



Industrial Development Corporation

Your partner in development finance

IDC Annual Report 2009/10

Towards a New Developmental Growth Path

Gerrit van Wyk
Shakeel Meer
Lebo Bodibe
Christo van Zyl

Cape Town
20 October 2010



Contents



Your partner in development finance

- Introduction
- Overview of activities 2010
- Case studies
- Financial results
- Audit
- Performance against targets
- General

Introduction



Towards a New Developmental Growth Path

- IDC is the key agency for the development of South Africa's industrial sectors.
- New emphasis on the implementation of a new Growth Path for the country underpinned by industrial development.
- Drive and facilitate execution of the Industrial Policy Action Plan (IPAP2).
- New reporting line to the Economic Development Department:
- Department's coordinating role in terms of policy will assist IDC in its ability to drive implementation of policy and achieve long-term development goals;
- Assist in removing barriers to the implementation of specific projects (e.g. PFMA exemptions);



The Operating Environment



Your partner in development finance

External

- The year started with recessionary conditions evident and this resulted in substantially weaker demand for the exports of South African and African products.
- Gradual recovery during the year, especially with respect to commodities and driven mainly by China. This recovery was from a low base and largely at lower prices compared to pre-crisis conditions.
- Companies came under severe strain as demand for their products declined.
- Companies under less strain cancelled expansion plans or put them on hold as uncertainty prevailed.

Internal

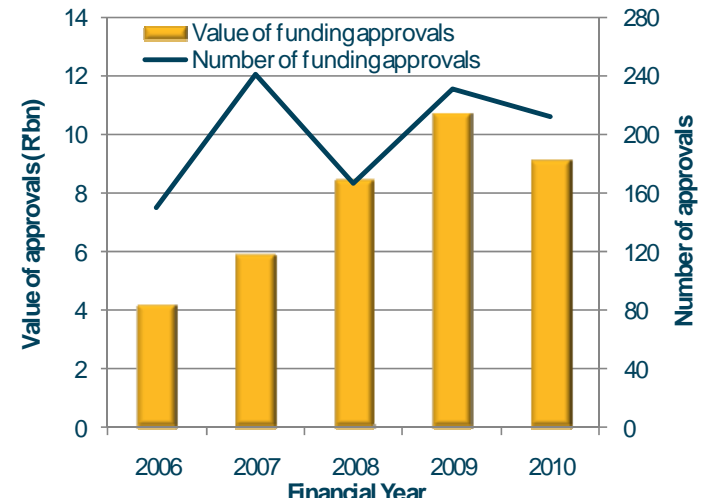
- Increase in IDC clients experiencing difficulty putting increasing demands on resources.
- Delays and cancellations of previously approved projects due to uncertainties regarding economic conditions.
- Fewer fundable applications as sustainability of business plans are more uncertain.
- Lower than expected uptake of distressed funding as companies are reluctant to increase debt burden.

Overview of Activities 2010

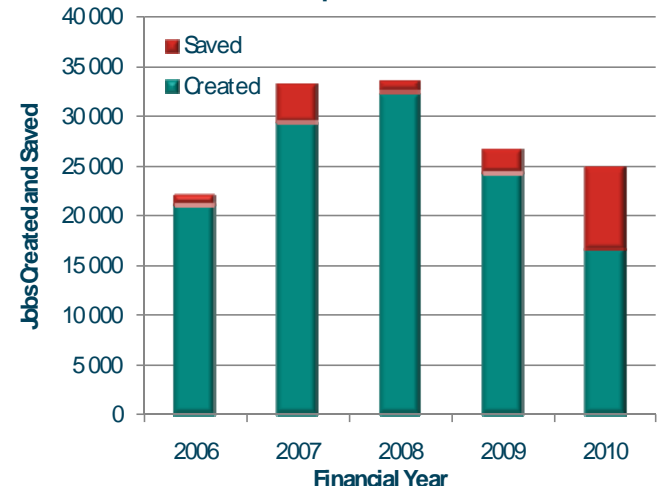


- **IDC continued to have a positive impact on the economy despite the recession:**
 - 25 000 jobs expected to be created and saved through funding activities (2009: 26 700), 8 800 of these directly as a result of funding to companies in distress.
 - Net funding approvals of R9.4 billion, mostly for new capacity or expansions of existing capacity (2009: R10.8 billion).
- **Momentum gained in assisting the development of green industries through participation in early stage feasibility studies and direct funding approvals.**
- **Realigned strategy towards proactive implementation of the Industrial Policy Action Plan (IPAP2).**
- **Steps taken to lower the cost of funding to businesses by establishing a partnership with UIF to source funds aimed at creating jobs efficiently.**

Net Number and Value of Funding Approvals

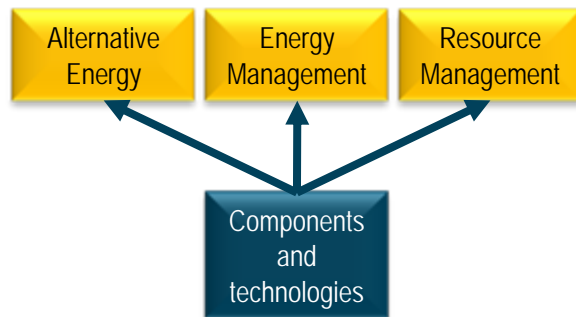


Net Number of Jobs Expected to be Created and Saved



Laying the Foundation for a Greener Economy

- The “green economy” has been identified as a major driver for creating jobs as well as reducing the country’s carbon emissions.
- IDC is taking a holistic approach to development of the industry:
 - Funding **alternative energy sources** such as wind and solar power;
 - Improved **energy management** including co-generation and conversion to more efficient technologies;
 - **Resource management**, incorporating improved waste management, recycling, etc.
 - Underpinning these will be the development of industries to supply **technology and components** in these areas.



Laying the Foundation for a Greener Economy (cont.)

Approved projects		
Solar projects: Pre-feasibility phase		
Project A	Northern Cape	50MW
Project B	Northern Cape	125MW
Project C	Northern Cape	125MW
Wind: feasibility		
Local project (6 sights)	Western Cape	450MW
International project	Kenya	300MW
Waste to Energy: Pre-feasibility		
Project A	Gauteng	1MW
Project B	KZN	2MW
Other approvals		
Other: feasibility		
Treatment and recycling of AMD (Acid Mine Drainage) installers	Gauteng	Approved funding for one assembler

- Electric car (Joule)
- Venture Capital Energy Efficiency technologies
- Cradock, Hoedspruit
- Rubber recycling
- Water recycling
- Steel recycling plant
- Solar grade silicon project
- Reducing waste to landfill
- Scrap processing plants

Pipeline	No of projects	
Renewable Energy		
Wind	11	1600MW
Solar CSP	3	192MW
Solar PV	4	21MW
Biogas	1	8MW
Hydro	1	4MW
Biomass to Energy	2	8MW
Energy Efficiency		
Co-generation	13	330MW
Retrofitting of buildings	5	
Smart Metering	3	
SWH	2	
Heat Pumps	2	
Venture Capital EE technologies	1	
Other		
Buses on compressed gas	1	
Waste Management & recycling	2	
Wind turbines & blades		
E-waste & recycling		



Metal Fabrication, Capital and Transport Equipment

- IDC is assisting local companies to take advantage of opportunities in SOE Capex programmes to ensure higher levels of employment outcomes.
- IDC's focus in this area includes:
 - Development and funding to suppliers of **rail equipment** for the Passenger Rail Agency of South Africa (PRASA) and Transnet;
 - Suppliers to Eskom's **build programme**.
- **Examples of activities in this area:**
 - Approval of R45 million to allow a women-owned business upgrading **commuter rail coaches** expanding to KwaZulu-Natal – expecting to create 163 jobs.
 - R30 million loan to a company **manufacturing ducting for the Medupi Power Station** – creating 213 jobs.



Revitalising Growth in the Manufacturing Industry (cont.)

Wood Products and Furniture

- IDC's activities in this area focuses on ensuring a stable supply of timber to the country as well as downstream development of the industry.
- As one of the industries hard hit by the recession, IDC approved funding to a major **forestry and sawmilling** company in Mpumalanga employing more than 4 000 people;
- The Corporation also assisted with the establishment of a **furniture manufacturing** facility as part of a backward integration strategy by a retailer creating 207 new jobs in the manufacturing sector.



Automotives, Components and Commercial Vehicles

- IDC is committed to support the development of the motor vehicle component industry through local production.
- During the year under review most of IDC's activities in this sector was aimed towards assisting companies experiencing distress as a result of the economic crisis.
- During 2009/10 approvals to the value of R376 million was made for motor vehicle component and transport equipment manufacturers, **expected to save 1 500 jobs.**

Textiles and Clothing

- The decline in this industry experienced over the past few years was exacerbated by the recession. In this industry, the IDC's role was two-fold:
 - Stem the tide of closures in factories and the resultant job losses in the **short-term**;
 - Work with industry and individual companies to provide **long-term** solutions to improve the industry's competitiveness.
- During the year, R292 million of funding was approved to assist companies in this industry improve their competitiveness and **save and create 2 100 jobs.**



IDC's approach to rural development is focussing on industries exploiting the advantages of specific areas:

Agro-Industries

- R34 million approved for the expansion of abalone farms in the Western Cape and to allow black entrepreneurs to acquire a stake in the business.
- Development of a 950ha citrus project to produce citrus at the Vaalharts irrigation scheme in the Northern Cape (R200 million) - Creation of ca 1 330 jobs, R750 million export earnings per annum, shareholding by communities.

Minerals and Beneficiation

- Development of South Africa's mineral wealth continues to hold great potential for creating jobs and building a strong base for downstream development.
- Establishment of a 3 million TPA manganese ore mine and a 2,4 million TPA sinter complex at Hotazel (Northern Cape) and a 320 000 TPA ferromanganese alloy production facility at Coega – (R3.6 billion) - Creation of 977 permanent job opportunities, 900 contract jobs and 3700 construction jobs. Earning of c.a. R10 billion foreign exchange per annum.



Selected Other Funding Activities

Other industry development activities:

- Participation in a comprehensive malaria review programme in conjunction with the World Health Organisation and Department of Health to investigate innovative solutions to the illness and identify industry development opportunities in this area.
- Funding for an additional two hospitals under the Township and Rural Hospital Scheme (R206 million).
- Development of the local film industry through a project that will focus on the production of low-budget films in partnership with the National Film and Video Foundation, the dti and the SABC.
- Continued support for the transport and logistics sector through wholesale funding to truck operators and addressing a need for air transport in the rest of Africa through funding players in the aviation sector.

IDC's Role during the Recession



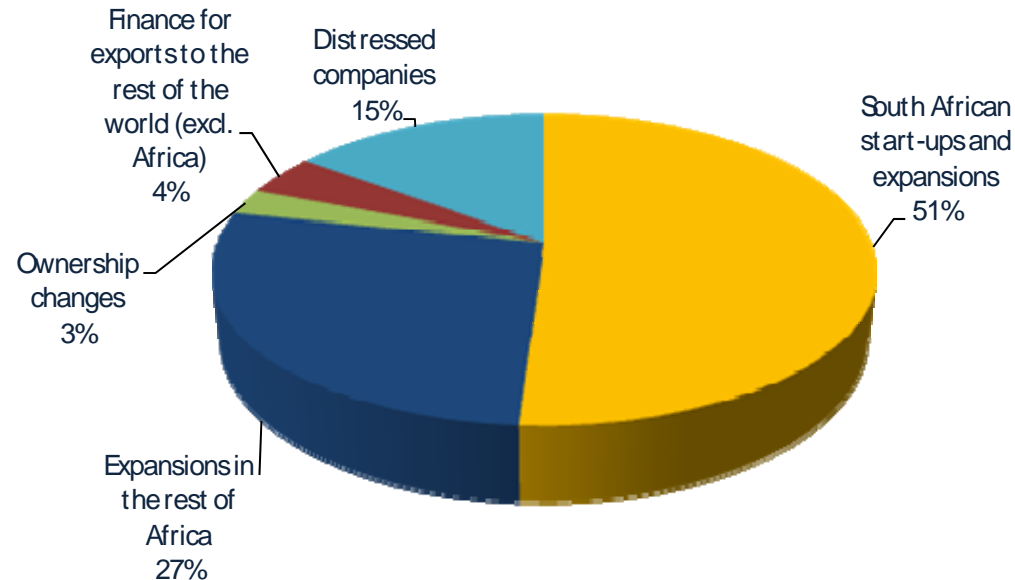
Your partner in development finance

- **Continued to provide funding despite tighter credit conditions:**
 - R9.4 billion of approvals during the year was the second highest achieved;
- **Made funding available for companies in distress as a result of the economic crisis:**
 - Uptake of funding below expectations, with R1.4 billion approved of the R6.1 billion allocated for the period to March 2011;
 - Actions being undertaken to increase awareness in most affected sectors;
- **Assisting sectors that were in long-term decline to improve competitiveness:**
 - Clothing and textiles industry benefited from Clothing and Textiles Competitiveness Scheme;
- **Proactive efforts to reduce cost of funding and pass on benefits to companies that are creating and saving jobs:**
 - Sourced funding from the Unemployment Insurance Fund (UIF) at low rates to be passed on to companies that are creating and saving jobs efficiently;
- **Ongoing support for IDC's existing clients through restructuring of funding facilities including deferments of payments at companies that are facing financial difficulties:**
 - In addition to the 28 companies receiving funding as part of the distressed funding scheme, IDC restructured an additional 60 existing clients' facilities.

Summary of Funding Approvals - Application of Funding

- Expanding the economic capacity in the country continues to be the most important objective, with 51% of approvals being applied for this purpose (2009: 53%);
- The rest of the continent continued to provide opportunities for investment, especially in the infrastructure, agriculture and manufacturing industries (2009: 27%);
- Funding for companies in distress directly as a result of the economic crisis made up 15% of net funding approvals (2009: 5%).

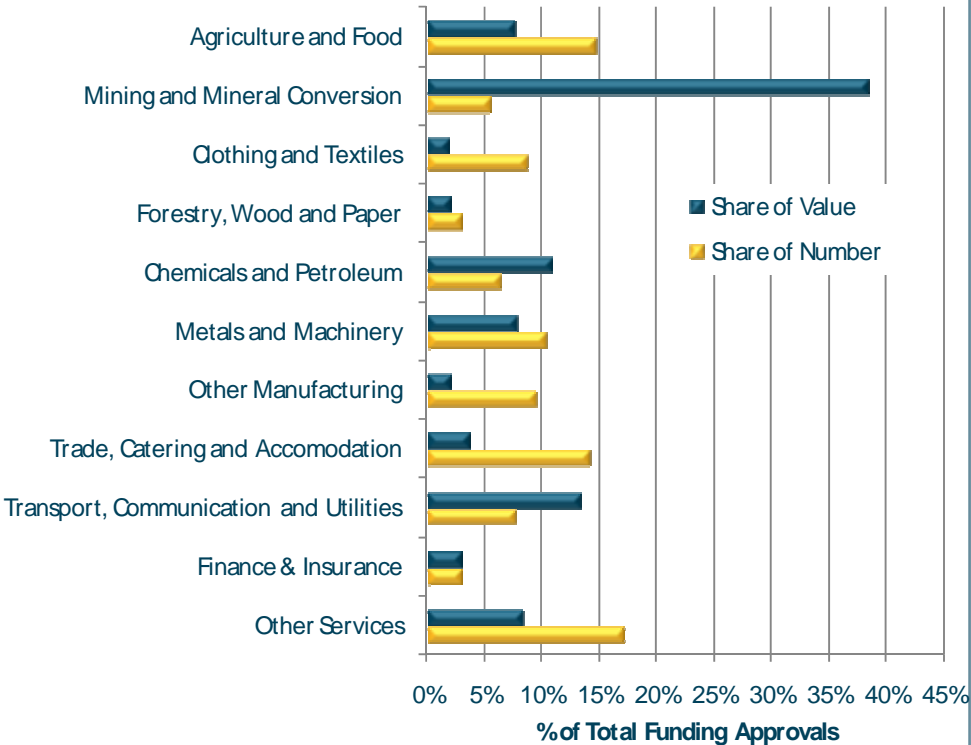
Application of Funding in 2009/10 % of Net Value of Approvals



Summary of Funding Approvals – Sectoral and Regional

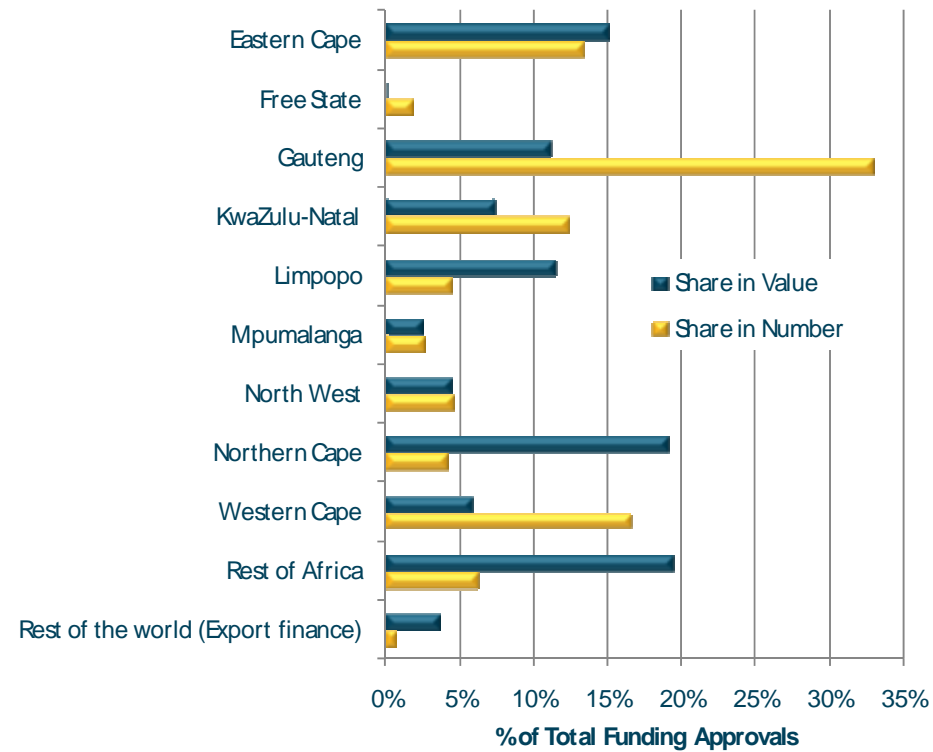
Sectoral Split of Funding Approved in 2009/10

Share in new approvals for the year



Regional Split of Funding Approved in 2009/10

Share in new approvals for the year



Case Studies

Businesses assisted by IDC



Case study: Greening the agricultural sector

African Realty Trust (ART) is one of the biggest family-owned citrus farming operations in South Africa, comprising approximately 1 100 ha **citrus** and 105 ha **banana plantations**. It has the second largest **fruit processing and juicing facility**, producing 120 000 tons each year in the Tzaneen area of Limpopo. The company **employs 660 people** and is a major job creator in the area. In 2006 ART was granted IDC facilities totalling R41 million to finance orchard rehabilitation, new plantings and a packhouse.

In 2010 the IDC approved a loan facility of R4,5 million to ART to **upgrade its existing peel drier furnaces in a fuel-switch project**. This will enable the operation to use wood biomass instead of coal. The project will **reduce carbon emissions** and utilise a renewable energy source which is a waste by-product of the timber production process.

Not only will the project result in savings for ART, it will also qualify for **Verified Emission Reduction (VER) income**. The number of VERs produced will be sold to the foundation myclimate, which has won a tender to provide 101 000 tons of CO₂e emission reductions to FIFA and two other customers to off set the emissions generated during the 2006 Soccer World Cup event held in Germany.

Other developmental impacts will be the generation of **nine additional job opportunities** in a rural area bordering the township of Nkowankowa outside Tzaneen, as well as income for a **workers' trust** to be established, since 10% of the VER revenue will be paid to this trust for the benefit of ART's workforce to assist with housing development and educational programmes.



Case study: Supporting new technologies

Multipit, a company based in George in the Western Cape, has developed a globally unique, automated tree planting (silviculture) machine. The patented machine clears slash, applies a weedicide spray, digs six pits, applies fertiliser and water and plants seedlings in one pass, which collectively results in the automatic planting of new tree seedlings. The development of the technology has taken four years.

The Multipit technology offers forestry companies a number of potential advantages over conventional manual operations, including uniformity of pits and the potential to plant 24 hours per day, enabling them to make better use of a short planting season. The Multipit machine is able to plant between 2 000 and 3 000 seedlings per day. The technology is in line with a global trend towards mechanising the plantation process.

IDC's venture capital investment in Multipit will facilitate the finalisation and testing of the prototype machine and the subsequent industrialisation and commercialisation of the technology. The technology is expected to be commercialised within the next two years. The project is expected to create 15 new jobs over the next five years and the technology is expected to be exported as part of the medium-term commercialisation strategy. The investment also creates an empowerment opportunity as the IDC has the right to exit to a BEE party.



Case study: Improving access to healthcare

As part of the Township and Rural Hospital scheme, the Healthcare and Education SBU provided R8 million to fund a clinic in Cosmo City, a unique mixed development comprising lower, middle and upper income residents in Johannesburg.

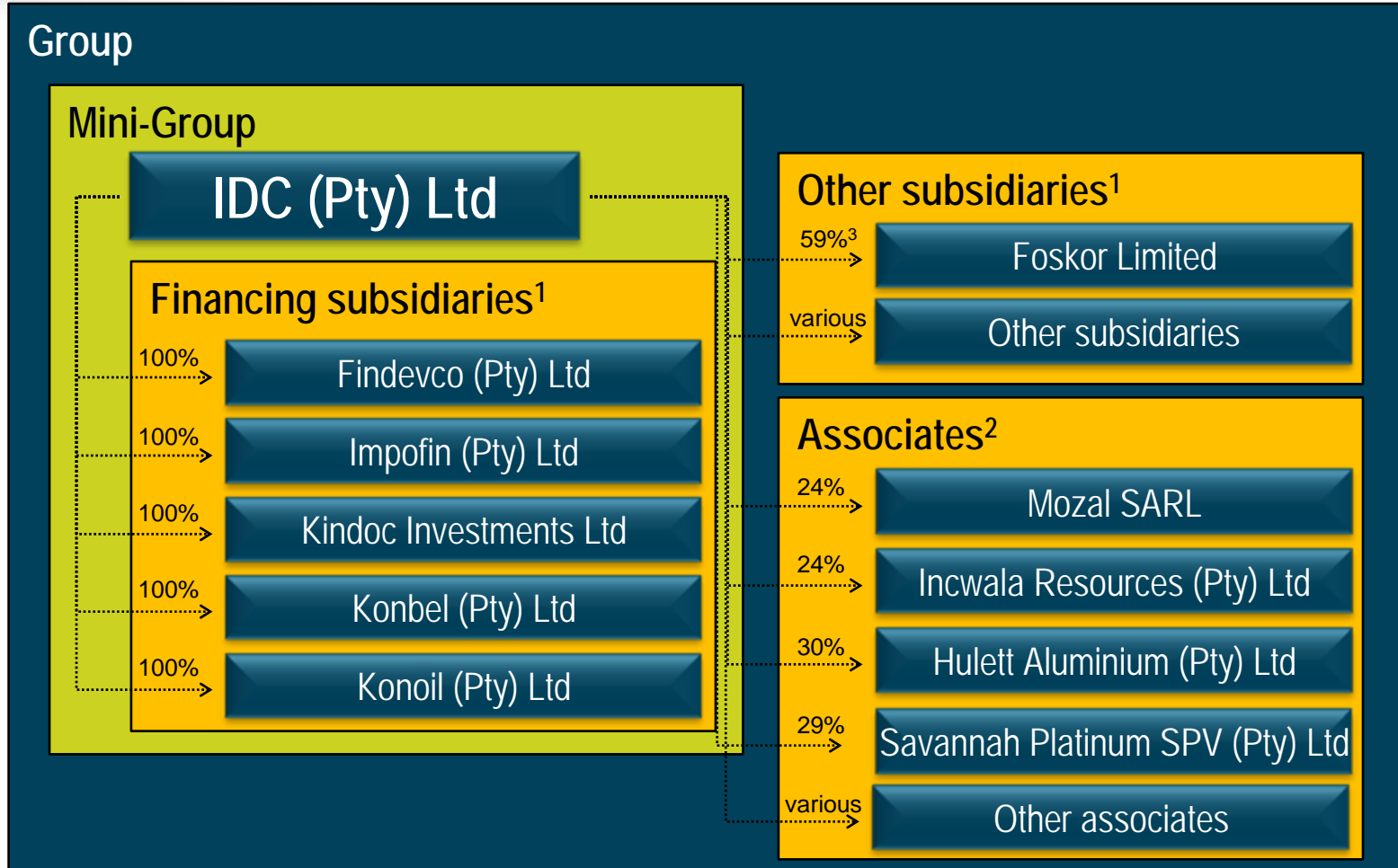
The funding was approved under the IDC's Township and Rural Hospital scheme, a funding vehicle to develop independent black-owned and managed hospitals and clinics, serving lower income and previously disadvantaged communities.

The project is in line with government's objectives of making healthcare affordable and accessible to a broader section of the population. The clinic will provide services that are accessible within walking distance and holistic in terms of providing all aspects of primary healthcare. Many of the patients visiting the clinic are cash-paying and uninsured. The clinic will serve Cosmo City's estimated population of 50 000 people.



Financial Results





As shown in Annexures A and B in the financial statements

1 – Companies in which IDC holds more than 50% equity

2 – Companies in which IDC holds between 25% and 50% equity

3 – Legally, the IDC own 59% but for accounting purposes 85% of Foskor is consolidated into the IDC

Abridged Group Statements of Comprehensive Income

for the Year Ended 31 March 2010 – R'm

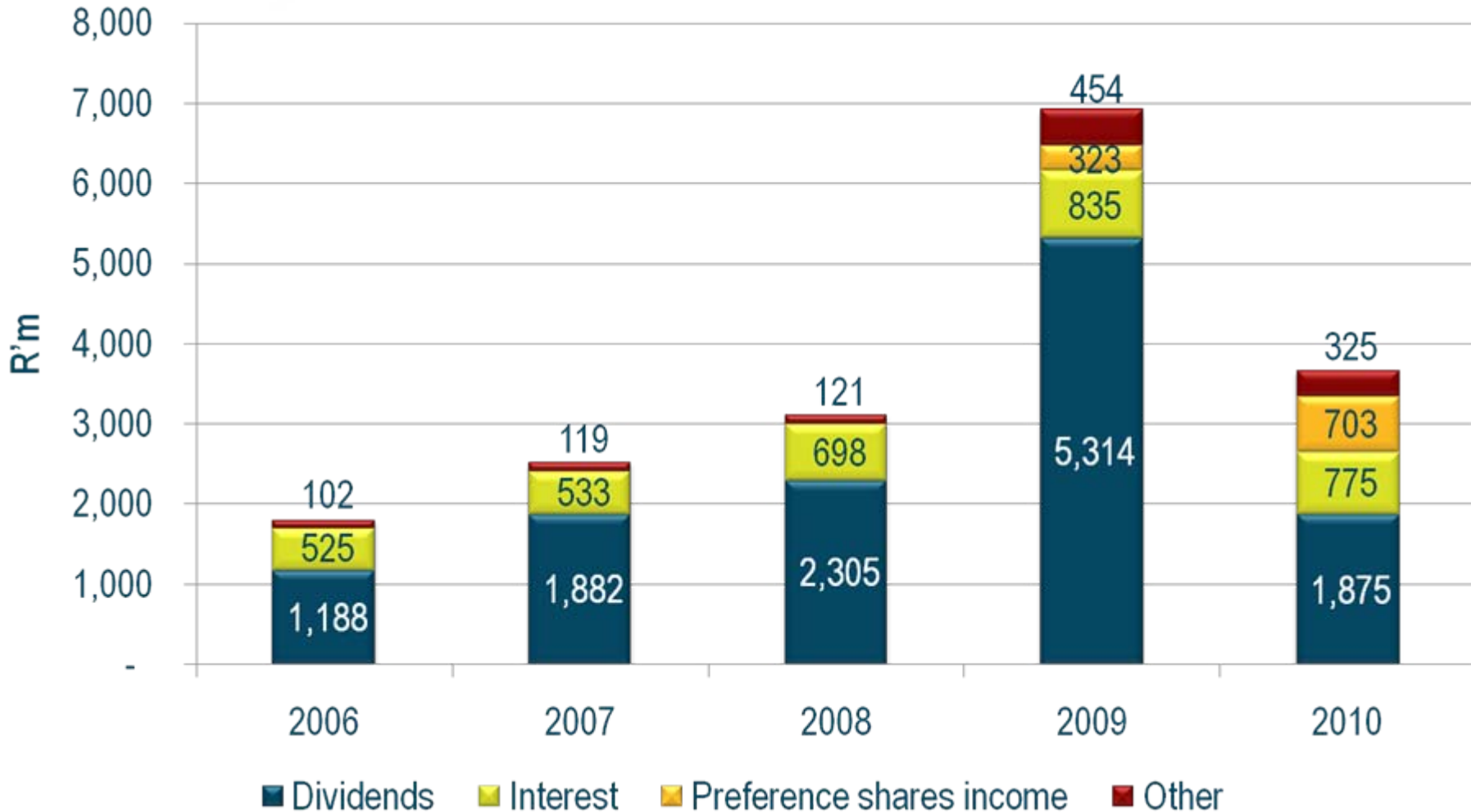


Your partner in development finance

	Group 2010 Actual	Group 2009 Actual	% change
REVENUE	7 785	14 985	(48)
COST OF SALES	2 565	5 162	(50)
FINANCING COSTS	528	570	(7)
GROSS PROFIT	4 692	9 253	(49)
Net capital gains	573	128	348
Other income	159		NMF
Operating expenses	3 416	4 067	(16)
NET OPERATING INCOME	2 008	5 314	(62)
Share of profit of equity-accounted investments	40	1 132	(96)
PROFIT BEFORE TAX	2 048	6 446	(68)
Taxation	(181)	825	(122)
PROFIT FOR THE YEAR	2 229	5 621	(60)
OTHER COMPREHENSIVE INCOME/(LOSS) NET OF TAX	12 406	(16 368)	176
TOTAL COMPREHENSIVE INCOME/(LOSS)	14 635	(10 747)	236

Sources of Income – Mini group

– R'm



Note 20 in the financial statements show figures for the group and IDC. The figures reflected above are for the mini-group as shown on a previous slide

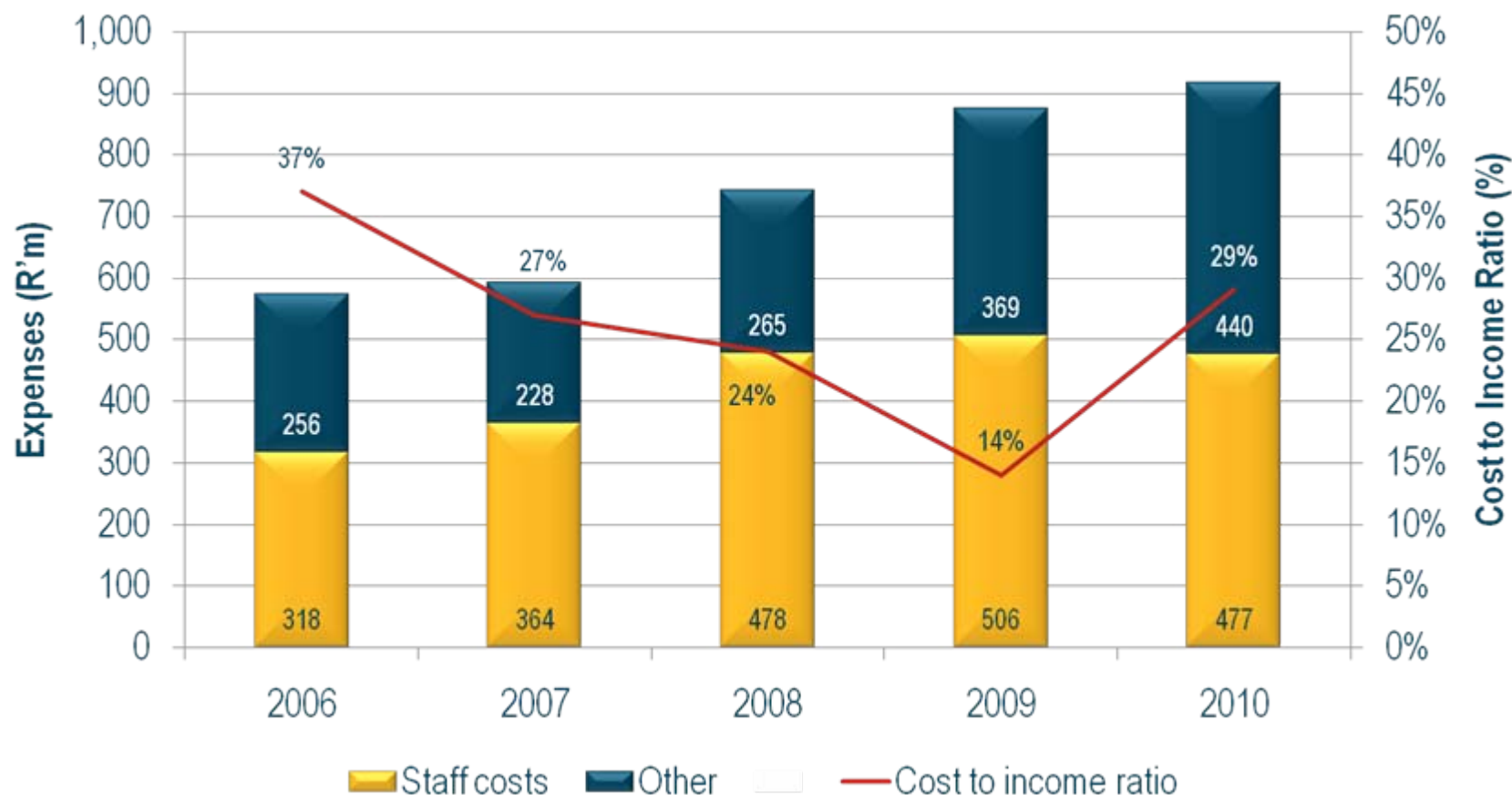
Administration Expenses – Mini group

– R'm



Industrial Development Corporation

Your partner in development finance

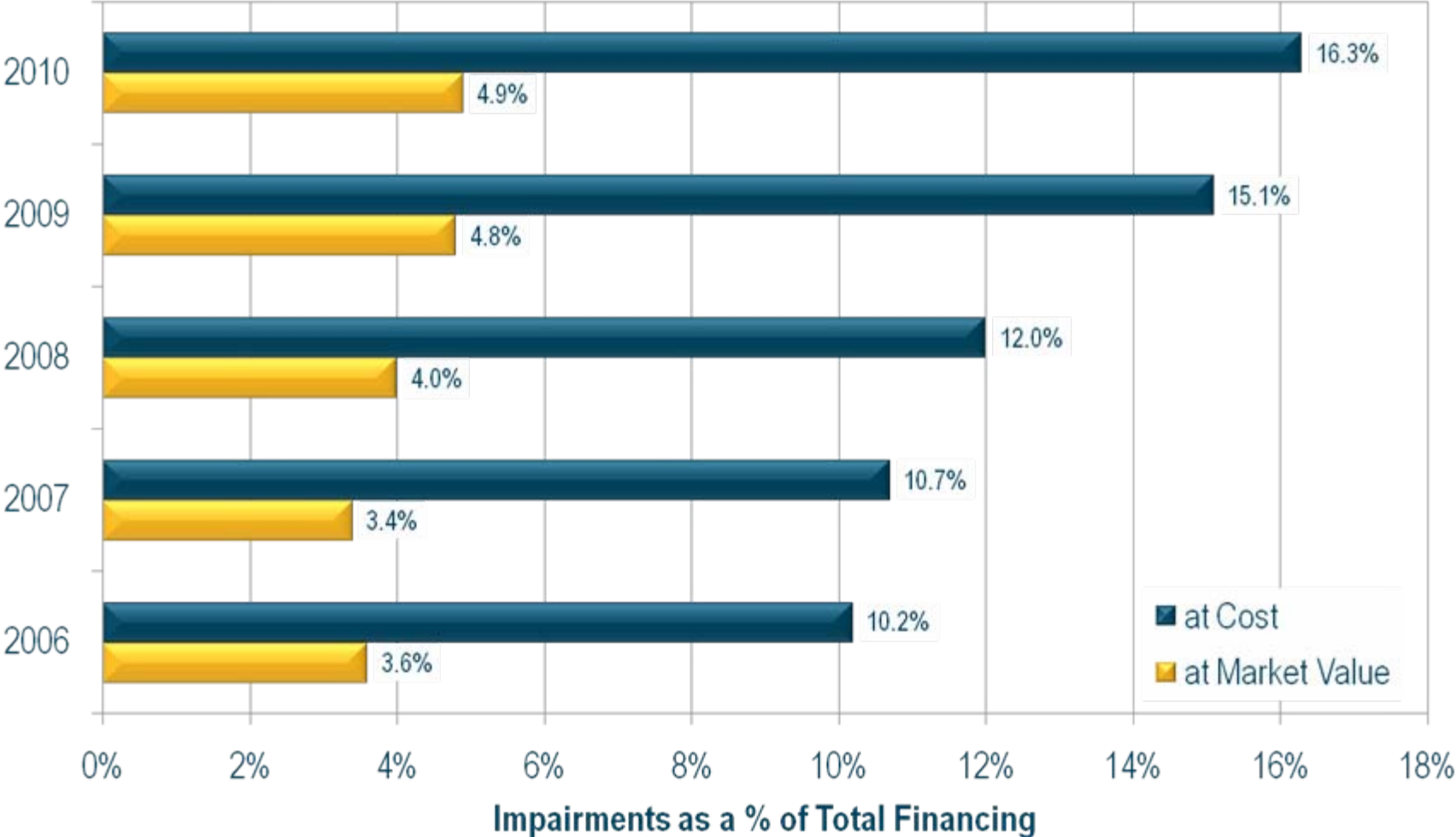


Impairments as a % of Total Financing



Industrial Development Corporation

Your partner in development finance

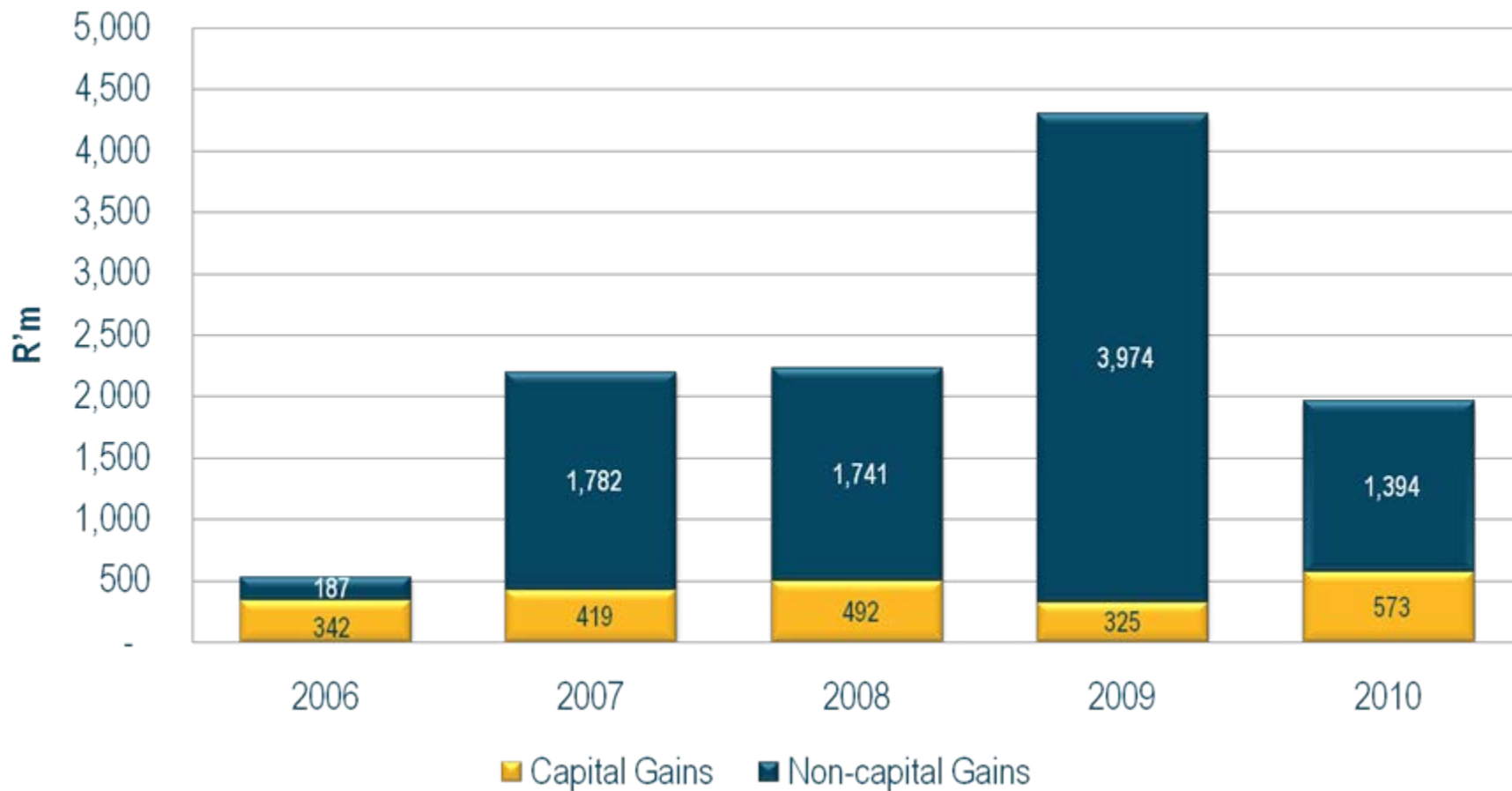


Analysis of Net Profit - R'm



Industrial Development Corporation

Your partner in development finance



Abridged Group Statements of Financial Position

as at 31 March 2010 – R'm



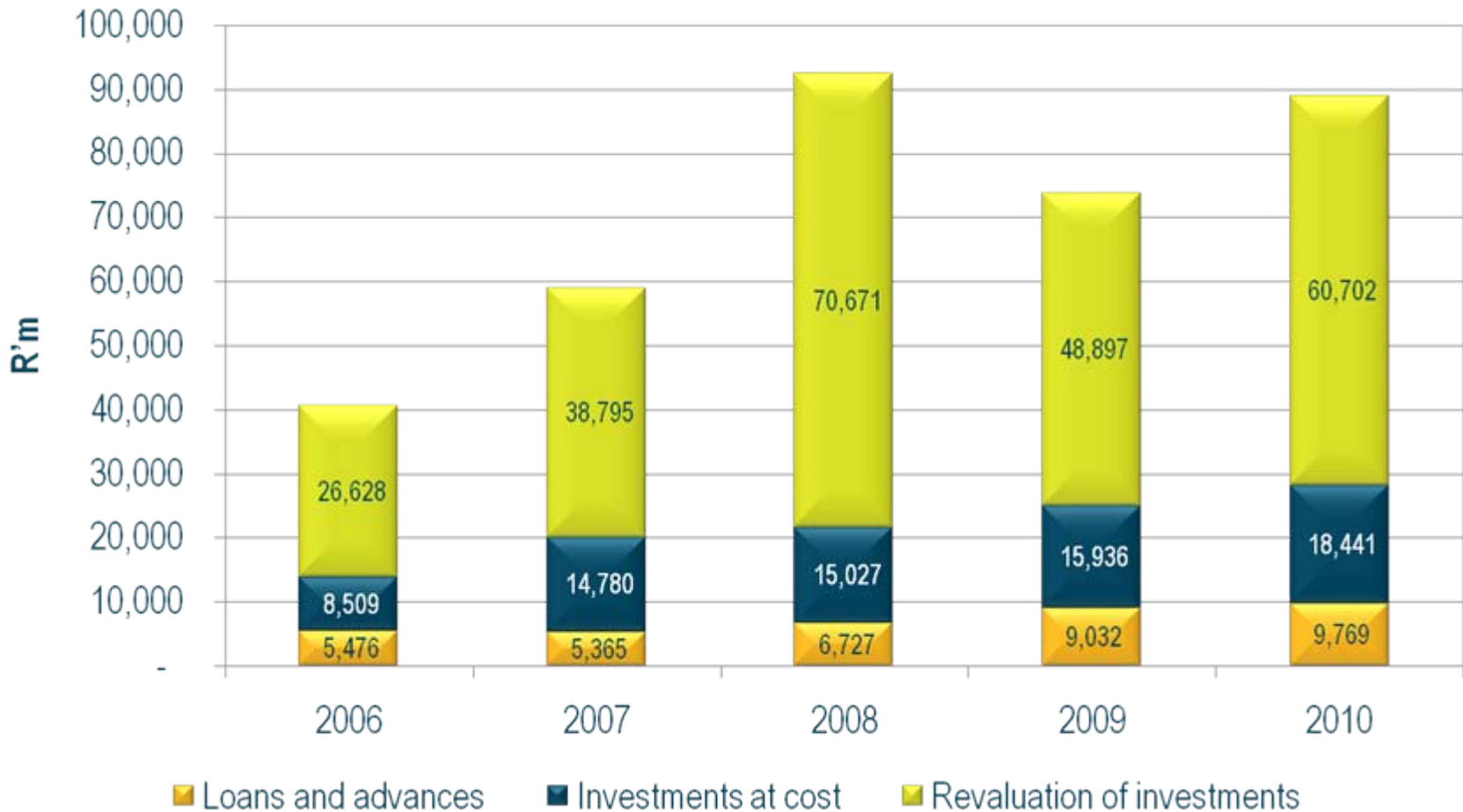
Industrial Development Corporation

Your partner in development finance

	Group 2010 Actual	Group 2009 Actual	% change
ASSETS			
Cash and cash equivalents	2 866	5 607	(49)
Loans and advances	10 374	8 820	18
Investments	68 891	53 059	30
PPE and Inventories	5 012	3 853	30
Other Assets	1 488	2 038	(27)
TOTAL ASSETS	88 631	73 377	21
EQUITY			
Share capital	1 393	1 393	-
Reserves	77 796	63 294	23
Total equity attributable to the holders of the parent	79 189	64 687	22
Minority shareholders' interests	366	358	2
LIABILITIES			
Loans	3 527	5 165	(32)
Deferred taxation liability	3 795	1 171	224
Creditors and provisions	1 754	1 996	(12)
TOTAL LIABILITIES	9 076	8 332	9
TOTAL EQUITY AND LIABILITIES	88 631	73 377	21

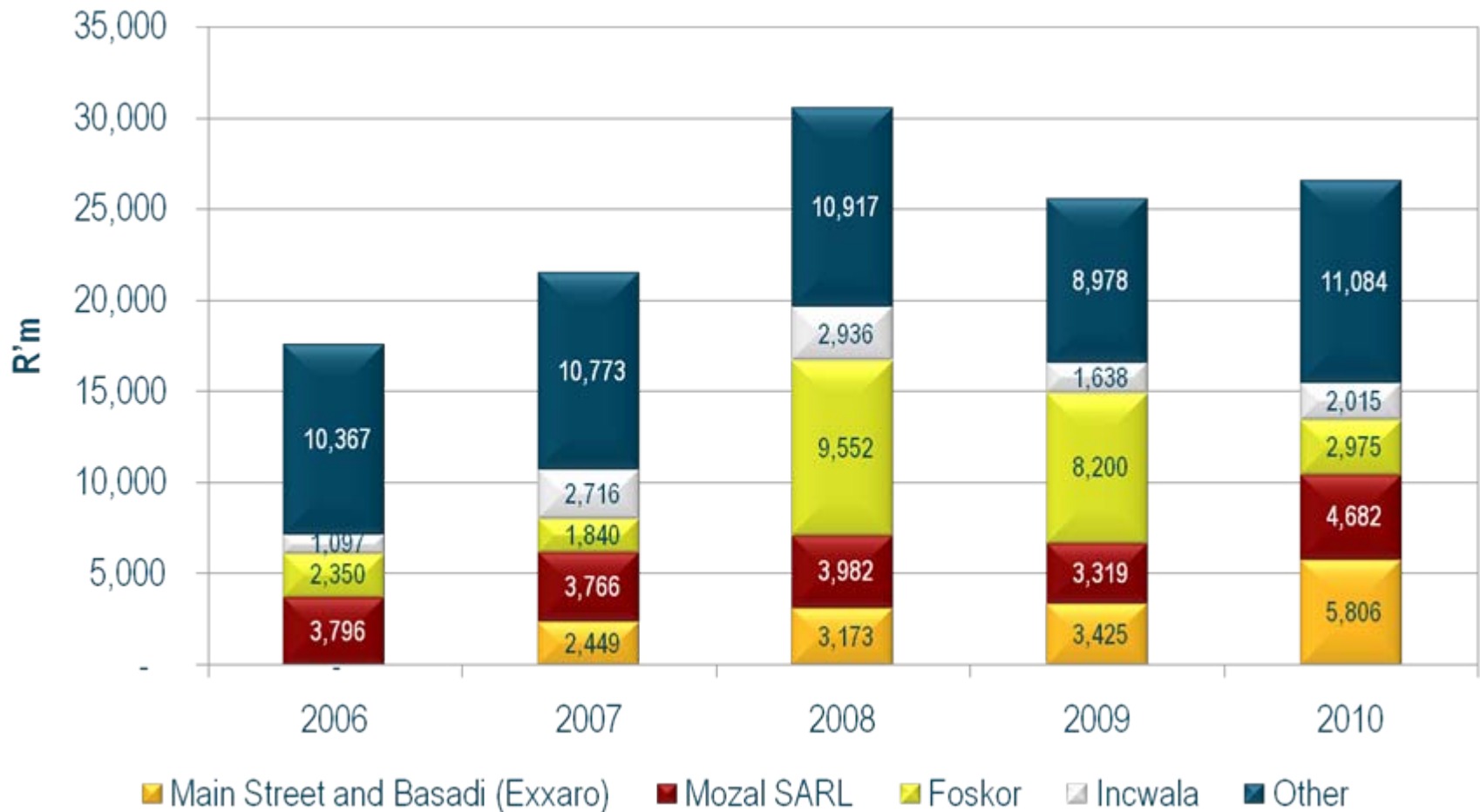
Total Assets – Mini group

– R'm

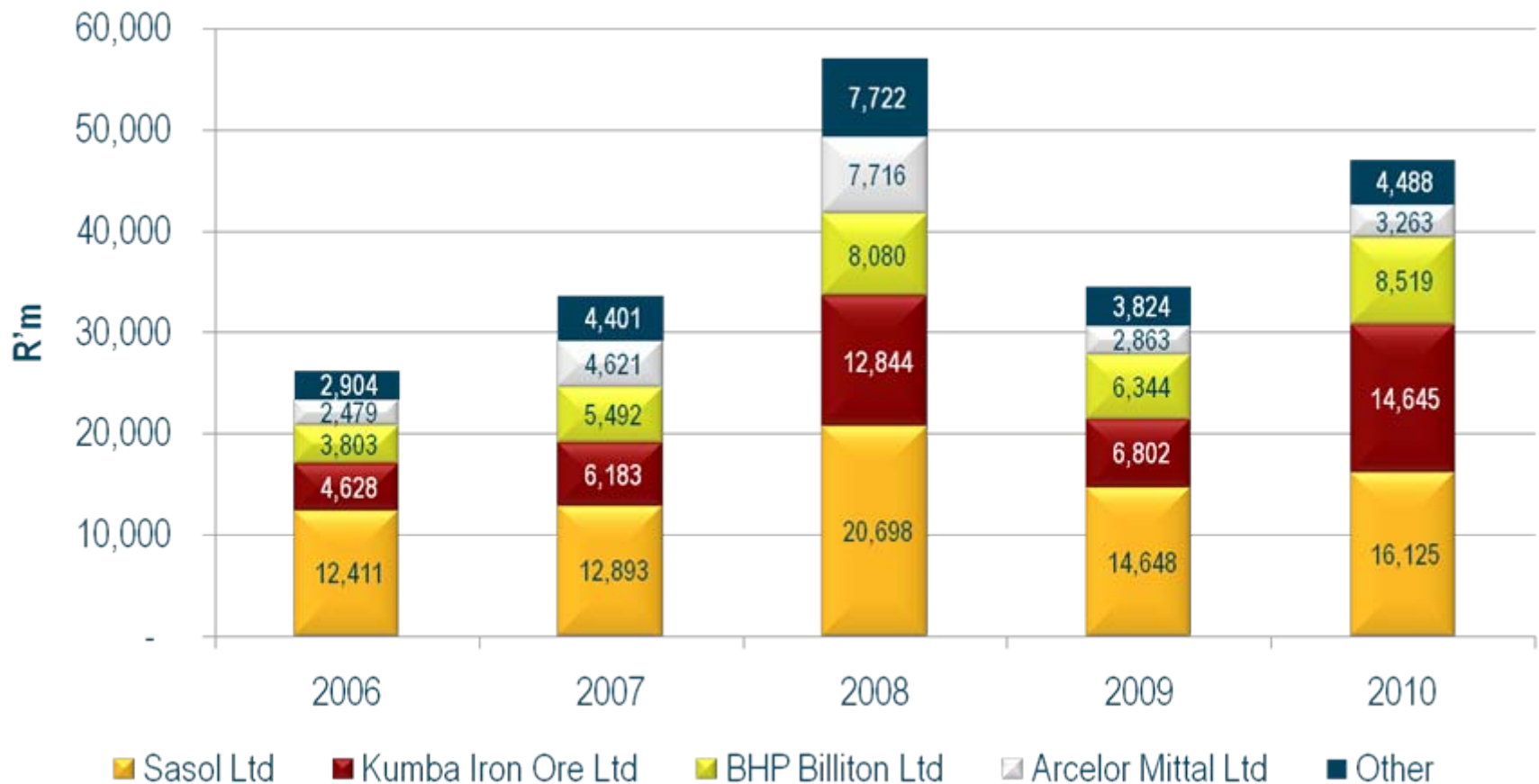


Note 1 in the financial statements show figures for the group and IDC. The figures reflected above are for the mini-group as shown on a previous slide

Unlisted Investments - R'm



Listed Investments – R'm

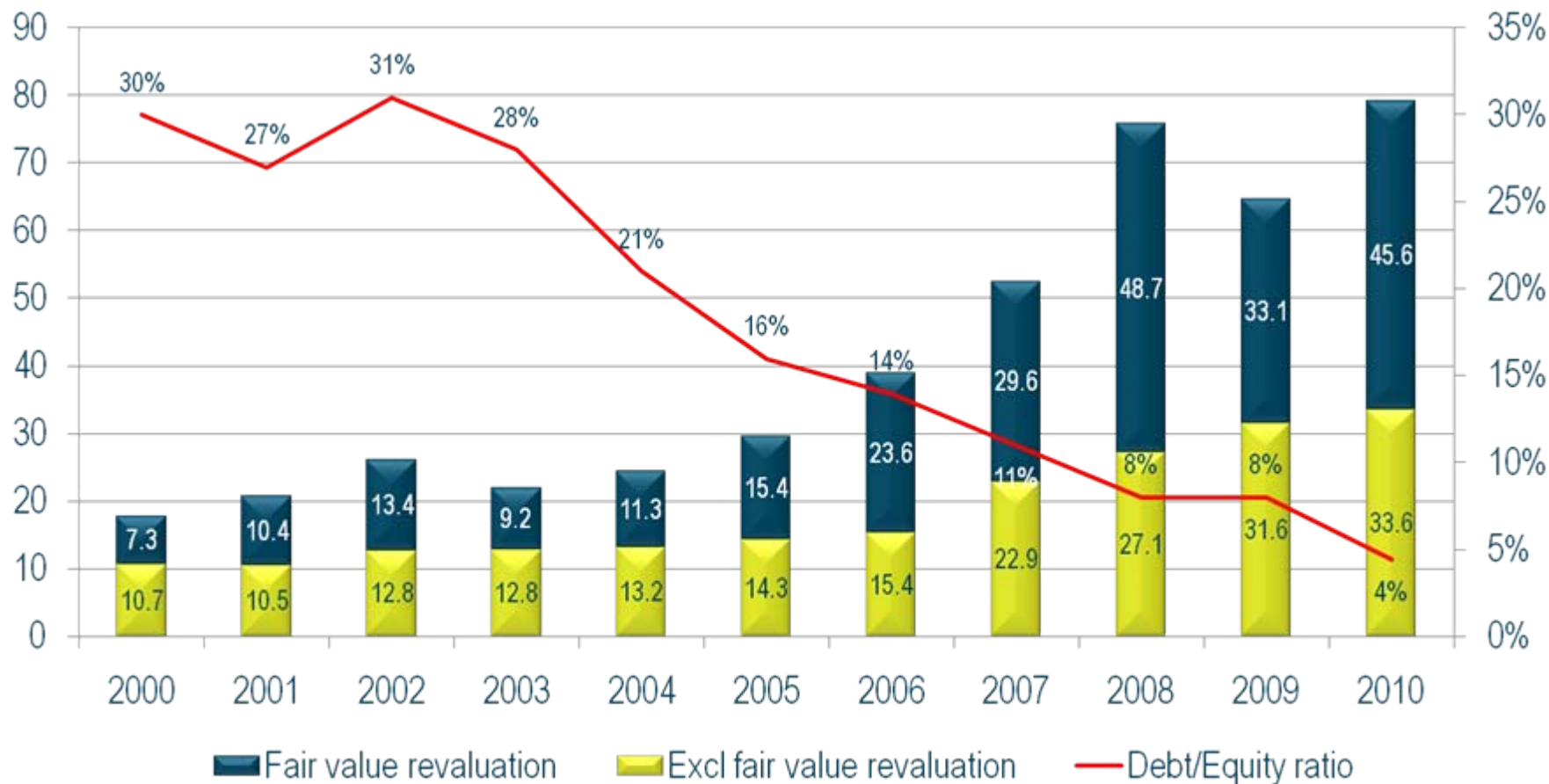


Capital Base – R'bn



Industrial Development Corporation

Your partner in development finance



Audit



Board Audit Committee – Sub-committee of the Board

Objectives:

- Monitor the adequacy of financial controls and reporting;
- Review audit plans and adherence to these by external and internal auditors;
- Ascertain the reliability of the audit;
- Ensure that financial reporting complies with IFRS and the Companies Act;
- Review and make recommendations on all financial matters and recommend auditors to the Board.

Composition:

- 4 non-executive directors
- 2 independent non-executive committee members
- CEO
- Chaired by a suitably qualified independent non-executive director
- CFO, CRO, Head Internal Audit, Head IT are invitees

Independent Internal Audit function

- Direct line of communication to the chairman of the Board Audit Committee
- Follows risk-based audit approach
- Fraud prevention policy and response plan (awareness campaign, hotline, notification process for whistle-blowing, delinquent register, etc.)
- Governance audits on main investee companies
- Systems and procedures (Internal Audit ensures compliance)
- IT reviews
- Internal forensic capacity



Report of the External Auditors

- **Misstatements**

- All misstatements have been corrected in the published financial statements.
- Most of the misstatements were as a result of a difference in interpretation between the auditors and IDC management.
- No internal control deficiencies were observed by the auditors.

- **Compliance with laws and regulations**

- Exemptions from section 92 and alternative arrangements for sections 51(1)(g), 54(2) until October 2011.
- No material non compliance with the PFMA.

- **Internal control**

Fundamental of internal control Objectives of internal control	Operational	Accountability and reporting	Compliance	Safeguarding of resources
	Achieved?	Achieved?	Achieved?	Achieved?
Leadership				
• Oversight responsibility	Yes	Yes	Yes	Yes
• Tone at the top	Yes	Yes	Yes	Yes
• Action to mitigate risks	Yes	Yes	Yes	Yes
Financial and performance management				
• Quality reliable AFS	Yes	Yes	Yes	Yes
• Proper record keeping	Yes	Yes	Yes	Yes
• Adequate systems	Yes	Yes	Yes	Yes
Governance				
• Risk identification	Yes	Yes	Yes	Yes
• Fraud prevention	Yes	Yes	Yes	Yes
• Internal audit	Yes	Yes	Yes	Yes
• Audit committees	Yes	Yes	Yes	Yes

- Certain findings related to monitoring of user accounts, system patches, password strength and audit policy configuration
- Several non-material administrative matters have been identified and are being addressed

Performance against targets



Performance against short-term targets

Short-Term		
Parameter (Weight)	Activity / Output Target	Performance
Expected number of jobs created and saved in South Africa* (22%).	37 745 jobs saved and expected to be created through funding approvals, with at least 8 554 of these jobs in rural areas.	19 300 jobs saved and expected to be created through funding approvals. 9 651 of these jobs will be in rural areas.
Number of funding approvals to SMEs* (7%).	Approve 145 transactions to SMEs	124 transactions to SMEs approved
Value of approvals benefiting the development of the rest of Africa* (6%).	Approve R1.8 billion for the development of the rest of Africa.	R2.4 billion approved for the development of the rest of Africa.
Disbursement of funds, excluding disbursement of distressed funds (15%).	Disburse funding of R5.3 billion.	Funding of R4.8 billion disbursed.
Dividend income from unlisted investments (9%).	Dividend income of R530 million.	Dividend income of R320 million
Gross interest margin (13%).	Achieve a margin on loans of 1.8% with income from fees and other items of at least R102 million.	Margin of 2.3% achieved. Fee and other income of R109 million.
Impairments, bad debt write-offs and project impairments charge to income statement (9%).	Limit the impact of impairments to R1 270 million.	Impairments impact on income statement of R1 202 million.
Operating expenses (excluding impairments and project expenses) (9%).	Limit operating expenses to R1 034 million.	Operating expenses of R917 million.
Improve customer satisfaction (9%).	Achieve a customer satisfaction rating of at least 86.	Customer satisfaction rating of 84 achieved.

Performance against long-term targets

Long-Term		
Parameter (Weight)	Activity / Output Target	Performance
Actual job creation vs. budgeted job creation (20%).	At least 80% of gross budgeted jobs should be created.	57% of jobs created and sustained.
Support the implementation of IPAP (10%).	Develop sector specific strategies for the implementation of IPAP.	Strategies developed.
Ensure IDC's long-term financial sustainability by ensuring that unlisted investments yield sufficient returns (15%).	Average annual growth in fair value of unlisted investments to exceed 12.3% per annum.	Growth of 11% per annum recorded over past three years.
IDC profitability, including unrealised returns (10%).	Achieve 10.4% return on assets, including unrealised returns.	17% return realised.
Manage the quality of IDC's portfolio of investments (20%).	Impairments and write-offs as a percentage of the average portfolio valued at cost should be below 17.3%.	Achieved a percentage of 16.3%.
Reduce the staff turnover of management and professional employees (9%).	Reduce staff turnover to below 9%	Average staff turnover for management and professional staff over three years at 10%.
Ensure good stakeholder relations (13%).	Achieve a score of 51.7 in stakeholder perceptions survey.	Score of 50.7 achieved.

General



Prospects for the year



Industrial Development Corporation

Your partner in development finance

- Implementation of IPAP2 and the new Growth Path
- Continuous improvement needed in improving turnaround times
- Need to increase impact on job creation
- Regional interventions



Industrial Development Corporation

Your partner in development finance

Thank you

Industrial Development Corporation
19 Fredman Drive, Sandown
PO Box 784055, Sandton, 2146
South Africa
Telephone (011) 269 3000
Facsimile (011) 269 2116
E-mail callcentre@idc.co.za

