# 2017

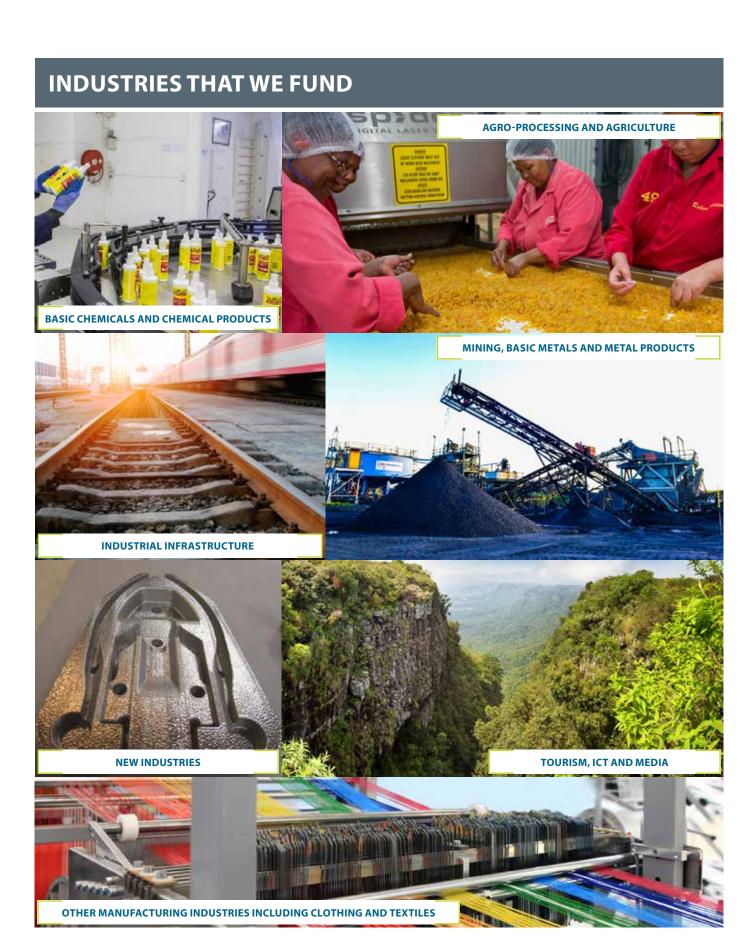
# **INTEGRATED REPORT**



Advancing Transformative Industrialisation



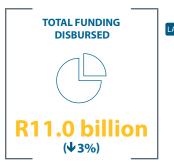


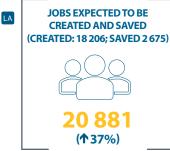


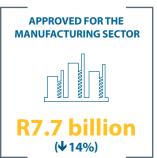
## PERFORMANCE HIGHLIGHTS

IDC continues to play a meaningful role in developing industry and contributing to the transformation of South Africa's economic landscape while remaining financially sustainable.







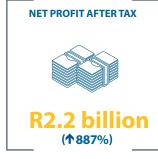














## **CONTENTS**

| Shareholder Commentary                  | 2  |
|---|----|
| Chairperson's Statement                 | 4  |
| Company Overview                        | 6  |
| Material Matters                        | 16 |
| Our Board of Directors                  | 22 |
| Chief Executive Officer's Statement     | 24 |
| Our Executive Management                | 28 |
| Performance Overview                    | 30 |
| Leading Industrial Capacity Development | 32 |
| Committed to Good Governance            | 54 |
| Ensuring Financial Sustainability       | 69 |
| About this Report                       | 75 |
| Assurance Report                        | 76 |
| Glossary                                | 78 |
| Contact Information                     | 80 |

#### ADDITIONAL ONLINE INFORMATION

Group Structure

Carbon Footprint

Human Capital

Information Technology

Procurement

Special Funding Schemes

Memberships

Customer Relationship Management

King III Checklist

**GRI Table** 



Increase Industrial Development



Maintain Financial Sustainability



Human Capital



Stakeholders



Natural Environment





Utilisation of Resources



Refers to Limited Assurance

## **REPORTING PACK**

This Integrated Report forms part of a suite of reports. This report, other documents in this year's suite, and previous years' reports are available online at www.idc.co.za



## MINISTER'S FOREWORD



Minister Ebrahim Patel

Industrial funding is a key instrument to reignite growth and to shift our economy onto a new inclusive growth path. The funding strategy has to adjust to both structural and cyclical trends in an economy.

Technological innovations, developments in the political economy (local and global) and demographic factors will reshape the South African economy over the next decades in profound ways:

- The greater use of robotics, artificial intelligence and data-based networks in more economic and social applications will disrupt economies, markets and jobs.
- Economic populism in developed country markets may result in changes to trade, investment and migration policies that affects the economic integration project
- Pressures to address high levels of ownership concentration in the economy, inequality in the society and joblessness will require structural changes to the economy to ensure a fairer, more inclusive and broader-based growth model
- sharp levels of urbanisation and inward migration to South Africa and a large youth demographic that is not being tapped sufficiently with job and entrepreneurial opportunities, will place pressure on infrastructure, labour markets and social policies.

These developments come on top of contemporary or cyclical factors: changes in the commodity demand cycle, a domestic economy that has gone into recession, a sovereign ratings downgrade to sub-investment level by some agencies, serious concerns about governance within public enterprises and in procurement systems, slow global and continental growth.

They place greater value on smart governance to manage these new and older challenges - and sometimes contradictory forces and outcomes - to the benefit of South Africans as a whole and we should identify what we can do (for example skills retraining, R&D investments, job-rich industrialisation).

To achieve national economic goals require that we build on our advantages: location on a continent with huge potential; leveraging more from our position as Africa's largest industrial base; a strong and sophisticated financial market, a technical and professional skills base that is expanding; valuable deposits of natural resources that can be a source of new industrialisation, pockets of industrial innovation; advanced infrastructure in many parts of the country, a youthful population that can be a source of energy and enterprise, growing cities and urban densities that can benefit the economy, among many strengths.

The Industrial Development Corporation presents its annual report and releases its financial statements in this context.

The report records a number of gains that the IDC has made: increasing its approval of new projects and the expected jobs impact and expanding transformation through higher levels of funding for black industrialists and youth and women-empowered companies. It also increased its net profit last year.

The report points to significant headwinds and challenges in the economic environment that impacted on the IDC, resulting in slower levels of disbursements as companies postpone investment decisions, weaker approval levels for manufacturing (including the labour-intensive agro-processing and clothing & textiles sectors) and limited progress to achieve the corporate investment targets set for the IDC.

A new "national deal" to get back to investment grade and to address the needs of our people requires a roadmap consisting of four crucial elements:

- Developing a credible growth story that places emphasis on sectors and market-opportunities with high growth and jobcreation potential, attracts investment and ensures effective implementation of the State's nine-point plan.
- Transforming the economy to make it more inclusive, bringing black South Africans, young people, the rural poor and the urban unemployed into the economy with speeded-up actions against high levels of economic concentration, inequality, social exclusion and joblessness
- Ensuring integrity in governance and decision-making, manage our fiscal policies responsibly and sustainably, to inspire confidence among our people

 Deepening domestic economic partnerships, with greater efforts to pursue a social compact between government, business and labour that focusses on jobs, investment and transformation.

The IDC can play a key role, with other public agencies, to respond to this forward-looking agenda:

Growth story: through its funding for industrial development, the IDC is attracting investors to the economy and facilitating the creation of sustainable jobs. The R15.3 billion funding that IDC approved during 2017, the highest nominal level yet, is facilitating R47 billion of investment in the economy. The report provides a number of case-studies of partnerships with private sector investors and industrialists.

To assist priority sectors, government has set up a Steel Competitiveness Fund to be administered by the IDC. The R95 million that the Economic Development Department will be transferring from its budget over the next three years, will allow the IDC to make available R1.5 billion at lower interest rates to improve the ability of this industry to compete on the international stage. The Fund will be available to foundries, valve and pump manufacturers, steel fabricators and capital equipment manufacturers including black industrialists, to help the core of our manufacturing industry to survive difficult global economic conditions.

The corporate targets set for the IDC for the new financial year will require that it expands its approval and disbursement levels and focus on a greater economic growth impact to its work.

Transformation: in the past 12 months, IDC investment resulted in 20 881 jobs that will be created and saved. R10.1 billion of the funds approved were for to black-empowered companies (which refers to companies with at least 25% shareholding by black South Africans). Of this sum, R4.7 billion will benefit companies that are controlled by black industrialists. Funding to women-empowered and

youth-empowered businesses also increased to R3.2 billion and R2.3 billion respectively. Transformation is both a social imperative and a source of growth as the economy is opened up to more black and youth entrepreneurs, the structure is shifted to greater local value-addition rather than export of raw materials only and more jobs are created for each billion investment committed.

Governance integrity: in executing its duties, the IDC is responsible for the approval of large sums of money and must always be subject to high levels of integrity in its decisions. The IDC has systems of corporate governance in place and to enhance transparency and accountability and has from June 2017, begun publishing details of all the investors to whom it provides industrial funding. The IDC and state-owned companies will need to further strengthen systems of governance to take account of legitimate public concerns about corruption. The IDC has focused on growing its portfolio and deepening its transformation impact whilst maintaining its financial sustainability.

The IDC's status as a financially sound, administratively well-run institution is a result of dedicated people who focus on the task of industrial funding and good governance. I wish to thank Ms Busisiwe Mabuza and the Board of the IDC for their guidance and support to IDC's management as well as the strong governance culture which they instil. I also thank Geoffrey Qhena, who continues to leads the Corporation through challenging times and the IDC management and staff who support him.

E Patel

Minister of Economic Development

30 June 2017

## **CHAIRPERSON'S STATEMENT**



The IDC achieved commendable outcomes in a year characterised by high levels of uncertainty and by a slowing economic growth momentum, globally and domestically.

The rate of increase in world output, at 3.1% in calendar year 2016, was the weakest since the global financial crisis. Rather extraordinary geo-political developments at times dominated international headlines and affected investor and business confidence around the globe.

World trade remained under pressure, impacting on the performance of many export-reliant economies. Although commodity prices recovered during the course of the year, the underlying market fundamentals have not yet supported a sustained recovery. Alongside the relatively subdued demand for most industrial resources, this continued to affect the performance of many African economies. As a key market for South Africa's manufactured exports, Sub-Saharan Africa's subdued growth has been of particular concern.

South Africa's economic growth has been declining gradually for a number of years. Its gross domestic product increased by only 0.3% in calendar year 2016, the lowest rate of expansion since the 2009 recession, and the economy entered a technical recession in the second half of the reporting period. Concerns over the possible outcomes of rating agencies' reviews of South Africa's sovereign credit ratings also loomed large.

## **COUNTER-CYCLICAL AND TRANSFORMATIVE**

The IDC's stakeholders expect us to play a counter-cyclical role during an economic downturn. Our funding activity, both with respect to approvals and disbursements, support private sector investment activity, project conceptualisation and development, as well as business partners in distress due to the currently unfavourable economic environment.

Fixed investment spending by the private sector in the South African economy declined by 5% in real terms during the reporting period. The drop in IDC disbursements on a year-on-year basis reflects, to a large extent, the challenging operating conditions and investment climate faced by the business and investor communities over this period.

Notwithstanding the unfavourable economic environment, IDC funding approvals reached an all-time high in the past year, contributing to restoring business confidence and investment activity over the short- to medium-term.

South Africa's economic growth has been below potential for several years and also at considerably lower rates than those of some of our emerging market peers. As a country endowed with a wealth of natural and human resources, we can and must turn this performance around.

We at the IDC are confident that our industrial development strategies, which are based on a value chain approach, will enable us to contribute effectively towards this objective.

The agro-processing and agriculture, chemicals and pharmaceuticals, and metals and mining value chains have been prioritised, and our efforts aimed at their expansion and improved competitiveness are achieving some notable successes. While exploiting opportunities for their downstream and upstream development, with the local, regional, and/or global economies as target markets, the associated business activities funded by IDC are generating much-needed employment opportunities and preserving existing jobs, directly and indirectly.

The Board has noted the progress achieved in value chain development, and emphasised the need for a more integrated approach for greater impact, particularly with regard to competitiveness improvements, jobs-rich and inclusive development, as well as economic transformation.

Although our strategies did not deviate significantly from the previous year, the environment in which the Corporation is operating has necessitated the prioritisation of existing initiatives, such as those aimed at addressing economic inclusivity and assisting businesses in distress.

South Africans have manifested frustration with the slow pace of transformation of the economy. In this regard, the IDC's strategies to enhance inclusivity are bearing fruit. The funding approved for Black Industrialists and black-empowered companies, as well as for women and youth entrepreneurs was substantially higher in the year under review. This is enabling their increased participation in the formal economy and in sharing the rewards of its growth.

In February 2017, the Ministers of Trade and Industry and of Economic Development reached an agreement that the National Empowerment Fund should become a wholly-owned subsidiary of the IDC. This will be an important milestone in South Africa's quest for inclusive growth and economic transformation. A legislative process needs to be followed and we are currently in the process of obtaining all requisite approvals.

Financial sustainability is imperative for the IDC to continue delivering on its mandate in the long run. In the current difficult economic environment, which not only affects the performance of our existing portfolio, but also tends to raise the risks associated with new funding applications, we are monitoring trends in key financial indicators such as impairment levels very closely, and are taking the necessary pre-emptive actions. The performance of our subsidiaries is also crucial in this regard, hence the emphasis on closer oversight and strategic decision-making on future support so as to achieve the required return on investment.

We also embarked on certain new initiatives during the year, including an assessment of our leadership's competencies vis-à-vis the strategic requirements. The process started with the executive team and will be followed next year by our senior managers and their possible successors. The aim is to enhance the IDC's leadership capabilities and ensure continuity by building leadership bench strength.

## **SOLID GOVERNANCE**

The trust of our stakeholders is of paramount importance. We believe that we have earned and maintained their trust over the years, but do not take it for granted.

Our robust governance system, which is based on best practice globally, has played a major role in this regard. Sound corporate governance is vital for the IDC's success and, accordingly, the Board and management are committed to applying the principles and processes deemed necessary to ensure that good governance is practised in all of its dealings and other day-to-day operations.

Taking into consideration changing circumstances and the feedback received from stakeholders, we reviewed the Board Charter during the year. The emphasis was on avoiding and/or managing directors' conflicts of interest, decision-making by consensus and voting mechanisms in instances where consensus is not possible, improved transparency, and refining the role of each Board Committee. The Directors' Rotation Policy was altered to limit the participation of individual directors on the Board to a maximum of three terms of three years each.

We approved changes to the Directors' Conflict of Interest Policy, which now prohibits directors from doing business with the IDC. On matters in which directors are regarded as being conflicted and in line with the requirements of the Public Finance Management Act (PFMA), it ensures that they are not provided with the respective Board documentation or participate in the relevant deliberations so as to safeguard objective decision-making.

In keeping with high levels of transparency, the Corporation is identifying appropriate forms of disclosing transactions, including those involving politically exposed persons.

In addition, and complementing the messaging already effected through our website and media releases, the IDC is making increased use of public announcement platforms, such as the Johannesburg Securities Exchange SENS system, for timely communication of important matters.

## **ACKNOWLEDGEMENTS**

On behalf of the Board, I congratulate the Chief Executive Officer, Mr Geoffrey Qhena, his executive team, as well as the management and staff of the IDC for achieving admirable outcomes during a challenging year.

We thank Mr Brian Molefe, who retired during the year under review, for his contributions to the Board's deliberations.

Our gratitude is also extended to the Minister of Economic Development, Mr Ebrahim Patel, the Economic Development Department under the leadership of Acting Director General Mr Malcolm Simpson, and to the members of the Portfolio Committee for Economic Development and the Select Committee on Economic and Business Development, for the invaluable guidance and support provided to the IDC in executing its important developmental mandate.

RA Mahuza

**Board Chairperson** 

28 June 2017

## **COMPANY OVERVIEW**

## **VISION**

To be the primary driving force of commercially sustainable industrial development and innovation for the benefit of South Africa and the rest of Africa.

#### MISSION

The Industrial Development Corporation is a national development finance institution whose primary objectives are to contribute to the generation of balanced, sustainable economic growth in Africa and to the economic empowerment of the South African population, thereby promoting the economic prosperity of all citizens. The IDC achieves this by promoting entrepreneurship through the building of competitive industries and enterprises based on sound business principles.

## **OUR VALUES**

Our day-to-day activities and business conduct are guided by our values

PARTNERSHIP

+

PROFESSIONALISM

+

**PASSION** 

## **OUR STRATEGY**



#### INCREASE INDUSTRIAL DEVELOPMENT



- Be proactive and strategic in developing priority industries
- Align our funding activities with government's economic, industrial and infrastructure policies
- Integrate industries across the continent
- Address the needs of SMMEs particularly through sefa

#### MAINTAIN FINANCIAL SUSTAINABILITY



- Manage concentration risk in our portfolio
- Diversify income sources in our portfolio
- Improve portfolio management

See page 13 for more information on our strategy

#### **HUMAN, SOCIAL, AND NATURAL CAPITAL**



#### **HUMAN CAPITAL**

- Enhance skills and capacity
- Entrench a culture of performance and development



#### STAKEHOLDERS

- Improve customer service
- Leverage other financiers
- Identify industry development opportunities through broader sectoral engagement
- Develop Black Industrialists and increase funding to women and youth entrepreneurs
- Contribute to policy development
- Build strong communities around IDC-funded projects



## NATURAL ENVIRONMENT

 Improve IDC's and industry's environmental sustainability



### UTILISATION OF RESOURCES

Enhance efficiencies

## **OUR FUNDING MODEL**

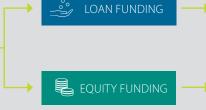
## THE IDC IS FUNDED THROUGH:

Internal profits

Divestment of mature investments

Borrowing in domestic and international markets

We use these to provide funding to businesses in the form of loans and equity investments







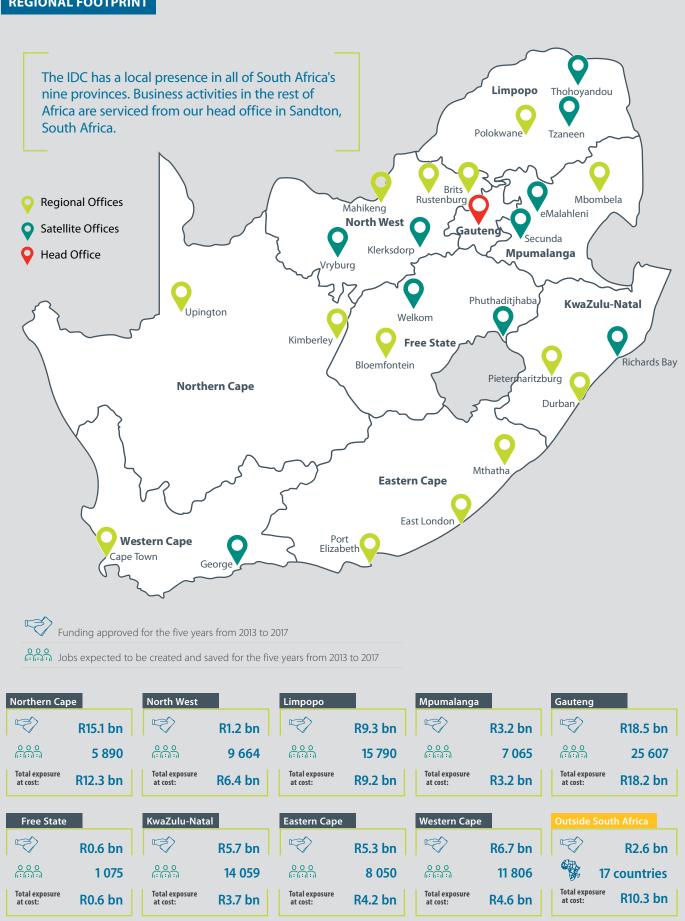




Proceeds from this funding are used to repay borrowings, cover our costs and grow our balance sheet to re-invest in future businesses

## **REGIONAL FOOTPRINT**

Total exposure refers to the amount of loans and equity funding outstanding



## **OUR BUSINESS MODEL**

## **OUR RESOURCES**

#### CAPITAL

#### **HOW THE RESOURCE IS USED TO ENABLE OUR BUSINESS MODEL**



## **FINANCIAL CAPITAL**

- · Dividends and capital profits from equity investments
- Interest and capital repayments from loans provided
- Borrowings
- Funds managed on behalf of others
- Extending new loans
- Making new equity investments
- Repaying borrowings
- Cover operating expenses
- Subsidising interest rates



#### **SOCIAL CAPITAL**

- · Network of entrepreneurs, clients and project partners
- Government ties
- · Other funders and development partners
- Sourcing transactions
- Developing and co-invest in projects
- Providing inputs to policy formulation
- Leveraging our balance sheet to increase impact



#### **HUMAN CAPITAL**

- · Our employees
- · Assessing funding applications
- Monitoring and managing our portfolio and all other aspects of our business



## **INTELLECTUAL CAPITAL**



- · Industry-specific and macroeconomic research
- Knowledge gained through our industry experience
- Due-diligence, project development, credit-granting, and post-investment processes
- Crafting strategies for the development of industries
- Providing inputs to policy formulation
- Allows us to identify and manage risk in the businesses that we fund



## **MANUFACTURED CAPITAL**

- IT infrastructure and systems
- Country-wide infrastructure
- Improving our processes
- Connecting with our stakeholders

Note on natural capital: Although our own utilisation of natural resources is not material, it is important for industries that we develop and a key input for most of our clients.



## **SUPPORT ACTIVITIES**



#### **CATEGORY**

## **ACTIVITIES DIRECTLY RELATED TO PROVISION** OF FUNDING





### **ACTIVITIES**

- · Assessing the viability of business plans
- · Providing funding to potentially viable businesses
- Developing and funding industrial projects
- Sourcing partners for industrial projects

## **ACTIVITIES SUPPORTING THE DEVELOPMENT IMPACT OF OUR BUSINESS**



- Providing non-financial support to entrepreneurs
- Developing and managing specialised funding products to address specific development outcomes
- · Undertaking industry and economic research
- Participating in government and private sector industry and economic development initiatives

## **ACTIVITIES DIRECTLY SUPPORTING THE FUNDING ASPECTS OF OUR BUSINESS**





- Sourcing and managing loans and other funds at the lowest possible cost to pass on these benefits to our clients
- Managing our portfolio of loans and investments to ensure that we collect payments interest and dividends and exit from mature investments

## **CROSS-CUTTING SUPPORTING ACTIVITIES**











- · Financial management
- Human capital management
- Information technology
- Strategy and continuous improvement
- Governance, compliance and legal
- Risk management
- Corporate affairs and marketing
- Procurement

Icons represent areas of the IDC's strategy that address the specific aspect.

## **OUTPUTS**



## **DEVELOPMENT OUTCOMES**



#### **FUNDING PROVIDED**



CUMULATIVE VALUE APPROVED

5 years: 2013-2017

R68 bn

**DISBURSEMENTS** 

5 years: 2013-2017

**R59 bn** 

## TRANSACTIONS APPROVED



NUMBER OF APPROVALS

5 years: 2013-2017



1 001

## **EMPLOYEES TRAINED**



TRAINING COST AS A % OF STAFF COST

2017

2.0%

## **FUNDING RAISED**



VALUE OF BORROWINGS RAISED

5 years: 2013-2017

**R44 bn** 

## INFORM INDUSTRIAL POLICY



INDUSTRIAL POLICY RELATED OUTPUTS (2017)

- Industry research completed on, inter alia, automotive components, fertilisers, energy storage, yellow metal, medical devices, and nanotechnology
- Participation in Agriculture, Land Reform and Rural Development Operation Phakisa
- Contribution to the Steel Industry Task Team
- Participation in Poultry Industry Task Team

## **INVESTMENT GENERATED**



INVESTMENT FACILITATED



5 years: 2013-2017

**R200 bn** 

## **JOBS CREATED AND SAVED**



**DIRECT AND INDIRECT JOBS IMPACT** 

5 years: 2013-2017

99 006

INDIRECT

245 000

TOTAL

344 006

## **INDUSTRY SECTORS SUPPORTED**



SECTORAL DISTRIBUTION OF FUNDING APPROVALS

5 years: 2013-2017

51% Manufacturing 20% Electricity generation

18% Mining

9% Services

2% Agriculture

## **DEVELOPING RURAL AREAS**



NUMBER OF DIRECT JOBS CREATED/SAVED IN RURAL AREAS

5 years: 2013-2017

**32 155** 

## **ECONOMIC TRANSFORMATION**



CUMULATIVE VALUE OF FUNDING FOR BLACK ECONOMIC EMPOWERMENT

CUMULATIVE VALUE OF FUNDING FOR WOMEN AND YOUTH EMPOWERMENT



5 years: 2013-2017

BLACK-EMPOWERED BLACK-OWNED YOUTH-EMPOWERED WOMEN-EMPOWERED

R15 bn R16 bn R4 bn R8 bn

## **FINANCIAL OUTCOMES**



2017

TOTAL ASSETS

R130 bn

5 years: 2013-2017

NET PROFIT AFTER TAX

R8 bn



See overleaf for our Key Risks

#### **KEY RISKS**

# RISK

## **RISK MITIGANTS**



#### **MACRO-ECONOMIC CONDITIONS**

Macro-economic conditions impacting the IDC's business, including weak domestic and/or export demand and overall fixed investment activity, as well as potential downgrades to South Africa's credit rating.

This risk is monitored though regular analysis of economic, political and legal events and assessment of potential implications with resultant interventions.

#### **CREDIT RATINGS DOWNGRADES**

Potential credit ratings downgrades on SA's sovereign and IDC's credit rating.

The IDC's rating is to a large extent determined by the sovereign rating. Interventions are introduced to manage some of the impact of ratings downgrades. Regular scenario planning, contingency funding and liquidity plans are in place.

## CARBON TAXES PAID BY IDC'S SUBSIDIARIES AND ASSOCIATES

The high impact of the cost of carbon taxes payable by IDC subsidiaries and associates on its financial sustainability.

Carbon Tax Management Strategy for the IDC as well as at material subsidiaries and associates

## WATER SECURITY IMPACTING IDC CLIENTS/INVESTMENTS

Non-availability of water.

Special drought relief funding introduced in conjunction with the Land Bank to clients affected by the unavailability of water.

#### **DEBT AND EQUITY PRICING**

Inadequate/inappropriate debt and equity pricing of facilities provided to IDC clients impacting negatively on IDC's financial sustainability.

Development and implementation of robust pricing models for equity and debt transactions. Monitoring and enhancement of our sources of funding.

#### **COMMODITY MARKETS RISK**

A slump in commodity prices and volume demand can have a negative effect on IDC portfolio and financial sustainability.

Continuous portfolio monitoring and management.

Monitoring of exposure to commodities.



## PROACTIVE NEW BUSINESS GENERATION

The inability to proactively source new business.

Continuous training and execution of proactive industry development strategies. Targeted and regular engagement with our existing and potential business partners or stakeholders.

#### **CREDIT RISK**

Non-payment by the IDC's business partners and non-recoverability of investments.

This is managed through quarterly Investment Monitoring Committee meetings, which ensure that appropriate intervention strategies are in place to monitor the risk. A well-defined Credit and Investment Policy, together with an approved delegation of authority policy, is in place for the approval of transactions.

## WINNING ORGANISATIONAL CULTURE

Culture, behaviour, values and change in mind-set not being aligned to deliver on mandate and strategy.

This is mitigated by implementing a culture transformation initiative, conducting cultural awareness sessions and ongoing employee engagement.

An approved process of achieving the desired culture, behaviour and values is monitored by executive management and the Board.

#### **HUMAN CAPITAL CAPACITY**

Not having adequate human capital resources to deliver on the IDC's strategy.

The risk is mitigated by retention strategies, i.e. competitive remuneration and total reward offering.

Focusing on employee education and training as well as study assistance packages for personal development.

## STAKEHOLDER EXPECTATIONS RISK

The IDC not responding to stakeholder needs.

Execution of the Stakeholder Engagement Strategy. Regular and formalised engagement with key stakeholders.

## SUBSIDIARY DELIVERY AND PERFORMANCE RISK

The viability of subsidiaries and their ability to deliver effectively.

Board representation on key subsidiaries.

Subsidiaries' performance is monitored on an ongoing basis by both the IDC and the Board.

#### **RISK RISK MITIGANTS**



## INSUFFICIENT PARTICIPATION BY BLACK INDUSTRIALISTS IN THE ECONOMY

The risk of the IDC's inability to implement government strategy on Black Industrialists.

The introduction of Black Industrialist preferential pricing schemes and business support. Active participation and representation on the Black Industrialists programme through the dti.

#### HIGHLY VOLATILE LISTED SHARE PORTFOLIO

The value of IDC's listed investments declining.

The introduction of corrective relevant actions to manage the risk as well as a long-term diversification strategy to reduce the volatility of the portfolio.

#### INDUSTRIAL ACTION

Labour market volatility at investee companies.

This risk is mitigated principally by labour relations training for staff at investee companies and active workplace forums. Compliance with labour regulations by our investee companies.

#### IT SECURITY RISK

Unauthorised access to electronic information could lead to information being compromised.

Firewalls and antivirus software are amongst the mitigants for this risk. Regular testing of our systems to prevent access by unauthorised users.

#### **NON-COMPLIANCE WITH HEALTH AND SAFETY** REGULATIONS OF IDC INVESTEE COMPANIES AND **BUSINESS PARTNERS**

Non-compliance with health and safety regulations of clients.

Environmental health and safety audits at inception and during the life of the investment.

#### **COMPETITION ACT ISSUES**

Prohibited practices: The abuse of dominance, horisontal agreements, vertical agreements as well as behaviour resulting in the lessening of competition in

Merger control: notification of notifiable transactions to competition authorities.

Competition law compliance training for relevant units.

Legal due-diligence is conducted on all transactions prior to approval.



#### **BUSINESS CONTINUITY RISK**

Adverse events that impact the organisation's ability to operate/resume operations following a major business disruption.

This risk is allayed by having the necessary business continuity plans in place and by ongoing disaster recovery plan testing.

#### **LEGAL AND REGULATORY COMPLIANCE RESULTING** IN FINES (LOCAL AND FOREIGN)

The IDC not meeting its legal and regulatory requirements across the various industries and countries of operation.

Some of the key controls in place to mitigate this risk include the Legal department's systems and monitoring procedures as well as a compliance manual and policies. An independent and adequately resourced Compliance department is in place.

#### **ETHICAL CONDUCT AND BEHAVIOUR**

Consists of all forms of internally and externally conducted theft or fraudulent activities including unethical business practices and behaviour.

This risk is alleviated by internal controls, fraud and ethics awareness training as well as the activities of the Governance and Ethics Committee, amongst others. All incidences of fraud and unethical behaviour are investigated independently.

#### THE MATURITY OF THE IDC'S RISK MANAGEMENT **ARCHITECTURE**

A lack of a well-defined and fit-for-purpose risk management strategy by the IDC.

This risk is mitigated by having Board-approved risk governance structures and committees, a combined assurance approach to the management of risk. A "three lines of defence" risk management framework is in place with independent Internal Audit, Risk Management and Compliance departments.

## **ELECTRICITY SUPPLY**

The risk presented to the IDC's investments as a result of unreliable electricity supply.

This risk is mitigated by offering Green Energy Efficiency Funding to our intensive energy users. Active participation and funding of renewable energy transactions are maintained.





Medium risk



## **MAKING TRADE-OFFS**

In an environment where various forms of capital are scarce there are many competing needs from multiple stakeholders. To create value for our shareholder, trade-offs are made. This requires us to proactively make tough decisions to allocate resources effectively to the strategic focus areas that will deliver the most value in the long term.

The primary trade-offs that are made and the respective rationales are presented below.

| Trade-off   | Strategic<br>focus area | Material<br>matter            |
|---|-------------------------|-------------------------------|
| Trade-off between short-term goals and long-term industrial development  Project Evolve requires the IDC to be more proactive in the development of industries and the  | Increase<br>Industrial  | Industrial<br>Development     |
| associated value chains. The IDC endeavours to optimise resources between achieving short-term goals and investing in activities that will have an impact in the long term.   | Development             | Financial<br>Sustainability   |
| Trade-off between developmental and financial returns  The cost of the IDC's funding can be excessive for some clients, which affects IDC's developmental   | Maintain<br>Financial   | Financial<br>Sustainability   |
| impact. This necessitates a customised pricing model that takes into account the potential development impact of a transaction and foregoes higher financial returns.   | Sustainability          | Industrial<br>Development     |
| In addition, the IDC deliberately assists businesses that are facing challenges to ensure their long-term sustainability. The focus on development targets and those industries where the economy needs to be competitive can result in lower levels of recoveries and losses if the interventions to improve businesses fail to have the desired effect. |                         | Socio-economic<br>Development |
| Trade-off between capital- and labour-intensive industries  | Increasing              | Industrial                    |
| The IDC is targeting job creation to alleviate unemployment. It needs to balance investment in more capital-intensive industries that do not create many direct jobs, but have the potential to unlock  | Developmental<br>Impact | Development                   |
| downstream economic activity and increase competitiveness. This will result in investment in downstream businesses that create jobs, often at a lower cost, but that do not always have a catalytic impact on industrial or value chain development.  |                         | Human Capital                 |

## **SELECTED PERFORMANCE INDICATORS**

|  | 2018 proje    |               |
|--|---------------|---------------|
| Indicator  | Base          | Target        |
| Development impact   |               | ,             |
| Value of funding disbursed (R'bn)  | 14.5          | 18.5          |
| Total value of funding approved – with agreement signed (R'bn)   | 13.4          | 17.8          |
| Funding to Black Industrialists – value of funding with an agreement signed (R'bn)                           | 4.9           | 7.4           |
| Funding to women-empowered businesses – value of funding with an agreement signed (R'bn)                     | 1.2           | 1.5           |
| Funding to youth-empowered businesses – value of funding with an agreement signed (R'bn)                     | 0.8           | 1.0           |
| Funding in support of government localisation initiatives – value of funding with an agreement signed (R'bn) | 4.4           | 5.1           |
| Expected direct jobs created and saved – at signature of agreement (number)                                  | 23 951        | 29 488        |
| Financial and efficiency indicators  |               |               |
| mpairments as a percentage of the portfolio at cost (%)  | 18.4          | 16.4          |
| Net interest, dividends, fees and money market income as a percentage of total assets (%)                    | 3.9           | 4.4           |
| Growth in reserves (%)   | Yield on      | Yield on      |
|  | LT government | LT government |
|  | bonds         | bonds + 2%    |
| Subsidiaries   |               |               |
| sefa – Performance rating (Rating between 1-5)   | 3             | 5             |
| Scaw – Operating profits/(losses) (R'm)  | (97)          | (87)          |
| Foskor – Operating profits/(losses) (R'm)  | (216)         | (194)         |

#### **OUR STRATEGY**

The IDC's strategy is focused on the need to maximise development impact through jobs-rich industrialisation and competitiveness improvements, achieving other development outcomes, and ensuring the long-term sustainability of the Corporation by addressing specific issues related to financial capital, our human capital, stakeholders, the natural environment and by increasing the efficient use of resources.

Our strategy development is a continuous process with a formal annual review. These reviews take into account changes in the operating environment and are guided by robust discussions by the Board, executive management as well as other senior management. Strategies targeting specific industries and functional areas are developed with inputs from experts in their respective fields throughout the Corporation.

Details of the pillars of our strategy and how they address different aspects of our business model can be seen on page 6 of this report.

#### **PROJECT EVOLVE**

To enhance certain aspects of our strategy, as from April 2015, we implemented a project to prioritise industries so as to ensure that we increase our effectiveness and maximise our impact on the economy. The selection of these priority industries was based on

assessments of South Africa's current and long-term growth potential, our ability to make a meaningful impact, and their alignment to government priorities. Three value chains were identified where our proactive support could make the largest impact on direct and indirect job creation through increased competitiveness, the development of downstream industries and higher levels of exports – especially into markets in the rest of Africa.

In addition, we are assuming a greater role in proactively nurturing and developing industries that might not currently play a significant part in the South African economy, but have the potential for growth in the future. New sectors that derive their strength from innovation, science and technology are particularly important. Another priority area aims to address the negative impact that the infrastructure backlog has on the development of industry. We are targeting infrastructure projects that can unlock industrial development.

Projects in the rest of Africa are supported where they benefit South African industry through procurements from local businesses, local ownership, or forming part of a regional value chain.

Project Evolve also identified opportunities to increase the IDC's operational efficiencies and effectiveness.

| 20      | 2017 performance                              |   | 2016   | 2015   |
|---------|---|---|--|--|
| Actual  | Base  | Target  | Actual   | Actual   |
|         |   |   |  |  |
| 11.0 LA | 11.9  | 14.4  | 11.4   | 10.9   |
| 13.7 LA | 10.8  | 15.1  | 16.5   | 10.3   |
| 4.9     | 2.5   | 4.6   | 4.5  | 2.3  |
| 3.3     | 1.0   | 1.5   | 3.0  | 0.8  |
| 1.7     | 0.7   | 1.0   | 0.9  | 0.2  |
| 4.8     | 2.1   | 3.6   | 4.7  | 3.5  |
| 20 155  | 16 800  | 20 000  | 18 010   | 19 731   |
|         |   |   |  |  |
| 16.7    | 17.9  | 15.5  | 16.9   | 16.7   |
| 4.1     | 4.7   | 5.2   | 4.8  | 5.1  |
| 7.5     | Yield on LT                                   | Yield on LT   | (8.2)  | (15.1)   |
|         | government                                    | government  |  |  |
|         | bonds (8.9)                                   | bonds+2% (10.9)   |  |  |
|         |   |   |  |  |
| 3.2     | 3   | 5   | 3.1  | 3.6  |
| (787)   | 51  | 56  | (1 074)  | (1 085)  |
| (902)   | 559   | 615   | (569)  | (410)  |
|         | 11.0 A<br>13.7 A<br>4.9 3.3<br>1.7 4.8 20 155 | 11.0 A 11.9 13.7 A 10.8 4.9 2.5 3.3 1.0 1.7 0.7 4.8 2.1 20 155 16 800  16.7 17.9 4.1 4.7 7.5 Yield on LT government bonds (8.9)  3.2 3 (787) 51 | 11.0 LA 11.9 14.4 13.7 LA 10.8 15.1 4.9 2.5 4.6 3.3 1.0 1.5 1.7 0.7 1.0 4.8 2.1 3.6 20 155 16 800 20 000  16.7 17.9 15.5 4.1 4.7 5.2 7.5 Yield on LT Yield on LT government bonds (8.9) bonds+2% (10.9)  3.2 3 5 (787) 51 56 | 11.0 LA 11.9 14.4 11.4 13.7 LA 10.8 15.1 16.5 4.9 2.5 4.6 4.5 3.3 1.0 1.5 3.0 1.7 0.7 1.0 0.9 4.8 2.1 3.6 4.7 20 155 16 800 20 000 18 010  16.7 17.9 15.5 16.9 4.1 4.7 5.2 4.8 7.5 Yield on LT Yield on LT (8.2) government government bonds (8.9) bonds+2% (10.9)  3.2 3 5 3.1 (787) 51 56 (1 0.74) |

## PRINCIPAL OBJECTIVE AND DEVELOPMENT OUTCOMES

The funding that we provide to businesses is directed at increasing investment in industrial sectors. Our investments are aimed at expanding capacity in productive sectors, enhancing value addition to raw materials, improving the competitiveness of industries, increasing exports and import replacement, and integrating value chains across borders.

It is through these investments and the resulting enhancements to industry, that development outcomes that deal with the socioeconomic issues facing the country are addressed.

#### **PRINCIPAL OBJECTIVE**

· Lead industrial capacity development

#### **DEVELOPMENT OUTCOMES**

- · Facilitation of decent sustainable direct and indirect jobs
- · Development of Black Industrialists and support for women and youth entrepreneurs
- · Increased development in poorer areas and higher integration of regional economies
- Promotion of entrepreneurship and small and medium enterprise (SME) growth
- · Advancement of environmentally sustainable growth
- Increased sector diversity and localised production
- · Support for the transformation of communities

#### **OPERATIONAL STRUCTURE**

The Corporation consists of 11 divisions, each headed by a Divisional Executive reporting to the Chief Executive Officer (CEO).

Four of these divisions are directly involved in transactions, performing due-diligences on businesses applying for funding and developing projects. These divisions consist of individual units focusing on specific value chains and industries, with applications and projects pertaining to a specific industry being handled in the relevant unit. This approach allows the units to specialise and build industry expertise.

These operational units are supported by four divisions that provide support in terms of:

- The legal aspects of transactions
- · Assisting with business turnarounds

- Strategy formulation
- Supporting targeted groups of entrepreneurs
- · Assessing internal and external risks.

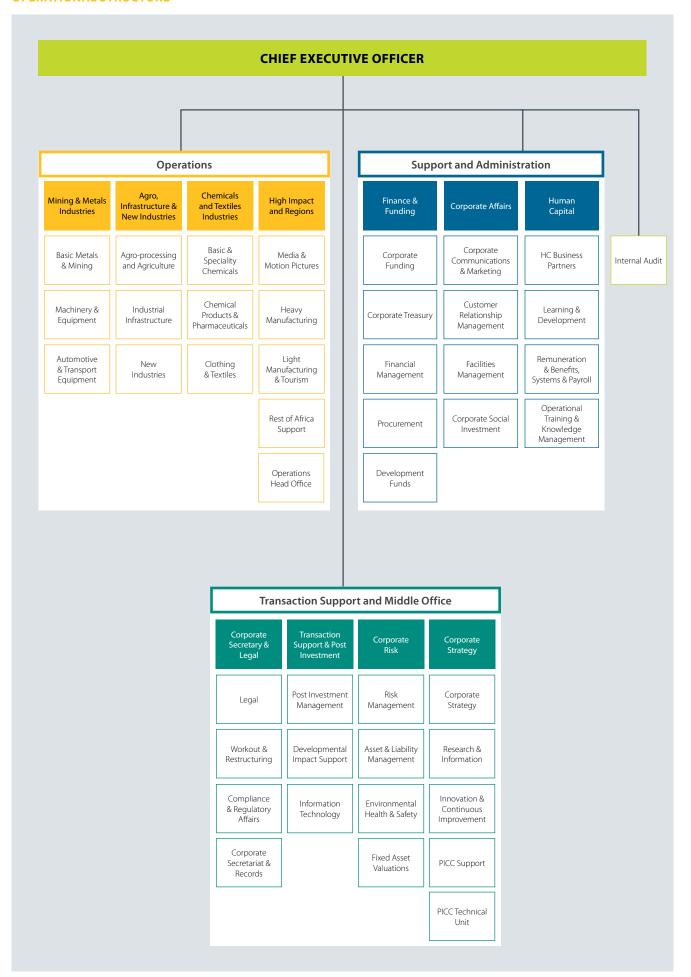
Other corporate support functions such as ensuring compliance, providing secretarial services, IT services, risk management and others are also performed in these divisions.

Three divisions provide administration and support functions related to finance and funding, corporate affairs and human capital, with the internal audit function reporting operationally to the CEO.



Our funding for Fair Price Furnishers, with its 100% black ownership, supported the company to increase its capacity. Fair Price Furnishers manufactures a range of furniture products for low-to middle-income groups. IDC's funding enabled the company to purchase plant and equipment to expand its operation in Brits, North West. The funding created 183 jobs.

## **OPERATIONAL STRUCTURE**



## **MATERIAL MATTERS**

#### INTRODUCTION

Our definition of materiality with regard to integrated reporting and the process followed for determining material issues, are based on the published guidelines of the IIRC. These take into account our strategic intent and operating context as a state-owned enterprise (SOE), as well as the guidelines of the International Federation of Accountants (IFAC) and the Global Reporting Initiative (GRI).

Our executive management is responsible for managing the material issues in a structured way and ensures that the list remains current and relevant. The Board Audit Committee (BAC) validates the list of material issues

#### **OUR DEFINITION OF MATERIALITY**

We consider a matter to be material if it supports our strategic goals as a state-owned development finance institution and has the potential to substantially affect our ability to create and sustain value in the short, medium and long term.

## **CREATING VALUE**

As a key implementer of relevant government policies, we support our shareholder, the State, through its shareholder representative, the Minister of Economic Development, in achieving our mandate and delivering on our goals.

#### **OUR MATERIALITY DETERMINATION PROCESS**

A range of external and internal influences is taken into account, and a matter is considered to be relevant if it is deemed worthy to the appropriate stakeholders, if it links to significant risks confronting the IDC, or if it lies at the heart of our strategies. Issues that could substantially impact our ability to create financial value and deliver development returns over time are also considered to be material.

In addition to stakeholder consultations and engagements, we conduct research into industry best practice and the reporting themes and practices of our contemporaries. The process ends with a validation of the outcomes and confirmation of compliance with the requirements of the relevant frameworks.

We rely on existing, ongoing engagement mechanisms with stakeholders to gather feedback for our integrated report content.

The 11 material issues identified in 2013 were merged into five during 2015. These were revisited during the year under review to test their continued relevance. A revised list of seven material issues emerged from this process and these are introduced in this report.

Strategic priorities for the year are identified during Board strategy and business planning sessions. The strategic imperatives rest on our strategic pillars.

#### **KEY RISKS**

Top risks are identified and evaluated in terms of magnitude and likelihood. Issues that could substantially affect value creation are identified and linked to strategy, governance, performance and prospects. Our risk management process and key risks are outlined on pages 10, 11 and 64 of this report.

## **STAKEHOLDERS**

Key to the process of determining our material issues is an in-depth understanding of our stakeholders and the information they require to evaluate our performance.

The issues identified by stakeholders are prioritised on the basis of their significance in terms of our economic, environmental and social impacts. The issues with the highest priority are the material issues, which we judge necessary to report.

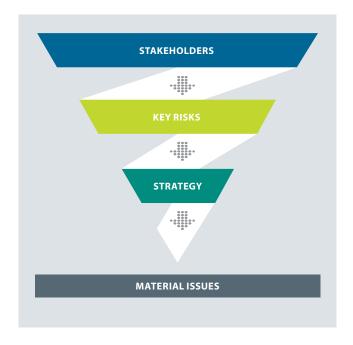
#### STAKEHOLDER ENGAGEMENT OBJECTIVES

Our Stakeholder Engagement Policy recognises the following

- To identify, focus on and deepen stakeholder relationships
- To create a better understanding of stakeholder needs, leading to positive stakeholder perceptions
- To influence the social, economic and environmental policy framework within which the IDC operates to enable industrial development
- · To increase engagement with sector players for better coordination of opportunities and programmes
- To improve our understanding of customer needs, leading to enhanced customer experience
- To improve communication channels
- To interact with stakeholders, to anticipate changes and challenges in the environment in which the Corporation operates, thereby optimising opportunities and minimising risk
- · To entrench the IDC brand
- To enhance the delivery of our strategic objectives and projects.

## **MATERIALITY FILTER**

Issues emerging from three elements, namely our stakeholders, our strategy, and the key risks faced by our organisation, are evaluated in terms of probability and potential impact on our ability to create value.



## **STAKEHOLDER UNIVERSE**

Our stakeholders are ranked in terms of two parameters: our potential impact on the stakeholder, and the stakeholder's influence on the IDC. Where stakeholders rank high in both these areas, there is a high level of interdependence between us and the stakeholder. These stakeholders are therefore considered the most important and their requirements are prioritised.

The stakeholders with the highest levels of influence and dependence are government structures involved with industrial policy and economic development, lenders, our employees, and our clients and project partners as shown in the top right sector in the figure on page 17. Government exerts a strong influence on our strategic direction as it determines the country's broader policy direction and, in some instances, set policy which directly impacts on us. As a key implementer of some of these policies, the IDC also has a large impact on these government structures.

This is because the success of these policies – and by implication their performance, and government's ability to deliver on its goals - are dependent on our performance in these areas. We also rely on government to create an enabling environment that is conducive to investment and economic growth to help facilitate our role as a Development Finance Institution (DFI) involved in industrial development.

We depend on other domestic and foreign financial institutions to raise capital required for our investment activities. Simultaneously, we have a high impact on these lenders as they depend on us to honour our financial commitments to them.

Without our human capital we cannot mobilise financial capital. We rely on our people in all aspects of our operations. Our people's fortunes are also closely tied to those of the Corporation as they rely on the IDC to remunerate them fairly, ensure that their skills remain relevant and provide them with opportunities to develop and grow.

We rely on project partners and clients for the implementation and successful running of projects to ensure that we can achieve our goal of industrial capacity development and the development outcomes we pursue.

Project partners rely on us for funding and long-term support to ensure the success of projects.

The second tier of stakeholders are those that rank "high" on one of the axes in the diagram and "medium" on the other axis. These include potential IDC clients, communities around IDC-funded projects, IDC subsidiaries, provincial government, and regulators, including National Treasury.

Top risks and strategic priorities are mapped to the material issues of stakeholders and the most significant issues that emerge from the three perspectives are clustered.

## **EVALUATION AND PRIORITISATION OF MATERIAL MATTERS**

Material matters are identified by reviewing Board submissions, quarterly reports to the shareholder, our operating environment, risk management processes and findings, and stakeholder issues. Our material issues were prioritised by assessing the impact of delivering on our strategy and risk metrics in the context of our strategy.

We respond by:

- Assessing the impact on risk tolerance and risk appetite
- Actioning activities to manage material matters
- Evaluating scenarios.

We report outcomes to the Board and stakeholders and we review and monitor our performance on these issues.

## Stakeholder prioritisation

|  | Rating agencies  | Regulators   | Economic Development     (500)  |  |  |
|--|--|--|---|--|--|
| e on the IDC<br>High                         |  | <ul> <li>Government departments not mentioned elsewhere in the table with an interest in the sectors that IDC funds</li> <li>National Treasury</li> <li>Mature listed investments where IDC has a low shareholding</li> <li>Department of Small Business Development (sefa)</li> </ul>                 | Department (EDD) The Department of Trade and Industry (the dti) Portfolio Committee on Economic Development and Select Committee on Economic and Business Development Employees Strategic project partners Lenders (bondholders, commercial banks, DFIs, PIC, UIF) Existing and potential clients |  |  |
| Stakeholder's influence on the IDC<br>Medium | • Media  | <ul> <li>Government departments not mentioned elsewhere in the table</li> <li>Banks and other financial services providers</li> <li>Governments of African countries other than South Africa</li> <li>Business associations</li> <li>Organised labour</li> <li>SOEs</li> <li>The unemployed</li> </ul> | <ul> <li>Broader communities around IDC-funded projects</li> <li>IDC's subsidiaries</li> <li>Provincial governments</li> </ul>  |  |  |
| Low  | <ul><li>Former employees</li><li>Potential employees</li><li>Higher education institutions</li><li>Activist bodies</li></ul> |  | • Suppliers   |  |  |
|  | Low  | Medium   | High  |  |  |
|  | IDC's impact on the stakeholder (interest)   |  |   |  |  |

## **STAKEHOLDER ENGAGEMENT**

The table below summarises our engagements with key stakeholders, their expectations from us, and our responses to their concerns.

| Stakeholders                                     | How we<br>engage with them  | What matters to them  | How we respond<br>to matters   | The impact of our actions  | Link to material issues  |
|--|---|---|--|--|--|
| Employees  O O O O O O O O O O O O O O O O O O O | Combination of face-to-face, written, electronic and print communication Employee engagement surveys and focus group meetings Quarterly CEO engagement sessions Divisional Executive feedback sessions Regular line manager meetings Team effectiveness sessions  | Making a difference     Transparent communication     Information on IDC's strategy and their role in its implementation     Work/life balance and a conducive working environment     Market-related remuneration and benefits     Personal development and career advancement   | Regular employee information sharing sessions Annual Star Awards to recognise top performers Market-related employee benefits, rewards and recognition Learning and development opportunities Leadership assessments Regular performance assessments   | Defined culture, vision and transformation journey, focusing on customercentricity     Improved employee engagement     Talent management through improved skills and capacitation     Certification as a Top Employer   | Customer expectations     Governance regulation and risk management     Human capital     Financial sustainability |
| Economic<br>Development<br>Department            | Ongoing and an annual strategic meeting with Minister of EDD and IDC Board     Ongoing and quarterly meetings with the Director-General and other officials     Meetings between IDC employees and EDD officials  | Increased levels of industrial financing, especially for women, youth and Black Industrialists  Job creation through beneficiation, regional development and labour-rich sectors of the economy  Proactively identifying investment opportunities across value chains  Assistance in policy research and coordination of projects (including PICC)  Compliance to Public Finance Management Act (PFMA) and good governance  Alignment to National Growth Path (NGP), Industrial Policy Action Plan (IPAP) and National Development Plan (NDP) | Increased marketing to women, youth and Black Industrialists through CEO regional roadshows and Youth conference Funding for local suppliers to the government infrastructure programme Support for PICC and collaboration with government on its Strategic Integrated Projects (SIP 5 & 8) Proactively identifying funding opportunities Contributing to the formulation and implementation of policies | Increased levels of industrial financing Increased impact on development outcomes Balancing proactive funding, whilst keeping funding competitive Managing the IDC's balance sheet for responsible lending Improved understanding of the IDC's mandate and subsequent impact | Industrial development     Socio-economic development     Financial sustainability     Partners                    |
| Potential and existing clients/project partners  | Various media platforms including print, radio, TV and online (email, website)  Meetings, interactions through sectoral/industry bodies  Written correspondence such as information emailers and financial statements  Annual and interim customer surveys  Client site visits to showcase the IDC's impact  Media briefings and press releases | A clear and easy to understand application process Upfront communication of the application/information requirements Prompt responses to queries/requests/service issues Timeous and effective evaluation of funding applications Regular updates and communication on the application process  | Monitoring client performance     Organisation-wide customer-centricity training     Customer service excellence employee recognition     Streamlining application processes     Dedicated email address to report service issues     Secondments, participation in Annual General Meetings (AGMs), Board representivity   | Simplified and streamlined application process Increased focus on turnaround times Improved customer service Improved levels of communication Strengthened influencer role Proactive industry development Opinion pieces by industry experts                                 | Customer expectations Industrial development Socio-economic development Financial sustainability                   |

| Stakeholders                                       | How we<br>engage with them  | What matters to them  | How we respond<br>to matters   | The impact of our actions   | Link to material issues  |
|--|---|---|--|---|--|
| National,<br>Provincial and<br>Local<br>Government | Meetings with relevant portfolio and select committees     Meetings between IDC employees and government officials     Stakeholder perception survey     Interviews with industry experts   | Development of rural areas and townships     Broad-based black economic empowerment     Opportunities for women, youth and Black Industrialists     Development of SMMEs     Assistance with projects related to industrial development   | Proactively identifying projects in poor provinces and townships     Expansionary Black Economic Empowerment (BEE)     Skills development initiatives for youth and women cooperatives     Leveraging relationships with provincial, local and rural development bodies  | Local economic and rural development     Increased job creation     Expanding industrialisation to less-industrialised regions     Improved accuracy of reporting on IDC  | Socio     economic     development     Industrial     development     Partners     Financial     sustainability                                |
| Commercial<br>Banks, DFIs and<br>Rating Agencies   | Due-diligences     Annual ratings review     Stakeholder perception survey     Interviews with industry experts   | Good governance     Financial sustainability and liquidity     Satisfactory levels of debt     Viable strategy  | Compliance to systems and procedures     Prudent management of IDC finances     Instilling a culture of governance and ethics amongst employees     Transparent presentation of financial results  | Financial sustainability, enabling IDC to honour its financial commitments     Strong governance structures   | Governance regulation and risk management     Financial sustainability     Partners  |
| Broader community impacted by IDC-funded projects  | Meetings with community leaders and traditional authorities     Local Economic Development (LED) Forums     Meetings with the Department of Rural Development and Land Reform     Stakeholder perception survey     CEO regional roadshows     Various media platforms, segmented for specific target audiences | Sustainable socio-economic development Responsible utilisation of community land and other assets Community participation Assistance in forming, registering and managing community trusts and cooperatives Corporate Social Investment initiatives Empowering local people Transformation Factual and transparent information Timeous feedback | Undertaking LED initiatives     Appointment of specialists and consultants     Establishing and registering community trusts and providing relevant training     Compiling socio-economic needs assessments     Community engagements     Showcasing IDC's impact through client case studies on regional and national media platforms | Job creation     Township development     Productive utilisation of community land and other assets     Improved skills and increased community participation     Successful CSI initiatives     Empowered local people     Progress towards transformation of the rural economy     Enhanced reputation     Improved understanding of IDC's mandate and impact | Socio-economic development     Financial sustainability     Partners     Governance, regulation and risk management     Industrial development |

#### **MATERIAL ISSUES**

Based on the above analysis, it has become clear that except for some details of what is expected from the IDC, the expectations of stakeholders have not changed significantly over the past number of years. Our material issues remain very similar to the previous year, with the issues relating to partnerships expanded:

- Industrial development
- Socio-economic development
- · Customer expectations
- · Human capital
- Partners
- · Governance, regulation and risk management
- · Financial sustainability.

## **CONTEXTUALISATION OF MATERIAL MATTERS**

## **Industrial development**

We execute our mandate of industrial development in accordance with relevant legislation and government policy. As a main implementing agent of government policies such as the New Growth Path, the Industrial Policy Action Plan, and the National Development Plan, we make every effort to intensify our investment activities in those sectors in which we are active.

## Socio-economic development

As a DFI, our funding directly influences certain socio-economic development outcomes and assists with South Africa achieving its Sustainable Development Goals and the transition to a low carbon economy. We participate in relevant forums and platforms to assist with this.

#### **Customer expectations**

Our clients expect to be provided with customised products and services, and to deal with knowledgeable and professional staff. We therefore continuously revise our products and simplify processes in order to improve the fit of products with customer needs, respond to requests timeously, and improve communication.

The IDC conducts annual customer satisfaction surveys amongst its existing clients to keep abreast of needs and expectations. The findings enable the Corporation to have a full view and understanding of the customer experience through the application and after-care journey. One of the conclusions of the survey is that respondents rate

the IDC's "overall service experience" as 7.9 on a scale of 1-10, which is an indicator of the customer's overall satisfaction level with regard to the IDC's service delivery\*. More details and conclusions from the survey can be found on the IDC online website.

#### **Human capital**

The Corporation fosters a high-performance culture with an emphasis on change and innovation. Transformation and diversity are cornerstones of our human capital strategy. We endeavour to offer appropriate rewards and recognition, work satisfaction, and a good working environment. Whilst we strive to attract and retain appropriately qualified, skilled and experienced employees, our employees expect commitment to mandate, a stable and predictable work environment and an engaged and supportive leadership.

Our project partners, associates, subsidiaries and other business partners expect us to remain financially stable, operationally independent and to employ transparent processes and uphold governance principles. Successful collaboration calls for investments in time and effort to sustain relationships. The IDC plays a critical role in the structuring of projects to crowd-in private capital.

## Governance, regulation and risk management

Our Board of Directors leads ethically and effectively. We subscribe to the principles of good governance as provided for in the King III Report. Transparency is of the utmost importance and we strive to maintain effective governance at all times, including in our dealings with stakeholders. We comply with the provisions of the PFMA and the Treasury Regulations as are applicable to schedule 2 entities. Systems and processes are regularly updated and we keep and update registers relating to conflicts of interest, risk management and fraud prevention.

## Financial sustainability

As a financially sustainable SOE, we use our balance sheet and the ability to leverage on equity to achieve our objectives. Since our primary objective is developmental return, we make choices based on various factors including risks, the capital structure and financing structures.

## Links between material matters and strategic pillars

| Material matter                            | Link to strategy (as on page 6)       |                          |                     |  |
|--|---------------------------------------|--------------------------|---------------------|--|
| Industrial development                     | INCREASE INDUSTRIAL DEVELOPMENT       | UTILISATION OF RESOURCES |                     |  |
| Socio-economic development                 | INCREASE INDUSTRIAL DEVELOPMENT       | STAKEHOLDERS             | NATURAL ENVIRONMENT |  |
| Customer expectations                      | STAKEHOLDERS                          | UTILISATION OF RESOURCES |                     |  |
| Human capital                              | O O O O O O O O O O O O O O O O O O O | UTILISATION OF RESOURCES |                     |  |
| Partners                                   | STAKEHOLDERS                          |                          |                     |  |
| Governance, regulation and risk management | MAINTAIN FINANCIAL SUSTAINABILITY     |                          |                     |  |
| Financial sustainability                   | MAINTAIN FINANCIAL SUSTAINABILITY     | UTILISATION OF RESOURCES |                     |  |

<sup>\*</sup> The following clients are excluded from the survey: international clients, clients undergoing legal action as well as those who are undergoing restructuring. Some of these clients are however included in the short-term quarterly survey.

## **CASE STUDY**

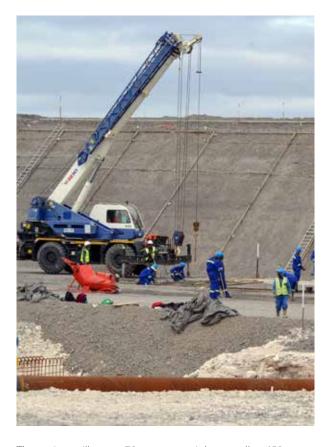
## **OILTANKING MOGS SALDANHA**

We are partnering with project oil company, Oiltanking MOGS Saldanha (OTMS), to fund the construction of the first phase of an open access commercial crude oil blending and storage terminal adjacent to the Port of Saldanha in the Western Cape.

**DIRECT JOBS** 

OTMS was formed by a German-based company, Oiltanking GmbH, and a B-BBEE company, MOGS. MOGS was established in 2007 and focuses on providing various products and services to the mining, oil and gas services industries in South Africa, other African countries, and the Middle East. It is 51% owned by Royal Bafokeng Holdings and 49% by the PIC.

The OTMS project is a new entrant into the local crude oil storage industry. We are providing a plant and equipment loan for the first construction phase, which includes building eight crude oil storage tanks with a capacity of 1.1 million barrels each and the full infrastructure development for Phase 2, which includes building an additional four storage tanks.



The project will create 70 permanent jobs as well as 650 annualised construction jobs. Additional benefits include the use of local cement and steel and using skilled labour from a talent pool created by projects previously funded by the IDC.

Saldanha Bay is a deep sea port which allows very large crude carriers to transfer crude oil. Infrastructure at the port is currently underutilised, making it an ideal location for the trans-shipment of crude oil.

Funding for the project is being leveraged from international DFIs, including the German Investment Corporation (DEG), a subsidiary of German Development Bank (KfW Group) and Netherlands Development Finance Company (FMO).



Construction of eight crude oil storage tanks, with a capacity of 1.1 million barrels each, has begun in the Port of Saldanha, Western Cape.

## **OUR BOARD OF DIRECTORS**



**BA MABUZA (53)** 

Chairperson of the Board (Non-Executive Director)

BA (Mathematics and Computer Science) (Hunter College, City University of NY), MBA (Finance and Information Systems) (Leonard Stern School of Business, NYU)

Appointed to the Board on 25 November 2011 and appointed Chairperson on 29 January 2015

## Committees:

- Member of the Board Human Capital and Nominations Committee
- Member of the Board Investment Committee



MG QHENA (51)

Chief Executive Officer
(Executive Director)

BCompt (Hons) (UNISA), CA(SA), SEP (Wits and Harvard), Advanced Tax Certificate (UNISA)



LI BETHLEHEM (49)

(Non-Executive Director)

BA (Hons) (Industrial Sociology) (Wits), Master of Arts (Wits), Certificate in Economics and Public Finance (UNISA)

Appointed to the Board on 1 October 2008

#### Committees:

 Chairperson of the Board Risk and Sustainability Committee



BA DAMES (51)

(Non-Executive Director)

BSc (Hons) (UWC), MBA (Samford University)

Appointed to the Board on 25 November 2011

#### Committees:

- Chairperson of the Board Human Capital and
- Nominations Committee
  Member of the Board Risk and
  Sustainability Committee



**RM GODSELL (64)** 

(Non-Executive Director)

BA (Sociology and Philosophy) (UN), MA (Liberal Ethics) (University of Cape Town), Postgraduate studies (Sociology and Philosophy) (Leiden University)

Appointed to the Board on 25 November 2011

### Committees:

- Member of the Board Human Capital and Nominations Committee
- Member of the Board Audit Committee



A KRIEL (54)

(Non-Executive Director)

BSoc Sci (Cape Town) Appointed to the Board on 1 April 2016

## Committees:

- Member of the Board Human Capital and Nominations Committee
- Member of the Board Risk and Sustainability Committee
- Member of the Social and Ethics Committee



SM MAGWENTSHU-RENSBURG (57)

(Non-Executive Director)

BA (Management Accounting and Business Administration) (Webster University, Vienna), MBA (Webster University, London), DPhil (Business Management) (UJ)

Appointed to the Board on 25 November 2011

## Committees:

- Chairperson of the Board Investment Committee
- Member of the Board Audit Committee



NP MNXASANA (60)

(Non-Executive Director)

BCompt (Hons) (UNISA), CA(SA) Appointed to the Board on 29 January 2015

## Committees:

- Chairperson of the Board Audit Committee
- Member of the Board Risk and Sustainability Committee



## **M MORE (36)**

(Non-Executive Director)

BBus Sc (Fin Hons – CA option) (Cape Town), B Com (Acc Hons), CTA (University of Natal), CA (SA) Appointed to the Board on 1 April 2016

#### Committees:

- Member of the Board Audit Committee
- Member of the Social and **Ethics Committee**



## PM MTHETHWA (53)

(Non-Executive Director)

BA (Economics) (University of the North), MSc (Economics) (University of Paris), MBA (Corporate Finance) (University of Sheffield)

Appointed to the Board on 25 November 2011

#### Committees:

- Member of the Board Investment Committee
- Member of the Board Risk and Sustainability Committee



## ND ORLEYN (61)

(Non-Executive Director)

BProc, Bluris, LLB, Certificate in Energy Law, Executive Management Programme (Kellogg Business School)

Appointed to the Board on 29 January 2015

#### Committees:

- Chairperson of the Social and **Ethics Committee**
- Member of the Board Investment Committee
- Member of the Board Human Capital and Nominations Committee



**NE ZALK (48)** 

(Non-Executive Director)

BA (English and Private Law) (UNISA), Postgraduate Diploma in Economics (Development) (School of Oriental and African Studies), MSc (Economics) (with merit) (School of Oriental and African Studies, London University)

Appointed to the Board on 25 November 2011

#### Committees:

- Member of the Board Investment Committee
- Member of the Social and **Ethics Committee**



## **GS GOUWS (58)**

**Divisional Executive: Transaction Support and** Post-Investment (Alternate Director to CEO)

BCom (Law), BCom (Hons) (RAU- $University\ of\ Johannesburg),\ CA(SA),$ FCMA, Advanced Management Programme (Insead)

## **RESIGNED**



#### **B MOLEFE (50)**

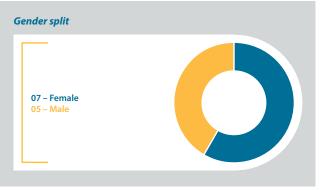
(Non-Executive Director)

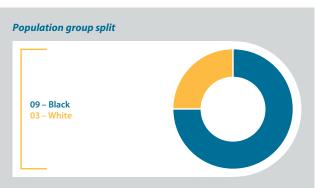
Appointed to the Board on 29 January 2015.

Resigned from the Board with effect from 25 January 2017

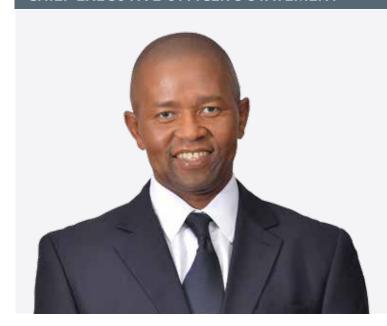
#### Committees:

- Member of the Board Investment Committee
- Member of the Board Audit Committee





## CHIEF EXECUTIVE OFFICER'S STATEMENT



The year under review was again a challenging one for the IDC. The world economy struggled to sustain its growth momentum, while activity levels in the South African economy became more subdued. The year also witnessed significant changes in the geopolitical environment, with the rise in anti-globalisation sentiments as evidenced by the United Kingdom's intended exit from the European Union, and the shifting economic policy in the United States.

In South Africa, the weak economic growth performance was largely due to sharply lower output in the agriculture, mining and electricity sectors, with the generalised weakness spanning across most other sectors of the economy. Higher inflationary pressures, low business and consumer confidence, the impact of the drought, as well as relatively low commodity demand and prices also contributed to the difficult operating environment. Naturally, these factors negatively influenced the IDC's activity levels and the credit quality of our portfolio.

2017 also marked the second year of the implementation of our proactive industrial development strategy, which focuses on the development of priority industries and initiatives across the country in order to increase our impact. This has meant that we take greater ownership of and leadership in the development of sectors and industries deemed critical for the growth of our economy in line with our value chain approach.

#### **INVESTMENT HIGHLIGHTS**

Project Evolve, while a long-term strategy, is beginning to show results as seen in the improvement of our key performance indicators.

Our strategy is underpinned by increasing industrial development impact while ensuring alignment with government's strategic priority plans.

Despite the challenging economic environment, our proactive investment approach resulted in an improvement in our overall performance. The total value of funding approvals increased to R15.3 billion, the highest level ever.

Of this amount, 69% was to the value chains with the metals and mining value chain accounting for 56%. The chemicals and pharmaceutical value chain received 13%.

Funding approvals to the mining sector amounted to R3.9 billion (2016: R2.5 billion), representing a 25% increase and further demonstrating our counter-cyclical role in the economy. A recovery in commodity prices during the year across a range of commodities, including coal, iron ore and platinum, provided some relief to the mining sector at large.

Our funding approvals to the basic metals, metal products and mining value chain continued to counter the adverse trends experienced by these industries. Although copper and aluminium prices have rebounded strongly, the platinum price has been on a declining trend after an initial surge at the beginning of the year. For the South African mining sector at large, production volumes were lower in all but one of the main sub-sectors compared to the previous year, while export volumes also tumbled. Platinum production was 4.3% lower in 2016, while copper production (-15.6%) was sharply lower.

The automotive and transport equipment industries accounted for 11% of the total funding approved (R1.7 billion). A notable investment in this case was the approval of the R1.5 billion motor vehicle assembly plant project, a joint venture between the IDC and the Beijing Automotive Industry Holding Company (BAIC). This investment aligns with the strategic intent of the Automotive Production Development Programme, which seeks to attract new and/or expand existing investments by original equipment manufacturers and suppliers in order to achieve higher domestic production volumes, in the process contributing to much needed job creation.

This is the first investment of this scale in the South African automotive industry in 40 years. More than 2 500 jobs are expected to be created during the construction of the first phase of the project, with the permanent employment at around 800 jobs. Most importantly, the project has committed to achieving at least 60% local content on all vehicle models to be manufactured locally. Plans have also been initiated to scale up the existing South African supplier base.

The chemicals and pharmaceuticals industries received 13% (R2.1 billion) of the total funding approved. Despite a very difficult operating environment for the manufacturing sector at large, the chemicals industry managed to record a fairly solid growth performance over the past year. Throughout the year, business confidence in the industry was well above that for the manufacturing sector as a whole and ranked in second place out of all sub-sectors within manufacturing.

Approvals to the agro-processing and agriculture sectors performed below expectations. Severe drought conditions continued to impact negatively on agricultural output, leading to a general lack of investment. The food processing sector, in turn, also recorded a drop in production volumes over the past year, with fixed investment declining in response to unfavourable operating conditions. Despite the challenges faced by the sector, new jobs were created.

Numerous initiatives aimed at improving opportunities for backward and forward linkages as well as leveraging external partnerships more effectively have been identified by the IDC and will be implemented in earnest in the new year. An example is the initiative being pursued in partnership with Coca-Cola Beverage South Africa to support local emerging farmers in the grape value chain.

The delays in the signing of the power purchase agreements for the projects awarded the preferred bidder status in the Renewable Energy Independent Power Producer Procurement Programme (REIPPPP), had a negative impact on the level of our approvals and the levels of disbursements thus affecting the execution of new projects. We have, however, begun to diversify our involvement in the renewable energy sector by identifying alternative market opportunities, especially with regard to embedded generation, off-grid solutions and supporting South African developers in taking advantage of opportunities in other African markets.

As a result of the economic environment, the total funding disbursed during the year decreased marginally to R11.0 billion (2016: R11.4 billion), as clients held back on their investment plans. We continue to strive to ensure timeous investment flows into the economy in order to expedite developmental impact.

## **ADVANCING TRANSFORMATIVE INDUSTRIALISATION**

A large part of our focus is on developing the industries of the future, particularly game-changing opportunities in response to the demands of the "Fourth Industrial Revolution". We recognise that this is a new and fast-evolving territory, and hence continue to refine and adapt our strategies to respond appropriately to rapidly changing market conditions.

One of the key focus areas in the year under review was increasing specific development outcomes, notably the creation of jobs, funding to Black Industrialists, as well as women-, youth- and black-empowered businesses in order to support transformation objectives. Building on the previous year's performance, I am particularly pleased to announce that we recorded significant improvements in all of these development indicators as envisaged in our Corporate targets. More specifically, we facilitated the creation of 18 206 new jobs (2016: 11 833 jobs) and saved 2 675 existing jobs (2016: 3 439), representing a 37% increase overall. Our investment in Oiltanking MOGS Saldanha, for example, is expected to contribute toward the creation of 720 construction jobs, while the Wagienience investment will create 463 jobs.

During the year we approved R4.7 billion in 83 transactions for Black Industrialists, representing a 63% increase on the previous year's approvals. This reflects a concerted effort on our part to support economic transformation in South Africa and also indicates that our targeted stakeholder efforts are bearing fruit.

The funding approved for youth-empowered businesses increased to R2.3 billion in 52 transactions (2016: R970 million, 19 transactions) during the year under review. This marked improvement follows the commitment by the Corporation to support youth enterprises to the value of R4.5 billion from 2016 to 2020. For example, we provided funding to Maneli Pets to buy machinery and equipment to convert the factory into an export-grade facility. The investment is expected to create 40 new jobs. In addition, the IDC's offerings to youth were reviewed to provide greater accessibility and dedicated support. A deliberate and targeted marketing campaign culminated in our first National Youth Enterprise conference, which we hosted in October 2016.

Similarly, we recorded a significant improvement in approvals for women-empowered businesses at R3.2 billion, triple the R1.1 billion approved in 2016. Approvals to black-empowered businesses recorded a 103% increase at R10.1 billion against R4.9 billion in the previous year. Supporting black business to grow, including women and youth entrepreneurs, is viewed as a lever for the increased participation of Black Industrialists in the economy, thus contributing to its transformation.

To ensure the Corporation delivers effectively on its mandate, we continued to effect efficiency improvement measures to simplify our business processes, making them more client-centric and responsive. Consequently, the time taken from approval to first draw-down has been reduced by 55%. We have also committed to delivering on what matters to our clients on a consistent and integrated basis. To do this we have also simplified the assessment process for non-complex transactions, empowered front line staff to make relevant decisions faster, and introduced automation platforms that enable our clients to engage IDC with greater ease.

During the financial year, a total of R58 million funding support was provided towards social enterprise initiatives and R24 million towards education and skills development. A further R3.5 million was provided for entrepreneurship and job creation initiatives as part of our Corporate Social Investment programme. The involvement in these areas is in line with the linkage of the future development of the pipeline for the value chain. We are also co-funding the PICC programme as the source of developing the localisation pipeline.

## **FINANCIAL PERFORMANCE**

Despite the difficult environment we posted a group profit of R2.2 billion, a significant increase from the previous year's profit of R223 million. This was as a result of a concerted effort to closely monitor the performance of our investments which resulted in the reversal of some impairments. The impairment charge decreased from R3.7 billion to R2.1 billion in the current year with the impairment ratio improving from 16.9% in the previous year to 16.7%. Revenue improvement combined with close monitoring of operating expenditure also had a positive impact on the bottom line. The conclusion of the first phase of the Exxaro empowerment structure resulted in capital gains of R1.7 billion. The equity

accounted investments continued to perform well, recording an 73% increase in profit, driven primarily by the recent recovery in commodity prices, contributing R963 million to the profits in 2017.

Our material subsidiaries performed below expectation, with Foskor recording a loss of R902 million (2016: R568 million) largely due to a lower than forecasted phosphate price, and the stronger exchange rate which had a significant impact on revenue and profit generation. Foskor continues to implement identified performance improvements and initiatives to optimise current operations. Scaw recorded a loss of R787 million in the year under review (2016: R1 074 million). The process to conclude the restructuring of the Scaw group is being finalised and is expected to result in the introduction of Strategic Equity Partners for its main operating divisions.

The IDC balance sheet has continued to strengthen with an asset base of R129.8 billion, mainly driven by stronger commodity prices as seen in the 12% improvement in the listed portfolio as well as new approvals. The diversification of our assets remains part of our strategy to mitigate the concentration risk. The debt to equity ratio recorded a marginal increase from 36% to 37% as a result of increased borrowings to support our funding activities.

The improvement in reserves had a positive impact on the debt-to-equity ratio which is still well within our internal threshold of 60% and our statutory limit of 100%. Financial sustainability remains a critical focus area, more especially in the current operating environment.

#### **LOOKING AHEAD**

The economic recovery anticipated in 2017 may be delayed by recent developments, including the downgrades of South Africa's sovereign credit ratings. Business and investor confidence has been negatively affected, which does not bode well for fixed investment spending. Operating conditions remain largely unsatisfactory in the manufacturing sector. Manufacturers are expected to hold back on investments in productive capacity in anticipation of an improvement in demand conditions, both domestically and in key global markets. As a result, investment activity in the sector is likely to remain subdued for some time.

We are continually evaluating how we can best fulfil our countercyclical role in the current environment. We expect our clients to remain under pressure in the short term, possibly resulting in an increased demand for distress funding. The ability of many businesses to raise debt in this environment is likely to be more challenging, with borrowing costs on the rise. Through our capital raising efforts we will look for opportunities to leverage outside funds more effectively.

Growth prospects look set to improve in several other African economies as export demand and commodity prices recover. A weaker exchange rate of the rand may, if sustained, lead to opportunities for the export of South African products as well as for import replacement. We also believe that there are opportunities to extend our support to the economy by integrating value chains from a regional perspective.

Investing in our people is key to our vision and delivery on our strategies. We will continue to ensure that our staff is appropriately skilled and capacitated in order to improve the support provided to our clients.

We have raised the profile of subsidiaries' management, especially in light of their poor financial performance in the previous financial years, and will continue to look for ways in which to improve their operating efficiencies.

We intend to intensify the level of regional integration by exploring different financial ways of investing in the rest of the continent through partnerships with established financial institutions in the efforts of enhancing the value chain approach, since this is one area in which we have performed poorly in the previous years.

#### **ACKNOWLEDGEMENTS**

I am most appreciative of the enormous efforts and commitment from the management team and staff in ensuring that we increase the IDC's role in the economy. The development outcomes of the past year are notable given the difficult market conditions.

I also wish to extend my gratitude to the Chairperson and the Board of Directors for their continued support and guidance, as well as for challenging the Corporation to do more.

A special word of thanks to the Honourable Minister of Economic Development and his team for their unwavering support and contributions in ensuring that the IDC continues to deliver on its mandate. I also express my gratitude to the Honourable Chairpersons of the Portfolio Committee on Economic Development and Select Committee on Economic and Business Development as well as the Honourable members of the committees for their continued support.

Last but not least, I would like to extend my appreciation to our clients and other stakeholders who choose us as their development finance partner.



MG Ohena Chief Executive Officer

28 June 2017

## PARTNERING WITH OTHER GOVERNMENT INSTITUTIONS

To achieve our development mandate, we partner with government and public sector entities to assist them in their areas of operation and to contribute to them achieving their economic and social development objectives. These areas of collaboration include:

- · Assist with the formulation of policies and strategies in several areas, including industrial policy and action plans, and the various iterations of the Industrial Policy Action Plan
- · Participate in policy and sectoral steering committees and task teams, e.g. Steel Task Team, Poultry Industry Task Team, etc.
- Identify industrial capacity development opportunities in line with national initiatives
- · Coordinate infrastructural and industrial development aspects of specific national initiatives (e.g. Presidential Infrastructure Coordinating Commission (PICC)
- Co-fund specific national programmes (e.g. REIPPPP)
- · Manage specific support and incentive schemes (such as the Clothing and Textiles Competitiveness Programme (CTCP), the Manufacturing Competitiveness Enhancement Programme (MCEP), the Agro-Processing Competitiveness Fund (APCF), the Industrial Policy Support Fund (IPSF), the Downstream Steel Industry Development Fund and others)
- Partner with other DFIs to co-fund projects that span different mandates
- · Create funding partnerships to enhance the development benefits of interventions of state-owned companies, aligned with their respective mandates (e.g. Unemployment Insurance Fund (UIF) and the Public Investment Corporation (PIC)).

## SUPPORT FOR TVET COLLEGES AIMS TO UPSKILL YOUTH

Through its Corporate Social Investment (CSI) initiatives, the IDC is crafting a brighter future for unemployed youth, by supporting the Technical Vocational Education and Training (TVET) Colleges sector.

The TVETs are at the centre of government's efforts to expand post-school education and training to accommodate the growing number of young people seeking education and training outside of the schooling system.

In its 2017 financial year, the IDC set aside grant funding to support projects at four TVET colleges: the Ekurhuleni East College's Kwa-Thema Campus in Gauteng, the Port Elizabeth College's Ohayiya Campus in the Eastern Cape, Waterberg College's Lebowakgomo engineering campus in Limpopo and the Northern Cape Urban College's (NCUC) Galeshewe Campus.

These colleges were specifically identified due to their strategic links to IDC-funded projects and the prospective employment opportunities for students once qualified. In addition, if scarce skills related to a specific industry are increased in underdeveloped areas, the entire community benefits. Equipped with the necessary skills set, qualified students' chances to find employment not only increase, but in return can create employment opportunities for others by becoming entrepreneurs.

Courses at these colleges are related to the automotive industry, basic metals and mining, and the green economy. Training is not only focused on developing skills related to current employment opportunities, but also in future, such as the partnership with NCUC to develop a fully accredited renewable energy programme. The most successful students will be placed or indentured as apprenticeships to become qualified artisans, with industry partners.

Automotive courses offered at the Port Elizabeth College's Ohayiya Campus in the Eastern Cape could result in students finding employment at companies such as BAIC, in partnership with the IDC.

IDC's funding for the Founding Training Centre at the Ekurhuleni East College's Kwa-Thema Campus in Gauteng, focusing on the artisan skills curriculum for moulders patternmakers and melters, will go a long way in equipping students to find employment at IDC clients in the metals industries.

Support for Waterberg College's Lebowakgomo engineering campus in Limpopo will assist the college in getting their workshops accredited with the relevant SETAs to offer courses that are relevant to industry needs and prepare artisans for trade testing.

## **CASE STUDY**

## **AVK HOLDINGS SOUTHERN AFRICA**

Our funding of AVK Holdings will assist in replacing imported machinery and equipment with locally manufactured goods.

**DIRECT JOBS** 

AVK Holdings was established in 2014 and is one of the largest manufacturers and suppliers of large bore, high pressure/high temperature water control valves for the water distribution, power, and mining industry in southern Africa. AVK Valves is owned by AVK Group, a Denmark-based industrial group with a market presence of 16 years in South Africa.

The company sought a local partner to establish a manufacturing facility to ensure that 70% of its valves and actuators used in South Africa are produced locally. We funded the transaction by providing a loan facility for plant and equipment as well as a working capital and a



revolving credit facility. The transaction resulted in the creation

Going forward, the water and power segments present growth opportunities and demand for inputs is expected to increase as a result of government's infrastructure development and maintenance programme to address the current power, water and sanitation challenges.

The company will have a strong position in South Africa for both the water and industrial segments based on present market position and localisation, which is expected to reduce competition from cheaper imports.

## **OUR EXECUTIVE MANAGEMENT**



MG QHENA (51)

**Chief Executive Officer** 

BCompt (Hons) (UNISA), CA(SA), SEP (Wits and Harvard), Advanced Tax Certificate



N DLAMINI (43)

**Chief Financial Officer** BCom (Accounting) (Wits), Post Graduate Diploma in Accounting (UKZN), CA(SA)



**MP MAINGANYA (44)** 

**Chief Risk Officer** 

BCom (Wits), BAcc (Wits), HDip Tax Law (RAU - University of Johannesburg), Adv. Cert. Banking (UJ), IEDP (Wits), GEDP (GIBS), CA(SA)



RJ GAVENI (45)

**Divisional Executive:** 

**Human Capital** BAdmin (Hons) (Industrial Psychology) (UNISA), Masters in HR Management (Golden Gate University), Executive Development Programme (GIBS)



**GS GOUWS (58)** 

**Divisional Executive: Transaction Support and** Post-Investment

BCom (Law), BCom (Hons) (RAU - University of Johannesburg), CA(SA), FCMA, Advanced Management Programme (Insead)



DA JARVIS (47)

**Divisional Executive: Corporate Strategy** BSocSci (Natal), BSocSci (Hons) (UND), MSocSci (Natal)



PZ LUTHULI (40)

**Divisional Executive: Corporate Affairs** BA Communications (UZ), MBA (UNISA)



P MAKWANE (51)

**General Counsel and Group Company Secretary** Bluris, LLB (UWC)



AP MALINGA (52)

**Divisional Executive: Mining** and Metals Industries BSc (Geology) (UCT), MBL (UNISA)



L MATSHEKGA (43)

**Divisional Executive:** Agro, Infrastructure and New Industries

BCom General (UWC), BCom Hons Financial Analysis and Portfolio Management (UCT), Masters in Development Finance (USB), Global Executive Development Programme (GIBS)



SAU MEER (55)

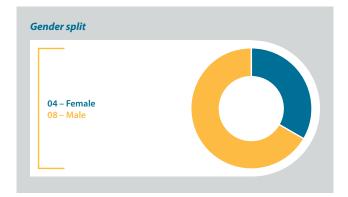
**Divisional Executive: Chemicals and Textiles** Industries

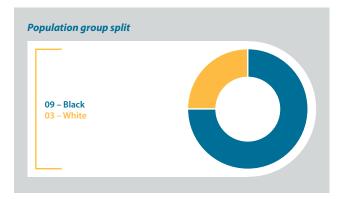
BSc (Mechanical Engineering) (Natal), MBL (UNISA), Advanced Management Programme (Insead), Executive Development Programme (GIBS)



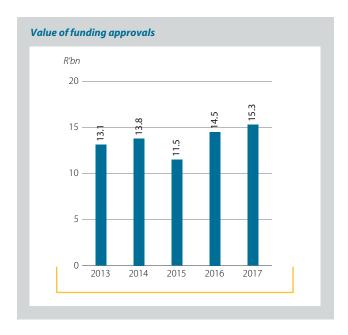
**WH SMITH (56)** 

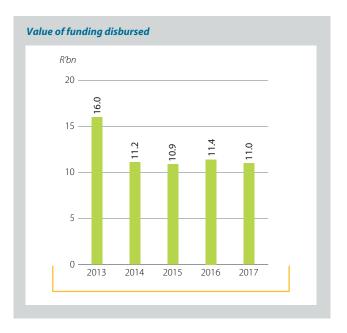
**Divisional Executive: High Impact and Regions** Pr Eng, BEng (Civil) (Stell), GDE (Civil) (Wits)

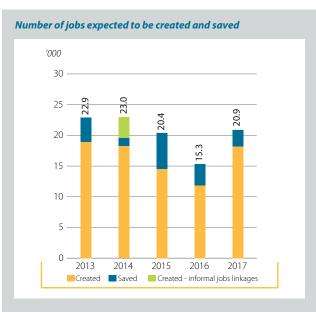


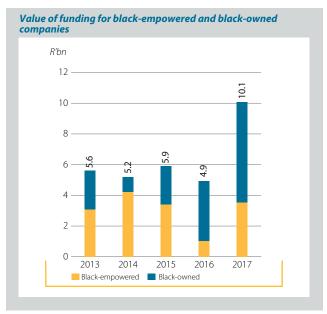


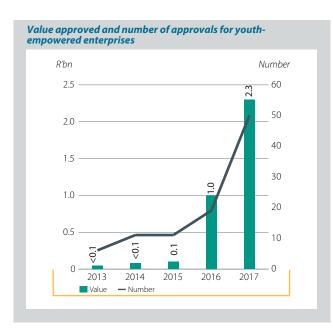
## **PERFORMANCE OVERVIEW**

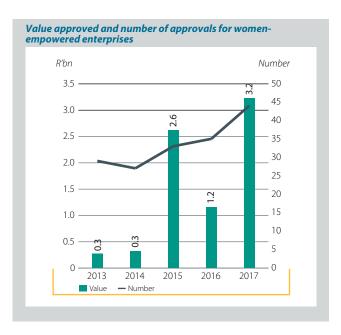


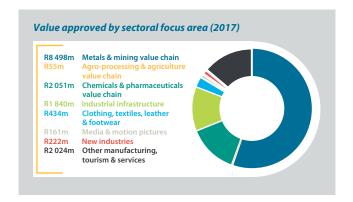


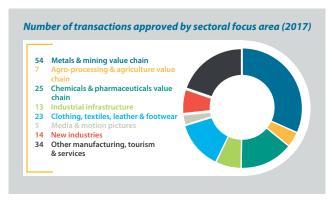


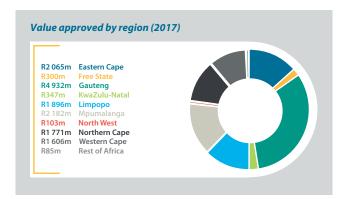


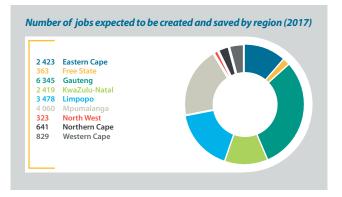


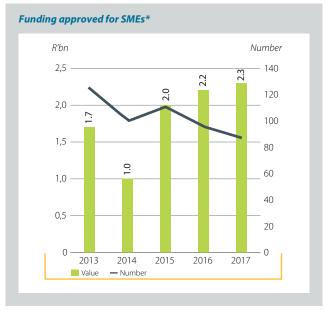


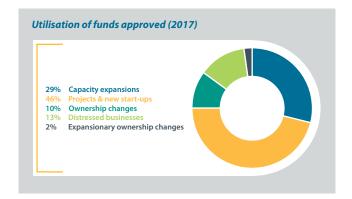












<sup>\*</sup> Excluding funding from sefa

## LEADING INDUSTRIAL CAPACITY DEVELOPMENT

## **METALS AND MINING VALUE CHAIN**

This value chain includes mining and the manufacturing of basic metals, metal products, machinery, motor vehicles and components, and other transport equipment.

With global demand and prices for commodities and basic metals subdued over a large part of the year, mainly as a result of lower input requirements in China, the mining and metals processing industries have been under pressure. This is evident in the mining industry's value add contracting by 4.7% during 2016 following the rebound experienced in 2015. The domestic steel industry has also been severely impacted, with ArcelorMittal SA continuing to post losses and Evraz Highveld Steel still under business rescue. A drop in capital expenditure by the private sector and public corporations as well as reduced consumer spending impacted downstream industries negatively.

Our activities in this value chain are aimed at ensuring a globally competitive downstream metals industry. We achieve this through direct intervention in valueadding industries and by developing basic metals industries so that competitively priced inputs can be supplied.

The mining industry, as a key supplier of raw materials to the metals and other downstream industries throughout the economy, is also an important consideration in our strategies for this value chain. Apart from the potential benefits that a competitive mining sector can bestow on downstream industries, it assists with the development of rural communities where projects are implemented in a sustainable manner.

## **FUNDING ACTIVITY**

The gross value of funding approved in 2017 for this value chain increased by 41.7% to R8.5 billion (2016: R6.0 billion). Funding for both downstream and upstream industries increased, although despite this increase in funding approved, funding disbursed declined by 28.5%.

In support of our drive to develop downstream sectors, the motor vehicle industry saw a R1.6 billion boost in funding approved. Our proactive activities to attract investment by OEMs resulted in the partnership with Chinese vehicle manufacturer BAIC Group to establish a new car plant in Port Elizabeth. The benefits of this investment will be further leveraged through commitments to increase local content during the construction and operational phases of the plant.

The R0.9 billion increase in funding for the fabricated metals industry was largely driven by continued support for Scaw Metals. During the year, we were able to complete negotiations for the restructuring and introduction of strategic partners into this subsidiary, which recorded a loss of R787 million during 2017 (2016: R1.1 billion). The proposed transaction is awaiting regulatory approval. We envisage that, when implemented, this will result in significant improvements in the business and a turnaround in its financial performance. We also continued to support Scaw to comply with environmental regulations and perform remedial work.

Levels of funding for the industry were also boosted with the approval of funds for a new aluminium beverage can factory to be built in Germiston by a Black Industrialist.

Funding for the mining industry increased by R1.3 billion. This resulted from the restructuring of existing facilities and additional funding for the Kalagadi Manganese project in the Northern Cape. Full operation of the mine was hampered by delays, but construction of the mine, plant, and connecting infrastructure has now been completed and the project is ready to start operation in full.

With the unwinding of Exxaro's BEE transaction, we approved funding for the replacement BEE transaction to ensure that Exxaro maintains a significant level of black shareholding. In support of our strategy to ensure security of supply for energy minerals, we continued to provide funding for a number of coal projects that will supply Eskom.

The momentum in levels of funding for the machinery and other transport equipment sector could not be maintained, with a R0.8 billion decline in the funds approved for these industries. Despite the decline, we continued our support for the industry with funding approved for several projects. This included funding for Black Industrialists to acquire an engineering firm specialising in the design and manufacture of pneumatic cylinders and the manufacturing of valves, electric transformers, electrical and solar geysers and rolling stock components in support of infrastructure programmes.

## **STAKEHOLDER ENGAGEMENT**

In response to the crisis experienced in the steel industry, government established the Steel Industry Task Team in 2015. We are active participants on this team, which is seeking ways to improve competitiveness in this industry.

We also continued engagements with Eskom, Transnet and the Passenger Rail Agency of South Africa (PRASA) to increase levels of local content in their capital investment programmes, and with automotive assemblers to increase the local manufacturing of components for motor vehicles.

#### **DEVELOPMENT OUTCOMES**

The employment impact of the transactions that were approved during the year will be felt through an expected 8 982 jobs to be created (2016: 6 881) and 268 jobs to be saved (2016: 1 000). Our commitment towards transformation in the industry is evident, with 54% of the value of funding aimed at black-empowered companies (2016: 42%). This is further illustrated through levels of funding for Black Industrialists and women- and youth-empowered businesses increasing in comparison with 2016 by R1.7 billion, R1.9 billion, and R94.7 million respectively.

### **OUTLOOK**

Despite the challenges experienced in segments of the value chain, our role as a countercyclical and long-term funder allows us to find ways to address these. In addition, we continue to identify various opportunities in the value chain that can lead to new investment (see page 34).

Given this, we are targeting the provision of R6.6 billion in funding for these industries in 2018. While we expect to reduce funding for capital-intensive sectors to some extent, we are aiming to increase funding for the more labour-intensive sections of the value chain.

## **CASE STUDY**

## **BAIC AUTOMOBILE SA**

As the first new car plant to be built in South Africa in 40 years, the BAIC project is evidence of international investors' confidence in basing their off-shore manufacturing capacity in South Africa. The first phase of the plant, to be built in Port Elizabeth, Eastern Cape, will have the capacity to make 50 000 cars per annum.

**DIRECT JOBS** 

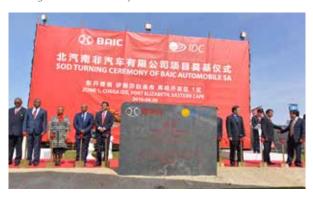
**INDIRECT JOBS** THROUGHOUT THE

One of the strategies that we have been pursuing over a number of years to further develop the local motor vehicle industry concerned the establishment of a plant to manufacture vehicles for a number of original equipment manufacturers (OEMs). While engaging foreign companies as potential partners for this multi-OEM project, we were able to convince BAIC, a Chinese OEM, of the merits of establishing a plant in South Africa as part of its expansion into foreign markets.

The first phase of the factory will consist of a body shop, paint shop, and a trim and assembly plant. Later phases of the project could result in the development of a supplier park next to the plant and capacity being doubled to produce 100 000 vehicles per year.

Components that will be sourced locally include interior and exterior trim, plastic and rubber components, wiring harnesses, air-conditioning systems, rims, tyres, windscreens, body panels, chassis components and assemblies, and some engine component parts. Local materials will also be used during the construction of the plant.

The motor vehicle industry has strong linkages to the rest of manufacturing and other sectors of the economy. The project itself will support 784 jobs during operation, but through these linkages, up to 18 100 jobs will be supported throughout the economy.



The Minister of Economic Development along with officials from the IDC and BAIC at the sod turning ceremony



## **METALS AND MINING VALUE CHAIN**

## **OPPORTUNITIES**

#### **FOCUS AREA**



#### MINING

- Development of viable mining projects contributing to sustainable communities
- Security of supply of energy minerals



#### **BASIC METALS**

- Development of competitive base metals industries
- Improve competitiveness of primary steel industry



#### **FABRICATED METALS**

Production of metal products such as coil, pipes, tubes, rods, wire, cables etc. including aluminium body sheets and aluminium rod

## INDUSTRY SPECIFIC RISKS AND CHALLENGES

- South Africa losing its position as a top investment destination for mining
- Low commodity prices and currency volatility
- Legacy of environmental problems
- Long lead times for regulatory approvals
- Slow transformation due to the significant barriers to entry in some sectors including economies of scale, technology, capital requirements and routes to market
- Significant over-capacity in global steel supply chain
- Highly concentrated sector
- Increased protectionism by some trading partners resulting in automotive manufacturers reviewing location of new manufacturing capacity



#### **MACHINERY AND EQUIPMENT**

- Manufacture of power generation, transmission and distribution equipment (including renewable energy)
- Manufacture of equipment for mining, quarrying and construction
- Manufacture of equipment for bulk handling and heavy lifting
- Manufacture of equipment for oil and gas, water handling, storage and distribution



#### MOTOR VEHICLES, **PARTS AND ACCESSORIES**

- Increasing motor vehicle and medium and commercial heavy vehicle assembly capacity
- Manufacture of automotive parts and components (e.g. catalytic converters)



#### OTHER TRANSPORT **EQUIPMENT**

- Manufacture or assembly of rail and rolling stock, as well as parts and components (including forged train wheels)
- Manufacture or assembly of boats and aircraft, as well as parts and components (including support for fishing recapitalisation programme)

## INDUSTRY SPECIFIC STAKEHOLDERS AND STRATEGIC ENGAGEMENTS

- **Economic Development Department**
- Department of Mineral Resources
- Participation in Steel Industry Task Team
- Eskom, Transnet, PRASA and Rand Water (as purchasers of machinery and equipment)
- Department of Trade and Industry
- CSIR and other research institutions
- Automotive OFMs
- Industry bodies (e.g. SEIFSA, SAISI, NAAMSA, VAMCOSA)
- Organised labour (e.g. NUM, NUMSA)

## **HUMAN CAPITAL**

**STAFF PROFILE OF UNITS SERVICING THE VALUE CHAIN** 



BLACK WHITE 2017 45 2017 8 2017 37 2016: 43 2016: 33 2016: 10

FEMALE MALE TOTAL 2017 30 2017 15 2017 45 2016: 29 2016:14 2016:43

## **INDUSTRY RESEARCH COMPLETED\***

- Analysis of the uranium value chain
- Analysis of the vanadium value chain with strategic assessment of redox flow battery technology
- Analysis of the automotive components value chain
- The potential to attract yellow metal OEMs
- The shipbuilding industry
- An analysis of the South African gas cylinder value chain
- The mining and construction machinery and equipment value chain
- The motor vehicles, parts and accessories value chain
- South Africa's chrome value chain a strategic perspective Global solar photo-voltaic industry, focusing on South Africa
- Export potential of South Africa's capital goods industry

\*2015, 2016 and 2017

#### **FUNDING ACTIVITY**

R'm

10 000

8 000

6 000

4 000

2 000

0

## **JOBS EXPECTED TO BE**

**CREATED AND SAVED IN SOUTH AFRICA** 

9 250

2017

2016: 7 881

**FUNDING TO BLACK-EMPOWERED COMPANIES** 

2017

2016: R2.8 bn

**FUNDING TO WOMEN ENTREPRENEURS** 

2017

**R2.2** bn

2016: R0.3 bn

**JOBS CREATED AND SAVED PER R'M APPROVED IN SOUTH AFRICA** 

2017

**DEVELOPMENT** 

**OUTCOMES** 

Created 1.1 Saved 1.8 2016: Created 1.7 Saved 1.2

**FUNDING TO BLACK INDUSTRIALISTS** 

2017

R3.3 bn

2016: R1.6 bn

**FUNDING TO YOUTH ENTREPRENEURS** 

2017

**R286 m** 

2016: R191 m

#### **FINANCIAL OUTCOMES**

**IMPAIRMENT AS A PERCENTAGE OF PORTFOLIO AT COST** 

2017 14%

2016: 16%

**SIZE OF PORTFOLIO VALUED AT COST** 

2017

R32.8 bn

2016: R31.7 bn

#### • Other transport equipment

Net

approvals

Funds

disbursed

 Motor vehicles and parts Machinery and equipment

201 Gross

Fabricated metals

approvals

- Basic metals
- Mining

In addition to the above, in 2017, R304.4 million was approved (2016: R8.5 million net cancellations) and R167.7 million disbursed (2016: R175.9 million) which do not form part of IDC funding, but are from funds managed by IDC. This is predominantly made up of funds from MCEP managed on behalf of the dti.

#### PROJECTS UNDER DEVELOPMENT

- Production of aluminium automotive body sheets
- Aluminium rods
- Coal projects to develop Waterberg coal fields
- Steel mini-mills
  Implementation of projects to manufacture cables
- Gas cylinder manufacturing project
- Forged train wheels
- Multi-OEM vehicle assembly plant project
- Migrate mini-bus assembler from semi-knock down assembled to completely knock down
- Uranium mining
- Chrome smelter
- Iron briquettes to replace scrap in mini-mills
- Manufacture of cables for control and instrumentation applications
- Copper cables
- Expansion of mining equipment manufacturing capacity

#### AGRO-PROCESSING AND AGRICULTURE **VALUE CHAIN**

Primary industries such as agriculture, forestry, and fishing, as well as the manufacturing of food products and beverages form part of this value chain.

South Africa's agricultural production has been severely affected by the worst drought on record, with most summer crops having recorded sharply lower output levels in 2016 compared to 2015.

The adverse effects of this have been felt in downstream sectors, with production growth in the food processing sectors underperforming the average for manufacturing as a whole. In contrast, the beverages industry has been outperforming, recording high rates of production capacity utilisation as well as the highest level of business confidence of all manufacturing sub-sectors

#### **OUR APPROACH**

Our approach to this value chain is to focus on the development of downstream industries. This not only adds value to primary agricultural produce, but also increases demand in the more labourintensive primary sector, thereby stimulating employment. We do fund projects in the primary sector where there is a shortage of inputs into the processing industry, or where a new high-value crop is being introduced in the country.

#### **FUNDING ACTIVITY**

During the year under review, we approved R203.4 million for projects in this value chain utilising the IDC's own funds (2016: R632.4 million) before cancellations. An additional R79.1 million was approved utilising funds under management by the Corporation (2016: R15.7 million), predominantly the Agro-Processing Competitiveness Fund (APCF). Cancellations of funding that had previously been approved resulted in a reduction of 79% in the net amount of funding for this value chain compared to 2016. Despite the lower levels of funding approvals in 2017, the disbursement of funds, including funds approved for projects in previous years, increased by 5% to R542.5 million.

In support of our aquaculture strategy we approved funding for a project to set up a commercial fresh water aquaculture operation utilising local catfish species near Graaff-Reinet in the Eastern Cape. We have been involved in the development of this project from an early stage, a demonstration of how our proactive industry development approach is resulting in bankable funding opportunities.

Participation by Black Industrialists in the meat products industry is increasing, with funding approved during the year expected to enable the expansion of operations of a black-owned abattoir in Klerksdorp in the North West.

In another transaction, we are assisting with the diversification of the agro-processing industry by funding the establishment of a black youth-owned company that will be producing pet treats in Sebenza, Gauteng, particularly for export markets.

The year saw us continuing support for several projects in the horticulture industry that produce nuts and berries.

#### STAKEHOLDER ENGAGEMENT

Apart from the drought conditions, there were other major challenges experienced by some parts of the value chain, in particular the poultry industry, during the year. Beset by increased competition from imports, the industry has been facing cut-backs in production as well as job losses. We are participating in the joint public and private sectors' Poultry Industry Task Team, identifying opportunities to increase competitiveness in the industry.

The year also saw the launch of another leg of government's Operation Phakisa, focusing on the agricultural sector. We are participating in some of the initiatives, particularly in those focusing on the integration of small-scale cattle farmers in formal beef value chains, soybean and oilcake production, and the participation of small-scale producers in formal white maize value chain and horticulture.

#### **DEVELOPMENT OUTCOMES**

Transactions that were concluded during the year are expected to create 585 jobs (2016: 1 379 created) and save 438 (2016: 519 saved). This was significantly lower than the expectations that we had for this value chain and was in line with the lower levels of funding activity experienced during the year. This had an impact on our transformation activities in the industry, with the value of funding for blackempowered and women-empowered enterprises and for Black Industrialists declining, compared with 2016. Funding for youthempowered enterprises increased to R78.5 million (2016: R20.1 million).

We view the agro-processing and agriculture value chain as playing an important role in the South African economy and acknowledge the need to realise its full potential in alleviating the high levels of unemployment in the country.

We are expanding our internal capacity to increase our levels of funding in the value chain to a targeted R2.1 billion and to further develop the opportunities that we have identified.

### **CASE STUDY**

### **MANELI PETS**

Maneli Pets is a black youth-owned pet treat manufacturer, and the first South African pet treat company to secure access to the United States market.

DIRECT JOBS

Maneli Pets is a business initiative of the Maneli Group, a newly established agro-processing holding company with initiatives aimed at exploring other business ventures.

The company is being established to produce ostrich- and venison-based treats for dogs, branded under the label Roam, to be sold in retail stores in the United States. The treats will be sold in over 100 regional pet speciality chain stores in high-end suburban areas across the country.

The funding secured from the IDC to establish a processing facility in Sebenza, Johannesburg, will create 39 jobs, and with the company sourcing its raw materials from the Karoo and Limpopo, it will also assist in the development of rural areas.



Maneli Pets has developed a strong relationship with its suppliers, which began in 2015 when the company was initially producing trial samples for the US market. An exclusive supply agreement was concluded as a result of this relationship.

In addition to the funding being supplied by the IDC, Maneli Pets also received grant funding through the dti's Black Industrialist Scheme.



IDC's funding for Maneli Pets went towards establishing a processing facility in Sebenza, Johannesburg.

### **AGRO-PROCESSING AND AGRICULTURE VALUE CHAIN**

#### **OPPORTUNITIES**

#### **FOCUS AREA**



#### FIELD CROP **PROCESSING**

- Enhanced utilisation of existing soybean crushing facilities, establish new processing facilities for grains, oils and vegetables, and integrate emerging farmers in the processing chain
- Small-to-medium scale grain processing activities milling at Agri-parks
- Improving SA bio-economy
- Hemp as a crop for textile production Preserving and
- processing of vegetables (canning, bottling etc.)
- Production of malted barley and the growing of barley from emerging farmers



#### **HORTICULTURE**

- Adding value to/ formulation of new products
- Replacing ageing orchards/vineyards
- Establish new cultivar orchards and fruit products in global demand
- Advanced processing capacity
- Utilisation of underutilised community land
- High value additives
- Improve efficiencies and competitiveness
- Improve infrastructure (dams, irrigation schemes)
- New and/or improved preservation and packaging technologies



#### **RED MEAT AND DAIRY PRODUCTS**

- Integrate rural cattle into formal
- Adding value in the dairy products industry
- Transformation of dairy products industry
- Development opportunities for game/crocodile products
- Introduce improved preservation and packaging technologies
- Export sector . development



Climate conditions affecting agricultural output

**INDUSTRY SPECIFIC RISKS** 

- Water availability, quality, and infrastructure
- Other infrastructure constraints
- Skills, including training and development of young farmers
- High barriers to entry with high land and capital equipment costs
- Increasing levels of mechanisation reducing employment opportunities
- Unfair trading practices resulting in high import penetration
- Increasing input costs e.g. energy, animal feed
- Complex process to develop rural-based projects with various stakeholders, permits, and other bureaucratic hurdles
- Low levels of transformation

### INDUSTRY SPECIFIC STAKEHOLDERS AND STRATEGIC ENGAGEMENTS

- Fconomic Development Department
- Department of Agriculture, Forestry and Fishina
- Department of Rural Development and Land Reform
- The dti
- Participation in Poultry Industry Task Team
- Operation Phakisa Agriculture, land reform and rural development
- The Land Bank
- Large agri-business
- Emerging farmers
- Trade unions
- Industry bodies (e.g. Grain SA, Citrus Growers Association, SA Poultry Association, Aquaculture Association of SA, Forestry SA, SA Sugar Association, Subtrop, Hortgro, SA Table Grape Industry Association, Aquaculture Association of SA)
- Research institutions (e.g. CSIR; universities; Agricultural Research Council)
- Food retailers

#### **POULTRY PRODUCTS**

- Enhance competitiveness and encourage transformation in key segments
- Reduce feed costs
- Value addition
- Contribute to export sector development and import replacement
- Improved preservation and packing technologies



#### **FISH AND SEAFOOD PRODUCTS**

#### Aquaculture:

- Expansion of exports, build upon successful abalone export industry
- Develop and establish viable finfish aquaculture operations, permitting import replacement
- Production to replace harvesting fish and other aquatic organisms from the wild
- Improved competitiveness by, for example, lowering feed costs and improving efficiencies
- Utilisation of existing fish processing facilities

#### **HUMAN CAPITAL**

STAFF PROFILE **OF UNITS SERVICING THE VALUE CHAIN** 

2017 7

2016: 12



2017 **12** 

2016: 20

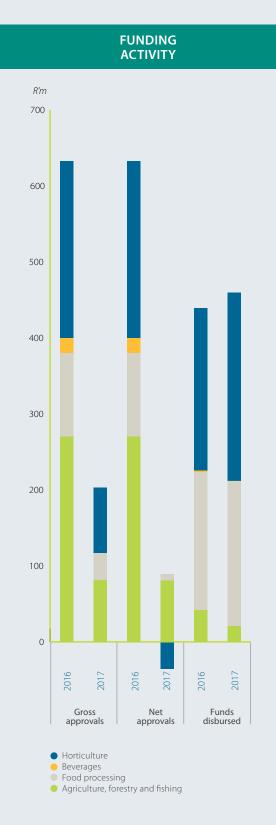
BLACK WHITE 2017 4 2017 **12** 2017 8 2016: 14 2016: 20 2016:6 MALE FEMALE TOTAL

2017 5

2016:8

- An analysis of South Africa's citrus value chain
- The livestock value chain in South Africa
- The poultry value chain in South Africa \*2015, 2016 and 2017

#### **INDUSTRY RESEARCH COMPLETED\***



In addition to the above, in 2017, R79.1 million was approved (2016: R15.7 million) and R20.6 million disbursed (2016: R56.4 million) which do not form part of IDC funding, but are from funds managed by IDC. This is predominantly made up of funds from the APCF managed on behalf of the EDD.

#### **DEVELOPMENT OUTCOMES**

**JOBS EXPECTED TO BE CREATED AND SAVED** 

**IN SOUTH AFRICA** 

2017 1023

2016: 1898

**FUNDING TO BLACK-EMPOWERED COMPANIES** 

2017 **R77** m

2016: R138 m

**FUNDING TO WOMEN ENTREPRENEURS** 

2017 **R36** m

2016: R51 m

**JOBS CREATED AND SAVED PER R'M APPROVED IN SOUTH AFRICA** 

2017

Created **4.1** Saved **66.3** 2016: Created 2.6 Saved 5.9

**FUNDING** TO BLACK **INDUSTRIALISTS** 

2017 **R45** m

2016: R54 m

**FUNDING TO YOUTH ENTREPRENEURS** 

2017 **R79 m** 2016: R20 m

### **FINANCIAL OUTCOMES**

**IMPAIRMENT AS A PERCENTAGE OF PORTFOLIO AT COST** 

2017 **15%** 2016: 16% SIZE OF **PORTFOLIO VALUED AT COST** 

2017

**R4.4** bn

2016: R4.5 bn

#### **PROJECTS UNDER DEVELOPMENT**

- Dried fruit
- Ester oil manufacturing
- Development of agricultural projects that can feed into the local beverage industry e.g barley, hops and malted products as well as fruit for carbonated fruit juices
- Almond industry development
- Pineapple value-adding complex
- Industrial hemp fibres
- Poultry value chain development
- · Rural cattle commercialisation project
- Game-related production activities (game, crocodile products lean meats, skins for textiles and leather industries)
- · Catfish farming and processing project

#### **CHEMICALS AND PHARMACEUTICALS VALUE CHAIN**

The manufacturing of petroleum, basic chemicals, fertilisers, agro-chemicals, paints, pharmaceuticals and other medical products, soaps and detergents, plastic products, and other related products is covered in this value chain. We also include storage and distribution of oil and gas as part of the value chain's activities.

Compared with most other manufacturing industries, the chemicals industry showed good performance in 2016, with the volume of production increasing by 3.9% compared with 2015 levels. An upward trend in production levels was evident in all sectors of the value chain except for downstream plastic products.

Our goal in the development of the value chain is to enhance the competitiveness of downstream industries, including pharmaceuticals and other consumer products. In doing this we also consider the importance of the basic chemicals industry in the development of other sectors such as the agriculture and metals industries.

#### **FUNDING ACTIVITY**

We approved R2.9 billion in 2017 for the funding of businesses in this value chain compared with R4.8 billion in 2016. This reduction should be viewed in light of the R4.0 billion that was approved for the recapitalisation of our subsidiary Foskor in 2016. Funding for all segments of the value chain, except for fertilisers, increased significantly. The net value of funding approved, after cancellations, was R2.1 billion.

We have been supporting this sector for a number of years as a means of diversifying South Africa's energy mix and the largest portion of the new funding approved was for storage and transport of oil and gas, with R1 015.9 million approved (2016: R107.6 million) for such activities. Two significant projects have been approved in this sector with the first involving the establishment of a black-owned crude oil storage facility at Saldanha Bay. This, as well as other local facilities and the recently completed Sunrise Energy Liquefied Petroleum Gas (LPG) import and storage terminal, also funded by the IDC, is positioning Saldanha Bay as an energy minerals transshipment hub. The second significant project that we funded in this sector in 2017 entails the establishment of a pipeline and compression infrastructure to distribute natural gas from wells in the Free State to industrial users.

As part of our strategy to develop more labour-intensive downstream industries, we provided funding for a company manufacturing plastic solar geysers. This innovative product previously received assistance

from government in the form of grants from the Support Programme for Industrial Innovation as well as funding from the Technology Venture Capital Fund. We are also continuing our support for the development of a technology that processes waste plastic in landfill sites to produce high grade chemical fluids.

Our strategy to increase local manufacturing and to support local brand development in the consumer products market was further enhanced through funding for a young black woman who produces hair products.

Although we did not approve additional funding for Foskor in 2017, we have been working with the company to develop plans to improve efficiencies so as to return the business to profitability. As a result of weak phosphoric acid prices, currency volatility, as well as outdated plant and equipment, Foskor posted a loss of R902 million for the year (2016: loss of R568 million). Due to these continued tough trading conditions for Foskor, we had to increase our impairment in the company, resulting in impairments in our chemicals portfolio increasing from 10.0% at the end of 2016 to 24.3%.

#### STAKEHOLDER ENGAGEMENT

Our team played a significant role in assisting with the development of the latest iteration of the Industrial Policy Action Plan relating to chemicals industries. We continue to engage with both the private sector and other public sector players to improve the environment for the development of the industry and to identify growth opportunities.

#### **DEVELOPMENT OUTCOMES**

There was a substantial increase in development outcomes achieved in the year, with funding approved expected to create 1 148 jobs (2016: 738) and save 21 (2016: 569). R1 109.8 million of the funding that we approved was for companies with at least 25% black shareholding, assisting with black economic empowerment in the industry. The funding approved for Black Industrialists increased to R383.9 million (2016: R217.8 million), for women-empowered businesses to R218.6 million (2016: R106.8 million), and for youth-empowered businesses to R110.1 million (2016: R3.9 million), further supporting transformation in the industry.

#### **OUTLOOK**

Our strategies for the development of the upstream portion of the value chain focus on establishing capacity that enhances the competitiveness of the economy through linkages with other value chains. The agricultural value chain is targeted through our support for the fertiliser industry. The focus on gas as an energy source can have benefits for a wide range of industries.

We are also targeting the competitiveness enhancements in the downstream chemicals industries by localising production of inputs for these consumer goods. Our downstream activities aim to increase the local production of these goods and localising the production of pharmaceuticals. We are targeting R3.2 billion in investment in the value chain in the 2018 financial year.

### **CASE STUDY**

### **TETRA4**

Our support of JSE-listed Renergen's subsidiary, Tetra4, is in line with our strategy to diversify energy resources.

**DIRECT JOBS** 

Tetra4 is currently South Africa's first and only onshore production-right holder for natural gas. The company provides a sustainable, clean energy solution to large-scale users in the Free State Goldfields region.

Tetra4 beneficiates natural gas to offer Compressed Natural Gas (CNG) solutions for the transport, mining and industrial markets. CNG is a fossil fuel substitute for petrol, diesel and propane (LPG). It is considered to be a more cost-effective and environmentally friendly alternative to traditional liquid fuels, as it produces less pollutant emissions.

IDC assisted Tetra4 with funding for the first phase of a project to construct a pipeline linking up 13 existing gas wells to the mother-station compressor and dispenser. Gas emanating from a specific well can only be used if that well is piped to an appropriate processing point. With the project, Tetra4 aims to reticulate the existing 13 wells to a central processing facility or mother-station compressors and dispensers.

The company aims to expand the project in multiple phases, which will include further construction, linking up 26 additional gas wells to increase the gas production volumes to take CNG to market. These phases will also include power production with heat recapture for customers in the area.

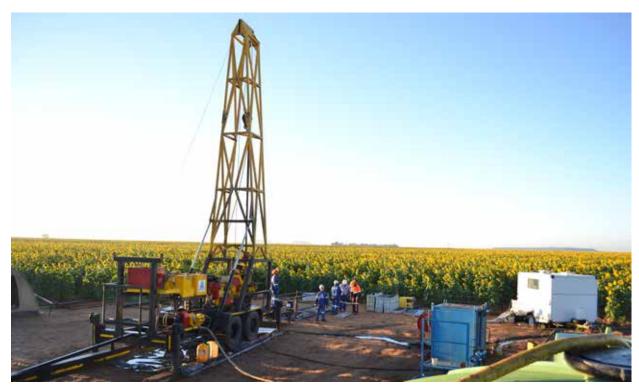
With full field development anticipated at 260 interconnected gas wells, the pipeline network will stretch over 500 km.

Tetra4 currently has a total of 16 employees, with an additional 15 new permanent jobs to be created through IDC's funding.

Tetra4's production rights, granted by the Petroleum Agency of South Africa, span 187 000 hectares in the Free State near Virginia, Theunissen and Welkom, surrounded by a further 98 000 hectares of exploration rights in the same area. A second field is located in Evander, Mpumalanga, consisting of exploration rights spanning roughly a further 52 000 hectares.

The company has entered into development agreements with bus organisations to provide their fleet in the Free State with CNG, as well as with gas retailers, who then supply minibuses with gas. Tetra4 has also signed a memorandum of understanding with a gold mining company to convert a locomotive from diesel to CNG to reduce its diesel particulate matter in their underground gold mines.

A life-of-plant offtake agreement is in place with Linde Global Helium for all of the helium contained in the gas stream to be commissioned in 2019 as development progresses.



Tetra4 is currently the only onshore production-right holder for natural gas in South Africa.

### **CHEMICALS AND PHARMACEUTICALS VALUE CHAIN**

#### **OPPORTUNITIES**

#### **FOCUS AREA**



#### **FERTILISERS**

- Fertilisers import replacement and increased local value add
- Reduced cost of fertilisers as a key input to the agriculture sector



#### **ENERGY**

- Increased gas usage as an energy source
- Increased liquid fuels energy security



# BASIC AND SPECIALITY CHEMICALS

- Increase local production of green and other new chemicals
- Local manufacturing of chemicals for inputs into consumer goods



#### **PLASTICS**

 Competitiveness improvements for the plastics industry



#### **CONSUMER GOODS**

 Local manufacturing of consumer goods focusing on personal care products



#### PHARMACEUTICALS AND MEDICAL PRODUCTS

- Production of radiopharmaceuticals for nuclear imaging
- New capacity for telemedicine and traditional medicine as well as targeted pharmaceutical products for priority diseases including tuberculosis, HIV/Aids and malaria

### INDUSTRY RESEARCH COMPLETED\*

- Analysis of the fertilisers value chain
- An analysis of South Africa's pharmaceutical value chain
- The chemicals-based consumer products value chain in South Africa
- The global natural gas industry landscape focusing on Africa and South Africa in particular
- An investigation of localisation opportunities in the South African crop protection chemicals industry
- An overview of the oil and gas industry in South Africa focusing on shale gas and suppliers of related inputs
- Development opportunities and challenges in SA's medical devices value chain

\*2015, 2016 and 2017

## INDUSTRY SPECIFIC RISKS AND CHALLENGES

- · Low commodity prices and currency volatility
- Insufficient cohesion in respect of gas industrialisation strategy and future clean fuels programme
- Low levels of youth participation in the industry, especially with respect to large projects
- Cost competitiveness in the downstream chemicals industry is constrained due to high raw material costs
- Regulatory registration for pharmaceutical products
- Long lead times for Environmental Impact Assessments
- · Need for access to international technologies

## INDUSTRY SPECIFIC STAKEHOLDERS AND STRATEGIC ENGAGEMENTS

- Economic Development Department
- Department of Energy
- The dti
- Chemical Industry Association
- Transnet National Ports Authority
- PetroSA
- Durban Chemicals Cluster
- · Technology Innovation Agency
- Trade unions
- CSIR

#### **HUMAN CAPITAL**

STAFF PROFILE OF UNITS SERVICING THE VALUE CHAIN



 BLACK
 WHITE
 TOTAL

 2017 25
 2017 8
 2017 33

 2016: 23
 2016: 7
 2016: 30

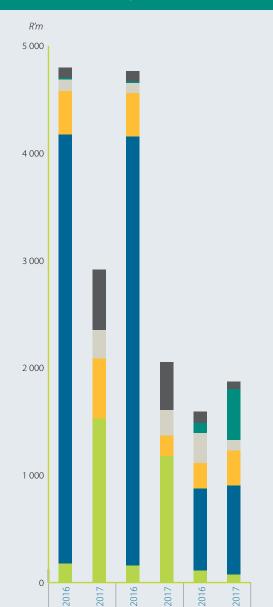
 MALE
 FEMALE
 TOTAL

 2017
 17
 2017
 16
 2017
 33

 2016: 14
 2016: 16
 2016: 30

#### **FUNDING ACTIVITY**

#### **DEVELOPMENT OUTCOMES**



Healthcare

Gross

approvals

- Oil and gas transport and storage
- Plastics and other products
- Chemical products and pharmaceuticals

Net

approvals

Funds

disbursed

- Fertilisers
- Basic chemicals

In addition to the above, in 2017, R282.5 million was approved (2016: R33.0 million net cancellations) and R114.7 million disbursed (2016: R20.7 million) which do not form part of IDC funding, but are from funds managed by IDC. This is predominantly made up of funds from the MCEP managed on behalf of the dti.

**JOBS EXPECTED TO BE CREATED AND SAVED IN SOUTH AFRICA** 

2017

1 169

2016: 1 307

**FUNDING TO BLACK-EMPOWERED COMPANIES** 

2017

2016: R0.2 bn

**FUNDING** TO WOMEN **ENTREPRENEURS** 

2017

**R219 m** 

2016: R107 m

**JOBS CREATED AND SAVED PER R'M APPROVED IN SOUTH AFRICA** 

2017

Created **0.7** Saved **2.2** 2016: Created 0.3 Saved 0.3

**FUNDING TO BLACK INDUSTRIALISTS** 

2017

R384 m

2016: R218 m

**FUNDING TO YOUTH ENTREPRENEURS** 

2017

**R110 m** 

2016: R4 m

#### **FINANCIAL OUTCOMES**

**IMPAIRMENT AS A PERCENTAGE OF PORTFOLIO AT COST** 

2017

24%

2016: 10%

SIZE OF **PORTFOLIO VALUED AT COST** 

2017

**R8.6** bn

2016: R7.1 bn

#### PROJECTS UNDER DEVELOPMENT

- Further phosphate rock beneficiation
- Establishing a potash recovery facility in a neighbouring country
- Development of phosphate resources outside SA
- Establishment of a urea manufacturing facility
- Development of local natural gas resources
- Establishment of a liquid natural gas terminal at Richards Bay
- Complete implementation of LPG storage project
- Local oil refinery project
- Conversion of refinery
- Local crude oil storage facility
- Micro-algae production plant
- Beneficiation of cobalt, nickel, copper and lithium into speciality chemicals
- Beneficiation of magnetite into chemicals
- · Contract manufacturing of personal care products

#### **INDUSTRIAL INFRASTRUCTURE**

Infrastructure plays a critical role in the development of a competitive economic industrial sector. To address this, we provide funding for economic infrastructure that unlocks industrial development.

#### **FUNDING ACTIVITY**

The value of funding approved for infrastructure development, before cancellations, reached R2.1 billion in 2017, similar to the value approved in 2016.

The bulk of the funding is for the electricity generation sector, with financing approved for two coal-fired independent power stations to contribute to South Africa's energy generation mix. One of these will be constructed in the Waterberg area of Limpopo and the other in Mpumalanga.

Although implementation of the REIPPPP is being delayed, funding has been approved for four projects seeking to participate in the second round of the Small Projects Renewable Energy Procurement Programme. This programme provides opportunities for smaller companies with the focus on South African companies generating less than 5MW to participate in South Africa's energy generation

sector. Preferred bidders have not yet been announced and the funding approved for these projects is not included in the figures provided in this report.

Funding for transport and logistics was allocated predominantly to a black-owned company that provides rail maintenance services for Transnet. We have further made strides in supporting a black woman-owned construction company that is supporting the execution of a transmission line. In addition, we have supported a 100% black youth-owned company servicing the rollout of fibre to homes

#### **DEVELOPMENT OUTCOMES**

Although infrastructure developments do not typically create many direct jobs during the operational phase, construction of these projects can create jobs in the short to medium term. Projects for which funding was approved during the year are expected to create 2 846 full-time equivalent jobs, a marked increase over the 1 591 for 2016. Of the funding that was approved in this sector 95% was for black-empowered companies, with our funding for the participation of youth and women in the sector also increasing.

#### **OUTLOOK**

We are taking a more focussed approach to our support for industrial infrastructure projects, with expectations that funding for this sector will reduce to a targeted R2.5 billion in the 2018 financial year.

### **CASE STUDY**

### **DELTA ZERO CORPORATION**

Our funding for Delta Zero Corporation, a manufacturer and operator of slurry pump stations, is in support of initiatives that ensure the security of water supply as a scarce resource.

**DIRECT JOBS** 

Delta Zero Corporation is a newly-formed company that acquired 100% of Erls Mining, which owns the Intellectual Property of the Delta Zero slurry pumping systems.

Delta Zero Corporation slurry pumps are an innovative way of pumping large volumes of slurry at high pressure that significantly reduces the load on the environment.

Its pumping systems use less than 70% of the energy required by conventional systems and require no gland seal water. In addition, conventional system energy efficiency reduces rapidly as wear takes place on rotating impellers in direct contact with abrasive slurries. The rotating impellers in Delta Zero systems operate in non-abrasive clean water with minimal wear rates, thus maintaining high energy-efficiencies over the life of the system.

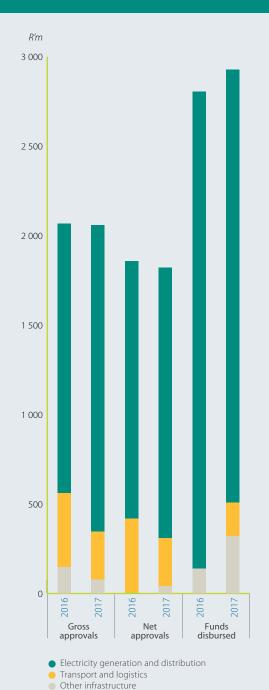
Delta Zero's patented technology is locally developed and 80% of the components supporting it are locally produced, with the potential of being exported. The technology supports the mining value chain by reducing the cost of production through lower water and energy consumption, of which slurry pumping is a large component. In addition, maintenance costs are significantly lower than those of conventional systems.

IDC has a call option in Delta Zero Corporation and provided development funding towards completing units to be tested at Harmony Gold and another mining company for six months respectively. The company aims to manufacture and rent the units commercially to the mining industry.

The funding has created five jobs, with three additional jobs expected to be created for every 10 pumps installed. In addition, 37 indirect jobs were created through the associated supply companies, who manufacture the units.

### **INDUSTRIAL INFRASTRUCTURE**

#### **FUNDING ACTIVITY**



In addition to the above, in 2017, R5.4 million net cancellations were recorded which do not form part of IDC funding but are from funds managed by IDC. This number is not included in the chart above.

#### **DEVELOPMENT OUTCOMES**

JOBS EXPECTED TO BE **CREATED AND SAVED IN SOUTH AFRICA** 

JOBS CREATED **AND SAVED PER R'M APPROVED IN SOUTH AFRICA** 

2017 2864

2017

2016: 1 594

Created **1.4** Saved **1.1** 2016: Created 1.1 Saved 1.5

**FUNDING TO BLACK-EMPOWERED COMPANIES** 

**FUNDING TO BLACK INDUSTRIALISTS** 

2017

**R2.0** bn

2017

2016: R1.0 bn

-R9 m\*

2016: R404 m

**FUNDING TO WOMEN ENTREPRENEURS**  **FUNDING TO YOUTH ENTREPRENEURS** 

2017

**R297 m** 

2016: R181 m

2017

**R948** m

2016: R438 m

#### **FINANCIAL OUTCOMES**

**IMPAIRMENT AS A PERCENTAGE OF PORTFOLIO AT COST**  SIZE OF **PORTFOLIO VALUED AT COST** 

2017

6%

2016: 10%

2017

R13.7 bn

2016: R13.4 bn

#### **HUMAN CAPITAL**

**STAFF PROFILE OF UNITS SERVICING THE VALUE CHAIN** 

BLACK 2017 18

2016: 17

2016: 14

WHITE 2017 4

2016:4

TOTAL 2017 22 2016: 21

FEMALE MALE 2017 15

2017 7

TOTAL 2017 **22** 2016: 21

\* Cancellations of previously approved funding exceeded new transactions approved during the year in this category.

#### **CLOTHING, TEXTILES, LEATHER AND FOOTWEAR**

The clothing, textiles, leather and footwear industries remain significant employers in manufacturing. We remain committed to supporting these industries despite the challenges that most of its segments have experienced for many years.

Our support includes close cooperation not only with the industries themselves, but with government, labour and retailers to build competitiveness in this sector.

#### **FUNDING ACTIVITY**

Our net funding approved for businesses operating in the clothing, textiles, leather and footwear industries in the year under review declined by 22% to R433.5 million (2016: R553.7 million). A large portion of approvals in this industry is in the form of payment guarantees, which means that disbursements are typically significantly lower than approvals.

Of the total funds approved in the clothing, textiles, leather and footwear industries, 72% (R311.0 million) was for companies operating in the textiles industry. Considering that we are one of the larger funders of the industry, most of the new funding approved was for existing clients, including funding for a business operating from Zwelitsha, Eastern Cape, that we helped to establish in the 1940s. Other niche textile companies that we supported included manufacturers of nylon webbing and inner curtains.

In 2017, R89.5 million was approved for the clothing industry, one of the most labour-intensive sectors in the economy. We continue to assist distressed companies that show a high likelihood of a successful turnaround.

#### **DEVELOPMENT OUTCOMES**

The funding approved for the clothing, textiles, leather and footwear industries during the year is expected to create 852 jobs, 40% more than the 608 of 2016. Despite lower levels of overall funding, our funding for black-empowered companies, Black Industrialists, and youth-empowered companies increased by 25%, 49% and 43% respectively.

#### **OUTLOOK**

For 2018, we are aiming to increase levels of investment in this industry to more than R700 million in order to support the creation of sustainable employment and continued improvement in competitiveness in these industries.

### **CASE STUDY**

### **POLYFABRICS UNLIMITED**

Polyfabrics Unlimited, a youth-owned enterprise, manufactures webbing from synthetic fibres such as polypropylene, nylon and polyester. This is predominantly used in packaging for the agricultural, chemical, mining and construction industries.

**DIRECT JOBS** 

The business was acquired in 2015 by a Black Industrialist. Prior to that it had been in operation for 10 years.

Polyfabrics has been operating successfully due to its lean operations, allowing it to cater to clients' needs with short lead times and competitive pricing. Due to its success, the company has been facing capacity constraints at its plant in KwaZulu-Natal.



In order to meet rising demand, the company has identified a need to move to larger premises. During the move, the company will replace some of their ageing machines and some other additional equipment.

The company has also identified an opportunity to purchase a raw material manufacturing plant, which will allow it to backward integrate its operations, improve reliability of its raw material supply, and increase its competitiveness.

Our funding for these business improvements will help this young entrepreneur create 47 new jobs.

### **CLOTHING, TEXTILES, LEATHER AND FOOTWEAR**

#### **FUNDING ACTIVITY**

## R'm 800 700 600 500 400 300 200 100 0 201 201 201 201 Gross Funds Net approvals approvals disbursed

In addition to the above, in 2017, R11 million was approved and R5 million disbursed, which do not form part of IDC funding, but are from funds managed by IDC.

Leather and footwear

Clothing Textiles

#### **DEVELOPMENT OUTCOMES**

JOBS EXPECTED TO BE CREATED AND SAVED **IN SOUTH AFRICA** 

JOBS CREATED **AND SAVED PER R'M APPROVED IN SOUTH AFRICA** 

2017 852

2016: 1 194

2017

Created 1.9

2016: Created 1.8 Saved 5.4

**FUNDING TO BLACK-EMPOWERED COMPANIES** 

**FUNDING TO BLACK INDUSTRIALISTS** 

2017

2016: R217 m

2017

R120 m

2016: R80 m

**FUNDING TO WOMEN ENTREPRENEURS** 

**FUNDING TO YOUTH ENTREPRENEURS** 

2017

**R26 m** 

2016: R110 m

2017

R33 m

2016: R23 m

#### **FINANCIAL OUTCOMES**

**IMPAIRMENT AS A PERCENTAGE OF PORTFOLIO AT COST** 

SIZE OF **PORTFOLIO VALUED AT COST** 

2017

36%

2016: 43%

2017

**R1.7** bn

2016: R1.8 bn

### **HUMAN CAPITAL**

STAFF PROFILE **OF UNITS SERVICING THE VALUE CHAIN** 

BLACK 2017 11 2017

2016: 11

2016: 4

WHITE

2016:1

2016:8

TOTAL 2017 **12** 

2016: 12

MALE 2017 5

FEMALE 2017 7 TOTAL **2017 12** 2016: 12

#### **MEDIA AND MOTION PICTURES**

Since IDC started to provide funding for the media industry in 2001, we have been instrumental in the revival of the South African film industry. In addition to financing film production, we also provide funding for studio infrastructure, as well as radio and television broadcasting.

Film production employs numerous people across a wide spread of skill sets. These include make-up artists, set-builders, camera operators and others during production, with an even wider range of skilled individuals employed during post-production. To build sustainable employment opportunities for these individuals, a continuous stream of movies needs to be in production.

#### **FUNDING ACTIVITY**

During the year we approved R207.6 million in new funding for this sector before cancellations (2016: R266.5 million), with the largest portion being for film and video production. An amount of R350.3 million, including funds for transactions approved in previous years, was disbursed in 2017 (2016: R54.8 million).

The funds approved for film and video production are for the production of a television series, a full-length 3D animated film, and three lower-budget films that will be licensed for broadcast by pay television. We also continued to support a black-owned broadcasting group that has interests in a number of radio stations in Gauteng, Limpopo, the Free State and the Eastern Cape.

#### **DEVELOPMENT OUTCOMES**

The funding approved in 2017 will create 126 new jobs (2016: 546 new jobs). These numbers have been adjusted as the production of individual films does not create permanent employment opportunities. Although levels of funding for black-empowered companies, Black Industrialists, and youth entrepreneurs have declined compared to 2016, we continue to have an impact on transformation in the industry. Funding for businesses in which women have a significant interest has increased.

#### **OUTLOOK**

We are planning to maintain similar levels of funding in this industry to those recorded over the past two years, with an investment target of R252 million set for 2018.

### **CASE STUDY**

### **OCTOPUS VISION**

Funding young emerging black filmmakers to enter the film production sector, is one of our key developmental areas in establishing and growing a sustainable local film industry.

**DIRECT JOBS** 

Breaking into the local film production sector remains a challenge for young film-makers, especially since production companies typically require production equipment such as cameras, computers and editing suites. In addition, because broadcasters usually only make their buying decisions once they have seen finished productions, seed capital is required to fund start-up losses.



Octopus Vision, which is fully owned by two young aspiring black entrepreneurs, approached us to fund the purchase of film equipment and working capital to produce content, mainly for television, and to provide production services for music artists. The company produces TV shows that are based on local stories and films in Sebokeng, Gauteng, using local actors.

Over and above the film market, Octopus Vision has developed networks with local upcoming musicians who want to break into the mass market and promote their material on video channels such as Vuzu, DSTV's Channel 116.

Our funding for Octopus Vision will create ten jobs and is in support of the aggressive drive by South Africa's three broadcasters, namely SABC, M-Net and e.tv, to promote local content.

### **MEDIA AND MOTION PICTURES**

# FUNDING ACTIVITY R'm 400 350 300 250 200 150 100 50 0 2017 Gross Net Funds approvals approvals disbursed Television and radio broadcasting

Film and video production

#### **DEVELOPMENT OUTCOMES**

JOBS EXPECTED TO BE **CREATED AND SAVED IN SOUTH AFRICA** 

**JOBS CREATED** AND SAVED PER **R'M APPROVED IN SOUTH AFRICA** 

2017

126

2016: 546

2017

Created 1.2 2016: Created 2.2

**FUNDING TO BLACK-EMPOWERED COMPANIES** 

**FUNDING TO BLACK INDUSTRIALISTS** 

2017

**R80** m

2016: R224 m

2017

**R79 m** 

2016: R224 m

**FUNDING TO YOUTH** 

**ENTREPRENEURS** 

**FUNDING TO WOMEN ENTREPRENEURS** 

2017

**R62** m

**R59 m** 2016: R32 m

2017

2016: R215 m

#### **FINANCIAL OUTCOMES**

**IMPAIRMENT AS A PERCENTAGE OF PORTFOLIO AT COST**  SIZE OF **PORTFOLIO VALUED AT COST** 

2017

21% 2016: 34% 2017

**R729 m** 

2016: R414 m

#### **HUMAN CAPITAL**

**STAFF PROFILE OF UNITS SERVICING THE VALUE CHAIN** 

BLACK 2017 4 WHITE **2017 0**  TOTAL 2017 4

2016:5 MALE

FEMALE

2016:0

TOTAL

2016: 5

2017 1 2016: 2

2017 3 2016: 3

2017 **4** 2016: 5

#### **NEW INDUSTRIES**

The largest portion of IDC's funding activities is aimed at establishing new capacity or upgrading capacity in existing sectors.

In our New Industries unit, we promote the establishment of industries that are new or emerging to South Africa so as to ensure that the economy is ready to absorb work seekers in the future.

#### **FUNDING ACTIVITY**

During the year we approved R227.2 million before cancellations in funding for new industries, 52% higher than in 2016. Disbursements increased by 10% to R110.9 million.

Significant transactions included funding for:

- A company that produces light-emitting electronic devices using standard silicon-based manufacturing processes
- The commercialisation of a valve for toilet cisterns that is less prone to leaking
- A company that will produce metal-mould tooling using additive manufacturing.

In addition, we have allocated funding to support several of our existing clients in the medical equipment and other industries.

#### **DEVELOPMENT OUTCOMES**

The businesses that we have supported to date are typically start-ups focusing on the commercialisation of new technologies and have not yet entered a significant growth phase. As a result, the number of jobs being created during this early stage of development is fairly low, with 478 new jobs being created in the businesses that we funded in 2017 (2016: 39 new jobs). We have also been assisting Black Industrialists, providing R31.4 million in funding, with youth entrepreneurs receiving R107.9 million.

#### **OUTLOOK**

As with the value chains, there are several sectors in this area that we are proactively targeting. These are:

- · Additive manufacturing
- Fuel cells
- Inputs for renewable energy generation
- Energy storage
- Medical devices
- Nanotechnology
- · Machinery and components for purifying natural gas.

We are reviewing our approach to the development of new industries to ensure that we can keep pace with the requirements of innovators and entrepreneurs. We aim to approve R345 million in this area in 2018.

### **CASE STUDY**

### WAGIENIENCE

As part of our focus on promoting young entrepreneurs, we funded Wagienience, a 100% black youthowned company founded by technopreneur Paseka Lesolang.

**DIRECT JOBS** 

Wagienience, based in Gauteng, developed a unique patented product, the WHC Leak-less Valve™. This is a water-control mechanism that is placed in toilet cisterns to stop the influx of water at a pre-determined level, thereby reducing water loss due to outlet valve leaks. This technology is patented in South Africa, and has the potential to become a low-cost industry standard with a significant positive environmental impact.

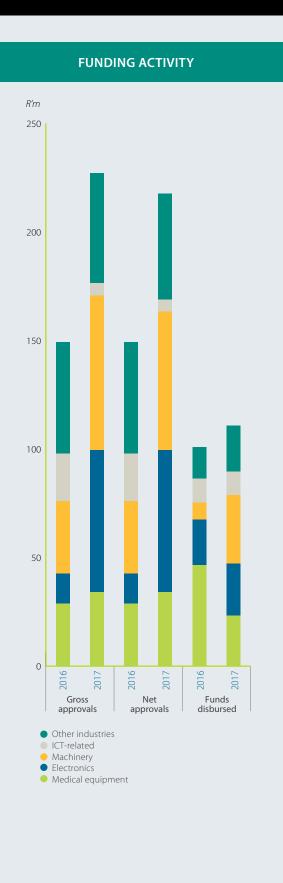
IDC provided funding which enables the company to pilot projects with municipalities and public-private partnership



projects that target water savings. Development of moulds for the product was made possible in part from grant funding received through the Massmart Supplier Development Fund, an initiative that was established as a result of conditions imposed by competition authorities as part of the Walmart buy-out. Through the funding, Wagienience can further execute client orders and increase the supply of its products directly to wholesalers. In addition, we assisted the company in formulating a strategy to commercialise and promote this locally designed, patented and manufactured product.

The company has significant job-creation and export potential and the business is well underway in establishing itself as a manufacturing entity for its own products. The installation of its products throughout South Africa is also creating additional jobs.

### **NEW INDUSTRIES**



#### **DEVELOPMENT OUTCOMES**

**JOBS EXPECTED TO BE CREATED AND SAVED** 

**IN SOUTH AFRICA** 

2017

482 2016:39

**FUNDING TO BLACK-EMPOWERED COMPANIES** 

2017

2016: R0

**FUNDING TO WOMEN ENTREPRENEURS** 

2017

-R3 m\*

2016: R6 m

JOBS CREATED AND SAVED PER R'M APPROVED IN **SOUTH AFRICA** 

2017

Created 2.2

2016: 0.3

**FUNDING TO BLACK INDUSTRIALISTS** 

2017

2016: R0

**FUNDING TO YOUTH ENTREPRENEURS** 

2017

R108 m

2016: RO

#### **FINANCIAL OUTCOMES**

**IMPAIRMENT AS A** PERCENTAGE OF **PORTFOLIO AT COST** 

2017

32% 2016: 38% SIZE OF **PORTFOLIO VALUED AT COST** 

2017

**R876** m

2016: R811 m

#### **HUMAN CAPITAL**

**STAFF PROFILE OF UNITS SERVICING THE VALUE CHAIN** 

BLACK 2017 10 2016: 9

WHITE 2017 6 2016:4

TOTAL 2017 16 2016: 13

MALE FEMALE 2017 11

2016: 8

2017 5 2016: 5

TOTAL 2017 16 2016: 13

<sup>\*</sup> Cancellations of previously approved funding exceeded new transactions approved during the year in this category.

#### OTHER MANUFACTURING INDUSTRIES, TOURISM **AND OTHER SERVICES**

In addition to the support for industries covered in previous sections, we also provide funding for other manufacturing industries, tourism, construction, and ICT.

#### **FUNDING ACTIVITY**

The value of new funding approved during the year increased by 69% to R2.2 billion (2016: R1.3 billion). The value of funding disbursed increased from R1.2 billion to R1.3 billion.

The tourism industry was supported with funding for a new luxury hotel in Umhlanga Village in KwaZulu-Natal and a mid-market hotel in Mthatha in the Eastern Cape. ICT, another services industry that holds potential to create large amounts of jobs, was supported with funding for a large local IT company to allow it to execute contracts.

In the manufacturing sector, funding was approved for the expansion of a porcelain tile manufacturer in Bronkhorstspruit, Gauteng, contributing to investment in the non-metallic mineral industry. Other contributions to manufacturing include funding for establishment of a new tissue paper mill, and for modernisation of production equipment at a leading paper sack manufacturer.

Funding was also approved for the establishment of a materials recovery and waste transfer station, as well as for a number of smaller start-up waste treatment centres.

The construction industry was supported with funding for, inter alia, initiation of a new innovative roof manufacturing facility.

#### **DEVELOPMENT OUTCOMES**

Funding approved during the year is expected to create 3 185 jobs (2016: projects cancelled that would have created 725 jobs) and save 1 930 jobs (2016: 762 jobs saved). The higher level of jobs is also being achieved at a lower cost than previously.

Funding for black-empowered companies, Black Industrialists, women entrepreneurs and youth entrepreneurs increased significantly as we ramped up funding for economic transformation.

#### **OUTLOOK**

We are targeting to keep the value of funding for these industries at similar levels in 2018.

### **CASE STUDY**

## **MTHEMBU TISSUE CONVERTING**

Mthembu Tissue Converting, a 100% black-owned company, has received funding to purchase energy-efficient, modern equipment to expand its production capacity.

**DIRECT JOBS** 

Mthembu converts paper wadding into 1-ply and 2-ply toilet paper, serviettes, paper towels and wipes for its industrial and retail clients, as well as its own brand, Cloud Nine™. Its array of SABS-approved products appeals to both the high-end and low-end markets.

The company was established in 2005 by a Black Industrialist, who started his career at Nampak as a packer, working his



way up to become the converting plant manager and later the owner of his own company.

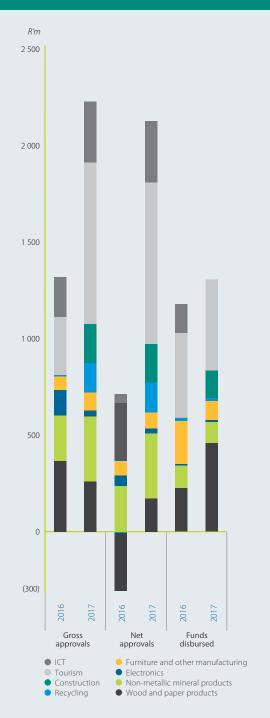
Since 2013, Mthembu Tissue Converting started manufacturing products for its industrial and retail clients and developed and registered its own brand.

We are part-funding a loan to purchase new equipment to enable this Phoenix-based company to increase its production capacity to serve the KwaZulu-Natal tissue product market.

Although the tissue paper industry is highly competitive, the company has proven to be resilient since its inception due to consistent guaranteed sales, technical expertise, product innovation and quality.

### OTHER MANUFACTURING INDUSTRIES, TOURISM **AND OTHER SERVICES**

#### **FUNDING ACTIVITY**



In addition to the above, in 2017, R250.8 million was approved (2016: R1.3 million) and R139.1 million disbursed (2016: R13.5 million), which do not form part of IDC funding, but are from funds managed by IDC. This is predominantly made up of funds from the MCEP managed on behalf of the dti.

#### **DEVELOPMENT OUTCOMES**

JOBS EXPECTED TO BE **CREATED AND SAVED IN SOUTH AFRICA** 

JOBS CREATED **AND SAVED PER R'M APPROVED IN SOUTH AFRICA** 

2017 5 115 2017

2016: 813

Created **2.0** Saved **4.9** 2016: Created 0.9 Saved 2.4

**FUNDING TO BLACK-EMPOWERED COMPANIES** 

**FUNDING TO BLACK INDUSTRIALISTS** 

2017

2016: R0.4 bn

2017

**R796 m** 

2016: R316 m

**FUNDING TO WOMEN ENTREPRENEURS**  **FUNDING TO YOUTH ENTREPRENEURS** 

2017

R390 m

2016: R344 m

2017

**R717 m** 

2016: R78 m

#### **FINANCIAL OUTCOMES**

**IMPAIRMENT AS A PERCENTAGE OF PORTFOLIO AT COST** 

SIZE OF **PORTFOLIO VALUED AT COST** 

2017

13% 2016: 13% 2017

**R8.4** bn

2016: R8.0 bn

#### **HUMAN CAPITAL**

**STAFF PROFILE OF UNITS SERVICING THE VALUE CHAIN** 

BLACK 2017 6

WHITE

TOTAL **2017 26** 

2016: 25

2017 20 2016: 20

MALE

2016: 5 FEMALE

TOTAL

2017 12 2017 14 2016: 10 2016: 15

2017 26 2016:25

### **COMMITTED TO GOOD GOVERNANCE**

#### **INTRODUCTION**

Good corporate governance is at the heart of our business and, as such, defines and directs the structure and responsibilities of our Board and its committees, the Executive Management, and the systems and processes applied by our employees on a daily basis.

#### **KEY GOVERNANCE INITIATIVES FOR THE YEAR**

In 2017, the focus was on enhanced transparency and taking positive steps to manage conflicts of interest. The main initiatives are summarised in the table below.

#### **KEY GOVERNANCE INITIATIVES FOR 2017**

| Updated Board Charter                                  | The Board Charter was revised and updated. Particulars are provided on page 54.  |
|--|--|
| Revised Board Committees' terms of reference           | The terms of reference of the Board Committees were revised with the emphasis on dealing with conflicts of interest, decision-making by consensus as far as possible and strengthening voting mechanisms where consensus cannot be achieved. |
| Conflict of Interest Policy                            | A Conflict of Interest Policy was adopted which prohibits directors of the IDC from doing business with the Corporation from 1 April 2017.   |
| Directors' Training                                    | The IDC-customised directors' training course, which was implemented during the previous financial year, continued with training provided to a further 93 employees and independent directors.   |
| Compulsory FICA training                               | Training on compliance with the Financial Intelligence Centre Act (FICA) was extended to the employees of the IDC. More details are provided on page 57.   |
| Corporate Governance Assessments of Investee Companies | The corporate governance practices of more than 60 IDC business partners/investee companies were assessed and support, where necessary, was provided.  |

#### **GOVERNANCE FRAMEWORK**

## LEGISLATION, CODES OF BEST PRACTICE AND POLICIES

Our governance framework comprises:

- The Industrial Development Corporation Act 22 of 1940 (IDC Act)
- · The PFMA
- Treasury Regulations
- The Companies Act 71 of 2008
- King III
- · The Board Charter
- Various other policies, and internal systems and procedures.

#### **BOARD OF DIRECTORS**

#### **COMPOSITION**

Our Board of Directors guides the strategy of the Corporation and carries the ultimate responsibility for its performance. The Board is constituted to ensure the wide range of skills and knowledge required to meet the Corporation's strategic objectives.

The size of the Board is determined by the IDC Act, which permits a minimum of five and a maximum of 15 directors to be appointed by the shareholder. A unitary board structure is applied, with the majority (11 members) being non-executive directors.

As at 31 March 2017, the Board comprised one executive and 11 non-executive members and a gender composition of seven female and four male directors. The positions of Chairperson and Chief Executive Officer are separately held to ensure a clear separation of responsibilities. The Chairperson of the IDC Board is a non-executive director, in line with the recommendations of King III.

The Board retains full and effective control and is responsible to the shareholder for setting strategic objectives and key policies, major plans of action, a risk policy, annual budgets and business plans. It ensures that the performance objectives set by the shareholder are achieved through performance monitoring systems and reporting.

Directors have complete access to senior management through the Chairperson, CEO or Company Secretary at any time. In addition to regular presentations by senior management at Board meetings, directors may seek briefings from senior management on specific matters.

#### **INDUCTION**

All new directors participate in a formal induction process coordinated by the Company Secretary. The induction process includes briefings on financials, strategic, operational and risk management policies and processes, governance framework, culture and values, and key developments at the IDC and in the sectors and environments in which the IDC operates.

#### **BOARD MEETINGS AND ATTENDANCE**

The IDC Board meets at least six times a year and holds a strategy session at least once a year. Special Board meetings are convened when necessary. During the reporting period the Board met a total of 11 times and in addition, a Board strategy session was held over two days during September 2016.

#### **CHANGES TO THE BOARD**

In line with our normal practice, all non-executive directors of the IDC Board will retire and make themselves available for re-appointment at the Corporation's next AGM. Mr Brian Molefe resigned his position with effect from 25 January 2017.

#### **BOARD CHARTER**

The Board has a charter which sets out its responsibilities, including the adoption of strategic plans, the development of a clear definition of materiality, the monitoring of operational performance and management, and the determination of policy processes to ensure the integrity of the Corporation's risk management and internal controls, communication policy, and director selection, orientation and evaluations

After the revision that was reported on in last year's report, a further revision of the Board Charter was completed. This revision was deemed appropriate in order to take into account changing circumstances and feedback received from stakeholders. The Board Charter was accordingly amended to provide for changes to the rotation policy and refinement of processes for arriving at decisions.

#### **BOARD COMMITTEES**

The Board has established five standing committees to assist it in exercising its authority – the Board Investment Committee, the Board Human Capital and Nominations Committee, the Board Audit Committee, the Board Risk and Sustainability Committee, and the Board Social and Ethics Committee. All Board committees operate under Board-approved terms of reference which are regularly updated to stay abreast of developments in corporate law and governance best practice.

The chairperson of each Board Committee is a non-executive director. The members of each Board committee are appointed by the Board of Directors, except for Audit Committee members who are appointed by the shareholder at the AGM. At a Board meeting following each committee meeting, the Board receives a report on deliberations, conclusions and recommendations. The reports of the various Board committees appear on pages 65 to 68 of this report.

#### ETHICS AND MANAGING DIRECTORS' CONFLICTS OF **INTERESTS**

At every meeting involving Board members, subsidiary directors and executive management, members are required to disclose any potential conflicts and if required, to withdraw from the proceedings. Declarations of conflict are also made to the Company Secretary as and when necessary. This is done in compliance with section 50(3) of the PFMA, the guidance provided by section 75(4) of the Companies Act, the IDC Guidelines on Conflict of Interest and the Conflict of Interest Policy. The declarations are made at each Board meeting and at meetings of the Board committees responsible for considering transactions.

#### A NEW DIRECTORS' CONFLICT OF INTEREST POLICY

During February 2017 the Board approved a new Directors' Conflict of Interest Policy, effective from 1 April 2017, which:

- Prohibits directors of the IDC from doing business with the IDC
- Provides for a process to ensure that directors are not provided with Board papers, and do not participate in matters in which they are regarded as being conflicted.

#### **COMPANY SECRETARY**

The Company Secretary plays a pivotal role in the corporate governance of the Corporation. The Company Secretary is responsible to the Board for, inter alia, acting as a central source of information and advice to the Board on matters of ethics, adherence to good corporate governance principles, and compliance with procedures and applicable statutes and regulations.

The Company Secretary is not a director of the Corporation and acts independently from the Board. In line with good governance practice, the appointment and removal of the Company Secretary is a matter for the Board.

The Company Secretary fulfils a dual role in that he is also the General Counsel of the Corporation.

#### **STRUCTURE**

All members of Board Committees are non-executive directors. The IDC's Board structure is depicted in the diagram on page 56.

#### **REMUNERATION REPORT**

#### **Remuneration Philosophy**

Our employees are integral to achieving our corporate objectives. We therefore strive to keep them engaged, motivated and appreciated. We endeavour to attract and retain high-calibre, high-performing individuals who subscribe to the values and culture of the organisation.

Performance management and development are key enablers in establishing and reinforcing employee behaviours and outputs that will help achieve our business goals and objectives. This requires continuous formal and informal feedback as part of an ongoing performance improvement process.

The Corporation's remuneration philosophy is designed to ensure that employees are remunerated fairly, equitably and consistently based on individual performance, market remuneration trends and the relative value of each position within the business. The principle of performance-based remuneration is one of the cornerstones of the remuneration policy and it is underpinned by sound governance principles which are reviewed periodically in order to drive alignment with changes in remuneration trends and practices.

#### **Employee Remuneration**

The Board and shareholder have directed that the outcomes of performance should reward increased efforts and sustainable successes and that incentives should only be payable for exceptional performance. Targets for certain strategic indicators must be met for incentives to be considered, in particular those indicators related to job creation/saving, disbursements and impairments.

#### **Incentives**

The short-term incentive (STI) is aligned to recognise and reward performance which exceeds expectations in terms of short-term corporate indicators, and team and individual performance indicators. The on-target STI amounts are aligned to those of other SOEs as provided for by the remuneration guidelines for SOEs. An annual non-pensionable allowance (NPA) is payable to employees with acceptable performance ratings in terms of the Corporation's performance management process.

The long-term incentive (LTI) is based on performance against the IDC's long-term objectives. In line with emerging local and international trends, the incentive vests in three years and is paid over three years from the year of vesting. The amounts for the subsequent two years will be paid provided that performance against long-term objectives does not drop below the target performance level in any of the years.

The allocation of awards is discretionary and the Board has the authority to change or withdraw the awards. The Board also has the discretion to withdraw a vested incentive on the basis of a material event occurring. In respect of the LTI, the overall on-target incentive over the three-year vesting cycle has been aligned with the remuneration guidelines for SOEs.

#### **Board Remuneration**

The Board Human Capital and Nominations Committee plays an advisory role on the remuneration of IDC staff employees and non-executive directors. The directors are remunerated for the meetings they attend at rates approved by the shareholder. No performance-based remuneration or retainer fees are paid

During the reporting period IDC directors were remunerated as per the table on page 56.

| Name of director          | 2017<br>R'000 | 2016<br>R′000 |
|---------------------------|---------------|---------------|
| BA Mabuza                 | 1 057         | 690           |
| LI Bethlehem <sup>1</sup> | 364           | 301           |
| BA Dames                  | 416           | 322           |
| RM Godsell                | 206           | 178           |
| A Kriel <sup>1, 2</sup>   | 208           | _             |
| SM Magwentshu-Rensburg    | 414           | 326           |
| NP Mnxasana               | 546           | 441           |
| B Molefe                  | _             | 64            |
| M More <sup>1, 2</sup>    | 271           | _             |
| PM Mthethwa               | 365           | 304           |
| ND Orleyn                 | 400           | 340           |
| NE Zalk <sup>3</sup>      | _             | _             |

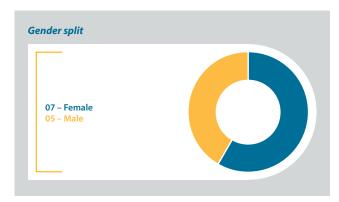
- 1. These directors do not derive direct financial benefit from services rendered to the IDC. Their fees are paid directly to their employers.
- 2. Mr A Kriel and Ms M More were appointed to the IDC's Board on 1 April 2016 and did not receive any fees for 2016.
- 3. Mr NE Zalk is employed by the dti and does not earn directors' fees for services rendered to the IDC nor are fees paid to his employer.

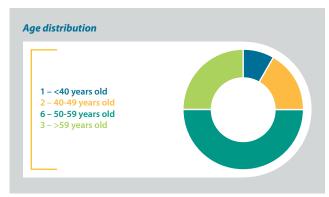
|                                  | IDC Board   | Board<br>Investment<br>Committee   | Board Human<br>Capital and<br>Nominations<br>Committee                                   | Board Audit<br>Committee                                  | Board Risk and<br>Sustainability<br>Committee                                  | Social and<br>Ethics Board<br>Committee   |
|----------------------------------|---|--|--|---|--|---|
|                                  | Responsible for the performance of the Corporation while retaining full and effective control | Considers<br>transactions<br>mandated to it<br>by the Board<br>and reviews<br>related party<br>transactions.<br>Particulars of<br>approval<br>thresholds are<br>provided on<br>page 58 | Develops<br>compensation<br>policies,<br>resourcing<br>plans and<br>performance<br>goals | Monitors the adequacy of financial controls and reporting | Governs risk<br>and ensures<br>responsible<br>stewardship of<br>sustainability | Promotes the ideals of corporate fairness and transparency, social and economic development and good corporate citizenship, ar manages the Corporation's exposure to reputational r |
|                                  | *   | ₩  | ░  | ₩   | ░  | ₩   |
|                                  |   | Committee  | membership and r   | number of meeting   | gs attended  |   |
| Number of meetings               | 11  | 13   | 6  | 4   | 8  | 4   |
| Non-executive directors          |   |  |  |   |  |   |
| BA Mabuza (Chairperson)          | 11*   | 13   | 6  |   |  |   |
| LI Bethlehem                     | 10  |  |  |   | 8*   |   |
| BA Dames                         | 11  |  | 6*   |   | 6  |   |
| RM Godsell                       | 6   |  | 3  | 2   |  |   |
| A Kriel                          | 5   |  | 1  |   | 4  | 2   |
| SM Magwentshu-Rensburg           | 9   | 13*  |  | 4   |  |   |
| NP Mnxasana                      | 11  | 12   |  | 4*  | 8  |   |
| N More                           | 9   |  |  | 4   |  | 3   |
| PM Mthethwa                      | 8   | 10   |  |   | 5  |   |
| ND Orleyn                        | 8   | 10   | 4  |   |  | 3*  |
| NE Zalk                          | 6   | 11   |  |   |  | 4   |
| B Molefe (resigned January 2017) | 0   | 0  |  | 0   |  |   |
| Executive directors              |   |  |  |   |  |   |

<sup>\*</sup> Chairperson of the respective committee

<sup>\*\*</sup> Not a member of any sub-committee

#### **BOARD COMPOSITION**





#### **DELEGATED LEVEL OF AUTHORITY**

While the Board has the authority to delegate powers to Executive Management and Board Committees, it remains accountable to the shareholder. A Delegation of Authority is in place, which is updated on a regular basis.

#### **DELEGATION OF CREDIT APPROVAL**

As depicted in the diagram on the next page, specific powers and authority have been delegated to those Board and Executive Committees responsible for credit approvals. Each of these committees has a clearly defined mandate outlined in written terms of reference. The management of day-to-day operations is delegated by the Board to the CEO, who is assisted by the Executive Management Committee and its subcommittees.

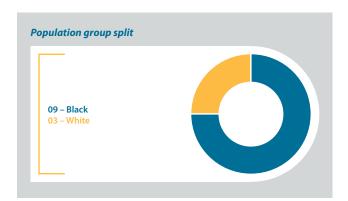
#### COMPLIANCE

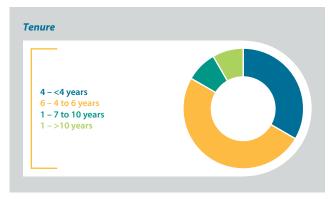
The IDC recognises its accountability to all its stakeholders under the regulatory requirements applicable to the Corporation.

Our compliance philosophy recognises the importance of ensuring continual adherence to regulatory requirements as a critical part of effective regulatory compliance risk management.

Whereas the ultimate responsibility for ensuring that the Corporation complies with all the applicable regulatory requirements as stipulated in the PFMA remains with the IDC Board, the Compliance and Regulatory Affairs department assists the Board in mitigating the risk of non-compliance with these requirements. The compliance function also assists business units/departments in identifying and assessing regulatory risks, and developing compliance risk management plans to mitigate and control them. Regulatory risks are monitored and reported to the relevant stakeholders.

During the year under review, the process of compliance awareness training to IDC employees which was embarked upon during the previous year continued, with compulsory FICA training provided to 683 employees. Anti-Money Laundering and Terrorist Financing Control policies were adopted, replacing the FICA Manual. The implementation of the anti-money laundering programme is currently our particular area of focus.





During the reporting period, there were no contraventions, penalties, sanctions or fines imposed on the IDC due to non-compliance with regulatory requirements.

#### **GOVERNANCE AT SUBSIDIARIES**

#### **GOVERNANCE STRUCTURES AND FRAMEWORKS**

A formal governance framework for IDC subsidiaries and investee companies is in place. This framework enables the IDC, as an institutional investor, to have an awareness of the material risks and issues that affect our investee companies and the industries in which they operate. Through this framework, we are able to exercise adequate oversight over our subsidiaries and investee companies.

The governance framework will be reviewed during the current financial year to bring it up to date with changes required in terms of King IV.

The extent of our influence on subsidiaries and other companies in which we have an ownership share is determined by the size of our shareholding in the various companies. We have a large measure of influence over wholly-owned subsidiaries and less influence over companies where our investment is limited to a minority shareholding or a loan. Care is taken to ensure that all our clients and investee companies have effective and fit-for-purpose governance structures in place.

#### **HUMAN CAPITAL**

#### **BACKGROUND**

As a leader in industrial development finance operating in a competitive environment, we recognise the need for employees with appropriate skill sets who are driven by a high-performance culture. Our initiatives in this regard have been met with positive results and in the year under review, the IDC was accredited by the Top Employers' Institute as a Top Employer for the second consecutive year.

#### **Delegation of credit approval**

### Board

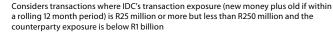
- Considers transactions where the transaction is R1.5 billion or more or counterparty exposure is R7 billion or above
- · The investment is of a strategic nature
- There might be conflict of interest through an IDC director's involvement in a transaction (after taking advice from the Social and Ethics Committee, Board Investment Committee (BIC) and/or Special Credit Committee)
- Deviation from any policy relating to a finance transaction (where Board approval is required)
- Counterparty limits of above R7 billion per counterparty at cumulative market value (including undrawn commitments)

#### Board Investment Committee



- Considers transactions where IDC's transaction exposure (new money plus old if within a rolling 12 month period) is R250 million or more but less than R1.5 billion and the counterparty exposure is between R1 billion and R7 billion
- Also reviews transactions where the transaction/counterparty limits are breached, but recommends to the Board for consideration
- Decides on whether a finance transaction is of strategic nature, in which case the transaction will be reviewed by the BIC, and recommended to the Board for consideration
- A sector and/or regional limit is breached

#### Special Credit Committee



· Considers additions/changes to the Delinquent Register



**Credit Committee** 

Considers transactions where the IDC's transaction exposure (new money plus old if within
a rolling 12 month period) is less than R25 million and the counterparty exposure is below
R250 million

#### **STRATEGY**

Our strategy of attracting and retaining top employees is based on the following:

- · Building capacity
- Ensuring an enabling working environment
- Providing the necessary development and growth opportunities
- Supporting broader skills development in our country
- Enabling customer-centric values-based service delivery to internal and external stakeholders.

#### LEADERSHIP FRAMEWORK

We are building our unique leadership brand. A leadership framework was developed to define the critical leadership competencies required to take our business forward. To this end, we have assessed all our executives against the framework and in the next financial year we will assess all our senior managers and potential successors for critical roles. In this way, we are meeting our objectives of enhancing the IDC's leadership capability and ensuring continuity by building leadership bench strength for our future needs.

The IDC's definition of leadership is: "To lead, influence and inspire oneself and others to achieve the IDC's vision by being accountable and responsive in the way leaders deliver and lead selflessly".

The diagram on page 59 represents our defined leadership framework and competencies.

#### TALENT LA

Through our talent management strategy, we have identified all critical roles in the Corporation that require ongoing and focused attention to ensure the retention of individuals in these roles. Over the reporting period the voluntary turnover of individuals in critical roles has increased from 5.6% to 6.7%. In ensuring the Corporation is continuously capacitated to deliver on its strategy a comprehensive talent review process was undertaken to identify potential successors for critical roles. As a corporation we have determined the coverage ratio (i.e. percentage of potential successors identified at different readiness levels for all critical roles). Currently we have an overall 76% coverage ratio for all critical roles, excluding executives, across all readiness levels. In the immediate readiness level we have a 69% coverage ratio, in the 1-3 years readiness level the ratio is 89% and in the 3+ years readiness level, 72% of roles are covered with identified potential successors. The focus is on ensuring that a plan is developed to fast-track development and capability building in respect of gaps that have been identified for potential successors, which will be informed by the leadership assessment process.

#### **PEOPLE DEVELOPMENT**

Customer-centricity training was made available to all employees as part of our aim of ensuring that employees are skilled in customer service through being accountable, adhering to service commitments and effective communication. Commitments made by

employees during the training will be used to measure customer satisfaction on an ongoing basis.

The development of leadership competencies through building and developing the IDC's leadership DNA is undertaken in order to deliver on our strategic objectives and positively impact the desired culture of the IDC. This is achieved by way of:

- Executive and leadership coaching, to assist with the transition into leadership roles, address leadership challenges and unlock potential
- Mentorship training for operations divisions, to build capability and create a conducive environment for the effective transfer of critical skills

Particulars of training provided to employees during the reporting period are set out in the graphs on page 60.

The total staff cost during the year under review was R998 million. The training expenditure, expressed as a percentage of staff costs remained the same at 2% (2016: R1 011 million, 2%). A comparative summary of investment in staff training is available online.

#### **AN ENABLING CULTURE**

Since the implementation of the Project Evolve initiative reported on in our last two Integrated Reports, we have focused on building an enabling culture, and an environment within which our people can thrive. To enable our culture vision, we have been driving the required culture shift with an approach based on performance and consequence management, engagement, customer-centricity and promoting greater accountability, trust and decision-making.

In order to ensure that our people are change-agile, a change forum network was established, with the focus for the year ahead on ensuring that all our people are appropriately and effectively engaged on changes that impact both them and the IDC's business, and to ensure that we are responsive to it. As a business, we aim to improve the functioning of the forum and build change-agile staff.

#### **REWARD AND RECOGNITION**

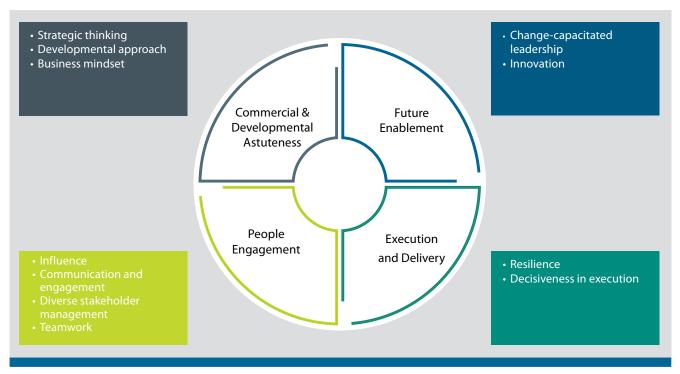
Our Remuneration and Benefits Philosophy is designed to attract and retain high performing employees. Total Remuneration consists of the following:

- A guaranteed package based on cost to company consisting of a cash portion and compulsory benefits such as retirement funding and medical aid
- · Short-term incentives are made up of two components, a nonpensionable allowance payable at a performance score of 3 and a performance bonus at a performance score of 3.5 and above are awarded on the achievement of predetermined performance objectives and targets. All permanent employees irrespective of level are eligible to participate
- Our long-term incentive scheme vests over a period of three years and supports to facilitate retention of individuals in critical leadership, management and professional roles. Administrative and support bands are excluded from the long-term incentive.

In addition, to recognise our people the "IDC Star Awards" function was held in November 2016 whereby we pay tribute to our "Star" performers as identified and nominated by fellow employees and adjudicated by a panel. Understanding that teams are also critical to business success we recognise teams who have made a difference in projects involved in the business which directly supported the IDC objectives.

Our tailored recognition programme (e-Wards) shows our appreciation for staff who go the extra mile to serve our clients, both internal and external. This platform has grown year-on-year and remains a positive way for staff to recognise their colleagues.

#### Leadership framework and competency requirements



#### **STAFF COMPLEMENT**

In ensuring that we are properly resourced and capacitated, our staff complement remained relatively constant at 839 employees (2016: 848). Of the 839 employees, 818 were permanent employees and 21 were on three-year fixed-term contracts, of whom 9 were trainee accountants on a chartered accountant learnership and 12 were employed in the Presidential Infrastructure Co-ordinating Commission's technical unit.

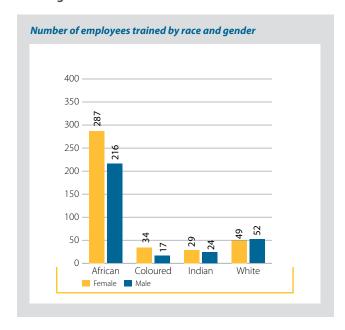
Of the 21 fixed-term contractors, 38% were female and 62% male. Furthermore, 86% of the fixed-term contract employees were from designated groups. A comprehensive breakdown of staffing numbers by level is provided in the online section of this report.

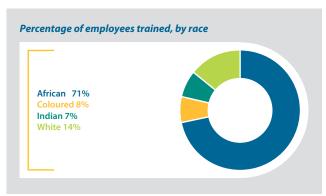
#### **DIVERSITY**

Diversity is a critical enabler. Being a proudly South African state-owned entity, we continuously strive to ensure that our staffing profile is representative of the broader society. Our overall equity representation of designated groups increased by 1% to 92% (2016: 91%).

Gender diversity is an imperative, and to this end 54% of all employees are female and 46% male. The composition of people with disabilities decreased slightly from 1.5% to 1.4% over the past year.

#### **Training investment**





\*For the purpose of this report, training has been defined as interventions that:

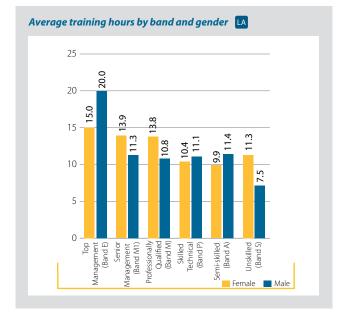
- Cover internal permanent staff and CA Trainees
- Have a duration of 1 day or more
- Were offered by external providers (including conferences and short courses)
- Included internal IDC Operations Training
  Included customised programmes delivered in-house

#### **HEALTH AND SAFETY**

We continue to drive our commitment to minimising work-related injuries and illness through the IDC's Occupational Health and Safety structures, such as the Occupational Health and Safety Committee and the Emergency Response Team, and Employee Wellness programmes, in compliance with the Occupational Health and Safety Act, 1993.

Only one Lost Time Injury and two Medical Aid Incidents were recorded during the financial year under review, which required management intervention and enhancement of Occupational Health and Safety activities. This approach will ensure that the health and safety of employees and visitors continue to be a key focus.

A company-wide safety awareness campaign will be rolled out. The Occupational Health and Safety programme will be benchmarked against similar institutions to ensure a focused approach in improving the performance of the Occupational Health and Safety Committee and reduction of health and safety incidents.



| Indicator                                | 2017 | 2016 |
|--|------|------|
| Total number of employees trained        | 708  | 673  |
| Total number of days training: female    | 597  | 542  |
| Total number of days training: male      | 493  | 517  |
| Average number of hours training: female | 12.0 | 12.5 |
| Average number of hours training: male   | 12.6 | 12.7 |

Excluded from these statistics are

- On-boarding
- Online training

#### **LEARNERSHIPS**

During the reporting period the Corporation prioritised supporting our existing graduates on our Graduate Development Programme to obtain suitable employment. The number of people enrolled on the programme in 2016 was 40, being initially placed across all the IDC offices nationally. The main objective of this programme is to expose our graduates to practical work experience and equip them with the required skills in preparing for the world of work and ultimately being employed.

The IDC has facilitated the employment of 25 individuals through various opportunities (IDC, IDC subsidiaries and the external market). The year ahead will focus on continuing to provide remaining learners with work-based exposure and assist to secure employment.

The size of our Chartered Accountant Learnership programme remained stable with 12 trainees at different levels of the 3-year programme (3 of these have since joined IDC's operations training programme).

Our partnership with Scaw Metals has seen us continuing to support 30 young people on an apprenticeship programme in various trades. This programme started in 2014 and will continue until 2018.

Our external bursary programme supports talented students from previously disadvantaged backgrounds who cannot afford tertiary fees. In the 2016 academic year, we supported 221 (2016:223). The Corporation is also supporting three learners with disabilities to undertake their studies.

#### **ENVIRONMENTAL AND SOCIAL GOVERNANCE ENVIRONMENTAL AND SOCIAL POLICY**

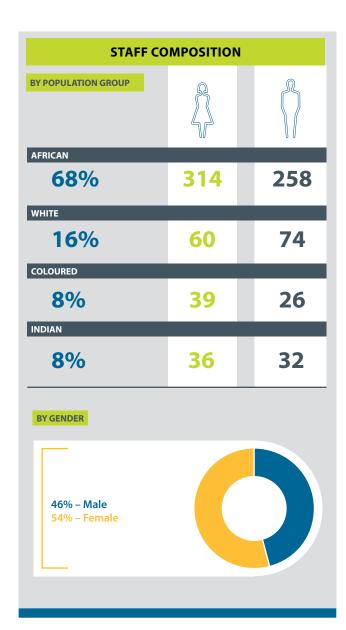
We recognise that sustainable economic growth is integrally connected to the sustainability of the environment and society. As the IDC, we are committed to investing in activities that enhance environmental protection measures, in compliance with occupational health and safety regulations, and that avoid negative social impact on communities, while promoting the sustainable use of natural resources. The IDC has adopted five principles to promote environmental and social protection in all its investments and activities:

- 1. All activities must be environmentally and socially responsible
- 2. All investments must comply with national legislation and international environmental protection conventions
- 3. All investments must respect local communities and people
- 4. Investee companies must create favourable working conditions that are not harmful to employee health and well-being
- 5. Investee companies shall develop and implement environmental management systems in line with international best practice

#### **ENVIRONMENTAL AND SOCIAL DUE DILIGENCE FRAMEWORK**

Our Environmental and Social Due-Diligence Framework governs our approach to environmental and social due diligence in the funding request process. Investments are categorised in terms of inherent industry risk, as Category A (high risk), Category B (medium risk) and Category C (low risk), which enables risk-based due diligence procedures. In addition to the risk category, the Credit Committees' investment decisions are informed by a company's Environmental and Social Risk Rating, or ESRR, which reflects how well the company manages environmental and social risk exposure.

The Environmental and Social Risk Categories and ESRR are set out in the table on page 62.



#### **Environmental and social risk categories and risk ratings**

| E&S Risk Category – industry risk perspective                               | E&S Risk Rating (ESRR) – performance perspective  |
|---|---|
| Category A – high risk<br>Category B – medium risk<br>Category C – low risk | ESRR 1 – excellent performance ESRR 2 – good performance ESSR 3 – poor performance ESRR 4 – unacceptable performance* |

<sup>\*</sup>The IDC's Executive Committee approved the ESRR4 rule as part of the Corporation's Environmental and Social Policy during the 2017 financial year. In terms of this rule, companies rated ESRR4 cannot be funded.

#### **IA ENVIRONMENTAL AND SOCIAL RISK MONITORING**

77% of the clients analysed are classified as Category B projects which are "those with potential limited adverse environmental or social impacts that are few in number, site specific, largely reversible and readily addressed through mitigation measures". This category encompasses the manufacturing sector, therefore in the context of the IDC, most of the business partners fall into this category.

Of the clients assessed, 30 maintained the same rating as per their previous assessment, while 10 showed an improvement in their E&S risk category and 4 deteriorated. An additional 21 clients were assessed for the first time.

In the past year, IDC re-assessed 100% of the ESRR4 clients identified in the previous year. Engagements with these clients are assisting them to quantify and cost the corrective measures needed to improve their performance. Two further ESRR4 clients were identified this year and are being engaged to ensure that poor performance is addressed.

#### **CARBON FOOTPRINT**

Information on our carbon footprint is available online.

We include selected subsidiaries in the annual scope 1 greenhouse gas emissions calculations. Subsidiaries contribute 15% to IDC's scope 1 emissions. Of the six subsidiaries included, only two make a material contribution to IDC's scope 1 emissions. We continue to engage these companies on carbon-tax readiness.

#### **ENGAGING SUBSIDIARIES ON ENVIRONMENTAL AND SOCIAL ASPECTS**

## **Dedicated Company Compliance Engagements**

The IDC assisted Scaw South Africa with more than R201 million to implement corrective action of non-compliances issues identified through monitoring programmes (including non-compliance notices and directives issued by authorities) to ensure compliance with relevant statutory and regulatory requirements. To this end Scaw has secured most of the mandatory operational licences/permits, registrations and certificates.

#### African Chrome

During the past year IDC spent a further R2.8 million on care and maintenance activities on this legacy remediation project.

#### Columbus JV

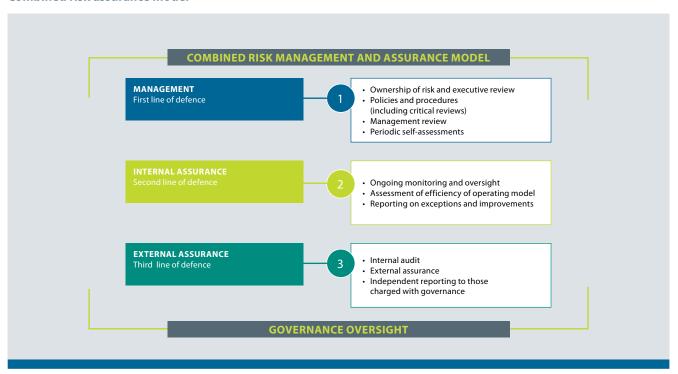
We contribute, along with Samancor, toward the effective management of the Columbus landfill site in Middelburg. R6.4 million was spent on this during the year.

#### INTERNAL AUDIT FUNCTION

#### **BACKGROUND**

The purpose, authority and responsibilities of our Internal Audit department are set out and formally defined in a charter approved by the Board Audit Committee.

#### Combined risk assurance model



Internal Audit forms part of the Corporation's Enterprise Risk Management Framework (ERM), as a third line of defence. ERM facilitates our objective to effectively govern and manage the Corporation's approach to risk management and to create sustainable value for our stakeholders through business objectives. These are defined in terms of achieving developmental outcomes and ensuring financial sustainability and satisfactory customer service.

Our operating environment is dynamic and is influenced by factors such as adverse economic conditions and social and political dynamics which require proactive action to address risks and ensure that we achieve our developmental mandate.

Effective ERM involves the strategic implementation of three lines of defence as set out in the figure on page 62.

#### **ROLE OF INTERNAL AUDIT**

The primary objective of the Internal Audit function is to provide independent, objective assurance to the Board that the IDC's governance processes, management of risk and systems of internal control are adequate and effective in mitigating the most significant risks that threaten the achievement of the group's objectives and, in so doing, help to improve the control culture of the Corporation.

#### MANAGEMENT'S RESPONSIBILITY FOR RISK **MANAGEMENT AND FRAUD**

Whereas management is responsible for the development, revision and implementation of our systems and procedures, the Internal Audit department provides support and advises management on the adequacy and effectiveness, or otherwise, of developed or revised systems and procedures.

During the reporting period, Internal Audit conducted face-to-face fraud awareness training and education to 29 of the Corporation's strategic business units and departments, 10 regional offices and 8 members of Executive Management (67%), covering a total of 345 staff members (40% of all employees). All 12 members of Executive Management (100%) received communication with regards to financial crime policies. Training was also extended to some of the major subsidiaries (sefa, Scaw and Foskor) and a number of business partners. All active business partners received communication on financial crime policies.

We have distributed our Financial Crime Awareness brochure on Social Engineering to 864 individuals, and we continued with other initiatives to enhance financial crime awareness, which included the hosting of a Fraud Awareness Week. Awareness initiatives were also extended to business partners through bulk SMS and regular website and email updates.

Key operational areas are investigated for corruption risks. Eight out of 16 high risk areas were assessed during the year. High risk areas include all operational units (12 SBUs), and the Financial Management, Procurement, Human Capital and Post-Investment Management departments. During this risk identification process, the significant risks identified are fed back into Internal Audit's fraud and corruption training activities. These include:

- Clients: Fraudulent audit certificates; non-compliance with drawdown procedures; overstated revenue; dishonest clients; fraudulent BEE certificates
- Other: Falsified invoicing; related party transactions; falsified IDC documentation/letters
- General: Offering gratification to an IDC employee to unduly influence an official decision.

#### **ASSISTANCE TO SUBSIDIARIES**

Our Internal Audit department worked very closely with some of our key subsidiaries to provide support and oversight during the year. Amongst others, we shared some of the audit programmes, reviewed some of the work performed by subsidiaries and deployed

IDC Internal Audit staff to perform audits in the subsidiaries where capacity or skills needed to be supplemented.

#### **COMBINED ASSURANCE**

During the reporting period, a Combined Assurance Policy was approved by the Board Audit Committee and Board Risk and Sustainability Committee. The policy clearly sets out the responsibilities of each assurance provider and the nature of assurance to be provided. On implementation, the combined assurance approach will ensure that all risk areas are adequately covered and that assurance is provided in an optimal manner whilst avoiding duplication.

#### **FORENSIC INVESTIGATIONS**

As a result of the extended crime awareness programmes and education provided to employees and business partners, we have seen a reduction in the number of cases reported during the current year as compared with the prior year.

A total of 26 cases were reported for investigation, of which 17 were client-related. This compares favourably with the total of 36 matters during the previous year, of which 7 were internal cases and 29 external. This reduction is attributed to improvement in the control environment as well as vigilance in our employees and business partners in deterring and preventing fraudulent activities.

#### **RISK MANAGEMENT**

#### **RISK STRATEGY**

Our approach to risk management is that the Corporation is fully aware, at all times of the existing and future material risks that impact the attainment of its strategic objectives. Therefore, our risk management processes are fully integrated with our strategic planning process, guided by an Enterprise-wide Risk Management Framework that is applied uniformly throughout the organisation.

Our Risk Appetite Statement clearly sets out the levels of risk that the Corporation is willing to accept in order to achieve its strategic goals. For more details on our ERM process, refer to page 64.

#### **RISK CULTURE AND GOVERNANCE**

The IDC has strong risk management culture, this is enforced by setting the right tone at the top and by having clearly defined risk governance structures and an independent and adequately resourced risk management function. The Corporation has zero tolerance for non-compliance with laws and regulations and promotes ethical behaviour.

#### **ENTERPRISE-WIDE VIEW OF RISK**

The Corporation assesses and manages its risks on an enterprisewide basis, taking a holistic view of risks across the organisation. We identify our risks at a material strategic level as well as at an operating business unit level. All our employees, regardless of level, have a responsibility for the management of risks. The responsibilities are clearly set out in line with the three lines of defence model.

In terms of the three lines of defence model as applied by the Corporation, all business units are the first line of defence in the identification, assessment and management of risks emanating from their operations. The Risk Management and Compliance departments are the second line of defence. They provide oversight, establish limits, frameworks and policies under which the first line activities are to be performed. Internal Audit comprise the third line of defence and they provide independent assurance to the Board and executive management over the effectiveness of controls and processes employed by the first and second line of defence.

#### THE IDC'S MATERIAL RISKS

In accordance with our risk management framework and process, we assessed (identified, analysed and evaluated) existing and emerging material risks that could hamper the attainment of our strategic objectives.

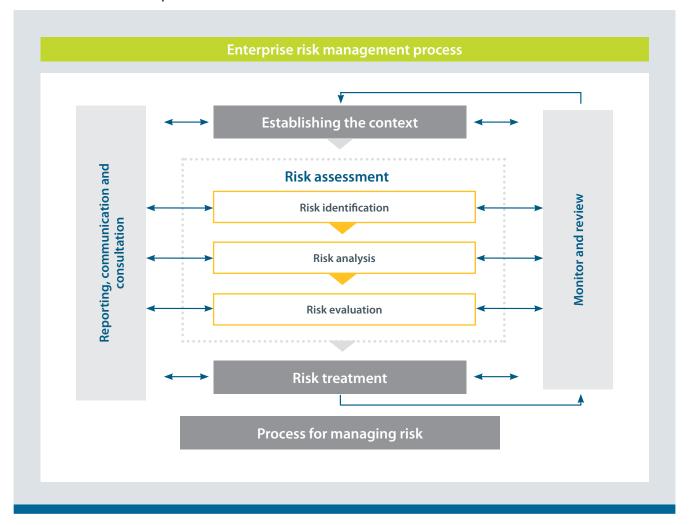
These risks were captured in the Corporation's Risk Register that is formally approved by the Board. Once so approved, the risks are managed within approved appetite levels by their respective risk owners.

Risks that migrate beyond the Corporation's desired appetite levels are escalated and reported in accordance with our approved matrix so as to ensure that necessary remedial actions are taken.

Taking into account the mitigating actions and controls implemented by the organisation, we are satisfied that the material risks will be managed within the Corporation's tolerable levels.

The Risk Assessment process identified several major risks that could have a material impact on the Corporation achieving its objectives. The list of material risks are shown on pages 10 and 11.

#### The IDC's risk assessment process



#### **RISK APPETITE**

We define risk appetite as the level of risk that the Corporation is prepared to accept in pursuit of its strategy. Our risk appetite is articulated in a set of statements, limits, thresholds and guidelines that are captured in our risk appetite statement that is formally approved by the Board.

The risk appetite metrics are reviewed annually in accordance with our dynamic strategy and changing risk landscape. Our risk appetite is prudent, whilst not being overly conservative and is in sync with our mandate as development finance institution. The risk appetite statement is communicated and cascaded down to the operating units and actively monitored and reported by the Risk Management department to the appropriate governance structures in the Corporation.

#### **OPERATIONAL RISK MANAGEMENT**

Given the changing risk landscape and adoption of Project Evolve, all departments' Risk and Control Self-Assessments (RCSAs) were

reviewed. RCSAs are a key component of the Operational Risk Management framework and enable a dynamic and iterative process for identifying and assessing key operational risks and controls. Mitigating actions were also put in place to proactively address control weaknesses and identified deficiencies.

The key operational risks attendant to a majority of our operations are:

- Internal and external fraud
- Data accuracy and integrity
- Retention of adequate skills.

Another key focus area for the Corporation during the year under review was the implementation of the Loss Data Collection (LDC) policy. LDC provides an overview of the operational risk environment in terms of the risks that are actually materialising (losses incurred) and the adequacy of controls. Through LDC, operational losses and near-miss events are collected and analysed. Action plans are then developed to address control weaknesses and prevent further losses from recurring.

#### **BUSINESS CONTINUITY MANAGEMENT (BCM)**

During the financial year, critical plans were tested at the IDC work area recovery site. A crisis management table-top simulation training exercise was conducted for the Crisis Management Team (CMT). The main objective of the exercise was to test the BCM plans and IT infrastructure as well as the CMT's readiness to respond to a crisis. The outcome demonstrated that the organisation is well prepared to recover in the event of a disaster.

#### **BOARD COMMITTEE REPORTS**

#### **BOARD INVESTMENT COMMITTEE (BIC)**

The purpose of the BIC is to consider transactions mandated to it by the Board which would, prior to the creation of the committee, vest with the Board. The BIC considers transactions as per the Delegation of Authority which is summarised on page 58 of this report, and it makes recommendations to the Board.

The BIC contributed significantly to the overall funding approvals, with new funding of R7.8 billion approved by the committee in 14 transactions. Details of these and other transactions are provided in the Impacting on Industrial Development section of this report.

In order to align itself further with the IDC's development mandate, and to assess the catalytic role that the Corporation plays in the development of the country, the Committee instituted measures to assess the economy-wide impact of investment proposals that it is considering. This will ensure that investments are not only assessed on their direct economic impact, but consideration is now also given to other development aspects of transactions.

Dr S Magwentshu-Rensburg **Chairperson of the Board Investment Committee** 28 June 2017

#### **HUMAN CAPITAL AND NOMINATIONS COMMITTEE (HCNC)**

The Committee annually manages the Board's evaluation of the performance of the Chief Executive Officer and supports the Board in fulfilling its oversight responsibilities relating to succession planning as well as overall compensation and human capital policies for all IDC employees.

The specific responsibilities of the HCNC, as set out in the Board-approved terms of reference, includes:

- · Recommending the appointment of directors to the boards of key subsidiaries and investee companies for consideration by the Board
- Recommending the appointment of the CEO to the Board
- Setting the criteria to evaluate the performance of the CEO
- In consultation with the CEO, setting the criteria for evaluating the performance of executives
- Determining the CEO's salary based on the evaluation of his/her performance together with relative market benchmarks
- Overseeing the setting and implementation of remuneration policies and programmes at all levels of the Corporation, including the payment of performance incentives
- Ensuring that human capital expertise and capacity facilitate the achievement of the business objectives
- Ensuring development of strategies to retain key IDC personnel and playing an integral part in the succession planning, especially of the CEO and executive management
- Supporting the Board in defining corporate performance indicators as well as the evaluation of the performance thereof

For more information on remuneration and incentives, refer to page 55.

During the past financial year, the Committee ensured that the performance objectives of the Corporation, the CEO and that of executives were aligned to achieve the strategic imperatives of the Corporation from both a short- and long-term perspective. The Board's oversight role included the evaluation of corporate and individual executive performance. On the basis of the achieved performance, the Committee recommended the payment of applicable incentives for the year under review.

In support of the corporate strategy and to drive a culture of high performance, the Committee provided oversight in the implementation of the Corporation's revised Remuneration Philosophy and Policy which was approved by the Board during the previous year.

The Committee also considered a report and provided guidance on the Corporation's Employment Equity Plan, reports on the Review of Talent Retention Strategies and the Implementation of Talent Management and Succession Strategy of the business, and approved the Succession Plan for Critical Leadership Roles including that of the CEO.

In Board deliberations the facilitation and embedding of a conducive culture was highlighted as a key imperative. Through the Board Human Capital and Nominations Committee, direction, guidance and input was provided into the culture transformation proposal that was presented for implementation. Furthermore, in order to successfully drive the IDC strategy as envisioned through Project Evolve, the committee provided guidance and input in the articulation of the leadership framework and capabilities required by leaders for the IDC. All leaders will be assessed in line with the leadership requirements and the committee will consider and evaluate the existing leadership bench-strength and how the capabilities can be further enhanced to execute the IDC mandate.



Mr B Dames

**Chairperson of the Board Human Capital and Nominations** Committee 28 June 2017

#### **BOARD AUDIT COMMITTEE (BAC)**

The BAC assists the Board in fulfilling its oversight responsibilities, in particular with regard to the evaluation of the adequacy and efficiency of accounting policies, internal controls, risk management and financial reporting processes. In addition, the BAC assesses the effectiveness of the internal auditors and the independence and effectiveness of the external auditors.

#### Responsibilities, Composition and Functions of the Committee

The Committee's roles and responsibilities include its statutory duties as per the PFMA, the requirements of the King III Codes of Governance, the Companies Act and the responsibilities assigned to it by the Board.

The Committee therefore reports that it has adopted appropriate formal terms of reference as approved by the Board, and is satisfied that it has discharged its responsibilities as per the Companies Act, King III and the PFMA.

The Committee has carried out its functions through attendance at BAC meetings and discussions with Executive Management, Internal Audit and external advisers where appropriate. The BAC meets at least four times per annum, with authority to convene additional meetings as circumstances require.

Invitees to the meetings of the Committee include the CEO, Chief Financial Officer (CFO), Chief Risk Officer and internal and external auditors, as well as the Head of Information Technology, and any other executives as may be required.

To execute its key functions and discharge its responsibilities as outlined in its terms of reference during the period under review, the Committee:

- Assisted the Board in its evaluation of the adequacy and efficiency of the internal control systems, accounting practices, information systems, risk management and auditing processes applied within the Corporation in the day-to-day management of its business
- · Facilitated and promoted communication between the Board, management, the external auditors and Internal Audit department on matters which are the responsibility of the Committee
- Introduced measures that, in the opinion of the Committee, may enhance the credibility and objectivity of the financial statements and reports prepared with reference to the affairs of the Corporation (and the IDC Group)
- Nominated and recommended for appointment as external auditors the firms of registered auditors KPMG, SNG and Ngubane & Co who, in the opinion of the Committee, are independent of the IDC
- Determined the fees to be paid to the external auditors as well as the auditors' terms of engagement
- Ensured that the appointment of the external auditors complied with the Companies Act and any other legislation relating to the appointment of auditors.

#### **Internal Control**

The BAC monitored the effectiveness of the IDC's internal controls and compliance with the Enterprise-wide Risk Management Framework (ERMF). The emphasis on risk governance is based on three lines of defence and the BAC uses the regular reports received from the three lines of defence (process owners and department heads, Risk and Compliance departments, management, and the Internal Audit department) to evaluate the effectiveness of the internal controls (for more on the three lines of defence and risk assessment, refer to page 62).

The ERMF places weight on accountability, responsibility, independence, reporting, communication and transparency, both internally and with all the IDC's key external stakeholders.

No findings have come to the attention of the Committee to indicate that any material breakdown in internal controls has occurred during the financial year under review. The Committee is of the opinion that the internal accounting controls are adequate to ensure that the financial records may be relied upon for preparing the consolidated Annual Financial Statements, that accountability for assets and liabilities is maintained, and that this is based on sound accounting policies which are supported by reasonable and prudent judgements and estimates. The BAC is further of the opinion that the internal controls of the Corporation have been effective in all material aspects throughout the year under review.

This opinion is based on the information and explanations given by management regarding various processes and initiatives aimed at improving the internal control environment and the integrity of information, discussions with internal audit, and with the independent external auditors, on the results of their audits.

To formulate its opinion, the Committee:

- · Monitored the identification and correction of weaknesses and breakdowns of systems and internal controls
- Monitored the adequacy and reliability of management information and the efficiency of management information systems
- Reviewed quarterly, interim and final financial results and statements and reporting for proper and complete disclosure of timely, reliable and consistent information
- Evaluated on an ongoing basis the appropriateness, adequacy and efficiency of accounting policies and procedures, compliance with generally accepted accounting practice and overall accounting standards as well as any changes thereto
- Discussed and resolved any significant or unusual accounting issues

- Reviewed reports supplied by management regarding the effectiveness and efficiency of the credit monitoring process, exposures and related impairments, and the adequacy of impairment provisions, to discharge its obligations satisfactorily
- Reviewed and monitored all key financial performance indicators (KPIs) to ensure that they are appropriate and that decision-making capabilities are maintained at high levels
- Reported to the Board on the effectiveness of the Corporation's internal reporting controls.

#### **External Auditors**

The IDC's external auditors are KPMG, SNG and Ngubane & Co. Ngubane & Co were introduced as a third firm of auditors as part of an effort to contribute to transformation by offering an emerging black-owned audit firm an opportunity to gain auditing experience in respect of a Corporation of the size of the IDC.

The BAC has a well-established policy on auditors' independence and audit effectiveness. The committee has satisfied itself that the external auditors, KPMG, SNG and Ngubane & Co were independent of the Company as set out in sections 90(2)(c) and 94(8) of the Companies Act, which includes consideration of compliance with criteria relating to independence or conflicts of interest as prescribed by the Independent Regulatory Board for Auditors.

Requisite assurance was sought and provided by the external auditors that their claim to independence was supported and demonstrated by internal governance processes within their entities. The Committee, in consultation with Executive Management, agreed to the engagement letter, terms, audit plan and audit fees for the financial year ended 31 March 2017.

The Committee:

- Approved the external auditors' annual plan and related scope of
- Monitored the effectiveness of the external auditors in terms of their skills, independence, execution of the audit plan, reporting and overall performance
- Considered whether the extent of reliance placed on internal audit by the external auditors was appropriate and whether there were any significant gaps between the internal and external audits
- Approved the Non-audit Services Policy, which stipulates that the external auditors are precluded from engaging in non-audit related services.

#### **Financial Statements**

The Committee has reviewed the financial statements of the Corporation and the IDC Group and is satisfied that they comply in all material respects with IFRS and the requirements of the Companies Act and PFMA. During the period under review the Committee:

- Reviewed and discussed the audited Annual Financial Statements included in this Integrated Report with the external auditors, the Chief Executive and the Chief Financial Officer
- Reviewed the external auditors' report and management's response to it
- Reviewed any significant adjustments resulting from external audit queries and accepted unadjusted audit differences
- Reviewed areas of significant judgements and estimates in the Annual Financial Statements
- Received and considered reports from the internal auditors.

#### **Expertise and Experience of the Finance Function**

The Committee has considered, and has satisfied itself of the overall appropriateness of the expertise and adequacy of resources of the IDC's finance function and the experience of the senior members of management responsible for the financial function.

#### **Duties Assigned by the Board**

#### Integrated and Sustainability Reporting

The BAC fulfils an oversight role regarding the Company's Integrated Report and the reporting process, and considers the level of assurance coverage obtained from management and internal and external assurance providers, in making its recommendation to the Board.

The Committee considered the Company's information as disclosed in the Integrated Report and has assessed its consistency with operational and other information known to Committee members, and for consistency with the Annual Financial Statements. The Committee discussed the information with management and has considered the conclusions of the external assurance provider.

The BAC is satisfied that the sustainability information is, in all material respects, reliable and consistent with the financial results. Nothing has come to the attention of the Committee to indicate any material deficiencies in this regard.

#### **Combined Assurance**

The BAC is responsible for monitoring the combined assurance model detailing significant processes, line management monitoring, Internal Audit and external assurances. This model is used to assess the appropriateness of assurance over risks/controls provided to the Board.

Engagement regarding the extent to which the various assurance providers rely on each other's work take place continuously and the Committee is of the view that a better coordination between External and Internal Audit has been achieved.

During the year, a Combined Assurance Policy was approved by the BAC which includes a coordinated assurance effort with other assurance providers such as Risk Management and the Compliance function. This will assist in averting assurance gaps or duplication of efforts, and ensuring efficiency across various assurance services.

#### Going Concern

After having reviewed a documented assessment by management of the going concern premise of the Corporation and the IDC Group, the Committee concurs that the adoption of the going concern assumption in the preparation of the consolidated Annual Financial Statements is appropriate and sound.

#### Governance of Risk

The Board has assigned oversight of the Corporation's risk management function to a separate Board Risk and Sustainability Committee (the BR&SC). The Chairperson of the BAC attends meetings of the BR&SC as an ex officio member to ensure that information relevant to these Committees is shared regularly.

The Committee fulfils an oversight role regarding financial reporting risks, internal financial controls, fraud risk and information technology risks as they relate to financial reporting. The BAC is satisfied that appropriate and effective risk management processes are in place.

#### **Internal Audit**

The Internal Audit department has a functional reporting line to the Committee Chairperson and an operational reporting line to the CEO. The BAC, with respect to its evaluation of the adequacy and effectiveness of internal controls, receives reports from Internal Audit on a quarterly basis, assesses the effectiveness of the internal audit function, and reviews and approves the Internal Audit department's Audit Plan.

The BAC is responsible for ensuring that the Corporation's Internal Audit function is independent and has the necessary resources, standing and authority within the Corporation to enable it to discharge its duties. The Internal Audit function's Annual Audit Plan was approved by the BAC. The Committee monitored and

challenged, where appropriate, the action taken by management with regard to adverse Internal Audit findings.

The Committee has overseen a process by which Internal Audit has performed audits according to a risk-based audit plan where the effectiveness of the risk management and internal controls were evaluated. These evaluations were the main input considered by the Board in reporting on the effectiveness of internal controls. The Committee is satisfied with the independence and effectiveness of the internal audit function.

#### Conclusion

Having considered, analysed, reviewed and debated information provided by management, Internal Audit and External Audit, the Committee confirmed that:

- The internal controls of the Group were effective in all material aspects throughout the year under review
- These controls ensured that the group's assets had been safeguarded
- Proper accounting records had been maintained
- Resources had been utilised efficiently
- The skills, independence, audit plan, reporting and overall performance of the external auditors were acceptable.

Following its review of the financial statements for the year ended 31 March 2017, the BAC is of the opinion that they comply with the relevant provisions of the PFMA, as amended, and IFRS, and that they fairly present the results of the operations, cash flow and financial position of the Corporation.

The BAC has complied with all the King III principles, with the inclusion of integrated reporting, evidenced by the Corporation's sixth issue of its Integrated Report 2017. The Committee is satisfied that it has complied in all material respects with its legal, regulatory and other responsibilities.

This Integrated Report was recommended by the BAC to the Board for approval.

On behalf of the Board Audit Committee



Ms NP Mnxasana Chairperson of the Board Audit Committee 28 June 2017

#### **BOARD RISK AND SUSTAINABILITY COMMITTEE** (BR&SC)

The primary duty of the BR&SC is the governance of risk and oversight of risk management within the Corporation.

The Committee also assists the Board in determining the maximum mandate levels for the various investment and credit approval committees. The Committee assists management with the responsible stewardship of sustainability, including stakeholder impact, management of material issues, sustainability governance and reporting. During the year under review work done by the BR&SC included the following activities, which are of critical importance to the risk management process:

#### Implementation of the Project Risk Framework

In light of the increased focus on project development and project risk management, it was necessary to establish a formalised project development process as well as appropriate project governance structures for managing IDC projects going forward. Project risk management is an essential management tool to support overall project management and ensures that risks are identified and effectively managed through mitigating factors.

A Project Risk Management Framework (PRMF) was established to provide guidelines for the management of risk in IDC projects.

In addition to the PRMF, a Project Risk Matrix or risk register was introduced to record and monitor identified risks and tools for their mitigation in specific projects.

#### **Implementation of Rating and Pricing Models**

The new models promote transparency in respect of the risk profile of a new business partner and migration of the credit risk of existing IDC business partners. They follow best practice, and assist in quantifying the level of subsidisation granted for risk in order to ensure that the IDC's developmental role is achieved.

## Implementation of a Risk Appetite Framework (RAF)

An effective RAF helps to reinforce a strong risk culture, which in turn is critical to sound risk management.

The IDC RAF is aligned to the Corporation's strategy and capital planning. It includes a Risk Appetite Statement (RAS), risk limits, and an outline of the roles and responsibilities of those overseeing the implementation and monitoring of the RAF. It also explicitly defines the boundaries within which management is expected to operate when pursuing the organisation's business strategy, and, including an appropriate combination of policies, processes, controls, systems and procedures, it is considered adaptable to changing business and market conditions.

A Risk Limits and Thresholds exercise was undertaken to manage concentration risk, which is defined as the risk posed by any single exposure or group of exposures, having the potential to produce losses large enough to threaten the sustainability of the organisation.

Concentration risk arises in credit and investment portfolios due to uneven credit distribution among borrowers, industries or regions. Limits were set for single name losses and exposures, counterparty losses and exposures, industry exposure and Africa portfolio – regional exposure. Thresholds were approved for the Africa portfolio country exposure.

#### **Credit Risk Policy**

The Credit Risk Policy provides a framework for maximising the IDC's risk-adjusted rate of return by maintaining credit risk exposures within acceptable parameters and appetite levels. This objective can be achieved and fulfils the requirements of proper risk management in line with the Corporation's Risk Management Strategy, sound principles of corporate governance and fulfilment of the National Treasury guidelines on proper risk management (for more on risk management and governance refer to pages 63 and 64).

The BR&SC provided guidance and input to enhance the policy to ensure that financial and credit risks are adequately managed whilst providing opportunities to improve business.

Ms LI Bethlehem

speniele

Chairperson of the Board Risk and Sustainability Committee 28 June 2017

#### **SOCIAL AND ETHICS COMMITTEE (SEC)**

The objective of the SEC is to promote the ideals of corporate fairness and transparency, social and economic development and good corporate citizenship, and to manage the Corporation's exposure to reputational risk.

Part of the SEC's work is to assist the Board in vetting funding applications, projects and any matter in which a director of the IDC has an interest. The SEC is accordingly mandated by the Board to ensure that no special or unusual treatment is accorded to any application, project and or any matters in which a director of the IDC has an interest, and to make appropriate recommendations to

During the year under review the SEC considered one matter in which IDC directors had potential conflicts of interest. Note 42 to the Annual Financial Statements, which are published simultaneously with this report, provide particulars of present and past directors' financial interests in IDC transactions.

The SEC's terms of reference were revised during the year to accommodate the new Conflict of Interest Policy which prohibits directors from doing business with the IDC. It is therefore anticipated that this part of the SEC's function will fall away as only existing transactions involving IDC directors will be supported until they are concluded.

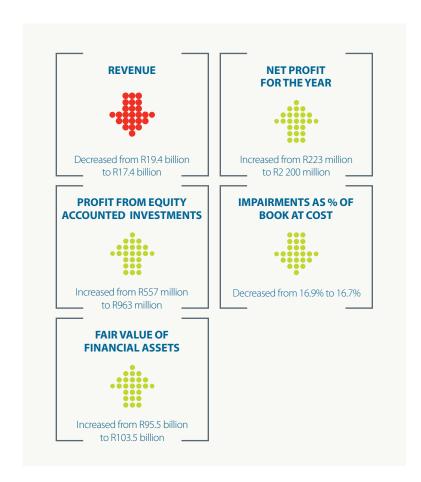
In addition to the above, the SEC considered reports on the Corporation's Code of Ethics and the Ethics Annual Report, quarterly financial performance and the budgets for the next financial year, the Sustainability Framework Implementation Plan, Corporate Social Investment (CSI), the media and stakeholder engagement and customer service.

No material non-compliance with legislation and regulation, or non-adherence with codes of best practice, relevant to the areas within the committee's mandate, was brought to the SEC's attention.

Ms ND Orleyn

Chairperson of the Social and Ethics Committee 28 June 2017

### **ENSURING FINANCIAL SUSTAINABILITY**



The IDC is a going concern. Due to the current state of the economy we expect profitability to be under pressure in the short- to medium-term. Our efforts to ensure sustainable development in the South African economy require that the Corporation remains financially sustainable.

We have sufficient liquidity to meet our current obligations and are confident that, for the foreseeable future, we can raise enough funding through a combination of new debt and internally generated funds (profits, repayments on existing facilities or equity divestments) to invest in new advances into the economy.

Managing impairments is key to ensuring our financial sustainability. We have and will continue to implement initiatives to ensure that impairments remain within acceptable levels.

#### FIVE-YEAR OVERVIEW EXTRACT FROM THE COMPANY'S ANNUAL FINANCIAL STATEMENTS

| Figures in rand million                  | 2017    | 2016    | 2015    | 2014    | 2013    |
|--|---------|---------|---------|---------|---------|
| Statement of financial position          |         |         | ·       |         |         |
| Cash and cash equivalents                | 6 660   | 6 183   | 7 714   | 7 250   | 8 043   |
| Loans and advances                       | 25 802  | 23 451  | 21 760  | 20 298  | 18 297  |
| Investments                              | 100 175 | 91 430  | 94 198  | 108 943 | 98 437  |
| Property, plant and equipment            | 54      | 166     | 129     | 120     | 121     |
| Other assets                             | 1 236   | 1 195   | 1 348   | 994     | 865     |
| Total assets                             | 133 927 | 122 425 | 125 149 | 137 605 | 125 763 |
| Capital and reserves                     | 83 814  | 78 000  | 84 860  | 99 869  | 90 909  |
| Other financial liabilities              | 42 553  | 38 987  | 33 566  | 29 017  | 25 655  |
| Other liabilities                        | 7 560   | 5 438   | 6 723   | 8 719   | 9 199   |
| Total equity and liabilities             | 133 927 | 122 425 | 125 149 | 137 605 | 125 763 |
| Statement of comprehensive income        |         |         |         |         |         |
| Operating profit/(loss)                  | 1 601   | 152     | 1 718   | 1 953   | 1704    |
| Income from equity-accounted investments | -       | -       | 3       | 2       | (1)     |
| Profit before taxation                   | 1 601   | 152     | 1 721   | 1 955   | 1 703   |
| Taxation                                 | 194     | 25      | (54)    | (551)   | (183)   |
| Profit/(loss) for the year               | 1 795   | 177     | 1 667   | 1 404   | 1 520   |

#### FIVE-YEAR OVERVIEW - EXTRACT FROM THE GROUP'S ANNUAL FINANCIAL STATEMENTS

| Figures in rand million                  | 2017    | 2016    | 2015    | 2014    | 2013    |
|--|---------|---------|---------|---------|---------|
| Statement of financial position          |         |         |         |         |         |
| Cash and cash equivalents                | 7 699   | 6 865   | 8 257   | 7 877   | 9 009   |
| Loans and advances                       | 26 673  | 23 928  | 22 412  | 20 818  | 18 666  |
| Investments                              | 77 996  | 71 586  | 73 114  | 92 337  | 84 116  |
| Property, plant and equipment            | 9 613   | 10 626  | 9 921   | 9 012   | 7 913   |
| Other assets                             | 7 855   | 8 343   | 8 585   | 8 549   | 7 181   |
| Total assets                             | 129 836 | 121 348 | 122 289 | 138 593 | 126 885 |
| Capital and reserves                     | 88 097  | 84 715  | 89 797  | 106 769 | 96 766  |
| Non-controlling interest                 | 193     | 102     | 125     | 215     | 174     |
| Other financial liabilities              | 30 367  | 27 984  | 24 005  | 21 350  | 19 025  |
| Other liabilities                        | 11 179  | 8 547   | 8 362   | 10 259  | 10 920  |
| Total equity and liabilities             | 129 836 | 121 348 | 122 289 | 138 593 | 126 885 |
| Statement of comprehensive income        |         |         |         |         |         |
| Operating profit/(loss)                  | 616     | (494)   | 1 011   | 2 513   | 2 447   |
| Income from equity-accounted investments | 963     | 557     | 656     | (310)   | (466)   |
| Profit before taxation                   | 1 579   | 63      | 1 667   | 2 203   | 1 981   |
| Taxation                                 | 621     | 160     | (14)    | (560)   | (3)     |
| Profit/(loss) for the year               | 2 200   | 223     | 1 653   | 1 643   | 1 978   |

#### **REVIEW OF FINANCIAL PERFORMANCE**

The 2017 financial year was a challenging year for the global economy, South Africa and the IDC Group. Most of our subsidiaries and certain associated companies are feeling the strain of the unfavourable economic environment. Notwithstanding, the Group made a consolidated profit of R2 200 million compared to a profit of R223 million in 2016

#### **GROUP REVENUE**

Group revenue for the year decreased by 10.5% to R17.4 billion from R19.4 billion, in 2016.

Interest income for the Group of R4.3 billion was 84% above the previous year due to an increase in loans and advances during the year and a higher interest rate environment.

Dividends received were 35% lower compared to the previous financial year. In 2016, the IDC received a dividend in-specie from BHP Billiton upon the unbundling of South32 Limited. Shareholders retained their BHP Billiton shareholdings and received an in-specie distribution of shares in South32 on a pro-rata, 1:1 basis for no consideration. A dividend of R684 million was included in 2016 and not repeated in 2017. This was partially off-set by Sasol declaring dividends to the IDC to the value of R1 billion. Mozal also paid a dividend of R450 million.

Scaw's full year revenue, including that of the discontinued operations, of R5.5 billion is 3% lower than the previous financial year (R5.7 billion) due to continuing difficult trading conditions within the steel sector and slower growth in China (which is the largest consumer of steel), increasing cost of electricity, low spending by the mining sector due to falling commodity prices and subdued growth in the local economy. Management has initiated several interventions aimed at improving performance. Some of these include: improving efficiency through process reviews; focus on core business and selling non-core assets; restructuring the company's balance sheet; proposed further reduction of its workforce, which the company is currently discussing with trade unions, as well as repositioning the company as the main exporter to the African continent. Significant cost savings are expected from these initiatives, with more benefits expected to flow from the Strategic Equity Partner implementation. Scaw has applied IFRS 5 non-current assets held for sale and

discontinued operations in 2017. On 30 November 2016, management committed to a plan to dispose of the grinding media and cast products divisions of Scaw. At year-end, management is in negotiations with potential buyers and the sale is expected to be finalised within the next financial year. A net loss of R362 million has been recognised in profit or loss.

Revenue from Foskor was down 5% from the previous year to R5.9 billion, mainly due to lower market prices, a strong exchange rate, high cost of production and plant inefficiencies. The lower commodity prices and the stronger than expected rand continue to have a significant impact on the revenue of Foskor. A number of cost interventions have been identified for the reduction of production costs, as reflected in the decrease in the cost of production.



#### **GROUP OPERATING PROFIT/(LOSS)**

The operating profit for the year was R616 million (2016: R494 million loss) mainly due to an increase in Net Capital gains combined with a reduction in the impairment charge and a decrease in dividends as indicated above

Impairments for the Group decreased significantly by R2 207 million, from R3 161 million to R954 million, mainly driven by initiatives implemented, the focus on investee companies and the difficult trading conditions persisting in the South African economy. In response to the higher risk of the IDC book, the Corporation has embarked on various initiatives to contain any further increases in impairments. The Corporation is confident that these interventions will be effective in curbing the growth in impairments, whilst continuing to play its counter-cyclical role in the economy. The impairments in the current financial year (R954 million) were attributed to the adverse macroeconomic environment and the protracted slump in commodities prices. The impact of the weakening rand, interest rate hikes and the drought also had a negative impact on some exposures.

Financing costs for the Group increased to R2 607 million (2016: R1 317 million) mainly due to exchange rate losses during the year. Operating expenses (excluding impairments) increased from R4 540 million to R5 348 million.

The Group made a capital profit of R1.7 billion from the disposal of certain listed and unlisted investments during the year, compared to R453 million in the previous year. The main contributor to the capital gain was the derecognition of the IDC's investment in Main Street 333.

During the 2017 financial year, we received R213 million from the South African Government to fund the Small Enterprise Finance Agency (sefa) (2016: R406 million).



## **INCOME FROM EQUITY ACCOUNTED INVESTMENTS**

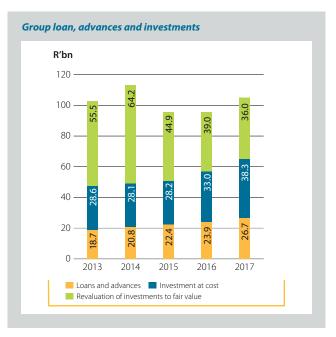
The equity-accounted investments showed an improved performance during the reporting period, with the Group's share of profits at R963 million compared to a profit of R557 million in 2016. The continued positive impact is encouraging, given the protracted pressure on commodity prices.

## **LOANS, ADVANCES AND INVESTMENTS**

The IDC advanced R11.0 billion in new loans, advances and investments during the year, down from R11.4 billion in 2016. This resulted in loans and advances growing to R25.8 billion (net of repayments), from R23.5 billion and investments increasing from R33.0 billion to R38.3 billion (net of disposals and preference share redemptions).

The revaluation of investments to fair value increased from R38.6 billion to R40.0 billion, mainly due to the increase in the value of listed equities following some recovery in oil, platinum, manganese, steel and iron ore prices. The largest declines in market values were as a result of Sasol.

The IDC is committed to diversifying its portfolio over the medium term to minimise the current concentration risk towards commodities by investing in a diverse portfolio, with more stable growth prospects.



#### **GROUP BORROWINGS**

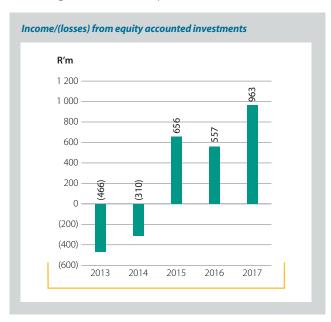
The growth in our borrowings portfolio was aligned with our strategy to fund growth in the loans and advances book predominantly from borrowings. Borrowings for the year grew to R30.4 billion, from R28.0 billion in 2016.

Borrowing activity during the year amounted to R12.6 billion with repayments of R3.7 billion. A large portion of the borrowings was raised mainly from local lenders, while foreign commercial banks showed great appetite for IDC credit by providing more funding support. These funds were offered in both short- and long-tenure through bilateral arrangements. We continued to utilise the IDC Domestic Medium-term Note (DMTN) programme to issue public bonds amounting to R722 million in November 2016. To date, the DMTN programme capacity to issue more bonds is R28.1 billion.

The demand and pricing of the bond issuances reflected investors' confidence in the IDC's creditworthiness and financial standing. We will continue our bond issuance programme as part of our strategy to diversify funding sources. This strategy will also be informed by local and international market conditions, pricing and liquidity available in these financial markets. Traditional sources, namely commercial banks (both local and international) and Development Financial Institutions (DFIs) will also be explored as part of our funding sources. The DFIs that we have bilateral agreements with are Kreditanstalt für Wiederaufbau (KfW), African Development Bank (ADB), Agence Française de Développement (AfD)/Proparco, European Investment Bank (EIB), China Development Bank (CDB) and China Construction Bank (CCB).

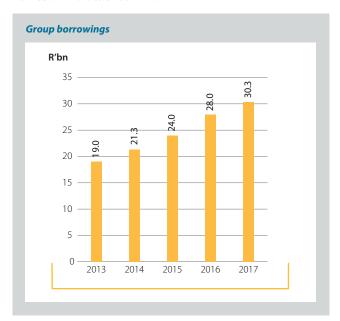
The Public Investment Corporation (PIC), acting on behalf of the Government Employee Pension Fund supported the green efficiency strategy by providing a longer tenure private placement bond. The Unemployment Insurance Fund (UIF), in their guest to reduce unemployment, partnered with the IDC to provide funding to assist companies which would save and create new jobs. This was facilitated by the PIC.

This diversified pool of funding provides the IDC with the flexibility to raise borrowings when required, depending on market volatility at the time of raising funding. The IDC continues to meet its financial obligations emanating from these funding sources whilst maintaining excellent relationships with its lenders and investors.



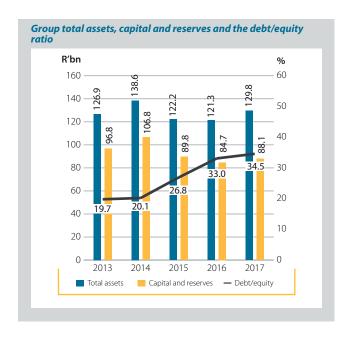
## **TOTAL ASSETS, CAPITAL AND RESERVES AND DEBT/EQUITY**

Total assets increased from R121.3 billion in 2016 to R129.8 billion during the review period, mainly as a result of the increase in the fair value of BHP Billiton and Kumba Iron Ore Limited (largely due to higher iron ore prices). Our borrowings rose in line with the growth in loans and advances, resulting in an increase in the debt/equity ratio from 33% in 2016 to 34.5% in 2017.



## **IMPAIRMENTS (IDC COMPANY)**

The impairments level has increased steadily over the past five years in value terms, from R8.6 billion in 2013 to R12.3 billion in 2017. A 5% increase occurred in cumulative impairments between the 2016 and 2017 financial years. As a ratio of the total outstanding financing book at cost, however, impairment levels decreased from 16.9% in the previous year to 16.7% during the period under review. The impairment level remains within the threshold of 20% as set by the Board.



The current impairment levels are aligned with our risk appetite and role in supporting high-risk sectors and businesses that may be unattractive to commercial financiers. The trend also reflects our focus on funding early-stage projects and start-up operations. The impairment charge to the income statement of R954 million for the year ended 31 March 2017 was 70% lower than the charge reported at financial year-end in 2016.

We compiled a comprehensive list of impairment initiatives to mitigate the rising trend of impairments. This was approved by the IDC Board's Risk and Sustainability Committee and implemented during the 2017 financial year.

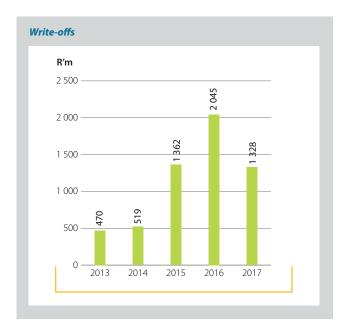
The IDC Executive Management and Board Risk and Sustainability Committee receive quarterly reports on impairments and credit risk measures.

#### **WRITE-OFFS (IDC COMPANY)**

The IDC writes off investments only after, inter alia, viable turnaround and restructuring options have been exhausted fully and the exposure is regarded as unrecoverable.

During the year under review, R1.3 billion was written off (2016: R2 billion), a decrease of 35% compared to the previous year.

Funding for businesses operating in the industrial infrastructure and construction industries accounted for 38% of the write-offs. The reasons related mainly to poor management and market penetration, as well as fraud and mismanagement of funds. Written-off businesses have a low probability of recovery, while in some instances we recoup already written-off amounts.



## **ASSET AND LIABILITY MANAGEMENT**

## Liquidity risk

Liquidity risk refers to an inability by the Group to meet its obligations promptly for all maturing liabilities, increase in financing assets, including commitments and any other financial obligations (funding liquidity risk), or to do so at materially disadvantageous terms (market liquidity risk).

Liquidity risk is governed by the Asset and Liability Management Policy. The Asset and Liability Committee (ALCO) provides the objective oversight and makes delegated decisions related to liquidity risk exposures.

Sources of liquidity risk include:

- · Unpredicted accelerated drawdowns on approved financing or call-ups of guarantee obligations
- · Inability to roll and/or access new funding
- Unforeseen inability to collect what is contractually due to the Group
- Liquidity stress at subsidiaries and/or other SOEs
- A recall without due notice of on-balance sheet funds managed by the Group on behalf of third-parties
- A breach of covenant(s), resulting in the forced maturity of borrowing(s)
- Inability to liquidate assets in a timely manner with minimal risk of capital losses.

Corporate Treasury manages liquidity on a day-to-day basis within Board-approved treasury limits to ensure that:

- Sufficient, readily-available liquidity to meet probable operational cash flow requirements for a rolling three-month period is available at all times
- · Excess liquidity is minimised to limit the consequential drag on profitability.

Liquidity coverage ratios aim to ensure that suitable levels of unencumbered high-quality liquid assets are held to protect against unexpected, yet plausible, liquidity stress events. Two separate liquidity stresses are considered. Firstly, an acute three-month liquidity stress that impacts strongly on both funding and market liquidity and secondly, a protracted twelve-month liquidity stress with a moderate effect on both funding and market liquidity. Approved high-quality liquid assets include cash, near-cash, committed facilities, as well as a portion of the Group's listed equity investments after applying forced-sale discounts.

Structural liquidity mismatch ratios aim to ensure adequate medium- to long-term liquidity mismatch capacity by maintaining a stable funding profile. This is done by restricting, within reasonable levels, potential future borrowing requirements as a percentage of total funding-related liabilities. A robust funding structure reduces the likelihood of deterioration in the Group's liquidity position should sources of funding be disrupted. The structural liquidity mismatch is based on conservative cash flow profiling with the added assumption that liquidity, in the form of high-quality liquid assets, are treated as readily available (i.e. recognised in the first-time bucket).

#### **Market risk**

Market risk is the risk that the value of a financial position or portfolio will decline due to adverse movements in market rates. In respect of market risk, the Group is exposed to interest rate risk, exchange rate risk and equity price risk. Market risk is governed by the Asset and Liability Management Policy and ALCO provides the objective oversight and makes delegated decisions related to market risk exposures.

## Interest rate risk

Interest rate risk is the risk that adverse changes in market interest rates may cause a reduction in the IDC's future net interest income and/or economic value of its shareholders' equity. The IDC's interest rate risk is a function of its interest-bearing assets and liabilities.

The primary sources of interest rate risk include:

- Repricing risk: as a result of interest-bearing assets and liabilities that reprice within different periods. This includes the endowment effect due to an overall quantum difference between interestbearing assets and liabilities
- Basis risk: as a result of the imperfect correlation between interest rate changes (spread volatility) on interest-bearing assets and liabilities that reprice within the same period
- Yield curve risk: as a result of unanticipated yield curve shifts (i.e. twists and pivots)
- Optionality: as a result of embedded options in assets (i.e. prepayment) and liabilities (i.e. early settlement), which may be exercised based on interest rate considerations.

The sensitivity to interest rate shocks and/or changes in interestbearing balances is measured by means of earnings and economic value approaches. The former quantifies the impact on net interest income over the next twelve months and the latter gauges the impact on the fair market value of assets, liabilities and equity.

## **EXCHANGE RATE RISK**

Exchange rate risk is the risk that adverse changes in exchange rates may cause a reduction in the IDC's future earnings and/or its shareholders equity.

In the normal course of business, the IDC is exposed to exchange rate risk through its trade finance book and exposure to investments in and outside Africa. The risk is divided into:

- Translation risk, which refers to the exchange rate risk associated with the consolidation of offshore assets and liabilities or the financial statements of foreign subsidiaries for financial reporting purposes
- Transaction risk, which arises where the IDC has cash flows/ transactions (i.e. a monetary asset or liability, off-balance sheet commitment or forecasted exposure) denominated in foreign currencies whose values are subject to unanticipated changes in exchange rates.

Any open (unhedged) position in a particular currency gives rise to exchange rate risk. Open positions can be short (we need to buy foreign currency to close the position) or long (we need to sell foreign currency to close the position) with the net open foreign currency position referring to the sum of all open positions (spot and forward) in a particular currency. For purposes of hedging, net open foreign currency positions are segmented into the following components:

- · All exposures related to foreign currency denominated lending and borrowing
- All foreign currency denominated payables in the form of operating and capital expenditure, as well as foreign currency denominated receivables in the form of dividends and fees.

## **Equity price risk**

Equity price risk is the risk that adverse movements in equity prices may cause a reduction in the value of the Group's investments in listed and/or unlisted equity investments and therefore includes future earnings and/or value of shareholders' equity.

Sources of equity price risk include:

- Systematic risk or volatility in relation to the market as a whole
- Unsystematic risk or company-specific risk factors.

The investment portfolio's beta is used as an indication of systematic, non-diversifiable risk. Due to the long-term nature of the Group's investments, unsystematic risk is managed through diversification.

Sensitivity analyses were performed on the Group's equity portfolio

to determine the possible effect on the fair value should a range of variables change, such as cash flow, earnings and net asset values. These assumptions were built into the applicable valuation models.

Our Asset and Liability Management and Risk Management practices, together with regular scenario planning, assist Management to ensure that this objective is achieved.

## **FUTURE PERFORMANCE**

We expect 2018 to be another challenging year as a result of a difficult set of conditions in the South African economy and modest growth globally.

Profitability could be impacted significantly in the year ahead mainly due to lower dividend income forecasts. Our balance sheet remains strong and we intend growing it further during the next five years, with advances of between R96 billion and R123 billion in total over that period. This will be funded from borrowings of between R58 billion and R62 billion, with the balance funded through internally generated funds. Gearing levels are expected to increase over the next few years in line with the strategy to utilise more debt funding.

## **VALUE ADDED STATEMENT (IDC COMPANY)**

| Figures in Rand million                                | 2017    | 2016    |
|--|---------|---------|
| Value created  |         |         |
| Net interest income                                    | 2 143   | 1 779   |
| Impairment losses on loans, advances and investments   | (2 086) | (3 644) |
| Other income from lending activities                   | 578     | 786     |
| Other investment income                                | 2 960   | 1 886   |
| Operating expenditure and project feasibility expenses | (480)   | (91)    |
|  | 3 115   | 716     |
| Value allocated  |         |         |
| *Benefits to employees                                 | 998     | 937     |
| *Social spending in communities                        | 124     | 87      |
| To government as taxation and dividends                | 214     | 25      |
| Taxation (including deferred tax)                      | 194     | (25)    |
| Dividends to shareholders                              | 20      | 50      |
| Value reinvested in operations                         | 1 779   | (333)   |
| Transfer to/(from) reserves (retained earnings)        | 1 765   | (357)   |
| Depreciation and amortisation                          | 14      | 24      |
|  | 3 115   | 716     |

<sup>\*</sup> This includes bursaries and sponsorships

## **ABOUT THIS REPORT**

This Integrated Report, themed "Advancing Transformative Industrialisation", covers our performance and strategies over the period 1 April 2016 to 31 March 2017.

There have been no significant changes to the scope, boundary or measurement methods applied in this report and there have been no restatements unless otherwise indicated in the relevant section.

In this report we focus on our means of adding value and are guided by the Integrated Reporting Framework issued by the International Integrated Reporting Council (IIRC). The report contains Standard Disclosures from the Global Reporting Initiative (GRI) Sustainability Reporting Guidelines. A list of these Standard Disclosures can be found online in our GRI G4 table at www.idc.co.za. The principles of the International Federation of Accountants (IFAC) are also taken into account.

The report is further informed by the following legislation and standards:

- The Public Finance Management Act 1 of 1999 (PFMA)
- The King III Report on Governance for South Africa (King III)
- The Companies Act 71 of 2008, as amended
- The International Financial Reporting Standards (IFRS)
- The Industrial Development Corporation Act, No 22 of 1940 as amended
- · The internally developed guidelines and policies.

#### **IMPROVEMENTS**

This year we publish our Integrated Report and Annual Financial Statements as separate publications. We also enhanced the structure of the 2017 Integrated Report to be more aligned with the Integrated Reporting (IR) Framework whilst still incorporating the requirements of the GRI (G4) guidelines.

Having benefited from a more structured dialogue with our key stakeholders, our value creation process and the risks we encounter are presented more comprehensively in this report. In our quest to be more succinct, we have made more use of graphs and illustrations. Our material issues remain similar to the previous year, with issues pertaining to partnerships expanded to allow for in-depth discussion of our materiality matters.

## **MATERIALITY**

We define the materiality of matters for reporting purposes as those that support our strategic goals as a state-owned development finance institution and those that have the potential to substantially affect our ability to create and sustain value in the short-, medium- and long-term. We have used issues arising from our stakeholder engagement processes in determining materiality (for more information on the process followed and our material issues, refer to page 20).

## **SCOPE AND BOUNDARY**

The IDC Integrated Report is compiled and produced annually. This report includes the performance and activities of the IDC across all the geographies in which we operate and contains our outlook, targets and objectives for the short-, medium- and long-term. When referring to "IDC", "we" or "our", we mean the

Industrial Development Corporation and our subsidiaries Findevco, Impofin and Konoil. When referring to the Group, we mean the IDC and all of its subsidiaries. The Group structure is shown in the online section of the report.

The boundary of the report includes financial reporting, determined in accordance with the IFRS, and our non-financial performance, opportunities, risks and outcomes that have a significant influence on our ability to create value. It excludes detailed information on subsidiaries.

The report focuses on matters which are material to the IDC within the boundary discussed above. Internal and external factors which substantially influence our business have been considered and where material, their real and potential impacts are covered.

Details of our investments in subsidiaries, joint ventures, jointly controlled assets and associates appear in our annual financial statements. Detailed information on our separately listed and managed interests in associates and listed investments, which account for the bulk of our other property assets, is provided in their annual reports, which are available on their websites.

## **REPORTING PRINCIPLES, ASSURANCE AND APPROVAL**

Our combined assurance framework brings together all assurance activities, identifies internal and external assurance providers and ensures that actual assurance takes place and is reported within our governance structures.

A combined assurance team from KPMG together with its consortium partner, Ngubane & Company, and SizweNtsalubaGobodo (SNG), supported by our internal audit team, assured the financial section of the report. The IDC Board Audit Committee verified the independence of the external assurance providers. The IDC Board approved the report on recommendation by the Board Audit Committee. Selected performance information was assured at a limited assurance level according to the International Standards for Assurance Engagements (ISAE 3000), assurance engagements other than audits and reviews of historical information.

## FORWARD LOOKING STATEMENTS

This report contains forward looking statements about the performance and position of the IDC. In line with the requirements of the PFMA, our annual Corporate Plan contains outlooks for a three-year period. These projections are based on the views of the Directors and assumptions about economic, political and global conditions. As such, these forward looking statements are subject to risk and uncertainty and have not been reviewed or audited by our external auditors.

We appreciate your feedback. Kindly submit queries and comments to service@idc.co.za.

#### TO THE DIRECTORS OF INDUSTRIAL DEVELOPMENT CORPORATION OF SOUTH AFRICA

We have undertaken a limited assurance engagement on selected performance information, as described below, and presented in the 2017 Integrated Report of Industrial Development Corporation of South Africa Limited (IDC) for the year ended 31 March 2017 (the Report), as well as in the supplementary online information available on the IDC website, at www.idc.co.za (the supplementary online information).This engagement was conducted by a multidisciplinary team of sustainable development and assurance specialists with relevant experience in integrated and sustainability reporting.

### **SUBJECT MATTER**

We are required to provide limited assurance on the following selected performance information, marked with a 'LA' on the relevant pages in the Report and the supplementary online information. The selected performance information described below has been prepared in accordance with IDC's specific guidelines and for selected performance information – the Global Reporting Initiative Sustainability Reporting (GRI G4 Guidelines), collectively referred to as the "IDC reporting criteria".

| Material Issue                             | Key performance indicators   | Unit of<br>measurement                 | Guideline/<br>Criteria   | Boundary | Reference<br>page number      |
|--|--|--|--------------------------|----------|-------------------------------|
| Industrial development                     | Value of funding approved  | Rand Value<br>(ZAR)                    | IDC internal<br>criteria | IDC only | 1                             |
|  | Value of funding disbursed   | Rand Value<br>(ZAR)                    | IDC internal<br>criteria | IDC only | 1;<br>IDC AFS 2017<br>Page 18 |
| Socio-economic<br>development              | Number of jobs expected to be created/saved (approval)   | Number (#)                             | IDC internal criteria    | IDC only | 1                             |
|  | Value of funding for Black Industrialists (approved)   | Rand Value<br>(ZAR)                    | IDC internal criteria    | IDC only | 1                             |
|  | Number of clients with high environmental and social risk rating (ESRR) that are monitored to ensure poor performance is addressed | Number (#)/<br>Percentage (%)/<br>Text | IDC internal<br>criteria | IDC only | 62                            |
| Customer expectations                      | Turnaround times   | Number (#)<br>of days                  |                          |          | IDC AFS 2017<br>Page 18       |
|  | Overall service experience (customer satisfaction)   | Score (#)                              | IDC internal<br>criteria | IDC only | 20                            |
| Human capital                              | Average number of days and hours of training by employees gender and employee category   | Number (#)                             | GRI G4                   | IDC only | 60                            |
|  | Retention – % turnover of employees occupying critical roles   | Percentage (%)                         | IDC internal criteria    | IDC only | 58                            |
|  | Succession – % of critical roles that have identified potential successors for immediate, 1-3 and/or 3+ years                      | Percentage (%)                         | IDC internal<br>criteria | IDC only | 58                            |
| Governance, regulation and risk management | Total number and percentage of operations assessed for risks related to corruption and the significant risks identified            | Number (#) and<br>Percentage (%)       | GRI G4                   | IDC only | 63                            |
|  | Communication and training on anti-<br>corruption policies and procedures  | Text claim                             | GRI G4                   | IDC only | 63                            |

## **DIRECTORS' RESPONSIBILITIES**

The Directors of IDC are responsible for the selection, preparation and presentation of the selected performance information in accordance with the IDC reporting criteria. This responsibility includes the identification of stakeholders and stakeholder requirements, material issues, commitments with respect to IDC's performance and for the design, implementation and maintenance of internal controls relevant to the preparation of the Report and supplementary online information that is free from material misstatement, whether due to fraud or error.

## **OUR INDEPENDENCE AND QUALITY CONTROL**

We have complied with the independence and other ethical requirements of the Code of Professional Conduct for Registered Auditors issued by the Independent Regulatory Board for Auditors (IRBA) that is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

KPMG Services Proprietary Limited and SizweNtsalubaGobodo Incorporated apply the International Standard on Quality Control 1 (ISQC 1), Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements and accordingly maintain comprehensive systems of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

## **OUR RESPONSIBILITY**

Our responsibility is to express a limited assurance conclusion on the selected performance information based on the procedures we have performed and the evidence we have obtained. We conducted our limited assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised), Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board. That Standard requires that we plan and perform our assurance engagement to obtain sufficient appropriate evidence to support our limited assurance conclusion, expressed below.

A limited assurance engagement undertaken in accordance with ISAE 3000 (Revised) involves assessing the suitability in the circumstances of IDC's use of its reporting criteria as the basis of preparation for the selected performance information, assessing the risks of material misstatement of the selected performance information whether due to fraud or error, responding to the assessed risks as necessary in the circumstances, and evaluating the overall presentation of the selected performance information. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks.

The procedures performed were based on our professional judgement and included inquiries, observation of processes performed, inspection of documents, analytical procedures, evaluating the appropriateness of quantification methods and reporting policies, and agreeing or reconciling with underlying records.

Given the circumstances of the engagement, in performing the procedures listed above we:

Summary of work performed:

- · Interviewed management and senior executives to obtain an understanding of the internal control environment, risk assessment process and information systems relevant to the performance reporting process;
- Evaluated internal data management controls based on system walkthroughs.
- · Inspected selected internally and externally generated documents and records and comprehensive data analyses.
- Re-calculated certain performance information.
- · Evaluated whether the selected performance information presented in the Report and supplementary online information is consistent with our overall knowledge and experience of performance at IDC.

The procedures performed in a limited assurance engagement vary in nature and form, and are less in extent than for, a reasonable assurance engagement. As a result the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance opinion about whether IDC's selected performance information has been prepared, in all material respects, in accordance with the IDC reporting criteria.

## LIMITED ASSURANCE CONCLUSION

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the selected performance information set out in the subject matter paragraph for the year ended 31 March 2017 is not prepared, in all material respects, in accordance with the IDC reporting criteria.

#### **OTHER MATTERS**

IDC intends to publish the Integrated Report for 31 March 2017 financial year end, consisting of a printed report and additional online disclosures, both of which will be available on the IDC website, at www.idc.co.za.The maintenance and integrity of IDC's website is the responsibility of IDC management. Our procedures did not involve consideration of these matters and, accordingly we accept no responsibility for any changes to either the information in the Report or supplementary online information, or our independent assurance report that may have occurred since the initial date of presentation on the IDC website.

### **RESTRICTION OF LIABILITY**

Our work has been undertaken to enable us to express a limited assurance conclusions on the selected performance information to the Directors of IDC in accordance with the terms of our engagement, and for no other purpose. We do not accept or assume liability to any party other than IDC, for our work, for this report, or for the conclusion we have reached.

KPMG Services (Pty) Ltd

**Neil Morris** Director Climate Change and Sustainability KPMG Services (Pty) Ltd

SizweNtsalubaGobodo Inc.

Registered Auditor

Nhlanhla Sigasa Director

Financial Services Group SizweNtsalubaGobodo Inc

## GLOSSARY

| AfD   | Agence Française de Développement               |
|-------|---|
| AGM   | Annual General Meeting                          |
| APCF  | Agro-Processing Competitiveness Fund            |
| BAC   | Board Audit Committee                           |
| BAIC  | Beijing Automobile International Corporation    |
| BCM   | Business Continuity management                  |
| BEE   | Black Economic Empowerment                      |
| BI    | Black Industrialist                             |
| BIC   | Board Investment Committee                      |
| BR&SC | Board Risk and Sustainability Committee         |
| ССВ   | China Construction Bank                         |
| CDB   | China Development Bank                          |
| CEO   | Chief Executive Officer                         |
| CMT   | Crisis Management Team                          |
| CNG   | Compressed Natural Gas                          |
| CSI   | Corporate Social Investment                     |
| CSIR  | Council for Scientific and Industrial Research  |
| CTCP  | Clothing and Textiles Competitiveness Programme |
| DFI   | Development Finance Institution                 |
| E&S   | Environmental and Social                        |
| EIB   | European Investment Bank                        |
| EDD   | Economic Development Department                 |
| ERM   | Enterprise Risk Management                      |
| ERMF  | Enterprise-Wide Risk Management Framework       |
| ESRR  | Environmental and Social Risk Rating            |
| Exco  | Executive Committee                             |
| FICA  | Financial Intelligence Centre Act               |
| FMO   | Netherlands Development Finance Corporation     |
| GRI   | Global Reporting Initiative                     |
| HCNC  | Human Capital and Nominations Committee         |
| ICT   | Information and Communication Technology        |
| IDC   | Industrial Development Corporation              |
| IFAC  | International Federation of Accountants         |
| IFRS  | International Finance Reporting Standards       |
| IIRC  | International Integrated Reporting Council      |
| IPSF  | Industrial Policy Support Fund                  |
| IR    | Integrated Reporting                            |
| IT    | Information Technology                          |
| JSE   | Johannesburg Stock Exchange                     |
| KfW   | Kreditanstalt für Wiederaufbau                  |
| KPI   | Key Performance Indicator                       |
| LDC   | Loss Data Collection                            |
| LED   | Local Economic Development                      |
| LPG   | Liquefied Petroleum Gas                         |
| LT    | Long-term                                       |
| LTI   | Long-term Incentive                             |
|       |   |

| MCEP    | Manufacturing Competitiveness Enhancement Programme               |
|---------|---|
| MOU     | Memorandum of Understanding                                       |
| NAAMSA  | National Association of Automobile Manufacturers of South Africa  |
| NCUC    | Northern Cape Urban College                                       |
| NPA     | Non-pensionable Allowance   |
| NUM     | National Union of Mineworkers                                     |
| NUMSA   | National Union of Metalworkers of South Africa                    |
| OEM     | Original Equipment Manufacturer                                   |
| OTMS    | Oiltanking Mogs Saldanha  |
| PFMA    | Public Finance Management Act                                     |
| PIC     | Public Investment Corporation                                     |
| PICC    | Presidential Infrastructure Coordinating Commission               |
| PRASA   | Passenger Rail Agency of South Africa                             |
| RAF     | Risk Appetite Framework   |
| RAS     | Risk Appetite Statement   |
| RCSA    | Risk and Control Self-Assessment                                  |
| REIPPPP | Renewable Energy Independent Power Producer Procurement Programme |
| SABC    | South African Broadcasting Corporation                            |
| SABS    | South African Bureau of Standards                                 |
| SAISI   | South African Iron and Steel Institute                            |
| SBU     | Strategic Business Unit   |
| SEC     | Social and Ethics Committee                                       |
| sefa    | Small Enterprise Finance Agency                                   |
| SEIFSA  | Steel and Engineering Industries Federation of South Africa       |
| SETA    | Skills Education Training Authority                               |
| SIP     | Strategic Integrated Projects                                     |
| SME     | Small and Medium Enterprise                                       |
| SMMEs   | Small, Medium and Micro-sized Enterprises                         |
| SOE     | State-owned Enterprise  |
| STI     | Short-term Incentive  |
| the dti | Department of Trade and Industry                                  |
| TVET    | Technical Vocational Education and Training                       |
| UIF     | Unemployment Insurance Fund                                       |
| VAMCOSA | Valve and Actuators Manufacturers Cluster of South Africa         |
| WACC    | Weighted Average Cost of Capital                                  |
|         |   |

## **CONTACT INFORMATION**

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PO Box 784055, Sandton 2146

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East London: 2nd Floor Block B, Chesswood Office Park, Winkley Street, Berea, East London

PO Box 19048, Tecoma 5214

Tel: 043 721 0733/4 | Fax: 043 721 0735 | Email: eastlondon@idc.co.za

**Port Elizabeth:** Southern Life Gardens, Block A (Ground) 70 2nd Avenue, Newton Park, PE

PO Box 27848, Greenacres, Port Elizabeth 6057

Tel 041 363 1640 | Fax: 041 363 2349 | Email: kingsleyr@idc.co.za/monican@idc.co.za

**Mthatha:** Ground Floor, ECDC House, 7 Sisson Street, Fort Gale, Mthatha 5201

Tel: 047 504 2200 | Fax: 047 531 1587 | Email: kingsleyr@idc.co.za

3. FREE STATE

**Bloemfontein:** Mazars Building, 46 1st Avenue, Westdene, Bloemfontein

Private Bag X 11, Suite 25, B hof 9324 Tel: 051 411 1450 | Fax: 051 447 4895

4. KWAZULU-NATAL

**Durban:** Suite 2101, 21st Floor, The Embassy Building, 199 Anton Lembede Street, Durban

PO Box 2411, Durban 4000

Tel: 031 337 4455 | Fax: 031 337 4790 | Email: patm@idc.co.za

**Pietermaritzburg:** 1st Floor, ABSA Building 15 Chatterton Road, Pietermaritzburg

PO Box 2411, Durban 4000

Tel: 033 328 2560 | Fax: 033 342 5341 | Email: patm@idc.co.za

5. LIMPOPO

**Polokwane:** Suite 18, Biccard Office Park, 43 Biccard Street

Postnet Suite 422, Private Bag X9307, Polokwane 0699

Tel: 015 299 4080 4099 | Fax: 015 295 4521 | Email: kgampib@idc.co.za

6. MPUMALANGA

**Nelspruit:** Maxsa Building, 15 Ferreira Street, Suite 702, 7th Floor, Mbombela

PO Box 3724, Mbombela 1200

Tel: 013 752 7724 | Fax: 013 752 8139 | Email: nelspruit@idc.co.za

7. NORTHERN CAPE

**Kimberley:** Sanlam Business Complex, 13 Bishops Avenue, Kimberley 8301

PO Box 808, Kimberley 8300

Tel: 053 807 1050 | Fax: 053 832 7395 | Email: mehmooda@idc.co.za

**Upington:** De Drift Plaza, Block 6, Olyvenhoutsdrift Settlement, Louisvale Avenue, Upington 8800

Tel: 054 337 8600 | Fax: 054 334 0835

8. NORTH WEST

**Rustenburg:** 1st Floor, Sunetco Building, 32B Heystek Street, Rustenburg

Postnet Suite 290, Private Bag X 82245, Rustenburg 0030

Tel: 014 591 9660 /1 | Fax: 014 592 4485

**Brits:** Suite 108, Safari Centre, 28 Van Velden Street, Brits 0250

Tel: 012 252 0008 | Fax: 012 252 4657

**Mahikeng:** 1B Mikro Plaza, cnr First Street / Bessemer Street, Industrial Sites Mahikeng

Postnet Suite 89, Private Bag X2230, Mahikeng 2791

Tel: 018 397 9942

9. WESTERN CAPE

**Cape Town:** 2817, 28th Floor ABSA Centre, 2 Riebeeck Street Cape Town

PO Box 6905, Roggebaai 8012

Tel: 021 421 4794 | Fax: 021 419 3570 | Email: lizon@idc.co.za

## **SATELLITE OFFICES**

1. FREE STATE

Phuthaditjhaba: Mapoi Road, Phuthaditjaba 9869

Tel: 051 411 1450

Welkom: 1 Reinet Street, Welkom 9460

Tel: 051 411 1450

2. KWAZULU-NATAL

Richards Bay: Suite 17, Partidge Place, cnr Lira and Tasselberry Road, Richards Bay 3900

Tel: 031 337 4455

3. LIMPOPO

Thohoyandou: Seda office: Old Mutual Building, Old Group Scheme Offices, Mphephu Road,

> Thohoyandou 7950 Tel: 015 299 4080

Tzaneen: 1st Floor Prosperitas Building, 27 Peace Street, Tzaneen (Seda) 0850

Tel: 015 299 4080

4. MPUMALANGA

eMalahleni: 23 Botha Avenue cnr Rhodes Street, Hi-Tech House, eMalahleni 1035

Tel: 013 752 7724

Secunda: South Wing, Municipal Building Lurgi Square, Secunda 2302

Tel: 013 752 7724

5. NORTH WEST

Klerksdorp: Office 35, West Ebd Building, 51 Leask Street, Klerksdorp 2571

Tel: 018 462 6586 | Fax: 018 462 5061

(Dr KK District Municipality Economic Agency)

Vryburg: 83 Vry Street, Vryburg 8601

Tel: 053 927 0590 | Fax: 053 927 0590

6. WESTERN CAPE

George: Beacon Place, 125 Meade Street, George 6529

Tel: 021 421 4794

## **ADMINISTRATION**

## **DIRECTORS**

## Executive

MG Qhena (CEO) GS Gouws (alternate)

#### Non-Executive

BA Mabuza (Chairperson)

LI Bethlehem

BA Dames

RM Godsell

A Kriel

SM Magwentshu-Rensburg

NP Mnxasana

M More

PM Mthethwa

ND Orleyn

NE Zalk

## **AUDITORS**

KPMG (Johannesburg)

SizweNtsabulaGobodo (Johannesburg)

## **REGISTERED OFFICE**

## IDC

19 Fredman Drive

Sandown 2196

PO Box 784055

Sandton 2146

Telephone +27 (11) 269 3000

Fax: +27 (11) 269 3116

Email: callcentre@idc.co.za

Email: service@idc.co.za

Call centre contact number: 0860 693 888

Website: www.idc.co.za

## **COMPANY SECRETARY**

P Makwane

Registration number:

1940/014201/06

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www.idc.co.za

2017

# **ANNUAL FINANCIAL STATEMENTS**



Advancing Transformative Industrialisation



## CONTENTS

| Confirmation of Accuracy and Fair Presentation  | 1  |
|---|----|
| Independent Assurance Providers' Limited Assurance Report on Selected Performance Information | 2  |
| Accounting Officer's Statement of Responsibility for Annual Financial Statements              | 4  |
| Independent Auditor's Report to Parliament  | 5  |
| Report of the Board Audit Committee   | 10 |
| Directors' Report   | 15 |
| Statements of Financial Position  | 19 |
| Statements of Profit and Loss or Other Comprehensive Income                                   | 20 |
| Statements of Changes in Equity   | 21 |
| Statements of Cash Flows  | 22 |
| Geographical Segments   | 23 |
| Reportable Segments   | 24 |
| Notes to the Financial Statements   | 26 |

Refers to Limited Assurance

## **REPORTING PACK**

This Integrated Report forms part of a suite of reports.

This report, other documents in this year's suite, and previous years' reports are available online at **www.idc.co.za** 



## INTEGRATED REPORT AND ANNUAL FINANCIAL STATEMENT FOR THE 2017 FINANCIAL YEAR-END

I hereby acknowledge that the Integrated Report and the Annual Financial Statement of the Industrial Development Corporation of South Africa Limited (the IDC) has been submitted to the Auditor-General for auditing in terms section 55(1)(c) of the PFMA.

I acknowledge my responsibility for the accuracy of the accounting records and the fair presentation of the financial statements and confirm, to the best of my knowledge, the following:

#### **ANNUAL FINANCIAL STATEMENTS**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). All amounts and information in the Integrated Report and Annual Financial Statements are consistent with the financial statements submitted to the auditors for audit purposes.

#### PERFORMANCE INFORMATION

The performance information fairly reflects the operations, and actual output against planned targets for performance indicators as per the Corporate Plan of the IDC and approved amendments for the financial year ended 31 March 2017. The performance information has been reported on in accordance with the requirements of the guidelines on annual reports as issued by National Treasury. A system of internal control has been designed to provide reasonable assurance as to the integrity and reliability of performance information.

## **HUMAN RESOURCE MANAGEMENT**

The human resource information contained in the respective tables in the integrated report, fairly reflects the information of the IDC for the financial year ended 31 March 2017.

## **IN RESPECT OF MATERIAL ISSUES**

The Integrated Report is complete, accurate and free from any omissions.

## PREPARATION OF THE FINANCIAL STATEMENTS

The financial results have been prepared under the supervision of Nonkululeko Dlamini CA(SA), the Group's Chief Financial Officer.

MG Ohena

Chief Executive Officer

28 June 2017

BA Mabuza

Chairperson of the Board

28 June 2017

#### TO THE DIRECTORS OF INDUSTRIAL DEVELOPMENT CORPORATION OF SOUTH AFRICA

We have undertaken a limited assurance engagement on selected performance information, as described below, and presented in the 2017 Integrated Report of Industrial Development Corporation of South Africa Limited (IDC) for the year ended 31 March 2017 (the Report), as well as in the supplementary online information available on the IDC website, at www.idc.co.za (the supplementary online information). This engagement was conducted by a multidisciplinary team of sustainable development and assurance specialists with relevant experience in integrated and sustainability reporting.

#### **SUBJECT MATTER**

We are required to provide limited assurance on the following selected performance information, marked with a 'LA' on the relevant pages in the Report and the supplementary online information. The selected performance information described below has been prepared in accordance with IDC's specific guidelines and for selected performance information – the Global Reporting Initiative Sustainability Reporting (GRI G4 Guidelines), collectively referred to as the "IDC reporting criteria".

| Material Issue                             | Key performance indicators   | Unit of<br>measurement                 | Guideline/<br>Criteria         | Boundary | Reference<br>page number     |
|--|--|--|--------------------------------|----------|------------------------------|
| Industrial development                     | Value of funding approved  | Rand Value<br>(ZAR)                    | IDC internal<br>criteria       | IDC only | IDC IR 2017<br>Page 1        |
|  | Value of funding disbursed   | Rand Value<br>(ZAR)                    | IDC internal<br>criteria       | IDC only | 18;<br>IDC IR 2017<br>Page 1 |
| Socio-economic development                 | Number of jobs expected to be created/saved (approval)   | Number (#)                             | IDC internal<br>criteria       | IDC only | IDC IR 2017<br>Page 1        |
|  | Value of funding for Black Industrialists (approved)   | Rand Value<br>(ZAR)                    | IDC internal<br>criteria       | IDC only | IDC IR 2017<br>Page 1        |
|  | Number of clients with high environmental and social risk rating (ESRR) that are monitored to ensure poor performance is addressed | Number (#)/<br>Percentage (%)/<br>Text | IDC internal<br>criteria       | IDC only | IDC IR 2017<br>Page 62       |
| Customer expectations                      | Turnaround times   | Number (#)<br>of days                  | IDC internal IDC only criteria |          | 18                           |
|  | Overall service experience (customer satisfaction)   | Score (#)                              | IDC internal<br>criteria       | IDC only | IDC IR 2017<br>Page 20       |
| Human capital                              | Average number of days and hours of training by employees gender and employee category   | Number (#)                             | GRI G4                         | IDC only | IDC IR 2017<br>Page 60       |
|  | Retention – % turnover of employees occupying critical roles   | Percentage (%)                         | IDC internal<br>criteria       | IDC only | IDC IR 2017<br>Page 58       |
|  | Succession – % of critical roles that have identified potential successors for immediate, 1-3 and/or 3+ years                      | Percentage (%)                         | IDC internal<br>criteria       | IDC only | IDC IR 2017<br>Page 58       |
| Governance, regulation and risk management | Total number and percentage of operations assessed for risks related to corruption and the significant risks identified            | Number (#) and<br>Percentage (%)       | GRI G4                         | IDC only | IDC IR 2017<br>Page 63       |
|  | Communication and training on anti-<br>corruption policies and procedures  | Text claim                             | GRI G4                         | IDC only | IDC IR 2017<br>Page 63       |

## **DIRECTORS' RESPONSIBILITIES**

The Directors of IDC are responsible for the selection, preparation and presentation of the selected performance information in accordance with the IDC reporting criteria. This responsibility includes the identification of stakeholders and stakeholder requirements, material issues, commitments with respect to IDC's performance and for the design, implementation and maintenance of internal controls relevant to the preparation of the Report and supplementary online information that is free from material misstatement, whether due to fraud or error.

### **OUR INDEPENDENCE AND QUALITY CONTROL**

We have complied with the independence and other ethical requirements of the Code of Professional Conduct for Registered Auditors issued by the Independent Regulatory Board for Auditors (IRBA) that is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B), which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

KPMG Services Proprietary Limited and SizweNtsalubaGobodo Incorporated apply the International Standard on Quality Control 1 (ISQC 1), Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements and accordingly maintain comprehensive systems of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

## **OUR RESPONSIBILITY**

Our responsibility is to express a limited assurance conclusion on the selected performance information based on the procedures we have performed and the evidence we have obtained. We conducted our limited assurance engagement in accordance with the International Standard on Assurance Engagements (ISAE) 3000 (Revised), Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the International Auditing and Assurance Standards Board. That Standard requires that we plan and perform our assurance engagement to obtain sufficient appropriate evidence to support our limited assurance conclusion, expressed below.

A limited assurance engagement undertaken in accordance with ISAE 3000 (Revised) involves assessing the suitability in the circumstances of IDC's use of its reporting criteria as the basis of preparation for the selected performance information, assessing the risks of material misstatement of the selected performance information whether due to fraud or error, responding to the assessed risks as necessary in the circumstances, and evaluating the overall presentation of the selected performance information. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement in relation to both risk assessment procedures, including an understanding of internal control, and the procedures performed in response to the assessed risks.

The procedures performed were based on our professional judgement and included inquiries, observation of processes performed, inspection of documents, analytical procedures, evaluating the appropriateness of quantification methods and reporting policies, and agreeing or reconciling with underlying records.

Given the circumstances of the engagement, in performing the procedures listed above we:

Summary of work performed:

- Interviewed management and senior executives to obtain an understanding of the internal control environment, risk assessment process and information systems relevant to the performance reporting process;
- Evaluated internal data management controls based on system walkthroughs.
- · Inspected selected internally and externally generated documents and records and comprehensive data analyses.
- Re-calculated certain performance information.
- Evaluated whether the selected performance information presented in the Report and supplementary online information is consistent with our overall knowledge and experience of performance at IDC.

The procedures performed in a limited assurance engagement vary in nature and form, and are less in extent than for, a reasonable assurance engagement. As a result the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had we performed a reasonable assurance engagement. Accordingly, we do not express a reasonable assurance opinion about whether IDC's selected performance information has been prepared, in all material respects, in accordance with the IDC reporting criteria.

#### LIMITED ASSURANCE CONCLUSION

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the selected performance information set out in the subject matter paragraph for the year ended 31 March 2017 is not prepared, in all material respects, in accordance with the IDC reporting criteria.

### **OTHER MATTERS**

IDC intends to publish the Integrated Report for 31 March 2017 financial year end, consisting of a printed report and additional online disclosures, both of which will be available on the IDC website, at www.idc.co.za. The maintenance and integrity of IDC's website is the responsibility of IDC management. Our procedures did not involve consideration of these matters and, accordingly we accept no responsibility for any changes to either the information in the Report or supplementary online information, or our independent assurance report that may have occurred since the initial date of presentation on the IDC website.

## **RESTRICTION OF LIABILITY**

Our work has been undertaken to enable us to express a limited assurance conclusions on the selected performance information to the Directors of IDC in accordance with the terms of our engagement, and for no other purpose. We do not accept or assume liability to any party other than IDC, for our work, for this report, or for the conclusion we have reached.

KPMG Services (Pty) Ltd

Neil Morris Director Climate Change and Sustainability KPMG Services (Pty) Ltd SizweNtsalubaGobodo Inc.

Registered Auditor

Nhlanhla Sigasa

Director
Financial Services Group
SizweNtsalubaGobodo Inc

## STATEMENT OF RESPONSIBILITY FOR THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

The Accounting Authority is responsible for the preparation of the IDC's annual financial statements and for the judgements made in this information.

The Accounting Authority is responsible for establishing, and implementing a system of internal control designed to provide reasonable assurance as to the integrity and reliability of the annual financial statements.

In my opinion, the annual financial statements fairly reflect the operations of the IDC for the financial year ended 31 March 2017.

The external auditors are engaged to express an independent opinion on the annual financial statements of the IDC.

The IDC's annual financial statements for the year ended 31 March 2017 have been audited by the external auditors and their report is presented on page 5.

The annual financial statements of the IDC set out on page 21 to page 84 have been approved.

MG Qhena

Chief Executive Officer

28 June 2017

## REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE ANNUAL FINANCIAL STATEMENTS OPINION

We have audited the consolidated and separate annual financial statements of the Industrial Development Corporation of South Africa Limited (the Group and company) set out on pages 21 to 84, which comprise the statements of financial position as at 31 March 2017, the statements of profit or loss and other comprehensive income, statements of changes in equity, statements of cash flows for the year then ended, geographical segments, reportable segments and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the Industrial Development Corporation of South Africa Limited as at 31 March 2017, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Public Finance Management Act of South Africa.

#### **BASIS FOR OPINION**

We conducted our audit in accordance with the International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated and Separate Annual Financial Statements section of our report.

We are independent of the Group and company in accordance with the Independent Regulatory Board for Auditors' Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of the financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (Parts A and B).

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### BOARD OF DIRECTORS RESPONSIBILITY FOR THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

The Board of Directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Public Finance Management Act of South Africa and the Industrial Development Corporation Act and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting authority either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

## **KEY AUDIT MATTERS**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements for the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### **Key audit matter**

#### How the matter was addressed in the audit

#### Impairment of loans and advances

Refer to note 1.8(a) and note 8 to the consolidated and separate financial statements.

This key audit matter is applicable to both the consolidated and separate financial statements

Loans and advances, represent 20% and 25% of total assets of the Group and Company respectively, and are considered significant to the consolidated and separate financial statements.

The estimation of impairment is subject to significant judgement. Furthermore, models used by the accounting authority to determine credit impairments require certain inputs that are not fully observable.

The accounting authority compensates for any model and data deficiencies by applying overlays (additional impairments that are over and above the numbers generated by the impairment models) to these outputs, which increase the provision. The valuation of these overlays can be highly subjective.

The Group and Company used internal experts to assist in the calculation of these valuations.

This estimation uncertainty is increased due to the ongoing economic volatility in South Africa and wider regional economy markets.

Impairments are calculated on a specific and portfolio basis.

Due to the significance of these judgements on the loan impairment balance and the significance of loans and advances in the financial statements, the impairment of loans and advances was considered a key audit matter.

Our audit procedures included the following:

- We evaluated the design and implementation, and where possible the operating effectiveness, of the following controls:
  - 1. the identification of impairment losses;
  - the governance processes in place for credit models, inputs and overlays;
  - 3. the post investment monitoring forums where key judgements are considered; and
  - 4. how the accounting authority ensured they have appropriate oversight over loan provisions.
- We evaluated the valuation models used by the Group and Company with specific emphasis on assumptions used and determined whether the impairment on loans and advances has been calculated in accordance with the relevant accounting standards.
- We paid particular attention to the valuation of, and rights to, security held by the Group and Company by inspecting relevant supporting documentation on these securities.
- Where management has used internal experts to provide valuations, we assessed their competence, independence, professional qualifications and experience.
- We used our own internal financial risk management specialists to challenge the key assumptions used in the portfolio valuation model by reviewing inputs into the model and independently assessing the reasonableness of market data used in the model.
- We assessed whether the credit reviews performed by management are in accordance with the Company's Investment Monitoring Committee Policy by comparing the policy requirements against what was applied during the year, and assessed whether the conclusions reached were appropriate.

## Valuation of unlisted investments

Refer to note 1.7(a), 1.8 (b), 1.28 and note 9, 11 and 12 to the consolidated and separate financial statements for detailed disclosure of investments in unlisted shares.

This key audit matter is applicable to both the consolidated and separate financial statements.

Unlisted investments are classified as available for sale investments and are significant in context of the consolidated and separate financial statements.

For the company, significant judgment is applied by the accounting authority in the valuation of unlisted equities in:

- 1. subsidiaries,
- 2. associates, joint ventures and partnerships and
- 3. other entities.

For the Group, significant judgment is applied by the accounting authority in the valuation of unlisted equities in other entities taking into consideration:

- · Free cash flows of investees
- Replacement values
- Discount or premium applied to the Company's stake in investees
- Sector or subsector betas
- Debt weighting this is the target interest-bearing debt level
- · Realisable value of assets
- Probabilities of failure in using the Net Asset Value-model

Due to the significant judgment applied by the accounting authority and the work effort from the audit team, the valuation of unlisted investments was considered a key audit matter.

Our audit procedures included the following:

- We assessed the models used by the accounting authority and discount rates applied at year-end, and reperformed a sample of the valuations by agreeing valuation inputs to independently sourced data.
- We benchmarked inputs used for valuations to current market best practices in assessing the appropriateness of the methodologies applied.
- We assessed and challenged the reasonability of cash flows and discount rates used in valuing unlisted investments by comparing them to similar instruments.
- We independently recalculated the expected fair values to evaluate if the accounting authority's estimates were within a reasonable range in comparison with our independent expectation.
- We also assessed the disclosures made relating to the valuation of unlisted investments to ensure consistency with the requirements of the relevant accounting standards and with the methodologies applied by the accounting authority.

#### **Key audit matter**

#### How the matter was addressed in the audit

## Impairment of assets/cash-generating units at Foskor

Refer to note 1.8(c) and note 15 on pages 31 and 64 respectively to the consolidated financial statements for detailed disclosure of the impairment of assets.

This key audit matter is applicable to the consolidated financial statements

Property, plant and equipment includes a cash generating unit (CGU) that represents a plant at Foskor (Pty) Ltd, a subsidiary of the Industrial Development Corporation of South Africa Limited.

Significant judgements and assumptions are applied by the group in determining when an asset is impaired. In making this judgment, the group evaluates the impairment indicators that could exist at year end such as significant decreases in the selling prices of finished goods, significant decreases in sales volumes and changes in the international export regulatory environment.

Key inputs considered in the determination of impairment of the CGUs include the following:

- · Risks specific to future cash flows
- WACC assessment

The estimation uncertainty is increased due to the ongoing volatility in South Africa and international economy markets.

Due to the significant judgment applied by the accounting authority and the work effort from the audit team, the impairment of cash-generating unit at Foskor was considered a key audit matter.

Our audit procedures included the following:

- We challenged the Group's impairment assessment by involving our own internal valuation team and recalculated the impairment assessment.
- We assessed the reasonability of the Group's weighted average cost of capital (WACC) by comparing the factors used in determining the WACC to the requirements of the relevant accounting standards.
- We evaluated the reasonability of cash flows based on the selling price used by the Group in its assessment by independently assessing the underlying factors giving rise to these inputs and whether these factors are reasonable.

## **OTHER INFORMATION**

The Board of Directors, which constitutes the accounting authority is responsible for the other information. The other information comprises all the information included in the Integrated Report. The other information does not include the consolidated and separate financial statements, our auditor's report thereon, the selected objectives included in our report on the performance report and our report on audit of compliance with legislation.

Our opinion on the consolidated and separate financial statements and the selected objectives included in our report on the audit of the performance report and our report on audit of compliance with legislation do not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements and the selected objectives presented in the annual performance report, or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. No material inconsistencies were identified.

## RESPONSIBILITIES OF THE BOARD OF DIRECTORS WHICH CONSTITUTES THE ACCOUNTING AUTHORITY

The Board of Directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Public Finance Management Act of South Africa and for such internal control as the accounting authority determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the accounting authority is responsible for assessing the group's and company's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting authority either intends to liquidate the group and or company or to cease operations, or has no realistic alternative but to do so.

## INDEPENDENT AUDITOR'S REPORT TO PARLIAMENT ON THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

(continued)

#### AUDITOR'S RESPONSIBILITY FOR THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with the ISAs, we exercise professional judgement and maintain professional scepticism throughout our audit of the consolidated and separate financial statements, and the procedures performed on reported performance information for selected objectives and on the group's and company's compliance with respect to the selected subject matters. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting authority.
- Conclude on the appropriateness of the accounting authority's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group and / or the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the accounting authority with a statement that we have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on our independence, and where applicable, related safeguards.

From the matters communicated with the accounting authority, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## REPORT ON THE AUDIT OF THE PERFORMANCE REPORT

## **INTRODUCTION AND SCOPE**

In accordance with the Public Audit Act of South Africa and the general notice issued in terms thereof, we have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the performance report. We performed procedures to identify findings but not to gather evidence to express assurance.

Our procedures address the reported performance information which must be based on the approved performance planning documents of the group. We have not evaluated the completeness and appropriateness of the performance indicators established and included in the planning documents. Our procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, our findings do not extend to these matters.

We evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the Performance Management and Reporting Framework, as defined in the general notice, for the following selected objectives presented in the performance report of the group for the year ended 31 March 2017:

| Predetermined objectives   | Pages in the annual performance report |
|--|--|
| Total value of funding disbursed by IDC  | 18-19                                  |
| Rand amount of outside total funding attracted for each rand of IDC funding  | 18-19                                  |
| Expected direct jobs created or saved at signature of agreement  | 18-19                                  |
| Value of funding approvals with an agreement signed for transactions benefiting black industrialists   | 18-19                                  |
| Value of funding approvals with an agreement signed for transactions benefiting women and youth-empowered businesses   | 18-19                                  |
| Value of funding agreements signed for transactions aimed at inputs into infrastructure or other government procurement and component for motor vehicles                               | 18-19                                  |
| Impairments as a percentage of the portfolio at cost   | 18-19                                  |
| Value of cumulative impairments as per the balance sheet   | 18-19                                  |
| Net interest, dividends, fees and money market income as a percentage of total assets  | 18-19                                  |
| Administration costs, excluding impairments and project costs as a percentage of net interest, dividend and fee income (excluding dividend income from mature listed investments)      | 18-19                                  |
| Turnaround time on non-complex transactions: (working days from date of start of due diligence to date of agreement being sent to client)  | 18-19                                  |
| sefa performance rating  | 18-19                                  |
| Foskor profitability- operating profits/losses before capital gains  | 18-19                                  |
| Scaw profitability-operating profits/losses before capital gains   | 18-19                                  |
| Value of IDC funding in SA (excluding funding in the rest of Africa)   | 18-19                                  |
| Value of IDC funding in rest of Africa   | 18-19                                  |
| Number of people employed at SA companies in IDC's portfolio and calculated impact on indirect jobs  | 18-19                                  |
| Number of jobs expected to be created, including calculated indirect jobs divided by the value of IDC's SA funding approvals (excluding funding in the rest of Africa, and jobs saved) | 18-19                                  |
| % of number of South African companies with more than 50% black shareholding for which funding is approved   | 18-19                                  |
| Value of IDC reserves  | 18-19                                  |
| Composite index measuring sustainability of IDC's human capital  | 18-19                                  |
|  |  |

We performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. We performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

We did not identify any material findings on the usefulness and reliability of the reported performance information for the selected objectives indicated above.

## **OTHER MATTER**

We draw attention to the matter below. Our opinions are not modified in respect of this matter.

## **Achievement of planned targets**

Refer to the information in the Director's report on the performance information as set out on pages 18 to 19 of the consolidated and separate financial statements for information on the achievement of the planned targets for the year.

## REPORT ON THE AUDIT OF COMPLIANCE WITH LEGISLATION

## **INTRODUCTION AND SCOPE**

In accordance with the Public Audit Act of South Africa and the general notice issued in terms thereof we have a responsibility to report material findings on the compliance of the group and company with specific matters in key legislation. We performed procedures to identify findings but not to gather evidence to express assurance.

We did not identify any instances of material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the Public Audit Act of South Africa.

#### INDEPENDENT AUDITOR'S REPORT TO PARLIAMENT ON THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

(continued)

## **INTERNAL CONTROL DEFICIENCIES**

We considered internal control relevant to our audit of the consolidated and separate financial statements, performance report and compliance with legislation, however the objective is not to express any form of assurance thereon. We did not identify any significant deficiencies in internal control. We do not express an opinion on the effectiveness of the group's and company's internal control.

#### **OTHER REPORTS**

We draw attention to the following engagements conducted by various parties that have or could potentially have an impact on the matters reported on the group and company's financial performance and compliance related matters. The reports noted do not form part of our opinion on the financial statements or our findings on the reported performance information or compliance with legislation.

We were engaged to perform the following audit-related services:

A limited assurance engagement was conducted on selected performance information for the year ended 31 March 2017, and an independent assurance providers limited assurance report was issued.

KPMG Inc.

Registered Auditor

Per Sipho Malaba

Director

Chartered Accountant (SA) Registered Auditor

31 July 2017

KPMG Inc.

85 Empire Road

Parktown

2193

SizweNtsalubaGobodo Inc.

Registered Auditor

Per Nhlanhla Sigasa

Director

Chartered Accountant (SA)

Registered Auditor

31 July 2017

SizweNtsalubaGobodo Inc.

20 Morris Street East

Woodmead

2191

## ANNEXURE – AUDITOR'S RESPONSIBILITY FOR THE AUDIT

As part of an audit in accordance with the ISAs, we exercise professional judgement and maintain professional scepticism throughout our audit of the consolidated and separate financial statements, and the procedures performed on reported performance information for selected objectives and on the Group's compliance with respect to the selected subject matters.

## **FINANCIAL STATEMENTS**

In addition to our responsibility for the audit of the consolidated and separate financial statements as described in the auditor's report, we also:

- · Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- · Obtain an understanding of internal control relevant to the audit to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control
- · Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting authority
- · Conclude on the appropriateness of the accounting authority's use of the going concern basis of accounting in the preparation of the financial statements. We also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Industrial Development Corporation of South Africa Limited and its subsidiaries' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. Our conclusions are based on the information available to us at the date of the auditor's report. However, future events or conditions may cause a group to cease to continue as a going concern
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation
- · Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

#### **COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**

We communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also confirm to the accounting authority that we have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on our independence, and where applicable, related safeguards.

## REPORT OF THE BOARD AUDIT COMMITTEE

Report of the Board Audit Committee in terms of Regulations 27(1)(10)(b) and (c) of the Public Finance Management Act of 1999 (as amended) and requirements of King III Code of Governance.

## **BACKGROUND**

The Board Audit Committee (BAC) assists the Board in fulfilling its oversight responsibilities, in particular with regard to the evaluation of the adequacy and efficiency of accounting policies, internal controls, risk management and financial reporting processes. In addition, the BAC assesses the effectiveness of the internal auditors and the independence and effectiveness of the external auditors.

## **RESPONSIBILITIES, COMPOSITION AND FUNCTIONS OF THE COMMITTEE**

The Committee's roles and responsibilities include its statutory duties as per the PFMA, the requirements of the King III Codes of Governance, the Companies Act and the responsibilities assigned to it by the Board.

The Committee therefore reports that it has adopted appropriate formal terms of reference as approved by the Board, and is satisfied that it has discharged its responsibilities as per the Companies Act, King III and the PFMA.

The Committee has carried out its functions through attendance at BAC meetings and discussions with Executive Management, Internal Audit and external advisers where appropriate.

The BAC meets at least four times per annum, with authority to convene additional meetings as circumstances require.

Invitees to the meetings of the Committee include the CEO, Chief Financial Officer (CFO), Chief Risk Officer and internal and external auditors, as well as the Head of Information Technology, and any other executives as may be required.

To execute its key functions and discharge its responsibilities as outlined in its Terms of Reference the Committee, during the period under review:

- · Assisted the Board in its evaluation of the adequacy and efficiency of the internal control systems, accounting practices, information systems, risk management and auditing processes applied within the Corporation in the day-to-day management of its business
- · Facilitated and promoted communication between the Board, management, the external auditors and Internal Audit Department on matters which are the responsibility of the Committee
- Introduced measures that, in the opinion of the Committee, may enhance the credibility and objectivity of the annual financial statements and reports prepared with reference to the affairs of the Corporation (and the IDC Group)
- · Nominated and recommended for appointment as external auditors the firms of registered auditors KPMG, SNG and Ngubane & Co who, in the opinion of the Committee, are independent of the IDC
- Determined the fees to be paid to the external auditors as well as the auditors' terms of engagement
- Ensured that the appointment of the external auditors complied with the Companies Act and any other legislation relating to the appointment of auditors.

#### INTERNAL CONTROL

The BAC monitored the effectiveness of the IDC's internal controls and compliance with the Enterprise-wide Risk Management Framework (ERMF). The emphasis on risk governance is based on three lines of defence and the BAC uses the regular reports received from the three lines of defence (process owners/department heads; Risk & Compliance departments, management; and Internal Audit department) to evaluate the effectiveness of the internal controls (for more on the three lines of defence and risk assessment, refer to pages 65 and 67) of the Integrated Report.

The ERMF places weight on accountability, responsibility, independence, reporting, communication and transparency, both internally and with all the IDC's key external stakeholders.

No findings have come to the attention of the Committee to indicate that any material breakdown in internal controls has occurred during the financial year under review. The Committee is of the opinion that the internal accounting controls are adequate to ensure that the financial records may be relied upon for preparing the consolidated annual financial statements, that accountability for assets and liabilities is maintained, and that this is based on sound accounting policies which are supported by reasonable and prudent judgements and estimates. The BAC is further of the opinion that the internal controls of the Corporation have been effective in all material aspects throughout the year under review.

This opinion is based on the information and explanations given by management regarding various processes and initiatives aimed at improving the internal control environment and the integrity of information, discussions with Internal Audit, and with the independent external auditors, on the results of their audits

To formulate its opinion, the Committee:

- · Monitored the identification and correction of weaknesses and breakdowns of systems and internal controls
- · Monitored the adequacy and reliability of management information and the efficiency of management information systems
- · Reviewed quarterly, interim and final financial results and statements and reporting for proper and complete disclosure of timely, reliable and consistent information
- · Evaluated on an ongoing basis the appropriateness, adequacy and efficiency of accounting policies and procedures, compliance with generally accepted accounting practice and overall accounting standards as well as any changes thereto
- Discussed and resolved any significant or unusual accounting issues
- Reviewed reports supplied by management regarding the effectiveness and efficiency of the credit monitoring process, exposures and related impairments, and the adequacy of impairment provisions, to discharge its obligations satisfactorily
- Reviewed and monitored all key financial performance indicators (KPIs) to ensure that they are appropriate and that decision-making capabilities are maintained at high levels
- Reported to the Board on the effectiveness of the Corporation's internal reporting controls.

#### **EXTERNAL AUDITORS**

The IDC's external auditors are KPMG, SNG and Ngubane & Co. Ngubane & Co were introduced as a third firm of auditors as part of an effort to contribute to transformation by offering an emerging black-owned audit firm an opportunity to gain auditing experience in respect of a corporation of the size of the IDC.

The BAC has a well-established policy on auditors' independence and audit effectiveness. The Committee has satisfied itself that the external auditors, KPMG, SNG and Ngubane & Co were independent of the Company as set out in sections 90(2)(c) and 94(8) of the Companies Act, which includes consideration of compliance with criteria relating to independence or conflicts of interest as prescribed by the Independent Regulatory Board for Auditors.

Requisite assurance was sought and provided by the external auditors that their claim to independence was supported and demonstrated by internal governance processes within their entities. The Committee, in consultation with Executive Management, agreed to the engagement letter, terms, audit plan and audit fees for the financial year ended 31 March 2017.

- · Approved the external auditors' annual plan and related scope of work
- · Monitored the effectiveness of the external auditors in terms of their skills, independence, execution of the audit plan, reporting and overall performance
- · Considered whether the extent of reliance placed on internal audit by the external auditors was appropriate and whether there were any significant gaps between the internal and external audits
- · Approved the Non-audit Services Policy, which stipulates that the external auditors are precluded from engaging in non-audit related services.

#### **FINANCIAL STATEMENTS**

The Committee has reviewed the annual financial statements of the Corporation and the IDC Group and is satisfied that they comply in all material respects with IFRS and the requirements of the PFMA. During the period under review the Committee:

- · Reviewed and discussed the audited Financial Statements included in this Integrated Report with the external auditors, the Chief Executive and the Chief Financial Officer
- Reviewed the external auditors' report and management's response to it
- · Reviewed any significant adjustments resulting from external audit queries and adjusted all audit differences
- Reviewed areas of significant judgements and estimates in the annual financial statements
- Received and considered reports from the internal auditors.

## **EXPERTISE AND EXPERIENCE OF THE FINANCE FUNCTION**

The Committee has considered, and has satisfied itself of the overall appropriateness of the expertise and adequacy of resources of the IDC's Finance function and the experience of the senior members of management responsible for the financial function.

#### **DUTIES ASSIGNED BY THE BOARD**

## **INTEGRATED AND SUSTAINABILITY REPORTING**

The BAC fulfils an oversight role regarding the Company's Integrated Report and the reporting process, and considers the level of assurance coverage obtained from management and internal and external assurance providers, in making its recommendation to the Board.

The Committee considered the Company's information as disclosed in the Integrated Report and has assessed its consistency with operational and other information known to Committee members, and for consistency with the annual financial statements. The Committee discussed the information with management and has considered the conclusions of the external assurance provider.

The BAC is satisfied that the sustainability information is, in all material respects, reliable and consistent with the financial results. Nothing has come to the attention of the Committee to indicate any material deficiencies in this regard.

#### **COMBINED ASSURANCE**

The BAC is responsible for monitoring the combined assurance model detailing significant processes, line management monitoring, Internal Audit and external assurances. This model is used to assess the appropriateness of assurance over risks/controls provided to the Board.

Engagement regarding the extent to which the various assurance providers rely on each other's work take place continuously and the Committee is of the view that a better coordination between External and Internal Audit has been achieved.

During the year, a Combined Assurance Policy was approved by the BAC which includes a coordinated assurance effort with other assurance providers such as Risk Management and the Compliance function. This will assist in averting assurance gaps or duplication of efforts, and ensuring efficiency across various assurance services.

#### **GOING CONCERN**

After having reviewed a documented assessment by management of the going concern premise of the Corporation and the IDC Group, the Committee concurs that the adoption of the going concern assumption in the preparation of the consolidated financial statements is appropriate and sound.

#### **GOVERNANCE OF RISK**

The Board has assigned oversight of the Corporation's risk management function to a separate Board Risk and Sustainability Committee (the BR&SC). The Chairperson of the BAC attends meetings of the BR&SC as an ex officio member to ensure that information relevant to these Committees is shared regularly.

#### REPORT OF THE BOARD AUDIT COMMITTEE

(continued)

The Committee fulfils an oversight role regarding financial reporting risks, internal financial controls, fraud risk and information technology risks as they relate to financial reporting. The BAC is satisfied that appropriate and effective risk management processes are in place.

#### **INTERNAL AUDIT**

The Internal Audit department has a functional reporting line to the committee chairperson and an operational reporting line to the CEO. The BAC, with respect to its evaluation of the adequacy and effectiveness of internal controls, receives reports from Internal Audit on a quarterly basis, assesses the effectiveness of the Internal Audit function, and reviews and approves the Internal Audit department's Audit Plan.

The BAC is responsible for ensuring that the Corporation's Internal Audit function is independent and has the necessary resources, standing and authority within the Corporation to enable it to discharge its duties. The Internal Audit function's Annual Audit Plan was approved by the BAC. The Committee monitored and challenged, where appropriate, the action taken by management with regard to adverse Internal Audit findings.

The Committee has overseen a process by which Internal Audit has performed audits according to a risk-based audit plan where the effectiveness of the risk management and internal controls were evaluated (for more on risk assessment and management see pages 63 to 65) of the Integrated Report. These evaluations were the main input considered by the Board in reporting on the effectiveness of internal controls. The Committee is satisfied with the independence and effectiveness of the Internal Audit function.

#### **CONCLUSION**

Having considered, analysed, reviewed and debated information provided by management, Internal Audit and External Audit, the Committee confirmed that:

- · The internal controls of the Group were effective in all material aspects throughout the year under review
- These controls ensured that the Group's assets had been safeguarded
- · Proper accounting records had been maintained
- · Resources had been utilised efficiently
- The skills, independence, audit plan, reporting and overall performance of the external auditors were acceptable.

Following its review of the annual financial statements for the year ended 31 March 2017, the BAC is of the opinion that they comply with the relevant provisions of the PFMA, as amended, and IFRS, and that they fairly present the results of the operations, cash flow and financial position of the Corporation.

The BAC has complied with all the King III principles, with the inclusion of integrated reporting, evidenced by the Corporation's sixth issue of its Integrated Report 2017. The Committee is satisfied that it has complied in all material respects with its legal, regulatory and other responsibilities.

This Integrated Report was recommended by the BAC to the Board for approval.

On behalf of the Board Audit Committee

Ms NP Mnxasana

Chairperson of the Board Audit Committee

19 June 2017

## DIRECTORS' REPORT

#### INTRODUCTION

The Industrial Development Corporation of South Africa Limited (IDC) was established in 1940 by the Industrial Development Corporation Act, No 22 of 1940. It is a registered public corporation and a Schedule 2 listed entity in terms of the Public Finance Management Act (PFMA), No 1 of 1999, and the related Treasury regulations. This report is presented in accordance with the provisions of the prescribed legislation and addresses the performance of the IDC, as well as relevant statutory information requirements. The Board of Directors is the Accounting Authority as prescribed in the PFMA.

#### **NATURE OF BUSINESS**

The IDC is a State-owned development finance institution that provides financing to entrepreneurs engaged in competitive industries, follows normal Company policies and procedures in its operations, pays income tax at corporate rates, and, subject to performance, pays dividends to its shareholder.

The IDC's vision is to be the primary driving force of commercially sustainable industrial development and innovation for the benefit of South Africa and the rest of Africa. Its objective is to lead industrial capacity development.

As part of its industry development activities, the IDC has equity interests in several companies operating in other industries throughout the economy. Although we aim to keep our shareholding in these companies to levels below 50%, we do in some instances gain control of these businesses for various reasons. Details of trading subsidiaries and joint ventures are set out in the notes to the financial statement on pages 58 to 64.

## PERFORMANCE MANAGEMENT

The IDC's performance indicators reflect the Corporation's goals as set out earlier in the Integrated Report. Measures related to our key objective of industrial capacity development are complemented with other indicators that measure our development impact, financial sustainability and efficiency, stakeholder relations, as well as the performance of important subsidiaries.

Our primary performance evaluation focus is on our financing activities. The performance measurement system ensures that the IDC remains aligned with its mandated objectives. We review performance indicators annually to account for changes in our external and internal environments and ensure that long-term objectives will be achieved. Performance indicators and targets form part of our annual Corporate Plan and are approved by the shareholder representative prior to the start of a financial year. Targets may also be reviewed mid-year to take into account performance achievement in the previous year and potential changes in the environment.

Performance targets are set at "base", and "target" levels. The "base" defines levels of acceptable performance and the "target" levels of exceptional performance. Performance targets are set at corporate, team and individual levels and performance-linked remuneration is based on the achievement of such targets.

Performance against indicators is measured and reported on regularly to the IDC's Executive and the Board. Regular activity reports and management accounts ensure that target deviations can be detected and, if necessary, corrected.

## **PERFORMANCE INDICATORS**

The IDC adopted a balanced approach to performance measuring and adapted the principles of the balanced scorecard to support its own objectives and operations. We measure indicators in the following five areas:

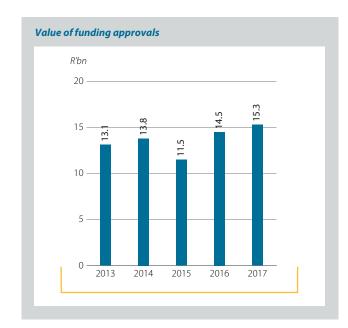
- · Development impact
- · Financial sustainability and efficiency
- People
- Stakeholders
- · Subsidiaries.

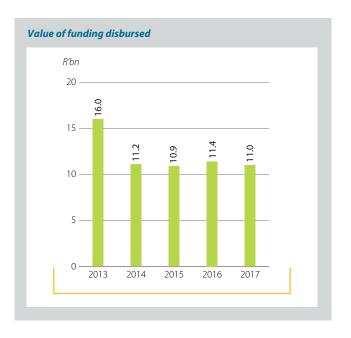
The performance measurement process and outcomes are audited by external auditors to ensure that targets are achieved accordingly and that the overall performance is a fair reflection of the Corporation's activities during the period. Detailed performance against predetermined indicators for both short- and long-term targets are shown on pages 18 to 19.

## **PERFORMANCE OVERVIEW**

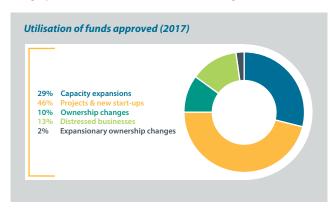
On most fronts, the IDC's performance improved compared to 2016. The value of funding approvals increased to R15.3 billion, 5.7% higher than the previous high reached in 2016. This amount excludes R922 million that was approved from off-balance sheet funds (funds managed on behalf of third parties). Levels of disbursements remained flat, with R11.0 billion disbursed in the period compared to R11.4 billion in 2016. This should be seen in relation to a downward trend in the level of fixed investment in the manufacturing sector as a whole which was experienced during the year. Disbursements of R525 million from off-balance sheet funds are not included in this total.

(continued)





The bulk of funding approved in 2017 was for projects and start-ups (46% of total), with capacity expansions making up the second highest category (29%). Smaller amounts went to funding for distressed businesses (13%), ownership changes (10%) and expansionary acquisitions (2%).



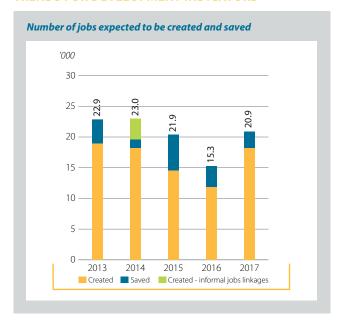
Good performance was recorded on all remaining development indicators. The number of jobs expected to be created from IDC's funding approvals during the year increased by 53.9% to 18 206 while the number of jobs expected to be saved was 2 675. The total number of jobs expected to be created and saved in transactions approved during the year increased by 36.7% to 20 881, the highest number recorded in the last three years. Improved jobs numbers also resulted in the cost-per-job for funds approved decreasing from the previous year.

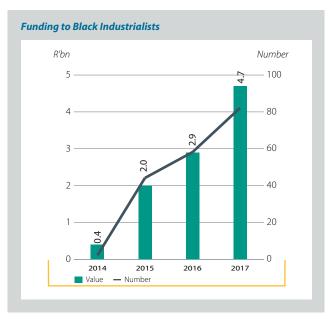
Information gathered from clients show that employment at the IDC's clients' decreased by 0.2% over the year, with more than 150 000 people employed by those clients. If the indirect impact of these jobs are included, the total impact that the IDC's clients have on employment increased by 1.7%, slightly lower than the growth in non-government formal employment over the last year.

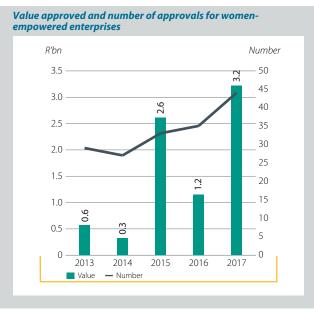
Significant impact was made this year on the value of funding approved for Black Industrialists (63% increase to R4.7 billion), black-empowered companies (increase of 104% to R10.1 billion), women-empowered and youth-empowered businesses (increases of 178%, and 142%, reaching R3.2 billion and R2.3 billion respectively).

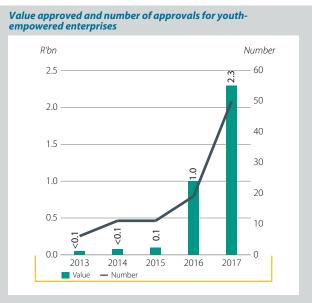
1. Employees at South African clients (excluding mature companies such as Sasol, Kumba etc) that have been in IDC's portfolio throughout the measurement period.

## TRENDS FOR DEVELOPMENT INDICATORS









The IDC Mini-Group posted a R2.8 billion profit (net profit after tax) compared to R1.2 billion in the previous year. This was achieved predominantly on the back of a significant reduction in impairments and write-offs (42.8%). Impairments as a percentage of the portfolio at cost decreased to 16.7% from 16.9%. The value of IDC's reserves increased by 7.5%, slightly lower than the yield on long-term government bonds over the period.

## PERFORMANCE AGAINST PREDETERMINED OBJECTIVES

The tables below show performance against objectives for short- and long-term targets.

## Performance against short-term targets

| Perspective                 | Theme                      | Metric   | Description   | Weight          | Base <sup>2</sup>                       | Target³        | Actual         | Achievement        |
|-----------------------------|----------------------------|--|---|-----------------|---|----------------|----------------|--------------------|
| Development<br>Impact       | Funding activity           | Value of<br>funding<br>disbursed                               | Total value of funding disbursed<br>by IDC  | 20%             | R11.9 billion                           | R14.4 billion  | R11.0 billion  | Base not achieved  |
|                             |                            | Funding<br>leveraged   | Rand amount of outside total<br>funding attracted for each rand<br>of IDC funding   | Not<br>weighted | 2:1                                     |                | 2.5:1          | Achieved           |
|                             | Jobs                       | Expected jobs created/saved                                    | Expected direct jobs created or saved at signature of agreement   | 20%             | 16 800                                  | 20 000         | 20 155         | Target<br>achieved |
|                             | Economic<br>empowerment    | Value of funding to<br>Black Industrialists                    | Value of funding approvals with<br>an agreement signed for<br>transactions benefiting Black<br>Industrialists   | 5%              | R2.5 billion                            | R4.6 billion   | R4.9 billior   | Target<br>achieved |
|                             |                            | Value of funding for<br>women-empowered<br>businesses          | Value of funding approvals with<br>an agreement signed for<br>transactions benefiting<br>women-empowered businesses   | 5%              | R1.0 billion                            | R1.5 billion   | R3.3 billion   | Target<br>achieved |
|                             |                            | Value of funding for<br>youth-empowered<br>businesses          | Value of funding approvals with<br>an agreement signed for<br>transactions benefiting<br>youth-empowered businesses   | 5%              | R0.7 billion                            | R1.0 billion   | R1.7 billior   | Target<br>achieved |
|                             | Localisation               | Funding for<br>transactions for<br>localisation<br>initiatives | Value of funding agreements signed for transactions aimed at inputs into infrastructure or other government procurement and components for motor vehicles                         | 5%              | R2.1 billion                            | R3.6 billion   | R4.8 billior   | Target<br>achieved |
| Financial<br>Sustainability |                            | Level of impairments   | Impairments as a percentage of the portfolio at cost  | 10%             | 17.9%                                   | 15.5%          | 16.7%          | Base achieved      |
| and Efficiency              | /                          |  | Value of cumulative impairments as per the balance sheet  | Not<br>weighted | R14.7 billion                           |                | R12.3 billion  | Achieved           |
|                             | Cost and income management | Revenue  | Net interest, dividends, fees and<br>money market income as a<br>percentage of total assets   | 5%              | 4.7%                                    | 5.2%           | 4.1%           | Base not achieved  |
|                             |                            | Cost to income ratio   | Administration costs, excluding impairments and project costs as a percentage of net interest, dividend and fee income (excluding dividend income from mature listed investments) | 5%              | 35%                                     | 25%            | 46%            | Base not achieved  |
| Stakeholders                | Turnaround<br>times        | Turnaround time on transactions                                | Turnaround time on non-<br>complex transactions: (working<br>days from date of start of due<br>diligence to date of agreement<br>being sent to client)                            | 5%              | 17                                      | 15             | 16.8 <b>LA</b> | Base<br>achieved   |
| Subsidiaries                | sefa                       | sefa balanced<br>scorecard                                     | sefa performance rating   | 5%              | sefa's<br>performance<br>rating (1 – 5) |                | 3.2            | Base achieved      |
|                             | Foskor                     | Foskor profitability   | Operating profits/losses before capital gains   | 5%              | R559 million                            | R615 million ( | (R902 million) | Base not achieved  |
|                             | Scaw                       | Scaw profitability   | Operating profits/losses before capital gains   | 5%              | R51 million                             | R56 million    | (R787 million) | Base not achieved  |

## Performance against long-term targets

| Perspective                 | Theme                              | Metric   | Description  | Weight  | Base   | Target  | Actual  | Achievement          |
|-----------------------------|------------------------------------|--|--|---|--|---|---|----------------------|
| Development<br>Impact       | Funding<br>activity                | Growth in funding disbursed to investments in SA   | Value of IDC funding in SA<br>(excluding funding in the rest of<br>Africa)                                   | 20%   | Growth in gross<br>fixed capital<br>formation in<br>manufacturing<br>(-0.7%)                     | Growth in gross<br>fixed capital<br>formation in<br>manufacturing +<br>10% (9.3%)                     | -3.8%   | Base not<br>achieved |
|                             |                                    |  |  | Not<br>weighted   |  | sbursed should not<br>hree-year historical<br>average   | Disburse-<br>ment below<br>three-year<br>historical<br>average                                      | Not<br>achieved      |
|                             |                                    | Growth in funding disbursed to rest of Africa  | Value of IDC funding in rest of<br>Africa  | 5%  | 5% increase in<br>the percentage<br>of disbursement<br>into rest of Africa<br>(12.3%)            | 7.5% increase in<br>the percentage<br>of disbursement<br>into rest of Africa<br>(12.6%)               | -21.9%  | Base not<br>achieved |
|                             | Jobs                               | Growth in levels of<br>jobs supported by<br>IDC clients  | Number of people employed at<br>SA companies in IDC's portfolio<br>and calculated impact on<br>indirect jobs | 15%   | Growth in levels<br>of employment<br>in the economy<br>(excluding govt.<br>employment)<br>(1.9%) | Growth in levels<br>of employment<br>in the economy<br>(excluding govt.<br>employment) +<br>7% (8.9%) | 1.7%  | Base not<br>achieved |
|                             |                                    |  |  | Not<br>weighted   |  | osses in IDC clients<br>direct employment<br>impact   | Jobs at IDC<br>clients<br>including<br>indirect<br>impact<br>increased                              | Achieved             |
|                             |                                    | ncreased number of obs created per unit of funding by IDC reduce cost per job)  Number of jobs expected to be created, including calculated indirect jobs divided by the value of IDC's SA funding approvals (excluding funding in the rest of | 10%  | Change in the<br>labour/capital<br>ratio of the<br>economy + 5%<br>(1.6%) | Change in the<br>labour/capital<br>ratio of the<br>economy + 15%<br>(8.4%)                       | 51.1%   | Target<br>achieved  |                      |
|                             |                                    |  | Africa, and jobs saved)  | Not<br>weighted   | unit of fund   | jobs created per<br>ling should not be<br>2-year historical   | Number of<br>jobs created<br>per unit of<br>funding<br>above<br>three-year<br>historical<br>average | Achieved             |
|                             | Economic<br>empowerment            | Increase in levels of<br>empowerment in<br>IDC's portfolio   | % of number of SA companies<br>with more than 50% black<br>shareholding for which funding<br>is approved     | 10%   | 2.5% increase in<br>the percentage<br>of black-owned<br>businesses per<br>annum (37.0%)          | 10% increase in<br>the percentage<br>of black-owned<br>businesses per<br>annum (39.7%)                | 56.5%   | Target<br>achieved   |
|                             |                                    |  |  | Not<br>weighted   | companies w<br>black sharehol  | inding approvals to<br>vith more than 50%<br>ding should not be<br>ir historical average              | Achieved  | Achieved             |
| Financial<br>Sustainability | Strength of the balance sheet      |  | Value of IDC reserves  | 30%   | Yield on<br>long-term govt.<br>bonds (8.9%)  | Yield on<br>long-term govt.<br>bonds + 2%<br>(10.9%)  | 7.5%  | Base not<br>achieved |
| Human<br>Capital            | Sustainability of<br>Human Capital | People Sustainability<br>Index   | Composite index measuring sustainability of IDC's human capital  | 10%   | 5% increase in PSI<br>score (74.8%)  | 10% increase in PSI<br>score per annum<br>(78.3%)   | 71.1%   | Base not<br>achieved |

#### **DIRECTORS' REPORT**

(continued)

#### **FUNDING**

The IDC sources loan funding mainly from international development agencies, facilities from commercial banks and bond issuances. The general 2017 funding requirements for the IDC Mini Group to, inter alia, finance advances of R11.0 billion and borrowing redemptions of R10.6 billion, amounted to R22 billion (2016: R18.8 billion). These requirements were met mainly out of R9.5 billion of internally generated funds, namely repayments received and profits. New borrowings amounted to R12.6 billion for the year.

## **CORPORATE GOVERNANCE**

The IDC's directors endorse the King III Report on Corporate Governance and, during the review period, endeavoured to adhere to those recommendations or explain non-adherence.

Our performance in this regard is outlined in the Corporate Governance section of the Integrated Report.

### **PUBLIC FINANCE MANAGEMENT ACT**

The IDC Board is responsible for the development of the Corporation's strategic direction. Our Board-approved strategy and business plan are captured in the Shareholder's Compact and Corporate Plan. Following agreement for the strategy and business plan with the Economic Development Department, the documents form the basis for detailed action plans and continuous performance evaluation.

Our business units and departments are guided by the Shareholder's Compact and Corporate Plan to prepare annual business plans, budgets and capital programmes to meet their strategic objectives.

Day-to-day management responsibility is vested in line management through a clearly defined organisational structure and formal, delegated authority.

We have a comprehensive system of internal controls designed to ensure that we meet corporate objectives and the requirements of the PFMA. Processes are in place to ensure that where controls fail, the failure is detected and corrected.

#### **DIVIDENDS**

A dividend of R20 million was paid during the financial year. On 28 June 2017, the directors declared a dividend of R50 million.

#### **VALUATION OF SHARES**

The value of the Group's investment in listed shares increased to R44.8 billion at the end of the 2017 financial year (2016: R40.0 billion).

## **POST REPORTING DATE EVENT**

The value of the Group's listed shares decreased by R4.6 billion between financial year-end and approval date, however the portfolio had fully recovered at publication date.

### SHARE CAPITAL

The authorised (R1.5 billion) and issued share capital (R1.4 billion) remained unchanged during the reporting year.

#### **AUDIT COMMITTEE INFORMATION**

The names of the Audit Committee members are reflected on page 22 of the Integrated Report.

## **GOING CONCERN**

The directors assessed the IDC as being a going concern in terms of financial, operational and other indicators. The directors are of the view that our status as a going concern is assured.

#### **DIRECTORS AND SECRETARY**

The current directors of the IDC and the name and registered office of the Secretary appears on the inside back cover of the Integrated Report.

|  |         | Gro     | up      | Comp    | oany    |
|--|---------|---------|---------|---------|---------|
| Figures in Rand million                                    | Note(s) | 2017    | 2016    | 2017    | 2016    |
| ASSETS   |         |         |         |         |         |
| Cash and cash equivalents                                  | 5       | 7 699   | 6 865   | 6 660   | 6 183   |
| Derivative financial instruments                           | 19      | 76      | 69      | 70      | 62      |
| Trade and other receivables                                | 6       | 2 224   | 3 305   | 609     | 914     |
| Inventories  | 7       | 2 771   | 3 599   | 4       | 4       |
| Current tax receivable                                     |         | 478     | 207     | 471     | 200     |
| Loans and advances   | 8       | 26 673  | 23 928  | 25 802  | 23 451  |
| Investments  | 9       | 57 635  | 53 272  | 36 810  | 29 122  |
| Non-current assets held-for-sale                           | 10      | 1 676   | 118     | 67      | _       |
| Investments in subsidiaries                                | 11      | -       | _       | 44 183  | 46 887  |
| Investments in associates, joint ventures and partnerships | 12      | 20 361  | 18 314  | 19 182  | 15 421  |
| Deferred tax   | 13      | 169     | 215     | -       | _       |
| Investment property  | 14      | 366     | 362     | 15      | 15      |
| Property, plant and equipment                              | 15      | 9 613   | 10 816  | 54      | 166     |
| Biological assets  | 16      | 51      | 215     | -       | _       |
| Intangible assets  | 17      | 44      | 63      | -       | _       |
| Total assets   |         | 129 836 | 121 348 | 133 927 | 122 425 |
| EQUITY AND LIABILITIES                                     |         |         |         |         |         |
| Equity   |         |         |         |         |         |
| Equity attributable to equity holders of the Group/Company |         |         |         |         |         |
| Share capital  | 18      | 1 393   | 1 393   | 1 393   | 1 393   |
| Reserves - Non-distributable reserve                       |         | 44 561  | 43 605  | 57 166  | 53 127  |
| Retained income - Distributable                            |         | 42 143  | 39 717  | 25 255  | 23 480  |
|  |         | 88 097  | 84 715  | 83 814  | 78 000  |
| Non-controlling interest                                   |         | 193     | 102     | -       |         |
| Total equity   |         | 88 290  | 84 817  | 83 814  | 78 000  |
| Liabilities  |         |         |         |         |         |
| Bank overdraft   | 5       | 103     | 38      | _       | _       |
| Derivative financial instruments                           | 19      | 27      | 59      | 16      | 44      |
| Trade and other payables                                   | 20      | 4 051   | 3 727   | 1 489   | 945     |
| Current tax payable  |         | 5       | 2       | _       | _       |
| Retirement benefit obligation                              | 21      | 588     | 589     | 180     | 158     |
| Liabilities of disposal groups                             | 10      | 368     | _       | -       | _       |
| Other financial liabilities                                | 22      | 30 367  | 27 984  | 42 553  | 38 987  |
| Deferred tax   | 13      | 4 874   | 3 338   | 5 820   | 4 178   |
| Provisions   | 23      | 1 137   | 768     | 28      | 23      |
| Share-based payment liability                              | 24      | 26      | 26      | 27      | 90      |
| Total liabilities  |         | 41 546  | 36 531  | 50 113  | 44 425  |
| Total equity and liabilities                               |         | 129 836 | 121 348 | 133 927 | 122 425 |

|  |             | Gro              | oup          | Com          | pany         |
|--|-------------|------------------|--------------|--------------|--------------|
| Figures in Rand million  | Note(s)     | 2017             | 2016         | 2017         | 2016         |
| Continuing operations  |             |                  |              |              |              |
| Revenue  | 25, 26 & 28 | 17 372           | 19 408       | 6 459        | 5 438        |
| Cost of sales  |             | (9 010)          | (11 918)     | -            |              |
| Gross profit   | 27          | 8 362            | 7 490        | 6 459        | 5 438        |
| Finance costs  | 27          | (2 607)          | (1 317)      | (2 679)      | (1 300)      |
| Gross profit after financing costs Other income                |             | 5 755<br>329     | 6 173<br>581 | 3 780<br>213 | 4 138<br>406 |
| Net capital gains  | 29          | 1688             | 453          | 1688         | 410          |
| Operating expenses   |             | (6 416)          | (7 701)      | (3 702)      | (4 802)      |
| Operating profit (loss)  | 31          | 1356             | (494)        | 1 979        | 152          |
| Non-administrative expenses                                    | 30          | (378)            | _            | (378)        | _            |
| Profits/(losses) from equity-accounted investments             |             | 963              | 557          | -            |              |
| Profit before taxation   |             | 1 941            | 63           | 1 601        | 152          |
| Taxation   | 32          | 621              | 160          | 194          | 25           |
| Profit from continuing operations                              |             | 2 562            | 223          | 1 795        | 177          |
| Discontinued operations Loss from discontinued operations      | 10          | (362)            | _            | _            | _            |
|  | 10          |                  | 222          | 1 705        | 177          |
| Profit for the year Other comprehensive income:                |             | 2 200            | 223          | 1795         | 177          |
| Items that will not be reclassified to profit or loss:         |             |                  |              |              |              |
| Gains/(losses) on property revaluation                         |             | (6)              | 73           | (6)          | 17           |
| Remeasurements on net defined benefit liability/asset          |             | (4)              | 59           | (4)          | 40           |
| Share of comprehensive income of associates and joint ventures |             | (4)              |              |              |              |
| Income tax relating to items that will not be reclassified     |             | (4)              | (26)         | 1            | (13)         |
| Total items that will not be reclassified to profit or loss    |             | (13)             | 106          | (9)          | 44           |
| Items that may be reclassified to profit or loss:              |             |                  |              |              |              |
| Exchange differences on translating foreign operations         |             | (23)             | 129          | _            | _            |
| Available-for-sale financial assets adjustments                |             | 3 648            | (6 087)      | 5 997        | (7 631)      |
| Share of comprehensive income of associates and joint          |             | (270)            | 530          |              | (15)         |
| ventures Income tax relating to items that may be reclassified |             | (370)<br>(2 286) | 530<br>(290) | 6<br>(1 955) | (15)<br>615  |
| Total items that may be reclassified to profit or loss         |             | 969              | (5 718)      | 4 048        | (7 031)      |
| Other comprehensive income for the year net of taxation        | 33          | 956              | (5 612)      | 4 039        | (6 987)      |
| Total comprehensive income/(loss) for the year                 |             | 3 156            | (5 389)      | 5 834        | (6 810)      |
|  |             | 3 130            | (3 309)      | 3 634        | (0 010)      |
| Profit for the year attributable to: Owners of the parent      |             |                  |              |              |              |
| Profit for the year from continuing operations                 |             | 2 808            | 580          | 1795         | 177          |
| Profit for the year from discontinuing operations              |             | (362)            | _            | _            | _            |
|  |             | 2 446            | 580          | 1795         | 177          |
| Non-controlling interest                                       |             | (246)            | (357)        | _            | _            |
|  |             | 2 200            | 223          | 1 795        | 177          |
| Total comprehensive income for the year attributable           |             |                  |              |              | ·            |
| to:  |             |                  |              |              |              |
| Owners of the parent   |             | 3 402            | (5 032)      | 5 834        | (6 810)      |
| Non-controlling interest                                       |             | (246)            | (357)        | _            | _            |
|  |             | 3 156            | (5 389)      | 5 834        | (6 810)      |

| Figures in<br>Rand million  | Total<br>share<br>capital | Foreign<br>currency<br>translation<br>reserve | Associated<br>entities F<br>reserve | Revaluation<br>reserve | Common<br>control<br>reserve |          | Share-<br>based<br>payment<br>reserve | Retained<br>income | Total<br>attributable<br>to equity<br>holders<br>of the<br>Group/<br>Company | Non-<br>controlling<br>interest | Total<br>equity |
|---|---------------------------|---|-------------------------------------|------------------------|------------------------------|----------|---------------------------------------|--------------------|--|---------------------------------|-----------------|
| Group Balance as at 31 March 2015 Changes in equity Total comprehensive                     | 1393                      | 1 379   | 1 014                               | 44 911                 | 1 657                        | (48)     | 304                                   | 39 187             | 89 797   | 125                             | 89 922          |
| income for the year<br>Transactions with<br>non-controlling                                 | -                         | 760   | (101)                               | (6 317)                | _                            | 46       | -                                     | 580                | (5 032)  | (357)                           | (5 389)         |
| shareholders<br>Dividends   | -                         |   | -                                   |                        | -                            |          | -                                     | (50)               | (50)   | 334                             | (50)            |
| Total changes   | _                         | 760   | (101)                               | (6 317)                | _                            | 46       | -                                     | 530                | (5 082)  | (23)                            | (5 105)         |
| Balance at<br>1 April 2016  | 1 393                     | 2 139   | 913                                 | 38 594                 | 1 657                        | (2)      | 304                                   | 39 717             | 84 715   | 102                             | 84 817          |
| Changes in equity Total comprehensive income for the year Transactions with non-controlling | -                         | (393)   | (4)                                 | 1 357                  | -                            | (4)      | -                                     | 2 446              | 3 402  | (246)                           | 3 156           |
| shareholders<br>Dividends   | -                         | _   | -<br>-                              | _                      | -                            | _        | _                                     | (20)               | (20)   | 337                             | 337<br>(20)     |
| Total changes   | -                         | (393)   | (4)                                 | 1 357                  | -                            | (4)      | -                                     | 2 426              | 3 382  | 91                              | 3 473           |
| Balance at<br>31 March 2017   | 1 393                     | 1746  | 909                                 | 39 951                 | 1 657                        | (6)      | 304                                   | 42 143             | 88 097   | 193                             | 88 290          |
| Company<br>Balance as at<br>31 March 2015<br>Changes in equity<br>Total comprehensive       | 1 393                     | _   | (26)                                | 58 927                 | 1 222                        | (9)      | _                                     | 23 353             | 84 860   | _                               | 84 860          |
| income for the year<br>Dividends  | _                         | _<br>   | (15)                                | (7 003)<br>–           | -                            | 31<br>-  | _                                     | 177<br>(50)        | (6 810)<br>(50)  | _                               | (6 810)<br>(50) |
| Total changes   | _                         |   | (15)                                | (7 003)                | -                            | 31       | _                                     | 127                | (6 860)  | -                               | (6 860)         |
| Balance at<br>1 April 2016  | 1 393                     | -   | (41)                                | 51 924                 | 1 222                        | 22       | -                                     | 23 480             | 78 000   | -                               | 78 000          |
| Changes in equity Total comprehensive income for the year Dividends                         | -<br>-                    | -<br>-  | (6)<br>-                            | 4037<br>-              | -<br>-                       | (4)<br>- | -<br>-                                | 1 795<br>(20)      | 5 834<br>(20)  | -<br>-                          | 5 834<br>(20)   |
| Total changes   | _                         | _   | 6                                   | 4 037                  | -                            | (4)      | _                                     | 1 775              | 5 814  | _                               | 5 814           |
| Balance at<br>31 March 2017   | 1 393                     | -   | (35)                                | 55 961                 | 1 222                        | 18       | -                                     | 25 255             | 83 814   | -                               | 83 814          |
| Note(s)   | 18                        | 33  | 33                                  | 33                     | 33                           | 33       |                                       | 33                 |  |                                 |                 |

|  |                |         | 1       |         |  |
|--|----------------|---------|---------|---------|--|
|  | Gre            | oup     | Com     | pany    |  |
| Figures in Rand million Note(                        | 2017           | 2016    | 2017    | 2016    |  |
| Cash flows from operating activities                 |                |         |         |         |  |
| Cash used in operations                              | 7 <b>2 937</b> | (515)   | 2 383   | (1 237) |  |
| Interest received                                    | 3 165          | 2 346   | 2 971   | 3 128   |  |
| Dividends received                                   | 1758           | 2 723   | 1 272   | 1 886   |  |
| Finance costs  | (1 930)        | (1 387) | (1 953) | (1 411) |  |
| Tax paid 3   | (384)          | (100)   | (378)   | (241)   |  |
| Changes in operating funds                           | (853)          | 994     | 918     | 2 512   |  |
| Increase on operating assets                         | (3 235)        | (2 985) | (2 648) | (2 909) |  |
| Increase in operating liabilities                    | 2 382          | 3 979   | 3 566   | 5 421   |  |
| Net cash generated from operating activities         | 4 693          | 4 061   | 5 213   | 4 637   |  |
| Cash flows from investing activities                 |                |         |         |         |  |
| Purchase of property, plant and equipment            | (905)          | (2 513) | (42)    | (46)    |  |
| Proceeds on sale of property, plant and equipment    | 369            | 300     | -       | _       |  |
| Purchase of other intangible assets                  | 7 (29)         | (2)     | _       | _       |  |
| Acquisition of investments                           | (3 505)        | (3 771) | (4 891) | (6 622) |  |
| Purchase of biological assets                        | <u> </u>       | (33)    | -       | _       |  |
|  | -              | 15      | -       | _       |  |
| Acquisition of subsidiaries                          | -              | 14      | -       | _       |  |
| Purchase of other financial assets                   | (7)            | -       | (8)     | _       |  |
| Proceeds on realisation of investments               | 173            | 593     | 225     | 550     |  |
| Net cash used in investing activities                | (3 904)        | (5 397) | (4 716) | (6 118) |  |
| Cash flows from/(used in) financing activities       |                |         |         |         |  |
| Dividends paid                                       | (20)           | (50)    | (20)    | (50)    |  |
| Net cash used in financing activities                | (20)           | (50)    | (20)    | (50)    |  |
| Net (decrease)/increase in cash and cash equivalents | 769            | (1 386) | 477     | (1 531) |  |
| Cash at the beginning of the year                    | 6 827          | 8 213   | 6 183   | 7 714   |  |
| Total cash at end of the year                        | 7 596          | 6 827   | 6 660   | 6 183   |  |

|                                      | South    | Africa   | Rest of | f Africa | Oth   | ier*  | To       | tal      |
|--------------------------------------|----------|----------|---------|----------|-------|-------|----------|----------|
| Figures in Rand million              | 2017     | 2016     | 2017    | 2016     | 2017  | 2016  | 2017     | 2016     |
| Income                               |          |          |         |          |       |       |          |          |
| Interest received                    | 3 701    | 1 998    | 620     | 347      | _     | 1     | 4 321    | 2 346    |
| Dividends received                   | 1 237    | 2 698    | 521     | 25       | -     | _     | 1 758    | 2 723    |
| Fee income                           | 400      | 467      | _       | _        | -     | _     | 400      | 467      |
| Farming, manufacturing and mining    |          |          |         |          |       |       |          |          |
| income                               | 10 755   | 12 597   | 60      | 184      | 78    | 1 091 | 10 893   | 13 872   |
| Revenue                              | 16 093   | 17 760   | 1 201   | 556      | 78    | 1 092 | 17 372   | 19 408   |
| Share of profits of equity-accounted |          |          |         |          |       |       |          |          |
| investments                          | 1723     | 1 032    | 165     | 24       | _     | _     | 1 888    | 1 056    |
| Other income                         | 329      | 581      | _       | _        | _     | _     | 329      | 581      |
| Net capital gains                    | 1 688    | 453      | _       | _        | _     | _     | 1 688    | 453      |
| Expenses                             |          |          |         |          |       |       |          |          |
| Financing expenses                   | (2 607)  | (1 317)  | _       | _        | _     | _     | (2 607)  | (1 317)  |
| Operating expenses                   | (13 235) | (15 696) | (60)    | (26)     | (80)  | (102) | (13 375) | (15 824) |
| Share of losses of equity-accounted  |          |          |         |          |       |       |          |          |
| investments                          | (836)    | (291)    | (48)    | (167)    | (41)  | (41)  | (925)    | (499)    |
| Taxation                             | 621      | 163      | _       | _        | _     | (3)   | 621      | 160      |
| Depreciation                         | (739)    | (723)    | _       | _        | _     | _     | (739)    | (723)    |
| Impairment of property, plant and    |          |          |         |          |       |       |          |          |
| equipment                            | (634)    | (200)    | _       | _        | _     | _     | (634)    | (200)    |
| Net movement in impairments          | (954)    | (3 161)  | _       | _        | _     | _     | (954)    | (3 161)  |
| Project feasibility expenses         | (102)    | 289      | _       | _        | _     | _     | (102)    | 289      |
| Impairment reversal                  | (362)    | _        | _       | _        | _     | _     | (362)    | _        |
| Profit for the year                  | 985      | (1 110)  | 1 258   | 387      | (43)  | 946   | 2 200    | 223      |
| Total assets                         | 119 409  | 110 093  | 8 199   | 10 115   | 2 228 | 1 140 | 129 836  | 121 348  |
| Interest in equity-accounted         |          |          |         |          |       |       |          |          |
| investments                          | 16 621   | 13 888   | 3 740   | 4 426    | -     | _     | 20 361   | 18 314   |
| Total liabilities                    | 41 476   | 36 413   | 17      | 4        | 53    | 112   | 41 546   | 36 529   |
| Capital expenditure                  | 905      | 2 522    | _       | _        | _     | _     | 905      | 2 522    |
| Capital expenditure                  |          |          |         |          |       |       |          |          |
| commitments                          | 14       | 87       | _       | _        | _     | _     | 14       | 87       |

<sup>\*</sup> Other – includes all countries outside the African continent.

Management has determined the operating segments based on the reports reviewed by the Executive Committee that are used to make strategic decisions. The Executive Committee considers the business primarily from a product perspective. The products are segmented into financing activities and non-financing activities.

Segment assets consist primarily of loans, advances, investments, property, plant and equipment and cash and cash equivalents. Segment liabilities comprise non-current and current liabilities.

Capital expenditure comprises additions to property, plant and equipment.

|  | Industrial D<br>Corpo | evelopment<br>ration | Other Financing<br>Activities** |       |  |
|--|-----------------------|----------------------|---------------------------------|-------|--|
| Figures in Rand million                          | 2017                  | 2016                 | 2017                            | 2016  |  |
| Income   |                       |                      |                                 |       |  |
| Interest received                                | 4 822                 | 3 128                | 135                             | 450   |  |
| Dividends received                               | 1 272                 | 1 886                | 1 044                           | 985   |  |
| Fee income                                       | 365                   | 424                  | 36                              | 43    |  |
| Farming, manufacturing and mining income         | -                     | _                    | -                               | _     |  |
| Revenue*   | 6 459                 | 5 438                | 1 405                           | 1 478 |  |
| Share of profits of equity-accounted investments | _                     | -                    | 15                              | 39    |  |
| Other income                                     | 213                   | 406                  | 17                              | 15    |  |
| Net capital gains                                | 1 688                 | 410                  | _                               | 43    |  |
| Expenses   |                       |                      |                                 |       |  |
| Financing costs                                  | (2 679)               | (1 300)              | (32)                            | (30)  |  |
| Operating expenses                               | (1 889)               | (1 400)              | (351)                           | (574) |  |
| Share of losses of equity-accounted investments  | _                     | -                    | _                               | -     |  |
| Taxation   | 194                   | 25                   | 24                              | 8     |  |
| Depreciation                                     | (17)                  | (21)                 | (4)                             | (4)   |  |
| Project feasibility expenses                     | (88)                  | 289                  | _                               | -     |  |
| Net movement in impairments                      | (2 086)               | (3 670)              | (68)                            | (380) |  |
| Impairment of property, plant and equipment      | _                     | -                    | _                               | -     |  |
| Profit/(Loss) from discontinued operations       | _                     | _                    | -                               | _     |  |
| Profit for the year                              | 1795                  | 177                  | 816                             | 595   |  |
| Total assets                                     | 133 927               | 122 425              | 2 342                           | 2 505 |  |
| Interest in equity-accounted investments         | 19 057                | 15 421               | 938                             | 929   |  |
| Total liabilities                                | 50 113                | 44 425               | 628                             | 762   |  |
| Capital expenditure                              | 42                    | 46                   | _                               | 15    |  |
| Capital expenditure commitments                  | _                     | _                    | _                               | _     |  |

 $<sup>* \</sup>textit{All revenue is from external customers}. \\$ 

 $<sup>**</sup>Other\ financing\ activities-includes\ Findevco, Impofin, Konoil\ and\ the\ Small\ Enterprise\ Finance\ Agency\ Limited.$ 

| Foskor<br>(Pty) Ltd |         | Scaw Sou<br>(Pty) |         | Oth            | ner*     | Total          |                  |  |
|---------------------|---------|-------------------|---------|----------------|----------|----------------|------------------|--|
| 2017                | 2016    | 2017              | 2016    | 2017           | 2016     | 2017           | 2016             |  |
|                     |         |                   |         |                |          |                |                  |  |
| 22                  | 18      | 1                 | 1       | (659)          | (1 245)  | 4 321          | 2 352            |  |
| -                   | _       | -                 | _       | (558)          | (154)    | 1 758          | 2 723            |  |
| -                   | _       | -                 | _       | (1)            | _        | 400            | 467              |  |
| 5 615               | 5 918   | 3 041             | 5 660   | 2 237          | 2 294    | 10 893         | 13 872           |  |
| 5 637               | 5 936   | 3 042             | 5 661   | 1 019          | 895      | 17 372         | 19 414           |  |
| (2)                 | 4       | -                 | _       | 1 875          | 1 013    | 1 888          | 1 056            |  |
| 55                  | 106     | -                 | _       | 44             | 54       | 329            | 581              |  |
| -                   | _       | _                 | _       | _              | _        | 1 688          | 410              |  |
|                     |         |                   |         |                |          |                |                  |  |
| (163)               | (438)   | (329)             | (477)   | 596            | 928      | (2 607)        | (1 317)          |  |
| (5 987)             | (5 790) | (2 968)           | (6 050) | (2 188)        | (2 010)  | (13 383)       | (15 824)         |  |
| -                   | _       | -                 | _       | (925)          | (499)    | (925)          | (499)            |  |
| 425                 | 144     | (470)             | (200)   | (22)           | (17)     | 621            | 167              |  |
| (347)               | (330)   | (170)             | (208)   | (192)          | (160)    | (730)          | (723)            |  |
| _                   | _       | _                 | _       | (14)           | 889      | (102)          | 289              |  |
| (520)               | (200)   | _                 | _       | 1 200<br>(115) |          | (954)<br>(635) | (3 161)<br>(200) |  |
| (520)               | (200)   | (362)             | _       | (113)          |          | (362)          | (200)            |  |
| (902)               | (568)   | (787)             | (1 074) | 1 278          | 1 093    | 2 200          | 223              |  |
|                     |         |                   | . , ,   |                |          |                |                  |  |
| 8 431               | 8 803   | 4 503             | 4 714   | (19 367)       | (17 099) | 129 836        | 121 348          |  |
| _                   | -       | _                 | _       | 366            | 1 964    | 20 361         | 18 314           |  |
| 3 740               | 3 740   | 9 410             | 8 872   | (22 345)       | (21 270) | 41 546         | 36 529           |  |
| 504                 | 460     | -                 | _       | 359            | 2 001    | 905            | 2 522            |  |
| -                   | _       | _                 | _       | 14             | 87       | 14             | 87               |  |

<sup>\*</sup> Other – includes Dymson Nominee, Kindoc Investments, Kindoc Sandton Properties, Konbel, Prilla 2000, certain other property-owning subsidiaries and consolidation adjustments.

#### 1. **ACCOUNTING POLICIES**

The Industrial Development Corporation of South Africa Limited (IDC, Company or Corporation) is domiciled in South Africa. The consolidated financial statements for the year ended 31 March 2017 comprise the IDC, its subsidiaries and the Group's interest in associates and jointly controlled entities (referred to as the Group).

The financial statements were authorised for issue by the directors on 28 June 2017.

#### 1.1 STATEMENT OF COMPLIANCE

The separate and consolidated financial statements have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS) and its interpretations adopted by the International Accounting Standards Board (IASB) as well as the requirements of the Public Finance Management Act (PMFA).

#### 1.2 **BASIS OF PREPARATION**

The separate and consolidated financial statements are presented in South African Rand, which is the Company's functional currency, rounded to the nearest million.

These consolidated financial statements are prepared on the historical cost basis, except for the following:

- · Derivative financial instruments are measured at fair value
- Financial instruments held-for-trading are measured at fair value
- Financial instruments classified as available-for-sale are measured at fair value
- Financial instruments designated at fair value through profit or loss are measured at fair value
- · Investments in subsidiaries, associates and jointly controlled entities are carried at fair value in the separate financial statements of the Company
- Biological assets are measured at fair value less costs to sell
- · Investment property is measured at fair value
- · Land and buildings are measured at revalued amount
- · Aircraft are measured at fair value
- · Non-current assets held-for-sale are measured at fair value

## Standards, amendments and interpretations to existing standards not yet effective and also not early adopted:

## a) IFRS 9 Financial Instruments (Effective 1 January 2018)

IFRS 9 Financial Instruments will replace certain key elements of IAS 39. The two key elements that would impact the Group's accounting policies include:

- Classification and measurement of financial assets and financial liabilities: the standard requires that all financial assets be classified as either held at fair value or amortised cost.
  - i. The amortised cost classification is only permitted where it is held within a business model where the underlying cash flows are held in order to collect contractual cash flows and that the cash flows arise solely from payment of principal and interest.
  - ii. The standard further provides that gains and losses on assets held at fair value are measured through the income statement unless the entity has elected to present gains and losses on non-trading equity investments (individually elected) directly through comprehensive income. With reference to financial liabilities held at fair value, the standard proposes that changes to fair value attributable to credit risk are taken directly to other comprehensive income without recycling.
- · Impairment methodology: Impairments in terms of IFRS 9 will be determined based on an expected credit loss model rather than the current incurred loss model required by IAS 39. Entities are required to recognise an allowance for either 12-month or lifetime expected credit losses (ECLs), depending on whether there has been a significant increase in credit risk since initial recognition. The measurement of ECLs reflects a probability-weighted outcome, the time value of money and the entity's best available forward-looking information. The aforementioned probability-weighted outcome must consider the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is low.

The ECL model applies to debt instruments recorded at amortised cost or at FVTOCI, such as loans, debt securities and trade receivables, lease receivables and most loan commitments and financial guarantee contracts.

The implementation of IFRS 9 is anticipated to have a significant impact on the preparation of the Group's financial statements. The Group has initiated a process to determine the quantitative impact of the standard on the Group's statement of financial position and ongoing performance metrics. Until the process has been completed, the Group is unable to quantify the expected impact.

## b) IFRS 15 Revenue from Contracts with Customers (Effective 1 January 2018)

This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, and IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.

The Group is in the process of evaluating the impact of IFRS 15 on its financial statements.

All other standards and interpretations issued but not yet effective are not expected to have a material impact on the Group.

## **INVESTMENTS IN SUBSIDIARIES**

Subsidiaries are entities controlled by the IDC. The Group 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ceases. Investments in subsidiaries in the Company's separate financial statements are carried at fair value as available-for-sale financial assets.

#### i) Business combinations

The acquisition method is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. The assets, liabilities and contingent liabilities acquired are assessed and included in the statement of financial position at their estimated fair value to the Group. If the cost of acquisition is higher than the net assets acquired, any difference between the net asset value and the cost of acquisition of a subsidiary is treated in accordance with the Group's accounting policy for goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in profit or loss.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Any contingent consideration payable is measured at fair value at the acquisition. If the contingent consideration is classified as equity, then it is not remeasured and the settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquirees' awards) and relate to past services, then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared to the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

#### ii) Transactions eliminated on consolidation

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation.

Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

## iii) Non-controlling interests

Non-controlling interests (NCI) are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date. Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

#### iv) Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

## **CONSOLIDATED STRUCTURED ENTITIES**

The Group has established a number of consolidated structured entities (CSEs) for trading and investment purposes. CSEs are entities that are created to accomplish narrow and well-defined objectives. A CSE is consolidated if, based on an evaluation of the substance of the relationship with the Group and the Group has control over the CSE. CSEs are the Group entities which are designed so that voting rights are not relevant to the determination of power, but instead other rights are relevant. CSEs controlled by the Group are generally those established under terms that impose strict limitations on the decision-making powers of the CSEs' management and that result in the Group receiving the majority of the benefits related to the CSEs' operations and net assets.

Investments in CSEs in the Company's separate financial statements are classified as available for sale and carried at fair value through other comprehensive income.

#### **INVESTMENTS IN ASSOCIATES**

Investments in associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associates' post-acquisition profits and losses is recognised in profit or loss, and its share of post-acquisition movements in reserves is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted for against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains and losses arising from transactions with equity-accounted investments are eliminated against the investment to the extent of the Group's interest in the investment. Unrealised losses are eliminated only to the extent that there is no evidence of impairment.

Investments in associates in the Company's separate financial statements are classified as available for sale and carried at fair value through other comprehensive income.

#### **JOINT VENTURES AND PARTNERSHIPS** 1.6

Joint ventures are those entities over whose activities the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities. Partnerships are those entities wherein the IDC has rights to the assets and obligations for the liabilities of the partnership. The assets and liabilities of the partnerships are included in the Company and Group financial statements.

The consolidated financial statements include the Group's share of the total recognised gains and losses of joint ventures on an equity-accounted basis, from the date that joint control is established by contractual agreement commences until the date that it ceases. When the Group's share of losses exceeds its interest in a joint venture, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of a joint venture.

Unrealised gains and losses arising from transactions with equity-accounted joint ventures and partnerships are eliminated against the investment to the extent of the Group's interest in the investment.

Investments in joint ventures in the Company's separate financial statements are classified as available for sale and carried at fair value through other comprehensive income.

#### 1.7 **FINANCIAL INSTRUMENTS**

## a) Financial assets

The Group classifies its financial assets into the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its financial assets at initial recognition.

#### i. Financial assets at fair value through profit or loss

This category has two subcategories: financial assets held for-trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held-for-trading unless they are designated as hedging instruments.

Directly attributable transaction costs on initial recognition of financial assets are recognised at fair value through profit or loss.

The Group designates financial assets at fair value through profit or loss when either:

- The assets are managed, evaluated and reported internally on a fair value basis;
- · The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; and
- · The asset contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

## ii. Loans and receivables

Loans and receivables are non-derivative assets with fixed or determinable payments that are not quoted in an active market other than those that the Group intends to sell in the near future. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable.

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method.

# iii. Available-for-sale

Available-for-sale investments are non-derivative investments that are not designated as another category of financial assets. Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Available for sale investments includes investments in subsidiaries investments in associates, joint ventures and partnerships.

### iv. Recognition and measurement

Purchases and sales of financial assets at fair value through profit or loss, held-to-maturity and available-for-sale are recognised on trade date – the date on which the Group commits to purchase or sell the asset. Loans are recognised when the cash is advanced to the borrowers. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Where the transaction price in a non-active market is different to the fair value from other observable current-market transactions in the same instrument or based on a valuation technique, the variables of which include only data from observable markets, the group defer such differences (day 1 gains or losses). Day 1 gains or losses are amortised on a straight line basis over the life of the financial instrument. To the extent that the inputs determining the fair value of the instrument become observable, or on derecognition of the instrument, day 1 gains or losses are recognised immediately in profit or loss.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently measured at fair value. Loans and receivables and held-to-maturity investments are subsequently measured at amortised cost using the effective interest method less impairment loss. Gains and losses arising from changes in the fair value of the financial instruments through profit or loss category are included in profit or loss in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in other comprehensive income, until the financial asset is

disposed of, derecognised or impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss. However, interest calculated using the effective interest method is recognised in profit or loss for available-for-sale debt investments. Dividends on available-for-sale equity instruments are recognised in profit or loss when the entity's right to receive payment is established.

Financial assets (or, where applicable, a part of a financial asset or part of a group of similar financial assets) are derecognised when the contractual rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all the risks and rewards of ownership, without retaining control. Any interest in the transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

#### v. Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, and investments in money market instruments and bank overdrafts, all of which are available for use by the Group unless otherwise stated

Cash and cash equivalents are subsequently measured at amortised cost in the statement of financial position.

#### b) Financial liabilities

Financial liabilities are recognised initially at fair value, generally being their issue proceeds net of transaction costs incurred except for financial liabilities measure at fair value trough profit or loss. Financial liabilities, other than those at fair value through profit or loss are subsequently measured at amortised cost and interest is recognised over the period of the borrowing using the effective interest method.

Where the Group classifies certain liabilities at fair value through profit or loss, changes in fair value are recognised in profit or loss. This designation by the Group takes place when either:

- · The liabilities are managed, evaluated and reported internally on a fair value basis; or
- · The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; and
- · The liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

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

## c) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantee liabilities are initially recognised at their fair value and the initial fair value is amortised over the life of the financial guarantee. The quarantee liability is subsequently measured at the higher of this amortised amount and the present value of any expected payment (when payment under the guarantee has become probable). Financial guarantees are included with other liabilities.

## d) Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

## e) Derivative financial instruments

Certain Group companies use derivative financial instruments to hedge their exposure to foreign exchange rate risks and other market risks arising from operational, financing and investment activities.

The Group does not hold or issue derivative financial instruments for trading purposes.

Derivatives may be embedded in another contractual arrangement (a "host contract"). The Group accounts for an embedded derivative separately from the host contract when the host contract is not itself carried at fair value through profit or loss, the terms of the embedded derivative would meet the definition of a derivative if they were contained in a separate contract, and the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risk of the host contract. Separated embedded derivatives are accounted for depending on their classification, and are presented in the statement of financial position together with the host contract.

#### 1.8 **IMPAIRMENT OF ASSETS**

## a) Impairment of financial assets carried at amortised cost (held-to-maturity financial assets, and loans and receivables)

Allowances for impairment on financial assets carried at amortised cost represent management's estimate of losses incurred in the portfolio at reporting date.

The Group assesses whether there is objective evidence that a financial asset or group of financial assets in this category are impaired at each reporting date.

A financial asset or group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of a decrease in the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated, as a result of one or more events that have occurred after the initial recognition of the asset (a loss event or events).

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, referred to as specific impairments, and individually or collectively for financial assets that are not individually significant.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

- · Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as default or delinquency in interest or principal payments;
- · The Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
- It becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- Changes in macroeconomic conditions;
- · The disappearance of an active market for that financial asset resulting in financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decreases cannot yet be identified with the individual financial assets in the aroup.

Valuations of financial assets are performed by the Post Investment Monitoring and Workout and Restructuring departments and approved by the Investment Monitoring Committee (IMC), which meets three times a year.

Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and advances.

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group (portfolio) of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised are not included in a collective assessment of impairment.

The recoverable amount of the assets is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of the asset).

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group, and as well as historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions which did not affect the period on which the historical loss experience is based. This also serves to remove the effects of conditions in the historical period that do not exist currently.

The Group ensures that estimates of changes in future cash flows for groups of assets are reflective and directionally consistent with changes in related observable data from period to period (for example, changes in interest rates, foreign currency exchange rates, payment status, or other factors indicative of changes in the probability of losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

If an impairment loss decreases due to an event occurring subsequently and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), then the previously recognised impairment loss is reversed through profit or loss with a corresponding increase in the carrying amount of the underlying asset. The reversal is limited to an amount that does not state the asset at more than what its amortised cost would have been in the absence of impairment.

### b) Impairment of available-for-sale financial assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant and prolonged decrease in the fair value of the instrument below its cost is considered in determining whether the assets are impaired. The IDC applies the most conservative approach and immediately impairs the financial instrument upon the fair value going below cost. Management assesses all relevant information and applies its professional judgement in determining whether the impairment of a financial asset is significant and prolonged.

If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss but rather through reserves.

Any increase in the fair value after an impairment loss has been recognised is treated as a revaluation and is recognised directly in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

#### c) Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-financial assets (other than biological assets, land and buildings, deferred tax assets and investment property) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or cash-generating units (CGUs). Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The 'recoverable amount' of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 'Value in use' is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation if no impairment loss had been recognised.

Any impairment loss of a revalued asset is treated as a revaluation decrease.

#### **INTANGIBLE ASSETS**

#### a) Goodwill

Business combinations are accounted for using the acquisition method as at the acquisition date.

The Group measures goodwill at the acquisition date as:

- The fair value of the consideration transferred; plus
- The recognised amount of any non-controlling interests in the acquiree; plus
- · If the business combination is achieved in stages, the fair value of the pre-existing equity interest in the acquiree; less
- · The net recognised amount (generally fair value) of the identifiable assets required and the liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit and loss.

Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses. Impairment losses on goodwill are recognised in profit or loss and determined in accordance with the impairment of non-financial assets.

#### b) Intangible assets acquired separately

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses, if any.

Amortisation is charged on a straight-line basis over the estimated useful lives of the intangible assets which do not exceed four years. The estimated useful life and amortisation method are reviewed at the end of each annual reporting period, with the effect of any changes being accounted for on a prospective basis.

#### 1.9 **INTANGIBLE ASSETS (continued)**

#### c) Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets acquired in a business combination are measured at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately.

#### 1.10 FOREIGN CURRENCY TRANSLATION

### a) Transactions and balances

Transactions in foreign currencies are translated into South African Rand at the foreign exchange rate prevailing at the date of the transaction. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and amortised cost in foreign currency translated at the exchange rate at the end of the reporting period, if applicable.

Monetary assets and liabilities denominated in foreign currencies at the reporting date have been translated into South African Rand at the rates ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Rand at foreign exchange rates ruling at the dates the fair value was determined.

Foreign currency differences are recognised in profit and loss, except for available-for-sale investments and effective cash flow hedges which are recognised in other comprehensive income.

## b) Financial statements of foreign operations

All foreign operations have been accounted for as foreign operations. Assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated into South African Rand at foreign exchange rates ruling at the reporting date. Income and expenses are translated at the average foreign exchange rates, provided these rates approximate the actual rates, for the year. Exchange differences arising from the translation of foreign operations are recognised in other comprehensive income. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to profit or loss.

#### INVESTMENT PROPERTY

Investment property is property held either to earn rental income or for capital appreciation, or both.

#### a) Measurement

Investment property is measured initially at cost, including transaction costs and directly attributable expenditure in preparing the asset for its intended use. Subsequently, all investment properties are measured at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Valuation takes place annually, based on the aggregate of the net annual rental receivable from the properties, considering and analysing rentals received on similar properties in the neighbourhood, less associated costs (insurance, maintenance, repairs and management fees). A capitalisation rate which reflects the specific risks inherent in the net cash flows is applied to the net annual rentals to arrive at the property valuations.

Gains or losses arising from a change in fair value are recognised in profit or loss.

External, independent valuers having appropriate, recognised professional qualifications and recent experience in the location and category of the property being valued are used to value the portfolio.

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

## 1.12 PROPERTY, PLANT AND EQUIPMENT

## a) Measurement

All items of property, plant and equipment recognised as assets are measured initially at cost. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of material and direct labour and any other cost directly attributable to bringing the asset to a working condition for its intended use, and the cost of dismantling and removing the items and restoring the site on which they are located. Except for land, buildings and aircraft all other items of property, plant and equipment are subsequently measured at cost less accumulated depreciation and any accumulated impairment losses.

Land, buildings and aircraft are subsequently measured at fair value less accumulated depreciation and accumulated impairment losses. Land, buildings and aircraft are revalued by external, independent valuers. Valuers having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued are used to value the portfolio.

Any surplus in excess of the carrying amount is transferred to a revaluation reserve net of deferred tax. Surpluses on revaluation are recognised in profit or loss to the extent that they reverse revaluation decreases of the same assets recognised as expenses in the previous periods.

Decreases in revaluation are charged directly against the revaluation reserves only to the extent that the decrease does not exceed the amount held in the revaluation reserves in respect of that same asset, otherwise they are recognised in profit or loss.

Where parts of an item of property, plant and equipment have significantly different useful lives, they are accounted for as separate items of property, plant and equipment. Although individual components are accounted for separately, the financial statements continue to disclose a single asset.

#### b) Subsequent cost

The Group recognises the cost of replacing part of such an item of property, plant and equipment in the carrying amount when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in profit or loss as an expense as they are incurred.

#### c) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis, based on the estimated useful lives of the underlying assets. Depreciation is calculated on the cost less any impairment and expected residual value of the asset. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

| Item                                | Average useful life |
|-------------------------------------|---------------------|
| Buildings and infrastructure        |                     |
| Building structure                  | 50 years            |
| • Elevators                         | 10 years            |
| Plant and machinery                 |                     |
| • Aircraft                          | 5 years             |
| Heavy plant and machinery           | 10-20 years         |
| • Equipment                         | 8-10 years          |
| Other property, plant and equipment |                     |
| Motor vehicles                      | 1-6 years           |
| Office furniture and equipment      | 1-6 years           |

The residual values, useful lives and depreciation method are re-assessed at each financial year-end and adjusted if appropriate.

### d) Derecognition

The carrying amount of items of property, plant and equipment are derecognised on disposal or when no future economic benefits are expected from their use or disposal.

Gains or losses arising from derecognition are determined as the difference between the net disposal proceeds and the carrying amount of the item of property, plant and equipment and included in profit or loss when the items are derecognised. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained income.

### 1.13 BIOLOGICAL ASSETS

A biological asset is a living animal or plant.

## a) Measurement

A biological asset is measured initially and at reporting date at its fair value less costs to sell. If the fair value of a biological asset cannot be determined reliably at the date of initial recognition, it is stated at cost less any accumulated depreciation and impairment losses.

Gains or losses arising on the initial recognition of a biological asset at fair value less costs to sell, and from a change in fair value less costs to sell of biological assets, are included in profit or loss in the period in which they arise.

#### 1.14 LEASES

### a) Finance leases

Leases of assets under which the lessee assumes all the risks and benefits of ownership are classified as finance leases.

## i. Finance leases – Group as lessee

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

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

#### 1.14 **LEASES** (continued)

#### a) Finance leases (continued)

## ii. Finance leases – Group as lessor

The Group recognises finance lease receivables in the statement of financial position.

Finance income is recognised based on a pattern reflecting a constant periodic rate of return on the Group's net investment in the finance lease.

## b) Operating leases

Leases of assets under which the lessor effectively retains all the risks and benefits of ownership are classified as operating leases.

### i. Operating leases – Group as lessee

Lease payments arising from operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised in profit or loss as an integral part of the total lease expense.

#### ii. Operating leases – Group as lessor

Receipts in respect of operating leases are accounted for as income on the straight-line basis over the period of the lease.

The assets subject to operating leases are presented in the statement of financial position according to the nature of the assets.

## c) Determining whether an arrangement contains a lease

At inception of an arrangement, the Group determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Group the right to control the use of the underlying asset.

At inception or upon re-assessment of the arrangement, the Group separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Group concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Group's incremental borrowing rate.

#### **SHARE CAPITAL** 1.15

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of the ordinary shares are recognised as a deduction from equity, net of any tax effects.

#### 1.16 INVENTORIES

#### a) Spares and consumables

Spares and consumables are valued at the lower of cost and net realisable value, on a weighted average method.

The cost of inventories comprises all costs of purchase, conversion and other costs incurred in bringing the inventories to the present location and condition.

Obsolete, redundant and slow-moving items of spares and consumable stores are identified on a regular basis and written down to their net realisable value.

Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses.

## b) Raw materials, finished goods and phosphate rock

Raw materials, finished goods and phosphate rock are valued at the lower of cost of production and net realisable value.

Cost of production is calculated on a standard cost basis, which approximates the actual cost and includes the production overheads. Production overheads are allocated on the basis of normal capacity to finished goods.

The valuation of inventory held by agents or in transit includes forwarding costs, where applicable.

#### 1.17 PROVISIONS

Provisions are recognised when:

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

Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision. Provisions are not recognised for future operating losses.

A constructive obligation to restructure is recognised when an entity:

- Has a detailed formal plan for the restructuring, identifying at least:
- The business or part of a business concerned
- The principal locations affected
- The location, function, and approximate number of employees who will be compensated for terminating their services
- The expenditures that will be undertaken
- When the plan will be implemented
- Has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

## a) Decommissioning provision

The obligation to make good environmental or other damage incurred in installing an asset is provided in full immediately, as the damage arises from a past event.

If an obligation to restore the environment or dismantle an asset arises on the initial recognition of the asset, the cost is capitalised to the asset and amortised over the useful life of the asset. The cost of an item of property, plant and equipment includes not only the 'initial estimate' of the costs relating to dismantlement, removal or restoration of property, plant and equipment at the time of installing the item but also amounts recognised during the period of use, for purposes other than producing inventory.

If an obligation to restore the environment or dismantle an asset arises after the initial recognition of the asset, then a provision is recognised at the time that the obligation arises.

#### b) Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

Before a provision is established, the Group recognises any impairment loss on the assets associated with the contract.

## 1.18 CONTINGENT LIABILITIES AND COMMITMENTS

## a) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent liabilities are not recognised in the statement of financial position of the Group but disclosed in the notes.

After their initial recognition contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:

- The amount that would be recognised as a provision
- The amount initially recognised less cumulative amortisation

Contingent liabilities are not recognised. Contingencies are disclosed in the notes.

#### b) Commitments

Items are classified as commitments where the Group has committed itself to future transactions. Commitments are not recognised in the statement of financial position of the Group but disclosed in the notes.

## 1.19 TAXATION

## a) Current tax assets and liabilities

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

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

#### b) Income tax

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:

- · A transaction or event which is recognised, in the same or a different period, to other comprehensive income
- · A business combination

Current tax is charged or credited in profit or loss, except when it relates to items credited or charged directly to equity or other comprehensive income, in which case the current tax is also recognised in equity or other comprehensive income.

Current tax also includes any adjustment to tax payable in respect of previous years.

#### 1.19 **TAXATION** (continued)

#### c) Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is recognised for all taxable temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which unused tax deductions can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax will be realised.

Deferred tax is not recognised if the temporary differences arise on the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither taxable income nor accounting income. Deferred tax is also not recognised in respect of temporary differences relating to investments in associates, subsidiaries and joint ventures to the extent that it is probable that they will not reverse in the foreseeable future and the timing of the reversal of the temporary difference is controlled.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is charged or credited in profit or loss, except when it relates to items credited or charged directly to equity or other comprehensive income, in which case the deferred tax is also recognised in equity or other comprehensive income.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

#### 1.20 REVENUE

Revenue comprises sales to customers, dividends, interest and fee income, but excludes value added tax, and is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates.

### a) Sales to customers

Revenue from sale of goods is recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, associated costs and possible return of goods can be estimated reliably and there is no continuing managerial involvement with the goods. This occurs when the Group entity has delivered products to the customer and the customer has accepted the products. The delivery of products and the transfer of risks are determined by the terms of sale

## b) Dividends

Dividend income is recognised when the right to receive payment is established on the ex-dividend date for equity instruments and is included in dividend income

#### c) Interest

Interest income and expense are recognised in profit or loss using the effective-interest method taking into account the contractual expected timing and amount of cash flows. The effective-interest method is a method of calculating the amortised cost of a financial asset or financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. Interest income and expense include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing financial instrument and its amount at maturity calculated on an effective-interest-rate basis.

### d) Fees

The Group earns fees and commissions from a range of services it provides to clients and these are accounted for as follows:

- · Income earned on the execution of a significant act is recognised when the significant act has been performed. For instance, the syndication or structuring fee is recognised when the syndication as a lead arranger or structuring as a structure of the deal has been completed. On the other hand, loan commitment fees are recognised on a straight-line basis over the commitment period
- · Income earned from the provision of services is recognised as the service is rendered by reference to the stage of completion of the service
  - The stage of completion is assessed by reference to the service performed to date as a percentage of total service to be performed. In most instances, this is straight-lined
- · Income that forms an integral part of the effective interest rate of a financial instrument is recognised as an adjustment to the effective interest rate and recognised in interest income
- Fees charged for servicing a loan are recognised in revenue as the service is provided.

# 1.21 BORROWING COSTS

Borrowing costs are expensed in the period in which they are incurred, except to the extent that they are capitalised when directly attributable to the acquisition, construction or production of a qualifying asset.

#### 1.22 EMPLOYEE BENEFITS

#### a) Post-retirement medical benefits

Some Group companies provide post-employment healthcare benefits to their retirees. The entitlement to post-employment healthcare benefits is based on the employee remaining in service up to retirement age. The expected costs of these benefits are accrued over the period of employment, using the projected unit of credit method. Valuations of these obligations are carried out annually by independent qualified actuaries.

### b) Defined contribution plans

The majority of the Group's employees are members of defined contribution plans and contributions to these plans are recognised in profit or loss in the year to which they relate.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity (a fund) and under which the Group will have no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and previous periods.

## c) Defined benefit plans

The Group operates a defined benefit and a defined contribution plan, the assets of which are held in separate trustee-administered funds. The schemes are generally funded through payments to insurance companies or trustee-administered funds as determined by periodic actuarial valuations. A defined benefit plan is a pension plan that defines an amount of pension benefit to be provided, usually as a function of one or more factors such as age, years of service and compensation.

The liability in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government securities that have terms to maturity approximating the terms of the related liability. Actuarial gains and losses arising from experience adjustments and the effects of changes in actuarial assumptions to the defined benefit plans are recognised fully in other comprehensive income.

Past-service costs are recognised immediately in profit or loss when they occur.

## d) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related services are provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

## 1.23 SEGMENT REPORTING

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenue and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Executive Committee to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

The group accounts for inter-segment revenue and transfers as if the transactions were with third parties. Transactions between reportable segments are eliminated in the other segment.

## 1.24 DISCONTINUED OPERATIONS AND NON-CURRENT ASSETS HELD-FOR-SALE

## a) Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale and is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held-for-sale, if earlier. A disposal group that is to be abandoned may also qualify.

#### b) Non-current assets held-for-sale

Non-current assets and disposal groups are classified as held-for-sale if their carrying amount will be recovered through a sale transaction rather than continuing use. This classification is only met if the sale is highly probable and the assets are available for immediate sale in its present condition.

#### c) Measurement

Immediately before classification as held-for-sale, the measurement of the assets (and all assets and liabilities in a disposal group) is brought up-to-date in accordance with the applicable IFRS. Then, on initial classification as held-for-sale, the non-current assets and disposal groups are recognised at the lower of carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is first allocated to goodwill and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property and biological assets, which continue to be measured in accordance with the Group's accounting policies.

Impairment losses on initial classification as held-for-sale are included in profit or loss, even when there is a revaluation. The same applies to gains and losses on subsequent measurement. Once classified as held-for-sale, intangible assets and property, plant and equipment are no longer amortised or depreciated, and any equity-accounted investee is no longer equity accounted.

# **DISCONTINUED OPERATIONS AND NON-CURRENT ASSETS HELD-FOR-SALE (continued)**

#### d) Reclassification

The non-current assets held-for-sale will be reclassified immediately when there is a change in intention to sell. At that date, it will be measured at the lower of its carrying value before the asset was classified as held-for-sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset not been classified as held-for-sale and its recoverable amount at the date of the subsequent decision not to sell.

#### 1.25 RELATED PARTIES

The IDC operates in an economic environment together with other entities directly or indirectly owned by the South African government. Only parties within the national sphere of government will be considered to be related parties.

Key management is defined as individuals with the authority and responsibility for planning, directing and controlling the activities of the entity. All individuals from the level of Executive Management up to the Board of Directors are regarded as key management per the definition of the standard. Close family members of key management personnel are considered to be those family members who may be expected to influence, or be influenced by key management individuals in their dealings with the entity.

Other related party transactions are also disclosed in terms of the requirements of IAS 24.

#### 1.26 SHARE-BASED PAYMENTS

A Group company operates an equity-settled share-based plan and a cash-settled share-based plan.

The equity-settled share-based payments vest immediately, the reserve was recognised in equity at grant date.

The cash-settled plan was entered into with one of the Group company's employees, under which the company receives services from employees by incurring the liability to transfer cash to the employees for amounts that are based on the value of the company's shares. The fair value of the transaction is measured using an option pricing model, taking into account all terms and conditions. The fair value of the services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- Including any market performance conditions
- Excluding the impact of any service and non-market performance vesting conditions
- Including the impact of any non-vesting conditions

The services received by the company are recognised as they are received and the liability is measured at fair value. The fair value of the liability is re-measured at each reporting date and at the date of settlement. Any changes in the fair value are recognised in profit or loss for the period.

## 1.27 DETERMINATION OF FAIR VALUES

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities.

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

## a) Financial assets and liabilities

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received. If the Group determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the Instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

The Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

## b) Property, plant and equipment

The market value of land and buildings is the estimated amount that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

#### c) Investment property

Valuation methods and assumptions used in determining the fair value of investment property

## i. Capitalisation method

The value of the property reflects the present value of the sum of the future benefits which an owner may expect to derive from the property. These benefits are expressed in monetary terms and are based upon the estimated rentals for the property in an orderly transaction between market participants. The usual property outgoings are deducted to achieve a net rental, which is then capitalised at a rate an investor, would require receiving the income.

#### ii. Comparative method

The method involves the identification of comparable properties sold in the area or in a comparable location within a reasonable time. The selected comparable properties are analysed and compared with the subject property. Adjustments are then made to their values to reflect any differences that may exist. This method is based on the assumption that a purchaser will pay an amount equal to what others have paid or are willing to pay.

#### iii. Residual land valuation method

This method determines the residual value which is the result of the present value of expected inflows less all outflows (including income tax) less the developer's required profits. This is the maximum that the developer can afford to pay for the real estate. This residual value is in theory also the market value of the land.

#### d) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have a conversion option. For finance leases the market rate of interest is determined by reference to similar lease agreements.

## e) Share-based payment transactions

A Group company entered into a Business Assistance Agreement, which is considered to be an equity-settled, share-based payment transaction. The fair value of the technical and business services received in exchange for the grant of equity instruments is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the equity instruments granted, excluding the impact of any non-market vesting conditions. Non-market vesting conditions are included in assumptions about the number of equity instruments that are expected to vest.

## 1.28 USE OF ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are outlined below.

#### a) Income taxes

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

#### b) Fair value of financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to make assumptions that are mainly based on market conditions existing at each reporting date.

Listed equities are valued based on their listed value (fair value) on 31 March 2017.

Unlisted equities are valued based on various valuation methods, including free cash flow, price earnings (PE) and net asset value basis (NAV) bases.

Judgements and assumptions in the valuations and impairments include determining the:

- Free cash flows of investees
- Replacement values
- Discount or premium applied to the IDC's stake in investees
- Sector/subsector betas
- Debt weighting this is the target interest-bearing debt level
- · Realisable value of assets
- Probabilities of failure in using the NAV-model

## c) Post-employment obligations

Significant judgement and actuarial assumptions are required to determine the fair value of the post-employment obligations. More detail on these actuarial assumptions is provided in the notes to the financial statements.

## 1.28 USE OF ESTIMATES AND JUDGEMENTS (continued)

#### d) Environmental rehabilitation liability

In determining the environmental rehabilitation liability, an inflation rate of 5.78% (FY2016: 6.0%) was assumed to increase the rehabilitation liability for the next 20 years, and a rate of 8.39% (FY2016: 8.37%) to discount that amount to present value. The discount rate assumed of 8.39% is a risk-free rate, specifically the rate at which the R186 South African government bond was quoted at year-end.

## e) Fair value of share-based payments

The fair value of equity instruments on grant date is determined based on a simulated company value, using the Geometric Brownian Motion model. The valuation technique applied to determine the simulated company value is part of the Monte Carlo simulation methodology.

### f) Impairment of assets

The Group follows the guidance of IAS 36, Impairment of Assets to determine when an asset is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates the impairment indicators that could exist at year-end, such as significant decreases in the selling prices of finished goods, significant decreases in sales volumes and changes in the international export regulatory environment.

Risks specific to future cash flows and weighted average cost of capital are key indicators considered in making this judgement.

#### 1.29 TRANSFER OF FUNCTIONS

#### a) Between entities under common control

#### i. Recognition

The receiving entity recognises the assets and liabilities acquired through a transfer of functions on the effective date of the transfer. All income and expenses that relate to the functions transferred are also recognised from the effective date of the transfer. The recognition of these income and expenses are governed by the accounting policies related to those specific income and expenses and accordingly this policy does not provide further guidance thereon.

Assets and liabilities acquired, by the receiving entity, through a transfer of functions are measured at initial recognition at the carrying value at which they were transferred. The difference between the carrying value of the assets and liabilities transferred and any consideration paid for the assets and liabilities transferred is recognised in equity. The carrying value at which the assets and liabilities are initially recognised is therefore the deemed cost thereof. Therefore for the subsequent measurement of these assets and liabilities the accounting policies relevant to those assets and liabilities are followed. Accordingly, this accounting policy does not provide additional guidance on the subsequent measurement of the transferred assets and liabilities.

#### iii. Derecognition

The transferring entity derecognises the assets and liabilities on the effective date of the transfer of functions. These transferred assets and liabilities are measured at their carrying values upon derecognition. The resulting difference between the carrying value of the assets and liabilities transferred and any consideration received for the assets and liabilities transferred is recognised in equity.

## b) Between entities that are not under common control

### i. Recognition

The receiving entity recognises the assets and liabilities acquired through a transfer of functions on the effective date of the transfer. All income and expenses that relate to the functions transferred are also recognised from the effective date of the transfer. The recognition of these income and expenses are governed by the accounting policies related to those specific income and expenses and accordingly this policy does not provide further guidance thereon.

Assets and liabilities acquired, by the receiving entity, through a transfer of functions are measured at initial recognition at the fair value at which they were transferred. The difference between the fair value of the assets and liabilities transferred and any consideration paid for the assets and liabilities transferred is recognised in profit or loss. The fair value of these assets and liabilities is therefore deemed cost thereof. Therefore for the subsequent measurement of these assets and liabilities the accounting policies relevant to those assets and liabilities are followed. Accordingly, this accounting policy does not provide additional guidance on the subsequent measurement of the transferred assets and liabilities.

## iii. Derecognition

The transferring entity derecognises the assets and liabilities on the effective date of the transfer of functions. These transferred assets and liabilities are measured at their fair values upon derecognition. The resulting difference between the fair value of the assets and liabilities transferred and any consideration received for the assets and liabilities transferred is recognised in profit or loss.

#### 2. **FINANCIAL ASSETS AND LIABILITIES**

The table below sets out the Group's classification of each class of financial assets and liabilities, and their fair values

| The table below sets out the Group's cl               | assification o | f each class of     | f financial asset     | s and liabilitie       | s, and their fair                             | values.      |              |
|---|----------------|---------------------|-----------------------|------------------------|---|--------------|--------------|
| Figures in Rand million                               | Notes          | Held for<br>trading | Loans and receivables | Available-<br>for-sale | Financial<br>liabilities<br>amortised<br>cost | Total        | Fair value   |
| Group – 2017  |                |                     |                       |                        |   |              |              |
| Cash and cash equivalents                             | 5              | -                   | 7 699                 | -                      | -   | 7 699        | 7 699        |
| Loans and advances to clients                         | 8              | _                   | 26 673                | -                      | -   | 26 673       | 25 003       |
| Investments – listed equities                         | 9              | _                   | -                     | 43 048                 | -   | 43 048       | 43 048       |
| Investments – unlisted equities                       | 9              | _                   | _                     | 7 335                  | _   | 7 335        | 7 335        |
| Investments – preference shares                       | 9              | 104                 | _                     | 7 148                  | _   | 7 252        | 7 252        |
| Derivative assets                                     | 19             | 76                  | -                     | _                      | _   | 76           | 76           |
| Trade and other receivables                           | 6              | _                   | 1 916                 | _                      | -   | 1 916        | 1 916        |
| Other financial liabilities                           | 22             | -                   | _                     | _                      | 30 367  | 30 367       | 29 786       |
| Derivative liabilities                                | 19             | 27                  | _                     | _                      | 102   | 27           | 27           |
| Bank overdrafts                                       | 5              | _                   | _                     | -                      | 103   | 103          | 103          |
| Trade and other payables                              | 20             |                     |                       |                        | 3 658   | 3 658        | 3 682        |
|   |                |                     |                       |                        | Financial<br>liabilities                      |              |              |
|   |                | Held for            | Loans and             | Available-             | amortised                                     |              |              |
| Figures in Rand million                               | Notes          | trading             | receivables           | for-sale               | cost  | Total        | Fair value   |
| <b>Group – 2016</b><br>Cash and cash equivalents      | 5              | _                   | 6 865                 | _                      | _   | 6 865        | 6 865        |
| Loans and advances to clients                         | 8              | _                   | 23 928                | _                      | _   | 23 928       | 23 011       |
| Investments – listed equities                         | 9              | _                   |                       | 38 746                 | _   | 38 746       | 38 746       |
| Investments – unlisted equities                       | 9              | _                   | _                     | 7 034                  | _   | 7 034        | 7 034        |
| Investments – preference shares                       | 9              | 91                  | _                     | 7 401                  | _   | 7 492        | 7 492        |
| Derivative assets                                     | 19             | 69                  | _                     | -                      | _   | 69           | 69           |
| Trade and other receivables                           | 6              | _                   | 3 003                 | _                      | _   | 3 003        | 3 003        |
| Other financial liabilities                           | 22             | _                   | _                     | _                      | 27 984  | 27 984       | 27 023       |
| Derivative liabilities                                | 19             | 59                  | _                     | _                      | _   | 59           | 59           |
| Bank overdrafts                                       | 5              | _                   | _                     | _                      | 38  | 38           | 38           |
| Trade and other payables                              | 20             | _                   | _                     | _                      | 3 332   | 3 332        | 3 332        |
|   |                |                     |                       |                        | Financial                                     |              |              |
| Figures in Rand million                               | Notes          | Held for trading    | Loans and receivables | Available-<br>for-sale | liabilities<br>cost                           | Total        | Fair value   |
| <br>Company – 2017                                    |                |                     |                       | ,                      |   |              |              |
| Cash and cash equivalents                             | 5              | _                   | 6 660                 | _                      | _   | 6 660        | 6 660        |
| Loans and advances to clients                         | 8              | _                   | 25 802                | _                      | _   | 25 802       | 24 647       |
| Investments – listed equities                         | 9              | _                   | _                     | 22 243                 | _   | 22 243       | 22 243       |
| Investments – Unlisted equities                       | 9              | _                   | _                     | 7 315                  | _   | 7 315        | 7 315        |
| Investments – preference shares                       | 9              | 104                 | -                     | 7 148                  | -   | 7 252        | 7 252        |
| Derivative assets                                     | 19             | 70                  | -                     | -                      | -   | 70           | 70           |
| Trade and other receivables                           | 6              | _                   | 605                   | _                      | _   | 605          | 605          |
| Other financial liabilities                           | 22             | _                   | -                     | _                      | 42 553  | 42 553       | 41 990       |
| Derivative liabilities                                | 19             | 16                  | -                     | _                      | _   | 16           | 16           |
| Trade and other payables                              | 20             | _                   | _                     | -                      | 1 190   | 1 190        | 1 190        |
|   |                |                     |                       |                        | Financial                                     |              |              |
| Figures in Rand million                               | Notes          | Held for<br>trading | Loans and receivables | Available-<br>for-sale | liabilities<br>cost                           | Total        | Fair value   |
| <br>Company – 2016                                    |                |                     |                       |                        |   |              |              |
| Figures in Rand million                               |                |                     |                       |                        |   |              |              |
| Cash and cash equivalents                             | 5              | _                   | 6 183                 | _                      |   | 6 183        | 6 183        |
| Loans and advances to clients                         | 8              | _                   | 23 451                | _                      | _   | 23 451       | 22 988       |
| Investments – listed equities                         | 9              | -                   | _                     | 15 227                 | _   | 15 227       | 15 227       |
| Investments – unlisted equities                       | 9              | -                   | _                     | 6 403                  | _   | 6 403        | 6 403        |
| Investments – preference shares                       | 9              | 91                  | _                     | 7 401                  | _   | 7 492        | 7 492        |
| Derivative assets                                     | 19             | 62                  | _                     | -                      | _   | 62           | 62           |
| Trade and other receivables                           | 6              | _                   | 906                   | _                      | _   | 906          | 906          |
|   |                |                     |                       |                        |   |              |              |
| Other financial liabilities                           | 22             | _                   | -                     | _                      | 38 987  | 38 987       | 38 623       |
| Other financial liabilities<br>Derivative liabilities | 22<br>19       | -<br>44             |                       | _<br>_                 | 38 987  | 38 987<br>44 | 38 623<br>44 |

20

Trade and other payables

617

617

617

#### 3. FINANCIAL RISK MANAGEMENT

#### **FINANCIAL RISK**

This risk category encompasses losses that may occur as a result of the way the IDC is financed and its own financing or investment activities. Financial risk includes credit and settlement risk related to the potential for counterparty default, market risk related to volatility in interest rates, exchange rates, commodity and equity prices, liquidity/funding risk related to the cost of maintaining various financial positions as well as financial compliance risk. Other financial risks faced by the Corporation include the risk of concentration of investments in certain economic sectors, regions and/or counterparties as well as the risk of over-dependency in relation to income on a limited number of counterparties and/or financial products and the risk of margin erosion due to inappropriate pricing relative to the cost of funding. The management of these risk areas is therefore critical for the IDC.

#### Financial credit risk

This refers to the risk that a counterparty to a financial transaction will fail to meet its obligations in accordance with the agreed terms and conditions of the contract, either because of bankruptcy or for any other reason, thereby causing the asset holder to suffer a financial loss. Credit risk, as defined by the IDC, comprises the potential loss on loans, advances, guarantees, guasi-equity and equity investments due to counterparty default.

Credit risk arises as a result of the Corporation's lending activities as well as the placement of deposits with financial institutions.

## Approach to managing credit risk

The IDC endeavours to maintain credit risk exposure within acceptable parameters, managing the credit risk inherent in the entire portfolio as well as the risk associated with individual clients or transactions. The effective management of credit risk is a critical component of a comprehensive approach to risk management and is essential to the long-term success of the Corporation. This is the dominant risk within the IDC as the providing of loans, advances, quasi-equity, equity investments and guarantees represent the Corporation's core business.

#### Managing credit risk concentration

Risk concentrations can arise in a financial organisation's assets, liabilities or off-balance sheet items, through the execution or processing of transactions (either product or service), or through a combination of exposures across these broad categories.

The potential for loss reflects the size of the position and the extent of loss given a particular adverse circumstance. The IDC can be exposed to various forms of credit risk concentration which, if not properly managed, may cause significant losses that could threaten its financial health. Accordingly the IDC considers the management (including measurement and control) of its credit concentrations to be of vital importance. There is recognition in Basel II that portfolios of financial institutions can exhibit credit concentrations and that prudently managing such concentrations is one of the important aspects in effective credit risk management. However, despite the recognition of credit concentrations as important sources of risk for portfolios, there is no generally accepted approach or methodology for dealing with the issue (including measurement) of concentration particularly with respect to sector or industry concentration.

Concentrations within a lending and/or investment portfolio can be viewed in a variety of ways: by borrower, product type, collateral type, geography, economic sector and any other variable that may be associated with a group of credits. Investment or credit concentrations are considered to be a large group of exposures that respond similarly to the same stresses. These stresses can be:

- · Sensitivity to a certain industry or economic factors;
- · Sensitivity to geographical factors, either a single country or region of interlinked ones;
- · Sensitivity to the performance of a single company or counterparty; and/or
- Sensitivity to a particular risk mitigation technique, e.g. a particular collateral type.

The IDC has various established methodologies for the management of the credit concentrations it is exposed to and has established risk concentration limits and policies for:

- Value of transactions with a single counterparty within a 12-month period;
- Individual and groups of counterparties and/or related parties
- Geographical locations; and
- · Economic sectors.

The concentration limits are reviewed on an annual basis or sooner should the need arise. The status of the IDC investment book is reported to IDC Executive Management, the Board Risk and Sustainability Committee and the IDC Board on a regular basis.

## Counterparty and related party limits

The need for counterparty and related party limits are to identify and protect the IDC's Statement of Financial Position and Statement of Comprehensive Income from significant losses/volatility which threaten financial sustainability, should a counterparty default or experience material loss in value. A counterparty is defined as IDC's client whereas a related party is any legal entity to whom the IDC has a credit exposure, which has one or more of the following similarities with another client to which IDC has or had a credit exposure to

- · Shareholding of more than 50%,;
- · Management control;
- Revenue or expenses reliance of 51% or more, and/or;
- · Provision of security for 51% or more of IDC's exposure.

The Basel principles for the management of credit risk indicate in particular, that an important element of credit risk management is the establishment of exposure limits on single counterparties and groups of connected counterparties. In determining the recommended counterparty limit for the IDC, its strategic objectives are taken into account.

## Africa portfolio limit, regional limits, country thresholds and outside Africa portfolio limit

Country risk refers to risk(s) associated with investing or lending in a country, arising from possible changes in the business environment that may adversely affect operating profits or the value of assets in the host country. These risks include political risk, exchange rate risk, economic risk, sovereign risk and transfer risk; and investment's returns could suffer as a result of political changes or instability in a country.

The focus of the IDC's activities in the African continent is determined by its mandate and managed through our investment criteria and regional investment limits, including country thresholds. Country thresholds enable effective risk management of country concentration risk. The IDC's objectives are to contribute to the economic integration and industrial development in SADC and the Rest of Africa. The IDC views Africa in terms of South Africa, the southern African region and the rest of Africa. This distinction is evident from the importance that the South African Government places on Southern Africa relative to the rest of the continent. As such the Corporation's activities are weighted in favour of southern Africa in terms of budget allocation and resultant exposure. In order for IDC to achieve its mandate in the southern African region and rest of Africa, the Corporation focuses on being a catalyst for sustainable economic change.

Given the importance of the IDC's mandate and its objectives, in conjunction with the consistent improvement of the African economic landscape, both in performance and risk profile, Portfolio and Regional Limits and Country Thresholds are reviewed at least on an annual basis in order to support and enhance the developmental objectives of the IDC's strategy as well as its vision and mission statement.

The IDC continues to diversify its regional funding profile from being historically concentrated in the developed regions to other less developed provinces.

Should approval of a transaction result in breach of this limit explicit approval is required from the Board Investment Committee.

#### **GEOGRAPHICAL ANALYSIS**

|  |                               | Gro                           | up                            |                                 |                          | Com                           | pany                          |                                 |
|--|-------------------------------|-------------------------------|-------------------------------|---------------------------------|--------------------------|-------------------------------|-------------------------------|---------------------------------|
|  | Loans and advances to clients |                               |                               | Investment securities           |                          | advances<br>ients             | Investment securities         |                                 |
| Figures in Rand million  | 2017                          | 2016                          | 2017                          | 2016                            | 2017                     | 2016                          | 2017                          | 2016                            |
| Carrying amount as per note 8 and 9  | 26 673                        | 23 928                        | 57 635                        | 53 272                          | 25 802                   | 23 451                        | 36 810                        | 29 122                          |
| Concentration by location:<br>South Africa<br>SADC<br>Rest of Africa<br>Outside Africa | 20 312<br>2 562<br>3 799      | 16 410<br>3 319<br>4 199<br>- | 54 765<br>945<br>231<br>1 694 | 50 634<br>1 081<br>117<br>1 440 | 19 441<br>2 562<br>3 799 | 15 933<br>3 319<br>4 199<br>– | 33 940<br>945<br>231<br>1 694 | 26 484<br>1 081<br>117<br>1 440 |
|  | 26 673                        | 23 928                        | 57 635                        | 53 272                          | 25 802                   | 23 451                        | 36 810                        | 29 122                          |

Carrying value of available-for-sale investments, excluding investments in subsidiaries, associates and joint ventures.

#### **ECONOMIC SECTOR LIMITS**

Managing sector concentration remains one of the key strategic priorities of the Corporation. Concentration risk in the context of sectors generally results from an uneven distribution of an institution's exposure to industry sectors which can generate losses large enough to jeopardise its solvency or profitability. In particular, sector concentration arises because business conditions and hence default risk may be linked across and within industry sectors within the economy. Concentrations of credit exposures in sectors can pose risks to the earnings and capital of any financial institution in the form of unexpected losses. One of the risk management techniques of managing sector risk concentration entails the establishment of concentration limits, the monitoring and analysis thereof. The monitoring and limiting of the concentration of exposures in certain sectors is necessary to reduce the risk of an exposure to a significant downturn in a particular industry in time, and thus to be able to avoid losses, as far as possible, by implementing counter measures (e.g. withdrawing from, reducing or hedging certain exposures). Experience has shown that the earlier risks are identified, the more effectively it can be countered.

Although the IDC's business cuts across a number of sectors, it could be exposed to concentration risk by virtue of disproportionately large exposures in any of these sectors. Managing and monitoring such concentrations to limit downside potential is therefore an integral part of an effective risk management programme. To avoid undue losses due to associated exposures, the IDC strives to identify potential common risk factors and minimise its aggregate exposure to these risk factors. By spreading its risk over many sectors instead of a few, the IDC can minimise the collective impact of economic events or trends on its earnings and capital. Sector diversification should, by reducing dependence on specific sectors, assist in obtaining assets whose performance is not affected by the same external factors.

The goal of sector limits is for the IDC to attempt to diversify or at least identify its portfolio concentrations based on exposures to sectors and to identify concentrations of exposures that could become closely related, especially during a crisis; this provides an important mechanism to protect the long-term financial sustainability of the IDC. The key challenge to establish a Sector limit methodology is to ensure that it is effective in protecting the institution from credit events and is practical in its enforcement without restricting investment activities. The establishment of Sector limits is aligned with the overall strategy of the IDC (including its risk appetite).

During the year under review, the IDC revised the methodology for the management and measuring of Credit concentration risk. The revised methodology will become effective on 1 April 2017.

#### 3. **FINANCIAL RISK MANAGEMENT (continued)**

**SECTORAL ANALYSIS** 

|  | I           | Gro        | up              |             |                     | Comp       | Company          |             |  |  |  |  |
|--|-------------|------------|-----------------|-------------|---------------------|------------|------------------|-------------|--|--|--|--|
|  | Loans and a |            | Invest<br>secur |             | Loans and<br>to cli |            | Investi<br>secur |             |  |  |  |  |
| Figures in Rand million  | 2017        | 2016       | 2017            | 2016        | 2017                | 2016       | 2017             | 2016        |  |  |  |  |
| *Carrying amount as per note 8 and 9                                   | 26 673      | 23 928     | 57 635          | 53 272      | 25 802              | 23 451     | 36 810           | 29 122      |  |  |  |  |
| Concentration by sector, as per<br>Standard Industrial Classifications |             |            |                 |             |                     |            |                  |             |  |  |  |  |
| (SIC):   |             |            |                 |             |                     |            |                  |             |  |  |  |  |
| Agriculture, forestry and fishing                                      | 1 150       | 1 053      | 59              | 108         | 1 089               | 1 036      | 59               | 108         |  |  |  |  |
| Basic chemicals  | 815         | 813        | 38              | 498         | 815                 | 800        | 38               | 498         |  |  |  |  |
| Basic iron and steel   | 759         | 509        | 2 545           | 2 167       | 759                 | 500        | 2 545            | 2 167       |  |  |  |  |
| Basic non-ferrous metals   | 37          | 1          | 6 923           | 5 612       | 37                  | 1          | 6 930            | 5 612       |  |  |  |  |
| Beverages  | 7           | 10         | -               | _           | 7                   | 10         | _                | _           |  |  |  |  |
| Building construction  | 366         | 254        | 236             | 179         | 323                 | 250        | 236              | 179         |  |  |  |  |
| Business services  | 39          | 47         | 113             | 155         | 19                  | 46         | 113              | 155         |  |  |  |  |
| Catering and accommodation   |             |            |                 |             |                     |            |                  |             |  |  |  |  |
| services   | 3 035       | 3 149      | 265             | 41          | 3 034               | 3 098      | 265              | 41          |  |  |  |  |
| Coal mining  | 644         | 659        | 3 535           | 2 117       | 644                 | 648        | 3 535            | 2 117       |  |  |  |  |
| Coke and refined petroleum products                                    | 32          | 28         | 93              | 95          | 32                  | 28         | 93               | 95          |  |  |  |  |
| Communication  | 396         | 1 584      | 4               | 2           | 394                 | 1 559      | 4                | 2           |  |  |  |  |
| Electrical machinery   | 388         | 48         | 219             | 226         | 376                 | 47         | 219              | 226         |  |  |  |  |
| Electricity, gas and steam   | 5 248       | 3 959      | 3 050           | 3 029       | 5 244               | 3 895      | 3 050            | 3 029       |  |  |  |  |
| Finance and insurance  | 738         | 571        | 58              | 36          | 403                 | 562        | 32               | 36          |  |  |  |  |
| Food   | 1388        | 1 626      | 41              | 96          | 1 387               | 1 600      | 41               | 96          |  |  |  |  |
| Footwear   | 72          | 85         | -               | _           | 72                  | 84         | _                | _           |  |  |  |  |
| Furniture  | 223         | 298        | _               | _           | 223                 | 293        | _                | -           |  |  |  |  |
| Glass and glass products   | 64          | 87         | 720             | 1 202       | 64                  | 85         | 720              | 1 202       |  |  |  |  |
| Gold and uranium ore mining  | 161         | 317        | 730             | 1 202       | 161                 | 312        | 730              | 1 202       |  |  |  |  |
| Government   | 1           | 15         | _               | _           | 1                   | 15         | _                | _           |  |  |  |  |
| Leather and leather products   | 5           | 15         | _               | _           | 5                   | 15         | _                | _           |  |  |  |  |
| Machinery and equipment  | 206         | 474        | -               | _           | 206                 | 466        | _                | _           |  |  |  |  |
| Medical, dental and other health and                                   | 410         | 200        | 1 616           | 1 071       | 410                 | 274        | 1 616            | 1 071       |  |  |  |  |
| veterinary services Metal products excluding machinery                 | 410<br>823  | 380<br>679 | 73              | 1 971<br>13 | 410<br>823          | 374<br>668 | 1 616<br>73      | 1 971<br>13 |  |  |  |  |
| Motor vehicles, parts and accessories                                  | 823<br>819  | 869        | 73<br>391       | 124         | 813                 | 855        | 73<br>391        | 124         |  |  |  |  |
| Non-metallic minerals  | 419         |            | 494             |             |                     |            | 494              |             |  |  |  |  |
|  | 419         | 513        | 494             | 426         | 408                 | 505        | 494              | 426         |  |  |  |  |
| Other community, social and personal services                          | 500         | 298        | 1772            | 1 865       | 498                 | 294        | 1 772            | 1 865       |  |  |  |  |
| Other chemicals and man-made   | 300         | 290        | 1772            | 1 003       | 430                 | 294        | 1772             | 1 003       |  |  |  |  |
| fibres   | 909         | 626        | 20 971          | 24 296      | 907                 | 616        | 165              | 146         |  |  |  |  |
| Other industries   | 47          | 30         | 50              | 27 270      | 18                  | 30         | 50               | 140         |  |  |  |  |
| Other mining   | 4 209       | 2 364      | 12 495          | 7 340       | 4 047               | 2 208      | 12 495           | 7 340       |  |  |  |  |
| Other services   | -           | _          | 239             | 445         | -                   | _          | 239              | 445         |  |  |  |  |
| Other transport equipment  | 499         | 267        | 1 439           | 1 028       | 456                 | 263        | 1 439            | 1 028       |  |  |  |  |
| Paper and paper products   | 442         | 154        | 21              | 20          | 442                 | 152        | 21               | 20          |  |  |  |  |
| Plastic products   | 147         | 182        | _               | _           | 147                 | 179        | _                | _           |  |  |  |  |
| Printing, publishing and recorded                                      |             |            |                 |             |                     |            |                  |             |  |  |  |  |
| media  | 1           | 19         | _               | _           | 1                   | 18         | _                | _           |  |  |  |  |
| Professional and scientific equipment                                  | 64          | 67         | 17              | 35          | 63                  | 66         | 17               | 35          |  |  |  |  |
| Rubber products  | _           | 1          | _               | _           | _                   | 1          | _                | _           |  |  |  |  |
| Television, radio and communication                                    |             |            |                 |             |                     |            |                  |             |  |  |  |  |
| equipment  | 9           | 3          | 5               | 6           | 9                   | 3          | 5                | 6           |  |  |  |  |
| Textiles   | 250         | 287        | _               | 1           | 251                 | 282        | _                | 1           |  |  |  |  |
| Transport and storage  | 584         | 534        | _               | 47          | 550                 | 525        | _                | 47          |  |  |  |  |
| Water supply   | 292         | 390        | _               | _           | 292                 | 384        | _                | _           |  |  |  |  |
| Wearing apparel  | 220         | 260        | _               | _           | 218                 | 256        | _                | -           |  |  |  |  |
|  | 89          | 21         | _               | _           | 15                  | 21         | _                | _           |  |  |  |  |
| Wholesale and retail trade   |             |            |                 |             |                     |            |                  |             |  |  |  |  |
| Wood and wood products   | 166         | 397        | 143             | 92          | 139                 | 416        | 143              | 92          |  |  |  |  |

 $<sup>*</sup>Carrying\ value\ of\ available-for-sale\ investments, excluding\ investments\ in\ subsidiaries,\ associates\ and\ joint\ ventures.$ 

#### **INTERNAL RATING MODEL AND PRICING**

The changing banking regulatory requirements and increased focus by international and local DFIs to incorporate Basel II best practice risk management makes it increasingly important for IDC to regularly measure credit risk and ensure that risk costs are transparent and appropriately accounted for. IDC therefore updated and redesigned its Project Finance and SME/Middle market rating and pricing methodologies and models with the assistance of consultants. These models were fully implemented during the 2017 financial year.

The rating and pricing methodology follows a two-step approach namely; rating which is incorporated into the pricing solution for debt, equity, guarantee and mezzanine finance transactions

The models offer amongst others, the following key value added features:

- Calculation of an Expected Loss (EL), where EL = (PD\*EAD\*LGD), which is included as a risk margin in the price of a facility based on the client's riskiness
- · Customised qualitative factors based on consultation with industry specialists in the business units to reflect specific IDC industry focus when rating a client.
- Quantification of the development score impact into a ZAR amount;

The key objectives of internal rating methodologies and related rating models are:

- To assess the overall credit or investment risk on a quantitative and objective basis;
- To objectively determine the credit quality of individual clients as well as the portfolio;
- To aid in portfolio analysis;
- To allow migration analysis of individual clients as well as the portfolio; and
- To assist in identifying which clients are due for review.

## Maximum credit risk exposure

|   |                                | Gro                            | up                     |                       | Company                        |                               |                        |                       |  |
|---|--------------------------------|--------------------------------|------------------------|-----------------------|--------------------------------|-------------------------------|------------------------|-----------------------|--|
|   | Loans and<br>to cli            |                                | Invest<br>secur        |                       | Loans and<br>to cli            |                               | Invest<br>secur        |                       |  |
| Figures in Rand million   | 2017                           | 2016                           | 2017                   | 2016                  | 2017                           | 2016                          | 2017                   | 2016                  |  |
| Carrying amount as per note 8 and 9   | 26 673                         | 23 928                         | 57 635                 | 53 272                | 25 802                         | 23 451                        | 36 810                 | 29 122                |  |
| Individually impaired<br>Low risk<br>Medium risk<br>High risk   | 719<br>5 090<br>2 572          | 250<br>2 987<br>3 050          | 1 817<br>1 048<br>604  | 1 800<br>521<br>987   | 591<br>4 836<br>2 055          | 223<br>2 843<br>2 767         | 1 817<br>1 018<br>599  | 1 800<br>520<br>992   |  |
| Gross amount<br>Allowance for impairment  | 8 381<br>(3 037)               | 6 287<br>(5 058)               | 3 469<br>(2 428)       | 3 308<br>(2 049)      | 7 482<br>(2 434)               | 5 833<br>(4 490)              | 3 434<br>(2 428)       | 3 312<br>(2 049)      |  |
| Carrying amount   | 5 344                          | 1 229                          | 1 041                  | 1 259                 | 5 048                          | 1 343                         | 1 006                  | 1 263                 |  |
| Past due but not impaired<br>Low risk<br>Medium risk<br>High risk                                     | 122<br>1 754<br>409            | 299<br>1 588<br>123            | -<br>-<br>-            | -<br>-<br>-           | 90<br>1747<br>409              | 67<br>1 456<br>199            | -<br>-<br>-            | -<br>-<br>-           |  |
| Carrying amount   | 2 285                          | 2 010                          | _                      | _                     | 2 246                          | 1 722                         | -                      | _                     |  |
| Past due comprises of:<br>00 – 30 days<br>31 – 60 days<br>61 – 90 days<br>91 – 120 days<br>120 days + | 35<br>63<br>24<br>109<br>2 054 | 250<br>59<br>59<br>33<br>1 609 | -<br>-<br>-<br>-       | -<br>-<br>-<br>-      | 35<br>63<br>24<br>109<br>2 015 | 78<br>56<br>66<br>13<br>1 509 | -<br>-<br>-<br>-       | -<br>-<br>-<br>-      |  |
| Carrying amount   | 2 285                          | 2 010                          | -                      | _                     | 2 246                          | 1 722                         | -                      | _                     |  |
| <b>Neither past due nor impaired</b><br>Low risk<br>Medium risk<br>High risk                          | 6 168<br>10 587<br>3 253       | 5 125<br>14 873<br>1 249       | 38 687<br>17 858<br>49 | 39 876<br>12 137<br>– | 5 653<br>10 579<br>3 230       | 4 950<br>14 735<br>1 249      | 17 897<br>17 858<br>49 | 11 891<br>15 968<br>– |  |
| Carrying amount<br>Portfolio impairment   | 20 008<br>(964)                | 21 247<br>(558)                | 56 594<br>-            | 52 013<br>-           | 19 462<br>(954)                | 20 934<br>(548)               | 35 804<br>-            | 27 859<br>–           |  |
| Total carrying amount   | 26 673                         | 23 928                         | 57 635                 | 53 272                | 25 802                         | 23 451                        | 36 810                 | 29 122                |  |
| Carrying value of renegotiated loans  | 3 465                          | 4 598                          |                        |                       | 4 132                          | 4 680                         |                        |                       |  |

The IDC loan book is reviewed on a regular basis, by IMC Loans, which monitors and manages the quality and arrears on a proactive basis. Clients are classified according to their risk profiles based on the most recent available financial information and repayment profile. A low risk client is a client that is not in arrears and for which no impairment triggers have been identified. A medium risk client is one which is in arrears by more than 60 days and/or for which impairment triggers have been identified. A high risk client is one who is in arrears and/or for whom impairment triggers have been identified and who fails to respond to initial legal action (e.g. letter of demand). High risk clients include those for which legal action is in progress or where the client has ceased manufacturing or has been placed in liquidation.

#### 3. FINANCIAL RISK MANAGEMENT (continued)

#### **IMPAIRED LOANS AND INVESTMENTS**

Impaired loans and investments are loans and investments for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan/investment agreements.

#### **PAST DUE BUT NOT IMPAIRED LOANS**

These are loans and securities where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of level of security/collateral available and/or the stage of collection of amounts owed to the Group.

#### **ALLOWANCES FOR IMPAIRMENT**

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance on the entire portfolio.

#### **RENEGOTIATED LOANS**

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

#### **COLLATERAL**

The Group holds collateral against loans and advances to clients in the form of mortgage bonds over property, other registered securities over assets and quarantees. Estimates of fair values are based on the value of collateral assessed at the time of borrowing and are generally not updated except when a loan is individually assessed as impaired.

An estimate of the fair value of collateral held against financial assets is shown below:

| Figures in Rand million   | 2017  | 2016  | 2017  | 2016  |
|---|-------|-------|-------|-------|
| IDC financing activities* (R'm) Against impaired assets                   |       |       |       |       |
| General notarial bond   | 14    | 12    | 14    | 12    |
| Special notarial bonds  | 280   | 251   | 280   | 251   |
| Mortgage bond   | 890   | 560   | 890   | 560   |
| Other   | 93    | 30    | 93    | 30    |
|   | 1 277 | 853   | 1 277 | 853   |
| Gross value of impaired loans   | 8 381 | 6 287 | 7 482 | 5 833 |
| IDC financing activities* (R'm) Against loans in arrears and not impaired |       |       |       |       |
| General notarial bond   | 1 045 | 702   | 1 045 | 702   |
| Mortgage bond   | 240   | 199   | 240   | 199   |
| Special notarial bond   | 300   | 190   | 300   | 190   |
| Other   | 3     | 5     | 3     | 5     |
|   | 1 588 | 1 096 | 1 588 | 1 096 |
| Gross value of loans in arrears not impaired                              | 2 285 | 2 010 | 2 246 | 1 722 |

The carrying amount of financial assets represents the maximum credit exposure.

#### **LIQUIDITY RISK**

Liquidity risk refers to the risk that the Group will not be able to meet its obligations promptly for all maturing liabilities, increase in financing assets, including commitments and any other financial obligations (funding liquidity risk), or will only able to do so at materially disadvantageous terms (market liquidity risk)

Sources of liquidity risk include:

- · Unpredicted accelerated drawdowns on approved financing or call-ups of guarantee obligations;
- Inability to roll and/or access new funding;
- Unforeseen inability to collect what is contractually due to the Group;
- Liquidity stress at subsidiaries and/or other SOEs;
- · A recall without due notice of on-balance sheet funds managed by the Group on behalf of third parties;
- A breach of covenant(s), resulting in the forced maturity of borrowing(s); and
- Inability to liquidate assets in a timely manner with minimal risk of capital losses.

Day-to-day liquidity management is performed by Corporate Treasury within Board-approved treasury limits, such that:

- · At all times, there is sufficient readily-available liquidity to meet probable operational cash flow requirements for a rolling threemonth period; and
- Excess liquidity is minimised in order to limit the consequential drag on profitability.

Liquidity coverage ratios are used to ensure that suitable levels of unencumbered high-quality liquid assets are held to protect against unexpected yet plausible liquidity stress events. Two separate liquidity stresses are considered: firstly an acute three-month liquidity stress (Scenario 1) impacting strongly on both funding and market liquidity and secondly, a protracted 12-month liquidity stress (Scenario 2) impacting moderately on both funding and market liquidity. Approved high-quality liquid assets include cash, near-cash, committed facilities, as well as a portion of the Group's listed equity investments.

| Consolidated local and foreign currency liquidity coverage                                   | Scenario 1                     | Scenario 2                     |
|--|--------------------------------|--------------------------------|
| 2017 Approved high-quality liquid assets Net stressed outflows Liquidity coverage ratios (%) | 13 344.0<br>(5 628.7)<br>237.1 | 13 344.0<br>(9 421.0)<br>141.6 |
| 2016 Approved high-quality liquid assets Net stressed outflows Liquidity coverage ratios (%) | 12 474.6<br>(5 488.2)<br>227.3 | 12 474.6<br>(5 938.0)<br>529.0 |

Structural liquidity mismatch ratios are used to ensure adequate medium- to long-term liquidity mismatch capacity. This is done by restricting, within reasonable levels, potential future borrowing requirements related to existing business. The structural liquidity mismatch is based on conservative cash flow profiling with the added assumption that liquidity in the form of high-quality liquid assets are treated as readily-available (i.e. recognised in the first time bucket).

| Consolidated local and foreign currency structural liquidity mismatch (SLM) | 0 – 18<br>months | 0 – 24<br>months | 0 – 36<br>months |
|---|------------------|------------------|------------------|
| 2017  |                  |                  |                  |
| Cumulative liquidity positive variance                                      | 8 199.8          | 6 130.6          | 8 458.5          |
| Funding related liabilities   | 19 496.8         | 16 432.6         | 15 278.1         |
| SLM (%)   | 42.1             | 37.3             | 55.4             |
| 2016  |                  |                  |                  |
| Cumulative liquidity positive variance                                      | 6 150.8          | 3 357.9          | 6 248.8          |
| Funding related liabilities   | 18 898.7         | 17 451.6         | 14 452.7         |
| SLM (%)   | 32.5             | 19.2             | 42.2             |

#### **MARKET RISK**

Market risk is the risk that the value of a financial position or portfolio will decline due to adverse movements in market rates. In respect of market risk, the Group is exposed to interest rate risk, exchange rate risk and equity price risk. Market risk is governed by the Asset and Liability Management policy and the Asset and Liability Committee (ALCO) provides the objective oversight and makes delegated decisions related to market risk exposures.

## **INTEREST RATE RISK**

Interest rate risk is the risk that adverse movements in market interest rates may cause a reduction in the IDC's future net interest income and/or economic value of its shareholder's equity.

Sources of interest rate risk include:

- · Repricing risk, as a result of interest-bearing assets and liabilities which reprice within different periods. This also includes the endowment effect caused by an overall quantum difference between interest-bearing assets and liabilities;
- · Basis risk, as a result of the imperfect correlation between interest rate changes on interest-bearing assets and liabilities which reprice within the same period (spread volatility);
- Yield curve risk, as a result of unanticipated yield curve shifts (twists and pivots); and
- · Optionality, as a result of embedded options in the Group's assets and liabilities. This risk is mitigated by imposing contract breakage penalties on prepayments and early settlements.

The sensitivity to interest rate shocks and/or changes in interest-bearing balances is measured by means of earnings and economic value approaches. The former focuses on quantifying the impact on net interest income over the next 12 months whereas the latter is used to gauge the impact on the fair market values of assets, liabilities and equity.

## **INTEREST RATE SENSITIVITY MISMATCH - FINANCE ACTIVITIES**

RSA and RSL (rate sensitive assets and rate sensitive liabilities)

| Interest rate sensitivity mismatch   | 0 – 3 months | 4 – 6 months | 7 – 12 months |
|--------------------------------------|--------------|--------------|---------------|
| March 2017                           |              |              |               |
| Cumulative interest rate sensitivity |              |              |               |
| SA Rand                              | 6 683.9      | 6 205.3      | 5 778.4       |
| US Dollar                            | (21.1)       | (260.9)      | (261.7)       |
| Euro                                 | (38.6)       | (5.7)        | (8.4)         |
| March 2016                           |              |              |               |
| Cumulative interest rate sensitivity |              |              |               |
| SA Rand                              | 2 735.4      | 2 902.1      | 3 510.6       |
| US Dollar                            | 113.7        | (63.6)       | (56.6)        |
| Euro                                 | (40.1)       | (42.2)       | (42.4)        |

Furthermore, interest rate risk management is monitored through the sensitivity analysis done to the financial assets and liabilities.

A 100 basis points (bps) increase/(decrease) in market interest rates resulted in the following sensitivities:

#### 3. FINANCIAL RISK MANAGEMENT (continued)

## **NEXT 12 MONTHS NET INTEREST INCOME SENSITIVITY**

Effect of a 100 basis point increase/(decrease) in market rates:

| R million  | Rand           | US Dollar    | Euro         |
|--|----------------|--------------|--------------|
| 2017<br>+ 100 bps rate shock<br>- 100 bps rate shock | 65.5<br>(65.5) | (1.8)<br>1.8 | (0.1)<br>0.1 |
| 2016<br>+ 100 bps rate shock<br>- 100 bps rate shock | 57.5<br>(57.5) | (0.1)<br>0.1 | (0.3)<br>0.3 |

#### **EXCHANGE RATE RISK**

Exchange risk is the risk that adverse changes in exchange rates may cause a reduction in the Group's future earnings and/or its shareholder's equity.

In the normal business, the Group is exposed to exchange rate risk, through its trade finance book and exposure to investments in and outside Africa. The risk is further divided into:

- · Transaction risk arising from transactions undertaken by the Group in a foreign currency that will ultimately require an actual conversion in the foreign exchange markets from one currency to another, thus having a direct cash effect;
- Translation risk arising from the periodic translation consolidation of the financial statements of the Group and its subsidiaries and affiliates for the purpose of uniform reporting to shareholders; and
- · Any open (unhedged) position in a particular currency giving rise to exchange rate risk. Open positions can be either short (i.e. the Group will need to buy foreign currency to close the position) or long (i.e. the Group will need to sell foreign currency to close the position) with the net open foreign currency position referring to the sum of all open positions (spot and forward) in a particular currency.

For purposes of hedging, net open foreign currency positions are segmented into the following components:

- · All exposures related to foreign currency denominated lending and borrowing; and
- · All foreign currency denominated payables in the form of operating and capital expenditure, as well as foreign currency denominated receivables in the form of dividends and fees.

| Net open foreign currency positions    | US Dollar | Euro    |
|--|-----------|---------|
| 2017                                   |           |         |
| Foreign currency lending and borrowing | 1.8       | (1.3)   |
| – Loans (assets)                       | 439.7     | 42.6    |
| – Derivative hedges (FECs)             | 123.6     | 89.5    |
| – Borrowings (liabilities)             | (561.5)   | (133.4) |
| Other net (payables)/receivables       | 3.2       | 5.5     |
| Net open foreign currency positions    | 5.0       | 4.2     |
| 2016                                   |           |         |
| Foreign currency lending and borrowing | 0.3       | (1.4)   |
| – Loans (assets)                       | 478.5     | 30.7    |
| - Derivative hedges (FECs)             | 45.5      | 114.6   |
| – Borrowings (liabilities)             | (523.7)   | (146.7) |
| Other net (payables)/receivables       | 0.9       | 2.3     |
| Net open foreign currency positions    | 1.2       | 0.9     |

The Group does not hedge its exchange rate risk on foreign currency denominated shareholder loans, equity and quasi-equity investments.

## **EQUITY PRICE RISK**

Equity price risk is the risk that adverse movements in equity prices may cause a reduction in the value of the Group's investments in listed and/or unlisted equity investments, and therefore also its future earnings and/or value of its shareholder's equity.

Sources of equity price risk include:

- · Systematic risk or volatility in relation to the market as a whole; and
- Unsystematic risk or company-specific risk factors.

The investment portfolio's beta is used as an indication of systematic risk which is not diversifiable. In light of the long-term nature of the Group's investments, unsystematic risk is managed by means of diversification.

Sensitivity analyses were performed on the Group's equity portfolio, to determine the possible effect on the fair value should a range of variables change, e.g. cash flows, earnings, net asset values etc. These assumptions were built into the applicable valuation models.

In calculating the sensitivities for investments the key input variables were changed in a range from -10% to +10%. The effect of each change on the value of the investment was then recorded. The key variables that were changed for each valuation technique were as follows:

- Discounted cash flow: Net income before interest and tax
- Price earnings: Net income
- · Listed companies: Share price
- Forced sale net asset value: Net asset value.

From the table below it is evident that a 10% increase in the relevant variables will have a R9 521 million increase in the equity values as at 31 March 2017 (2016: R7 889 million) and a 10% decrease will lead to an R8 993 million decrease in the equity values (2016: R7 148 million).

| Period        | 10% increase | 10%<br>decrease |
|---------------|--------------|-----------------|
| 31 March 2017 | R9 521m      | R8 993m         |
| 31 March 2016 | R7 889m      | R7 148m         |

### **CAPITAL MANAGEMENT**

The IDC is accountable to its sole shareholder, the Economic Development Department. The performance as well as management of IDC capital is supported by the agreement between the Corporation and the shareholder in the form of the Shareholder's Compact which outlines the agreements between the two parties.

#### **REGULATORY CAPITAL**

IDC is not required by law to keep any level of capital but has to utilise its capital to achieve the shareholder's mandate. The IDC Act of 1940, as amended, dictates that IDC can be geared up to 100% of its capital.

#### **RISK APPETITE**

The Board-approved risk appetite limit serves as a monitoring tool to ensure that the impact of investment activities in the Corporation do not have a negative impact on the Corporation's financial position.

There were no changes to the Group's approach to capital management during the year.

#### 4. **FAIR VALUE INFORMATION**

The table below analyses assets carried at fair value:

| R'm                    | Level 1 | Level 2 | Level 3 | Total  |
|------------------------|---------|---------|---------|--------|
| Group – 2017           |         |         |         |        |
| Derivative assets      | _       | 76      | _       | 76     |
| Biological assets      | _       | -       | 51      | 51     |
| Investment property    | -       | 366     | _       | 366    |
| Land and buildings     | _       | -       | 3 488   | 3 488  |
| Listed shares          | 43 048  | -       | _       | 43 048 |
| Unlisted shares        | -       | -       | 7 335   | 7 335  |
| Preference shares      | _       | 104     | 7 148   | 7 252  |
| Assets held-for-sale   | _       | 1 676   | -       | 1 676  |
|                        | 43 048  | 2 222   | 18 022  | 63 292 |
| Derivative liabilities | _       | 27      | _       | 27     |
| Group – 2016           |         |         |         |        |
| Derivative assets      | _       | 69      | _       | 69     |
| Biological assets      | _       | _       | 215     | 215    |
| Investment property    | _       | 362     | _       | 362    |
| Land and buildings     | -       | _       | 3 141   | 3 141  |
| Aircraft               | -       | 126     | _       | 126    |
| Listed shares          | 38 746  | _       | _       | 38 746 |
| Unlisted equities      | -       | _       | 7 034   | 7 034  |
| Preference shares      | _       | 91      | 7 401   | 7 492  |
| Assets held-for-sale   | _       | 118     | _       | 118    |
|                        | 38 746  | 766     | 17 791  | 57 303 |
| Derivative liabilities | _       | 59      | _       | 59     |

#### **FAIR VALUE INFORMATION (continued)** 4.

| R'm                         | Level 1 | Level 2 | Level 3 | Total   |
|-----------------------------|---------|---------|---------|---------|
| Company – 2017              |         |         |         |         |
| Derivative assets           | _       | 70      | _       | 70      |
| Investment property         | _       | 15      | _       | 15      |
| Listed shares               | 22 243  | _       | _       | 22 243  |
| Unlisted shares             | _       | _       | 7 315   | 7 315   |
| Preference shares           | _       | 104     | 7 148   | 7 252   |
| Investments in subsidiaries | 32 844  | _       | 11 339  | 44 183  |
| Investments in associates   | 1 791   | _       | 17 391  | 19 182  |
|                             | 56 878  | 189     | 43 193  | 100 260 |
| Derivative liabilities      | _       | 16      | _       | 16      |
| Company – 2016              |         |         |         |         |
| Derivative assets           | _       | 62      | _       | 62      |
| Investment property         | _       | 15      | _       | 15      |
| Aircraft                    | _       | 123     | _       | 123     |
| Listed shares               | 15 227  | _       | _       | 15 227  |
| Unlisted shares             | _       | _       | 6 403   | 6 403   |
| Preference shares           | _       | 91      | 7 401   | 7 492   |
| Investments in subsidiaries | 34 514  | _       | 12 373  | 46 887  |
| Investments in associates   | 1 211   | _       | 14 210  | 15 421  |
|                             | 50 952  | 291     | 40 387  | 91 630  |
| Derivative liabilities      | _       | 44      | _       | 44      |

Reconciliation of assets measured at level 3

| R'm                | Note(s) | Opening<br>balance | Gains/losses<br>recognised in<br>profit or loss* | Gains/losses<br>recognised<br>in other<br>comprehensive<br>income** | Purchases | Sales   | Transfers*** | Closing<br>balance |
|--------------------|---------|--------------------|--|---|-----------|---------|--------------|--------------------|
| Group – 2017       |         |                    |  |   |           |         |              |                    |
| Assets             |         |                    |  |   |           |         |              |                    |
| Biological assets  |         | 215                | (110)  | _   | _         | _       | (54)         | 51                 |
| Land and buildings |         | 3 141              | (78)   | 328   | 107       | (10)    | _            | 3 488              |
| Unlisted shares    |         | 7 034              | (3)  | 1306  | 147       | (1 149) | _            | 7 335              |
| Preference shares  |         | 7 401              | (2 215)  | 298   | 2 191     | (527)   | _            | 7 148              |
|                    |         | 17 791             | (2 296)  | 1 822   | 2 445     | (1 686) | (54)         | 18 022             |

<sup>\*</sup> Gains or losses recognised in profit or loss are included in the operating expenses line except for preference shares whose accrued dividends are recognised as revenue.

Land and buildings: Gains or losses on property revaluations

Unlisted shares: Available for sale financial assets adjustments

Preference shares: Available for sale financial assets adjustments

<sup>\*\*\*</sup> Transfers out of level 3 relate to the reclassification of bearer plants to property, plant and equipment and the harvested fruits to inventory

| Group – 2016<br>Assets |        |       |         |       |         |       |        |
|------------------------|--------|-------|---------|-------|---------|-------|--------|
| Biological assets      | 247    | (50)  | _       | 33    | (15)    | _     | 215    |
| Land and buildings     | 3 192  | (80)  | 39      | 137   | (17)    | (130) | 3 141  |
| Unlisted shares        | 7 747  | _     | (736)   | 2 500 | (2 477) | _     | 7 034  |
| Preference shares      | 5 945  | (76)  | (811)   | 2 378 | (35)    | _     | 7 401  |
|                        | 17 131 | (206) | (1 508) | 5 048 | (2 544) | (130) | 17 791 |

| R'm                         | Note(s) | Opening balance | Gains/losses<br>recognised in<br>profit or loss | Gains/losses<br>recognised<br>in other<br>comprehensive<br>income | Purchases | Sales | Transfers | Closing<br>balance |
|-----------------------------|---------|-----------------|---|---|-----------|-------|-----------|--------------------|
| Company – 2017              |         |                 |   |   |           |       |           |                    |
| Assets                      |         |                 |   |   |           |       |           |                    |
| Unlisted shares             |         | 6 403           | (3)   | 73  | 842       | _     | -         | 7 315              |
| Preference shares           |         | 7 401           | (2 215)   | 469   | 2 191     | (698) | _         | 7 148              |
| Investments in subsidiaries |         | 12 373          | (2 469)   | (3 019)   | 4 454     | _     | _         | 11 339             |
| Investments in associates   |         | 14 210          | (1 155)   | 3 792   | 544       | _     | _         | 17 391             |
|                             |         | 40 387          | (5 842)   | 1 315   | 8 031     | (698) | -         | 43 193             |

<sup>\*\*</sup> Gains or losses recognised in other comprehensive income are included in:

| Figures in rand million     | Opening Note(s) balance | Gains/losses<br>recognised in<br>profit or loss | Gains/losses<br>recognised<br>in other<br>comprehensive<br>income | Purchases | Sales   | Transfers | Closing<br>balance |
|-----------------------------|-------------------------|---|---|-----------|---------|-----------|--------------------|
| Company – 2016              |                         |   |   |           |         |           |                    |
| Assets                      |                         |   |   |           |         |           |                    |
| Unlisted shares             | 7 510                   | _   | (1 236)   | 2 613     | (2 484) | -         | 6 403              |
| Preference shares           | 5 945                   | 252   | (811)   | 2 050     | (35)    | _         | 7 401              |
| Investments in subsidiaries | 11 451                  | _   | (1 254)   | 2 176     | _       | _         | 12 373             |
| Investments in associates   | 14 174                  | (49)  | (1 471)   | 1 897     | (341)   | -         | 14 210             |
|                             | 39 080                  | 203   | (4 772)   | 8 736     | (2 860) | _         | 40 387             |

#### **VALUATION PROCESSES APPLIED BY THE GROUP**

The Group's main instruments of monitoring the performance of its investee companies are through quarterly IMC meetings, including but not limited to the PACS (payment and collection system) regular client review visits, as well as by way of analysis of management accounts and audited financial statements.

The Post Investment Monitoring Department (PIMD) creates a focused approach to the monitoring of IDC investments. One of the key monitoring activities is the IMC Equity meetings, wherein the calculations of fair values and impairments are assessed and approved by the Committee. The IMC Equity Meetings are normally held three times per financial year, in April, August and December for reporting periods of February, June and September respectively.

#### **VALUATION TECHNIQUES USING OBSERVABLE INPUTS**

The Group measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

Instruments valued with reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available and the price represents actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis. These include listed shares.

#### Level 2

Instruments valued using inputs other than quoted prices as described above for Level 1 but which are observable for the instrument, either directly or indirectly, such as:

- · Quoted price for similar assets or liabilities in an active market;
- Quoted price for identical or similar assets or liabilities in inactive markets;
- · Valuation model using observable inputs; and
- Valuation model using inputs derived from/corroborated by observable market data.

These include derivative financial instruments, investment properties and option pricing models.

## VALUATION TECHNIQUES USING UNOBSERVABLE INPUTS

### Level 3

Instruments valued using inputs not based on observable data and the unobservable inputs have a significant effect on the instruments' valuation. This category includes instruments that valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include price earnings, net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates and discount rates.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

#### PRICE EARNINGS (PE) VALUATION

The PE valuation method is the first valuation option, but has only been used in respect of companies with:

- · At least two years' profit history;
- · Forecast I budgeted steady growth in profits;
- · Is low risk;
- · A good year-on-year performance; and
- A long history of consistent return operating in an industry that is not prone to fluctuations.

#### 4. FAIR VALUE INFORMATION (continued)

#### FREE CASH FLOW VALUATION (FCF)

FCF is the most widely used valuation method by the Group on its Level 3 financial instruments. The below approach is followed:

- All inputs are substantiated, especially in instances where there are prior year losses;
- · This method is used without exception for valuing all projects and start-ups unless the going concern principle is in doubt.

In the case where a project has a limited remaining life (e.g. Mining operations or single contract with a determined end), a separate "Limited Life" FCF model is used.

#### **NET ASSET VALUE VALUATION (NAV)**

### **Forced-Sale basis**

The Group uses the Forced-Sale NAV method in the following circumstances:

- · Where the going concern assumption is not applicable; or
- Where it has been motivated that no other model is appropriate.

#### NAV – Going concern

The Group uses NAV (without applying Forced-Sale) where it can be motivated that no other model is appropriate based on the following conditions:

- · An entity is consistently making losses and not meeting budgets (excluding start-up operations);
- · An entity has material variances between actual and budgeted figures;
- · An entity operates in highly volatile sector making it almost impossible to budget;
- · An entity has completed all studies necessary to implement a project but has however not yet secured the necessary capital to fully fund the implementation of the project;
- · An entity is not fully funded and there is no clear indication that it will obtain the necessary funding to complete the project/ expansion/continue operations.

Quantitative information about fair value measurements using significant unobservable inputs (Level 3)

| Description                           | Valuation techniques    | Unobservable input  | Range                                       |
|---------------------------------------|-------------------------|---|---|
| <b>Equity instruments</b> All sectors |                         | Risk-free rate<br>Expected long-term growth                                     | 7.63%<br>5.00%                              |
| Agro-processing and agriculture       | Discounted cash flow    | Cost of debt Discount factor Sector beta  | 5.1% - 12.7%<br>7.7% - 23.4%<br>1.00        |
|                                       | Price-earning valuation | Industry/sector PE ratio<br>Risk-adjusted PE ratio<br>Expected long-term growth | 16.5% - 22.8%<br>6.9% - 14.2%<br>5%         |
| Basic metals and mining               | Discounted cash flow    | Cost of debt<br>Discount factor<br>Sector beta                                  | 4.1% - 12.8%<br>6.7% - 21.5%<br>1.00        |
| Basic and speciality chemicals        | Discounted cash flow    | Cost of debt<br>Discount factor<br>Sector beta                                  | 4.5% - 11.9%<br>4.9% - 14.0%<br>1.00        |
| Automotive                            | Discounted cash flow    | Cost of debt<br>Discount factor<br>Sector beta                                  | 6.3% - 13.9%<br>12.6% - 16.9%<br>1.00       |
| Light manufacturing and tourism       | Discounted cash flow    | Cost of debt<br>Discount factor<br>Sector beta                                  | 9.9% - 12.5%<br>8.0% - 16.1%<br>1.00        |
| Heavy manufacturing                   | Discounted cash flow    | Cost of debt Discount factor Sector beta  | 3.8% - 9.5%<br>13.7% - 20.2%<br>1.00 - 1.01 |
| Chemical products                     | Discounted cash flow    | Cost of debt<br>Discount factor<br>Sector beta                                  | 7.9% - 12.5%<br>14.1% - 17.4%<br>1.00       |
| New industries                        | Discounted cash flow    | Cost of debt<br>Discount factor<br>Sector beta                                  | 7.9% - 15.4%<br>5.6% - 21.5%<br>1.00        |

| Description                      | Valuation techniques       | Unobservable input                                      | Range  |
|----------------------------------|----------------------------|---|--|
| Biological assets                | Discounts of social flavor |   | 2 275 +  |
| Pecan nut trees – fruit on trees | Discounted cash flow       | Pecan nut yield – tonnes per hectare<br>Pecan nut price | 2 375 tonnes<br>per hectare<br>when mature<br>in eight years<br>R49 per kg<br>in shell |
|                                  |                            | Discount rate   | 16%  |
|                                  |                            | Risk of damage due to forces of nature                  | 10%  |

#### **DISCOUNTED CASH FLOW**

Significant increases in any of the inputs in isolation would result in lower fair values. Significant decreases in any of the inputs in isolation would result in higher fair values.

#### **PRICE-EARNING VALUATION**

The fair value would increase (decrease) if:

- The risk-adjusted PE ratio were higher (lower); or
- The expected long-term growth were higher (lower).

#### 5. **CASH AND CASH EQUIVALENTS**

|                             | Group |       | Company |       |
|-----------------------------|-------|-------|---------|-------|
| Figures in Rand million     | 2017  | 2016  | 2017    | 2016  |
| Cash and balances with bank | 2 652 | 2 520 | 1 621   | 1 840 |
| Negotiable securities       | 5 047 | 4 345 | 5 039   | 4 343 |
| Bank overdraft              | (103) | (38)  | _       | _     |
|                             | 7 596 | 6 827 | 6 660   | 6 183 |
| Current assets              | 7 699 | 6 865 | 6 660   | 6 183 |
| Current liabilities         | (103) | (38)  | _       | _     |
|                             | 7 596 | 6 827 | 6 660   | 6 183 |

#### 6. TRADE AND OTHER RECEIVABLES

|                         | Gro   | Group |      | Company |  |
|-------------------------|-------|-------|------|---------|--|
| Figures in Rand million | 2017  | 2016  | 2017 | 2016    |  |
| Trade receivables       | 1 916 | 3 003 | 605  | 906     |  |
| Prepayments             | 47    | 54    | _    | _       |  |
| Other receivable        | 261   | 248   | 4    | 8       |  |
|                         | 2 224 | 3 305 | 609  | 914     |  |

# **HERDMANS SOUTH AFRICA (PTY) LTD**

## Trade and other receivables pledged as security

A subsidiary, made a decision during 2015 to close Herdmans Europe. For this reason the Herdmans Europe debt was impaired to a value equal to Herdmans Europe stock valued at Net Realisable Value.

## **SWAC SOUTH AFRICA (PTY) LTD**

A subsidiary, recognised a provision for impairment of R17 million (2016: R28 million) for amounts past due date by more than 150 days.

## PRILLA 2000 (PTY) LTD

A subsidiary, entered into an invoice discounting agreement with Nedbank Limited whereby it has discounted all of its debtors and has given first cession of all receivables as security for a R115 million finance facility advanced to it.

### **7. INVENTORIES**

|                           | Group |       | Company |      |
|---------------------------|-------|-------|---------|------|
| Figures in Rand million   | 2017  | 2016  | 2017    | 2016 |
| Finished goods            | 1 020 | 1 191 | _       | _    |
| Raw materials, components | 696   | 1 119 | _       | _    |
| Phosphate rock            | 404   | 658   | _       | -    |
| Consumable stores         | 561   | 431   | 4       | 4    |
| Work in progress          | 90    | 200   | _       | _    |
|                           | 2 771 | 3 599 | 4       | 4    |

Group inventory to the value of R21.4 million was written down as a net realisable value adjustment at 31 March 2017 (2016: R79 million).

### 8. **LOANS AND ADVANCES**

|   | Gro   | oup   | Company   |   |
|---|---|---|---|---|
| Figures in Rand million   | 2017  | 2016  | 2017  | 2016  |
| Loans and advances to clients* Specific impairment of loans and advances Portfolio impairment of loans and advances   | 30 674<br>(3 037)<br>(964)  | 29 544<br>(5 058)<br>(558)  | 29 910<br>(2 434)<br>(954)  | 28 489<br>(4 490)<br>(548)  |
|   | 26 673  | 23 928  | 25 802  | 23 451  |
| *Interest rates range between 3% and 18.1%  |   |   |   |   |
| Reconciliation of provision for impairment of loans and receivables   |   |   |   |   |
| Specific impairment of loans and advances Opening balance - Charge for the year - Recoveries - Effect of foreign currency movements Write-offs  | 5 058<br>(946)<br>(15)<br>(89)<br>(971)                                 | 3 729<br>2 160<br>(48)<br>188<br>(971)                                | 4 490<br>(725)<br>(15)<br>(89)<br>(1 227)                               | 3 412<br>2 227<br>(48)<br>188<br>(1 289)                              |
|   | 3 037   | 5 058   | 2 434   | 4 490   |
| Portfolio impairment of loans and advances Opening balance Impairment charge for the year   | 558<br>406<br>964   | 418<br>140<br>558   | 548<br>406<br>954   | 408<br>140<br>548   |
| Total allowances for impairment Specific allowances for impairment Collective allowance for impairment  | 3 037<br>964<br>4 001   | 5 058<br>558<br>5 616   | 2 434<br>954<br>3 388   | 4 490<br>548<br>5 038   |
| Maturity of loans and advances  - due within three months  - due after three months but within one year  - due after one year but within two years  - due after two years but within three years  - due after three years but within four years  - due after four years but within five years  - due after five years  - impairment of loans and advances | 1 729<br>3 507<br>4 530<br>4 303<br>3 414<br>2 718<br>10 473<br>(4 001) | 378<br>4 294<br>4 145<br>4 502<br>3 208<br>2 546<br>10 471<br>(5 616) | 1 729<br>2 855<br>4 278<br>4 079<br>3 304<br>2 663<br>10 282<br>(3 388) | 378<br>3 841<br>3 842<br>4 287<br>3 085<br>2 511<br>10 545<br>(5 038) |
|   | 26 673  | 23 928  | 25 802  | 23 451  |

#### 9. **INVESTMENTS**

|  | Gro                             | oup                               | Company                         |                                   |  |
|--|---------------------------------|-----------------------------------|---------------------------------|-----------------------------------|--|
| Figures in Rand million  | 2017                            | 2016                              | 2017                            | 2016                              |  |
| Listed equities Unlisted equities Preference shares Preference shares – option values                | 43 284<br>7 335<br>9 340<br>104 | 39 070<br>7 040<br>9 120<br>91    | 22 479<br>7 315<br>9 340<br>104 | 15 551<br>6 409<br>9 120<br>91    |  |
| Impairment of listed shares Impairment of unlisted shares Impairment of preference shares            | 60 063<br>(236)<br>–<br>(2 192) | 55 321<br>(324)<br>(6)<br>(1 719) | 39 238<br>(236)<br>–<br>(2 192) | 31 171<br>(324)<br>(6)<br>(1 719) |  |
| Shares at fair value Specific allowance for impairment Listed equities Balance at 1 April            | 57 635<br>324                   | 53 272<br>232                     | 36 810<br>324                   | 29 122                            |  |
| Impairment charge/(reversal) for the year  | (88)                            | 92                                | (88)                            | 92                                |  |
| Unlisted equities Balance at 1 April Impairment charge/(reversal) for the year                       | 6 (6)                           | 177<br>(171)                      | 6 (6)                           | 177<br>(171)                      |  |
| Preference shares Balance at 1 April Impairment charge/(reversal) for the year                       | 1719<br>473<br>2 192            | 1 898<br>(179)<br>1 719           | 1 719<br>473<br>2 192           | 1 898<br>(179)<br>1 719           |  |
| Comprises: Impairment of listed shares Impairment of unlisted shares Impairment of preference shares | 236<br>-<br>2 192<br>2 428      | 324<br>6<br>1 719<br>2 049        | 236<br>-<br>2 192<br>2 428      | 324<br>6<br>1 719<br>2 049        |  |

### 10. DISCONTINUED OPERATIONS OR DISPOSAL GROUPS OR NON-CURRENT ASSETS HELD-FOR-SALE

On 20 November 2013, sefa's Board of Directors approved the sale of certain properties in the property portfolio. Investment properties held-for-sale are current assets.

Additionally in a Board meeting on 25 May 2015 it was resolved that all property should be transferred to Khula Business Premises, and thus all the properties at sefa company level will need to be reclassified from investment property to investment property held-for-sale. The resolution has no impact on sefa group level due to Khula Business Premises being a wholly owned subsidiary of sefa.

On 20 April 2016 a decision was made by management to sell the Company's aircraft. The sales agreement has been signed by the buyer and partners. The sales price agreed upon is US\$5.1 million and the sale is expected to be finalised in the first half of the 2018 financial year.

### DISCONTINUED OPERATIONS OR DISPOSAL GROUPS OR NON-CURRENT ASSETS HELD-FOR-SALE 10. (continued)

## **DISPOSAL GROUPS**

## **Scaw South Africa**

The IDC holds 74% of the issued share capital in Scaw South Africa (Pty) Ltd (Scaw). Scaw has six distinct divisions: Cast Products, Grinding Media, Wire Rod Products, Rolled products, Scrap Processing and Distribution Network. On 30 November 2016, management committed to a plan to dispose of the Grinding Media and Cast Products divisions. At year-end, management is in negotiations with potential buyers and the sale is expected to be finalised within the next financial year.

The planned disposal of the two divisions is part of a single plan to dispose of Scaw and is in line with the IDC's intention to introduce strategic equity partners into Scaw who possess the technical and commercial expertise necessary to grow the business and provide access to growth markets.

The disposal of the two divisions meets the criteria set out in IFRS 5 Non-current Assets Held for Sale and Disposal groups and therefore warrants the accounting treatment and disclosure required in terms of that standard. There are no immediate plans to dispose of the rest of Scaw and hence, that part of the business has been accounted for and disclosed as a continuing operation.

At year end, the results of the discontinued operations were as follows:

|                                  | Gre     | oup     | Company |      |
|----------------------------------|---------|---------|---------|------|
| Figures in Rand million          | 2017    | 2016    | 2017    | 2016 |
| Profit and loss                  |         |         |         |      |
| Revenue                          | 2 421   | 2 997   | _       | _    |
| Expenses                         | (2 783) | (3 137) | _       | _    |
| Net loss before tax              | (362)   | (140)   | _       | _    |
| Tax                              | -       | _       | _       | _    |
|                                  | (362)   | (140)   | -       | _    |
| NON-CURRENT ASSETS HELD-FOR-SALE |         |         |         |      |
| – IDC (Aircraft)                 | 67      | _       | 67      | _    |
| – Scaw                           | 1 597   | 104     | _       | -    |
| Property, plant and equipment    | 899     | 104     | _       | _    |
| Intangible assets                | 1       | _       | _       | _    |
| Deferred tax asset               | 2       | _       | _       | _    |
| Investments in subsidiaries      | -       | _       | _       | _    |
| Loans to group companies         | -       | _       | _       | _    |
| Inventories                      | 298     | _       | _       | _    |
| Current tax receivable           | 0       | _       | _       | _    |
| Trade and other receivables      | 385     | _       | _       | _    |
| Cash and cash equivalents        | 11      | -       | -       | _    |
| – sefa (Investment property)     | 12      | 14      | _       | _    |
|                                  | 1 676   | 118     | 67      | _    |
| Liabilities of disposal groups   |         |         |         |      |
| – Scaw                           | 368     | _       | _       |      |

#### 11. **INVESTMENTS IN SUBSIDIARIES**

|  | Group |      | Company                             |                                   |
|--|-------|------|-------------------------------------|-----------------------------------|
| Figures in Rand million  | 2017  | 2016 | 2017                                | 2016                              |
| Fair value of investments<br>Impairment of shares<br>Loans receivable<br>Impairment of loans |       |      | 39 598<br>(1 955)<br>7 438<br>(898) | 41 364<br>(704)<br>7 020<br>(793) |
|  |       |      | 44 183                              | 46 887                            |

| IDC subsidiaries            | Share class | %<br>interest | Shares at cost and fair value |        | IDC net inc<br>to the I<br>com | 9     | IDC net ind<br>by the I<br>comp | nolding  |
|-----------------------------|-------------|---------------|-------------------------------|--------|--------------------------------|-------|---------------------------------|----------|
| Figures in Rand million     |             |               | 2017                          | 2016   | 2017                           | 2016  | 2017                            | 2016     |
| Arengo 316                  | Ordinary    | 100           | -                             | _      | 159                            | 159   | _                               | _        |
| ADC Cables                  | Ordinary    | 62            | 35                            | 35     | 301                            | 257   | -                               | _        |
| Dymson Nominee              | Ordinary    | 100           | 2                             | 2      | 45                             | 45    | -                               | _        |
| Findevco                    | Ordinary    | 100           | _                             | _      | _                              | _     | (373)                           | (373)    |
| Foskor                      | Ordinary    | 59            | 8                             | 8      | 700                            | 700   | -                               | _        |
| Foskor                      | Preference  |               | 3 007                         | 2 177  | -                              | _     | -                               | _        |
| Herdmans SA                 | Ordinary    | 100           | _                             | _      | _                              | 9     | _                               | _        |
| Impofin                     | Ordinary    | 100           | -                             | _      | -                              | _     | (88)                            | (88)     |
| Kindoc Investments          | Ordinary    | 100           | -                             | _      | 154                            | 154   | -                               | _        |
| Kindoc Sandton Properties   | Ordinary    | 100           | _                             | _      | 183                            | 194   | _                               | _        |
| Konbel                      | Ordinary    | 100           | _                             | _      | _                              | _     | (10)                            | (10)     |
| Konoil                      | Ordinary    | 100           | -                             | _      | -                              | _     | (12 038)                        | (10 995) |
| Prilla                      | Ordinary    | 100           | 14                            | 14     | 340                            | 356   | _                               | _        |
| Scaw South Africa           | Ordinary    | 74            | -                             | _      | 3 701                          | 3 303 | -                               | _        |
| Scaw South Africa           | Preference  |               | 1744                          | 1 655  | -                              | _     | -                               | _        |
| Scaw Metals                 | Ordinary    | 100           | _                             | 45     | _                              | _     | _                               | _        |
| Sustainable Fibre Solutions | Ordinary    | 100           | 4                             | 4      | 131                            | 128   | -                               | _        |
| Sheraton Textiles           | Ordinary    | 80            | _                             | _      | 62                             | 62    | _                               | _        |
| Thelo Rolling Stock Leasing | Ordinary    | 50            | _                             | _      | 1 162                          | 1 390 | _                               | _        |
| Other                       | Ordinary    |               | 142                           | 142    | 500                            | 263   | -                               | -        |
|                             |             |               | 4 956                         | 4 082  | 7 438                          | 7 020 | (12 509)                        | (11 466) |
| Fair value adjustment       |             |               | 34 642                        | 37 282 | -                              | _     | -                               | -        |
| Impairment adjustment       |             |               | (1 955)                       | (704)  | (898)                          | (793) | -                               | _        |
| Fair value                  |             |               | 37 643                        | 40 660 | 6 540                          | 6 227 | (12 509)                        | (11 466) |

Legally the IDC owns 59% of Foskor, but for accounting purposes an effective 85% of Foskor is consolidated.

## **SUBSIDIARIES WITH 50% STAKE**

Although the Company holds 50% of the voting powers in Thelo Rolling Stock Leasing (Pty) Ltd, the investment is considered a subsidiary because of additional voting powers granted to the IDC through its right to appoint three out of the five directors to the Board of Directors of Thelo Rolling Stock Leasing (Proprietary) Limited.

| Determining Control – Thelo Rolling Stock (Thelo) |   |     |   |  |  |  |
|---|---|-----|---|--|--|--|
| Power   | Percentage ownership                            | 50% |   |  |  |  |
|   | Majority voting rights (Shareholders/Directors) | Yes | Thelo has five members of the Board. The IDC appointed three out of the five. All voting at Board level is done equally per member. |  |  |  |
|   | Contractual arrangement                         | No  |   |  |  |  |
| Affect Returns                                    | Vary with entities performance                  | Yes | The 50% stake could translate into dividend income for the IDC based on the performance of Thelo.                                   |  |  |  |

The aggregate net profits and losses after taxation of subsidiaries attributable to the IDC were as follows:

|   | Group            |                  | Company |      |
|---|------------------|------------------|---------|------|
| Figures in Rand million   | 2017             | 2016             | 2017    | 2016 |
| Profits<br>Losses   | 1 201<br>(2 209) | 1 130<br>(2 353) |         |      |
|   | (1 008)          | (1 223)          |         |      |
| Included in financing are the following investments which have been made in terms of section 3(a) of the Industrial Development Act with the approval of the State President: |                  |                  |         |      |
| Foskor Limited – At cost  | _                | _                | 8       | 8    |
| Sasol Limited – At cost   | 131              | 131              | _       | _    |
|   | 131              | 131              | 8       | 8    |

A register of investments is available and is open for inspection at the IDC's registered office.

#### 11. **INVESTMENTS IN SUBSIDIARIES (continued)**

### **SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS**

The following information is provided for subsidiaries with non-controlling interests which are material to the reporting company. The summarised financial information is provided prior to inter-company eliminations.

| Subsidiary Country of incorporation |     |      | % ownership interest held by<br>non-controlling interest |  |  |
|-------------------------------------|-----|------|--|--|--|
|                                     |     | 2017 | 2016   |  |  |
| Foskor                              | RSA | 15   | 15   |  |  |
| Scaw                                | RSA | 26   | 26   |  |  |

The percentage ownership interest and the percentage voting rights of the non-controlling interests were the same in all cases except for Foskor Limited where the voting rights were 41% (2016: 41%).

## **SUMMARISED STATEMENT OF FINANCIAL POSITION**

|  |                |                | 1              |                |  |
|--|----------------|----------------|----------------|----------------|--|
|  | Foskor         |                | Scaw           |                |  |
| Figures in Rand million  | 2017           | 2016           | 2017           | 2016           |  |
| Assets Non-current assets Current assets                       | 5 501<br>2 930 | 5 572<br>3 231 | 1 668<br>2 834 | 2 546<br>2 065 |  |
| Total assets   | 8 431          | 8 803          | 4 502          | 4 611          |  |
| <b>Liabilities</b> Non-current liabilities Current liabilities | 1 880<br>1 761 | 1 832<br>1 908 | 3 918<br>5 492 | 6 815<br>2 057 |  |
| Total liabilities  | 3 641          | 3 740          | 9 410          | 8 872          |  |
| Total net assets (liabilities)                                 | 4 790          | 5 063          | (4 908)        | (4 261)        |  |
| Carrying amount of non-controlling interest                    | 719            | 760            | (1 276)        | (1 108)        |  |

## SUMMARISED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

| Foskor   |                  | Scaw             |                  |                  |
|--|------------------|------------------|------------------|------------------|
| Figures in Rand million  | 2017             | 2016             | 2017             | 2016             |
| Revenue Other income and expenses  | 5 614<br>(6 941) | 6 042<br>(6 754) | 3 041<br>(3 828) | 5 661<br>(6 735) |
| Profit/(loss) before tax Tax expense   | (1 327)<br>425   | (712)<br>144     | (787)<br>–       | (1 074)<br>-     |
| Profit/(loss) Other comprehensive income/(loss)  | (902)            | (568)            | (787)<br>–       | (1 074)<br>78    |
| Total comprehensive income   | (902)            | (568)            | (787)            | (996)            |
| Profit/(loss) allocated to non-controlling interest Other comprehensive income allocated to non-controlling interest | (135)            | (85)             | (204)            | (279)<br>20      |

## **SUMMARISED STATEMENT OF CASH FLOWS**

|  | Foskor              |                       | Scaw                |                     |
|--|---------------------|-----------------------|---------------------|---------------------|
| Figures in Rand million  | 2017                | 2016                  | 2017                | 2016                |
| Cash flows from operating activities Cash flows from investing activities Cash flows from financing activities | 256<br>(518)<br>678 | (310)<br>(405)<br>745 | 79<br>(79)<br>(136) | (55)<br>(52)<br>296 |
| Net increase/(decrease) in cash and cash equivalents   | 416                 | 30                    | (136)               | 189                 |

Companies in which IDC took more than 50% shareholding with exposures less than R250 million.

| Company name                 | IDC<br>shareholding |
|------------------------------|---------------------|
| AfriTicket Systems (Pty) Ltd | 67%                 |
| KMDB Manufacturers (Pty) Ltd | 59%                 |
| Novelquip Forestry (Pty) Ltd | 62%                 |

### **INVESTMENTS IN ASSOCIATES, JOINT VENTURES AND PARTNERSHIPS** 12.

|   | Gro     | Group   |         | Company |  |
|---|---------|---------|---------|---------|--|
| Figures in Rand million                                   | 2017    | 2016    | 2017    | 2016    |  |
| Associated companies                                      | 20 170  | 18 102  | 19 160  | 15 411  |  |
| Fair value of investments – listed shares in associates   | _       | -       | 1 791   | 1 211   |  |
| Fair value of investments – unlisted shares in associates | _       | _       | 11 901  | 10 187  |  |
| Impairment of shares                                      | _       | _       | (1 555) | (1 593) |  |
| Net asset value at acquisition                            | 2 482   | 2 805   | _       | -       |  |
| Accumulated equity-accounted income                       | 19 588  | 17 929  | _       | -       |  |
| Accumulated equity-accounted losses and impairments       | (9 390) | (8 725) | _       | -       |  |
| Loans receivable  | 8 635   | 7 230   | 8 730   | 7 201   |  |
| Impairment of loans                                       | (1 145) | (1 137) | (1 707) | (1 595) |  |
| Partnerships and joint ventures                           | 191     | 212     | 22      | 10      |  |
| Partners' capital   | 196     | 221     | 41      | 52      |  |
| Accumulated profits/(losses)                              | (5)     | (9)     | (19)    | (42)    |  |
|   | 20 361  | 18 314  | 19 182  | 15 421  |  |

## **MATERIAL ASSOCIATES**

Market price of listed

| Companies                                      |  | Financial year-ends*     | Country of incorporation | associates<br>(cents) | %<br>holding   | Total<br>exposure | Total<br>exposure |
|--|--|--------------------------|--------------------------|-----------------------|----------------|-------------------|-------------------|
| Figures in Rand                                |  | ,                        |                          | (,                    |                | 5.4               |                   |
| million  |  |                          |                          |                       |                | 2017              | 2016              |
| Broadband Infraco                              | Provides<br>telecommunications<br>infrastructure   | 31/03/2017               | RSA                      |                       | 26.00          | 124               | 124               |
| Broodkraal Landgoed<br>Columbus Stainless      | Farms table grapes   | 30/06/2016               | RSA                      |                       | 32.00          | -                 | 77                |
| Steel  | Steel manufacturer   |                          | RSA                      |                       | 24.00          | 808               | 710               |
| Savannah<br>Consortium<br>Duferco Steel        | Mining and processing platinum metals  |                          | RSA                      |                       | 29.70          | -                 | 69                |
| Processing**                                   | Processes steel coil   |                          | RSA                      |                       | 50.00          | 523               | _                 |
| Eastern Produce<br>Malawi<br>Hans Merensky     | Farms tea, coffee and<br>macadamia nuts<br>Holds investments in<br>timber and agricultural |                          | Malawi                   |                       | 26.80          | 156               | 167               |
|  | industries   | 31/12/2016               | RSA                      |                       | 29.70          | 879               | 825               |
| Hulamin Limited                                | Asset-leasing company  | 31/12/2016               | RSA                      | 650                   | 29.60          | 1 287             | 1 153             |
| Incwala Resources                              | Platinum mining  |                          | RSA                      |                       | 23.60          | 584               | 641               |
| Karsten Boerdery                               | Farms table grapes and   |                          |                          |                       |                |                   |                   |
| W W G L G                                      | dates  | 30/09/2016               | RSA                      |                       | 38.20          | 426               | 340               |
| KaXu Solar One                                 | Parabolic trough solar energy farm   | 31/12/2016               | RSA                      |                       | 29.00          | 1 598             | 1 748             |
| KHI Solar One<br>(Pty) Ltd<br>Merafe (Pty) Ltd | Parabolic trough solar<br>energy farm<br>Operates chrome and                               | 31/12/2016               | RSA                      |                       | 29.00          | 954               | 700               |
| Merale (Pty) Llu                               | alloys plant   | 31/12/2016               | RSA                      | 167                   | 21.78          | 849               | 761               |
| Mozal S.A.R.L.                                 | Produces primary   |                          |                          |                       |                |                   |                   |
|  | aluminium metal  | 30/06/2016               | Mozambique               |                       | 24.04          | 3 584             | 4 290             |
| Palabora Copper                                | Mining of various  |                          |                          |                       |                |                   |                   |
|  | minerals   | 31/12/2016               | RSA                      |                       | 20.00          | 1 761             | 1 323             |
| Umicore Catalyst                               | Manufactures   | 21 /12 /2016             | DC A                     |                       | 25.00          | 210               | 201               |
| York Timber Ltd                                | automotive catalysts   | 31/12/2016<br>31/12/2016 | RSA<br>RSA               | 276                   | 35.00<br>28.70 | 219<br>764        | 201<br>704        |
| Other associates                               | Sawmilling<br>Various  | JI/ IZ/ZUIÜ              | RSA                      | 2/0                   | various        | 5 654             | 4 269             |
| Other associates                               | various  |                          | 110/1                    |                       | various        |                   |                   |
|  |  |                          |                          |                       |                | 20 170            | 18 102            |

<sup>\*</sup> The financial year-ends for which the financial statements of the associated entities have been prepared, where they are different from that of the investor, are disclosed above.

\*\* The IDC does not have a joint arrangement in which it contractually agreed to share control with another party. The IDC does not have a substantial representation on the Board of Directors precluding it from having control.

### 12. **INVESTMENTS IN ASSOCIATES, JOINT VENTURES AND PARTNERSHIPS (continued)**

**MATERIAL ASSOCIATES (continued)** 

|  | Group |      | Company |         |
|--|-------|------|---------|---------|
| Figures in Rand million                  | 2017  | 2016 | 2017    | 2016    |
| Fair value                               |       |      |         |         |
| Opening fair value of shares             |       |      | 9 805   | 11 255  |
| Movement in fair values during the year: |       |      |         |         |
| Duferco Steel Processing                 |       |      | 173     | _       |
| Eastern Produce Malawi                   |       |      | 2       | (43)    |
| Hans Merensky                            |       |      | 41      | 72      |
| Hulamin Limited                          |       |      | 33      | (222)   |
| Incwala Resources (Pty) Ltd              |       |      | (228)   | (186)   |
| Merafe (Pty) Ltd                         |       |      | 498     | (16)    |
| Mozal S.A.R.L.                           |       |      | 877     | (1 228) |
| Palabora Copper                          |       |      | 137     | (462)   |
| Umicore Catalyst                         |       |      | 131     | 38      |
| Other                                    |       |      | 668     | 597     |
|  |       |      | 12 137  | 9 805   |

## **SUMMARISED FINANCIAL INFORMATION OF MATERIAL ASSOCIATES**

2017

| (R'm)  Summarised statement of profit or loss and other comprehensive income | Revenue | Profit/(loss)<br>from<br>continuing<br>operations | Other | Total comprehensive income | Dividend received from associate |
|--|---------|---|-------|----------------------------|----------------------------------|
| Broadband Infraco  | 390     | (133)   | _     | (133)                      | _                                |
| Columbus Stainless   | 11 770  | 410   | _     | 410                        | -                                |
| Duferco Steel Processing   | 1 888   | 168   | 51    | 219                        | _                                |
| Eastern Produce Malawi   | 365     | 54  | _     | 54                         | 10                               |
| Hans Merensky Holdings   | 8 985   | 477   | _     | 477                        | 6                                |
| Hulamin Limited  | 10 090  | 385   | 94    | 479                        | 14                               |
| Karsten Group Holdings   | 705     | 213   | _     | 213                        | 6                                |
| KaXu Solar One   | 1 065   | (96)  | (36)  | (132)                      | _                                |
| KHI Solar One  | 31      | 180   | (13)  | 167                        | _                                |
| Merafe (Pty) Ltd   | 5 702   | 532   | _     | 532                        | _                                |
| Mozal S.A.R.L.   | 9 868   | 718   | _     | 718                        | 450                              |
| Palabora Copper  | 7 817   | 1 586   | 8     | 1 594                      | _                                |
| Umicore Catalyst   | 2 764   | 176   | 1     | 177                        | 44                               |
| Xina Solar One   | _       | (30)  | (473) | (503)                      | _                                |
| York Timber Ltd  | 953     | 32  | -     | 32                         | -                                |

| (R'm)                                      |                       |                |                            |                     |                  |
|--|-----------------------|----------------|----------------------------|---------------------|------------------|
| Summarised statement of financial position | Non-current<br>assets | Current assets | Non-current<br>liabilities | Current liabilities | Total net assets |
| Broadband Infraco                          | 1 279                 | 112            | 510                        | 141                 | 740              |
| Columbus Stainless                         | 2 129                 | 4 748          | 463                        | 3 047               | 3 367            |
| Duferco Steel Processing                   | 1 238                 | 1 060          | 928                        | 1 242               | 128              |
| Eastern Produce Malawi                     | 37 662                | 12 494         | 11 674                     | 6 981               | 31 501           |
| Hans Merensky Holdings                     | 3 208                 | 2 234          | 928                        | 1 2 3 6             | 3 278            |
| Hulamin Limited                            | 3 475                 | 3 481          | 937                        | 1 672               | 4 347            |
| Karsten Group Holdings                     | 1728                  | 1 030          | 1 056                      | 419                 | 1 283            |
| KaXu Solar One                             | 6 937                 | 729            | 6 966                      | 165                 | 535              |
| KHI Solar One                              | 4 187                 | 325            | 3 027                      | 299                 | 1 186            |
| Merafe (Pty) Ltd                           | 3 255                 | 2 708          | 1 175                      | 890                 | 3 898            |
| Mozal S.A.R.L.                             | 13 838                | 4 187          | 1 660                      | 1 454               | 14 911           |
| Palabora Copper                            | 5 755                 | 5 609          | 1 953                      | 1 199               | 8 212            |
| Umicore Catalyst                           | 129                   | 828            | 34                         | 295                 | 628              |
| Xina Solar One                             | 8 220                 | 162            | 5 279                      | 627                 | 2 476            |
| York Timber Ltd                            | 3 531                 | 1 070          | 1 536                      | 405                 | 2 660            |

2016

| (R'm)   |         |  |                            |                                 |  |
|---|---------|--|----------------------------|---------------------------------|--|
| Summarised statement of profit or loss and other comprehensive income | Revenue | Profit/(loss)<br>from continuing<br>operations | Other comprehensive income | Total from comprehensive income | Dividend<br>received from<br>associate |
| Broadband Infraco   | 542     | 123  | _                          | 123                             | _                                      |
| Columbus Stainless  | 13 086  | (417)  | 2                          | (415)                           | _                                      |
| Duferco Steel Processing  | 3 712   | (223)  | 62                         | (161)                           | -                                      |
| Eastern Produce Malawi  | 400     | 60   | -                          | 60                              | 10                                     |
| Hans Merensky   | 6 672   | 726  | 399                        | 1 125                           | 6                                      |
| Hulamin Limited   | 8 395   | 86   | (78)                       | 8                               | 8                                      |
| Karsten Boerdery  | 849     | 132  | -                          | 132                             | 8                                      |
| KaXu Solar One  | 614     | (271)  | -                          | (271)                           | 12                                     |
| KHI Solar One   | 5       | 2  | 10                         | 12                              | 6                                      |
| Merafe (Pty) Ltd  | 4 428   | 343  | _                          | 343                             | 5                                      |
| Mozal S.A.R.L.  | 7 824   | (547)  | -                          | (547)                           | 15                                     |
| Palabora Copper   | 7 664   | 231  | -                          | 231                             | -                                      |
| Umicore Catalyst  | 2 601   | 115  | _                          | 115                             | 53                                     |
| Xina Solar One  | 2       | (2)  | 523                        | 521                             | _                                      |
| York Timber Ltd   | 874     | 35   | _                          | 35                              | _                                      |

| (R'm)                                      |                       |                |                            |                        |                  |
|--|-----------------------|----------------|----------------------------|------------------------|------------------|
| Summarised statement of financial position | Non-current<br>assets | Current assets | Non-current<br>liabilities | Current<br>liabilities | Total net assets |
| Broadband Infraco                          | 1 367                 | 190            | 503                        | 213                    | 841              |
| Columbus Stainless                         | 2 202                 | 3 991          | 355                        | 2 726                  | 3 112            |
| Duferco Steel Processing                   | 1 471                 | 946            | 1 025                      | 1 657                  | (265)            |
| Eastern Produce Malawi                     | 921                   | 244            | 292                        | 167                    | 706              |
| Hans Merensky                              | 2 985                 | 2 178          | 827                        | 1 229                  | 3 107            |
| Hulamin Limited                            | 3 396                 | 3 260          | 931                        | 1 871                  | 3 854            |
| Karsten Boerdery                           | 1 590                 | 994            | 1 019                      | 502                    | 1 063            |
| KaXu Solar One                             | 7 215                 | 501            | 6 944                      | 185                    | 587              |
| KHI Solar One                              | 3 914                 | 247            | 3 364                      | 93                     | 704              |
| Merafe (Pty) Ltd                           | 3 258                 | 2 099          | 1 379                      | 564                    | 3 414            |
| Mozal S.A.R.L.                             | 13 303                | 4 264          | 1 554                      | 1 427                  | 14 586           |
| Palabora Copper                            | 4 313                 | 4 420          | 1 337                      | 779                    | 6 617            |
| Umicore Catalyst                           | 128                   | 898            | 32                         | 418                    | 576              |
| Xina Solar One                             | 5 704                 | 677            | 4 313                      | 25                     | 2 043            |
| York Timber Ltd                            | 3 301                 | 852            | 1 431                      | 272                    | 2 450            |

 $<sup>\</sup>hbox{*\it Financial information is for the underlying investment being Aquarius Platinum Limited}.$ 

|  | Grou    | ир      |
|--|---------|---------|
| Figures in Rand million                | 2017    | 2016    |
| The aggregate amounts were as follows: |         |         |
| Non-current assets                     | 109 430 | 71 688  |
| Current assets                         | 43 288  | 28 355  |
|  | 152 718 | 100 043 |
| Equity                                 | 80 311  | 40 295  |
| Non-current liabilities                | 48 434  | 39 145  |
| Current liabilities                    | 23 973  | 20 603  |
|  | 152 718 | 100 043 |
| Statement of comprehensive income      |         |         |
| Revenue                                | 64 696  | 62 893  |
| Profits                                | 8 934   | 1 887   |
| Losses                                 | (589)   | (1 794) |

### 12. **INVESTMENTS IN ASSOCIATES, JOINT VENTURES AND PARTNERSHIPS (continued)**

**SUMMARISED FINANCIAL INFORMATION OF MATERIAL ASSOCIATES (continued)** 

## Partnerships and joint ventures

|  |     | % interest | Total exposure | Total exposure |
|--|-----|------------|----------------|----------------|
|  |     |            | 2017           | 2016           |
| Women Private Equity Fund (One)        |     | 38.83      | _              | _              |
| The Vantage Capital Fund Trust         |     | 100        | 178            | 10             |
|  |     |            | 178            | 10             |
| Profits                                |     |            | 3              | 10             |
| The aggregate amounts were as follows: |     |            |                |                |
| Non-current assets                     | 156 | 169        | 78             | 98             |
| Current assets                         | 204 | 256        | _              |                |
|  | 360 | 425        | 78             | 98             |
| Equity                                 | 360 | 425        | 78             | 98             |
| Statement of comprehensive income      |     |            |                |                |
| Profits                                | (3) | (3)        | (3)            | (3)            |
| Losses                                 | 25  | 25         | -              | _              |

### **DEFERRED TAX** 13.

| DEI ERRED IAX  |                         |                        |                     |                        |
|--|-------------------------|------------------------|---------------------|------------------------|
|  | Gro                     | oup                    | Com                 | pany                   |
| Figures in Rand million  | 2017                    | 2016                   | 2017                | 2016                   |
| Deferred tax asset   | 169                     | 215                    | _                   | _                      |
| Composition of deferred taxation asset is as follows:<br>Capital and other losses<br>Calculated tax losses                                 | 26<br>143               | 41<br>174              | <u>-</u>            | -                      |
|  | 169                     | 215                    | -                   | _                      |
| Balance at the beginning of the year<br>Calculated tax losses<br>Temporary differences   | 215<br>181<br>(227)     | 61<br>174<br>(20)      | -<br>-<br>-         | -<br>-<br>-            |
| – Other  | (227)                   | (20)                   | -                   | _                      |
| Balance at the end of the year   | 169                     | 215                    | -                   | _                      |
| Deferred tax liability   | 4 874                   | 3 338                  | 5 820               | 4 178                  |
| Composition of deferred taxation liability is as follows: Capital and other allowances Capital gains and losses and fair value adjustments | 839<br>5 409            | (79)<br>4 532          | 828<br>4 992        | (827)<br>5 005         |
| Reduced by taxation on:<br>Calculated taxation losses  | 6 248<br>(1 374)        | 4 453<br>(1 115)       | 5 820<br>-          | 4 178                  |
|  | 4 874                   | 3 338                  | 5 820               | 4 178                  |
| At the beginning of the year<br>Calculated taxation losses<br>Temporary differences  | 3 338<br>(262)<br>1 798 | 3 369<br>(518)<br>487  | 4 178<br>-<br>1 642 | 5 119<br>-<br>(941)    |
| <ul><li>Property, plant and equipment</li><li>Provisions</li><li>Capital gains and losses and fair value adjustments</li></ul>             | (261)<br>903<br>1 156   | (31)<br>(505)<br>1 023 | -<br>-<br>1642      | (34)<br>(116)<br>(791) |
| Balance at the end of the year   | 4 874                   | 3 338                  | 5 820               | 4 178                  |
|  |                         |                        |                     |                        |

### 14. **INVESTMENT PROPERTY**

|  | Cost            | Fair value      | Cost            | Fair value      |
|--|-----------------|-----------------|-----------------|-----------------|
| Figures in Rand million  | 2               | 017             | 20              | 16              |
| Group Land and buildings leased to industrialists Land held for development Farming land and buildings | 27<br>316<br>23 | 27<br>316<br>23 | 18<br>324<br>20 | 18<br>324<br>20 |
| Total  | 366             | 366             | 362             | 362             |
| <b>Company</b> Land and buildings leased to industrialists   | 15              | 15              | 15              | 15              |

| Figures in Rand million                              | Opening balance | Fair value<br>adjustments | Total |
|--|-----------------|---------------------------|-------|
| Reconciliation of investment property – Group – 2017 |                 |                           |       |
| Land and buildings leased to industrialists          | 18              | 9                         | 27    |
| Farming land and buildings                           | 20              | 3                         | 23    |
| Land held for development                            | 324             | (8)                       | 316   |
|  | 362             | 4                         | 366   |
| Reconciliation of investment property – Group – 2016 |                 |                           |       |
| Land and buildings leased to industrialists          | 31              | (13)                      | 18    |
| Land held for development                            | 249             | 75                        | 324   |
| Farming land and buildings                           | 19              | 1                         | 20    |
|  | 299             | 63                        | 362   |

|   | Opening balance | Total |
|---|-----------------|-------|
| Reconciliation of investment property – Company – 2017 Land and buildings leased to industrialists    | 15              | 15    |
| Reconciliation of investment property – Company – 2016<br>Land and buildings leased to industrialists | 15              | 15    |

### PROPERTY, PLANT AND EQUIPMENT **15.**

|                             |                     | 2017                     |                   | 2016                |                          |                   |  |
|-----------------------------|---------------------|--------------------------|-------------------|---------------------|--------------------------|-------------------|--|
| Figures in Rand million     | Cost or revaluation | Accumulated depreciation | Carrying<br>value | Cost or revaluation | Accumulated depreciation | Carrying<br>value |  |
| Group                       |                     |                          |                   |                     |                          |                   |  |
| Land and buildings          | 4 193               | (705)                    | 3 488             | 3 773               | (632)                    | 3 141             |  |
| Plant and machinery         | 10 254              | (5 071)                  | 5 183             | 11 238              | (4 868)                  | 6 370             |  |
| Aircraft                    | _                   | _                        | _                 | 186                 | (60)                     | 126               |  |
| Furniture and fixtures      | 214                 | (179)                    | 35                | 197                 | (164)                    | 33                |  |
| Motor vehicles              | 99                  | (43)                     | 56                | 88                  | (36)                     | 52                |  |
| Capitalised borrowing costs | 10                  | (2)                      | 8                 | 10                  | _                        | 10                |  |
| Bearer plants               | 181                 | _                        | 181               | _                   | _                        | _                 |  |
| Asset under construction    | 662                 | -                        | 662               | 1 084               | _                        | 1 084             |  |
| Total                       | 15 613              | (6 000)                  | 9 613             | 16 576              | (5 760)                  | 10 816            |  |
| Company                     |                     |                          |                   |                     |                          |                   |  |
| Plant and machinery         | 132                 | (111)                    | 21                | 111                 | (105)                    | 6                 |  |
| Furniture and fixtures      | 97                  | (67)                     | 30                | 77                  | (59)                     | 18                |  |
| Motor vehicles              | 7                   | (5)                      | 2                 | 6                   | (5)                      | 1                 |  |
| Asset under construction    | 1                   | _                        | 1                 | 18                  | _                        | 18                |  |
| Aircraft                    | _                   | _                        | -                 | 186                 | (63)                     | 123               |  |
| Total                       | 237                 | (183)                    | 54                | 398                 | (232)                    | 166               |  |

### 15. PROPERTY, PLANT AND EQUIPMENT (continued)

Reconciliation of property, plant and equipment – Group – 2017

| Figures in<br>Rand million   | Opening balance | Additions | Disposals | Transfers | Revaluations | Depreciation | Impairment<br>loss | Impairment reversal | Total |
|------------------------------|-----------------|-----------|-----------|-----------|--------------|--------------|--------------------|---------------------|-------|
| Land and buildings           | 3 141           | 106       | (10)      | 234       | 94           | (77)         | _                  | _                   | 3 488 |
| Plant and machinery          | 6 370           | 420       | (167)     | (301)     | -            | (618)        | (521)              | _                   | 5 183 |
| Aircraft                     | 126             | _         | (178)     | _         | _            | _            | _                  | 52                  | _     |
| Furniture and                |                 |           |           |           |              |              |                    |                     |       |
| fixtures                     | 33              | 28        | -         | (3)       | -            | (23)         | -                  | -                   | 35    |
| Motor vehicles               | 52              | 15        | -         | (2)       | _            | (9)          | _                  | _                   | 56    |
| Asset under construction     | 1 084           | 202       | (32)      | (478)     | _            | _            | (114)              | _                   | 662   |
| Bearer plants<br>Capitalised | -               | 133       | (5)       | 53        | -            | -            | -                  | -                   | 181   |
| borrowing costs              | 10              | 1         | -         | -         | -            | (3)          | -                  | -                   | 8     |
|                              | 10 816          | 905       | (392)     | (497)     | 94           | (730)        | (635)              | 52                  | 9 613 |

## Reconciliation of property, plant and equipment – Group – 2016

| Figures in<br>Rand million | Opening<br>balance | Additions | Additions<br>through<br>business<br>combinations |       | Classified as<br>held-for-sale | Transfers | Revaluations | Foreign<br>exchange<br>movements | Depreciation | Impairment<br>loss | Total  |
|----------------------------|--------------------|-----------|--|-------|--------------------------------|-----------|--------------|----------------------------------|--------------|--------------------|--------|
| Land and buildings         | 3 192              | 125       | 12   | (17)  | -                              | (130)     | 39           | 1                                | (81)         | -                  | 3 141  |
| Plant and                  |                    |           |  |       |                                |           |              |                                  |              |                    |        |
| machinery                  | 4 793              | 2 264     | 162  | (134) | _                              | 81        | -            | 2                                | (598)        | (200)              | 6 370  |
| Aircraft                   | 118                | -         | _  | -     | _                              | -         | 13           | _                                | (5)          | _                  | 126    |
| Furniture and              |                    |           |  |       |                                |           |              |                                  |              |                    |        |
| fixtures                   | 31                 | 27        | 1  | (1)   | _                              | -         | 2            | _                                | (27)         | _                  | 33     |
| Motor vehicles             | 50                 | 10        | 5  | (1)   | _                              | _         | _            | _                                | (12)         | _                  | 52     |
| Asset under                |                    |           |  |       |                                |           |              |                                  |              |                    |        |
| construction               | 1 733              | 87        | 2  | (164) | _                              | (574)     | _            | -                                | _            | _                  | 1 084  |
| Capitalised                |                    |           |  |       |                                |           |              |                                  |              |                    |        |
| borrowing costs            | 4                  | -         | 6  | -     | -                              | -         | -            | -                                | -            | -                  | 10     |
|                            | 9 921              | 2 513     | 188  | (317) | _                              | (632)     | 54           | 3                                | (723)        | (200)              | 10 816 |

## Reconciliation of property, plant and equipment – Company – 2017

| Figures in Rand million  | Opening<br>balance | Additions | Classified as held-for-sale | Revaluations | Depreciation | Total |
|--------------------------|--------------------|-----------|-----------------------------|--------------|--------------|-------|
| Plant and machinery      | 6                  | 17        | _                           | -            | (2)          | 21    |
| Aircraft                 | 123                | _         | (111)                       | (12)         | _            | _     |
| Furniture and fixtures   | 18                 | 24        | -                           | _            | (12)         | 30    |
| Motor vehicles           | 1                  | 1         | _                           | _            | _            | 2     |
| Asset under construction | 18                 | -         | (17)                        | -            | -            | 1     |
|                          | 166                | 42        | (128)                       | (12)         | (14)         | 54    |

# Reconciliation of property, plant and equipment – Company – 2016

| Figures in Rand million  | Opening<br>balance | Additions | Revaluations | Depreciation | Total |
|--------------------------|--------------------|-----------|--------------|--------------|-------|
| Plant and machinery      | _                  | 8         | _            | (2)          | 6     |
| Aircraft                 | 118                | _         | 12           | (7)          | 123   |
| Furniture and fixtures   | 10                 | 20        | _            | (12)         | 18    |
| Motor vehicles           | 1                  | -         | _            | -            | 1     |
| Asset under construction | -                  | 18        | _            | _            | 18    |
|                          | 129                | 46        | 12           | (21)         | 166   |

#### **BIOLOGICAL ASSETS** 16.

| Group                     |    | 2017<br>Accumulated<br>depreciation | Carrying value |     | 2016<br>Accumulated<br>depreciation | Carrying value |
|---------------------------|----|-------------------------------------|----------------|-----|-------------------------------------|----------------|
| Maize*                    | 23 | -                                   | 23             | 16  | _                                   | 16             |
| Planted pecan nut trees** | 19 | _                                   | 19             | 54  | _                                   | 54             |
| Blueberry plants***       | 9  | _                                   | 9              | 9   | _                                   | 9              |
| Planted walnut trees      | -  | -                                   | -              | 136 | _                                   | 136            |
| Total                     | 51 | -                                   | 51             | 215 | _                                   | 215            |

### Reconciliation of biological assets - Group - 2017

|  | Opening<br>balance |                | ains or losses<br>arising from<br>changes in<br>fair value | Total         |
|--|--------------------|----------------|--|---------------|
| Maize<br>Planted pecan nut trees<br>Blueberry plants | 16<br>190<br>9     | _<br>(54)<br>_ | 7<br>(117)<br>–  | 23<br>19<br>9 |
|  | 215                | (54)           | (110)  | 51            |

### Reconciliation of biological assets - Group - 2016

|                         | Opening<br>balance | Additions | Disposals | Gains or losses<br>arising from<br>changes in<br>fair value | Other<br>changes,<br>movements | Total |
|-------------------------|--------------------|-----------|-----------|---|--------------------------------|-------|
| Maize                   | 13                 | 13        | (13)      | 3   | _                              | 16    |
| Planted walnut trees    | 187                | 3         | (1)       | (53)  | -                              | 136   |
| Planted pecan nut trees | 39                 | 15        | _         | _   | -                              | 54    |
| Blueberry plants        | 8                  | 2         | (1)       | _   | -                              | 9     |
|                         | 247                | 33        | (15)      | (50)  | _                              | 215   |

<sup>\*</sup> Current biological assets comprise maize which would be sold within the next 12 months. Due to the fact that there is an active market at year-end and the fair value of the maize could be determined by using an external independent valuer the biological asset would be measured at fair value less estimated point-of-sale cost of agricultural produce, which is determined at the point-of-sale harvest.

<sup>\*\*</sup> The fair value of the pecan nut trees has been determined by management who is of the opinion that the fair value is similar to the historical cost due to the reasons that the trees are under two years old, still need to be fully established and will reach maturity within the next six to eight years. There is still a high risk of diseases, death or damage due to forces of nature or other circumstances up to that point. Sufficient measures are in place to minimise this risk. The fair value of the pecan nuts, although based on the historical cost, compares to a cash flow based valuation at 16% discounted rate. This is deemed fair by management based on the risk factors indicated above.

<sup>\*\*\*</sup> There are 119.05 hectares (2016: 99.77 hectares) of plants. The current density for the majority of the plants is 4 000 and 5 000 plants per hectare, but new plant densities at Klyne Fontein are 4 167 and 3 333 plants per hectare respectively. Fair value cannot be determined for blueberry plants as trustworthy information about the projected yields for blueberry plants is not available and any predictions about yields cannot be verified in terms of historical yields.

<sup>\*\*\*\*</sup> A register containing the information required by Regulation 25(3) of the Companies Regulations, 2011 is available for inspection at the registered office of the company. Registers containing details of land and building, including any details of any revaluations and encumbrances, are kept at the registered offices of the companies concerned.

#### **17. INTANGIBLE ASSETS**

| Group Figures in Rand million |       | 2017<br>Accumulated<br>amortisation | Carrying value |       | 2016<br>Accumulated<br>amortisation | Carrying value |
|-------------------------------|-------|-------------------------------------|----------------|-------|-------------------------------------|----------------|
| Goodwill                      | 881   | (881)                               |                | 881   | (881)                               | _              |
| Computer software, other      | 158   | (114)                               | 44             | 127   | (64)                                | 63             |
| Customer relationships        | 93    | (93)                                |                | 93    | (93)                                | _              |
| Intellectual Property         | 3     | (3)                                 |                | 2     | (2)                                 | _              |
| Total                         | 1 135 | (1 091)                             | 44             | 1 103 | (1 040)                             | 63             |

## Reconciliation of intangible assets – Group – 2017

| F: 1 D 1 III             | Opening | a 1 100   |           | Amortisation/ |       |
|--------------------------|---------|-----------|-----------|---------------|-------|
| Figures in Rand million  | balance | Additions | Iransfers | Impairment    | Total |
| Computer software, other | 63      | 29        | (5)       | (43)          | 44    |

## Reconciliation of intangible assets - Group - 2016

| Figures in Rand million  | Opening<br>balance | Additions | Amortisation | Total |
|--------------------------|--------------------|-----------|--------------|-------|
| Goodwill                 | 15                 | _         | (15)         | _     |
| Computer software, other | 75                 | 2         | (14)         | 63    |
|                          | 90                 | 2         | (29)         | 63    |

#### 18. **SHARE CAPITAL**

|  | Gro        | oup   | Company |            |
|--|------------|-------|---------|------------|
| Figures in Rand million  | 2017       | 2016  | 2017    | 2016       |
| Authorised   |            |       |         |            |
| A shares of R1 each – 1 000 000<br>B shares of R1 each – 1 499 000 000 | 1<br>1 499 | 1 499 | 1 499   | 1<br>1 499 |
| D Stidles of M each – 1 499 000 000                                    | 1 499      | 1 499 | 1 499   | 1 499      |
|  | 1 500      | 1 500 | 1 500   | 1 500      |
| Issued   |            |       |         |            |
| Ordinary Type A – 1 000 000  | 1          | 1     | 1       | 1          |
| Ordinary Type B – 1 392 000 000  | 1 392      | 1 392 | 1 392   | 1 392      |
|  | 1 393      | 1 393 | 1 393   | 1 393      |

A shares are not transferable otherwise than by an Act of Parliament, however the B shares may be sold with the authorisation of the President of the Republic of South Africa.

The A shares held by the State shall entitle it to a majority vote.

#### 19. **DERIVATIVE FINANCIAL INSTRUMENTS**

|   | Group |      | Company |      |
|---|-------|------|---------|------|
|   | 2017  | 2016 | 2017    | 2016 |
| Derivative assets Foreign exchange contract assets                | 76    | 69   | 70      | 62   |
| <b>Derivative liabilities</b> Foreign exchange contract liability | 27    | 59   | 16      | 44   |

These derivative assets and liabilities are subject to master netting agreements, which allow the company to off-set the assets and liabilities, arriving at a net asset position of R54 million (2016: net asset position of R18 million).

All contractual maturities for the derivative assets and liabilities are within 12 months.

#### 20. TRADE AND OTHER PAYABLES

|   | Gr                  | Group               |                     | Company             |  |
|---|---------------------|---------------------|---------------------|---------------------|--|
| Figures in Rand million   | 2017                | 2016                | 2017                | 2016                |  |
| Trade payables<br>Accrued leave pay<br>Accrued bonus*   | 3 658<br>127<br>266 | 3 332<br>111<br>282 | 1 190<br>82<br>217  | 617<br>78<br>250    |  |
|   | 4 051               | 3 725               | 1 489               | 945                 |  |
| Movement in accruals Bonuses Balance at the beginning of the year Additional accruals raised during the year Utilised during the year | 282<br>331<br>(347) | 277<br>229<br>(224) | 250<br>265<br>(298) | 236<br>193<br>(179) |  |
| Balance at the end of the year  | 266                 | 282                 | 217                 | 250                 |  |
| <b>Leave pay</b> Balance at the beginning of the year Additional accruals raised during the year Utilised during the year             | 111<br>36<br>(44)   | 117<br>36<br>(42)   | 78<br>28<br>(24)    | 73<br>24<br>(19)    |  |
| Balance at the end of the year  | 103                 | 111                 | 82                  | 78                  |  |

<sup>\*</sup> Accrued bonus relates to the Long Term Incentive bonus, the Short Term Incentive bonus and the Non-Pensionable Allowance.

The contractual maturities of all trade and other payables are current.

#### 21. **RETIREMENT BENEFITS**

## PENSION AND PROVIDENT SCHEMES

The Group has pension and provident schemes covering substantially all employees. All eligible employees are members of either defined contribution or defined benefit schemes. These schemes are governed by the Pension Funds Act, 1956, as amended. The assets of the schemes under the control of trustees are held separately from those of the Group.

The costs charged to profit or loss represent contributions payable to the scheme by the Group at rates specified in the rules of the scheme.

## **DEFINED CONTRIBUTION SCHEMES**

Employees and Group companies contribute to the provident funds on a fixed-contribution basis. No actuarial valuation of these funds are required. Contributions, including past-service costs, are charged to profit or loss when incurred.

# **DEFINED BENEFIT SCHEME**

A Group company and its employees contribute to a defined benefit pension fund. The pension fund is final salary fully funded. The assets of the fund are held in an independent trustee-administered fund, administered in terms of the Pension Funds Act, 1956, as amended.

The fund is valued every three years using the projected unit credit method. The actuarial valuation for purposes of IAS 19 was performed on 31 December 2015.

The deficit in the current year does not require a cash contribution to be made to increase the plan assets as the fund is not in deficit for the statutory valuation. The IAS 19 actuarial valuation makes use of difference basis than the statutory valuation.

|   | Gro   | oup   |
|---|-------|-------|
| Figures in Rand million   | 2017  | 2016  |
| The amounts recognised in the statement of financial position are as follows: |       |       |
| Present value of funded obligations   | 354   | 364   |
| Fair value of plan assets   | (383) | (403) |
| Other   | 29    | 39    |
| Liability recognised  | -     | _     |
| The movement in the defined benefit obligation:                               |       |       |
| Opening balance   | 364   | 330   |
| Current-service cost  | 1     | 2     |
| Interest-cost   | 36    | 26    |
| Actuarial (gains)/losses  | (7)   | 46    |
| Benefit paid  | (40)  | (40)  |
| Closing balance   | 354   | 364   |

#### 21. **RETIREMENT BENEFITS**

## **DEFINED BENEFIT SCHEME (continued)**

|   | Group |       |  |
|---|-------|-------|--|
| Figures in Rand million   | 2017  | 2016  |  |
| Movement in asset plan  |       |       |  |
| Fair value of plan assets at beginning of the year                                      | 403   | 404   |  |
| Expected return on asset  | 42    | 31    |  |
| Actuarial (loss)/gain recognised during the year  | (22)  | 7     |  |
| Benefits paid   | (40)  | (39)  |  |
| Fair value of plan assets at the end of the year  | 383   | 403   |  |
| The amounts recognised in profit or loss are as follows:                                |       |       |  |
| Current-service cost  | 1     | 2     |  |
| Interest cost   | 36    | 26    |  |
| Expected return on assets   | (42)  | (31)  |  |
| Net actuarial loss recognised during the year   | (28)  | 53    |  |
| Total included in operating expenses  | (33)  | 50    |  |
| The amounts recognised in other comprehensive income in 2016 is income of R1.1 million. |       |       |  |
| The actual return on plan assets was:   |       |       |  |
| Expected return on plan assets  | 42    | 31    |  |
| Actuarial gains/(losses) on plan assets   | (22)  | 7     |  |
| Actual return on plan assets  | 20    | 38    |  |
| Plan assets are comprised as follows  |       |       |  |
|   | %     | %     |  |
| Equity instruments  | 49    | 56    |  |
| Cash  | 7     | 14    |  |
| Debt instruments  | 20    | 15    |  |
| Other   | 23    | 15    |  |
|   | 100   | 100   |  |
| The principal actuarial assumptions for accounting purposes were:                       |       |       |  |
| Discount rate   | 9.77  | 10.44 |  |
| Expected return on plan assets  | 9.77  | 10.44 |  |
| Future salary increases   | 8.47  | 9.44  |  |
| Future pension increases  | 8.10  | 9.16  |  |
| Normal retirement age   | 60    | 60    |  |

The sensitivity of the overall pension liability to changes in the weighted principal assumptions is:

Impact on overall liability

|                                 | 2017 | 2016 |
|---------------------------------|------|------|
| Inflation rate (increase of 1%) | 7.8  | 8.9  |
| Inflation rate (decrease of 1%) | 6.9  | 7.8  |

The expected contributions to the post-employment pension scheme for the year ending 31 March 2017 are R0.8 million.

## **POST-RETIREMENT MEDICAL BENEFITS**

Some Group companies have obligations to provide post-retirement medical benefits to their pensioners.

The accumulated post-retirement medical aid obligation and the annual cost of those benefits were determined by independent actuaries. Any surplus or shortfall between the actuarially determined liability and the aggregate amounts provided is charged to profit or loss.

The amounts recognised in the statement of financial position are as follows:

|  | Gro   | oup   | Com  | pany |
|--|-------|-------|------|------|
| Figures in Rand million  | 2017  | 2016  | 2017 | 2016 |
| Present value of unfunded obligation:  |       |       |      |      |
| Discovery Health members   | 588   | 589   | 180  | 158  |
| Movement in the liability recognised in the statement of financial position: |       |       |      |      |
| At the beginning of the year   | 589   | 707   | 158  | 182  |
| Contributions paid   | (28)  | (31)  | (8)  | (8)  |
| Current-service costs  | 7     | 11    | 2    | 3    |
| Interest cost  | 54    | 57    | 16   | 16   |
| Non-current medical obligation classified as held-for-sale                   | (48)  | _     | -    | _    |
| Reduction in obligation due to curtailment payment                           | _     | (100) | -    | _    |
| Deficit/surplus  | 14    | (55)  | 12   | (35) |
| Balance at the end of the year   | 588   | 589   | 180  | 158  |
| The principal actuarial assumptions used for accounting purposes were:       |       |       |      |      |
| – Discount rate (%)  | 9.80  | 10.14 | _    | _    |
| – General inflation rate (%)   | 5.90  | 8.17  | _    | _    |
| – Medical inflation rate (%)   | 9.00  | 9.67  | _    | _    |
| - Normal retirement age  | 60/65 | 60/65 |      |      |

The expected contributions to post-employment medical plans for the year ending 31 March 2018 are R0.2 million.

13.8% increase

11.3% decrease

14.0% increase

11.6% decrease

15.0% increase

12.3% decrease

15.2% increase

12.2% decrease

### 22. **OTHER FINANCIAL LIABILITIES**

Inflation rate (increase of 1%)

Inflation rate (decrease of 1%)

|                         |                | Group  |        | Company |        |
|-------------------------|----------------|--------|--------|---------|--------|
| Figures in Rand million |                | 2017   | 2016   | 2017    | 2016   |
| Foreign loans           |                | 9 446  | 10 194 | 9 446   | 10 194 |
| Domestic loans          |                | 20 921 | 17 790 | 33 107  | 28 793 |
|                         |                | 30 367 | 27 984 | 42 553  | 38 987 |
| Non-current liabilities |                |        |        |         |        |
| Foreign loans           |                | 6 240  | 7 487  | 6 240   | 7 487  |
| Domestic loans          |                | 16 689 | 15 307 | 16 653  | 13 927 |
|                         |                | 22 929 | 22 794 | 22 893  | 21 414 |
| Current liabilities     |                |        |        |         |        |
| Foreign loans           |                | 3 206  | 2 707  | 3 206   | 2 707  |
| Domestic loans          |                | 4 232  | 2 483  | 16 454  | 14 866 |
|                         |                | 7 438  | 5 190  | 19 660  | 17 573 |
|                         |                | 30 367 | 27 984 | 42 553  | 38 987 |
| Foreign loans           | Interest rate  |        |        |         |        |
| – US Dollar             | 0% to 2.37%    | 7 535  | 7 715  | 7 535   | 7 715  |
| – Euro                  | 0.25% to 5.74% | 1 907  | 2 462  | 1 907   | 2 462  |
| – SA Rand-denominated   | 6.25% to 6.44% | 4      | 17     | 4       | 17     |
|                         |                | 9 446  | 10 194 | 9 446   | 10 194 |

### 22. **OTHER FINANCIAL LIABILITIES (continued)**

|  | Gr                 | Group  |        | Company |  |  |
|--|--------------------|--------|--------|---------|--|--|
| Figures in Rand million                        | 2017               | 2016   | 2017   | 2016    |  |  |
| Maturity of foreign loans                      |                    |        |        |         |  |  |
| – due within one year                          | 3 206              | 2 707  | 3 206  | 2 707   |  |  |
| – due after one year but within five years     | 4 440              | 6 396  | 4 440  | 6 396   |  |  |
| – due after five years                         | 1 800              | 1 091  | 1 800  | 1 091   |  |  |
|  | 9 446              | 10 194 | 9 446  | 10 194  |  |  |
| Maturity of domestic loans                     |                    |        |        |         |  |  |
| – no set dates of repayment                    | _                  | _      | 14 664 | 14 002  |  |  |
| – due within one year                          | 4 234              | 2 483  | 1790   | 864     |  |  |
| – due after one year but within five years     | 10 782             | 11 797 | 10 747 | 11 032  |  |  |
| – due after five years                         | 5 905              | 3 510  | 5 906  | 2 895   |  |  |
|  | 20 921             | 17 790 | 33 107 | 28 793  |  |  |
| Domestic loans                                 |                    |        |        |         |  |  |
| Secured loans*                                 |                    |        |        |         |  |  |
| Nedbank Limited                                | 425                | 1 295  | _      | -       |  |  |
| Other secured loans                            | -                  | 106    | -      | -       |  |  |
| Unsecured loans                                |                    |        |        |         |  |  |
| Rand-denominated loans                         | 6 240              | 3 900  | 6 340  | 3 900   |  |  |
| Unemployment Insurance Fund Bond               | 1 514              | 1 997  | 1 514  | 1 997   |  |  |
| Public Bond                                    | 5 822              | 6 000  | 5 822  | 6 000   |  |  |
| Public Investment Corporation Green Bond       | 4 767              | 2 894  | 4 767  | 2 894   |  |  |
| Loans from subsidiaries with no fixed terms of |                    |        |        |         |  |  |
| repayment Interes                              | t free –           | _      | 12 509 | 11 466  |  |  |
| Money m  | arket-             |        |        |         |  |  |
| Loans with no fixed terms of repayment re      | lated <b>2 153</b> | 1 598  | 1 620  | 2 001   |  |  |
| Loans with no fixed terms of repayment Interes | t free –           | -      | 535    | 535     |  |  |
| Total domestic loans                           | 20 921             | 17 790 | 33 107 | 28 793  |  |  |
| Interest and non-interest bearing loans        |                    |        |        |         |  |  |
| – Non-current interest-bearing loans           | 23 568             | 22 782 | 22 893 | 21 414  |  |  |
| – Current interest-bearing loans               | 6 791              | 5 190  | 6 615  | 5 573   |  |  |
|  | 30 359             | 27 972 | 29 508 | 26 987  |  |  |
| Non-current interest-free loans                | 8                  | 12     |        |         |  |  |
| Current interest-free loans                    | _                  | _      | 13 045 | 12 000  |  |  |
|  | 8                  | 12     | 13 045 | 12 000  |  |  |
|  | 30 367             | 27 984 | 42 553 | 38 987  |  |  |

<sup>\*</sup> Secured by assets of subsidiary companies.

#### **PROVISIONS** 23.

### Reconciliation of provisions - Group - 2017

| Figures in Rand million  | Opening<br>balance  | Additions      | Utilised<br>during the<br>year | Transferred to<br>non-current<br>liability<br>held-for-sale | Change<br>in discount<br>factor | Total                 |
|--|---------------------|----------------|--------------------------------|---|---------------------------------|-----------------------|
| Environmental rehabilitation<br>Trust fund<br>Other provisions | 789<br>(169)<br>148 | 425<br>-<br>87 | (15)<br>(16)<br>(79)           | (25)<br>-<br>(31)   | 23<br>-<br>-                    | 1,197<br>(185)<br>125 |
|  | 768                 | 512            | (110)                          | (56)  | 23                              | 1,137                 |

### Reconciliation of provisions - Group - 2016

| Figures in Rand million      | Opening balance | Additions | Utilised during<br>the year | Change in discount factor | Total |
|------------------------------|-----------------|-----------|-----------------------------|---------------------------|-------|
| Environmental rehabilitation | 447             | 453       | (142)                       | 31                        | 789   |
| Trust fund                   | (152)           | _         | (17)                        | _                         | (169) |
| Other provisions             | 122             | 288       | (266)                       | 4                         | 148   |
|                              | 417             | 741       | (425)                       | 35                        | 768   |

### Reconciliation of provisions – Company – 2017

| Figures in Rand million      | Opening balance | Additions | Total |
|------------------------------|-----------------|-----------|-------|
| Environmental rehabilitation | 23              | 5         | 28    |

## Reconciliation of provisions - Company - 2016

|                              | Opening |           | Utilised during |       |
|------------------------------|---------|-----------|-----------------|-------|
| Figures in Rand million      | balance | Additions | the year        | Total |
| Environmental rehabilitation | 48      | _         | (25)            | 23    |

# **ENVIRONMENTAL REHABILITATION LIABILITY**

## **African Chrome**

As a result of the processes used in the manufacture of the chemical products of the company, the groundwater has become contaminated with a by-product Chrome 6. In terms of minimum requirements of the National Water Act, 37 of 1998, Part 5, section 20 and the Environment Conservation Act, 73 of 1989, Part V, Sub-sections 21 and 22, the company is required to remove the contaminated water and dispose of the waste material.

The Industrial Development Corporation, as primary shareholder, stands security for the entire environmental provision until the land is fully rehabilitated.

The rehabilitation process initially comprised two phases namely Phase 1 and Phase 2. The entire process was expected to take a period of three years; with Phase 1 having commenced on 1 March 2012 and was completed during the 2013/14 financial year. Phase 2 activities commenced during 2013/14 financial year after Phase 1 was completed. An amount of R18.5 million was expected to be incurred for Phase 2 activities, this provisional amount was based on previous historical costs and it was adjusted for inflation. It was assumed that the amount incurred each year for Phase 2 activities will be settled at each respective year-end. Phase 2 activities commenced during 2013/14 financial after Phase 1 was completed.

During the year tests were conducted to ascertain the success of Phase 1 in rehabilitating the surface of the soil. It was found that remediation works completed to date had effectively removed soil contamination from the surface of the site to concentration levels well below the recently gazetted South African Soil Screening Values (SSV2) for industrial land use. The site is therefore considered suitable for industrial re-development. However, the groundwater contamination has not been resolved, giving rise to an environmental liability for the IDC.

All cash flows used in the calculation of the provision were adjusted for inflation forecasted by IDC Research and Information department.

#### 23. **PROVISIONS** (continued)

### **ENVIRONMENTAL REHABILITATION LIABILITY**

The company continually contributes to the Environmental Rehabilitation Trust to ensure that adequate funds are available to pay for mine closure and reclamation costs. The Environmental Rehabilitation Trust is an irrevocable trust under the control of the company.

The financial assets held by the Trust are intended to fund the environmental rehabilitation liability of Foskor (Pty) Ltd and are not available for general purposes of the group. The objective of the Trust is to act as the financial provider for expenditure that its member, Foskor (Pty) Ltd, is likely to incur in order to comply with the statutory obligation for the environmental rehabilitation. The Trust is exempt from tax in accordance with section 10(1)cP of the Income Tax Act, No 58 of 1962.

A contingent liability has been recognised for the issuing of guarantees to the Department of Mineral Resources.

### Columbus

Columbus Joint Venture was a partnership between IDC, Samancor Limited and Highveld Steel. The provision is for the rehabilitation of dumps of different waste streams estimated at 4.3 million tonnes, which were not included in the sale of Middelburg Stainless Steel in January 2002, and accordingly each partner was liable for its share of the rehabilitation. The rehabilitation is expected to be completed in 2018

### **Scaw South Africa**

Scaw South Africa has an obligation to incur restoration rehabilitation and environmental costs when environmental disturbance is caused by the development of ongoing production at a property. A provision is recognised for the present value of such costs. It is anticipated that the costs will be incurred over a period in excess of 20 years.

The estimation of the environmental rehabilitation provision is a key area where management's judgement is required.

#### 24. **SHARE-BASED PAYMENTS**

On 7 July 2009 Foskor and the IDC, as the controlling shareholder of Foskor, entered into a BEE Transaction. In terms of the transaction the IDC has legally sold a 15% interest in Foskor to Strategic Business Partners and Special Black Groups (collectively, the BEE Partners), a 6% interest in Foskor to the Foskor Employee Share Option Plan (ESOP), and a 9% interest in Foskor to communities (the Community Trust) as part of Foskor's efforts to achieve the objectives set out in the DTI's Broad-based Black Economic Empowerment Codes of Good Practice (the DTI Codes) and also to attain broad-based employee participation. The BEE Partners, employee beneficiaries of the ESOP and beneficiaries of the Community Trust are collectively referred to as the "BEE Participants".

The transaction was recognised as a share-based payment in terms of the requirements of IFRS 2 Share-based Payment and consequently the 26% interest in Foskor sold to the BEE Participants has not been derecognised for accounting purposes in the Company or Group. Whilst certain rewards have been transferred to the BEE Participants, the IDC remains substantially exposed to the risks of the Foskor shares through its funding of the transaction. The transaction will continue to be accounted for in this manner until such time as the preference shares have been redeemed by the BEE Participants. The value of the share-based payment is determined using an appropriate valuation technique.

|  | Group   |         | Company    |          |
|--|---------|---------|------------|----------|
| Figures in Rand million  | 2017    | 2016    | 2017       | 2016     |
| <b>Equity-settled share-based payment reserve</b> At the beginning of the year                                       | 304     | 304     | -          | _        |
| At the end of the year   | 304     | 304     | -          | _        |
| Cash-settled share-based payment liability At the beginning of the year Fair value adjustment through profit or loss | 26<br>- | 18<br>8 | 90<br>(63) | 62<br>28 |
| At the end of the year   | 26      | 26      | 27         | 90       |

## **Equity-settled reserve: Weighted average fair value assumptions**

The fair value of services received in return for equity instruments granted is measured by reference to the fair value of the equity instruments granted. The estimate of the fair value of the equity instruments granted is measured based on the Monte Carlo Option Pricing model.

The following weighted average assumptions were used in the share pricing models at grant date:

| Grant date                                   | 31 December<br>2009 |
|--|---------------------|
| Initial company value (exercise price) (R'm) | 3 500               |
| Average share price at grant date R'         | 382.19              |
| Annualised expected volatility (%)           | 43.00               |
| Risk-free interest rate (%)                  | 8.54                |
| Dividend yield (%)                           | 2.25                |
| Strike price (R')                            | 655.68              |

## Cash-settled share-based payment liability: Weighted average fair value assumptions

The following weighted average assumptions were used in the share pricing models during the year:

|   | Gre     | oup    | Company |        |  |
|---|---------|--------|---------|--------|--|
| Figures in Rand million                                       | 2017    | 2016   | 2017    | 2016   |  |
| Exercise price (R'm)  | 3 500   | 3 500  | 3 500   | 3 500  |  |
| Average share price at grant date (R')                        | 382.19  | 382.19 | 382.19  | 382.19 |  |
| Annualised expected volatility (%)                            | 41.10   | 41.88  | 32.50   | 36.14  |  |
| Risk-free interest rate (%)                                   | 8.10    | 8.37   | 8.10    | 7.80   |  |
| Dividend yield (%)  | -       | -      | 2.22    | 2.22   |  |
| Strike price (R')   | 553.20  | 594.80 | 538.12  | 546.27 |  |
| REVENUE   |         |        |         |        |  |
| Farming, manufacturing and mining income                      | 10 893  | 13 872 | _       | _      |  |
| Interest received   | 4 321   | 2 346  | 4 822   | 3 128  |  |
| Dividends received  | 1758    | 2 723  | 1 272   | 1 886  |  |
| Fee income  | 400     | 467    | 365     | 424    |  |
|   | 17 372  | 19 408 | 6 459   | 5 438  |  |
| Dividends received on available-for-sale financial assets     |         |        |         |        |  |
| – Listed  | 1 3 6 5 | 1 438  | 359     | 453    |  |
| - Unlisted  | 242     | 152    | 204     | 152    |  |
| - Associated companies  | -       | -      | 558     | 148    |  |
| – Preference shares income                                    | 151     | 1 133  | 151     | 1 133  |  |
|   | 1 758   | 2 723  | 1 272   | 1 886  |  |
| Dividends received from the investments made in terms of      |         |        |         |        |  |
| section 3(a) of the Industrial Development Act. Sasol Limited | 1044    | 985    |         |        |  |
| 29201 FILLIFER  | 1,044   | 985    |         |        |  |

|  | Gro   | oup   | Company |      |  |
|--|-------|-------|---------|------|--|
| Figures in Rand million                                      | 2017  | 2016  | 2017    | 201  |  |
| INVESTMENT REVENUE   |       |       |         |      |  |
| Interest income  |       |       |         |      |  |
| Cash and cash equivalents                                    | 583   | 570   | 441     | 42   |  |
| Loans and advances to clients                                | 3 722 | 1 762 | 4 380   | 2 70 |  |
| Other  | 16    | 14    | 1       |      |  |
|  | 4 321 | 2 346 | 4 822   | 3 12 |  |
| FINANCE COSTS  |       |       |         |      |  |
| (Profit)/loss on foreign currency borrowings                 | 677   | (70)  | 726     | (    |  |
| Finance leases   | _     | 3     | _       |      |  |
| Current borrowings   | 1 665 | 1 150 | 1 888   | 13   |  |
| Other interest paid  | 265   | 234   | 65      |      |  |
| Total finance costs  | 2 607 | 1 317 | 2 679   | 1 3  |  |
| FEE INCOME   |       |       |         |      |  |
| Fee income   |       |       |         |      |  |
| Metal fees   | 108   | 169   | 108     | 1    |  |
| Guarantee fees   | 29    | 15    | 29      |      |  |
| Other contract-related fees                                  | 206   | 228   | 199     | 2    |  |
| Other fees   | 57    | 55    | 29      |      |  |
| Total fee income   | 400   | 467   | 365     | 4    |  |
| NET CAPITAL (LOSSES)/GAINS                                   |       |       |         |      |  |
| Capital losses on disposal of available-for-sale investments | 1 688 | 453   | 1 688   | 4    |  |
| NON-ADMINISTRATIVE EXPENSES                                  |       |       |         |      |  |
| Current liabilities  | 378   | _     | 378     |      |  |
|  | 378   | _     | 378     |      |  |

### Capital gains tax provision for the exit from Main Street 333 (MS333)

In 2006 the IDC acquired 15.3% of the ordinary shares of MS333, which in turn invested in the ordinary shares of Exxaro, giving the latter its majority BEE shareholding status. The investment was done in terms of the Pangolin agreement, which was in effect for the 10-year period up to 26 November 2016.

The expiry of the Pangolin agreement on 26 November 2016 (expiry date) removed standing restrictions on MS333 and its shareholders. Effectively, as on this date, Exxaro shares held by Main Street became free for trade. The MS333 shareholders' agreement provides that after expiry date, MS333 will distribute its shareholding in Exxaro to its shareholders in exchange for each such shareholder's shares in and claims against the unwinding of MS333.

The shareholders' agreement further provides that:

- 1. Exxaro will repurchase sufficient shares from MS333 to enable the latter to settle its obligations.
- 2. Any remaining Exxaro shares in MS333 will be distributed to the shareholders in proportion to their shareholdings.

On 26 November 2016, the IDC derecognised its investment in MS333 in line with the requirements of International Financial Reporting Standards (IFRS) as, on that date, the risks and rewards of ownership of Exxaro shares transferred from MS333 to the shareholders. Upon derecognition, a profit of R1.7 billion was recognised in profit and loss.

For tax purposes, a CGT trigger has not been achieved at year-end, as the shares have not been transferred from MS333 to the proposed replacement structure. A provision for tax of R378 million has been made in the financial statements in accordance with the requirements of IAS 37, as it is highly probable that the IDC would pay capital gains tax on the disposal of its MS333 shares upon implementation of the replacement structure.

### 31. **OPERATING PROFIT/(LOSS)**

|  | Gro      | Group |          | pany    |
|--|----------|-------|----------|---------|
| Figures in Rand million                                    | 2017     | 2016  | 2017     | 2016    |
| Is arrived at after taking into account the following:     |          |       |          |         |
| Audit fees   | 18       | 21    | 7        | 9       |
| Revaluation of investment property                         | 4        | 63    | _        | _       |
| Repairs and maintenance                                    | 651      | 23    | 5        | 7       |
| Impairment of debtors                                      | 45       | 79    | _        | _       |
| Depreciation on property, plant and equipment              | 730      | 723   | 14       | 21      |
| Impairment/(reversal of impairment) on property, plant and |          |       |          |         |
| equipment  | 635      | 200   | _        | _       |
| (Profit)/loss on sale of property, plant and equipment     | 23       | 17    | _        | _       |
| Amortisation on intangible assets                          | 36       | 29    | _        | _       |
| Impairment on trade and other receivables                  | 79       | 79    | _        | _       |
| Research and development                                   | 17       | 10    | 17       | 10      |
| Project feasibility expenses                               | 102      | (289) | 88       | (289)   |
|  |          |       |          | , ,     |
| Impairments and write-offs on other financial assets       | 954      | 3 161 | 2 086    | 3 670   |
| Employee costs   | 3 229    | 3 294 | 998      | 937     |
| Operating lease rentals                                    | 45       | 47    | 4        | 4       |
| Net increase/(decrease) in impairments                     |          |       |          |         |
| Machinery and equipment                                    | (48)     | (540) | 182      | (474)   |
| Industrial infrastructure                                  | (475)    | 1 039 | (470)    | 1 059   |
| New Industries   | 34       | 48    | (23)     | 27      |
| Agro-processing and agriculture                            | 22       | 133   | (63)     | 136     |
| Automotive and transport equipment                         | (55)     | 363   | (55)     | 367     |
| Basic metals and mining                                    | (729)    | 874   | (412)    | 1 783   |
| Clothing and textiles                                      | 44       | 133   | (170)    | (358)   |
| Basic and speciality chemicals                             | 284      | (60)  | 1 160    | (59)    |
| Chemical products and pharmaceuticals                      | 180      | 199   | 140      | 199     |
| Media and motion pictures                                  | 9        | (884) | 15       | (1 059) |
| Light manufacturing and tourism                            | 107      | (95)  | 148      | (87)    |
| Heavy manufacturing  | (85)     | 91    | 1        | 91      |
| Information communication technology                       | (47)     | (76)  | 47       | (76)    |
| Franchising  | 47       | 6     | (21)     | 6       |
| Construction   | (136)    | 12    | (136)    | 12      |
| Other  | 447      | 58    | 414      | 58      |
| Other  |          |       |          |         |
|  | (401)    | 1 301 | 757      | 1 625   |
| Bad debts written off/(recovered)                          |          |       |          |         |
| Machinery and equipment                                    | 135      | 135   | 2        | 135     |
| Industrial infrastructure                                  | 303      | 11    | 303      | 11      |
| New Industries   | 22       | 40    | 22       | 40      |
| Agro-processing and agriculture                            | 139      | 20    | 119      | 20      |
| Automotive and transport equipment                         | 120      | 7     | 120      | 7       |
| Basic metals and mining                                    | 155      | 181   | 155      | 181     |
| Clothing and textiles                                      | 120      | _     | 316      | 316     |
| Basic and speciality chemicals                             | 136      | 136   | 120      | (3)     |
| Chemical products and pharmaceuticals                      | 17       | 17    | 77       | 17      |
| Media and motion pictures                                  | 6        | 1 053 | 6        | 1 061   |
| Light manufacturing and tourism                            | 2        | 210   | 2        | 210     |
| Heavy manufacturing  | 31       | 13    | 31       | 13      |
|  |          | 7     |          | 7       |
| Franchising Other  | 7<br>162 | 30    | 11<br>45 | 30      |
| - Carici   |          |       |          |         |
|  | 1 355    | 1 860 | 1 329    | 2 045   |

### **32. TAXATION**

| IAAAIION  |       |         |         |       |
|---|-------|---------|---------|-------|
|   | Group |         | Company |       |
| Figures in Rand million   | 2017  | 2016    | 2017    | 2016  |
| Major components of the tax (income)/expense<br>Current   |       |         |         |       |
| Local income tax – current period   | 116   | 156     | 107     | 301   |
| Deferred  |       |         |         |       |
| Deferred tax – current year   | (737) | (316)   | (301)   | (326) |
|   | (621) | (160)   | (194)   | (25)  |
| <b>Reconciliation of the tax expense</b> Reconciliation between applicable tax rate and average effective tax rate. | %     | %       | %       | %     |
| South African normal tax rate   | 28    | 28      | 28      | 28    |
| The normal rate of taxation for the year has been adjusted as a consequence of:                                     | 20    | 20      | 20      | 20    |
| – dividend income   | (24)  | (1 208) | (22)    | (352) |
| – capital gains and losses  | (23)  | (182)   | (30)    | (76)  |
| – provisions and impairments  | 13    | 1,414   | 36      | 681   |
| - disallowed/exempt items   | (24)  | (315)   | (25)    | (297) |
| Effective tax rate  | (30)  | (263)   | (13)    | (16)  |

### 33. **OTHER COMPREHENSIVE INCOME**

|  |         |         | ihare of other<br>omprehensive<br>income of |         |
|--|---------|---------|---|---------|
| Figures in Rand million  | Gross   | Tax     | associates                                  | Net     |
| Components of other comprehensive income –<br>Group – 2017<br>Items that will not be reclassified to profit or loss<br>Remeasurements on net defined benefit liability/asset |         |         |   |         |
| Remeasurements on net defined benefit liability/asset  | (4)     | _       | (4)   | (8)     |
| Movements on revaluation Gains/(losses) on property revaluation  | (6)     | 1       | -   | (5)     |
| Total items that will not be reclassified to profit or loss Items that may be reclassified to profit or loss Exchange differences on translating foreign operations          | (10)    | 1       | (4)   | (13)    |
| Exchange differences arising during the year  Available-for-sale financial assets adjustments  | (23)    | -       | (370)                                       | (393)   |
| Gains/(losses) arising during the year   | 3 648   | (2 286) | -   | 1 362   |
| Total items that may be reclassified to profit or loss   | 3 625   | (2 286) | (370)                                       | 969     |
| Total  | 3 615   | (2 285) | (374)                                       | 956     |
| Components of other comprehensive income –<br>Group – 2016<br>Items that will not be reclassified to profit or loss  |         |         |   |         |
| Remeasurements on net defined benefit liability/asset Remeasurements on net defined benefit liability/asset Movements on revaluation   | 59      | (13)    | -   | 46      |
| Gains/(losses) on property revaluation   | 73      | (13)    | _   | 60      |
| Total items that will not be reclassified to profit or loss  | 132     | (26)    | _   | 106     |
| Items that may be reclassified to profit or loss Exchange differences on translating foreign operations  |         |         |   |         |
| Exchange differences arising during the year  Available-for-sale financial assets adjustments  | 129     | _       | 631   | 760     |
| Gains/(losses) arising during the year   | (6 087) | (290)   | (101)                                       | (6 478) |
| Total items that may be reclassified to profit or loss   | (5 958) | (290)   | 530   | (5 718) |
| Total  | (5 826) | (316)   | 530   | (5 612) |

| Figures in Rand million  | Gross          | Tax                | Share of other comprehensive income of associates | Net            |
|--|----------------|--------------------|---|----------------|
| Components of other comprehensive income – Company – 2017 Items that will not be reclassified to profit or loss Remeasurements on net defined benefit liability/asset                          | dross          | Idx                | associates  | Net            |
| Remeasurements on net defined benefit liability/asset  Movements on revaluation  Gains/(losses) on property revaluation  | (4)<br>(6)     | -<br>1             | -   | (4)            |
| Total items that will not be reclassified to profit or loss  | (10)           | 1                  | _   | (9)            |
| Items that may be reclassified to profit or loss Available-for-sale financial assets adjustments Gains/(losses) arising during the year Total items that may be reclassified to profit or loss | 5 997<br>5 997 | (1 955)<br>(1 955) | 6<br>6  | 4 048<br>4 048 |
| Total  | 5 987          | (1 954)            | 6   | 4 039          |
| Components of other comprehensive income – Company – 2016 Items that will not be reclassified to profit or loss Remeasurements on net defined benefit liability/asset                          |                |                    |   |                |
| Remeasurements on net defined benefit liability/asset  | 40             | (9)                | -   | 31             |
|  | 40             | (9)                | _   | _              |
| Movements on revaluation Gains/(losses) on property revaluation  | 17             | (4)                |   | 13             |
| Total items that will not be reclassified to profit or loss  | 57             | (13)               | _   | 44             |
| Items that may be reclassified to profit or loss Available-for-sale financial assets adjustments Gains/(losses) arising during the year  | (7 631)        | 615                | (15)  | (7 031)        |
| Total  | (7 574)        | 602                | (15)  | (6 987)        |

### **DIRECTORS' EMOLUMENTS** 34.

Non-executive: Fees for services as directors:

| Figures in Rand thousand     |  | 2017  | 2016  |
|------------------------------|--|-------|-------|
| Director                     |  |       |       |
| Ms MW Hlahla                 | Retired on 29 January 2015               | _     | 67    |
| Ms LJ Bethlehem <sup>1</sup> |  | 364   | 301   |
| Mr BA Dames                  |  | 416   | 322   |
| Mr ZJ Vavi                   | Retired 29 February 2016                 | _     | 288   |
| Mr RM Godsell                |  | 206   | 178   |
| Mr LR Pitot                  | Retired on 29 January 2015               | 24    | 21    |
| Ms BA Mabuza                 | Appointed Chairperson on 29 January 2015 | 1 057 | 690   |
| Dr SM Magwentshu-Rensburg    |  | 414   | 326   |
| Mr SK Mapetla                | Retired on 29 January 2015               | _     | 21    |
| Ms MP Mthethwa               |  | 365   | 304   |
| N Mnxasana                   |  | 546   | 441   |
| NDB Orleyn                   |  | 400   | 340   |
| Mr B Molefe <sup>2</sup>     | Resigned 25 January 2017                 | _     | 64    |
| Ms M More                    |  | 271   | _     |
| Mr A Kriel                   |  | 208   | _     |
| Mr NE Zalk³                  |  | _     | _     |
|                              |  | 4 271 | 3 363 |

<sup>1.</sup> Ms L Bethlehem does not derive any financial benefit for services rendered to the IDC. Her fees are paid directly to HCI Limited

<sup>2.</sup> Mr Molefe's fee was paid to the Transnet Foundation

 $<sup>3. \ \</sup>textit{Mr NE Zalk is employed by the DTI and does not earn director's fees for services rendered to the IDC}\\$ 

### 34. **DIRECTORS' EMOLUMENTS (continued)**

Executive 2017

| Figures in Rand thousand  | Emoluments | Long-term<br>incentive | Non-<br>pensionable<br>allowance* | Performance<br>bonus | Contributions<br>to medical aid<br>– ER, retirement<br>benefits – ER,<br>insurance, and<br>other benefit | Total  |
|---------------------------|------------|------------------------|-----------------------------------|----------------------|--|--------|
| IDC                       | 32 821     | 4 690                  | 4 019                             | -                    | 8 052  | 49 582 |
| MG Qhena                  | 6 096      | 1 156                  | 859                               | _                    | 1 169  | 9 280  |
| GS Gouws                  | 4 291      | 702                    | 477                               | _                    | 742  | 6 212  |
| SAU Meer                  | 2 667      | 437                    | 299                               | _                    | 313  | 3 716  |
| K Schumann <sup>1</sup>   | 193        | 873                    | _                                 | _                    | 826  | 1 892  |
| AP Malinga                | 2 093      | 361                    | 292                               | _                    | 1 208  | 3 954  |
| P Makwane                 | 2 501      | 372                    | 285                               | _                    | 413  | 3 571  |
| RJ Gaveni                 | 1766       | 226                    | 225                               | _                    | 688  | 2 905  |
| DA Jarvis                 | 2 034      | 81                     | 239                               | _                    | 424  | 2 778  |
| K Morolo                  | 144        | -                      | _                                 | -                    | 120  | 264    |
| PM Mainganya              | 2 513      | 37                     | 289                               | _                    | 361  | 3 200  |
| Z Luthuli                 | 2 272      | -                      | 262                               | -                    | 465  | 2 999  |
| NS Dlamini                | 2 679      | -                      | 309                               | _                    | 361  | 3 349  |
| VL Matshekga <sup>2</sup> | 1 865      | 185                    | 241                               | -                    | 441  | 2 732  |
| WH Smith <sup>3</sup>     | 1 707      | 260                    | 242                               | -                    | 521  | 2 730  |

2016

| Figures in Rand<br>thousand | Emoluments | Long-term<br>incentive | Non-<br>pensionable<br>allowance* | Performance<br>bonus | Contributions<br>to medical aid<br>– ER, retirement<br>benefits – ER,<br>insurance, and<br>other benefit | Total  |
|-----------------------------|------------|------------------------|-----------------------------------|----------------------|--|--------|
| IDC                         | 28 957     | 3 801                  | 4 684                             | _                    | 7 312  | 44 754 |
| MG Qhena                    | 5 255      | 1 156                  | 1 077                             | _                    | 1 234  | 8 722  |
| GS Gouws                    | 3 535      | 702                    | 616                               | _                    | 1 604  | 6 457  |
| SAU Meer                    | 2 529      | 437                    | 386                               | _                    | 393  | 3 745  |
| K Schumann <sup>1</sup>     | 2 302      | 430                    | 406                               | _                    | 664  | 3 802  |
| AP Malinga                  | 2 054      | 361                    | 377                               | _                    | 703  | 3 494  |
| P Makwane                   | 2 377      | 372                    | 368                               | _                    | 751  | 3 869  |
| RJ Gaveni                   | 1 688      | 226                    | 290                               | _                    | 501  | 2 706  |
| DA Jarvis                   | 1 936      | 81                     | 308                               | _                    | 317  | 2 641  |
| K Morolo                    | 1 727      | _                      | _                                 | _                    | 393  | 2 120  |
| PM Mainganya                | 2 380      | 37                     | 371                               | _                    | 332  | 3 120  |
| Z Luthuli                   | 1 649      | _                      | 253                               | _                    | 223  | 2 126  |
| NS Dlamini                  | 1 524      | _                      | 232                               | _                    | 196  | 1 952  |

<sup>\*</sup> Non-guaranteed performance-based allowance

<sup>1</sup> Contract ended on 30 April 2016

<sup>2</sup> Appointed on 1 May 2016

<sup>3</sup> Appointed on 1 May 2016

#### 35. **NATURE AND PURPOSE OF RESERVES**

## **FOREIGN CURRENCY TRANSLATION RESERVE**

The translation reserve comprises all foreign currency differences arising from the translation of the financial statements of foreign operations, as well as the effective portion of any foreign currency differences arising from hedges of a net investment in a foreign operation.

## **REVALUATION RESERVE**

The revaluation reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the assets are derecognised or impaired. The revaluation reserve also relates to the revaluation of property, plant and equipment.

## **ASSOCIATED ENTITIES RESERVE**

The associated entities reserve comprises the cumulative net changes of equity-accounted investment, directly to other comprehensive income.

### **COMMON CONTROL RESERVE**

The common control reserve relates to the transfer of Small Enterprise Finance Agency from the Economic Development Department to the IDC.

### **SHARE-BASED PAYMENT RESERVE**

The share-based payment reserve relates to the equity-settled portion share-based portion of the Foskor BEE transaction, entered into on 7 July 2009. Please refer to note 24 for further detail.

### **OTHER RESERVES**

Other reserves comprises remeasurements on net defined benefit liability or asset.

#### 36. FINANCIAL AND OPERATING LEASES

### FINANCE LEASES - GROUP AS LESSEE

The Group has leases classified as financial leases principally for property. Future minimum lease payments payable under finance leases, together with the present value of minimum lease payments, are as follows:

|  | Gr      | Group     |        | Company |  |  |
|--|---------|-----------|--------|---------|--|--|
| Figures in Rand million  | 2017    | 2016      | 2017   | 2016    |  |  |
| Land and building  – due within one year   | 6       | 6         | _      |         |  |  |
| <ul> <li>due after one year but within five years</li> <li>due after five years</li> </ul> | 13      | 15<br>5   | _<br>_ | _<br>_  |  |  |
| Total minimum lease payments Amount representing finance charges                           | 22 (6)  | 26<br>(8) |        |         |  |  |
| Present value of minimum lease payments  | 16      | 18        | -      | _       |  |  |
| Current portion Long-term portion  | 4<br>10 | 4<br>14   | -<br>- | -<br>-  |  |  |
|  | 14      | 18        | -      | _       |  |  |

### **FOSKOR**

The finance lease is between Foskor (Pty) Ltd and uMhlathuze Water Board for an effluent pipeline.

The lease liability is effectively secured, as the rights to the leased asset revert to the lessor in the event of default. The lease is over a 20-year period with nine years remaining as at 31 March 2017. Foskor has sole use of the effluent pipeline and pays for the maintenance. The lease is at a fixed rate of 14.4% per annum.

## **BLUE MOUNTAIN BERRIES**

These loans are repayable in monthly instalments of R227 351 which includes interest at rates between. 9.05% and 9.55% per year.

#### 36. **FINANCIAL AND OPERATING LEASES (continued)**

## **OPERATING LEASES – GROUP AS LESSEE**

Certain items of computer and office equipment are leased by the Group.

Commitments for future minimum rentals payable under non-cancellable leases are as follows:

|  | Gr       | oup      | Company |      |
|--|----------|----------|---------|------|
| Figures in Rand million  | 2017     | 2016     | 2017    | 2016 |
| <ul><li>due within one year</li><li>due after one year but within five years</li></ul> | 39<br>99 | 32<br>99 | _<br>_  | 2 –  |
| – due after five years   | 245      | -        | _       | _    |
|  | 383      | 131      | _       | 2    |

### **CASH GENERATED FROM/(USED IN) OPERATIONS 37.**

|   | Gro     | oup     | Company |         |  |
|---|---------|---------|---------|---------|--|
| Figures in Rand million                                 | 2017    | 2016    | 2017    | 2016    |  |
| Profit before taxation                                  | 1941    | 63      | 1 601   | 152     |  |
| Income from equity accounted investments                |         |         |         |         |  |
| Adjustments for:  | (963)   | (557)   | _       | _       |  |
| Impairment of goodwill relating to associated entities  | (303)   | (30)    | _       | -       |  |
| Amortisation of intangible assets                       | 43      | 32      | _       | _       |  |
| Impairment of property, plant and equipment             | 635     | 200     | _       | -       |  |
| Loss/(profit) on sale of assets                         | 23      | 17      | _       | _       |  |
| Depreciation of property, plant and equipment           | 730     | 723     | 14      | 21      |  |
| Net capital gains                                       | (1 688) | (453)   | (1 688) | (410)   |  |
| Interest received                                       | (3 165) | (2 346) | (2 971) | (3 128) |  |
| Dividends received                                      | (1 607) | (1 590) | (1 121) | (753)   |  |
| Dividends received-preference share options             | (151)   | (1 133) | (151)   | (1 133) |  |
| Finance costs   | 2 607   | 1 317   | 2 679   | 1300    |  |
| Project feasibility expenses                            | _       | _       | _       | (27)    |  |
| Specific and portfolio impairments                      | 954     | 3 161   | 2 086   | 3 670   |  |
| Fair value adjustment on share-based payment            | _       | _       | (63)    | 28      |  |
| Movements in retirement benefit assets and liabilities  | (1)     | (118)   | 22      | (24)    |  |
| Movements in provisions                                 | 369     | 351     | 5       | (25)    |  |
| Other non-cash items                                    | 1353    | (684)   | 1 196   | (684)   |  |
| Changes in working capital:                             |         | ( ,     |         | ( )     |  |
| Inventories   | 828     | 261     | _       | _       |  |
| Trade and other receivables                             | 1 081   | 413     | (305)   | 155     |  |
| Derivative assets                                       | (7)     | (65)    | (8)     | (62)    |  |
| Trade and other payables                                | 325     | (24)    | 544     | (317)   |  |
| (Increase)/decrease in non-current assets held-for-sale | (67)    | (53)    | (67)    | -       |  |
|   | 2 937   | (515)   | 2 383   | (1 237) |  |
| TAX PAID  |         |         |         |         |  |
| Balance at beginning of the year                        | 205     | 261     | 200     | 260     |  |
| Current tax for the year recognised in profit or loss   | (116)   | (156)   | (107)   | (301)   |  |
| Balance at the end of the year                          | (473)   | (205)   | (471)   | (200)   |  |
| <i>'</i>  | (384)   | (100)   | (378)   | (241)   |  |

38.

#### **COMMITMENTS** 39.

|   | Gro                       | oup                       | Company                   |                          |
|---|---------------------------|---------------------------|---------------------------|--------------------------|
| Figures in Rand million   | 2017                      | 2016                      | 2017                      | 2016                     |
| In respect of: Undrawn financing facilities approved Undrawn guarantee facilities approved Capital expenditure approved by subsidiaries   | 30 985<br>1 617<br>14     | 34 177<br>1 789<br>87     | 30 914<br>1 617<br>–      | 33 982<br>1 789<br>-     |
| – Contracted  | 14                        | 87                        | _                         | _                        |
| Capital expenditure approved by equity-accounted investments  | 185                       | 755                       | _                         | _                        |
| - Contracted<br>- Not contracted  | 157<br>28                 | 363<br>392                | -                         | -                        |
| Total commitments Less: Counter-guarantees obtained from partners in respect of financing and guarantees to be provided to major projects Commitments net of counter-guarantees | 32 801<br>(201)<br>32 600 | 36 808<br>(221)<br>36 587 | 32 531<br>(201)<br>32 330 | 35 771<br>(221<br>35 550 |
| Commitments will be financed by loans and internally generated funds.   |                           |                           |                           |                          |
| <b>GUARANTEES</b> Guarantees issued in favour of third parties in respect of finance provided to industrialists   | 1688                      | 1 984                     | 1 617                     | 1 789                    |
| Total industrial financing guarantees   | 1688                      | 1 984                     | 1 617                     | 1 789                    |
| Sundry guarantees issued by subsidiaries Guarantees issued by equity-accounted investments  | 1 688<br>570<br>2         | 1 984<br>541<br>17        | 1 617<br>-<br>-           | 1 789<br>-<br>-          |
| Guarantees  | 2 260                     | 2 542                     | 1 617                     | 1 789                    |

#### 41. **CONTINGENCIES**

## **CONTINGENT LIABILITIES OF SUBSIDIARIES**

# Foskor (Pty) Ltd

The company had mine rehabilitation guarantees amounting to R495 million (2016: R495 million) at year-end. In line with the requirements set out by the Department of Mineral Resources (DMR), this guarantee amount was in place at 31 March 2017.

These guarantees and the agreement reached with the DMR were based on the environmental rehabilitation and closure costs assessment that was performed during the 2016 financial year. The assessments are performed on a three-year rolling basis, with the next assessment due in 2018. Estimated scheduled closure costs for the mine are R478 million.

For unscheduled or premature closure, the DMR, in accordance with Minerals and Petroleum Resources Development Act, requires Foskor (Pty) Ltd to provide for the liability of R616 million in the form of guarantees and cash. The R616 million is covered by guarantees totalling R495 million and investment assets totalling R169 million, resulting in an overprovision of R49 million.

## **CONTINGENT LIABILITIES OF EQUITY ACCOUNTED INVESTMENTS**

# The York Timber Organisation Limited (York)

Suretyship: York participates in pool banking facilities granted by FirstRand Bank Limited. As such, York has provided unlimited suretyship in favour of FirstRand Bank Limited in respect of its obligations to the bank. Obligations are R142 million (2016: R142 million), R24 million being the Group's exposure thereto.

### 42. **RELATED PARTIES**

Shareholder: The Government of South Africa through the Economic Development Department

| Directors' interests                                      |   |                    | Financing | g balance |   |                                    |   |                  |
|---|---|--------------------|-----------|-----------|---|------------------------------------|---|------------------|
| R'm   | Company   | Financing approved | 2017      | 2016      | Interest/<br>funding rate                   | Type of financing repayment terms  | g/<br>s Director's interest   | Year of approval |
| Ms LJ Bethlehem   | Cape Town<br>Film Studio<br>(Pty) Ltd             | 84                 | 42        | 54        | Prime + 1%                                  | Normal loan                        | The controlling shareholders of Cape Town Studio are Sabido Investments (Pty) Ltd (Sabido) and Videovision Dreamworld Sabido (42.5% shareholding) is the holding company of ETV and part of the JSE-listed group Hosken Consolidated investments Limited ("HCI").                                   | 2010             |
|   |   |                    |           |           |   |                                    | Ms Bethlehem is a senior manager at HCl   |                  |
|   | llangalethu<br>(Pty) Ltd                          | 1 000              | 60        | 60        | R186 + (3.2% to<br>3.4%)<br>RATIRR of 7.04% | Senior debt loan                   | Hosken Consolidated Investments Limited (HCI) has a 10% stake in llangalethu (Pty) Ltd. Ms Bethlehem is a senior manager at   | 2013             |
|   |   | 1 10 1             |           |           | 10 (11111 61 7.5 176                        | preference shares                  | HCI   |                  |
|   | Kai Garib<br>Solar SPV                            | 922                | 609       | -         | RATIRR of 10%                               | Normal loan                        | HCI holds 12.5% stake in Kai Garib Solar SPV.<br>Ms Bethlehem is a senior manager at HCI  | 2015             |
|   |   | 720                | -         | -         | 25% stake<br>RATIRR of 8%                   | Ordinary shares                    |   | 2015             |
|   | Formex<br>Industries<br>(Pty Ltd                  | 80                 | 30        | 30        |   | Redeemable preference shares       | HCI is a 100% shareholder of Formex.  Ms Bethlehem currently serves as CEO of HCI Mr Andre Kriel is a director of   |                  |
| Mr Andre Kriel  | Trade Call<br>Investments<br>Apparel<br>(Pty) Ltd | 18                 | -         | -         |   | Grant funding                      | Southern African Clothing and Textile<br>Workers' Union (SACTWU), which has a<br>32.8% Shareholding in HCI.   | 2010             |
|   | Cape Town<br>Film Studios<br>(Pty) Ltd            | 84                 | 44        | -         | Prime + 1%                                  | Normal loan                        | The controlling shareholders of Cape Town Studio are Sabido Investments (Pty) Ltd (Sabido) and Videovision Dreamworld. Sabido is part of the JSE-listed group Hosken Consolidated investments Limited (HCI). Mr Andre Kriel is a director of SACTWU which has a 32.8% shareholding in HCI.          | 2017             |
| Ms Patience<br>Nomavuso<br>Mnxasana                       | Noma<br>Namhuhla<br>Projects<br>(Pty) Ltd         | 3                  | -         | -         |   | Quasi-equity loan                  | Ms Patience Nomavuso Mnxasana owns<br>100% in Noma Namuhla Trading and<br>Projects (Pty) Ltd  | 2017             |
| Ms Thandi Orleyn  | Le Sel<br>Research<br>(Pty) Ltd                   | 165                | 165       | 165       | Prime + 1%                                  | Normal loan                        | Ms Orleyn is a shareholder in Peotona<br>Group Holdings via the Mamaswa Family<br>Trust. Peotona Private Equity is a subsidiary<br>of Peotona Group Holdings. Indirect<br>shareholder in Le-Sel via Trinitas Fund<br>General Partner (Trinitas). Trinitas has a<br>37.5% equity interest in Le-Sel. | 2015             |
| National sphere of government                             |   |                    |           |           |   |                                    |   |                  |
| The Land<br>Agricultural<br>Development Bani<br>of SA Ltd | k   | 86                 | -         | 86        | 0%  | Loan repayable on<br>31 March 2022 |   | 2011             |
| The Land<br>Agricultural<br>Development Banl<br>of SA Ltd | k   | 650                | 141       | -         | 0%  | Loan repayable on<br>31 March 2025 |   | 2017             |

|  | Gre  | Group |      | Company |  |
|--|------|-------|------|---------|--|
| Figures in Rand million                            | 2017 | 2016  | 2017 | 2016    |  |
| Related party transactions                         |      |       |      |         |  |
| Non-financing transactions – Rendering of services |      |       |      |         |  |
| Eskom Limited                                      | 754  | 747   | _    | -       |  |
| Transnet Limited                                   | 926  | 894   | _    | _       |  |
| South African Airways (Pty) Ltd                    | 7    | 8     | 4    | 4       |  |
| Telkom Limited                                     | 6    | 7     | 1    | 1       |  |
| National Ports Authority                           | 55   | 47    | _    | _       |  |
| Rand Water   | 2    | 2     | _    | _       |  |
|  | 1750 | 1 705 | 5    | 5       |  |

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