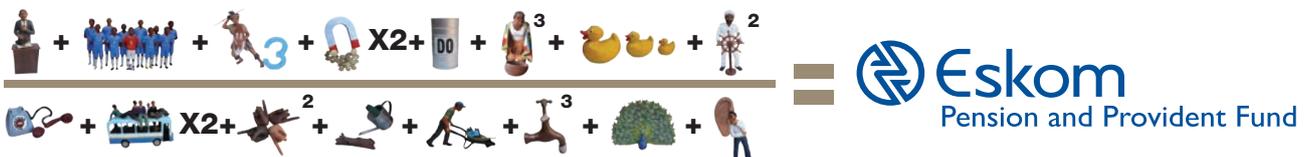


EPPF ANNUAL REPORT 2014



FORMULA FOR SUCCESS

Top line ENABLERS of success

The Fund's employees identified and weighted the following enablers, which articulate the values and habits which the Fund strives to do more of.



INTEGRITY, HONESTY
AND RESPECT



TEAMWORK AND COLLABORATION



COMPLIANCE AND GOVERNANCE



ATTRACT, DEVELOP
AND RETAIN TALENT



CAN DO ATTITUDE



OUTSTANDING
CUSTOMER FOCUS



PROACTIVE PLANNING
AND ORGANISATION



STRONG LEADERSHIP
AND MANAGEMENT

Bottom line DISABLERS of success

The Fund's employees also identified and weighted the following disablers, which articulate the values and habits that are to be avoided in order to achieve the Fund's Formula for Success.



POOR COMMUNICATION



NEGATIVE AND
DEMOTIVATED PEOPLE



LACK OF ACCOUNTABILITY



TOLERATING POOR PERFORMANCE



INEFFECTIVE SYSTEMS, PROCEDURES
AND POLICIES



FAILURE TO DEAL WITH ISSUES



ARROGANT AND SELF-CENTRED



BACKSTABBING AND POLITICS



Further reading online at www.eppf.co.za



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FUND HIGHLIGHTS

By concentrating on the Enablers and mitigating some of the Disablers, the Fund exceeded the R100 billion mark during the financial year ended 30 June 2014.

Total assets under management

for the year ended 30 June 2014

R112,3

billion

During the financial year ended 30 June 2014, the Fund managed to grow the assets under management to R112,3 billion.

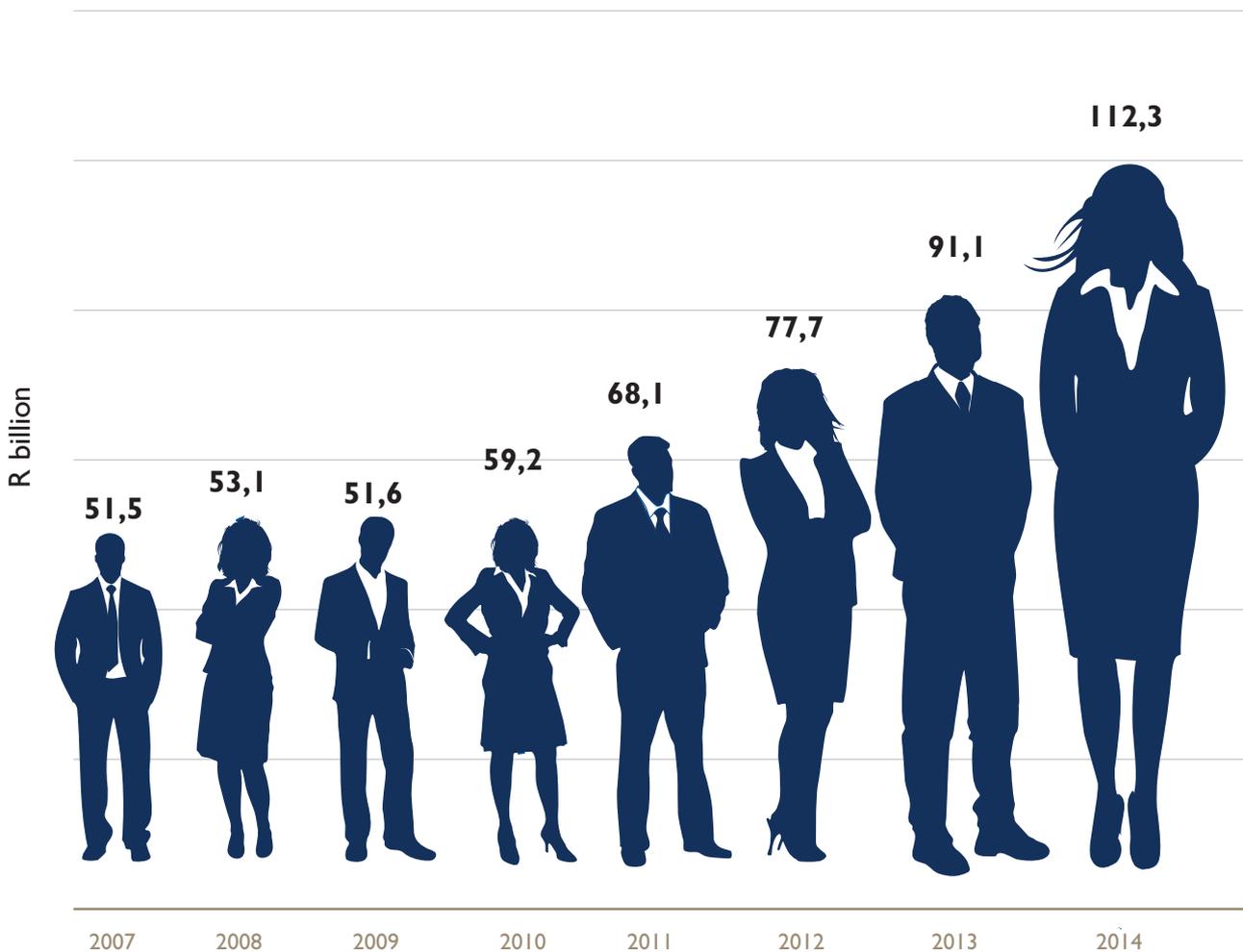
This positions the Eskom Pension and Provident Fund as one of the largest funds in South Africa by asset size.

The assets under management saw a remarkable year-on-year increase of 23,3% from R91,1 billion in 2013 to R112,3 billion in 2014. This phenomenal growth was achieved through the Fund's sound and prudent investment strategy, coupled with bullish investment markets.

FUND ASSETS

Total assets

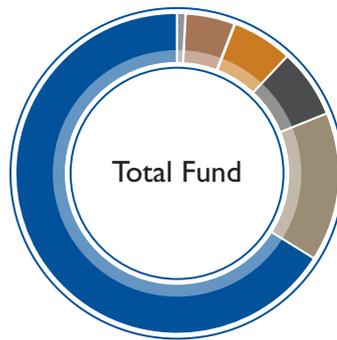
for the 8-year period to 30 June 2014



Asset allocation

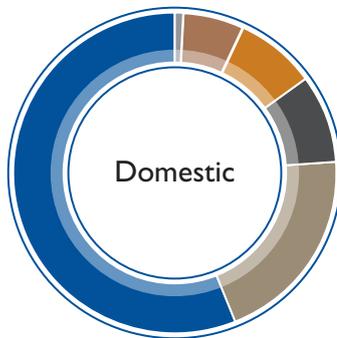
as at 30 June 2014

R112,3 billion



- Equity – 66%
- Inflation linked bonds – 15%
- Bonds – 7%
- Property – 6%
- Cash – 5%
- Hedge funds – 1%

R84,6 billion



- Equity – 56%
- Inflation linked bonds – 20%
- Bonds – 9%
- Property – 8%
- Cash – 6%
- Hedge funds – 1%

R27,7 billion



- Equity – 96%
- Cash – 4%

CHAIRMAN'S REPORT

HLENGANI MATHEBULA



The Fund continued to benefit from sound and prudent investment strategies in local and international markets.

INVESTMENT RETURN 25,3%

ASSETS UNDER MANAGEMENT R112,3bn

THREE-YEAR ROLLING RETURN 18,8%

Honoured Members, Pensioners and Stakeholders; once again I have the privilege to present to you the Eskom Pension and Provident Fund's annual report for the year ended 30 June 2014.

The Eskom Pension and Provident Fund (the Fund) continues to grow into one of the largest retirement funds in the country, regardless of type and structure. Its unique status as a hybrid defined benefit fund, with components of both a Defined Benefit and Defined Contribution structure, affords the Fund the opportunity to serve as an influential point of reference in the industry and during the year under review, was called on by various other funds, both local and in the rest of Africa, to provide guidance and information regarding retirement fund operations.



STRONG LEADERSHIP AND MANAGEMENT

- **Leading by example**
- **Management by providing clear vision, strategy and direction**
- **Empowering and inspiring leadership team**

I am pleased to be able to report that despite onerous financial and industry investment conditions, the Fund continued to achieve satisfactory growth, both in terms of assets under management and membership base. During the current financial year, the investment return achieved was phenomenal, surpassed only by a marginal outperformance in 2007. However, let me hasten to add that as in the past, historical performance is not indication of future performance and events after year-end have raised a serious cautionary flag, necessitating a very cautious approach to managing the future.

The Fund remains committed to the proposed restructuring and although some promising progress has been achieved in this regard, the issue remains unresolved. The “hybrid” financial structure of the Fund, where the Fund has a Defined Benefit structure with some Defined Contribution financial aspects, remains a major risk over the long term. Measures to address this situation are still being sought by all stakeholders.

On the investment front, the effects of strong financial outperformance during this financial year have served the Fund well, causing it to exceed R100 billion in investments under management, positioning the fund as one of the largest funds in South Africa by asset size.

I am pleased to highlight the good investment performance of the past year that was facilitated by a sound investment foundation and continued progress with the implementation of the Fund’s revised Strategic Asset Allocation (SAA) model. Realising that the Fund is a significant investor in the markets, implementation of the SAA proceeds at a cautious pace so as not to upset market structures and to pursue value-for-money investment actions. However, this year’s investment performance represented a significant outperformance of the Fund’s investment targets over one year, three years and longer periods, and assets under management on 30 June 2014 amounted to R112,3 billion, up by R21,2 billion from 2013. I am pleased to report that the Fund’s investment return for the year under consideration, was 25,3% (2013: 17,8%); well above the Fund target of 11,1% (CPI + 4,5%). Looking at the longer term, the Fund has also exceeded its rolling targets over three, five and ten years, with the three years’ rolling return showing an outperformance of 8,4%.

However, the decline of the strong membership growth of the previous year, and the transformation of the previous year’s small contribution surplus into an equally marginal contribution shortfall, signals that the relatively smooth sailing of the past number of years may be slowing and the financial viability of the Fund over the long term again creates a cause for concern.

The membership base of the Fund (all categories) increased marginally to 90,623 from 89,962 in 2013. The active members experienced a slight decrease from 45,715 to 45,377 due to the early retirement drive by the Principal employer. This category of membership remains greater than the number for those members who are in receipt of pension benefits and at Fund structural level, this has a positive influence on the Fund’s financial viability. Due to large infrastructure expansion programmes from Eskom, we expect membership numbers to again rise, but not at the pace as of the previous two financial years.

The Actuary of the Fund completed an interim valuation as at 30 June 2014 and while at the time of writing, the results had not been finalised, indications are that the Fund’s surplus has increased, due mainly to the very strong investment performance during the year.

Restructuring of the Fund

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

Following this, the Board agreed to the appointment of a new Joint Planning Committee with representatives of the Fund and Eskom, to begin with preliminary planning for a project to introduce such a DC project, without pre-empting the outcome of the employer’s engagement process at bargaining forum level. This Joint Planning Committee has made some progress towards planning for the proposed DC project for the restructuring of the Fund, but in the main its activities had been delayed due to a lack of a positive outcome from the bargaining process at Employer/Employee level. Although there remains a number of challenges to overcome, we are confident on the way forward.

The proposals in this regard are work in progress and will hopefully be concluded during the next financial year.

Financial Performance of the Fund

The Fund continued to benefit from sound investment strategies and good management of investments in local and international asset markets.

In respect of the past financial year the Fund’s investment return was approximately 25,3% (2013: 17,8%), thus achieving an outperformance of 14,2% (2013: 6,8%) for the year. The table below illustrates the investment return, growth in assets under management and a rolling three-year investment return for the current year.

	2014	2013
Investment return	25,3%	17,8%
Assets under management	R112,3 billion	R91,1 billion
Three-year rolling return	18,8%	16,0%

As the table above shows, investment return for the year ended 30 June 2014 was 25,3%, a number the likes of which has last been seen in 2007. Assets under management grew to R112,3 billion compared to R91,1 billion the previous year. Especially noteworthy is the three-year rolling return which has now improved to 18,8% (annualised), providing an outperformance of the targets (CPI + 4,5%) of 8,4% (2013: 6,8%) comfortably above the actuarial target of 4,5% real return.

However, while it would appear as if the investment return cycle has been on the uphill portion of a roller-coaster ride, one would hasten to caution against an over-optimistic view, as the investment markets during September and October 2014, after year-end closure, have clearly indicated. The downhill section of the roller-coaster ride may be close, but I remain confident that these numbers indicate that the Fund has built up a strong base to maintain future financial strength, on a long-term basis.

The Fund continues to make progress with the implementation of the revised investment strategy to align assets with liabilities more closely. This remains work in progress as rebalancing the investment portfolio cannot be achieved within a short period of time in a relatively small South African market, given the size of the Fund's investment holdings.

Valuation of the Fund

We conduct a statutory valuation of the Fund every three years. The last previous statutory valuation was carried out for the year ended 30 June 2012, at which point in time the Fund showed an actuarial surplus of 8% or R5,7 billion. The next statutory valuation is due to be carried out as at 30 June 2015, but an interim valuation as at 30 June 2014 has been carried out. While at the time of writing, the final report on the interim valuation was not yet available, preliminary results have indicated continued improvement in the financial health of the Fund, mainly due to good investment performance as highlighted above.

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

Pension Increases and Bonuses

When considering pension increases for 1 January 2014, the Board was in a position to consider the strong investment returns for

the preceding year and also took note of further improvement of the long-term financial condition of the Fund and improved market conditions. These are factors that allowed the Board to consider a favourable increase.

Consequently, the Board was again able to grant pension increases in excess of the published CPI rate and with effect from 1 January 2014 a general across-the-board increase of 6,5% (2013: 8%) was approved, while the Board was also again in a position to approve the payment of an annual bonus to pensioners.

The Board remains acutely aware of the effect of real levels of inflation and the financial strains experienced by pensioners. This concern is aptly demonstrated by the fact that, for the past three years, the Board was able to grant increases in excess of the CPI benchmark to alleviate some of the financial strains experienced by our pensioners. However, this situation may change in line with financial performance of the Fund and should in no way be seen as a precedent, as the Board has to find the middle way to best meet the needs of our pensioners to maintain their living standards, but also to preserve the overall long-term financial soundness of the Fund.

My sincerest gratitude goes to the members of the Board for the manner in which they engaged and applied their minds to this item during our discussions.

Looking forward, it is evident that investment market volatility remains a characteristic of the investment markets and this is constantly considered in our investment approach. Our stakeholders must be aware that future increases will remain highly dependent on affordability and long-term financial stability.

Governance and Management

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

I am aware of the efforts and initiatives at management level to enhance our customer orientated service delivery and the continued management of the Blue Print programme which is the Funds corporate formula for success. The icons representing the formula for success are displayed in our reception areas and continue to be featured as a theme in our annual report. I encourage all who visit the Fund's offices, to pause and reflect on the vision for success.

Another management initiative to ensure sound corporate governance was the design and introduction of a "Management Charter" which will be cascaded throughout the organisation and sets the scene for professional management practices.

Strategic Initiatives

During the previous financial year, the Board noted that the IT roadmap project was making very good progress and that the focus was shifting towards optimising the newly installed systems for the Fund. We are now in a further phase of the Fund Strategic journey where subsequent projects have been launched to enhance investment management systems and a new project referred to as Project Rigour, was also launched. This project when implemented, will introduce a state-of-the-art investment risk management system to the Fund's investment activities and in today's environment; this is a development that would further enhance risk management.

The mainstream project under the banner of the IT roadmap, was the replacement of the Fund's old mainframe-based member and pensioner administration system with a modern system. This project went "live" in October 2012 and in the main went smoothly and beyond expectations. Subsequently the system has been stabilised and as mentioned, the focus has shifted to optimisation and business process improvements.

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

Economic Transformation

The Fund continues to pursue its strategic objective to support national economic transformation through selective investments in Socially Desirable Development Impact and Broad-Based Black Economic Empowerment instruments without compromising the principle of achieving acceptable investment returns.

During the year under review, black-owned asset management companies managed assets worth R20,4 billion. This represents 47,0%, of funds managed by all domestic external investment managers (2013: 44,2%).

In terms of Socially Desirable Development Impact Investments, the Fund has completed a process of re-evaluating and re-defining its role in this sector. Consequently, the Fund has made a limited number of investments in this area, committing funds in excess of R130 million towards the latter part of the financial year under review. We will be looking to make higher conviction commitments going forward, when suitably attractive opportunities present themselves.

The Fund recognises its fiduciary obligation to act as an active and responsible owner to safeguard and grow the Fund's assets

in order to deliver sustainable long-term performance to its beneficiaries. The Fund recognises that environmental, social and governance (ESG) issues have a material effect on the long-term performance and sustainability of returns generated by the companies they are invested in.

The Fund continues to support the United Nations Principles for Responsible Investing (UNPRI). UNPRI encourages funds to become responsible investors by taking ESG issues into consideration when making investment decisions.

Notices and Acknowledgements

The past year presented various significant challenges which were overcome. The Board and its Committees performed at high level with considerable sacrifice in terms of personal time and other official responsibilities. The Chairpersons of the various Committees displayed commitment and leadership and to every member of the Board, I once again extend my sincere appreciation for a job well done. A special thank you to Mr Shafiek Abrahams, who at the end of June 2014, tendered in his resignation to the Fund. The Fund wishes Mr Abrahams the best in all his future endeavours. I would like to also thank and congratulate the entire EPPF team for a job well done under the leadership of the Chief Executive.

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

The past year was rewarding in the sense that the Fund made significant inroads to solve the various strategic issues that arose to challenge us and I am confident that the successes in this regard will equip us better for future growth and success. We experienced significant challenges during the year under consideration and I am certain that the new financial year will bring its own variety of challenges. I remain confident that we shall overcome these challenges and that our commitment to serving our members will be our most important asset.

We are always open to suggestions on how to improve our performance. Please feel free to forward your comments and contributions to the various structures of the Fund.

Wishing you all the best for the future.

Hlengani Mathebula

Chairman

14 November 2014

CHIEF EXECUTIVE'S REPORT

SIBUSISO LUTHULI



The 30 June 2014 financial year was a defining period in the history of the Eskom Pension and Provident Fund. We reaffirmed our position of being a catalyst in the pension fund industry by surpassing the R100 billion mark of assets under management. We have made significant progress towards completing the Fund's evolution process which began some three years ago with the development and implementation of an IT roadmap to improve our service offering to our members. We have also progressed well in our vision of expanding our investment horizon into the rest of the African continent. All these achievements have been underpinned by our EPPF Formula for Success – our DNA. "If everyone is moving forward together, then success takes care of itself" Henry Ford.

Environmental overview

Economic outlook

Investment markets continued to recover from the negative response of emerging markets to a possible unwinding of the Fed bond buying programme until the end of year 2013. However, year 2014 opened with an onslaught on Emerging Markets, pushing the Rand above the R10,80 level from the R10,35 levels as at the end of the year 2013. Because of the effect of the weaker Rand to inflation, the South African Reserve Bank surprised the market with a 50 basis points increase in the repo rate. Despite the correction we saw in all asset classes in January 2014 and the subsequent 25 basis points increase in interest rates, the equity market maintained its upward trajectory until the end of the financial year.



OUTSTANDING CUSTOMER FOCUS

- **Service to delight approach**
- **The customer is first**
- **Customer expectations are exceeded**

The global economic numbers suggested a steady recovery, particularly from the US Federal Reserve suggesting that interest rates may increase sooner than the initially anticipated date of September 2015. Soon thereafter, we saw the global bond yields responding negatively to this eventuality.

The annualised asset class returns for the financial year to 30 June 2014 were as follows:

Asset class	1 year (%)	3 years (%)	5 years (%)
SA Equities (SWIX)	31,9	21,8	22,2
SA Bonds (ALBI)	5,5	8,7	9,5
Cash (STeFI)	5,4	5,5	6,0
Listed Property (SAPY)	6,0	18,4	20,9
Global Equities (MSCI) in Rand	30,1	27,2	19,9
Headline CPI	6,6	5,8	5,3

Internal environment

The Fund continues to grow, over the past three years the membership grew from 89,962 members to 90,623 members as at 30 June 2014. Assets under management grew from R77,7 billion to R112,3 billion over three years.

The financial year ending 30 June 2014 was an eventful and exciting year. Following the successful implementation and completion of most of the IT Roadmap initiatives, the Fund began the year focusing on ensuring that the new IT systems were stabilised, processes re-engineered and automated and functionalities integrated. There was also a huge focus on ensuring that people work together in a sustainable manner through the organisational design review exercise.

Another important milestone that took place during the financial year ending 30 June 2014 was the retirement of the archaic investment administration system and the implementation of a modern and integrated investment administration system, which went live on 1 October 2013.

The Fund finalised the communication research project during the year, and flowing from that research a process to review the communication strategy and also define the Fund's proposed channel strategy was initiated and is currently under way.

Looking at the investment environment, the Fund embarked on the implementation of a Risk Budgeting Framework during the year and while this project will be completed during the 2015 financial year, significant progress has been made towards laying the groundwork for implementation. This project will also entail the acquisition and implementation of front office investment related systems.

The Fund has during the financial year under review gone through an extensive process to review its commutation and actuarial factors. The revised factors were approved by the Board in September 2014 for implementation during the 2015 calendar year.

Although not much progress can be reported on Fund Restructuring, the issue continues to rank very high on the Board agenda. Engagement with Eskom on this matter is ongoing.

Key priorities for the year ended 30 June 2014

The Fund had the following priorities as agreed to by the Board for the year ended 30 June 2014:

Key priorities	Weighting (%)
Investment returns	45
People development	10
B-BBEE	5
Target operating model *	40
* Imbed and optimise IT roadmap	10
Operational efficiency	15
Fund restructuring	15

Investment performance

The Fund, with effect from 1 January 2014, appointed Ms Fagmeedah Petersen-Lurie to the position of Chief Investment Officer. With effect from 1 May 2014, the Fund also appointed Mr Ndabezinhle Mkhize to the position of Deputy Chief Investment Officer.

Chief executive's report (continued)

The Investment Management Unit (IMU) currently manages funds in excess of R40 billion of the Fund's assets in-house, which translates to more than a third of the Fund's assets. The Fund ended the year with R112,3 billion total assets under management and the exceptional and above target investment returns achieved over the past rolling three years continue to demonstrate the internal teams exceptional work.

Investment returns

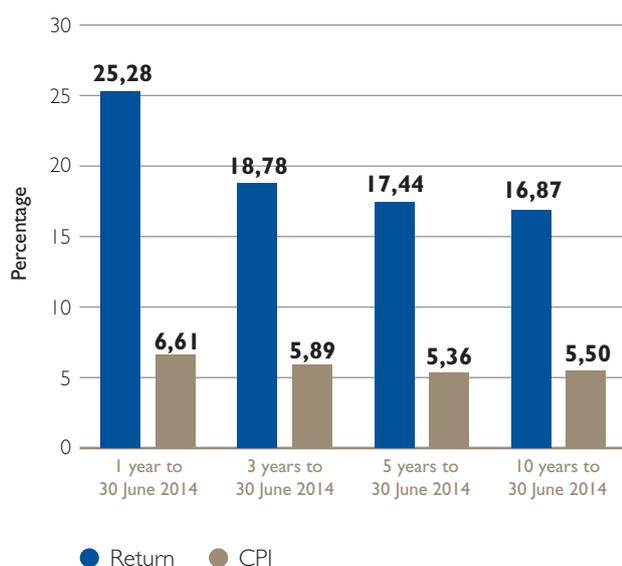
The local markets were volatile and tough given amongst other things that the economy experienced one of the longest mining strikes ever in South Africa on the platinum belt that had a ripple effect on other sectors of the economy.

The assets under management of the Fund grew from R91,1 billion to R112,3 billion over the financial year ended 30 June 2014. This was in part due to gains from market performance and good tactical asset allocation on the part of the Fund.

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

The investment return for the year to 30 June 2014 was an exceptional 25,3%. This number compares very favourably to the CPI of 6,6% for the same period, resulting in a positive real return of 18,7% for the year. Record shows that this return was only surpassed by a return of 27,9% achieved in 2007, with a CPI rate of 7,0% for that year.

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



The Fund outperformed the targeted 4,5% real return for the financial year ended 30 June 2014 and also outperformed the target over a rolling three-year period by 8,4%.

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

	(%)
Actual return	25,3
Adjusted Strategic Asset Allocation benchmark return	23,6
Excess/(shortfall) return	1,5
Strategic Asset Allocation benchmark return	25,4
Excess/(shortfall) return	(0,4)

The shortfall between the Actual Return and the Strategic Asset Allocation (SAA) benchmark return is due to the fact that the SAA benchmark assumes that the Fund was fully invested in the recommended Asset Classes for the full year while the Fund was still in the process of implementing the new SAA.

Investment Strategy and Policies

During the financial year under review, the Board approved the revised Africa Strategy, which refined the focus of the Developmental Impact Policy to four areas namely; Renewable Energy, Social Infrastructure, Affordable Housing and Black SME Financing. The Fund increased the allocation to Developmental Impact Assets (previously Socially Desirable Investments) to R1,5 billion. This strategy and renewed focus has borne fruit.

The Fund's Strategic Asset Allocation (SAA) at 30 June 2014 compares as follows to the Actual Asset Allocation at 30 June 2013 and at 30 June 2014:

Asset class	Strategic allocation (Previous) (%)	Asset allocation (New) (%)	Asset allocation 30 June 2013 (%)	Asset allocation 30 June 2014 (%)
Domestic				
Equities	45	38,1	40,6	42,5
Nominal bonds	10	–	11,2	6,7
Inflation linked bonds	14	25	13,2	15,3
Property	10	5	6,8	5,8
Cash	2	2	3,8	4,4
Hedge funds	–	–	2,4	0,8
International				
Offshore equities	15	24,9	21,8	23,6
Offshore bonds	–	–	–	–
Africa equities	3	5	0,2	–
Offshore cash	1	–	–	0,9
Hedge funds	–	–	–	–
Total	100	100	100	100

Given the significant shift from the previous SAA to the new SAA, it was always anticipated that it would take between 18 months and 24 months to fully align the portfolio.

The Fund has over this financial year under review implemented a staggered shift from the nominal bonds to buy inflation linked bonds which are now managed in-house.

Responsible investing

The Fund continues to subscribe to the principles of the United Nations Principles for Responsible Investment (UNPRI) and

the Code for Responsible Investing in South Africa (CRISA). The Fund has implemented processes to ensure that it honours its responsibilities as an active asset owner and incorporates economic, social and governance (ESG) issues into its policies and practices. The focus for the past financial year was on executive remuneration and issues of governance like independence of board members and attendance at meetings. The Fund was represented in the annual general meetings of all the companies it is a shareholder in and also engaged with the relevant companies directly where necessary.

Efficient administration

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

Cost management

The Finance Department consists mainly of two functions, namely, accounting services and investment administration services.

The Finance team played a pivotal role in the project that was launched to replace the archaic investment management administration system AIMS with the new investment management system. This was a critical project which required the Finance team to work long hours to meet the stringent timelines. The project went live on 1 October 2013.

A summary of the Fund Administration costs for the year ended 30 June 2014 is provided below:

	Actual 2014 R'000	Actual 2013 R'000
Administration costs		
Personnel costs	61,928	53,244
Other administrator costs	62,186	60,329
Fund administration costs	124,114	113,573

Operational Excellence and Customer Service

Fund Operations

The Retirement Fund Operations (RFO) Department had an eventful year characterised by numerous challenges that had to be managed and addressed. The financial year under review was the second year that the Fund was using the OMNI administration system. A number of teething issues were resolved during the year. The focus for the year was to continuously improve efficiencies and find better ways to improve processes.

The Communications research project, which was commissioned during the year, has been completed. The results of the research highlighted a number of issues that the Fund has to address. These issues will be addressed as part of the Fund's Communication Strategy review that will provide for initiatives like a proposed

Channel Strategy and Customer Segmentation Drive that will be implemented during the 2015 financial year.

During the financial year under review, Retirement Fund Operations also managed to:

- (i) Ensure that the monthly pensioner payrolls were always processed and paid on time.
- (ii) Communicate with stakeholders through the regular newsletters, web-based communication, and site visits as part of the mobile office initiative.
- (iii) Conduct a website redevelopment. The Fund launched a new interactive website.

Human Resources

The Human Resources Department played an important role during this financial year in supporting the organisation to deal with the changing operating landscape following Project E'novit.

Following the implementation of new IT systems and the Target Operating Model, a comprehensive review of how people will work together in a sustainable manner was conducted.

During the financial year under review, the Fund conducted a comprehensive organisational design review that was implemented during the year. The IT Department was the most affected function resulting in the retrenchment of some employees and the re-deployment of other employees to other areas of the business. The process has gone a long way in addressing constraints within the organisation.

Following the recognition that the remuneration offering of the Fund was generally lagging behind especially in respect of certain specialist skills, the Fund investigated different options to address this short coming. The Board during the year approved a long-term value incentive policy for Executive Management and specialist skills within the IMU and it is trusted that this initiative would go a long way in ensuring that the Fund is able to attract and retain talent.

The Human Resources and Remuneration Committee continues to monitor the issue of succession planning within the Fund.

Following the launch of the Fund Formula for Success (BluePrint), the Fund continued to conduct quarterly surveys to measure how well the organisation was upholding its Formula for Success.

Legal and Technical Services

Given the ever increasing legal and regulatory environment applicable to the Fund, the Board has established a Legal and Technical Committee to provide oversight in this area. Following the implementation of the Financial Services General Amendment Laws on 28 February 2014, the Fund has identified those changes that have an impact on the Fund rules and drafted the proposed changes to the affected rules.

National Treasury has published the Income Tax Law Amendment Bill. In the Bill there are proposed changes which are likely to impact the employers and the Fund administrators. These changes seek to introduce a cap in terms of what the South African Revenue Services (SARS) will allow as a tax deduction for pension contributions, and further, classify the employer's contribution towards an employee's pension as a fringe benefit in the hands of the employee. Subsequently, the National Treasury announced that the implementation date for the Bill has been postponed to allow for further engagement.

Risk and Compliance

Risk and Compliance also continued to support the monitoring function of the Audit and Risk Committee and maintained the Enterprise Wide Risk Management Framework for the Fund. The Department participates extensively in the risk management of the organisation.

As an important part of its overall risk and compliance monitoring mandate, the Risk and Compliance Department continued to monitor asset manager compliance against the signed mandates and no significant instances of non-compliance were noted for the year.

During the year, the Board approved the Fund's Fraud Risk management Policy. As part of the Fund's preventative initiative, training on ethics and fraud was conducted during the year to ensure that employees remain vigilant of the threats facing the Fund.

In addition all staff have signed a code of ethics as well as a declaration of personal interests to avoid any potential conflicts of interests.

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

Information Technology

Following the implementation of the IT Roadmap, which entailed the replacement of the PBS and PBB mainframe systems with the OMNI administration system and the requirement for remote accessibility and high availability of systems, the IT Department had to conduct an organisational design review to ensure that people worked well together in a sustainable manner and that the department possessed the requisite skills to operate and support the new environment.

A new structure has since been implemented and this was followed by a skills audit to assess the level of skills and compare this against the skills set requirements as identified for the new structure.

During the year the IT Department were able to achieve the following initiatives which were identified as quick wins:

- Standardise the pensioner payroll interface;
- Automated payroll process for international pensioners;
- Reconfigured the payment file to eliminate duplicate payments; and
- Enabled "high availability" of IT systems through the roll out of 3G cards, use of iPads, pushing of emails to smart phones and rolling out the Wi-Fi.

The following IT projects which were part of the IT Roadmap were completed during the year:

- Retirement of the archaic AIMS administration platform and implementation of a new investment management administration system;
- Implementation of the Business Intelligence Solution; and
- The redesign and revamp of the Fund Website.

Corporate Secretariat and Facilities Department

At the end of June 2014, Johann Hattingh, the Corporate Secretariat and Facilities Manager took early retirement after 22 years of exemplary service with the Fund. The Fund wishes Johann well into his retirement.

During the financial year under review, the Department continued to provide support to the Board, its Committees and Management. In total 96 Board Committee and Executive Committee meetings were held during the year.

Corporate Secretariat facilitated the smooth functioning of all these meetings and ensured that the Board and all its structures adhered to stringent governance at all times.

During the year Corporate Secretariat facilitated the Occupational Health and Safety audit which was conducted on the Fund's premises. The Fund achieved a 98% compliance status.

Corporate Secretariat facilitated a number of training and educational activities for the Trustee as part of the Learning and Development plans of the Board.

Strategy and Projects

During the financial year under review, the Project Management Office (PMO) continued to be involved in a monitoring and oversight capacity in all of the declared projects undertaken by the Fund. The main thrust of the PMO in executing its overhead monitoring and advisory role was to assist the Chief Executive and Fund Management to have access to consistent project management expertise, PMO resource facilitation, quality assurance and to ensure that Fund projects were aligned with the overhead strategic objectives of the Fund.

During the year the main thrust of the Fund's projects was focused on further stabilising and optimising the new administration and accounting systems as a natural extension to the IT Roadmap Project that was nearing completion. The project involving the replacement of the Fund investment administration system also represented a major strategic project and has been mostly completed and implemented during the year.

In the Fund's project management approach to business development initiatives outside the normal routine, the Projects Office plays an important role to project management discipline and strategic coordination of projects. Steps have been taken to strengthen the resources and capability of the PMO with the appointment of a Project Manager.

Black Economic Empowerment

The Fund continues to pride itself for being a champion and driver of Broad-Based Black Economic Empowerment in the Asset Management Industry as well as in its normal procurement activities. As at 30 June 2014, 47% of the Fund's domestic external mandates were allocated to Black Asset Managers. Black Asset Managers are defined in the Fund's policy as those having a minimum of 50% Black shareholding and 50% Black management. This is a slight improvement from the 45% achieved as at 30 June 2013.

More than 69% of the Fund's normal procurement spend was allocated to B-BBEE compliant suppliers during this financial year.

Fund Restructuring

During this financial year the issue of introducing a Defined Contribution scheme continued to occupy the Board agenda. As a result of lack of progress in this matter, the Board sought legal advice on how the Fund could go about either increasing the contributions or reducing benefits should the Fund find itself in an adverse financial position.

The Board has since continued to engage with Eskom to find possible solutions to this matter.

Stakeholder engagement

The Fund has continued to engage with its various stakeholders. A number of pensioner functions were arranged for the Fund to interact with the pensioners. The communications research project also provided a platform for the members at large to express their views about things that they feel are working well at the Fund and things that they feel require improvement.

The Fund continued to participate on Eskom road shows, where Eskom was creating awareness to its employees about retirement fund matters. This platform also provided an opportunity for the Fund to interact with the active members.

Subsequent to the end of the financial year under review, the Fund welcomed a regulatory visit by Financial Services Board (FSB). The Fund continued to maintain good relationships with the regulators, members and associated organisations.

Key priorities for 2015

The Board approved the following key priorities for the 2015 financial year:

Key priorities	Weighting (%)
Investment returns	45
People development	10
B-BBEE	5
Target operating model *	40
* Imbed and optimise IT roadmap	15
Operational efficiency	15
Fund restructuring (DB/DC)	10

Project E'novit

For the past three years the Fund has embarked on a journey to implement Project E'novit. In the main, Project E'novit had 15 initiatives, most of which have been completed during the year. The Fund is in the process of preparing an official close out report on Project E'novit. The major noteworthy initiatives that were completed during the year were the following:

(a) Replacement of the Investment Administration and Management System

The Fund migrated from the AIMS system, which was not integrated, inflexible, not scalable, not real time and archaic with limited support and could no longer cater for the Fund's requirements. During October 2013, the Fund migrated to the integrated investment administration system.

This project was a success and once again the Fund worked tirelessly long hours to ensure that deadlines were met.

(b) Integrated Business Solution (IBS)

The IBS project was approached in four phases. Phase 1, which was completed during the 2013 financial year, was to migrate historic data from the mainframe into the SQL database. It was critical to complete this phase before 30 June 2013 in order to switch off the mainframe without incurring any penalties. The Fund achieved this milestone. Phase 2 was to build a Data Warehouse and dashboard reports that would house and report on all the data in the various systems used by the Fund. Phase 2 was successfully completed during this current financial year. Phase 3 will be to build a Content Management System and Phase 4 will be to implement an Archiving System. Both Phase 3 and 4 have not yet commenced.

In addition, during the year under review the Fund embarked on a Risk Budgeting framework project.

This project will enhance the process of managing the risk relating to the investment assets of the Fund. It will also necessitate the acquisition and implementation of additional front office risk management systems.

Conclusion

The financial year ended 30 June 2014 has again presented the Fund with various challenges other than those which could be categorised as "routine", but these challenges were met and the Fund emerged at the end of the financial year celebrating significant achievements in many areas.

The future will again present challenges and problems, but management is confident that the administration is well positioned to meet and deal with those as they arise.

In conclusion I want to take this opportunity to thank the Board for the guidance they provided during this financial year under the leadership of the Chairman. I also want to thank my fellow executive members for the unwavering support they have continued to provide me in guiding the Fund through another tough and challenging but exciting year. I would also like to thank all Fund staff for the commitment they have demonstrated in ensuring that the Fund enjoyed a successful year.

Sibusiso Luthuli CA(SA)

Chief Executive

14 November 2014

CORPORATE GOVERNANCE

The Eskom Pension and Provident Fund conforms to the governance principles contained in the Code of Corporate Practices as reflected in the King III Report on Corporate Governance for South Africa and confirms, that in all material respects the Fund has complied with the Code's principles for the period under review.

Corporate Practice and Conduct

The Board of Trustees

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

- A non-executive Chairman appointed by Eskom subject to the approval of the Board of Trustees.
- Six Trustees appointed by Eskom, one of whom shall be deemed by Eskom to be an expert.
- Two Pensioner Trustees elected by pensioners.
- Five Member Trustees elected by members, of whom at least two Trustees shall be non-bargaining unit members, with the other three Trustees being elected from the Labour organisations recognised by Eskom to be representing employees, provided that those Trustees as elected from the said Labour organisations, not being members of the Fund.

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

Board of Trustees duties and responsibilities

The Board of Trustees has a fiduciary duty to act in good faith, with due diligence and care, to avoid conflicts of interests and act with impartiality in respect of all its members or pensioners, being ultimately accountable and responsible for the performance and affairs of the Fund. Providing strategic guidance, direction and leadership, ensuring good corporate governance and ethics, determining policy, agreeing on performance criteria and delegating the detailed planning and implementation of policy and decisions to management.

Board of Trustees proceedings

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

The Board of Trustees convenes at least once a quarter and monitors management's compliance with policy and its achievements against pre-determined objectives. Additional meetings may be called when issues arise that need to be resolved between scheduled meetings.

Five Board of Trustees meetings had been held during the period under review.

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

Term of office

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

Board of Trustees and Committee performance evaluations

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

Board of Trustees and Committee Members' fees and membership

Trustees and Committee members are compensated for their contribution to the Board and the Committees on which they serve. The fee structure is reviewed on an annual basis with the membership of Committees being revised as and when a new Board of Trustees is appointed.

Board of Trustees and Committee Member training

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

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

Board of Trustees Committees

The Board of Trustees may establish Committees that are responsive to the nature of the Fund's business, and which can help advance the Fund's business efficiently and may delegate authority to such Committees. The Board of Trustees shall approve the terms of reference, lifespan, role and function of these Committees.

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

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

A number of Board of Trustee Committees exist to assist the Board with the management of its affairs in a structured way.

Each Committee operates within the ambit of its defined terms of reference and delegated authority as approved by the Board of Trustees who review the performance and effectiveness of these Committees on a continuous basis.

As indicated, the Board of Trustees determines whether there is a requirement for a Committee to be established to focus on a specific area(s) of the Fund's activities, which resulted in the following Board Committees being constituted:

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

Audit and Risk Committee

The Audit and Risk Committee consists of six Trustees which includes the Chairperson. Six Audit and Risk Committee meetings had been held during the 2013/2014 financial year. Meetings are normally attended by the External as well as the Internal Auditors, the Chief Executive, Chief Financial Officer, Chief Investment Officer, Executive Manager Strategy and Projects and the Risk and Compliance Manager. Other members of staff attend by invitation.

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

The Committee is constituted as a Committee of the Board of Trustees and serves in an advisory capacity thereto. It assists the Board of Trustees to discharge its duties relating to the safeguarding of Fund assets, monitoring the operation of systems and controls, review of financial information and the preparation of annual financial statements. It reviews the activities of Internal Audit, the function of which had been outsourced.



COMPLIANCE AND GOVERNANCE

- **Effective financial control environment**
 - **Approach to embrace the letter and spirit of compliance**
 - **Best practice operational approach**
-

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

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

Benefits Committee

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

Six Benefits Committee meetings had been held during the 2013/2014 financial year. Meetings are normally attended by the Chief Executive, Retirement Fund Operations Manager, Executive Manager Strategy and Projects, Legal and Technical Services Manager, Customer Services Manager as well as other members of staff who are invited to attend meetings from time to time.

The Benefits Committee is delegated the authority to oversee and direct the retirement fund operations on behalf of the Board of Trustees.

Human Resources and Remuneration Committee

The Human Resources and Remuneration Committee consists of five Trustees and two external experts which includes the Chairperson, with the Chief Executive and Human Resources Manager in attendance.

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

The Human Resources and Remuneration Committee:

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

Strategic Investment Committee

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

Five Strategic Investment Committee meetings had been held during the 2013/2014 financial year. The Strategic Investment Committee's key responsibility is to attend to the investment affairs of the Fund in accordance with the Fund's Rules, Investment Policy Statement and the relevant statutory requirements e.g. Regulation 28 of the Pension Funds Act, No 24 of 1956.

Legal and Technical Committee

The Legal and Technical Committee consists of six Trustees. This Committee was established on 30 May 2014. No meetings of this Committee were held during the year ended 30 June 2014.

The Legal and Technical Committee is responsible for exercising the oversight role over the legal and technical affairs of the Fund in accordance with the Fund Rules and statutory requirements.

Corporate governance (continued)

Management Committees

The following Management Committees are active in the Fund:

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

Executive Management Committee

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

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

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

The Executive Management Committee is authorised to form management Sub-Committees and in particular administration Committees, to assist with the execution of its duties. In exercising the powers and authorities delegated to it, the Executive Management Committee shall act in accordance with, and subject to, the directives and requirements as may be laid down from time to time by the Board of Trustees.

Health and Safety Committee

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

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

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

Information Technology Steering Committee

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

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

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

Medical Panel

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

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

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

Procurement Committee

The Procurement Committee comprises the Chief Financial Officer, Legal and Technical Services Manager, Risk and Compliance Manager and the Corporate Secretary. During the year an expert member was appointed.

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

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

Risk Management Committee

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

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

Sub-Committee of the Benefits Committee

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

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

The Sub-Committee is responsible for considering applications for advances on instalment lump sums registered with the Fund on behalf of the Benefits Committee and the Board of Trustees.

ACTIVE OWNERSHIP APPROACH

Executive summary

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

Our responsible ownership approach

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

Consistent to this responsible ownership strategy, the Fund adopted revised Proxy Voting Policy and Guidelines to guide the discharge of its ownership obligations. Beginning of 2012 the Fund advanced its active ownership focus by adopting an Engagement Policy and a Focus Engagement Programme for 2012. The engagement policy and programme completes the Fund's responsible investing approach in line with the UNPRI, to which the Fund became a signatory in 2010.

Proxy voting and corporate engagement are the two legs of responsible ownership. This Annual Responsible Ownership Disclosure is a record of the Fund's active ownership activities for the financial year ending June 2014. The report, in conjunction with the quarterly Proxy Voting Reports and disclosures (Q1, Q2,

Q3, Q4), are made in line with CRISA principle 5, which states: *"Institutional investors should be transparent about the content of their policies, how the policies are implemented and how CRISA is applied to enable stakeholders to make informed assessments."* and resonates with UNPRI principle 6: *"We will each report on our activities and progress towards implementing the principles."*

Policies, principles and processes

The Fund is a signatory of both the CRISA code and the UNPRI, which provide a framework by which the Fund evaluates and benchmarks its responsible investing practices across local and global peers.

In line with Regulation 28, the overarching responsible investing goal is embedded in the Fund's Investment Policy Statement. The detailed Fund Proxy Voting Policy and Guidelines, along with the Engagement Policy, set out the guidelines on the Fund's activities. Each year the Fund adopts a focused engagement programme as a means of evaluating and benchmarking the impact and effect of its responsible investing efforts. The Engagement Programme: 2013/14 outlines the goals, activities, and objectives for the year under review.

UNPRI assessment

The UNPRI is used to benchmark and evaluate the Fund's responsible ownership programme against global institutional investors. The six guiding principles provide a framework for the Fund to measure its responsible investing policies, programmes and implementation against international peers. In 2014, the Fund participated in the UNPRI Assessment. The Fund received positive reviews from the assessment indicating the robustness of our responsible investing implementation.

Module	D	C	B	A
Overarching approach				A
Median score				
Externally managed				
Listed equity				A
Median score				
Internally managed				
Listed equity – Incorporation			B	
Median score				
Listed equity – Active ownership			B	
Median score				
Engagement			B	
Median score				
(Proxy) voting				A
Median score				

EPPF score
 Median score

Fig: 2014 UNPRI Assessment Scorecard

As shown above, the Fund performed exceptionally well, scoring above the median across all the modules. This demonstrates the thoroughness of the Fund's responsible investing approach and implementation.

PROXY VOTING

Executive summary

Quarterly highlights

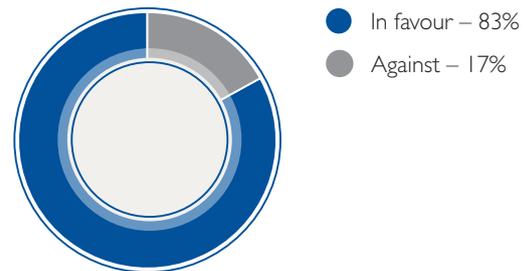
This section outlines the Fund's proxy voting activities for the financial year ending 30 June 2014.

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

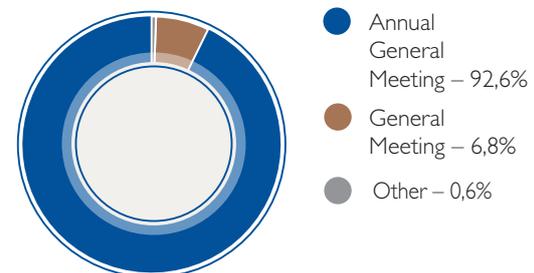
In keeping with the Fund's commitment to disclose its responsible investing activities, this report provides a detailed review and analysis of the Fund's activities in line with its Proxy Voting Policy and Guidelines.



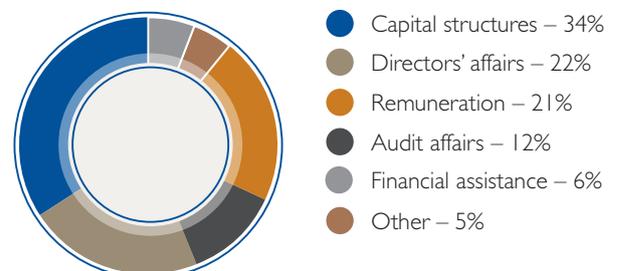
How the Fund voted on all resolutions



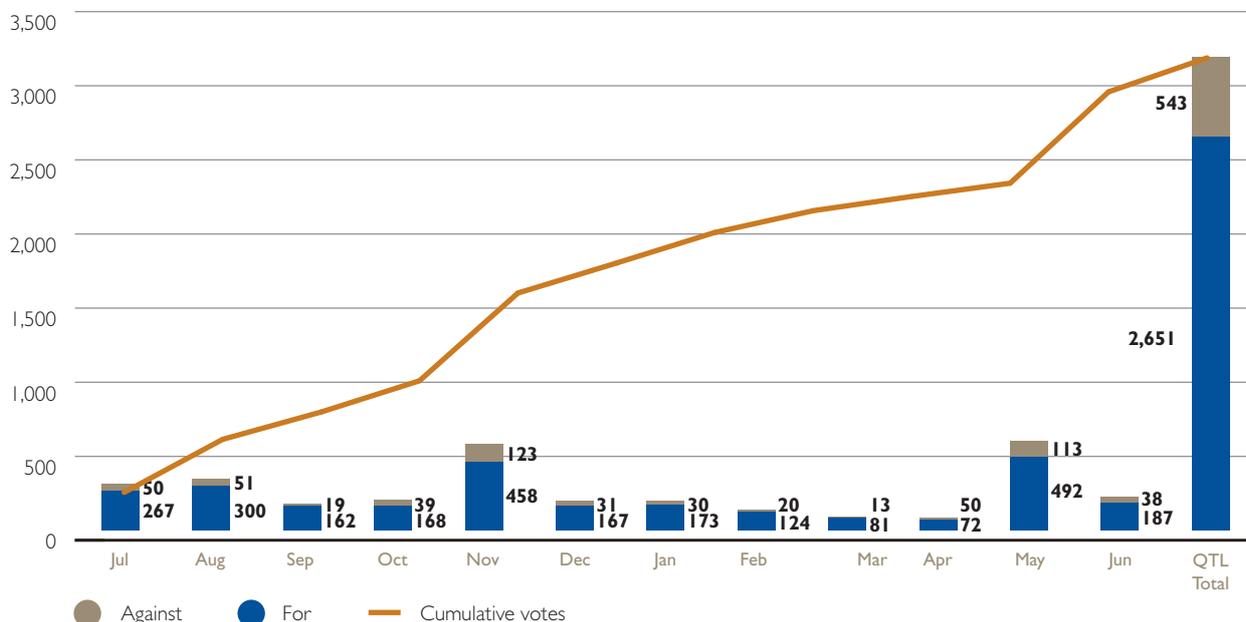
Type of meetings voted on



Breakdown of the against vote



The Fund's voting activity across the quarter



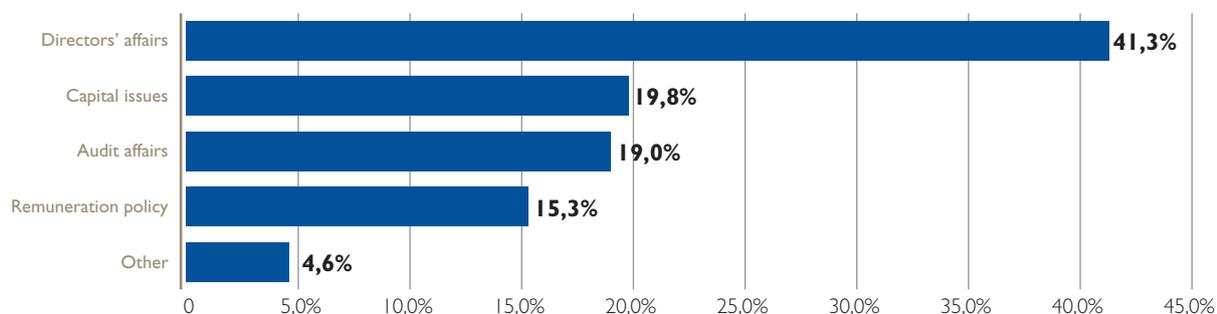
The fund voted on **3,194 resolutions** for the year under review. It opposed **17%** of the resolutions and supported in **83%** of the instances.

Against Vote

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

Director-related resolutions dominated the voting period with **41%** of the voting roll. Capital Structure issues which mainly related to issuance of shares, placing shares under the control of directors, and corporate restructures were second with a **19,9%** share of the votes. Remuneration continued to feature highly on the agenda with **15,3%** of the vote.

Voting themes

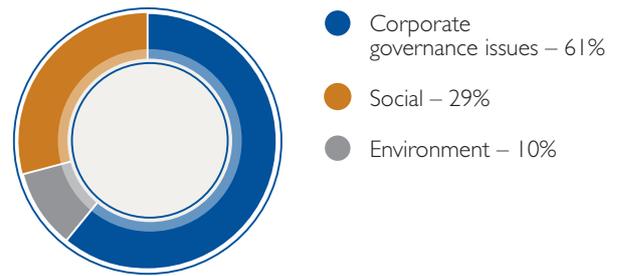


ENGAGEMENT

Engagement summary and highlights

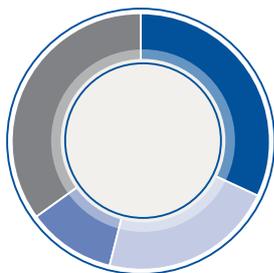
The Fund reviews its engagement programme and engagement focus areas on an annual basis. Executive remuneration, ESG risks in construction and mining sectors, and broad corporate governance weaknesses were the focus engagement areas for the year. The Fund participated in the following engagements in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

Participation of issues by the Fund



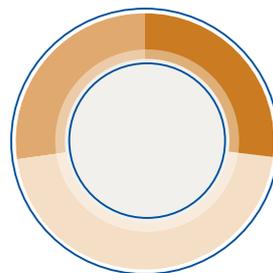
35 companies were engaged on a variety of ESG issues. Corporate governance issues relating to remuneration, board structure and independence constituted the majority of engagements (**61%**). **29%** of the issues raised were of a social nature while environmental issues made up with **10%**. Key companies engaged during this period included **African Bank, Absa Bank, Sasol, ArcelorMittal, Telkom**, and the majority of **construction companies**.

Corporate Governance



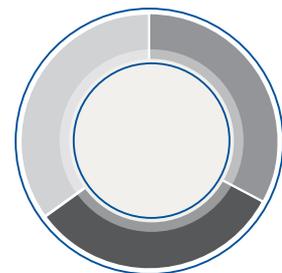
- Remuneration – 35%
- Board affairs – 32%
- Stakeholder issues – 22%
- Shareholder affairs – 11%

Social



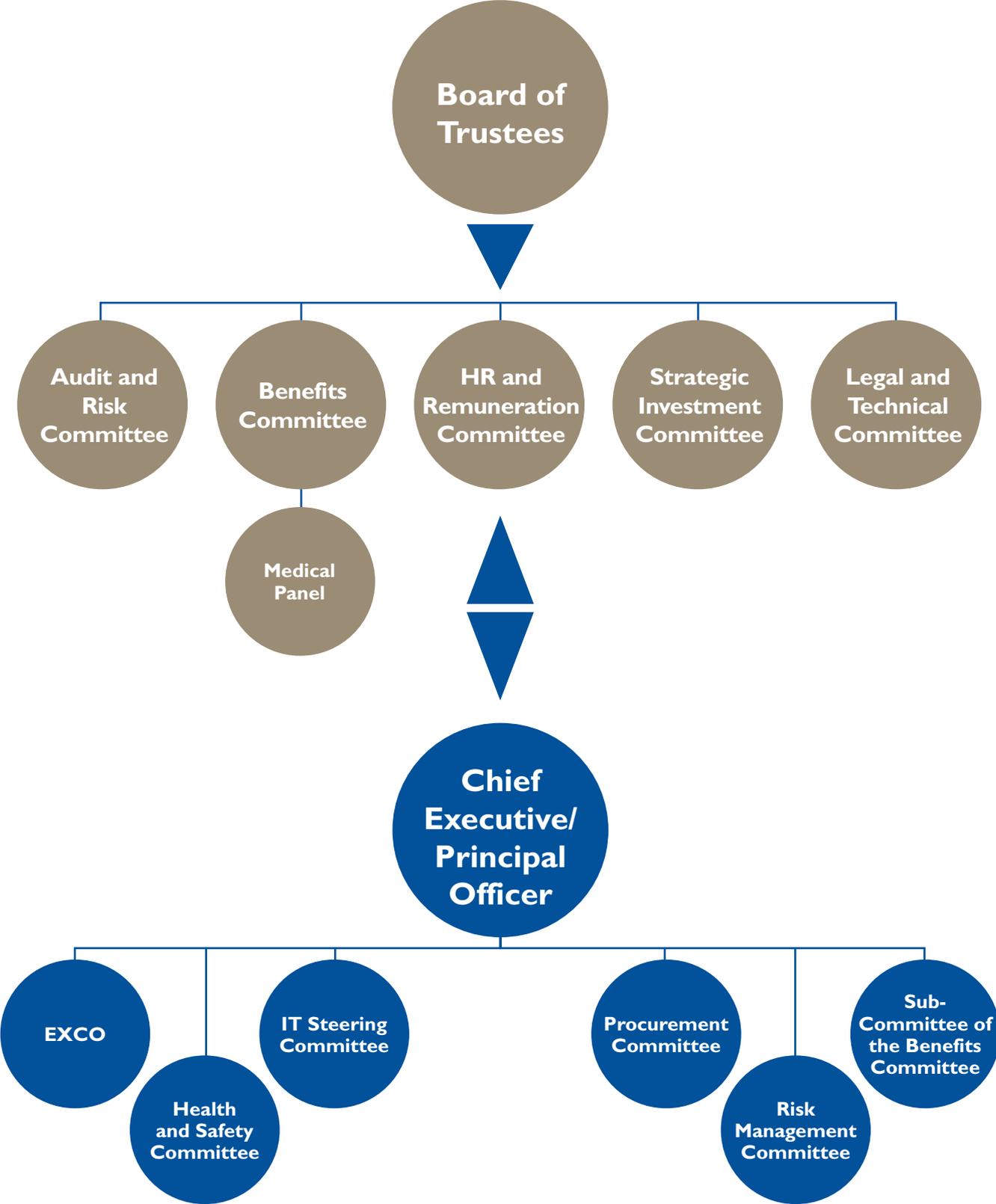
- BBBEE – 46%
- Safety – 27%
- Sustainability – 27%

Environmental affairs



- Sustainability – 35%
- Disclosure – 33%
- Risk management – 32%

BOARD OF TRUSTEES, BOARD AND MANAGEMENT COMMITTEES



BOARD OF TRUSTEES

Employer appointed trustees



1. MR HC MATHEBULA

Banker
South African Reserve Bank
 Chairman of the Board
 Strategic Investment Committee (Chairman)
Appointed: November 2010

2. MS JL KILANI CA(SA)

General Manager Group Tax
Eskom
 Audit and Risk Committee (Chairperson),
 Human Resources and Remuneration
 Committee (Member)
Appointed: June 2012

3. MS SM MAMORARE

General Manager
Chief Learning Officer Eskom
 Human Resources and Remuneration
 Committee (Chairperson)
 Benefits Committee (Member)
Appointed: May 2010

4. ADV NK TSHOLANKU

General Manager –
Office of the Chairman
Eskom
 Legal and Technical Committee
 (Chairperson)
 Audit and Risk Committee (Member)
 Strategic Investment Committee (Member)
Appointed: June 2008

5. MS B SMITH CA(SA)

Internal Consulting
Eskom
 Audit and Risk Committee (Member)
 Strategic Investment Committee (Member)
 Legal and Technical Committee (Member)
Appointed: May 2010

6. MR MS ABRAHAMS CA(SA)

Finance Business
Partner Wires
Eskom
 Audit and Risk Committee (Member),
 Strategic Investment Committee (Member)
Appointed: June 2012
Resigned: June 2014

7. MS LM KHANGALA

Independent Trustee
 Benefits Committee (Member), Human
 Resources and Remuneration Committee
 (Member)
Appointed: June 2012

Member elected trustees



8. MR MM MOJAPELO

**NUMSA Part –
Time Shop Steward**
Eskom
Benefits Committee (Chairman),
Strategic Investment Committee (Member)
Appointed: June 2012

9. DR WJ SWART PR ENG

Pensioner Elected
Benefits Committee (Member)
Appointed: June 2008

10. MR WE GREEN

Pensioner Elected
Audit and Risk Committee (Member)
Legal and Technical Committee (Member)
Appointed: June 2008

11. MR GJ KRUGER

Financial Manager
Eskom
Audit and Risk Committee (Member)
Appointed: June 2008

12. MR D MACATHA

NUM – Treasury
General
Benefits Committee (Member)
Legal and Technical Committee (Member)
Appointed: June 2008

13. MR IG SMITH

Shop Steward –
Full Time Solidarity
Benefits Committee (Member),
Human Resources and Remuneration
Committee (Member)
Appointed: June 2012

14. MSTF MADLALA

Electrical Engineering
M&V Project Manager
Eskom
Human Resources and Remuneration
Committee (Member)
Legal and Technical Committee (Member)
Appointed: June 2012

Further information www.eppf.co.za



SUMMARY OF BENEFITS

The benefits reflected below are in terms of the Rules of the Fund applied in 2014 financial year. The Rules are reviewed by the Board and registered by the Financial Services Board and approved by the South African Revenue Services for income tax purposes. In the event of a conflict between this summary and the Rules of the Fund, the relevant provisions of the Rules will apply.

1. Eligibility conditions

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

2. Retirement benefits

2.1 Ill-health retirement

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

2.2 Early retirement

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

2.3 Normal retirement

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

2.4 Commutation

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

3. Pension increases

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

4. Death benefits

4.1 Death before retirement

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

Plus

A widow/widower's pension of the first 60% of the member's potential pension is payable. The pension is calculated as if the member had remained in service and attained age 65, based on the current pensionable emoluments.

Plus

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

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

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

Plus

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

Or

Twice the member's annual pensionable emoluments.

4.2 Death after retirement

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

Plus

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

Plus

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

4.2.1 But

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

4.2.2 And

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

- A lump sum of R3,000

Plus

The greater of the two following calculations:

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

Or

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

4.3 Death of a deferred pensioner

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

5. Withdrawal benefits

5.1 Withdrawal due to voluntary resignation, abscondment or dismissal

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

The benefit is the greater of:

First calculation: The capital value of the member's accumulated past contributions plus interest after December 2001. The interest rate must compare reasonably with the actual rate of investment return, net of fees and costs that the Fund has earned on its assets;

Or

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

5.2 Withdrawal due to retrenchment before age 50

In the event of a retrenchment, the benefit payable will be equal to the greater of:

- Either the two calculations in 5.1 above, or

Third calculation – In the event of a negotiated cash settlement or retrenchment of a member, a benefit of three times the member's own annual contributions becomes payable.

The Fund must then pay to the member the greater of the first, second or third calculations.

5.3 Withdrawal due to retrenchment after age 50

If a member has 10 years' continuous service, he/she qualifies to receive a pension instead of a lump sum benefit, as approved by the employer. The employer will compensate the Fund accordingly.

6. Deferred pension option

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

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

7. Contribution rates

Most members contribute to the Fund at a rate of 7,3% of pensionable emoluments, except in the case of certain categories of members who still contribute at lower rates.

A member may undertake to pay additional voluntary contributions to the Fund for the purposes of adding such additional benefits as the Fund may determine.

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

EXECUTIVE MANAGEMENT



1. MR SIBUSISO LUTHULI (CA)SA

Chief Executive and Principal Officer

- BCom Accounting
- Postgraduate Diploma in Accounting
- Chartered Accountant (SA)

Mr Sibusiso Luthuli is the Chief Executive and the Principal Officer.

He joined the Fund in April 2010.

2. MS NOPASIKA LILA (CA)SA

Chief Financial Officer

- Chartered Accountant (SA)
- Postgraduate Certificate in Corporate Governance
- Management Development Programme
- Higher Certificate in Financial Markets and Instruments

Ms Nopasika Lila is the Chief Financial Officer.

She joined the Fund in December 2010.

3. MS FAGMEEDAH PETERSEN-LURIE

Chief Investment Officer

- Postgraduate Diploma (Management Practice)
- Bachelor of Business Science (Actuarial Science)
- Accredited Member of the Institute of Directors
- Certified Financial Planner

Fellow of the Actuarial Society of South Africa. Fellow of the Institute of Actuaries, United Kingdom

Ms Fagmeedah Petersen-Lurie is the Chief Investment Officer

She joined the Fund in January 2014.

4. MR JERRY BUTHANE

Retirement Fund Operations Manager

- BProc
- HDip Tax Law

Mr Jerry Buthane is the Retirement Fund Operations Manager.

He joined the Fund in September 2005.

5. MS SINIKIWE DUBE

Human Resources Manager

- BA Law
- BA Hons

Ms Sinikiwe Dube is the Human Resources Manager.

She joined the Fund in August 2009.



6. MS ANNIE MOSIANE

Information Technology Manager

- BSc Appl. Comp. Sc.
- BSc Honours Appl. Comp. Sc.
- Management Development Programme

Ms Annie Mosiane is the Information Technology Manager.

She joined the Fund in October 2002.

7. MR BEN STEYN CFP®

Executive Manager Strategy and Projects

- BAdmin Hons
- MBA
- Postgraduate Diploma in Financial Planning
- Certified Financial Planner®

Mr Ben Steyn is the Executive Manager Strategy and Projects.

He joined the Fund in July 1999.

8. MS LYVERNE WENMAN

Legal and Technical Services Manager

- BCom (Law)
- LLB
- Admitted as an attorney
- ILPA (Life) – Certificate of Competence

Ms Lyverne Wenman is the Legal and Technical Manager.

She joined the Fund in August 2012, and resigned in December 2014.

9. MR AYANDA GAQA CFP®

Risk and Compliance Manager

- BTech
- Postgraduate Diploma in Financial Planning
- Certified Financial Planner®
- Certified Compliance Professional

Mr Ayanda Gaqa is the Risk and Compliance Manager.

He joined the Fund in July 2007.

10. MR JOHANN HATTINGH

Corporate Secretary

Mr Johann Hattingh is the Fund Secretary.

He joined the Fund in November 1992 and retired in June 2014.

Further information www.eppf.co.za



ANNUAL FINANCIAL STATEMENTS

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

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

The summarised annual financial statements set out on pages 38 to 49 have been prepared for communication purposes with limited disclosure compared to the regulatory financial statements, which are compiled in terms of the Regulatory Reporting Requirements for Retirement Funds in South Africa. The regulatory financial statements have been prepared and reported to the Financial Services Board. The summarised financial statements set out in pages 38 to 49 have been prepared in accordance with the principal accounting policies set out on page 40.

The regulatory financial statements have been reported on by the independent auditors, PricewaterhouseCoopers Inc. who were given unrestricted access to all financial records and related data, including minutes of all relevant meetings. In addition the independent auditors, PricewaterhouseCoopers Inc. reported on whether or not the summarised financial statements were derived from the regulatory financial statements. The Board of Trustees believes that all representations made to the independent auditors during their audit, were valid and appropriate.

The report of the independent auditors is represented on page 50.

These financial statements:

- were approved by the Board of Trustees on 14 November 2014;
- are certified by them to the best of their knowledge and belief to be correct;
- fairly represent the net assets of the Fund at 30 June 2014 as well as the results of its activities for the period then ended; and
- are signed on behalf of the Board of Trustees by the Chairman and two trustees.

STATISTICAL REVIEW

AT 30 JUNE 2014

Investment performance

Description	1 Year %	2 Years %	3 Years %	5 Years %	10 Years %
Interest-bearing	10,5	9,0	10,1	9,7	9,6
Equity	33,9	28,2	22,1	22,0	19,6
Property	7,3	13,8	20,8	15,1	20,5
Total assets	25,3	21,5	18,8	17,4	16,9

Net assets (RM)

Description	2014	2013		2012		2011		2010		
		%	%	%	%	%	%	%	%	
Interest-bearing	31,946	29	27,712	31	30,353	40	24,557	36	22,563	39
Equity	80,128	72	62,746	69	47,100	61	37,537	56	31,424	54
Property	259	0	655	1	318	0	5,993	9	5,205	9
Other	(528)	(1)	(871)	(1)	(834)	(1)	(599)	(1)	(1,349)	(2)
Net assets	111,805	100	90,242	100	76,937	100	67,488	100	57,843	100
Contributions received (Rm)	3,024		2,740		2,532		2,276		2,132	
Benefits awarded (Rm)	3,091		2,620		2,189		2,266		2,350	
Members (number)	45,377		45,715		44,258		41,808		39,671	
Pensioner (number)	35,491		34 823		34,771		34,294		34,243	
Ratio of members to pensioners	1,28		1,31		1,27		1,22		1,16	

Note: The number of pensioners include children receiving pensions.

STATEMENT OF NET ASSETS AND FUNDS

AT 30 JUNE 2014

	Notes	2014 R'000	2013 R'000
ASSETS			
Non-current assets			
Plant and equipment		3,153	2,407
Investments	1	112,333,478	91,112,860
Current assets			
Accounts receivable		986,732	1,216,528
Contributions receivable	2	392,491	393,015
Cash at bank		15,499	13,356
Total assets		113,731,353	92,738,166
FUNDS AND LIABILITIES			
Funds and surplus account			
Accumulated funds			
– Normal retirement		82,649,276	66,118,489
– Additional voluntary contribution scheme		401,897	294,375
– Performance bonus scheme		3,835,084	3,260,108
Reserves			
Reserve accounts		24,919,000	20,569,000
Total funds and reserves		111,805,257	90,241,972
Non-current liabilities			
Unclaimed benefits		157,175	56,349
Current liabilities			
Benefits payable		552,370	590,599
Transfers payable		–	162
Accounts payable		1,204,768	1,838,012
Accruals		11,783	11,072
Total funds and liabilities		113,731,353	92,738,166

STATEMENT OF CHANGES IN NET ASSETS AND FUNDS

FOR THE YEAR ENDED 30 JUNE 2014

	Notes	Normal retirement R'000	Additional voluntary contribution Scheme R'000	Performance Bonus Scheme R'000	Accumulated funds R'000	Reserve accounts R'000	Total 2014 R'000	Total 2013 R'000
Contributions received and accrued	2	2,709,611	22,279	292,035	3,023,925	–	3,023,925	2,740,365
Net investment income	3	21,776,545	–	–	21,776,545	–	21,776,545	13,330,714
Return allocated to schemes		(521,078)	46,202	474,876	–	–	–	–
Less:								
Administration expenses		(146,469)	–	–	(146,469)	–	(146,469)	(145,921)
Net income before transfers and benefits		23,818,609	68,481	766,911	24,654,001	–	24,654,001	15,925,158
Transfers and benefits		(2,937,822)	39,041	(191,935)	(3,090,716)	–	(3,090,716)	(2,620,443)
Transfers from other funds		–	60,848	–	60,848	–	60,848	4,823
Transfers to other funds		(129,071)	(1,270)	(24,867)	(155,208)	–	(155,208)	(46,943)
Benefits	4	(2,808,751)	(20,537)	(167,068)	(2,996,356)	–	(2,996,356)	(2,578,323)
Net income after transfers and benefits		20,880,787	107,522	574,976	21,563,285	–	21,563,285	13,304,715
Funds and reserves								
Balance at beginning of year		66,118,489	294,375	3,260,108	69,672,972	20,569,000	90,241,972	76,937,257
Transfer between reserve accounts		(4,350,000)	–	–	(4,350,000)	4,350,000	–	–
Balance at end of year		82,649,276	401,897	3,835,084	86,886,257	24,919,000	111,805,257	90,241,972

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 JUNE 2014

Principal accounting policies

The following are the principal accounting policies used by the Fund, which are, consistent with those of the previous period.

Purpose and basis of preparation of financial statements

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

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

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

Financial instruments

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

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

Financial instruments are recognised on acquisition using trade date accounting, which includes transaction costs. Upon initial recognition financial instruments are designated at fair value through the statement of changes in net assets and funds as the assets or liabilities are managed, evaluated and reported internally on a fair value basis and/or the designation eliminates or significantly reduces an accounting mismatch which would otherwise arise.

Subsequent to initial recognition, these instruments are measured as set out below.

Investments

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

Loans (other than housing loans) – loans and receivables

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

Debentures

Debentures comprise investments in listed and unlisted debentures.

Listed debentures

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

Unlisted debentures

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

Bills and bonds

Bills and bonds comprise investments in government or provincial administration, local authorities, participating employers, subsidiaries or holding companies and corporate bonds.

Listed bills and bonds

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

Unlisted bills and bonds

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

Investment property

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

Investment properties are reflected at valuation on the basis of open-market fair value at the statement of net assets and funds date. If the open-market valuation information cannot be reliably determined; the fund uses alternative valuation method such as discounted cash flow projections or recent prices on active markets for transactions of similar nature. The fair values are the estimated amounts for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction.

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

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

Equities

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

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

Listed equities

Equity instruments are subsequently measured at fair value and the fair value adjustments are recognised in the statement of net changes in assets and funds. The fair value of equity instruments with standard terms and conditions and traded on active liquid markets is based on regulated exchange quoted ruling closing prices at the close of business on the last trading day on or before the statements of net assets and funds date.

Unlisted equities

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

Specialist securities include:

(a) Preference shares

Listed preference shares

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

Unlisted preference shares

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

(b) Exchange traded funds

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

Insurance policies

Non-linked insurance policies

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

Linked or market-related policies

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

Collective investment scheme

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

Derivatives

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

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

Annual financial statements (continued)

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

Options

Options are valued using option pricing model.

Futures/forwards

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

Swaps

Swaps are valued by means of discounted cash flow models, using the swap curve from a regulated exchange (BESA) to discount fixed and variable rate cash flows, as well as to calculate implied forward rates used to determine the floating interest rate amounts. The net present values of the fixed leg and variable leg of the swap are offset to calculate the fair value of the swap.

Investment in participating employer

Investments in participating employer(s) comprise debentures.

Cash and cash equivalents

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

Reserves

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

Transfer to and from the fund

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

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

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

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

Accounts receivable

Accounts receivable are financial assets measured initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less any allowance for impairment.

Accounts payable

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

Impairment

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

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

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

Provisions and accruals, contingent liabilities and contingent assets

Provisions

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

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

Accruals

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

Contingent liabilities

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

Contingent assets

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

Contributions

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

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

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

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

Interest charged on late payment of contributions

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

Returns allocated to schemes

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

Benefits

Benefits payable and pensions are measured in terms of the rules of the Fund.

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

Investment income

Dividends

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

Interest

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

Rentals

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

Collective investment schemes' distribution

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

Income from policies with insurance companies

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

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

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

Adjustment to fair value

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

Annual financial statements (continued)

Expenses incurred in managing investments

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

Administration expenses

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

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

In the event that an expense has not been paid at the end of a reporting period the liability will be reflected in the accounts payable note. If the expense was paid in advance or overpayment occurred, the applicable amount will be disclosed under the accounts receivable note.

Leases

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

Accounting policies, changing in accounting estimates and errors

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

Related parties

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

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

- the amount of the transactions;
- the amount of outstanding balances;
- their terms and conditions, including whether they are secured, and the nature of the consideration to be provided in the settlement;
- details of guarantees given or received;

- provisions for doubtful debts related to the amount of outstanding balances; and
- the expense recognised during the period in respect of bad or doubtful debts due from related parties.

Plant and equipment

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

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

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

The periods of depreciation used are as follows:

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each statement of net assets and funds date. Assets that are subject to depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Gains or losses on disposals are determined by reference to the carrying amount of the asset and the net proceeds received, and are recorded in statement of changes in net assets and funds on disposal.

I. Investments

I.1 Investment summary

	Notes	Local R'000	Foreign R'000	Total 2014 R'000	Total 2013 R'000	Fair value 2014 R'000
Cash and deposits		6,135,695	1,022,830	7,158,525	4,839,185	7,158,525
Debentures		573,489	–	573,489	487,933	573,489
Bills, bonds and securities		22,002,328	21,252	22,023,580	20,340,899	22,023,580
Investment properties	1.3	100,300	–	100,300	85,100	100,300
Equities:						
– Equities with primary listing on JSE		38,127,859	–	38,127,859	32,553,817	38,127,859
– Equities with secondary listing on JSE		12,339,923	–	12,339,923	8,875,774	12,339,923
– Foreign listed equities		–	26,408,804	26,408,804	19,326,218	26,408,804
– Unlisted equities		550	–	550	20,260	550
Linked insurance policies		1,134,923	–	1,134,923	937,930	1,134,923
Private equity		983,337	260,940	1,244,277	1,053,527	1,244,277
Specialist securities		1,082,537	–	1,082,537	613,618	1,082,537
Collective investment schemes		431,846	–	431,846	367,910	431,846
Derivative market instruments		(39,743)	–	(39,743)	(29,640)	(39,743)
Investment in participating employer	1.2	1,746,608	–	1,746,608	1,640,329	1,746,608
Total		84,619,652	27,713,826	112,333,478	91,112,860	112,333,478

Annual financial statements (continued)

1.2 Investments in participating employer(s)

Description	At beginning of year R'000	Disposals R'000	Additions R'000	Fair value adjustments R'000	At end of year R'000
Eskom Holdings SOC Limited	1,640,329	269,036	278,738	96,577	1,746,608
Total	1,640,329	269,036	278,738	96,577	1,746,608

1.3 Investment properties

Description	At beginning of year R'000	Disposals R'000	Additions R'000	Fair value adjustments R'000	At end of year R'000
Office complex	85,100	–	390	14,810	100,300
Total	85,100	–	390	14,810	100,300

2. Contributions received and accrued

	At beginning of year R'000	Towards retirement R'000	Contributions received R'000	At end of year R'000
Member contributions – received and accrued	64,283	912,850	900,524	76,609
Employer contributions – received and accrued	133,485	1,796,761	1,824,726	105,520
Money Purchase Schemes				
– Additional voluntary contribution	3	22,279	20,402	1,880
– Performance bonus	195,244	292,035	278,797	208,482
Total	393,015	3,023,925	3,024,449	392,491
Towards retirement		3,023,925		
Toward re-insurance		–		
Statement of changes in net assets and funds		3,023,925		

3. Net investment income

	2014 R'000	2013 R'000
Income from property investments	8,914	17,487
Interest received	1,356,413	1,372,638
Profit on sale/redemption of investments	13,797,090	12,909,180
– Equities	5,099,422	5,401,112
– Futures	774,311	958,503
– Gilts and semi gilts	231,808	264,443
– Foreign exchange	7,688,211	6,280,093
– Other (money market and carries)	3,338	5,030
Loss on sale/redemption of investments	(4,663,717)	(4,090,978)
– Equities	(617,698)	(824,444)
– Futures	(1,041,532)	(897,474)
– Gilts and semi gilts	(248,537)	(185,090)
– Foreign exchange	(2,750,707)	(2,167,692)
– Other (money market, properties and carries)	(5,243)	(16,277)
Security lending fee	20,485	16,161
Other income	19,477	6,539
Less: Expenses incurred to manage investments	(312,251)	(231,254)
– Rental expense	(6,936)	(15,281)
– Futures booking fees	(108)	(114)
– Lending expenses	(407)	(540)
– Portfolio management fees	(277,259)	(198,436)
– Private equity management fees	(27,541)	(16,883)
Fair value adjustment on investments (a)	11,550,134	3,330,941
Total	21,776,545	13,330,714

Note (a) – Fair value adjustments on investments

Fair value adjustments on investments consist of the following:

	2014 R'000	2013 R'000
Dividend income	1,984,915	1,643,179
Gross fair value adjustment on investments	9,827,383	1,687,762
Impairment of investments	(262,164)	–
Total	11,550,134	3,330,941

Annual financial statements (continued)

4. Benefits

	At beginning of year R'000	Benefits for current period R'000	Return allocated R'000	Payments R'000	Transfer to unclaimed benefits R'000	At end of year R'000
Monthly pensions	93,619	1,919,103	–	(1,900,986)	–	111,735
Lump sums on retirement						
Pensions commuted	55,337	290,713	–	(322,420)	–	23,630
Lump sums before retirement						
Death and disability benefits	97,951	81,466	–	(179,417)	–	–
Withdrawal benefits	21,643	367,741	–	(311,022)	(38,255)	40,107
Divorce benefits	2,090	66,533	–	(64,971)	–	3,652
Retrenchment benefits	(116)	–	–	–	–	(116)
Interest on late payment and unclaimed benefits	–	78,052	–	(2,499)	(75,553)	–
Schemes						
Additional voluntary benefits	–	18,703	–	(18,703)	–	–
Performance bonus benefits	–	124,373	–	(124,373)	–	–
Trust monies	320,075	–	49,672	3,614	–	373,361
Total	590,599	2,946,684	49,672	(2,920,777)	(113,808)	552,370
Benefits for current year	2,946,684					
Return allocated	49,672					
Statement of changes in net assets and funds	2,996,356					

5. Risk management policies

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

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

Solvency risk

Solvency risk is the risk that the investment returns on assets will not be sufficient to meet the Fund's contractual obligations to members. Solvency risk also relates to the inability of the Fund to pay its debts in full and not being able to cover losses regardless of the source, type or size of the losses.

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

Credit risk

Credit risk is the risk that counter-party to a financial instrument will fail to discharge an obligation, and cause the Fund to incur a financial loss.

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

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

Legal risk

Legal risk is the risk that the Fund will be exposed to contractual and other regulatory obligations which have not been provided for. Legal representatives of the Fund monitor the drafting of contracts that the Fund enters into to ensure that rights and obligations of all parties are clearly set out and identified. Regulatory requirements and changes are monitored on an ongoing basis to ensure that the Fund complies as required. The Legal and Technical Committee of the Board monitors the Fund's legal risk.

Cash flow risk

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

Currency risk

Currency risk is the risk that the value of an instrument will fluctuate in Rand due to changes in foreign exchange rates. The Fund's exposure to currency risk is mainly in respect of foreign investments made on behalf of members of the Fund for the purpose of seeking desirable international diversification of investments. The Board of Fund monitors this aspect of the Fund's investments and limits it to 15% of total assets.

Liquidity risk

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

Market risk

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

Investments

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

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

AUDITOR'S REPORT

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

The summarised financial statements, which comprise the summary statement of funds and net assets as at 30 June 2014, and the summary statement of changes in net assets and funds for the year then ended, and related notes, as set out on pages 38 to 49 are derived from the audited regulatory financial statements of the Eskom Pension and Provident Fund for the year ended 30 June 2014. We expressed an unmodified audit opinion on those audited regulatory financial statements in our report dated 18 November 2014.

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

Trustees' responsibility for the summarised financial statements

The fund's trustees are responsible for the preparation of the summarised financial statements in accordance with the basis described on pages 40 to 44.

Auditor's responsibility

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

Opinion

In our opinion, the summarised financial statements derived from the audited regulatory financial statements of the Eskom Pension and Provident Fund for the year ended 30 June 2014 are consistent, in all material respects, with those financial statements, on the basis described on pages 40 to 44.

Restriction on use

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



PricewaterhouseCoopers Inc.

Director: GJ Kapp
Registered Auditor
Johannesburg

18 November 2014

REPORT OF THE VALUATOR

FINANCIAL YEAR: 30 JUNE 2014

Particulars of financial condition of the Fund as at 30 June 2014

An annual actuarial valuation was carried out as at 30 June 2014. In respect of this valuation, I can comment as follows:

1. The fair value of the net assets of the Fund after deduction of current liabilities and any liabilities arising from the pledging, hypothecation or other encumbering of the assets of the Fund – R111,805 million.
2. The actuarial value of the net assets for the purposes of comparison with the accrued liabilities of the Fund – R111,590 million.
3. The actuarial present value of promised retirement benefits – R68,409 million vested, and R0 non-vested.
4. Contingency reserve account balances – R24,919 million.
5. The projected unit method was adopted for the valuation, which is unchanged from the method used at the last valuation. The contingency reserves comprise a solvency reserve calculated as the estimated additional amount required, to the extent that sufficient assets are available, to ensure that the liabilities and assets are matched on a substantially risk-free basis, a contribution reserve equal to the expected present value of the future contribution shortfall for the current membership, and a pension increase affordability reserve equal to the excess (if any) of the notional pensioner account over the pensioner liability and solvency reserve. This approach is unchanged from the last statutory valuation. In addition, a data reserve was added in this actuarial valuation, to cover possible strains arising from data errors and omissions.
6. The key financial assumptions are that investment returns will exceed salary inflation by 4,10% per annum (4,20% at the previous valuation) before allowing for an age-related promotional scale. Future pension increases were assumed to be equal to the assumed consumer price inflation rate of 6,50% per annum (5,70% at the previous statutory valuation). The yield used to calculate the solvency reserve was equal to the assumed yield on index-linked bonds at the valuation date, adjusted for real salary increases and asset management fees. The approach is unchanged from the previous valuation.
7. Members contribute at 7,30% of pensionable salaries and the employers contribute 13,50%. There is a small contribution deficit relative to the fixed contribution rate payable in terms of the rules. At the valuation date this deficit amounted to 1,60% of pensionable salaries (1,09% deficit at the previous statutory valuation).
8. In my opinion the Fund was in a sound financial condition as at 30 June 2014 for the purposes of the Pension Funds Act, 1956.

Prepared by me:



David K Little

Valuator

Fellow of the Faculty of Actuaries; Fellow of the Actuarial Society of South Africa

In my capacity as the valuator of the Fund and as an Associate of Towers Watson Proprietary Limited

14 November 2014

FUND ADMINISTRATION DETAILS

Eskom Pension and Provident Fund

Fund registration number 12/8 564/2

Registered Office of the Fund

Moorgate House, Hampton Park South
24 Georgian Crescent East, Bryanston East, 2125

Postal address

Private Bag X50, Bryanston, 2021, South Africa

Contact details

Telephone: +27 11 709 7400

Fax: +27 11 709 7554

Website

www.eppf.co.za

Benefit administrator

Self-administered

External auditors

PricewaterhouseCoopers Incorporated
Private Bag X36, Sunninghill, 2157

Internal auditors

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

Actuaries

Towers Watson Proprietary Limited
Private Bag X30, Rondebosch, 7701

Investment administrators

During the year under review, approximately 63,4% of the total assets (excluding property) were managed by external asset managers, while the balance was managed in-house.

Domestic asset managers:

Afena Capital (Proprietary) Limited
Argon Asset Management (Proprietary) Limited
Blue Ink Investments (Proprietary) Limited
Catalyst Fund Managers SA (Proprietary) Limited
Coronation Fund Managers (Proprietary) Limited
Electus – Old Mutual Investment Group (South Africa) (Proprietary) Limited
Investec Asset Management (Proprietary) Limited
Kagiso Asset Management (Proprietary) Limited
Mazi Capital (Proprietary) Limited
Matrix Fund Managers (Proprietary) Limited
Meago Trading (Proprietary) Limited
Oasis Asset Management (Proprietary) Limited
Pan-African Asset Management (Proprietary) Limited
Momentum Asset Management (Proprietary) Limited
Stanlib Asset Management (Proprietary) Limited
Sygnia Asset Management (Proprietary) Limited
Taquanta Asset Managers (Proprietary) Limited

International asset managers

Aberdeen Fund Management Limited
Black Rock Investment Management (UK) Limited
Morgan Stanley Investment Management Limited
MSCI World Index Exchange Traded Funds and Other
RCM Global Investors (UK) Limited
SEI Investments (South Africa) Limited
Veritas Asset Management LLP

