

Strategic Fuel Fund

A Subsidiary of the CEF Group of Companies



**PRESENTATION TO SELECT COMMITTEE ON
ECONOMIC & BUSINESS DEVELOPMENT
4th October 2017**

Purpose of the Presentation

- Provide the Select Committee on Economic & Business Development with an overview of the Strategic Fuel Fund's annual performance results for the 2016/17 financial year
- The information is both financial and non financial
- Highlight the strategic relevance of SFF for South Africa in ensuring security of energy supply and continued economic activity
- Touch on some of our key highlights and lowlights against the backdrop of a difficult trading environment that is driven by market sentiments and low oil prices
- Expand on key successes as part of our developmental mandate
- Address key issues that have occupied the SFF's Board and Management's time
- Provide an outline of key strategic plans and the way forward in terms of growth and strengthening governance whilst delivering value for the Shareholder.

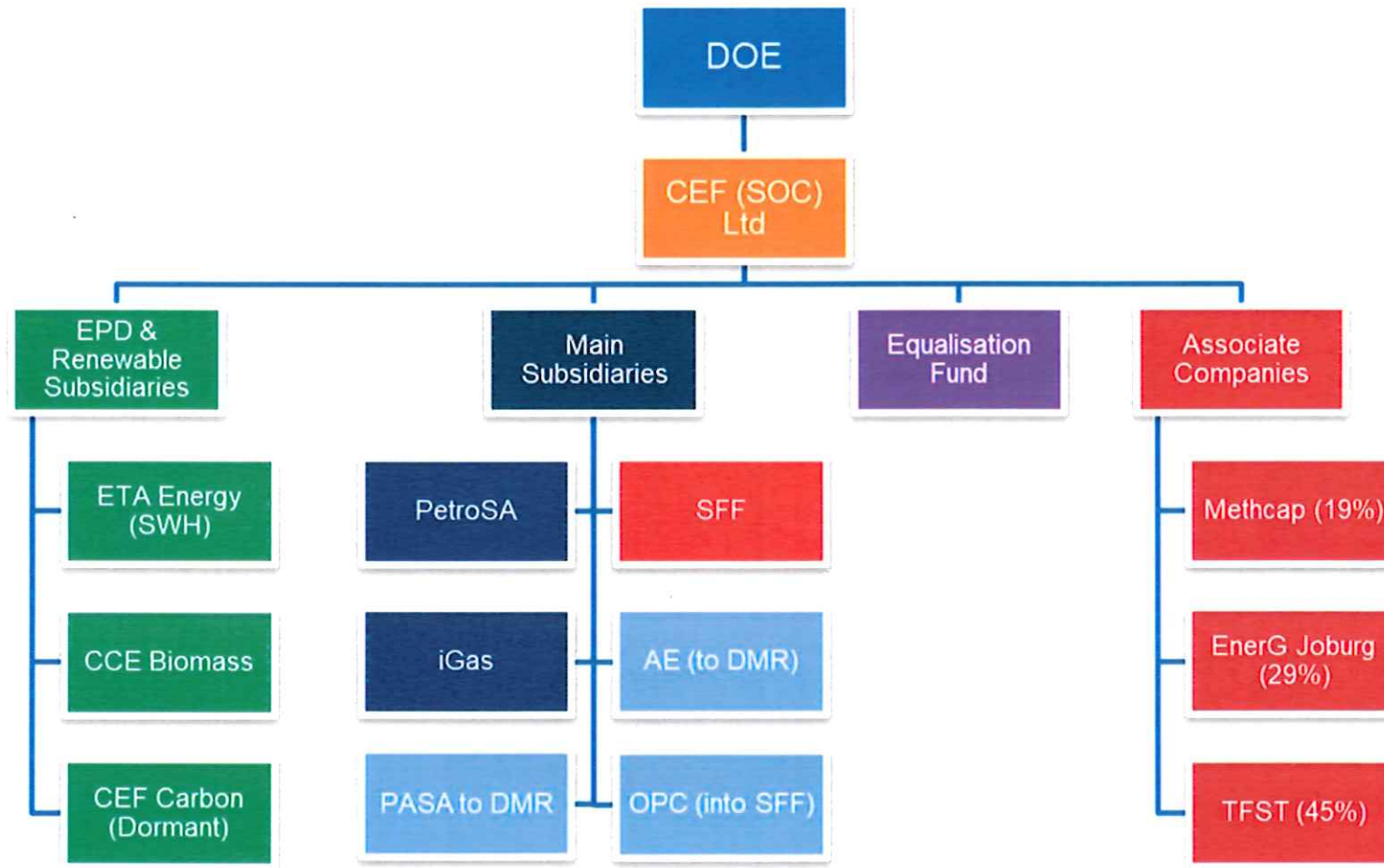
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OVERVIEW OF SFF & CORPORATE PROFILE

SFF is a subsidiary of CEF



SFF Historic Timeline



1964

SFF was established in 1964 way before the CEF Act was even promulgated in 1977

1969

Commissions Milnerton and Saldanha Terminals in 1969 and 1981 to store Strategic Crude Oil Stock and support Caltex/Chevron Refinery

2002

CEF in 2002 concludes an agreement with PetroSA to manage SFF operations

2010

CEF in 2010 re-establishes SFF as a stand-alone entity due to difference in nature of SFF business activities from PetroSA's

2012

In 2012 through a Ministerial Directive SFF invested R1.2 Billion in NMPP linefill

2013

Draft Strategic Stocks Petroleum Policy and Draft Strategic Stocks Implementation Plan, Published in GG 36220 Notice Number 192 dated 8 March 2013 identifies SFF as Petroleum Reserve Agency of the Republic.

2015

In 2015 SFF carries out a Stock Rotation exercise

SFF Mandate



- s17(1) – The Minister may, in a prescribed manner, for the purposes of ensuring security of supply, direct any state-owned entity to acquire, maintain, monitor and manage national strategic energy feed-stocks and carriers.
- CHAPTER 5 – SECURITY OF SUPPLY, NATIONAL ENERGY ACT 34 OF 2008

FUNDING THE MANDATE

Asset Base

- Cash Reserves, and
- Crude Oil storage tanks.

Funds Utilisation

- Generated cash-flows used to maintain the infrastructure and stocks
- Excess funds invested as cash reserves



OUR OPERATING ENVIRONMENT

Industry Trends



■ Domestic Overview

- Refinery Infrastructure is outdated
- Imports of Refined Product going up accordingly
- For re-capitalization of the Refineries, Industry looking for Govt incentives
- Downstream still dominated by Oil Majors however we seeing entrance of oil traders (Puma) and new players (Sinopec?)

■ International Overview

- Effect of supply overhang due to US Shale gas dissipating?
- OPEC Oil production restriction changing “Lower for Longer” theory on Oil prices?
- Floating Oil Storage emptying up as Oil prices tick up.
- SFF Saldanha Storage Customers some indicating moving out due to Oil prices ticking up.
- Is Backwardation back?

■ SFF Focus

- To diversify income from Saldanha Storage Tanks to include Oil producing countries as customers
- To diversify income streams to not only rely on Saldanha.

SFF Operations



Saldanha Bay in-ground storage (45 Million barrels capacity)



- ISO 9001 certified – quality management
- ISO 14001 certified - environmental management
- ISO 18001 certification process underway
- National key point & nersa licensed
- Technical evaluation extended terminal useful life by another 40 years

Milnerton storage (7.4 M capacity) Not operational



- ISO 9001 certified – quality management
- ISO 14001 certified - environmental management
- National key point & nersa licensed
- Some tanks in use but some undergoing integrity testing
- Tank refurbishment to proceed after integrity testing

Oil Pollution Control



OPC is mainly operational in Saldanha area focusing on prevention of Oil spills from the offloading and loading of crude oil in the Saldanha Harbour.

Ogies underground bunkers



Ogies facility comprises a number of worked-out coal mines that were converted to hold strategic crude stock. Operations are mainly to manage the on-going environmental liability through recovering residue oil from the disused mine.

CRUDE OIL STORAGE TERMINAL





HIGHLIGHTS & STRATEGIC CHALLENGES FOR THE YEAR UNDER REVIEW

SFF Performance Highlights & Strategic Challenges



Highlights

- Tank Rentals Revenue growth of over 400% in the past 3 years.
- Cash Balances in excess of R7 Billion amidst SOEs that are insolvent.
- Female employee component growing by over 200% in the past 3 years.

Strategic Challenges

- No Strategic Stock holding since the December 2015.
- Approval of the DoE Draft Strategic Stocks Policy by the South African Cabinet.
- A seasonal business model as the Crude Storage business is crude oil price sensitive.



BUSINESS PERFORMANCE 2016/17

Business Performance against predetermined objectives

SECURITY OF SUPPLY	<ul style="list-style-type: none"> • Stock losses averaging 0.35% (v/v) p.a. by 31 March 2017 • 20 days cover based on previous calendar year's net imports by 31 Mar 2017 • Improve aggregate density of strategic stocks by 1 API by 31 March 2017 	
FINANCE	<ul style="list-style-type: none"> • Revenue growth • Investment returns • Cost management: 	
STAKEHOLDER	<ul style="list-style-type: none"> • Service satisfaction surveys • Staff engagements • Corporate Social Responsibility programs 	
RISK & COMPLIANCE	<ul style="list-style-type: none"> • Key Risk Management: • SHEQ Index • PFMA Act Compliance 	
GOVERNANCE & TRANSFORMATION	<ul style="list-style-type: none"> • Women representation: • Talent Management: • Preferential Procurement: 	

SFF Income Statement as at 31 March 2017



INCOME STATEMENT	2017 R'm	2016 R'm	Movement	Comment
Revenue	799	4 587	-3 788	Strategic stock sold prior year
Cost of sales	-	-1 855	1 855	Strategic stock sold prior year
Gross profit	799	2 732	-1 933	Strategic stock sold prior year
Other operating income	7	10	-3	
Exchange gains (losses)	-396	-265	-131	Strong Rand to Dollar over the period
Other operating expenses	-249	-2 437	2 188	Prior year provision for transfer to Equalisation Fund
Operating profit/(loss)	161	39	122	
Investment income	230	132	98	Higher cash balances, higher interest earned
Finance costs	-35	-30	-5	
Other non-operating gains (losses)	-3	-259	256	
Profit for the year	354	-118	472	
Total comprehensive income for the year	354	-118	472	



SFF Consolidated Balance Sheet as at 31 March 2017



BALANCE SHEET	2017	2016	Mvmnt	Comment
	R'm	R'm	R'm	
Property, Plant & Equipment	1 591	1 607	-16	
Intangibles	1	0	1	
Strategic Inventory	1 124	972	152	Stock revaluation due to oil price.
Other financial assets	0	0	-	
Inventories	3	3	-	
Trade receivables	178	177	1	
Prepayments	6	15	-9	
Cash & cash equivalents	6 951	6 446	505	
TOTAL ASSETS	9 854	9 220	634	
Share capital & reserves	1 207	1 230	-23	
Retained Income	4 998	4 622	376	
Lease liability	16	15	1	
Deferred income	74	-	74	7 year Storage Reservation fee
Retirement provision	62	58	4	
Accounts Payable	2 923	2 762	161	
Provisions	574	533	41	
TOTAL EQUITY & LIABILITIES	9 854	9 220	634	

SFF Cash Flow Statement for the period ended 31 March 2017



CASH FLOW	2017	2016	Mvmnt	Comments
	R'M	R'M	R'M	
Cash generated from operations	291	2 477	-2 186	Strategic stock sold prior year
Interest income	231	132	99	Higher Cash balances higher interest
Finance costs	-1	-	-1	
Intangible assets	-	-	-	
Purchase of PPE	-16	-4	-12	
Sale of PPE	-	-	-	
Sale of strategic stock	-	1 958	-1 958	Strategic stock sold prior year
Net Purchase of Financial Assets	-16	1 954	-1 970	
Cash movement for year	505	4 564	-4 059	
Cash at beginning of year	6 446	1 882	4 564	
Cash at end of year	6 951	6 446	505	

SFF Key Audit findings



Key Finding Areas	Root Cause	Management Intervention in 2017/18
<ul style="list-style-type: none"> Shareholder's compact not signed timeously 	<ul style="list-style-type: none"> Administrative function of signing off the compact is ignored whilst focus is on approval of the Corporate Plan. 	<ul style="list-style-type: none"> CEF and SFF Board will be requested to pass a resolution to specifically approve the compact not just the Corporate Plan.
<ul style="list-style-type: none"> Three quotations not obtained 	<ul style="list-style-type: none"> This was limited to some Training Spend where a Deviation was not requested as per Treasury Regulation 16A6.4 	<ul style="list-style-type: none"> All Training Needs are procured by the Procurement Department .

SFF Irregular expenditure, fruitless and wasteful expenditure



Irregular Transactions

<u>Irregular transactions</u>		
	2017	2016
	R '000	R '000
Opening balance	141 416	60 980
Current year	619	80 436
	<u>142 035</u>	<u>141 416</u>

Notes

The Board approved a Fruitless and Wasteful Expenditure Policy that makes it a policy transgression if a Line Manager does not mete out corrective action in a case of incurrence of these expenses.

Fruitless and wasteful expenditure

<u>Fruitless and wasteful expenditure</u>		
	2017	2016
	R '000	R '000
Opening balance	3 378	344
Current year	97	3 041
Amounts recovered	-94	-7
	<u>3 381</u>	<u>3378</u>

Notes

The Board approved a Fruitless and Wasteful Expenditure Policy that makes it a policy transgression if a Line Manager does not mete out corrective action in a case of incurrence of these expenses.

Transformation, BEE CSI Initiatives (Value add as a government entity)

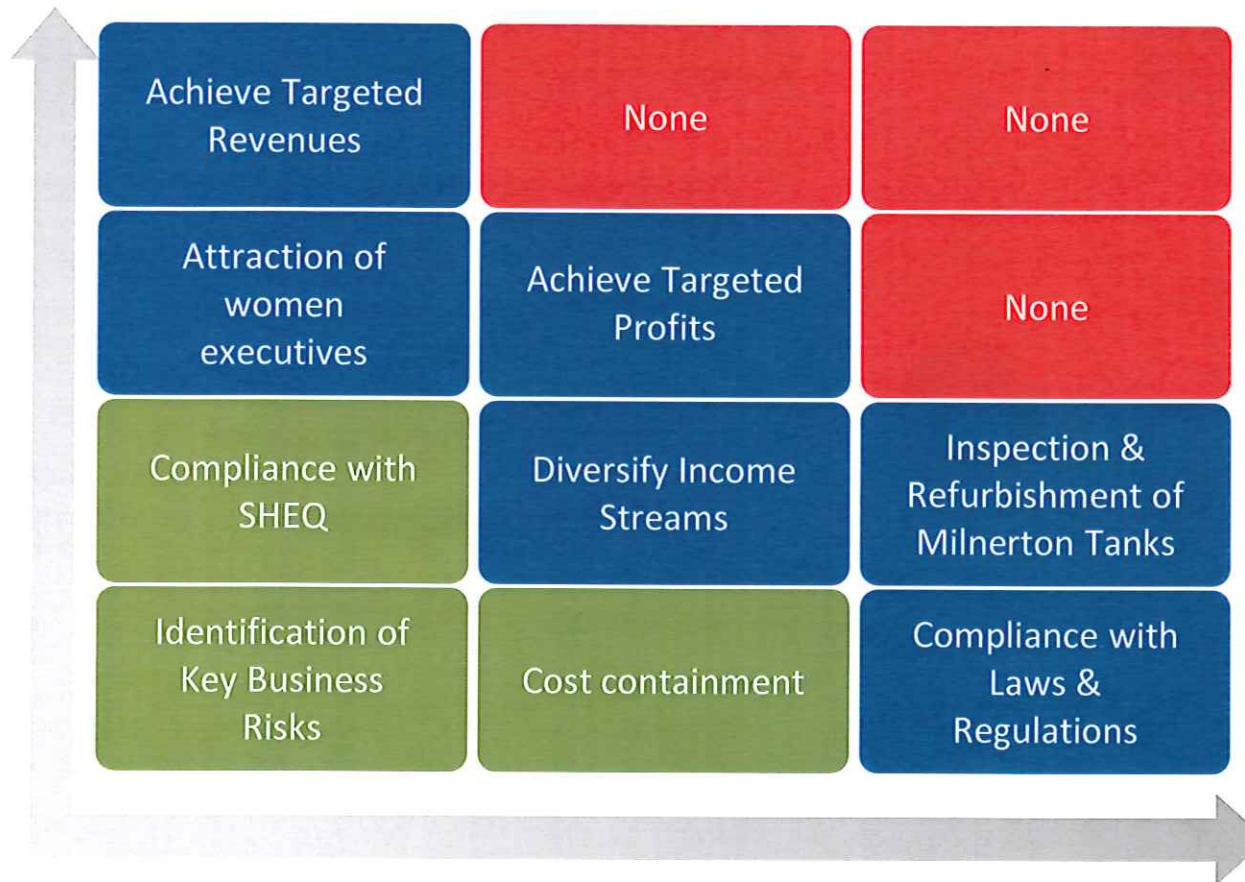


- Dependants of employees earning below R400,000 per annum get full bursaries.
- Over the past 3 years the company workforce profile has changed 243% in favour of female personnel with a greater impact being experienced at the middle level management positions. It is intended that over time those female employees will grow through the ranks to an executive level.
- In line with the organised labour expectations, the company appointed permanently 28 security officers who were previously rendering an outsourced service.
- SFF operates an export terminal and thus earns a US Dollar denominated revenue and consequently contributes in keeping the balance of payments deficit in check.
- SFF investment in the NMPP line-fill has protected the consumers from possible fuel price inflation as the oil industry would have recovered such from the consumer if SFF did not invest the R1.2 billion.



OVERVIEW OF SFF & CORPORATE PROFILE

Summary of SFF Key Risks



Comments

Red – High Risk

Blue – Medium Risk

Green – Low Risk

SFF has a risk management system in place for managing and monitoring strategic risks as well as identifying emerging risks that could threaten the achievement of strategic objectives.

From Current state to Future State



Current State

- Remains a profitable entity with a robust Balance Sheet.
- However no Strategic Stock holding
- Contango market structure showing weakening signs.
- Without a permanent CEO

&

Future Outlook

- A profitable entity with diversified income streams.
- Strategic Stock holding both of crude oil and refined products.
- Investments in LPG infrastructure.
- A permanent CEO appointed.

Thank You

