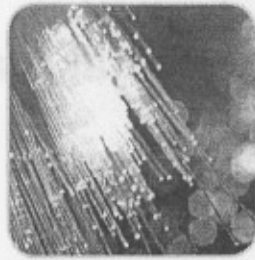


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**Presentation to Portfolio Committee –
22 October 2010**

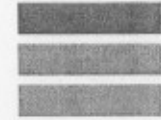
**Response to
Recommendations made by
the Portfolio Committee on
DPE's Annual Report**



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- **The Role of the SOE in the IPAP / Developmental State**
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 - Corporate governance
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 - Risk management
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 - Use of consultants in the DPE
 - Background to SAA Airbus contract



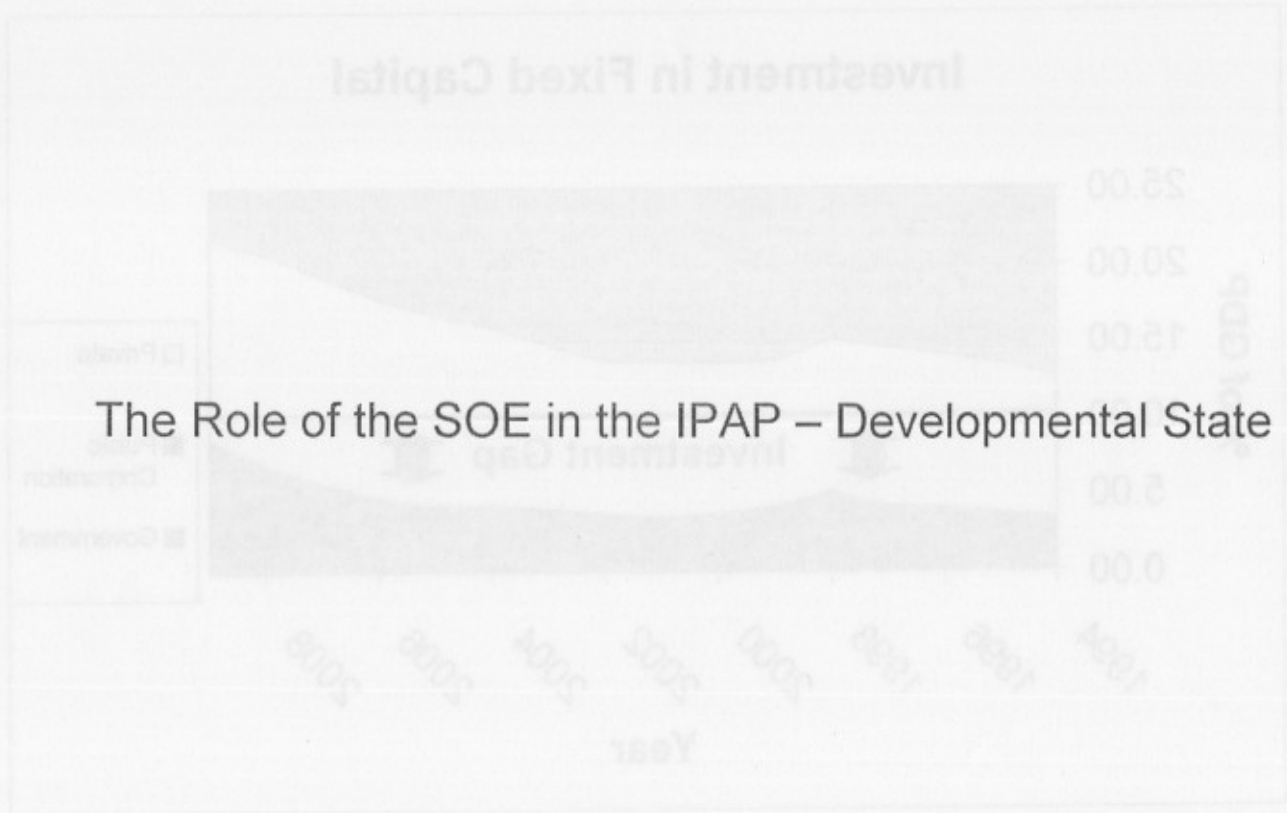
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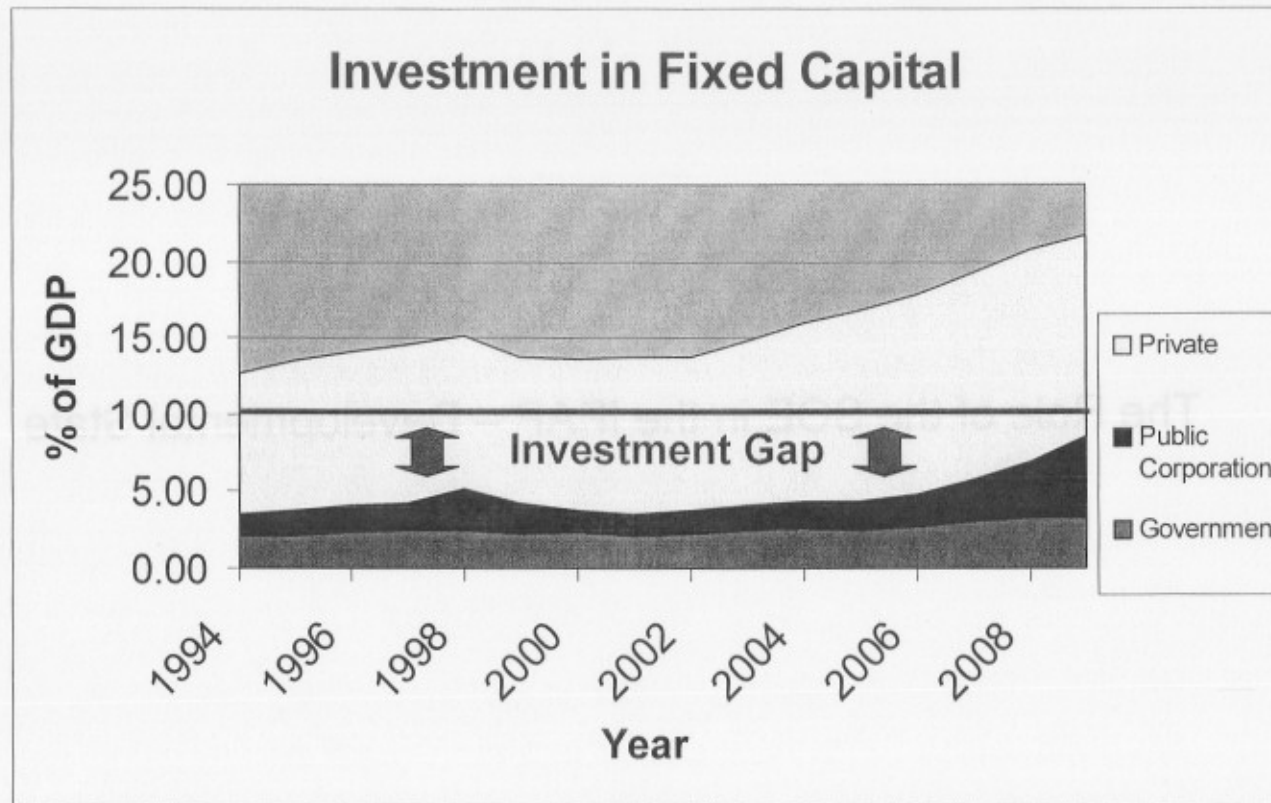
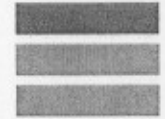


The key backdrop to SOE investment programme is 11 years of structure investment at around 5% of GDP between 1994-2004

The Role of the SOE in the IPAP – Developmental State



The key backdrop to SOE investment programme is 11 years of infrastructure investment at around 5% of GDP between 1994-2004



➔ **Public investment shortfall from 1994-2009 benchmarked based on 10% GDP investment in infrastructure of approximately R1,5 trillion in 2010 rands.**



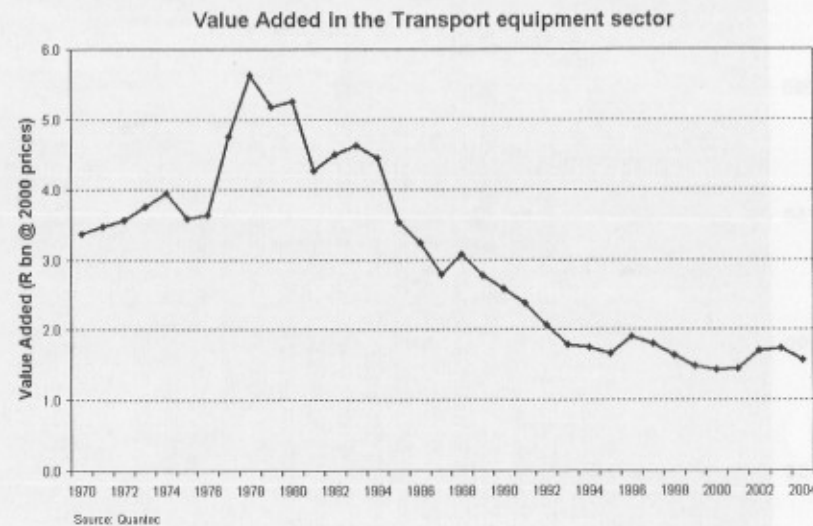
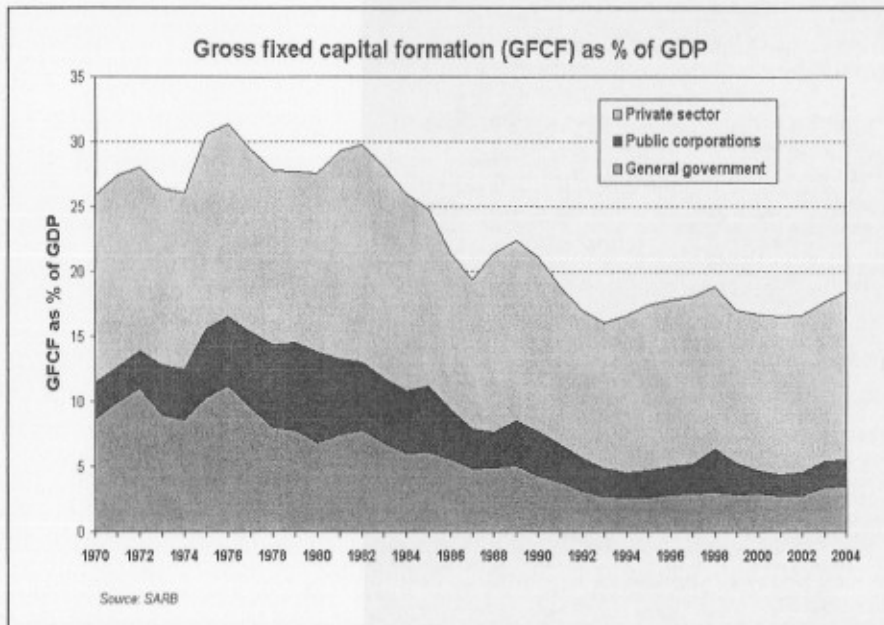
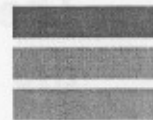
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A key strategic insight is that there is an industrial complex associated with infrastructure provision – this complex declined with infrastructure spend



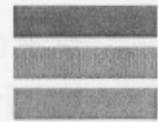
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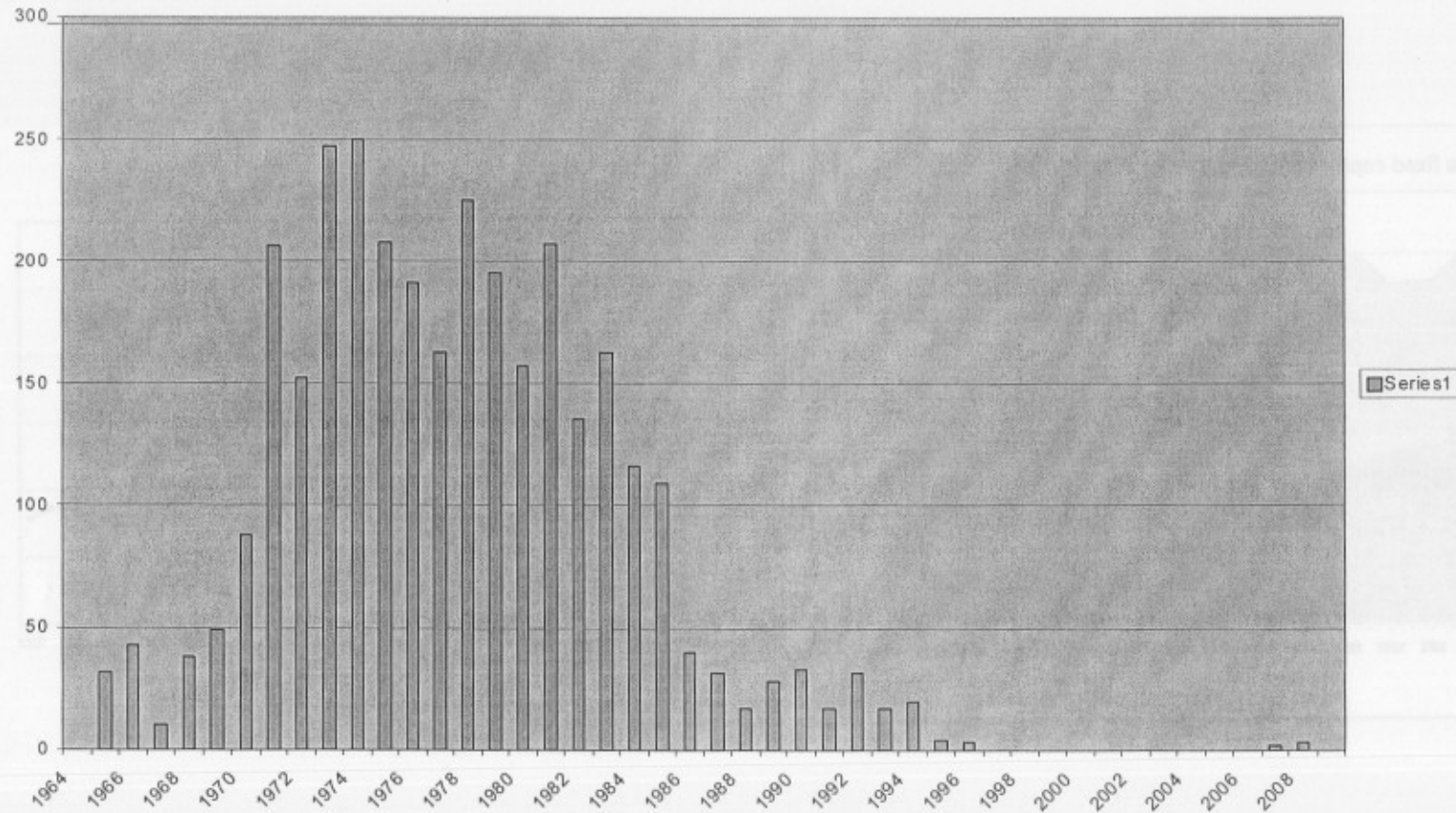


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The impact on supplier industries was also seriously exacerbated by the lumpy nature of the procurement



Number of Locomotives Procured



Average of approximately 80 locomotives a year over 40 years



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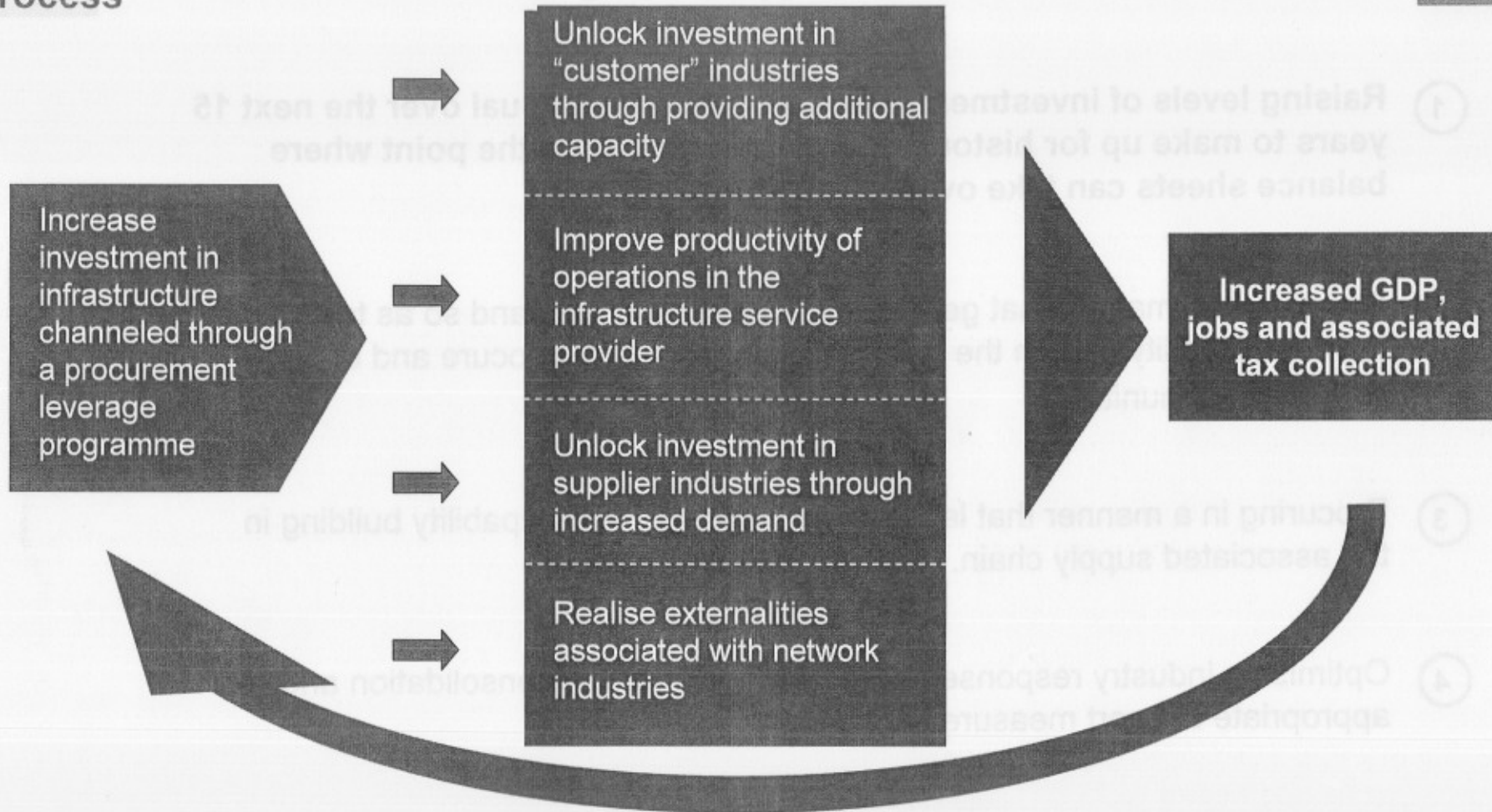
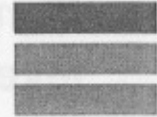
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State owned enterprises

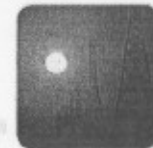
The role of SOE in industrial policy is to drive and leverage investment in infrastructure, enabling an infrastructure driven growth and industrialisation process



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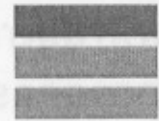
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Sustained Growth Requires
Continuous Investment!!!



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Consequently, for the SOE to implement an effective procurement leverage programme there are four key challenges



- ① Raising levels of investment beyond business as usual over the next 15 years to make up for historic under-investment (to the point where balance sheets can take over).
- ② Planning in a manner that gets to a steady state of demand so as to enable the sustainability of both the enterprise's capability to procure and of their supplier communities.
- ③ Procuring in a manner that leverages investment and capability building in the associated supply chain.
- ④ Optimising industry response to the demand (through consolidation and appropriate support measures and incentives).



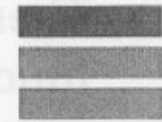
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Investment planning needs to take four levels of funding requirement into account – or we will have missed something out



- ① Planning based on the balance sheet capability of the SOE – that is, no additional capital provided by the State.
- ② Planning based on de-constraining growth – that is, ensuring that all existing customer requests for capacity are met.
- ③ Planning to lead growth – that is, to create business confidence that there will be capacity to meet business needs should existing and potential SOE customers embark on a new investment programme
 - Change perceptions of SA as an investment destination.
- ④ Planning to realise positive externalities not related to customer demand
 - E.g. moving goods from rail to road decreases road damage, road congestion, carbon emissions and increases safety.



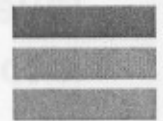
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There are a number of sources of capital that we need to explore to fund the investment programmes



- ① Business as usual means using retained earnings (profits) as capital investment for future programmes and leveraging them with debt - **the problem is that this is inadequate given the historical shortfall.**
- ② Additional equity injections from the fiscus – either as direct capital or as loan guarantees – need to be more creative but also limited to address the problem.
- ③ Leveraging capital investment in specific projects or capacities from large customers – e.g. energy intensive users for electricity.
- ④ Entering in compacts with large financial institutions (Banks, Insurance Companies, Pension Funds) to establish specialised quasi capital instruments.
- ⑤ Encouraging private sector investment as either SOE strategic equity partners or competitors.

➔ **Significant work needs to be done to explore options 3,4 and 5.**



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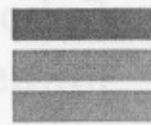
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10

structure improvement to meet the needs of a growing economy
m's five year expenditure of more than R350 billion is part of the



Eskom's Investment Programme



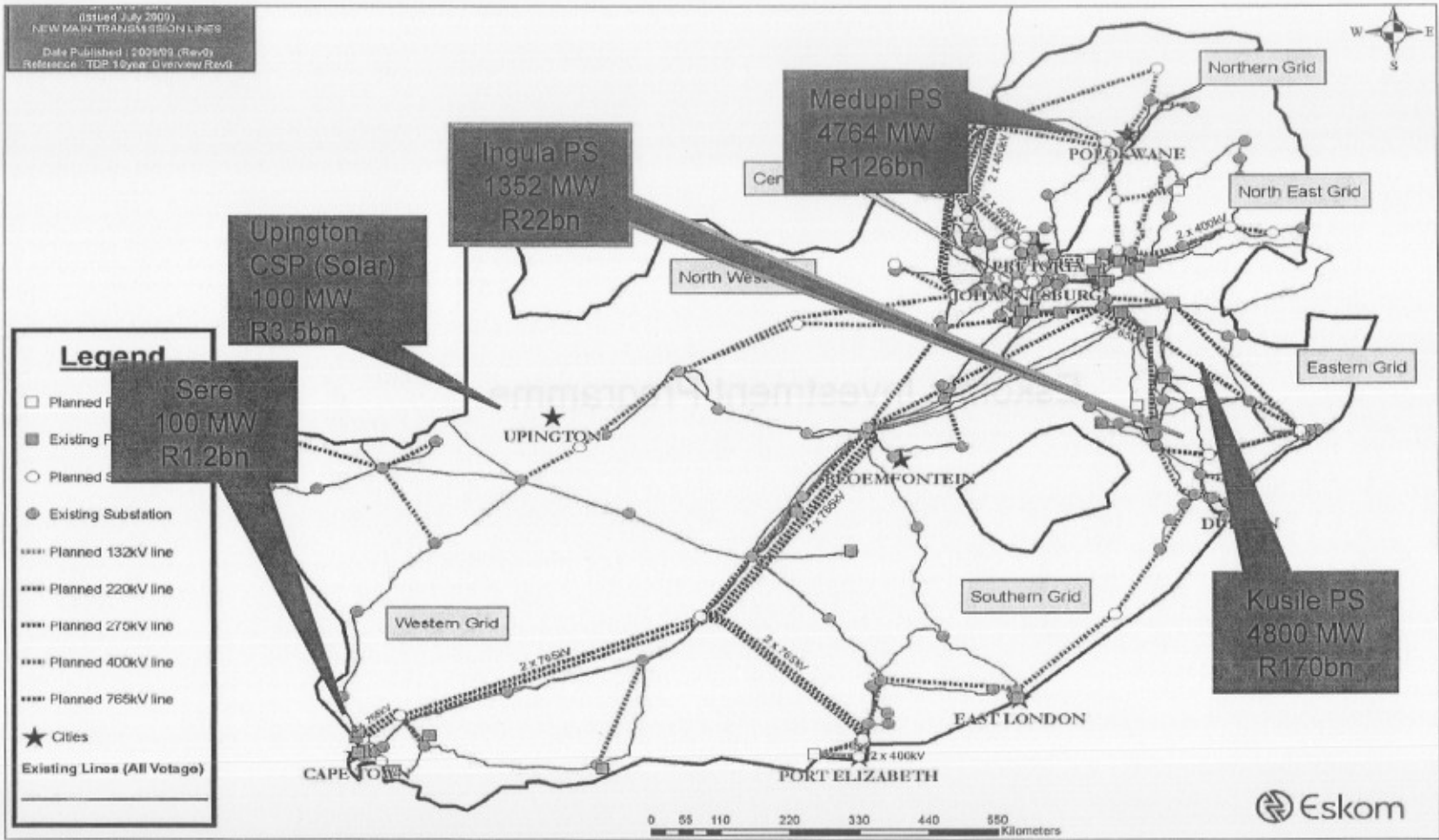
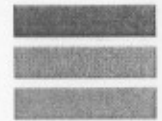
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Eskom's five year expenditure of more than R350 billion is part of the infrastructure improvement to meet the needs of a growing economy

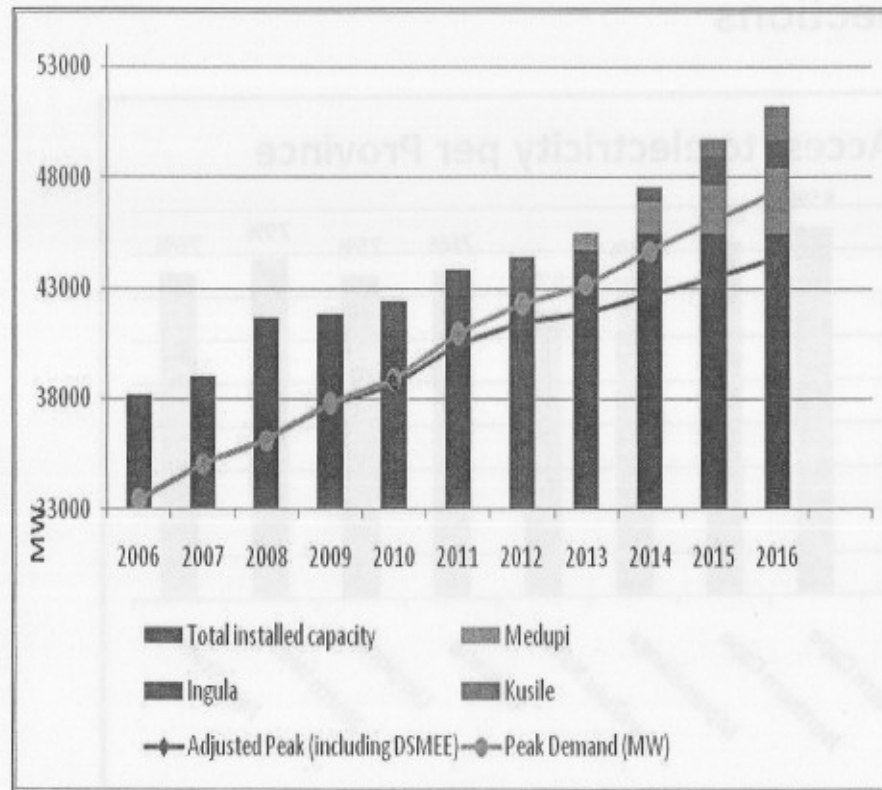
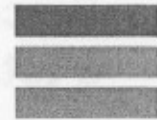


Transmission projects include:

- Cape Grid :
 - Cape, E London, Kimberly strengthening
- Empangeni strengthening
- Northern Grid (Kusile sand Medupi)
- Central (Ingula, Johannesburg North and East)



Security of supply will rely heavily on the timeous delivery of key build projects



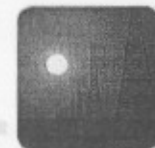
The graph highlights the supply demand relationship going forward based on the Build programme. The security of supply over the next few years will rely heavily on the on-time completion of Medupi, and demand side management. Private sector investment and Renewable Energy (RE) will assist in reducing risk.

* Based on IRP 1 projected, subject to change once IRP 2 is published



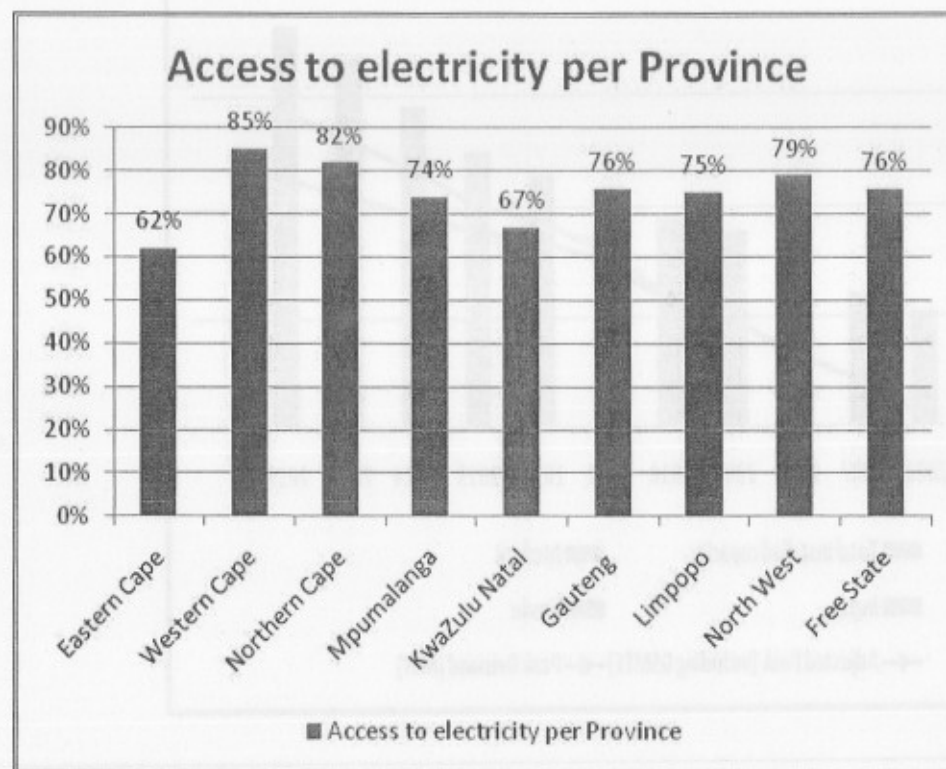
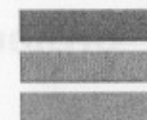
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Since commencement, the electrification programme has realised up to a total of 3,897,213 connections



The above graph highlights the success of the Integrated National Electrification Programme (INEP) by province. EC and KZN are lagging behind partly because of the terrain and difficulty in accessing rural areas. The national average in 1994 was about 32% of households with access to electricity.



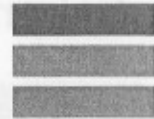
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Eskom has leveraged over a billion rand of investment in manufacture from the present build programme



Hitachi is investing ~R900m in facilities and training in South Africa

- **11,000m²** boiler pressure part workshop built in Nigel
 - Boiler Membrane Wall Workshop
 - Two new CNC Benders commissioned
 - New welding training centre
 - CNC header drilling machine
- Training facilities in Gauteng
 - **1400** artisans, **60** engineers, **36** operators, **24** maintenance workers

Pfisterer investment of R25m in plant in KZN

- Plant that saw global manufacture of 275kV insulators move to South Africa
 - Previously manufactured in Switzerland
- Investment complete and first production units rolled off production line

Actom committed to an investment of R84m in local facilities

- Expansion of existing facilities to manufacture MV switchgear locally
- R21m invested to date

Sulzer SA, a local manufacturer of feed pumps, has invested R60mn

- Sulzer South Africa subcontracted for the production of **96** pumps (36 BFP, 24 CEP, 36 boosters) for Medupi and Kusile
- **45%** of contract has local content commitments, including manufacture of castings and rotating components
- Manufacturing capacity investments by Sulzer expected to be **~R60m**
- Sulzer revenues increased significantly since 2007



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