# The Shareholder is primarily responsible for the appointment of the Board

Shareholder

the appointment and removal of directors from the Board, which includes the appointment of executive directors (CEO and CFO) who are appointed ex officio; and

approving the remuneration of directors

Board

The Board as the custodian of the company is expected to act in the best interests of the SOE and the shareholder.

The Board has an oversight role to review and monitor management's conduct of the company affairs and operations, its delivery and achievement of strategic, business, operations and financial goals and other objectives.

Management

Management and control of a company falls under the Board of Directors in terms of both the Companies Act and the Articles.

The Executive Management (represented by the CEO and CFO) is accountable to the Board and the Board is accountable to the shareholder. Thus the Board would manage the performance of these executives.

Executive management is appointed and managed as part of an employment relationship governed by employment law and Human Resource principles.

# The shareholder management process integrates national strategic objectives into SOE planning and operations



#### Strategic Intent Statement

- Primary tool to communicate State's expectations of SOE strategy
- Intragovernmental consultations with sector depts, NT and the Presidency to ensure clarity and transparency of objectives for the SOE and articulation of trade-offs between policy, regulatory, customer and SOE financial interests.

#### Shareholder Compact

- Minister and SOE Board conclude a shareholder compact annually (Treasury Regulation 29.2).
- Documents the mandated key performance measures and indicators to be attained by the SOE in delivering the desired outcomes and objectives as agreed between the SOE Board and the Minister.

#### Corporate Plan

- SOE submit corporate plans and budgets annually to Minister and National Treasury at least one month before the start of financial year (PFMA Sec 52).
- DPE assesses SOE corporate plans to determine whether the strategies and financial plans are
  consistent, coherent and aligned with government objectives, degree of sensitivity to assumptions in the
  forecasts to assess financial support and borrowing required as well as the timing thereof.

#### Performance Monitoring & Evaluation

DPE reviews SOE performance (Treasury Regulation 29.3) Isibuko Dashboard

Minister issues Investor Briefs to SOE Boards on emerging SOE performance trends, highlighting need for corrective action in event of any deviation from agreed key performance areas and indicators. SOE AGMs.

SOE reporting to Parliament (PFMA Sec 65).

# All our SOE, except for PBMR (due to current circumstances) are compliant with the logical planning, monitoring and evaluation process

SOE	Strategic Intent Statement	Shareholder Compact	Corporate Plan	Performance Monitoring and Evaluation
Alexkor	revent objectives	2008/9 Compact extended	on (what can go v	Risk identificati
Broadband Infraco	curring [LIKELIHIC	ces of the risk oc	that are he chan	Risk a kalysis (v
Denel	<b>V</b>	<b>✓</b>	<b>√</b>	4 annoneen s(a) 7
Eskom	<b>✓</b>	level o'Valgacea	to reduce risk to	oroce√res eld
PBMR	om bo x eleid	les ere x erubeso	x (100)	Contro activitie
SAA	<b>√</b>	<b>/</b>	<b>*</b>	✓
Safcol	1	✓	no vn 🗸 ol olde	<b>✓</b>
SAX	parete e aluetion	t activities and se	oing ma*agemen	ono) pri⊀unoli
Transnet	✓	✓	<b>/</b>	✓









# The DPE has developed a comprehensive risk management framework



The risk management process consists of the following main steps:

- 1. Objective setting (what is our mandate, objectives, etc)
- 2. Risk identification (what can go wrong, what can prevent objectives being achieved, causes of risk?)
- 3. Risk analysis (what are the chances of the risk occurring [LIKELIHOOD], what will be the effect when it occurs (IMPACT]).
- Risk response (avoid, accept, reduce or share the risk by developing controls, procedures, etc to reduce risk to acceptable levels).
- Control activities (policies and procedures are established and implemented to ensure the risk responses are effectively carried out).
- 6. Information and communication (information is captured and communicated so that people are able to carry out their risk management duties).
- 7. Monitoring (ongoing management activities and separate evaluations).









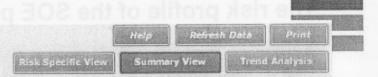
## Risks can be clearly plotted and ranked

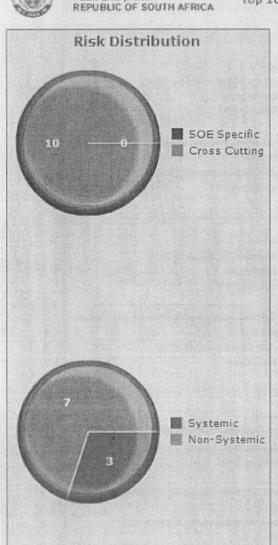


#### Portfolio - NEW DPE Risk Matrix

for quarter 1 2011

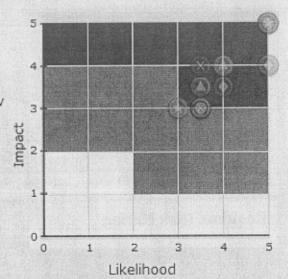
Top 10 Risks ordered by Residual Risk - Rating





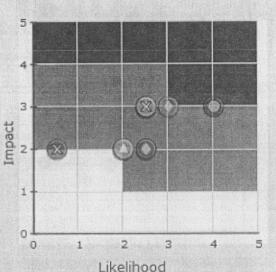
#### Inherent Risk

- O Exposure to the fiscus
- O Shareholder / Board governance
- Preservation and growth of shareholder v
- Responsiveness to exogenous factors
- (8) Shareholder management skills at DPE
- O Leverage to capital
- O Effectiveness/efficiency of the infrastr
- Effective stakeholder consultation
- O Coherent shareholder strategic intent to
- Compliance with laws and regulations

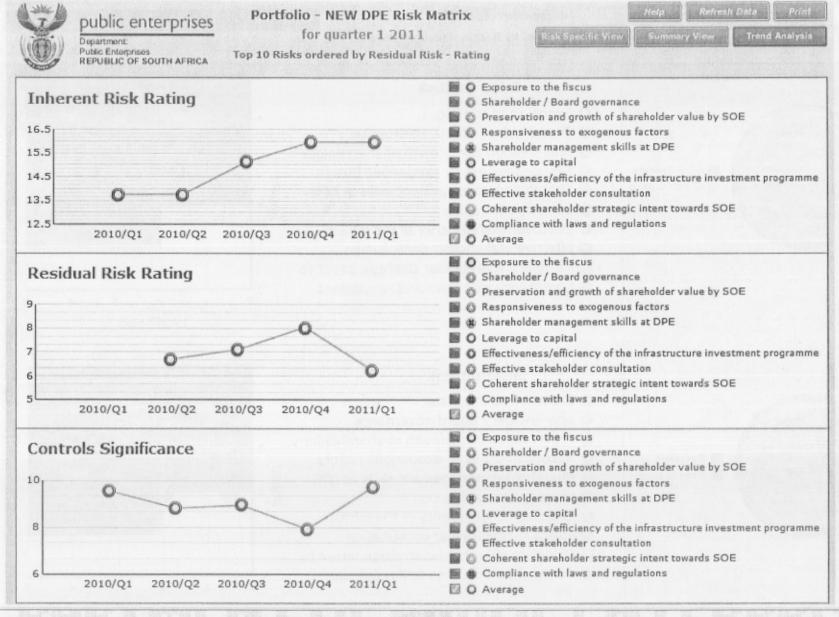


#### Residual Risk

- O Exposure to the fiscus
- O Shareholder / Board governance
- @ Preservation and growth of shareholder v
- Responsiveness to exogenous factors
- Shareholder management skills at DPE
- O Leverage to capital
- © Effectiveness/efficiency of the infrastr
- C Effective stakeholder consultation
- O Coherent shareholder strategic intent to
- Compliance with laws and regulations



## The risk profile of the SOE portfolio seems to be improving



# Other Issues Raised by the Committee









## Reporting on Consultants

The Public Service Regulations require the Department to report on consultants in Chapter 1 - Part III: Planning, Work Organisation and Reporting – Section J: Managerial review and oversight

#### Section J.3 reads as follows:

"From 1 April 2001, the annual report shall include such information on planning, service delivery, organization, job evaluation, remuneration, benefits, personnel expenditure, the utilisation of consultants, affirmative action, recruitment, promotions, termination of services, performance management, skills development, injury on duty, labour relations, leave and discharge due to ill-health, as the Minister determines. In this regulation 'consultant' means a natural or juristic person or a partnership who or which provides in terms of specific contract on an ad hoc basis any of the following professional services to a department against remuneration received from any source:

- The rendering of expert advice;
- The drafting of proposals for the execution of specific tasks; and
- •The executing of a specific task which is of a technical or intellectual nature, but excludes an employee of the department.









# In the Department's Annual Report under the section "Consultants, contractors and agency/outsourced services" the department reflects the 4 main categories



Business and Advisory Services	R40.8 million
Dusiness and Advisory dervices	1170.0111111011

Legal Costs	R 5.1 m	illion
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Business and Advisory Services and Legal Costs include the *ad hoc* services in terms of a specific contract referred to in Regulation J.3. Other services in these 2 categories include long term services and would therefore not be reflected in the schedule in the Annual Report.

Contractors (those services which are not the core business of the department and it is normally not cost effective to maintain these skills in the department) include both long term, short term and occasional retention of services such as the Employee Wellness Programme, Maintenance of Equipment, Audio Visual Services, Plants, Off site archived filing, Canteen Services among others.

Agency and support/outsourced services these are long term contracts and are mainly in respect of, but not limited to, Internal Audit, IT co-source, Security Services, Cleaning Services and Recruitment Services.









## Year on Year recorded expenditure on consultants

- The Committee's report states that the expenditure on consultants in the Department has increased.
- It in fact decreased from R56.2 million in 2008/09 to R51.1 million in 2009/10.
- Business and Advisory Services decreased from R48.2 million in 2008/09 to R40.8 million in 2009/10 (-R7.4 million), however Legal costs increased from R2.7 million in 2008/09 to R5.1 million in 2009/10 (+R2.4 million).
- Other costs under Contractors and Agency and support/outsourced services remained relatively static.









## The Airbus A320 Transaction - Background

- In 2002, the SAA Board approved the purchase of a total of 41 aircraft as a significant overhaul of SAA's fleet (A319; A320; A340-200; A340-300; A340-600 aircraft). This included 15 x a320 narrow-body aircraft that would replace part of the 21 x Boeing B737-800 aircraft when their lease contracts expired.
- SAA paid the first pre-delivery payment (PDP) of US\$54 million.
- These aircraft are used on profitable domestic and African regional routes.
- In July 2004 the SAA Board decided to cancel the A320 purchase agreement with Airbus due to changed circumstances flowing from significant foreign exchange hedging losses sustained in 2003/4. Airbus did not indicate their acceptance or rejection of SAA's notification and thus SAA remained contractually committed to the 2002 contract terms.
- The delivery dates of first few A320 aircraft (scheduled to be delivered in 2010) were postponed to 2013 which postponed the requirement for the next PDP payment
- In March 2007 SAA's ownership was transferred to Government requiring recapitalization and restructuring.
- 3 May 2010 PFMA approval granted for renegotiation and amendment of the Airbus A320 contract which would resulted in the purchase of 20x A320 Aircraft (at a lower unit price) but at same total delivery cost of the original 2002 contract.









# Comparison of 2002 Airbus contract with 2010 Amendment

Old 2002 Contract	New 2009/10 Arrangements
Purchase of 15x A320 Aircraft	Purchase of 20x A320 Aircraft (at a lower unit price) but at same total delivery cost of original contract
<ul> <li>Net Price per aircraft A320 US\$ 45.767m ,</li> <li>A321 = US\$ 57.198m</li> </ul>	<ul> <li>Net Revised Price per aircraft A320 US\$ 39.426m , A321 = US\$ 45.317m</li> </ul>
Deliveries from First quarter of 2010 to 2012	Deliveries from April 2013 to Dec 2015
Limited aircraft size conversion ability	SAA has option to convert aircraft size of A320 to     A319 and A321 with appropriate price adjustments
Contractual pre-delivery payments (PDPs) were in arrears. SAA faced exit cost of US\$133 million to US\$175.8 million	<ul> <li>No exit cost</li> <li>Next PDP will only be due in September 2011.</li> <li>PDPs already paid will be applied to revised PDP schedule.</li> </ul>
<ul> <li>Maximum PDP payments before delivery set as 25% of base price. (5% at each of signature date, 36, 24, 12 and 6 months before delivery)</li> </ul>	<ul> <li>Maximum PDP payments before delivery set as 22% of base price staggered towards the delivery dates. (1% at signature date, 1% at 36, 4% at 30, 5% at 24, 5.5% at 12 and 5.5% at 6 months before delivery)</li> </ul>
Lease of 6x A340-200 long haul aircraft from Airbus due to expire	<ul> <li>SAA concluded lease for 6x new twin engine A330- 200 long haul aircraft with AirCastle to replace A 340-200 aircraft currently leased from Airbus after Q2/2010. PFMA approval granted on 11 Dec 2009</li> </ul>











# The End









