

The above change in the status of Advent is part of the restructuring of the properties businesses within the PIC Group. The first phase of the restructuring was to create the PIC REAM division which is part of the PIC Company and not a separate legal entity of the PIC Group. The second stage was to move the services rendered by Advent and the then PIC Properties department into the PIC REAM division. The current financial year end marks the successful achievement of stage two of the properties restructuring.

Stage three of the restructuring plan was the acquisition of CBS for R4.426 million which was successfully concluded and paid for by 31 March 2011. The effective date of the acquisition is 1 April 2011 making it a non adjusting subsequent event for the 2010/11 financial year.

To ensure that there is successful integration and to realise the synergies from the restructuring, we have raised a provision of R6.7 million to ensure that all systems, policies and processes have been properly aligned with minimal duplication. This provision was partially utilised in the 2010/11 financial year resulting in a closing provision of R6.2 million. It is anticipated that this provision will be utilised over the next two to three years to achieve a streamlined consolidated properties business for the PIC Group.

The following are the key indicators of our operating performance during the year:

Revenue: Growing in line with the economic environment	Group revenue increased for the current year by 11.8% Increase in market value of assets under management No increases in fees charged to clients for the last three years Fees remain significantly below industry levels
Operating expenses: Active cost containment. Increase at company level due to acquisition of Advent's assets and personnel as planned	Group increase for the current year of 7.4% Primary cost drivers are employee and IT costs Head count increased from 195 to 296 in line with strategic initiatives to grow the business Other operating costs actively contained by careful monthly monitoring
Net profit after tax: Maximisation of income from investments and negative growth in operating expenditure as a percentage of revenue	Group increase for the current year of 54.9% Maximising return on investments increase of 23.7% Increase in income from associate of 225.7% Operating expenditure as a percentage of revenue is 70.9% (2010: 73.8%) which is 3.9% lower when compared to 2010 – this is attributed to active cost containment
Net assets: Continues to grow in line with business strategic activities	Group increase of 25.6% Cash increase is due to an increase in fixed deposits
Financial sustainability targets: All exceeded for the year under review.	Return on Equity 26.8% Earnings Before Interest and Tax 39.9% Personnel costs/management fees 45.5% IT costs/management fees 5.3%

Key challenges and opportunities for the year ahead

The past financial year performance has been boosted by the economic recovery and stabilisation in South Africa. The PIC Group is directly affected by such volatility as the management fees earned are based on the market value of our assets under management.

The restructured properties portfolio, which is housed under the PIC REAM division, is expected to improve growth as well as create opportunities for new products in the properties space.

We are committed to preserving our positive cash flow position and continuing to be self sustainable without any assistance from our shareholder.

Our focus remains firmly on ongoing financial sustainability, cost containment and re-engineering our operational processes to unlock value with specific focus on the PIC REAM division for the year ahead. We are committed to growing our business and our people during the 2011/12 financial year, thereby giving full effect to our corporate strategic plans. Our IT and employee costs will continue to be the primary drivers of our operating expenses.

Conclusion

The year under review has been favourable as a result of the economic turnaround. The new financial year promises a number of eagerly anticipated challenges and opportunities for which we are well prepared.

Acknowledgements

We extend our thanks to all our financial personnel. It is through their dedication and enthusiasm that we are able to produce quality financial information for our stakeholders. We appreciate and look forward to their ongoing support and commitment in the year ahead.

Kameshni Naidoo
Chief Financial Officer

29 July 2011

Statements of financial position

as at 31 March 2011

Figures in Rand thousand	Note(s)	Group and Company 2011	Group 2010	Company 2010
Assets				
Non-current assets				
Property, plant and equipment	3	**20 530**	20 732	19 711
Intangible assets	4	**9 754**	10 625	10 451
Investment in subsidiary	5	**–**	–	71
Investments accounted for using the equity method	6	**15 746**	8 407	–
Deferred tax	9	**11 230**	4 633	4 633
Other financial asset	11	**10 002**	–	–
		67 262	44 397	34 866
Current assets				
Financial assets at fair value through profit or loss	7	**72 466**	185 114	185 114
Current tax receivable	17	**1 625**	8 791	5 737
Trade and other receivables	12	**40 950**	34 517	33 100
Other financial asset	11	**188 078**	67 004	67 004
Cash and cash equivalents	13	**191 401**	107 200	97 349
		494 520	402 626	388 304
Total assets		**561 782**	447 023	423 170
Equity and liabilities				
Equity				
Share capital	14	**1**	1	1
Capital reserve		**278 000**	278 000	278 000
Retained income		**234 727**	136 049	116 573
		512 728	414 050	394 574
Liabilities				
Non-current liabilities				
Finance lease obligation	15	**–**	608	608
Operating lease liability	10	**141**	164	–
Provisions	16	**21 628**	–	–
		21 769	772	608
Current liabilities				
Finance lease obligation	15	**767**	950	950
Operating lease liability	10	**15**	226	226
Trade and other payables	19	**17 392**	21 839	20 309
Provisions	16	**9 111**	9 186	6 503
		27 285	32 201	27 988
Total liabilities		**49 054**	32 973	28 596
Total equity and liabilities		**561 782**	447 023	423 170

Statements of comprehensive income

for the year ended 31 March 2011

Figures in Rand thousand	Note(s)	Group and Company 2011	Group 2010	Company 2010
Revenue	20	**346 644**	310 247	244 225
Other income	21	**2 878**	3 145	3 218
Operating expenses		**(247 269)**	(229 071)	(182 917)
Operating profit	22	**102 253**	84 321	64 526
Investment income	23	**38 254**	30 933	105 369
Fair value adjustments	24	**(448)**	421	421
Income from equity accounted investments		**7 340**	2 253	–
Finance costs	25	**(254)**	(245)	(240)
Profit before taxation		**147 145**	117 683	170 076
Taxation	26	**(37 397)**	(46 011)	(26 629)
Profit for the year		**109 748**	71 672	143 447
Other comprehensive income		**–**	–	–
Total comprehensive income		**109 748**	71 672	143 447
Profit attributable to:				
Owners of the parent			71 672	
Total comprehensive income attributable to:				
Owners of the parent			71 672	

Statements of changes in equity

for the year ended 31 March 2011

Figures in Rand thousand	Note(s)	Share capital	Capital reserve	Retained income	Total equity
Group and Company					
Opening balance as previously reported		**1**	**278 000**	**116 572**	**394 573**
Adjustments					
Accounting for equity accounted investment		–	–	**8 407**	**8 407**
Balance at 1 April 2010 as restated		**1**	**278 000**	**124 979**	**402 980**
Changes in equity					
Total comprehensive income for the year		–	–	**109 748**	**109 748**
Total changes		–	–	**109 748**	**109 748**
Balance at 31 March 2011		**1**	**278 000**	**234 727**	**512 728**
Note(s)	14 & 18				
Group					
Balance at 1 April 2009		1	–	421 284	421 285
Changes in equity					
Total comprehensive income for the year		–	–	71 672	71 672
Other		–	–	4	4
Transfer between reserves		–	278 000	(278 000)	–
Dividends		–	–	(78 911)	(78 911)
Total changes		–	278 000	(285 235)	(7 235)
Balance at 1 April 2010		1	278 000	136 049	414 050
Note(s)	14 & 18				
Company					
Balance at 1 April 2009		1	–	330 035	330 036
Changes in equity					
Total comprehensive income for the year		–	–	143 447	143 447
Other		–	–	2	2
Transfer between reserves		–	278 000	(278 000)	–
Dividends		–	–	(78 911)	(78 911)
Total changes		–	278 000	(213 462)	64 538

Statements of cash flows

for the year ended 31 March 2011

Figures in Rand thousand	Note(s)	**Group and Company 2011**	Group 2010	Company 2010
Cash flows from operating activities				
Cash generated from operations	28	**124 839**	109 746	77 934
Interest income		**27 116**	30 933	28 257
Finance costs		**(126)**	(245)	(240)
Tax paid	29	**(39 882)**	(40 120)	(30 905)
Net cash from operating activities		**111 947**	100 314	75 046
Cash flows from investing activities				
Purchase of property, plant and equipment	3	**(6 887)**	(17 041)	(16 410)
Proceeds on disposal of property, plant and equipment	3	**365**	–	–
Purchase of other intangible assets	4	**(2 422)**	(3 817)	(3 707)
Realisation of Harith reserves		**–**	57 091	–
Financial asset at fair value through profit and loss additions		**112 200**	(223 013)	(142 661)
Other financial asset additions		**(131 076)**	(67 004)	(67 004)
Dividends received		**11 138**	–	77 112
Net cash from investing activities		**(16 682)**	(253 784)	(152 670)
Cash flows from financing activities				
Finance lease payment		**(1 213)**	410	410
Dividends paid	30	**–**	(78 911)	(78 911)
Net cash from financing activities		**(1 213)**	(78 501)	(78 501)
Total cash movement for the year		**94 052**	(231 971)	(156 125)
Cash and cash equivalents at the beginning of the year		**97 349**	339 172	253 475
Total cash and cash equivalents at the end of the year	13	**191 401**	107 201	97 350

1. Presentation of financial statements

The annual financial statements have been prepared in accordance with the South African Statements of Generally Accepted Accounting Practice, the Companies Act of South Africa, 1973, and the Public Finance Management Act, 1999 (Act No. 1 of 1999). The annual financial statements have been prepared in accordance with the going concern principle under the historical cost basis, except for the measurement of financial instruments at fair value, and incorporate the principal accounting policies set out below.

The nature of the business of the holding company, Public Investment Corporation Limited (PIC), is such that trust and surplus funds, under the control of government departments, provincial administrations and bodies as well as institutions approved by the Minister of Finance, which may be available for investment, are payable to PIC which is responsible for investing the funds. These funds are managed by PIC on behalf of these parties (hereafter, clients) and any income or loss derived therefrom accrues directly to the above-mentioned parties.

These accounting policies are consistent with the previous period, except for the changes set out in note 39 – Reclassification.

1.1 Investments accounted for using the equity method

An associate is an entity over which the Group has significant influence and which is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Any goodwill on acquisition of an associate is included in the carrying amount of the investment, however, a gain on acquisition is recognised immediately in profit or loss.

Profits or losses on transactions between the Group and an associate are eliminated to the extent of the Group's interest therein.

When the Group reduces its level of significant influence or loses significant influence, the Group proportionately reclassifies the related items which were previously accumulated in equity through other comprehensive income to profit or loss as a reclassification adjustment. In such cases, if an investment remains, that investment is measured to fair value, with the fair value adjustment being recognised in profit or loss as part of the gain or loss on disposal.

1.2 Significant judgements

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts presented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables

The Group assesses its trade receivables for impairment at each financial year end date. In determining whether an impairment loss should be recognised in profit or loss, the Group makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for the trade receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Fair value estimation

The fair value of financial instruments traded in active markets is based on quoted market prices at the financial year end date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market (unlisted securities) is determined by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each financial year end date.

Provisions

A provision is recognised when there is a legal or constructive obligation as a result of a past event 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 amount of the obligation. Additional disclosure of these estimates of provisions are included in note 16 – Provisions.

1. *Presentation of financial statements (continued)*

1.2 *Significant judgements (continued)*

Taxation

Judgement is required in determining the provision for income taxes due to the complexity of the tax legislation. There are many transactions and calculations for which the ultimate tax treatment is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The Group recognises the net future tax benefit related to deferred tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred tax assets requires the Group to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Group to realise the net deferred tax assets recorded at the financial year end date could be impacted.

Estimates of residual values and useful lives of property, plant and equipment

The Group assesses annually the residual values and remaining useful lives of significant assets. The residual values of these assets are estimated as the amounts that the Group would currently obtain from disposal of the asset after deducting the estimated costs of disposal, if the assets were already of the age, and in the condition expected at the end of the useful life. The useful life is the period over which an asset is expected to be available for use by the Group. Technological innovation and maintenance programmes impact the useful lives and residual values of the assets.

Contingent liabilities

Management applies its judgement to the fact patterns and advice it receives from its attorneys, advocates and other advisors in assessing if an obligation is probable, possible, or remote. This judgement application is used to determine if the obligation is recognised as a liability or disclosed as a contingent liability. Remote contingent liabilities are not disclosed.

1.3 *Property, plant and equipment*

Property, plant and equipment are tangible items that are held for use in the supply of services, or for administrative purposes and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is only recognised when:

- it is probable that future economic benefits associated with the item will flow to the company; and
- the cost of the item can be measured reliably.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently if the recognition criteria are met.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located are also included in the cost of property, plant and equipment.

Property, plant and equipment is carried at cost less accumulated depreciation and any accumulated impairment losses. Useful lives have been determined to be as follows:

	Average
Furniture and fixtures	5 – 10 years
Motor vehicles	5 years
Office equipment	5 – 8 years
IT equipment	3 – 5 years
Leasehold improvements	5 years

Depreciation is charged to profit and loss on a straight-line basis and is calculated to reduce the original costs to the expected residual values over the estimated useful lives. Useful lives and residual values are assessed on an annual basis.

The carrying values of property and equipment are written down to their estimated recoverable amounts, where the estimated recoverable amount is lower than the carrying value. The recoverable amount of property and equipment is determined as the higher of the asset's fair value less costs to sell and the value in use.

All gains or losses arising on the disposal or scrapping of property and equipment are recognised in profit or loss in the period of disposal or scrapping. Repairs and maintenance are charged to profit and loss when the expenditure is incurred.

1. Presentation of financial statements (continued)

1.4 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance. No intangible asset is recognised arising from research. Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale;
- there is an intention to complete and use or sell it;
- there is an ability to use or sell it;
- it will generate probable future economic benefits;
- there are available technical, financial and other resources to complete the development and to use or sell the asset; and
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

Subsequent expenditure relating 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 year in which it is incurred.

Surpluses and deficits on the disposals of intangible assets are recognised in profit or loss. The surplus or deficit is the difference between the net disposal proceeds and the carrying value of the asset at the date of sale.

The amortisation period and the amortisation method for intangible assets are reviewed every period end. Amortisation is charged to profit or loss on a straight-line basis and is calculated to reduce the original costs to the expected residual values over the estimated useful lives. Useful lives and residual values are assessed on an annual basis. Useful lives have been determined to be as follows:

	Average
Computer software	3 – 5 years
Other intangible assets	5 – 8 years

1.5 Investment in subsidiary

Company annual financial statements

In the company's annual financial statements, investments in subsidiaries are carried at cost less any accumulated impairment.

1.6 Investments in associates

Company financial statements

An investment in an associate is carried at fair value.

1.7 Financial instruments

Initial recognition and measurement

Early adoption of IFRS 9

IFRS 9 Financial Instruments

In the current financial year, the Group has applied IFRS 9 Financial Instruments (IFRS 9) (as issued in November 2009 and revised in October 2010) and the related consequential amendments in advance of its effective date. The Group has chosen 31 March 2011 as its date of initial application (i.e. the date on which the Group has assessed its existing financial assets and financial liabilities) because the Group decided to apply IFRS 9 in the current financial year and 31 March 2011 is the year end date.

1. Presentation of financial statements (continued)

1.7 Financial instruments (continued)

Initial recognition and measurement (continued)

The Group has applied IFRS 9 prospectively and comparative amounts will not be restated, as permitted by IFRS 9.

Financial assets

IFRS 9 introduces new classification and measurement requirements for financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement. Specifically, IFRS 9 requires all financial assets to be classified and subsequently measured at either amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

As required by IFRS 9, debt instruments are measured at amortised cost only if (i) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. If either of the two criteria is not met, the debt instruments are classified as at fair value through profit or loss (FVTPL).

However, the Group may choose at initial recognition to designate a debt instrument that meets the amortised cost criteria as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch. In the current financial year, the Group has not elected to designate any debt instruments that meet the amortised cost criteria as at FVTPL.

Debt instruments that are subsequently measured at amortised cost are subject to impairment.

Investments in equity instruments are classified and measured as at FVTPL except when the equity investment is not held for trading and is designated by the Group as at fair value through other comprehensive income (FVTOCI). If the equity investment is designated as at FVTOCI, all gains and losses, except for dividend income that is generally recognised in profit or loss in accordance with IAS 18 Revenue, are recognised in other comprehensive income and are not subsequently reclassified to profit or loss.

As at 31 March 2011, the directors have reviewed and assessed the Group's existing financial assets. Based on the assessment, it was determined that the impact of initial application of IFRS 9 will be immaterial because the Group's financial assets are carried at fair value through profit or loss under IAS 39, which will be the same classification on applying IFRS 9.

The application of IFRS 9 only affects the Group's financial assets, hence the financial liabilities will continue to be accounted for in terms of IAS 39.

IAS 39 Financial Instruments: Recognition and Measurement

IAS 39 Financial Instruments: Recognition and Measurement has been retained, to the extent that it applies to financial assets, as it is still applicable to the comparative figures.

A financial instrument is defined as a contract that gives rise to a financial asset in one entity and a financial liability or equity instrument in another entity.

Financial instruments, as reflected on the statement of financial position, include all financial assets, financial liabilities, derivative instruments and equity instruments held for investment, trading, hedging or liquidity purposes, but exclude investments in subsidiaries, associates, employee benefit plans, property and equipment, deferred taxation, taxation payable, intangible assets and goodwill.

Financial instruments are accounted for under IAS 32 Financial Instruments: Presentation, IAS 39 Financial Instruments: Recognition and Measurement, IFRS 9 Financial Instruments and IFRS 7 Financial Instruments: Disclosures.

Financial assets are classified into the following specified categories:
- financial assets at fair value through profit or loss;
- held-to-maturity investments;
- loans and receivables; and
- available-for-sale financial assets.

Financial liabilities are classified as either:
- financial liabilities at fair value through profit or loss; or
- other financial liabilities.

1. Presentation of financial statements (continued)

1.7 Financial instruments (continued)

IAS 39 Financial Instruments: Recognition and Measurement (continued)

The classification of financial assets and financial liabilities depends on the nature and purpose of the financial instrument and is determined at the time of initial recognition.

The Group classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial assets and financial liabilities are recognised on the Group's statement of financial position when the Group becomes party to the contractual provisions of the instrument.

All financial assets are initially recognised at fair value plus transaction costs, except those carried at fair value through profit or loss where transaction costs are recognised immediately through the statement of comprehensive income.

All financial liabilities are initially recognised at fair value minus, in the case of a financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the issue of the financial liability.

Subsequent to initial measurement, financial instruments are either measured at fair value or amortised cost, depending on their classification.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Fair value determination

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The best evidence of the fair value of a financial instrument on initial recognition is the transaction price, i.e. the fair value of the consideration paid or received. Directly attributable transaction costs are included in the initial fair value of financial assets and financial liabilities, other than those at fair value through profit or loss.

Subsequent to initial recognition, the fair values of financial assets and liabilities are based on current bid prices. If the market for a financial asset is not active or the instrument is an unlisted instrument, the fair value is determined by using applicable valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Trade and other receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those designated by the Group as at fair value through profit or loss or designated as available-for-sale.

Trade receivables and other receivables that are not held for trading purposes and have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit and loss within operating expenses. When a trade receivable is unelectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in profit and loss.

Trade and other receivables are classified as loans and receivables.

1. Presentation of financial statements (continued)

1.7 Financial instruments (continued)

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, bank balances and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Short-term highly liquid investments are initially and subsequently recorded at amortised cost. All other cash and cash equivalents are initially and subsequently recorded at fair value through profit and loss.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading and financial assets designated at fair value through profit or loss. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or Group investment strategy.

Financial assets and financial liabilities at fair value through profit or loss are measured at fair value. Net gains and losses arising from financial instruments categorised as at fair value through profit or loss are determined inclusive of interest or dividend income. Transaction costs are recognised in profit or loss as an expense. Dividend income is recognised in profit or loss as part of investment income when the Group's right to receive payment is established.

An investment is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

An investment other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- the investment forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Available-for-sale instruments

These financial assets are non-derivatives that are either designated in this category or not classified elsewhere. Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned.

These investments are measured initially and subsequently at fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is included in the net profit or loss for the period.

The Group assesses at each financial year end date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities may be impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in other comprehensive income – is removed from other comprehensive income and recognised in profit or loss.

1. Presentation of financial statements (continued)

1.7 Financial instruments (continued)

Available-for-sale instruments (continued)

Impairment losses recognised in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss, while translation differences on non-monetary securities are recognised in other comprehensive income.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the statement of comprehensive income as part of 'other income'. Dividends on available-for-sale equity instruments are recognised in the statement of comprehensive income as part of 'other income' when the Group's right to receive payments is established.

Equity investments for which a fair value is not determinable are held at cost. Impairments on such investments are not reversed.

Held-to-maturity

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has both the positive intent and ability to hold to maturity, other than those that meet the definition of loans and receivables or those that were designated as at fair value through profit or loss or designated as available-for-sale.

Held-to-maturity financial assets are measured at amortised cost, using the effective interest method, less any provisions for impairment, with the interest income recognised in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts/payments (including all fees receivable that form an integral part of the effective interest rate) through the expected life of the financial asset/liability or, where appropriate, a shorter period.

At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the carrying value would have been had the impairment not been recognised.

Financial assets that the Group has the positive intention and ability to hold to maturity are classified as held-to-maturity.

The Group derecognises a financial asset (or group of financial assets) or a part of a financial asset (or part of a group of financial assets) when and only when:

- the contractual rights to the cash flows arising from the financial asset have expired; or
- it transfers the contractual rights to receive the cash flows from the financial asset; or
- it retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients.

A financial liability (or group of financial liabilities) or a part of a financial liability (or part of a group of financial liabilities) is derecognised when and only when the liability is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or has expired.

1. Presentation of financial statements (continued)

1.8 Tax

Current tax assets and liabilities

Direct taxation in the statement of comprehensive income consists of South African and foreign jurisdiction corporate income tax, inclusive of capital gains tax (CGT) (currently payable, prior year adjustments and deferred), STC as well as foreign jurisdiction withholding taxes and secondary tax on companies (STC) (currently payable and deferred).

STC on dividends, net of STC credits earned, is expensed through the statement of comprehensive income in the period in which the dividend paid is accounted for.

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax is the expected taxation payable based on the taxable income, inclusive of capital gains, for the year, using taxation rates enacted or substantially enacted at the balance sheet date, and any adjustment to the taxation payable in respect of previous years. Taxable income is determined by adjusting the profit before taxation for items which are non-taxable or disallowed in terms of tax legislation.

Current tax is charged or credited to the statement of comprehensive income, except to the extent that it relates to items charged or credited directly to the statement of changes in equity, in which case the tax is also dealt with in equity.

STC that arises from the distribution of dividends is recognised at the same time as the liability to pay the related dividend.

Deferred tax assets and liabilities

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which, at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss). Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their taxation base.

Deferred tax is charged or credited in the statement of comprehensive income, except to the extent that it relates to items charged or credited directly to the statement of changes in equity, in which case the deferred tax is also dealt with in equity.

The effect on deferred taxation of any changes in taxation rates is recognised in the statement of comprehensive income, except to the extent that it relates to items previously charged or credited directly in equity.

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction that, at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for the carry forward of unused tax losses and unused STC credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused STC credits can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases – lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation.

1. Presentation of financial statements (continued)

1.9 Leases (continued)

Finance leases – lessee (continued)

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

The lease payments are apportioned between the finance charge and a reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability. This liability is not discounted.

Any contingent rents are expensed in the period they are incurred.

1.10 Impairment of assets

The Group assesses at each end of the reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the Group estimates the recoverable amount of the asset.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset.

If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss on assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss. Any impairment loss of a revalued asset is treated as a revaluation decrease.

An entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation other than goodwill is recognised immediately in profit or loss. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

1.11 Share capital and equity

Ordinary shares are classified as equity. Share capital issued by the company is recorded as the value of the proceeds received less the external costs directly attributable to the issue of the shares.

Dividends to equity holders are recognised as a liability in the period in which they are declared and are accounted for in the statement of changes in equity. Dividends declared after the financial year end date are disclosed in the dividends note.

1.12 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care) is recognised in the period in which the service is rendered and is not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance and when the amount can reliably be estimated at year end.

1. *Presentation of financial statements (continued)*

1.12 *Employee benefits (continued)*

Short-term employee benefits (continued)

Payments (employer contributions) to both the defined contribution retirement plans and defined benefit retirement plans are charged as an expense as they fall due.

Defined contribution plans

Under defined contribution plans:

(a) the group's legal or constructive obligation is limited to the amount that it agrees to contribute to the fund. Thus, the amount of the post-employment benefits received by the employee is determined by the amount of contributions paid by both the employer and employee to a post-employment benefit plan, together with investment returns arising from the contributions; and

(b) in consequence, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall on the employee.

Defined benefit plans

Under defined benefit plans:

(a) the Group's legal or constructive obligation is limited to the amount that it agrees to contribute to the fund; and

(b) in consequence, actuarial risk (that benefits will be less than expected) and investment risk (that assets invested will be insufficient to meet expected benefits) fall on the Government Employee Pension Fund.

1.13 *Provisions and contingencies*

Provisions represent liabilities of uncertain timing or amount and are measured at the expenditure or cash outflow required to settle the present obligations.

Provisions are recognised when:

- the Group has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

The present obligations arising under any onerous contracts are recognised and measured as a provision. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits that are expected to be received by the Group under such contract.

The cost of providing employee benefits is accounted for in the period in which the benefits are earned by employees. The expected cost of short-term accumulating compensated absences is recognised as an expense as the employees render services that give them the right to entitlement of such absence.

Provisions are not recognised for future operating losses.

1.14 *Revenue*

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the end of the reporting period. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group;
- the stage of completion of the transaction at the end of the reporting period can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

1. Presentation of financial statements (continued)

1.14 Revenue (continued)

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods and services provided in the normal course of business, net of trade discounts and volume rebates, and value added tax.

Revenue comprises management fees and letting commission charged to parties on whose behalf the assets are managed and rental income collected.

1.15 Investment income

Interest is recognised, as part of investment income, using the effective interest rate method.

Dividends are recognised, as part of investment income, when the company's right to receive payment has been established.

1.16 Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.17 Comparatives

Where applicable, comparative figures have been restated.

1.18 Offsetting

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to set off the recognised amounts and the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. Income and expense items are offset only to the extent that their related instruments have been offset in the statement of financial position.

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the Group has early adopted the following standards and interpretations that are effective for the current financial year and are relevant to its operations:

IFRS 9 Financial Instruments.

The Group has adopted the above standard for the first time in the 2011 annual financial statements. The impact is not material to the results of the Group except that it has resulted in new classifications and additional disclosure. Refer to note 39 on page 97.

2.2 Standards and interpretations not yet effective or relevant

Of the standards and interpretations not yet effective or relevant in the current year, none have a material impact on the Group annual financial statements.

3. Property, plant and equipment

	2011			2010		
Figures in Rand thousand	Cost/ Valuation	Accumulated depreciation	Carrying value	Cost/ Valuation	Accumulated depreciation	Carrying value
Company						
Buildings – Capital work in progress	**7 335**	**–**	**7 335**	7 335	–	7 335
Furniture and fixtures	**6 085**	**(4 597)**	**1 488**	6 072	(4 864)	1 208
Motor vehicles	**439**	**(334)**	**105**	439	(264)	175
Office equipment	**6 521**	**(3 861)**	**2 660**	6 264	(3 252)	3 012
IT equipment	**14 263**	**(6 812)**	**7 451**	9 754	(4 214)	5 540
Leasehold improvements	**1 528**	**(775)**	**753**	4 732	(3 758)	974
Finance leases – IT equipment	**3 275**	**(2 537)**	**738**	3 275	(1 808)	1 467
Total	**39 446**	**(18 916)**	**20 530**	37 871	(18 160)	19 711

Reconciliation of property, plant and equipment – Group and Company – 2011

Figures in Rand thousand	Opening balance	Additions	Disposals	Depreciation	Impairment loss	Total
Buildings – Capital work in progress	**7 335**	**–**	**–**	**–**	**–**	**7 335**
Furniture and fixtures	**1 208**	**978**	**(189)**	**(509)**	**–**	**1 488**
Motor vehicles	**175**	**–**	**–**	**(70)**	**–**	**105**
Office equipment	**3 012**	**1 124**	**(562)**	**(914)**	**–**	**2 660**
IT equipment	**5 540**	**4 589**	**(26)**	**(2 652)**	**–**	**7 451**
Leasehold improvements	**974**	**196**	**(144)**	**(273)**	**–**	**753**
Finance leases – IT equipment	**1 467**	**–**	**–**	**(729)**	**–**	**738**
	19 711	**6 887**	**(921)**	**(5 147)**	**–**	**20 530**

Reconciliation of property, plant and equipment – Group – 2010

Figures in Rand thousand	Opening balance	Additions	Disposals	Depreciation	Impairment loss	Total
Buildings – Capital work in progress	–	7 335	–	–	–	7 335
Furniture and fixtures	1 942	755	(550)	(458)	(6)	1 683
Motor vehicles	645	–	(357)	(113)	–	175
Office equipment	2 547	1 686	(315)	(678)	(9)	3 231
IT equipment	3 381	5 086	(908)	(1 682)	(51)	5 826
Leasehold improvements	1 190	722	(496)	(401)	–	1 015
Finance leases – IT equipment	1 098	1 457	–	(1 088)	–	1 467
	10 803	17 041	(2 626)	(4 420)	(66)	20 732

3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment – Company – 2010

Figures in Rand thousand	Opening balance	Additions	Depreciation	Impairment loss	Total
Buildings – Capital work in progress	–	7 335	–	–	7 335
Furniture and fixtures	861	646	(293)	(6)	1 208
Motor vehicles	263	–	(88)	–	175
Office equipment	2 192	1 435	(606)	(9)	3 012
IT equipment	2 164	4 815	(1 388)	(51)	5 540
Leasehold improvements	557	722	(305)	–	974
Finance leases – IT equipment	1 098	1 457	(1 088)	–	1 467
	7 135	16 410	(3 768)	(66)	19 711

4. Intangible assets

Figures in Rand thousand	**2011** Cost/ Valuation	**2011** Accumulated depreciation	**2011** Carrying value	2010 Cost/ Valuation	2010 Accumulated depreciation	2010 Carrying value
Computer software	**26 340**	**(18 587)**	**7 753**	23 980	(16 081)	7 899
Other intangible assets	**3 199**	**(1 198)**	**2 001**	3 173	(621)	2 552
Total	**29 539**	**(19 785)**	**9 754**	27 153	(16 702)	10 451

Reconciliation of intangible assets – Group and Company – 2011

Figures in Rand thousand	**Opening balance**	**Additions**	**Amortisation**	**Impairment loss**	**Total**
Computer software	**7 899**	**2 396**	**(2 526)**	**(16)**	**7 753**
Other intangible assets	**2 552**	**26**	**(577)**	**–**	**2 001**
	10 451	**2 422**	**(3 103)**	**(16)**	**9 754**

Reconciliation of intangible assets – Group – 2010

Figures in Rand thousand	Opening balance	Additions	Disposals	Amortisation	Total
Computer software	6 731	2 987	(28)	(1 617)	8 073
Other intangible assets	2 058	830	–	(336)	2 552
	8 789	3 817	(28)	(1 953)	10 625

Reconciliation of intangible assets – Company – 2010

Figures in Rand thousand	Opening balance	Additions	Amortisation	Total
Computer software	6 500	2 877	(1 478)	7 899
Other intangible assets	2 058	830	(336)	2 552
	8 558	3 707	(1 814)	10 451

5. Investment in subsidiary

Name of company	% holding 2011	% holding 2010	Carrying amount R'000 2011	Carrying amount R'000 2010
Advent Asset Management	**100**	100	**–**	71

The carrying amount of subsidiary is shown at cost, net of impairment losses. There has been no change in the shareholding of Advent in the current year. Advent is currently dormant.

The directors' value of the unlisted subsidiaries in the Group equates to the net asset value of the subsidiary.

Subsidiaries for which control was relinquished
The Group relinquished control of Harith Fund Managers on 30 June 2009.

Figures in Rand thousand	Group and Company 2011	Group 2010	Company 2010
Loss on disposal	**–**	(7 224)	–

Group disposed of its controlling interest of 54% in Harith Fund Managers on 30 June 2009.

6. Investments accounted for using the equity method

	% holding 2011	% holding 2010	Carrying amount R'000 2011	Carrying amount R'000 2010	Carrying amount R'000 2010
Harith Fund Managers	**46**	46	**15 746**	8 407	–

The carrying amount of the associate is shown net of impairment losses. There has been no impairment loss in the associate in the current year. The carrying value approximates the fair value of the associate.

Harith is a private company. The nature of the business is the management of the Pan African Infrastructure Development Fund (PAIDF) funds. Harith is also responsible, on behalf of the PAIDF, for the provision of specified administrative services relating to the operations of the PAIDF.

No contingent liabilities or other commitments were incurred relating to the investment accounted for using the equity method.

Figures in Rand thousand	2011	2010
Assets	**70 337**	52 302
Liabilities	**26 320**	24 241
Revenue	**86 496**	94 763
Profit/(loss)	**15 956**	21 693
Profit attributable to the Group	**7 340**	2 253
Dividends received	**–**	53 272

7. Financial assets at fair value through profit or loss

Figures in Rand thousand	Group and Company 2011	Group 2010	Company 2010
At fair value through profit or loss – designated			
Certificate of deposit	**–**	127 784	127 784
Promissory notes	**43 770**	19 175	19 175
Bills	**28 696**	38 155	38 155
	72 466	185 114	185 114
Current assets			
Designated at fair value through profit or loss	**72 466**	185 114	185 114

7. Financial assets at fair value through profit or loss (continued)

The fair values of the financial assets were determined as follows:

- The fair values of listed or quoted investments are based on the quoted market price.
- The fair values on investments not listed or quoted are estimated using the yield curve valuation technique using the nominal rate of interest compounded continuously. The method is consistent with the prior year.

For debt securities classified as at fair value through profit or loss, the maximum exposure to credit risk at the reporting date is the carrying amount.

The company has not reclassified any financial assets from cost or amortised cost to fair value, or from fair value to cost or amortised cost during the current or prior year.

The maximum exposure to credit risk at the reporting date is the fair value of each class of financial instrument mentioned above and the fair value of the trade and other receivables disclosed in note 12. The Group has not pledged any collateral as security.

Financial instruments measured at fair value shall be classified into a hierarchy that reflects the significance of the inputs used in making the measurements. The hierarchy of all the financial instruments is level 2. Level 2 represents inputs other than quoted prices in active markets for identical assets, which are observable for the assets, either directly or indirectly.

Credit quality of other financial assets
The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

Designated at fair value through profit/loss

Figures in Rand thousand	**Group and Company 2011**	Group 2010	Company 2010
Credit rating			
AAA	**28 696**	53 376	53 376
AA+	–	40 785	40 785
AA/AA-	**43 770**	80 792	80 792
A+	–	10 161	10 161
	72 466	185 114	185 114

8. Financial instruments by category

The carrying value of the financial instruments approximates the fair value. All financial liabilities are carried at amortised cost.

The accounting policies for financial instruments have been applied to the line items below:

Figures in Rand thousand	**Carried at amortised cost**	**Fair value through profit or loss – designated**	**Total**
Group and Company – 2011			
Bills and promissory notes	–	**72 466**	**72 466**
Other financial assets	**198 080**	–	**198 080**
Trade and other receivables	**40 950**	–	**40 950**
Cash and cash equivalents	**191 401**	–	**191 401**
	430 431	**72 466**	**502 897**

8. *Financial instruments by category (continued)*

Figures in Rand thousand	Loans and receivables	Fair value through profit or loss – held for trading	Fair value through profit or loss – designated	Held to maturity investments	Available-for-sale	Total
Group – 2010						
Bills, promissory notes and certificate of deposit	–	–	185 114	–	–	185 114
Other financial assets	67 004	–	–	–	–	67 004
Trade and other receivables	29 648	–	–	–	–	29 648
Cash and cash equivalents	107 200	–	–	–	–	107 200
	203 852	–	185 114	–	–	388 966
Company – 2010						
Bills, promissory notes and certificate of deposit	–	–	185 114	–	–	185 114
Other financial assets	67 004	–	–	–	–	67 004
Trade and other receivables	28 356	–	–	–	–	28 356
Cash and cash equivalents	97 349	–	–	–	–	97 349
	192 709	–	185 114	–	–	377 823

Figures in Rand thousand	**Group and Company 2011**	Group 2010	Company 2010

9. *Deferred tax*

Deferred tax asset	**11 230**	4 633	4 633
Reconciliation of deferred tax asset (liability)			
At beginning of the year	**4 633**	1 938	1 177
Leave pay	**256**	(340)	(251)
Prepayments	**143**	(350)	(386)
Fixed assets	**(410)**	(269)	(269)
Bonus provision	–	(662)	–
Unrealised profit	**116**	125	125
Leases	**(38)**	15	61
Other provision	**6 530**	840	840
Equity investments	–	205	205
STC	–	3 131	3 131
	11 230	4 633	4 633

Included in the deferred tax asset is an unutilised STC credit of R3.131 million. Based on the dividend policy of the PIC and the long-term strategic plan, it is probable that a dividend will be declared within four years to utilise the deferred tax asset raised on the unutilised STC credit.

Figures in Rand thousand	Group and Company 2011	Group 2010	Company 2010
10. Operating lease asset (accrual)			
Non-current liabilities	**(141)**	(164)	–
Current liabilities	**(15)**	(226)	(226)
	(156)	(390)	(226)
Amount expensed	**(7 379)**	(7 411)	(6 301)
Amount paid	**7 449**	7 234	6 120
	70	(177)	(181)
11. Other financial assets			
Other financial assets consist of interest bearing fixed deposits.			
Non-current asset	**10 002**	–	–
Current asset	**188 078**	67 004	67 004
	198 080	67 004	67 004
12. Trade and other receivables			
Trade receivables	**34 689**	28 272	25 378
Prepayments	**5 599**	4 750	4 625
Loan account	–	–	1 698
Other receivables	**662**	1 495	1 399
	40 950	34 517	33 100
Trade and other receivables past due but not impaired			
60 to 90 days	**127**	444	444
90 days plus	**200**	–	–
Reconciliation of the allowance for doubtful debts (trade receivables)			
Opening balance	**80**	80	80

As at year end none of the trade and other receivables were individually determined to be impaired and the allowance for doubtful debts was not utilised during the year.

Figures in Rand thousand	Group and Company 2011	Group 2010	Company 2010
13. Cash and cash equivalents			
Cash and cash equivalents consist of:			
Cash on hand	**5**	6	2
Bank balances	**8 155**	34 691	24 844
Short-term deposits	**183 241**	72 503	72 503
	191 401	107 200	97 349
Credit quality of cash at bank and short-term deposits			
The credit quality of cash at bank and short-term deposits that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:			
Credit rating			
AAA	**25 403**	20 962	20 962
AA+	**68 374**	30 165	30 165
AA-	**87 538**	40 312	30 465
A+	**10 081**	15 755	15 755
Other	**5**	6	2
	191 401	107 200	97 349

Figures in Rand thousand	Group and Company 2011	Group 2010	Company 2010

14. Share capital

Authorised			
100 ordinary shares of R10 each	**1**	1	1
Issued			
100 ordinary shares of R10 each	**1**	1	1

15. Finance lease obligation

Minimum lease payments due			
– within one year	**798**	1 061	1 061
– in second to fifth year inclusive	**–**	634	634
	798	1 695	1 695
Less: future finance charges	**(31)**	(137)	(137)
Present value of minimum lease payments	**767**	1 558	1 558
Present value of minimum lease payments due			
– within one year	**767**	950	950
– in second to fifth year inclusive	**–**	608	608
	767	1 558	1 558
Non-current liabilities	**–**	608	608
Current liabilities	**767**	950	950
	767	1 558	1 558

It is the Group's policy to lease certain equipment under finance leases. Finance leases are leases of which substantially all the risks and rewards incidental to ownership of an asset have been transferred, although the title has not been transferred. These finance leases consist of eight different contracts for computer equipment, with different effective dates and are over a three year period ending by 31 March 2012, repayable in quarterly instalments over the lease period. In the current year three contracts expired.

16. Provisions

Reconciliation of provisions – Group and Company – 2011

Figures in Rand thousand	Opening balance	Raised	Utilised during the year	Total
Restructuring	**–**	**6 700**	**(500)**	**6 200**
Legal proceedings	**3 000**	**93**	**(93)**	**3 000**
Leave pay	**3 503**	**4 354**	**(3 200)**	**4 657**
Long-term incentive	**–**	**13 428**	**–**	**13 428**
Defined benefit provision	**–**	**3 454**	**–**	**3 454**
	6 503	**28 029**	**(3 793)**	**30 739**

16. Provisions (continued)

Reconciliation of provisions – Group – 2010

Figures in Rand thousand	Opening balance	Raised	Utilised during the year	Reversed during the year	Disposal of subsidiary	Total
Legal proceedings	1 180	3 000	–	(1 180)	–	3 000
Leave pay	5 564	3 499	(4 329)	–	(849)	3 885
Bonus	2 364	–	(63)	–	–	2 301
	9 108	6 499	(4 392)	(1 180)	(849)	9 186

Reconciliation of provisions – Company – 2010

Figures in Rand thousand	Opening balance	Raised	Utilised/ reversed during the year	Total
Legal proceedings	–	3 000	–	3 000
Leave pay	4 399	3 433	(4 329)	3 503
	4 399	6 433	(4 329)	6 503

Figures in Rand thousand	**Group and Company 2011**	Group 2010	Company 2010
Non-current liabilities	**21 628**	–	–
Current liabilities	**9 111**	9 186	6 503
	30 739	9 186	6 503
17. Current tax payable (receivable)			
Opening balance	**(5 737)**	(2 510)	(1 608)
Income tax for the year	**43 994**	42 539	26 776
Tax paid during the year (inclusive of adjustment on sale of businesses)	**(39 882)**	(48 820)	(30 905)
	(1 625)	(8 791)	(5 737)
18. Capital reserves			
The capital reserve was raised for the purchase of land and development of an office building which was approved by the Board on 13 March 2009.			
Opening balance	**278 000**	–	–
Raised during the year	**–**	278 000	278 000
	278 000	278 000	278 000
19. Trade and other payables			
Trade payables	**4 915**	12 163	11 251
VAT	**2 597**	1 653	1 164
Accrued expenses	**8 979**	5 890	5 816
Other payables	**901**	2 133	2 078
	17 392	21 839	20 309
20. Revenue			
Management fees	**346 644**	310 247	244 225

Figures in Rand thousand	Group and Company 2011	Group 2010	Company 2010

21. Other income

Other income consists of:			
Board fees	**1 483**	1 706	1 779
Sponsorships	**11**	330	330
Fees for back office services	**1 026**	–	–
Profit on sale of financial assets	**–**	850	850
Profit on forex	**–**	250	250
Other	**358**	9	9
	2 878	3 145	3 218

22. Operating profit

Operating profit for the year is stated after accounting for the following:

Income from subsidiaries			
Dividends	**11 138**	–	77 112
Operating lease charges			
Premises			
• Contractual amounts	**10 160**	8 873	7 285
Equipment			
• Contractual amounts	**1 243**	1 877	1 766
	11 403	10 750	9 051
(Loss)/profit on sale of property, plant and equipment	**(556)**	–	–
(Loss)/profit on sale of investment (or subsidiaries, joint ventures and associates)	**–**	(7 224)	–
(Loss)/profit on sale of financial assets at fair value through profit or loss	**–**	850	850
Impairment on property, plant and equipment	**–**	66	66
Impairment on businesses (or subsidiaries, joint ventures and associates)	**71**	–	–
Loss/(profit) on exchange differences	**–**	(242)	(250)
Amortisation on intangible assets	**3 103**	1 953	1 814
Depreciation on property, plant and equipment	**5 147**	4 420	3 768
Employee costs	**161 746**	137 312	108 576
Research and development	**–**	150	–

23. Investment income

Dividend income			
Subsidiaries – Local	**11 138**	–	77 112
Interest income			
Financial assets at fair value through profit/loss	**23 905**	25 133	23 083
Interest on staff loans	**(23)**	–	–
Bank	**3 234**	5 800	5 174
	27 116	30 933	28 257
	38 254	30 933	105 369

24. Fair value adjustments

Financial assets at fair value through profit and loss	**(448)**	421	421
Fair value through profit or loss			
Unrealised profit or loss on financial assets	**(448)**	421	421

Figures in Rand thousand	Group and Company 2011	Group 2010	Company 2010
25. Finance costs			
Bank	**126**	245	240
Other interest	**128**	–	–
	254	245	240
26. Taxation			
Major components of the tax expense			
Current			
Local income tax – current period	**43 994**	34 827	26 776
STC	**–**	7 712	–
	43 994	42 539	26 776
Deferred			
Temporary differences	**(6 597)**	3 472	(147)
	37 397	46 011	26 629
Reconciliation of the tax expense			
Reconciliation between accounting profit and tax expense			
Accounting profit	**147 145**	117 683	170 076
Tax at the applicable tax rate of 28% (2010: 28%)	**41 201**	32 951	47 621
Tax effect of adjustments on taxable income			
Permanent differences	**(3 804)**	5 169	(21 171)
Secondary tax on companies	**–**	7 891	179
	37 397	46 011	26 629
27. Auditors' remuneration			
Fees	**3 063**	3 112	2 874
28. Cash generated from operations			
Profit before taxation	**147 145**	117 683	170 076
Adjustments for:			
Depreciation and amortisation	**8 250**	6 373	5 582
Loss/(profit) on sale of assets	**556**	6 374	(850)
Income from equity accounted investments	**(7 340)**	(2 253)	–
Dividends received	**(11 138)**	–	(77 112)
Interest received	**(27 116)**	(30 933)	(28 257)
Finance costs	**254**	245	240
Fair value adjustments	**448**	(421)	(421)
Impairment loss	**71**	66	66
Movements in operating lease assets and accruals	**(70)**	177	181
Movements in provisions	**24 085**	1 341	2 104
Other non-cash items	**(1)**	–	–
Changes in working capital:			
Trade and other receivables	**(7 850)**	4 839	2 411
Trade and other payables	**(2 455)**	6 255	3 914
	124 839	109 746	77 934

Figures in Rand thousand	Group and Company 2011	Group 2010	Company 2010

29. Tax paid

Balance at beginning of the year	**5 737**	2 510	1 608
Current tax for the year recognised in profit or loss	**(43 994)**	(42 539)	(26 776)
Adjustment in respect of businesses sold and acquired during the year including exchange rate movements	**–**	8 700	–
Balance at end of the year	**(1 625)**	(8 791)	(5 737)
	(39 882)	(40 120)	(30 905)

30. Dividends paid

Dividends	**–**	(78 911)	(78 911)

31. Commitments

Operating leases – as lessee (expense)			
Minimum lease payments due			
– within one year	**6 974**	6 620	6 243
– in second to fifth year inclusive	**14 345**	1 441	–
	21 319	8 061	6 243

Operating lease payments represent rentals payable by the Group for certain of its office properties. Leases are negotiated for terms ranging from two to five years for the Group.

Figures in Rand thousand	Group and Company 2011	Group 2010	Company 2010

32. Related parties

Relationships	Refer to note 5
Subsidiaries	Refer to note 6
Associates	Refer to the disclosure of remuneration on page 99
Members of key management	

Related party balances			
Services delivered			
State controlled entities and national departments	**30 748**	–	20 282
Purchased services			
Other	**–**	–	(830)
Related party transactions			
Services delivered			
State entities and national departments	**346 751**	–	244 225
Purchased services			
Other	**(1 939)**	–	(3 970)
Dividends paid			
National Treasury	**–**	–	(78 911)
Compensation to executive directors and senior management			
Short-term employee benefits	**44 869**	–	34 257
Post-employment benefits – Pension – Defined contribution plan	**2 035**	–	1 715
Long-term incentive scheme	**13 428**	–	–
	60 332	–	35 972

33. Directors' emoluments

Executive

Figures in Rand thousand	Remuneration	Pension paid	Total
2011			
For services as employees	**9 967**	**329**	**10 296**
2010			
For services as employees	9 976	435	10 411

Non-executive

Figures in Rand thousand	Remuneration	Pension paid	Total
2011			
For services as directors	**3 088**	**–**	**3 088**
2010			
For services as directors	3 166	–	3 166

34. Risk management

Interest rate risk

Definition: The potential financial loss as a result of adverse movements in interest rates that affects the value of bonds, money market instruments and other interest rate sensitive assets.

Public Investment Corporation Operating Fund (PICOF) has exposure to interest rate sensitive instruments as stated above.

The investment mandates prescribe how the assets should be managed, in line with liquidity needs and liability profiles.

Refer to the Risk management statement on page 54 for the PICOF interest rate sensitivity analysis.

Market risk

Definition: The risk of a change in the actual or effective market value or earnings of a portfolio of financial instruments caused by a move in market variables such as equity, bond and commodity prices, currency exchange rates, interest rates, credit spreads, recovery rates, correlations and implied volatilities in all of the above.

The operational controls implemented to manage risks arising from market volatility include:

- Management of monies in accordance with investment mandates, which dictate the investment parameters, maximum holdings and investment limits;
- Portfolio review by virtue of daily access to portfolio information and regular reporting;
- Monitoring of positions against mandate limits, and
- Auditing by internal and external auditors.

The degree of market risk prevalent in any portfolio is primarily determined by the benchmark portfolio composition, as expressed in the investment mandate.

Basis points	2011 R'000	2010 R'000
-200	**3 033**	2 544
-150	**2 269**	1 903
-100	**1 508**	1 265
-50	**752**	631
50	**(748)**	(627)
100	**(1 492)**	(1 251)
150	**(2 233)**	(1 872)
200	**(2 969)**	(2 489)

Liquidity risk

Definition: This refers to the risk of being unable to close out open financial instrument positions quickly enough and in sufficient quantities at near-market prices to avoid adverse financial impacts as a result of there being insufficient volume in the market (or where the market is suspended or closed).

The PIC Operations Fund's strategic asset allocation stipulates a range of 60% – 100% of the total holdings that must comprise liquid assets.

34. Risk management (continued)

Liquidity risk (continued)

The maturity analysis for interest bearing assets at year end was as follows:

	31 March		
Figures in Rand thousand	<6	>6	**Totals**
FY 2010	147 244	205 783	353 027
FY 2011	**314 677**	**78 891**	**393 568**

Credit risk

Definition: The risk that a borrower or counterparty to a financial transaction will fail to perform according to the terms and conditions of the contract, thus causing the holder of the claim to suffer a loss in cash flow or market value.

Factors that influence PIC's credit decisions include credit rating, assessments of the general operating environment, the competitive market position of a counterparty or issuer, reputation, deal tenure, the level and volatility of earnings, corporate governance, risk management policies, liquidity and capital management.

Credit risk is managed according to the mandate parameters and PIC's internal credit risk policy. Credit mitigation techniques are transaction dependent but may include, where appropriate, the right to be furnished with collateral or an equity injection by counterparties, particularly in unlisted investments. No collateral was held on PICOF for the period under review, which is consistent with previous periods.

PIC also utilises various models to guide limit setting as well as credit ratings from external rating agencies. Limits are approved by the relevant committees, in accordance with the Board-approved delegation of authority. Risk reports on these exposures are regularly submitted to the Portfolio Committee, Investment Committee, Audit and Risk Committee and Board.

Impairment tests are undertaken according to PIC approved guidelines, and are approved in accordance with the delegation of authority.

Financial assets exposed to credit risk at year end were as follows:

Figures in Rand thousand	**Group and Company 2011**	**Group** 2010	Company 2010
Financial instrument			
Certificate of deposit	–	127 784	127 784
Cash and cash equivalents	**191 401**	107 200	97 349
Trade and other receivables	**40 950**	29 648	28 356
Bills	**28 696**	38 155	38 155
Other financial asset	**198 080**	67 004	67 004
Promissory notes	**43 770**	19 174	19 174

Other risk

Concentration risk

Concentration risk is the risk of losses arising due to poor diversification within funds. This relates to both credit and market risk as excessive concentrations in a particular or correlated asset class, sector, issuer, term structure or financial instrument type can result in undesirable risk exposures. PIC manages this risk in accordance with the investment mandates and approved policies, which dictate the level of concentration.

The fixed income portfolio was heavily skewed towards money market investments, which are spread across banks to reduce and diversify the risk, thereby reducing the risk the Group has to the domestic financial market in the (unlikely) event that a liquidity crisis is suffered by an issuer.

34. Risk management (continued)

Operational risk

Operational risk is defined as the direct or indirect loss resulting from inadequate or failed internal processes, people and systems from external events.

Risk of this nature is managed through systems of internal control and annual external audits, as well as continual internal audits to review the effectiveness of the control environment, risk management programmes and external insurance policies.

Capital adequacy risk

Capital adequacy requirements are reviewed on a regular basis to ensure that cash resources are adequate to meet funding requirements and obligations.

35. Going concern

The financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

36. Subsequent events

The PIC purchased the assets and the personnel of CBS for R4.426 million, which was signed on 24 March 2011 and paid for on 31 March 2011. The effective date of the acquisition is 1 April 2011, resulting in a non-adjusting subsequent event.

37. Capital management

The PIC is licensed as a financial services provider in terms of section 8 of the Financial Advisory and Intermediary Services Act, 2002 (Act No. 37 of 2002). The Financial Services Board (FSB) requirements are monitored and adhered to. There are no regulatory capital management ratios imposed on the PIC.

38. Capital commitments

Capital commitments include all items of capital expenditure for which specific Board approval has been obtained up to the reporting date. The CBS acquisition was approved during the financial year under review. The new office building for the PIC Company is funded using internal resources, hence there is no interest accrued.

Figures in Rand thousand	**Group and Company 2011**	Group 2010	Company 2010
Authorised capital expenditure	**270 665**	278 000	278 000
Less: expenditure to the end of year	–	(7 335)	(7 335)
Additions*	**4 426**	–	–
	275 091	270 665	270 665

**The Board approved the purchase of CBS assets for R4.426 million on 24 March 2011. This was paid on 31 March 2011.*

The effective date of this transaction is 1 April 2011, resulting in a non-adjusting subsequent event. Refer to note 36.

Capital commitment cash forecast:

Figures in Rand thousand	**Amount '000**	Amount '000
Within 1 year	**24 000**	–
2 to 5 years	**251 091**	270 665
	275 091	270 665

39. *Reclassification*

Adoption of IFRS 9 Reclassification of Financial Assets

The adoption of IFRS 9 has resulted in the following financial assets being reclassified as shown in the table below:

	IAS 39 Original category	IFRS 9 New category	Original carrying amount R'000	New carrying amount R'000
Trade and other receivables	Loans and receivables	Financial assets at amortised cost	40 950	40 950
Cash and cash equivalents (fixed deposits)	Loans and receivables	Financial assets at amortised cost	123 022	123 022
Cash and cash equivalents (bank balances)	Loans and receivables	Financial assets at fair value through profit and loss	68 379	68 379
			232 351	232 351

The reclassification has had no material impact. Prior year line items have not been reclassified as IFRS 9 is being applied prospectively.

A capital expenditure reserve has been recognised in 2011 and has been restated retrospectively. Refer to table below:

Figures in Rand thousand	Original carrying amount	New carrying amount
Land and building	–	278 000

40. *Prior period errors*

The long-term portion of fixed deposits was incorrectly included in cash and cash equivalents in the 2010 Group annual financial statements. The amount of R67 million has been restated as a long-term investment. This reclassification will only affect disclosure and has been corrected in the prior period. Refer to note 11 on page 88.

41. Employee benefits

Provident fund

The provident fund has 229 employees. During the current year 119 employees joined and 17 employees withdrew from the provident fund.

The contributions for the year are R10 million (2010: R8.1 million).

The provident fund is a defined contribution plan. The result is that the risk of any decline in fair value lies with the employee and not the employer.

Defined benefit plan

On corporatisation 13 employees elected to stay on the Government Employee Pension Fund (GEPF). As part of the corporatisation agreement the Group has taken on a liability of R3.5 million which is disclosed under the defined benefit provision. Refer to note 16 on page 89.

Short-term employee benefits

Short-term incentives (STI) are bonuses paid of R33.5 million (2010: R27.6 million). Bonuses are recognised and paid once approved by the PIC Board in terms of the accounting policy. There is a one year time lag between the services rendered by the employee and the bonus paid as disclosed in the annual financial statements.

There is no constructive obligation on the company to pay bonuses. The decision to pay is elective and reviewed annually by the Board taking into consideration the financial sustainability and going concern of the company.

Long-term employee benefits

Long-term incentive (LTI) scheme is R13.428 million (2010: Rnil).

The LTI scheme was approved in the 2009 financial year. The 2010 financial year was the first year that the LTI scheme became applicable. There is a one year time lag between the services rendered and the bonus provided for in the annual financial statements.

The scheme is to attract, retain and reward high performing management of the PIC. The PIC management is only eligible to participate in the LTI if the company achieves an overall performance rating of 3.5 and if a manager achieves a minimum individual performance rating of 3.5.

The LTI scheme vests over a period of three years and payment has a lag time of three years. The R13.428 million will be paid in the 2014 financial year.

Disclosure of remuneration

for the year ended 31 March 2011

1. Non-executive directors

Figures in Rand Names	Fees	Retainer[(1)]	Total
Matshazi, T	38 481	–	38 481
Mngconkola, SP	29 930	–	29 930
Morar, R	38 481	–	38 481
Moses, M**	257 071	-	257 071
Ntombela, V	305 070	113 838	418 908
Rhoda, A*	225 751	–	225 751
Sehoole, I	100 360	–	100 360
Sithole, Z***	769 301	113 838	883 139
Strydom, J	445 180	113 838	559 018
Waja, Y	423 147	113 838	536 985
	2 632 772	455 352	3 088 124

(1) Retainers are paid for the attendance of at least four meetings and approved at the annual general meeting
** Resigned on 17 July 2010*
*** Fees paid for Ms Moses are paid to Ubuntu House*
**** Fees paid include services rendered for special task team leadership*

2. Executive directors

Figures in Rand Names	Basic salary and other allowances	Pension	Medical	Bonus*	Total
Kekana, A (COO)	2 046 868	149 868	30 936	1 465 315	3 692 987
Masilela, E (CEO)	383 104	28 883	4 680	–	416 667
Matjila, D (CIO)	1 995 064	149 868	67 377	1 537 144	3 749 453
Molefe, B (ex-CEO) ~	826 047	–	22 024	1 588 509	2 436 580
	5 251 083	328 619	125 017	4 590 968	10 295 687

~ The amount paid is lower due to B Molefe resigning during the current year
** Short-term incentive bonus paid in 2010/11 for 2009/10 performance*

3. Senior management

Figures in Rand Names	Basic salary and other allowances	Pension	Medical	Bonus*	Total
Busetti, C ^	885 678	57 890	–	800 000	1 743 568
Dekker, P	1 045 690	80 983	49 833	758 745	1 935 250
Dlamini, M	1 454 885	107 920	–	–	1 562 805
Naidoo, K	1 012 393	74 614	–	639 835	1 726 842
Rajdhar, R >	1 477 351	109 267	–	386 555	1 973 173
Smit, L	1 288 080	110 471	40 209	1 030 183	2 468 943
Van der Vent, W	1 421 294	109 738	67 377	973 548	2 571 957
Xaba, EZ	1 465 886	114 883	76 530	–	1 657 299
	10 051 257	692 882	233 949	4 588 866	15 566 954

^ This senior manager resigned during the current financial year
> These senior managers were appointed during the current financial year
** Short-term incentive bonus paid in 2010/11 for 2009/10 performance*

Statement from secretary

In terms of section 268G(d) of the Companies Act, 61 of 1973 as amended (the Companies Act), I certify that, to the best of my knowledge and belief, the Group has lodged with the Registrar of Companies for the year ended 31 March 2011, all such returns as are required of a public company in terms of the Companies Act and that such returns are true, correct and up to date.

WJF Louw

Ms Wilhelmina JF Louw
Group Secretary

General information

Country of incorporation and domicile	South Africa
Nature of business and principal activities	Investment management
Directors	Mr Nene Nhlanhla (Deputy Minister of Finance) (Chairman) (Non-executive) Mr Masilela, Elias (Executive) (CEO) Dr Matjila, Daniel (Executive) (CIO) Ms Matshazi, Tsakani (Non-executive) Mr Mngconkola, Patrick (Non-executive) Mr Morar, Roshan (Non-executive) Ms Moses, Moira (Non-executive) Mr Ntombela, Veli (Non-executive) Mr Sehoole, Ignatius (Non-executive) Mr Sithole, Zakhele (Non-executive) Mr Strydom, Jan (Non-executive) Mr Waja, Younaid (Non-executive)
Registered office and business address	Block C Riverwalk Office Park 41 Matroosberg Road Ashlea Gardens Extension 6 Menlo Park Pretoria
Postal address	Private Bag X187 Pretoria South Africa 0001
Auditors	Office of the Auditor-General of South Africa
Secretary	Wilhelmina JF Louw
Company registration number	2005/009094/06

Public Investment Corporation SOC Limited disclaimer

Public Investment Corporation SOC Limited (PIC), Registration number 2005/009094/06, is a licensed financial services provider, FSP 19777, approved by the Registrar of Financial Services Providers (www.fsb.co.za) to provide intermediary services and advice in terms of the Financial Advisory and Intermediary Services Act , 2002 (Act No. 37 of 2002).

The PIC is wholly owned by the South African government, with the Minister of Finance as a shareholder representative.

Products offered by the PIC do not provide any guarantees against capital losses. Market fluctuations and changes in rates of exchange or taxation may have an effect on the value, price or income of investments. Since the performance of financial markets fluctuates, an investor may not get back the full invested amount. Past performance is not necessarily a guide to future investment performance.

Personal trading by staff is restricted to ensure that there is no conflict of interest. All directors and employees who are likely to have access to price sensitive and unpublished information in relation to the Public Investment Corporation are further restricted in their dealings. All employees are remunerated with salaries and standard short-term and long-term incentives. No commission or incentives is paid by the PIC to any persons and all inter-group transactions are done on an arm's length basis.

The PIC has comprehensive crime and professional indemnity insurance.

Directors: Mr Nhlanhla Nene, MP (Chairperson) | Mr Elias Masilela (Chief Executive Officer), Dr Daniel Matjila (Chief Investment Officer), Mr Ignatius Sehoole, Mr Jan Strydom, Ms Moira Moses, Mr Roshan Morar, Mr Sebenzile P Mngconkola, Ms Tsakani Matshazi, Mr Veli Ntombela, Mr Younaid Waja, Mr Zakhele J Sithole | Corporate Secretary: Ms Wilna Louw

For more details, as well as for information on how to contact us and how to access information please visit www.pic.gov.za

RP 73/2011
ISBN: 978-0-621-40057-1

ince.motiv

PUBLIC INVESTMENT CORPORATION
100 YEARS

www.pic.gov.za