Vote 30

Public Enterprises

R thousand	2007/08 To be appropriated	2008/09	2009/10
MTEF allocations			
Administration	59 260	59 577	61 187
Energy, Broadband Infrastructure and Mining Enterprises	10 374	12 543	13 289
Legal , Governance and Risk	22 676	19 201	20 219
Manufacturing Enterprises	946 852	13 341	13 625
Transport Enterprises	10 126	13 304	15 296
Joint Project Facility	14 678	22 737	26 294
Total	**1 063 966**	**140 703**	**149 910**
Direct charges against the National Revenue Fund	–	–	–
Total expenditure estimates	**1 063 966**	**140 703**	**149 910**
Economic classification			
Current payments	129 421	139 678	149 155
Transfers and subsidies	933 620	650	680
Payments for capital assets	925	375	75
Total expenditure estimates	**1 063 966**	**140 703**	**149 910**

Executive authority	Minister of Public Enterprises
Accounting officer	Director-General of Public Enterprises

Aim

The aim of the Department of Public Enterprises is to provide an effective state owned enterprises shareholder management system, and to support and promote economic efficiency and competitiveness for a better life for all South Africans.

Programme purposes

Programme 1: Administration

Provide simple and effective management systems and practices for the department.

Programme 2: Energy, Broadband Infrastructure and Mining Enterprises

Provide in-depth analysis of the strategic, financial, operational and socio-economic performance of Eskom and Alexkor, and oversee the establishment and monitoring of Broadband InfraCo.

Programme 3: Legal, Governance and Risk

Provide effective legal services, corporate governance, a risk management framework, and secretariat services to the department and state owned enterprises; and ensure alignment with government policy objectives.

Programme 4: Manufacturing Enterprises

Co-ordinate the assembly and execution of strategies aimed at ensuring that the activities of state owned enterprises (Denel, Pebble Bed Modular Reactor (PBMR), and the South African Forestry Company

Limited (SAFCOL)) contribute to industry wide linkages and partnerships with local and global players that build the country's manufacturing base.

Programme 5: Transport Enterprises

Oversee the activities of Transnet and South African Airways in terms of corporate strategy and structure, operational performance, industry structure, corporate governance and policy, financial and risk management and corporate transactions.

Programme 6: Joint Project Facility

Co-ordinate the development and implementation of cross-cutting projects across state owned enterprises.

Strategic overview: 2003/04 – 2009/10

The Department of Public Enterprises was initially established as the office responsible for privatising state owned enterprises (SOEs). But as government's fiscal position has stabilised, its priorities have shifted, and the role of SOEs had been redefined. Instead of privatising SOEs, they will remain government owned to play a vital role in economic growth. In line with this, the department's mandate over the medium term is to provide shareholder management of SOEs with the aim of achieving economic growth and efficiency in strategically important economic sectors, including transport, energy and communications. The management process happens at the level of the enterprise, at the level of the industry, and in relation to the potential impact of the enterprise on the broader economy.

There are three elements to the DPE mandate:

- disposing of non-core assets that no longer serve a strategic purpose
- the ongoing management of SOEs against the achievement of their strategic purpose
- establishing new SOEs to achieve a strategic purpose, particularly in the event of market failure.

Departmental restructuring

In order to achieve greater depth of analysis of how SOEs execute their mandates and better specialisation within its core functions, the department has been restructured into specialised SOE teams to replace the former cross cutting functional teams. This is reflected in changes to programme names. The teams have been grouped into programmes to optimise the sectoral overlap across different enterprises. As part of the restructuring, the *Joint Project Facility* subprogramme has been taken out of the former *Corporate Strategy and Structure* programme to become a separate programme (now programme 6, *Joint Project Facility*). The risk component, previously in programme 2, *Energy, Broadband Infrastructure and Mining Enterprises*, has been transferred to programme 3, *Legal, Governance and Risk*.

Competitive SOE pricing

With the establishment of regulators in the input sectors, the department's role as mediator between government's economic objectives and the financial sustainability of SOE becomes increasingly critical. In particular, it is important to ensure that the tariff regime allows for aggressive SOE capital investment programmes without overly burdening consumers. The department promotes a pricing policy that supports economic growth and development.

Shareholder management in enterprises

The department's activities at the enterprise level focus on making sure that the enterprise is sustainable and that it contributes to competitiveness in the market.

In its shareholder management role, the department will put systems in place aimed at monitoring the delivery of the infrastructure expansion programmes of Eskom and Transnet, the turnaround programme of Denel and

South African Airways (SAA), the growth strategies of the South African Forestry Company Limited (SAFCOL) and Alexkor, and the manufacturing programme of the Pebble Bed Modular Reactor (PBMR).

As the annual agreement between the state as shareholder and the board of the SOE, the shareholder compact contains key performance measures and indicators that the SOE boards use to guide the enterprise in its strategy formulation and implementation. The compact also provides clarity on the expected rate of return on equity; the expected operational performance; the pace of transformation in areas such as employment equity; the promotion of broad based black economic empowerment (BEE); skills development; and research and development.

A shareholder management framework has been developed to ensure that SOEs contribute to national developmental objectives. Forums for regular engagement with SOE boards and chairpersons have been established to ensure synergy of action.

The focus on the level and content of SOE shareholder management has shifted from managing privatisation to achieving national medium to long-term economic and development goals.

Industry level shareholder management

The department also wants to make sure that SOEs contribute to the structural efficiency of the industries and sectors that they operate in. The two levels at which this efficiency will be measured and acted on by the department are optimal industry structure and public private sector delivery. The department engages with relevant policy departments to determine industry structures in relation to national objectives for key input industries such as energy and transport. The department makes recommendations on the private sector's participation in SOE dominated industries. It looks at issues that will improve industry efficiency, like accessing investments, intellectual capital, technology and new markets from private sector players. It is aware that private sector participation can help to provide a benchmark for SOEs' efficiency and competitiveness.

Sectoral and regional economic development

One of government's objectives is to use SOEs as a catalyst for economic development in South Africa and the rest of Africa. The department identifies areas where SOE assets, capabilities and activities can be used to further a broader economic development agenda. The department works with the economic cluster of departments, in particular the departments of trade and industry and science and technology, to ensure that these activities are incorporated in and supported by industrial policy and other sector strategies.

Government is committed to a more equitable geographic spread of economic activity and opportunities, aiming to identify and tap latent economic potential in different regions of South Africa. It ensures that SOE planning takes these issues into consideration and at times champions lead investments to promote new economic activity. The department also focuses on infrastructure corridors, combining logistics, ICT and electrical infrastructure, which will enable the development of clearer growth nodes.

The department is aware of the significant impact that spending by SOEs can have on developing national manufacturing capability, and is undertaking different activities to ensure that this potential is realised. These projects involve collaboration with other government departments, like the departments of trade and industry and science and technology, as well as changing the way SOEs procure their goods and services. In the light of the projection that more than 40 per cent of the capex of SOEs will be imported, the department is developing a competitive supplier development framework and a number of other supporting initiatives to optimise the impact of the SOEs' procurement on the development of local supplier industries, without significantly increasing prices.

Competitive industries of the future

A joint project facility has been set up to develop and implement projects that improve the value of an industry or that can use an SOE's assets and capabilities to the benefit of both the SOE and the economy as a whole. Seven areas have been identified for projects that the facility will develop: ICT, property, pipeline and energy, rest of Africa, competitive supplier development programme, human resources development, and environmental issues. The facility is expected to identify new cutting edge projects that will contribute to the acceleration of growth in the future. The SOE competitive supplier development programme should have a considerable impact on the SOE procurement capabilities and the development of the capital goods sector that is related to the SOE capital and operational requirements.

The department will also oversee the unbundling of South African Airways (SAA) from Transnet. SAA is the flagship national carrier responsible for providing a competitive air transport service for tourism and trade, in line with ASGISA's tourism component. In the highly competitive airline environment, SAA needs to be run on a commercial basis. The airline is making considerable progress in opening up profitable routes into Africa. The SAA Bill was submitted to Cabinet during November 2006. Legislation for South African Express Airways (SAX) is also due to be presented to Cabinet in February 2007.

The department will also support Denel's turnaround strategy and review the role of SAFCOL in the economy. It also intends to set up two new state owned enterprises: the Pebble Bed Modular Reactor, which is responsible for nuclear research, development and manufacturing; and Broadband InfraCo, which is an investment in telecommunication infrastructure, to provide affordable broadband to South Africa.

Expenditure estimates

Table 30.1 Public Enterprises

Programme	Audited outcome			Adjusted appropriation	Revised estimate	Medium-term expenditure estimate		
R thousand	2003/04	2004/05	2005/06	2006/07		2007/08	2008/09	2009/10
1. Administration	37 114	40 177	46 311	49 705	51 705	59 260	59 577	61 187
2. Energy, Broadband Infrastructure and Mining Enterprises	32 360	13 817	21 146	723 361	722 561	10 374	12 543	13 289
3. Legal , Governance and Risk	7 946	17 208	14 799	17 192	16 642	22 676	19 201	20 219
4. Manufacturing Enterprises	5 848	606 430	2 587 912	2 063 586	2 063 136	946 852	13 341	13 625
5. Transport Enterprises	698	1 054	1 315	4 670	4 470	10 126	13 304	15 296
6. Joint Project Facility	–	–	–	11 409	11 409	14 678	22 737	26 294
Total	**83 966**	**678 686**	**2 671 483**	**2 869 923**	**2 869 923**	**1 063 966**	**140 703**	**149 910**
Change to 2006 Budget estimate				–	–	–	–	
Economic classification								
Current payments	**74 613**	**67 219**	**76 537**	**101 336**	**101 336**	**129 421**	**139 678**	**149 155**
Compensation of employees	30 088	34 970	42 442	54 005	52 005	62 010	65 830	69 262
Goods and services	44 482	32 249	34 095	47 301	49 301	67 411	73 848	79 894
of which:								
Communication	*2 054*	*1 516*	*2 026*	*1 848*	*1 848*	*1 645*	*1 815*	*1 937*
Computer services	*513*	*224*	*685*	*4 855*	*4 855*	*2 800*	*3 100*	*3 211*
Consultants, contractors and special services	*27 694*	*7 328*	*7 195*	*21 331*	*21 331*	*34 670*	*33 020*	*37 528*
Inventory	*916*	*2 549*	*1 055*	*2 077*	*2 077*	*1 358*	*1 406*	*2 125*
Maintenance, repairs and running costs	*542*	*437*	*400*	*1 315*	*1 315*	*670*	*600*	*650*
Operating leases	*774*	*6 374*	*3 995*	*4 044*	*4 044*	*6 048*	*6 541*	*6 853*
Travel and subsistence	*5 958*	*5 055*	*4 952*	*4 868*	*4 868*	*8 927*	*9 067*	*10 256*
Municipal services	*244*	*256*	*425*	*323*	*323*	*351*	*373*	*411*
Interest and rent on land	1	–	–	–	–	–	–	–
Financial transactions in assets and liabilities	42	–	–	30	30	–	–	–
Transfers and subsidies	**8 571**	**609 032**	**2 593 997**	**2 766 752**	**2 766 752**	**933 620**	**650**	**680**
Provinces and municipalities	93	110	129	49	49	–	–	–
Departmental agencies and accounts	8 342	6 922	372	3 589	3 589	–	–	–
Public corporations and private enterprises	–	602 000	2 593 396	2 760 484	2 760 484	933 000	–	–
Households	136	–	100	2 630	2 630	620	650	680
Payments for capital assets	**782**	**2 435**	**949**	**1 835**	**1 835**	**925**	**375**	**75**
Machinery and equipment	782	2 338	936	1 809	1 809	925	375	75
Software and other intangible assets	–	97	13	26	26	–	–	–
Total	**83 966**	**678 686**	**2 671 483**	**2 869 923**	**2 869 923**	**1 063 966**	**140 703**	**149 910**

Expenditure trends

The increase in expenditure between 2003/04 and 2006/07 is as a result of increased and new transfer payments to public entities.

The increase in expenditure in 2005/06 is due to the capitalisation of Denel (R2 billion), a refund of R12,7 million to Alexkor for costs incurred during the cancelled strategic equity partnership process, and an equity contribution of R580 million to the PBMR. Compensation of employees increased significantly, as vacancies were filled to increase capacity. Goods and services increased to cover revamping the Cape Town and Pretoria offices and installing security systems.

The significant increase in expenditure in 2006/07 is due to a further capital injection for Denel (R567 million plus R280 million VAT on the previous R2 billion capital injection). R81,9 million was transferred to Alexkor to initiate an exploration programme and pay for operational expenses. A further contribution was made in the budget for government's equity in the PBMR company amounting to R1,2 billion (including VAT), which will be used to pay essential contracts for the PBMR demonstration plant. R627 million was allocated for buying the full service network (FSN) from Eskom/Transnet for a new entity called Broadband InfraCo, which will be set up to provide better broadband services for South Africa. The joint project facility was also funded from the vote for the first time during this period.

Risk management has been moved to the *Legal, Governance and Risk* programme (programme 3), and the Joint Project Facility has been moved to the newly created programme of the same name (the new programme 6). These changes have resulted in significant movements in expenditure items over the period, and historical numbers have been adjusted per programme.

Over the MTEF period, the following additional allocations were made: R33 million for the Joint Project Facility and R8 million for Specialist Technical Support and Expertise, a new programme through which specialists will be appointed to support and assist with human resource capacity in the department. R933 million was allocated for 2007/08 as a final capital investment in Denel.

Science and technology expenditure

The departments of public enterprises and trade and industry undertook an assessment of state owned chemical companies with a view to understanding how well their activities are aligned with government's objectives as captured in the chemical strategy developed by the Department of Trade and Industry. It identified areas where some restructuring might be necessary for better alignment, and made recommendations about whether government should continue ownership or dispose of particular SOEs in the chemical sector.

The project was funded by the departments of trade and industry (R435 890), science and technology (R450 000), minerals and energy (R450 000) and public enterprises (R464 110). Ownership of the project is with the economic cluster, under the custodianship of these four departments.

The chemical companies assessed were Foskor, the Nuclear Energy Corporation of South Africa (NECSA) and PetroSA. This project could not be extended to Denel owned chemical companies because of the ongoing restructuring process within Denel. The Department of Science and Technology was interested in the research and innovation capacity of the SOEs and how it could be leveraged to support its own initiatives. The project started in 2005 and was completed in November 2006.

Departmental receipts

Departmental receipts are accumulated from dividends, proceeds from the sale of SOEs, and minor items such as commissions on insurance premiums.

The income for 2003/04 was made up of dividends from SAFCOL (R68 million) and Aventura (R13,6 million), and proceeds from the sale of Sun Air (R6 million). In 2004/05, dividends of R569 million were received from Eskom and R30 million from SAFCOL. In 2005/06, dividends of R1,6 billion were received from Eskom. No Eskom dividends were received in 2006/07 because of the planned infrastructure expansion projects for creating more generation capacity.

Table 30.2 Departmental receipts

R thousand	Audited outcome 2003/04	2004/05	2005/06	Adjusted appropriation 2006/07	Medium-term receipts estimate 2007/08	2008/09	2009/10
Departmental receipts	**87 718**	**599 179**	**1 673 305**	**113**	**67**	**70**	**70**
Sales of goods and services produced by department	–	23	25	18	28	29	30
Sales of scrap, waste and other used current goods	–	2	2	1	5	5	2
Interest, dividends and rent on land	87 359	599 036	1 672 992	11	13	14	15
Sales of capital assets	–	–	–	14	–	–	–
Financial transactions in assets and liabilities	359	118	286	69	21	22	23
Total	**87 718**	**599 179**	**1 673 305**	**113**	**67**	**70**	**70**

Programme 1: Administration

The *Administration* programme conducts the overall management of the department and provides centralised support services.

Expenditure estimates

Table 30.3 Administration

Subprogramme R thousand	Audited outcome 2003/04	2004/05	2005/06	Adjusted appropriation 2006/07	Medium-term expenditure estimate 2007/08	2008/09	2009/10
Minister[1]	876	777	890	845	895	941	987
Management	4 660	6 299	14 468	13 615	15 439	16 986	18 014
Corporate Services	31 334	30 087	27 698	31 049	38 276	36 590	36 873
Property Management	244	3 014	3 255	4 196	4 650	5 060	5 313
Total	**37 114**	**40 177**	**46 311**	**49 705**	**59 260**	**59 577**	**61 187**

1. Payable as from 1 April 2006. Salary: R675 781. Car allowance: R168 945.

Economic classification	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Current payments	**36 463**	**38 285**	**45 320**	**47 530**	**57 790**	**58 627**	**60 507**
Compensation of employees	16 923	18 838	24 293	26 430	29 109	30 835	32 663
Goods and services	19 497	19 447	21 027	21 070	28 681	27 792	27 844
of which:							
Communication	*1 810*	*940*	*1 753*	*1 181*	*1 232*	*1 301*	*1 367*
Computer services	*385*	*1*	*617*	*2 701*	*2 800*	*3 100*	*3 211*
Consultants, contractors and special services	*10 548*	*3 546*	*3 838*	*5 391*	*5 364*	*3 936*	*4 096*
Inventory	*610*	*1 899*	*940*	*1 505*	*1 199*	*1 224*	*1 820*
Maintenance, repairs and running costs	*362*	*437*	*400*	*1 300*	*670*	*600*	*650*
Operating leases	*774*	*6 374*	*3 892*	*4 094*	*6 048*	*6 541*	*6 853*
Travel and subsistence	*3 804*	*3 706*	*3 917*	*2 950*	*5 710*	*5 403*	*6 251*
Municipal services	*244*	*256*	*425*	*323*	*351*	*373*	*411*
Other	*171*	*1 383*	*3 595*	*1 625*	*3 307*	*3 181*	*858*
Interest and rent on land	1	–	–	–	–	–	–
Financial transactions in assets and liabilities	42	–	–	30	–	–	–
Transfers and subsidies	**188**	**19**	**169**	**620**	**620**	**650**	**680**
Provinces and municipalities	52	19	69	20	–	–	–
Households	136	–	100	600	620	650	680
Payments for capital assets	**463**	**1 873**	**822**	**1 555**	**850**	**300**	**–**
Machinery and equipment	463	1 776	809	1 529	850	300	–
Software and other intangible assets	–	97	13	26	–	–	–
Total	**37 114**	**40 177**	**46 311**	**49 705**	**59 260**	**59 577**	**61 187**

Expenditure trends

Expenditure increased between 2003/04 and 2006/07, from R37,1 million to R49,7 million, at an average annual rate of 10,2 per cent, and will continue to grow at an average annual rate of 7,2 per cent over the MTEF period to reach R61,2 million.

The increased budget over the MTEF period is due to operational expenditure being centralised. For example, IT licences and services, photocopying equipment, training and communication are all part of this programme. The costs for leases and accommodation charges were devolved from the Department of Public Works to individual departments from April 2005. The Department of Public Enterprises received the following amounts: R3,7 million in 2006/07, R4,1 million in 2007/08, R4,5 million in 2008/09 and R4,9 million in R2009/10.

Programme 2: Energy, Broadband Infrastructure and Mining Enterprises

The key objective of the *Energy, Broadband Infrastructure and Mining Enterprises* programme is to ensure that the corporate strategies of Eskom, Alexkor and Broadband InfraCo are aligned with government's strategic objectives as defined in government policies, regulations and economic strategies. In particular, the programme analyses the strategies and investment plans of each SOE against this intent and develops frameworks to analyse and monitor the SOE's financial, operational and socio-economic performance.

Apart from *Management*, there are four subprogrammes:

- The *ICT Sector: Broadband* programme is responsible for setting up the new SOE Broadbrand InfraCo, overseeing the necessary agreements between the relevant parties, assessing the business plan, monitoring the commissioning of the full services network (FSN) and providing the overarching shareholder management.
- *Mining Sector* provides oversight of the turnaround of Alexkor with a particular focus on the settlement negotiations and the separation of Alexander Bay Trading (ABT) from Alexander Bay Mining (ABM).
- *Energy Sector* provides oversight of Eskom, which is responsible for the generation, transmission and distribution industries, with a particular focus on analysing the regulatory framework and tariff related issues.
- *Initial Public Offering* included transfers to the Diabo Trust and the Khulisa Trust where Telkom shares were housed.

Expenditure estimates

Table 30.4 Energy, Broadband Infrastructure and Mining Enterprises

Subprogramme	Audited outcome			Adjusted appropriation	Medium-term expenditure estimate		
R thousand	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Management	2 265	2 941	2 353	2 152	2 928	3 684	3 907
ICT Sector: Broadband	–	–	–	627 750	1 593	1 522	1 595
Mining Sector	748	2 947	15 882	86 023	2 004	2 683	2 867
Energy Sector	812	1 007	2 539	3 847	3 849	4 654	4 920
Initial Public Offering	28 535	6 922	372	3 589	–	–	–
Total	**32 360**	**13 817**	**21 146**	**723 361**	**10 374**	**12 543**	**13 289**
Change to 2006 Budget estimate				(1 234)	–	–	
Economic classification							
Current payments	**23 701**	**4 667**	**7 330**	**10 604**	**10 359**	**12 528**	**13 274**
Compensation of employees	4 487	2 853	4 678	6 140	6 627	7 180	6 839
Goods and services	19 214	1 814	2 652	4 464	3 732	5 348	6 435
of which:							
Communication	*141*	*138*	*79*	*154*	*85*	*95*	*115*
Computer services	*–*	*–*	*–*	*1 925*	*–*	*–*	*–*
Consultants, contractors and special services	*14 650*	*500*	*384*	*1 606*	*2 398*	*3 576*	*3 595*
Travel and subsistence	*1 070*	*262*	*402*	*(156)*	*855*	*499*	*772*

Table 30.4 Energy, Broadband Infrastructure and Mining Enterprises (continued)

	Audited outcome			Adjusted appropriation	Medium-term expenditure estimate		
R thousand	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Transfers and subsidies	**8 360**	**8 956**	**13 791**	**712 683**	**–**	**–**	**–**
Provinces and municipalities	18	34	23	10	–	–	–
Departmental agencies and accounts	8 342	6 922	372	3 589	–	–	–
Public corporations and private enterprises	–	2 000	13 396	709 084	–	–	–
Payments for capital assets	**299**	**194**	**25**	**74**	**15**	**15**	**15**
Machinery and equipment	299	194	25	74	15	15	15
Total	**32 360**	**13 817**	**21 146**	**723 361**	**10 374**	**12 543**	**13 289**

Details of major transfers and subsidies:							
Departmental agencies and accounts							
Current	**8 342**	**6 922**	**372**	**3 589**	**–**	**–**	**–**
Diabo Trust	4 505	3 119	–	3 589	–	–	–
Khulisa Trust	3 837	3 803	372	–	–	–	–
Public corporations							
Other transfers							
Current	**–**	**2 000**	**13 396**	**709 084**	**–**	**–**	**–**
Alexkor	–	2 000	13 396	82 084	–	–	–
Broadband Infraco	–	–	–	627 000	–	–	–

Expenditure trends

Expenditure decreased between 2003/04 and 2005/06, due to the finalisation of the initial public offering (IPO) of Telkom shares, reflected in the *Initial Public Offering* subprogramme. In 2005/06, expenditure increased due to a transfer of R13 million to Alexkor. Spending increased again in 2006/07, with another transfer to Alexkor of R82,1 million, and R627 million for the new entity, Broadband InfraCo.

Over the MTEF period, expenditure is expected to increase from R10,4 million in 2007/08 to R13,3 million in 2009/10, at an average annual rate of 13,2 per cent. The increase is driven by the increased capacity required to meet the objectives of the programme's three active subprogrammes. The functions and funds in the *Risk Management* subprogramme have been moved to programme 3, *Legal, Governance and Risk.*

Service delivery objectives and indicators

Recent outputs

Eskom: The Eskom shareholder compact for 2006/07 was signed and the internal study on the security of supply was completed. This will serve as the basis for discussions with the Department of Minerals and Energy about its policy framework for the energy sector. The National Energy Regulator granted licences for the base load coal fired plant in Lephalale, the additional open cycle gas turbine (OCGT) in Atlantis, Cape Town and a transmission strengthening project. The revised investment programme covering generation, transmission and distribution and financing arrangements for them have been approved by the minister. The securitisation of Eskom Finance was completed and the sale of the company, which will include the participation of management and employees, has been approved.

The multi-year price determination for electricity was approved, and Cabinet approved the establishment of the six regional electricity distributors (REDs), which together cover the whole of South Africa geographically.

Broadband InfraCo: Following the study prepared by the department on broadband connectivity in the South African telecommunication sector, the department decided to review the original plan on the second national operator (SNO). The original plan envisaged the SNO using the fibre optic backbone, known as the full services network (FSN), deployed and owned by Eskom and Transnet. The revised plan unbundled some assets for the new state owned broadband company, Broadband InfraCo. When established, Broadband InfraCo will be responsible for the design, deployment and operation of the national backbone as well as the international submarine cable connectivity infrastructure. This will allow it to implement long distance backbone broadband capacities between metropolitan centres, while Neotel (the first national infrastructure-based competitor in the fixed line telecoms sector in South Africa or second national operator (SNO)) will focus on the distribution networks within the metropolitan areas, meaning deployment of metropolitan area networks and last mile infrastructure. To facilitate this agreement with the SNO and leverage on the strategic role of the key shareholder in Neotel, it was agreed that government will hold 74 per cent in Broadband InfraCo. VSNL, an Indian company which provides international long distance services and a partner and key shareholder in Neotel, given its operational experience in international marine cable connectivity, will take up the remaining 26 per cent of shares.

Alexkor: Alexkor has faced critical challenges in the past few years. These include a decline in its carat production levels, cash flow problems and increasing expenditure related to Alexander Bay Trading (ABT), the non-mining divisions, as well as the non-strategic services like the airport, town maintenance, hospital and guest houses. The company was saved from insolvency by an injection of funds from national government, with strict conditions related to the turnaround strategy, initiating work on exploration and improving cost control and budgeting.

Following protracted negotiations between government and the Richtersveld community, a memorandum of understanding (MoU) was signed in October 2006. The MoU will be the basis for a deed of settlement envisaged to be served in court in the first half of 2007 and which should resolve the claim on Alexkor land, bring community participation in the company, and lead to a mutually beneficial partnership between government and the Richtersveld community.

Selected medium-term output targets

Energy, Broadband Infrastructure and Mining Enterprises

Measurable objective: Monitor and oversee SOEs and their impact on the economy (locally and internationally)

Subprogramme	Output	Measure/Indicator	Target
Communication Sector: Broadband	Broadband InfraCo:		
	Full service network for national long distance connectivity	Upgraded to a 10 Gbit/s dense wavelength division multiplexing platform	October 2007
	International connectivity	Establishment of international connectivity	October 2007
Mining Sector	Alexkor		
	Settlement of Richtersveld/Alexkor land claim	Out of court settlement	June 2007
	Separation of Alexander Bay Mining from Alexander Bay Trading	Complete separation with a stand alone Alexander Bay Mining (ABM) and Alexander Bay Trading (ABT)	October 2007
	Monitoring implementation of the strategy	Frequency of quarterly reports	Quarterly reports
Energy Sector	Eskom		
	Integrated strategic electricity plan	Agreed expansion plan	May 2007
	Reserve margin and security of energy supply	Approved reserve margin policy	July 2007
	Restructuring of electricity distribution industry	Six metro REDs operational	July 2007

Programme 3: Legal, Governance and Risk

The *Legal, Governance and Risk* programme provides effective legal services, corporate governance systems, risk management frameworks and secretariat services to the department and SOEs, and ensures alignment with government's strategic intent.

Apart from *Management*, there are three subprogrammes:

- *Legal and Litigation* provides internal legal services and oversight support to SOEs.
- *Governance and Secretariat* develops corporate governance and shareholder management systems for improving adherence to good corporate governance principles within all SOEs, and provides advisory and secretariat services to the department and the economic and employment cluster.
- *Risk Management* proactively identifies, manages and monitors significant risks at the SOE level and across SOEs, and establishes and maintains risk management systems within the department.

Expenditure estimates

Table 30.5 Legal, Governance and Risk

Subprogramme	Audited outcome			Adjusted appropriation	Medium-term expenditure estimate		
R thousand	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Management	2 809	1 172	5 610	2 604	2 575	2 885	3 020
Legal and Litigation	658	2 363	533	8 085	5 019	5 354	5 602
Governance and Secretariat	2 076	7 913	6 653	4 669	12 228	7 672	8 092
Risk Management	2 403	5 760	2 003	1 834	2 854	3 290	3 505
Total	**7 946**	**17 208**	**14 799**	**17 192**	**22 676**	**19 201**	**20 219**
Change to 2006 Budget estimate				1 834	–	–	
Economic classification							
Current payments	**7 920**	**17 012**	**14 711**	**14 998**	**22 661**	**19 186**	**20 204**
Compensation of employees	3 998	7 826	6 929	10 918	12 321	13 050	13 941
Goods and services	3 922	9 186	7 782	4 080	10 340	6 136	6 263
of which:							
Communication	*–*	*340*	*120*	*296*	*125*	*155*	*176*
Computer services	*128*	*223*	*53*	*(542)*	*–*	*–*	*–*
Consultants, contractors and special services	*1 857*	*2 309*	*2 662*	*1 736*	*7 876*	*3 172*	*3 578*
Inventory	*305*	*650*	*40*	*196*	*50*	*60*	*70*
Travel and subsistence	*870*	*850*	*425*	*1 382*	*715*	*1 274*	*1 194*
Transfers and subsidies	**6**	**23**	**11**	**2 038**	**–**	**–**	**–**
Provinces and municipalities	6	23	11	8	–	–	–
Households	–	–	–	2 030	–	–	–
Payments for capital assets	**20**	**173**	**77**	**156**	**15**	**15**	**15**
Machinery and equipment	20	173	77	156	15	15	15
Total	**7 946**	**17 208**	**14 799**	**17 192**	**22 676**	**19 201**	**20 219**
Details of major transfers and subsidies:							
Households							
Other transfers							
Current	**–**	**–**	**–**	**2 030**	**–**	**–**	**–**
Legal claim	–	–	–	2 030	–	–	–

Expenditure trends

Expenditure increased between 2003/04 and 2004/05, from R7,9 million to R17,2 million, at a rate of 116,6 per cent, due to the restructuring of the department and related capacity building. Between 2004/05 and 2006/07 expenditure stabilised at this level.

Over the 2007 MTEF, expenditure increases from R17,2 million in 2006/07 to R22,7 million in 2007/08. The increase is because of additional expenditure under goods and services for outsourced capacity to meet the output targets for that year, as well as a result of the *Risk Management* subprogramme being moved from the former *Analysis and Risk Management* programme. Expenditure is expected to decrease from R22,7 million in 2007/08 to R19,2 million in 2008/09 and is set to increase again to R20,2 million in 2009/10, because of greater spending in compensation of employees.

Service delivery objectives and indicators

Recent outputs

The governance unit has begun to strengthen the department's oversight role to make sure that the department's shareholder rights and obligations are clearer. The shareholder management model (SMM) is the key vehicle for doing this. A draft conceptual framework was developed, remuneration guidelines were produced and a generic shareholder's compact was designed as part of the SMM .

From the beginning of the current financial year, the *Legal and Litigation* subprogramme received and processed 22 transaction approvals from SOEs in diverse areas. Fifteen of these applications were approved, four were declined and three are currently being processed. The department monitors these transactions and requires regular progress updates from the SOEs on the implementation of approved transactions. The minister has approved a framework on the content of applications and how they are to be submitted. In-principle consensus about the framework has been reached with the SOEs. Most SOEs have been submitting applications in accordance with this approved framework.

The department will advise the minister on the impact of the transaction on government and on the SOE. After the minister's in-principle approval, before the SOE implements the transaction, the SOE board must submit a formal application. The content of the application must identify fair value of the transaction, financial viability, liabilities, risks and mitigating factors.

Over the past year, the risk management team focused on internal capacity building and establishing the risk governance structures, to improve its oversight role in SOE risk management processes. To this end, the SOE risk forum and the DPE risk management committee have been set up.

The secretariat contributed to the development of the economic cluster reports on implementing the programme of action and giving inputs to Cabinet lekgotla.

Selected medium-term output targets

Legal, Governance and Risk

Measurable objective: Develop effective governance and policy frameworks that ensure that all SOE activities are performed with integrity, honesty and in compliance with appropriate legislation and proactively identify, manage and monitor significant risks at the SOE level.

Subprogramme	Output	Measure/Indicator	Target
Management	Risk management framework	Frequency of monitoring report on the compliance of the framework	Quarterly
Legal and Litigation	Procurement and contracting guidelines Model shareholder agreements	Approved guidelines Approved model shareholder agreements	June 2007 July 2007
Governance and Secretariat	Process for board appointments and vetting	Agreement with all SOEs on SOE governance in terms of financial, sector and industry requirements	April 2007

Programme 4: Manufacturing Enterprises

The aim of the *Manufacturing Enterprises* programme is to oversee the South African Forestry Company Limited (SAFCOL), the Pebble Bed Modular Reactor (PBMR) and Denel. It also ensures that SOE activities contribute to building South Africa's manufacturing base by establishing industry wide linkages and partnerships with local and global players.

Apart from *Management* there are three subprogrammes:

- *Forestry Sector* oversees the South African Forestry Company Limited (SAFCOL).
- *Nuclear Sector* oversees the Pebble Bed Modular Reactor (PBMR) company.
- *Defence Sector* oversees Denel.

Table 30.6 Manufacturing Enterprises

Subprogramme	Audited outcome			Adjusted appropriation	Medium-term expenditure estimate		
R thousand	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Management	4 204	4 233	2 426	2 331	2 303	2 447	2 675
Forestry Sector	788	1 122	2 788	4 939	3 589	4 226	4 470
Nuclear Sector	–	600 000	580 000	1 205 092	3 374	2 511	2 580
Defence Sector	856	1 075	2 002 698	851 224	937 586	4 157	3 900
Total	**5 848**	**606 430**	**2 587 912**	**2 063 586**	**946 852**	**13 341**	**13 625**
Change to 2006 Budget estimate				(809)	–	–	
Economic classification							
Current payments	**5 831**	**6 201**	**7 861**	**12 125**	**13 822**	**13 311**	**13 595**
Compensation of employees	4 337	4 721	5 800	6 802	6 286	6 653	7 111
Goods and services	1 494	1 480	2 061	5 323	7 536	6 658	6 484
of which:							
Communication	*85*	*73*	*35*	*65*	*70*	*76*	*80*
Consultants, contractors and special services	*554*	*853*	*125*	*2 941*	*5 724*	*3 968*	*3 554*
Travel and subsistence	*129*	*187*	*54*	*180*	*589*	*621*	*702*
Transfers and subsidies	**17**	**600 034**	**2 580 026**	**2 051 411**	**933 000**	**–**	**–**
Provinces and municipalities	17	34	26	11	–	–	–
Public corporations and private enterprises	–	600 000	2 580 000	2 051 400	933 000	–	–
Payments for capital assets	**–**	**195**	**25**	**50**	**30**	**30**	**30**
Machinery and equipment	–	195	25	50	30	30	30
Total	**5 848**	**606 430**	**2 587 912**	**2 063 586**	**946 852**	**13 341**	**13 625**
Details of major transfers and subsidies:							
Public corporations							
Other transfers							
Current	**–**	**600 000**	**580 000**	**1 484 400**	**–**	**–**	**–**
Pebble Bed Modular Reactor	–	600 000	580 000	1 204 400	–	–	–
Denel	–	–	–	280 000	–	–	–
Capital	**–**	**–**	**2 000 000**	**567 000**	**933 000**	**–**	**–**
Denel	–	–	2 000 000	567 000	933 000	–	–

Expenditure trends

Expenditure increased from R5,8 million in 2003/04 to R2,1 billion in 2006/7. In 2005/06, the PBMR received R580 million as an equity contribution, and Denel received R2 billion for capitalisation. In 2006/07 the PBMR received a further allocation of R1,2 billion and Denel a further R847 million, which resulted in a 249 per cent increase from 2005/06 (R591,5 million) to 2006/07 (R2,1 billion). The PBMR allocation supports the construction of the demonstration and fuel plants. The allocation for Denel will further support the entity's turnaround strategy. A further amount of R933 million has been allocated to Denel in 2007/08.

Service delivery objectives and indicators

Recent outputs

In terms of strategy implementation, Denel has made significant progress in disposing of its non-core businesses and assets. Importantly, progress has also been made in forming partnerships with global defence companies to increase access to global supply chains and ensure skills transfer.

Work is under way with the Department of Defence to align national policy and rationalise national defence manufacturing functions. The latter includes progress in reclassifying Armscor in terms of its defence manufacturing functions and establishing the Defence Evaluation and Research Institute (DERI). Denel has secured major contracts with the SANDF this year.

For SAFCOL, research on international best practice in forestry development and local studies on the sector as well as research on national saw-log demand and supply were completed. Draft recommendations on the future role and mandate of SAFCOL in the forestry, timber, pulp and paper sector have been completed.

There has been significant progress in developing the PBMR company's long-term business plan. Subject to a number of conditions and approvals, the construction of the demonstration and fuel plants are set to proceed in 2007/08. Also, as part of the Westinghouse consortium, PBMR won the main contract from the US Department of Defence for the next generation nuclear plant (NGNP) project, a pilot programme that could see the PBMR design becoming the preferred design for process heat applications.

Selected medium–term output targets

Manufacturing Enterprises

Measurable objective: Develop and execute strategies aimed at ensuring that SOE activities contribute to industry wide linkages and partnerships with local and global players that build the country's manufacturing base.

Subprogramme	Output	Measure/Indicator	Target
Forestry Sector	SAFCOL		
	New SAFCOL role and mandate	New role and mandate for SAFCOL developed, approved and adopted	April 2007
	Conclude lease agreement between Department of Water Affairs and Forestry and SAFCOL on Komatiland Forest	Signed lease agreement	September 2007
	Transfer the Minority Shareholding in privatised packages to the intended recipients	Minority shares transferred to communities and employees	September 2007
Nuclear Sector	Pebble Bed Modular Reactor (PBMR) company		
	Shareholders' agreement	Shareholders' agreement signed by all shareholders	April 2007
	PBMR listed as a public entity	Completed listing process	April 2007
	Shareholders' compact	Agreement on compact	May 2007
	Licences for manufacturing nuclear energy	National Nuclear Regulator approval on safety	June 2007
	Environmental impact assessment	Positive records of decision (RoD) from Department of Environmental Affairs and Tourism	June 2007
	Eskom contract on buying nuclear energy	Signed contract	June 2007
	Demonstration power plant	Construction of the demonstration power plant at Koeberg	Start 2008
	Pilot fuel plan	Construction of a pilot fuel plant at Pelindaba	Start 2007
Defence Sector	Denel		
	Strategic oversight over the implementation of Denel's business strategy	Analysis of monthly and quarterly financial reporting	12 monthly reports and 4 quarterly reports
	Joint venture partnerships	Number of local and international partnerships concluded	November 2007
	Disposal of the remaining non-core assets	All remaining non-core assets to be disposed of	March 2008
	Performance benchmarks	Report on comparative ratios for local and international defence companies	October 2007

Programme 5: Transport Enterprises

The *Transport Enterprises* programme oversees the activities of Transnet and South African Airways (SAA) to ensure that the strategy, investment plans, commercial philosophy and operational performance are aligned with government's strategic intent for these enterprises.

Apart from *Management*, there are two subprogrammes:

- *Transport Sector* oversees Transnet.
- *Aviation Sector* oversees South African Airways (SAA) and South African Express Airways (SAX).

Expenditure estimates

Table 30.7 Transport Enterprises

Subprogramme				Adjusted			
	Audited outcome			appropriation	Medium-term expenditure estimate		
R thousand	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Management	–	–	–	–	3 952	4 189	4 440
Transport Sector	698	1 054	1 315	2 355	2 759	4 199	5 335
Aviation Sector	–	–	–	2 315	3 415	4 916	5 521
Total	**698**	**1 054**	**1 315**	**4 670**	**10 126**	**13 304**	**15 296**
Change to 2006 Budget estimate				(1 200)	–	–	
Economic classification							
Current payments	**698**	**1 054**	**1 315**	**4 670**	**10 111**	**13 289**	**15 282**
Compensation of employees	343	732	742	2 306	5 652	5 988	6 467
Goods and services	355	322	573	2 364	4 459	7 301	8 815
of which:							
Communication	*18*	*25*	*39*	*52*	*65*	*70*	*75*
Computer services	–	–	–	*70*	–	–	–
Consultants, contractors and special services	*85*	*120*	*186*	*1 857*	*3 200*	*6 357*	*7 818*
Inventory	–	–	–	*30*	*21*	*22*	*23*
Maintenance, repairs and running costs	–	–	–	*15*	–	–	–
Travel and subsistence	*85*	*50*	*154*	*46*	*508*	*650*	*687*
Other	*167*	*127*	*194*	*294*	*665*	*202*	*212*
Payments for capital assets	**–**	**–**	**–**	**–**	**15**	**15**	**15**
Machinery and equipment	–	–	–	–	15	15	15
Total	**698**	**1 054**	**1 315**	**4 670**	**10 126**	**13 304**	**15 297**

Expenditure trends

The transport unit was previously a subprogramme in the former programme 4, *Corporate Strategy and Structure*. The historical expenditure for this unit has been aggregated for the period 2003/04 to 2006/07. Over the MTEF period, expenditure is expected to rise from R10,1 million in 2007/08 to R15,3 million in 2009/10 at an average annual rate of 22,9 per cent. This increase is driven by the need to establish a fully operational unit with sufficient capacity, after the department decided to establish new SOEs in the aviation industry in 2006, namely South African Airways (SAA) and South African Airways Express (SAX).

Service delivery objectives and indicators

Recent outputs

The transport team did an exercise to define a strategy for ports, and completed a framework for private sector participation. The framework for introducing private sector participation at the port at Coega was completed.

The framework for private sector participation in rail (core and branch line networks) was finalised and various models have been assessed, and are implemented on a case by case basis.

The team secured approval from National Treasury in terms of Section 54 of the PFMA for the disposal of its non-core assets, including the Blue Train.

The transfer of Metrorail from Transnet to the South African Rail Commuter Corporation was also completed.

Selected medium–term output targets

Transport Enterprises

Measurable objective: Proposals and strategies to ensure that the strategies and operations of Transnet and SAA are aligned with government's strategic economic intent.

Subprogramme	Output	Measure/Indicator	Target
Transport Sector	Transnet:		
	Private sector participation in ports and rail	Coega private sector participation	June 2007
		Pier 1 plus Cato Ridge rail shuttle	June 2007
	National corridor performance measurement	National corridor performance measurement operational	November 2007
Aviation Sector	South African Airways (SAA)		
	Strategic oversight over the implementation of SAA business strategy	Quarterly and annual review reports, 5 yearly review and a review of the corporate plan	July 2007
	Reviews in terms of reporting framework on SAA	Memoranda containing performance analysis Comparative ratios for local and international airline companies	November 2007
	Shareholders' agreement	Shareholder compact assigned and key performance indicators agreed	June 2007
	South African Airways Express (SAX)		
	Balance sheet restructuring	Agreed terms of disposal, debt write-off or conversion to equity by Transnet	April 2007
	Separation from Transnet	Approval of PFMA section 54 application by Transnet to dispose of SAX to government	April 2007

Programme 6: Joint Project Facility

The Minister of Public Enterprises, together with the chairs and CEOs of the SOEs, identified the need for a facility that could co-ordinate cross cutting projects which the SOEs might implement simultaneously. In 2005, the forum of CEOs established the joint project facility (JPF) to undertake this role.

Apart from *Management*, there is one subprogramme of the same name, which aims to find and unlock synergies among SOEs, maximise shareholder value, and have a developmental impact on the economy.

There are currently eight projects under the JPF:

Competitive Supplier Development Programme is responsible for finding innovative ways of leveraging SOE procurement spend to build local world class manufacturing capabilities to supply the SOEs with capital goods in their infrastructure-build programmes. The programme also involves co-ordinating industry support measures across government, involving the departments of trade and industry, science and technology and the Industrial Development Corporation, and building strategic procurement capability within SOEs.

Human Resources and Capacity Building focuses on ensuring that there are sufficient skills in South Africa to meet the requirements of the SOEs infrastructure-build programmes. The project task team is made up of HR managers from all the SOEs who are working together to further identify skills requirements in the long term (20 year horizon). This team is also exploring ways of maximising the training infrastructure within SOEs to develop the necessary skilled artisans and technicians needed to build infrastructure.

Property Project is focused on optimising the value and developmental impacts on non-core properties. The project has established a policy framework for disposals and a set of broad-based black economic empowerment (BEE) guidelines to guide the disposal of SOEs' non-core property. From 2007, the majority of property will be sold in an open and competitive manner. Negotiations are under way for the disposal of property in support of the national housing programme.

Energy and Pipelines co-ordinates liquid fuels and gas pipelines, aiming to ensure that there is sufficient pipeline capacity in liquid fuels, natural gas and slurry pipelines to enable growth in the economy.

Rest of Africa aims to develop infrastructure projects in key countries in Africa.

Information Communications Technology seeks to use SOE ICT infrastructure to the advantage of the SOEs and the country as a whole. Developing call centres in rural areas and providing cheap broadband infrastructure for South Africa are two key outputs for this project.

Environment Impact Analysis develops proposals to ensure that the government policy balances the needs of environmental conservation with the need to rapidly build more infrastructure to grow the economy and become globally competitive.

Expenditure estimates

Table 30.8 Joint Project Facility

Subprogramme				**Adjusted**			
	Audited outcome			**appropriation**	**Medium-term expenditure estimate**		
R thousand	**2003/04**	**2004/05**	**2005/06**	**2006/07**	**2007/08**	**2008/09**	**2009/10**
Management	–	–	–	–	3 397	3 602	5 389
Joint Project Facility	–	–	–	11 409	11 281	19 135	20 905
Total	**–**	**–**	**–**	**11 409**	**14 678**	**22 737**	**26 294**
Change to 2006 Budget estimate				1 409	–	–	
Economic classification							
Current payments	**–**	**–**	**–**	**11 409**	**14 678**	**22 737**	**26 294**
Compensation of employees	–	–	–	1 409	2 015	2 124	2 241
Goods and services	–	–	–	10 000	12 663	20 613	24 053
of which:							
Communication	–	–	–	*100*	*68*	*118*	*124*
Consultants, contractors and special services	–	–	–	*7 800*	*10 108*	*12 011*	*14 887*
Inventory	–	–	–	–	*45*	*50*	*55*
Travel and subsistence	–	–	–	*466*	*550*	*620*	*650*
Other	–	–	–	*1 634*	*1 892*	*7 814*	*8 337*
Total	**–**	**–**	**–**	**11 409**	**14 678**	**22 737**	**26 294**

Expenditure trends

The joint project facility was established during 2005/06 and was funded by the SOEs themselves in that year. In 2006/07 the unit was a subprogramme under programme 4 but due to the re-alignment of the functions within the department, a new programme was created to accommodate the changes.

Expenditure increases from R14,7 million in 2007/08 to R26,3 million in 2009/10, mainly due to additional capacity required and outsourcing of technical and specialist expertise required to meet the objectives of the JPF over the MTEF period.

Service delivery objectives and indicators

Recent outputs

SOE non-core property disposal guidelines and broad-based BEE guidelines for SOEs' non-core property disposals were approved by Cabinet in 2006. The human resources and capacity building team have now identified and quantified the skills required for the SOE infrastructure-build programmes for the next six years. More detailed work is being undertaken with a focus on the highly specialised skills and occupations. Once it has been established, the broadband infrastructure company, Broadband InfraCo could play a vital role in bringing telecommunications costs down in South Africa. Further education and training college sites were identified and inspected, and six have been earmarked to pilot call centres in rural areas.

Selected medium–term output targets

Joint Project Facility

Measurable objective: Identify synergies among SOEs, maximise shareholder value and have a developmental impact on the South African economy.

Project	Output	Measure/Indicator	Target
Competitive Supplier Development Programme	Increased competitiveness of national suppliers	Increased value-add from national suppliers with no increase in total cost of procurement	August 2007
Human Resources and Capacity Building	Quantify SOE skills requirements for medium to long term	Quantify artisan and technical skills for the long term	March 2008
Property Project	Disposal of all non-core property lists submitted in terms of PFMA from Transnet, Denel, Eskom and SAA	Approval to dispose of all identified non-core assets	August 2007
Rest of Africa	Develop infrastructure projects in key countries in Africa	Project plans for 3 projects	November 2007
ICT	Call centres	3 call centres in further education and training (FET) centres in phase 1	October 2007
	Data network rationalisation	Business plan detailing current situation and identifying areas for improvement in efficiencies	April 2007
Environmental Impact Analysis	Ensuring a balance between environmental protection and the need to build more infrastructure to sustain the country's growth	Report on enhancing SOE EIA capacity where gaps are identified.	End 2007/08

Public entities and other agencies

Transnet

Transnet is the SOE responsible for core transport operations in South Africa. Its main business units include Spoornet (rail transport), South African port operations, the national port authority (Portnet) and Petronet (pipelines). In addition, Transnet holds South African Express and a range of smaller companies in road logistics, warehousing, IT, wagon manufacturing, telecommunications infrastructure and property. Transnet is implementing a new strategy that will transform the company from a diversified conglomerate into a focused freight transport company.

At the end of 2005/06, the effects of Transnet's turnaround strategy were reflected in the areas of profitability, efficiency and liquidity. The only indicator which does not reflect a positive trend is the return on equity percentage, due to the 2004/05 net profit after tax figure being inflated by a fair value adjustment of R4,4 billion.

The key financial indicators for the period ended March 2005/06 are reflected in the table below:

Description	2004/05	2005/06	% Change
Turnover (Rm)	25 260	26 360	4,4%
Net operating profit/ (Loss) (Rm)	5 414	8 478	56,6%
Operating profit margins (%)	21,4%	32,2%	50,1%
Profit after taxation (Rm)	5 748	4 423	-23,1%
Return on assets (%)	6,5%	10,8%	66,5%
Return on equity (%)	27,3%	16%	-41,4%
Levered cash flow	-4 455	3 386	176%
Gearing (%)*	61,8%	47,1%	-23,7%
Net increase/(decrease) in cash (Rm)	(380)	(183)	51,8%

**Debt to total capital ratio*

Eskom

The South African government is the sole shareholder of Eskom Holdings Limited, a vertically integrated operation that generates, transmits and distributes electricity. Eskom generates approximately 95 per cent of the electricity used in South Africa. It is regulated in terms of licences granted by the National Electricity Regulator and the National Nuclear Regulator. Through its subsidiary, Eskom Enterprises (Pty) Limited, Eskom also undertakes other non-regulated activities related to the energy and electricity supply industry, including providing electricity and related services to African countries connected to the South African grid and the rest of Africa. Eskom's financial year-end changed to 31 March 2005, resulting in a 15 month reporting period for 2004/05, which created a comparability challenge for the income statement items. For the year ended 31 March

2006, the Eskom group posted a net profit after tax of R4,6 billion which is R776 million less than the prior 15-months period, whilst the company (the divisions of Eskom without the subsidiaries) earned a net profit after tax of R5,1 billion, which is R567 million better than prior the 15 month period and R1,2 billion higher than the budget projection. The positive variance is due to lower operating expenses and a higher embedded derivative profit.

Denel

Denel (Pty) Ltd was incorporated as a private company in April 1992 when it separated from the Armaments Corporation of South Africa (Armscor). At the time, the industrial and manufacturing activities of Armscor were integrated into Denel. The main aim of the company is to create economic value by transforming its technological capabilities into superior defence and commercial projects and related services for global markets.

Denel is a producer of sub-systems and components for both land and air defence systems, locally and globally. Denel's key strategic role is to supply South Africa's armed forces with strategic defence capabilities. Denel and the local defence industry play a major role in producing and diffusing new technology, business processes and standards for the manufacturing sector.

In 2005/06 Denel posted a net loss of R1,4 billion, a small improvement from the prior year's net loss of R1,6 billion. The major contributors to the 2005/06 financial performance were mainly the failure to achieve the sales target, inventory build-up in relation to sales, an increase in the provision for contract losses, the provision for restructuring and low production at certain plants resulting in an under-recovery of labour.

Over the previous financial periods, the Denel Group posted significant losses that resulted in an erosion of the reserves of the company. This situation threatened the going concern status of Denel. The capital and reserves have however been restored to R635,4 million during the 2005/06 financial year due to the Government recapitalisation of R2 billion in March 2006 and the impact of the IFRS implementation, more specifically the revaluation and review of the useful lives of property, plant and equipment.

Further capitalisation was required in terms of Denel's strategy and R567 million was allocated in the 2006 Adjustment Budget while a final allocation of R933 million has been budgeted for Denel for the 2007/08 financial year.

The July year-to-date results for 2006/07 show that Denel's financial position is gradually improving and the turn-around strategy is beginning to yield some results. The net loss of R239,8 million for the four months ended 31 July 2006 was an improvement of R51 million (18 per cent) against the budgeted loss of R291 million for the same period. The year-end forecast loss of R907 million for the group is in line with the budget.

Alexkor

Alexkor posted a net loss of R205,5 million, a deterioration from the last year's net loss of R5,9 million. The loss was mainly due to the adjustment of the environmental liability from R0,6 million to R159,8 million and the increase in post retirement medical liability provision from R10 million to R11 million in 2005/06. The other contributor to losses was the inability to meet revenue targets as a result of fewer sea days and old equipment utilised for operations. The revenue for the period increased to R159,4 million from R152,4 million the previous year. Total operating costs increased to R197,6 million from R151,8 million from the previous year. The operating loss for the period under review was R38,2 million compared to the R1,5 million profit the previous year. This is mainly attributable to an increase in depreciation, staff costs and directors' emoluments.

The main post balance sheet event is the Minister of Finance's announcement of a cash injection to Alexkor of R80 million for working capital requirements. Part of the R80 million was also intended for initiating an exploration programme.

Following a protracted process of negotiations with the Richtersveld community, the memorandum of understanding between government and the Richtersveld community was signed in October 2006. This will be the basis for a deed of settlement which is envisaged to be served before the court in the first half of 2007.

South African Forestry Company Limited

The South African Forestry Company Limited (SAFCOL) is entrusted with the management and development of certain state commercial forests. The company's activities include forestry management, timber harvesting, timber processing and related domestic and international activities. The company sells softwood saw logs from forests in South Africa and abroad. SAFCOL's activities are concentrated in Limpopo and Mpumalanga. SAFCOL's main operational subsidiary is Komatiland Forests, the largest supplier of softwood sawlogs, supplying approximately 55 per cent in these regions, and contributing substantially to employment.

The main aim of SAFCOL is to develop the South African forestry industry by optimising its assets according to accepted commercial management practices and conservation principles. SAFCOL acquired the commercial forestry and related activities of the forestry branch of the Department of Water Affairs and Forestry in April 1993. The company owns 332 000 ha of commercial tree plantations and other assets, including MTO Forestry (Pty) Ltd, Amatola Forestry Company (Pty) Ltd and Komatiland Forests (Pty) Ltd.

SAFCOL has during the past three years reported strong surpluses and its capital and reserves are expected to grow from R812 million in 2003/04 to nearly R2 billion in 2009/10. However the analysis of SAFCOL's financial performance, position and cash flow results for the 2005/06 financial year indicate that the profitability of SAFCOL is not entirely satisfactory considering that the prices of saw logs increased by approximately 400 per cent in the last 13 years. SAFCOL's return on assets is only 3 per cent regardless of the high prices as opposed to an industry average of 6 per cent. The efficiency ratio as measured by sales/total assets dropped from 0.43 in 2004/05 to 0.22 in 2005/06 even though assets increased indicating that assets did not generate as much sales.

Pebble Bed Modular Reactor

The Pebble Bed Modular Reactor (PBMR) company was established in 1999 by Eskom as a vehicle for pursuing and commercialising its research into an alternative nuclear electricity generation technology. Due to the very high temperatures that the PBMR can achieve, other potential applications have subsequently been identified. With the current high growth in demand for electricity, South Africa needs a massive programme to build power stations. The added environmental pressures make nuclear energy one of the most viable sources. The PBMR company's strategic role is to provide electricity to South Africa's coastal regions. The export of this nuclear technology is expected to become a valuable source of foreign exchange earnings

Following Cabinet's memorandum in April 2000 to launch the company, the PBMR went through a detailed feasibility phase, during which external partners were identified. Government envisaged that it would own 51 per cent of total equity in the project, which will include ownership by the Industrial Development Corporation (15 per cent) and Eskom (6 per cent). Local and international investors were expected to subscribe to the balance of 49 per cent.

During 2002 and 2003, Eskom requested the government to assist directly in the development of the technology. Following the withdrawal of the external partner Exelon, government decided to restructure the joint venture participation and to mandate the Industrial Development Corporation to oversee the development of the pebble bed modular reactor on behalf of government.

Meanwhile, the PBMR company has finalised the designs for most of the components, begun to staff up and start with skills development, and started ordering hardware for the construction of the demonstration reactor at Koeberg. Revenue to date is limited to net interest received, and transfers received include receipts from government and all other shareholders. All expenses are capitalised against either the demonstration reactor plant or the pilot fuel plant, but are written off in the company's annual financial statements.

During the initial feasibility stage (up to June 2004), R1,5 billion was spent on the development of PBMR technology and the design of the demonstration reactor plant and pilot fuel plant. The PBMR company received R600 million from government in 2004/05. Another R580 million was allocated on the budget for 2005/06. There are still a number of challenges facing the company. Although the reviews and viability studies by various independent parties concluded that the technology is feasible, the economic feasibility for a start-up company is still questioned and cognisance should be taken of the socio- and macroeconomic benefits. Further work on this is ongoing.

Additional tables

Table 30.A Summary of expenditure trends and estimates per programme and economic classification

Programme	Appropriation		Audited	Appropriation			Revised
	Main	Adjusted	outcome	Main	Additional	Adjusted	estimate
R thousand	2005/06		2005/06	2006/07			2006/07
1. Administration	39 934	43 241	46 311	44 329	5 376	49 705	51 705
2. Energy, Broadband Infrastructure and Mining Enterprises	15 189	590 139	21 146	12 327	711 034	723 361	722 561
3. Legal , Governance and Risk	11 771	12 407	14 799	19 436	(2 244)	17 192	16 642
4. Manufacturing Enterprises	19 854	2 021 829	2 587 912	591 495	1 472 091	2 063 586	2 063 136
5. Transport Enterprises	8 490	8 292	1 315	5 870	(1 200)	4 670	4 470
6. Joint Project Facility	–	–	–	10 000	1 409	11 409	11 409
Total	**95 238**	**2 675 908**	**2 671 483**	**683 457**	**2 186 466**	**2 869 923**	**2 869 923**
Economic classification							
Current payments	**75 953**	**77 393**	**76 537**	**101 905**	**(569)**	**101 336**	**101 336**
Compensation of employees	52 845	42 614	42 442	57 888	(3 883)	54 005	52 005
Goods and services	23 108	34 779	34 095	44 017	3 284	47 301	49 301
Financial transactions in assets and liabilities	–	–	–	–	30	30	30
Transfers and subsidies	**18 758**	**2 597 441**	**2 593 997**	**581 086**	**2 185 666**	**2 766 752**	**2 766 752**
Provinces and municipalities	132	134	129	49	–	49	49
Departmental agencies and accounts	5 626	3 626	372	437	3 152	3 589	3 589
Public corporations and private enterprises	13 000	2 593 581	2 593 396	580 000	2 180 484	2 760 484	2 760 484
Households	–	100	100	600	2 030	2 630	2 630
Payments for capital assets	**527**	**1 074**	**949**	**466**	**1 369**	**1 835**	**1 835**
Machinery and equipment	527	1 061	936	466	1 343	1 809	1 809
Software and intangible assets	–	13	13	–	26	26	26
Total	**95 238**	**2 675 908**	**2 671 483**	**683 457**	**2 186 466**	**2 869 923**	**2 869 923**

Table 30.B Summary of personnel numbers and compensation of employees

	Audited outcome			Adjusted appropriation	Medium-term expenditure estimates		
	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
A. Permanent and full-time contract employees							
Compensation (R thousand)	29 944	34 694	42 122	53 411	61 290	65 038	68 442
Unit cost (R thousand)	212	259	275	332	381	404	425
Personnel numbers (head count)	141	134	153	161	161	161	161
B. Part-time and temporary contract employees							
Personnel numbers (head count)	27	–	–	–	–	–	–
C. Interns							
Compensation of interns	144	276	320	594	720	792	820
Unit cost (R thousand)	24	12	8	33	36	40	41
Number of interns	6	23	41	18	20	20	20
Total for department							
Compensation (R thousand)	**30 088**	**34 970**	**42 442**	**54 005**	**62 010**	**65 830**	**69 262**
Unit cost (R thousand)	**173**	**223**	**219**	**302**	**343**	**364**	**383**
Personnel numbers (head count)	**174**	**157**	**194**	**179**	**181**	**181**	**181**

Table 30.C Summary of expenditure on training

	Audited outcome			Adjusted appropriation	Medium-term expenditure estimates		
	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Training and staff development							
Expenditure (R thousand)	910	683	481	637	770	842	912
Number of employees trained (head count)	110	104	125	139	161	161	161
Bursaries (employees)							
Expenditure per programme (R thousand)	403	194	233	278	307	338	372
Number of employees (head count)	16	14	59	57	30	30	30
Total	**1 313**	**877**	**714**	**915**	**1 077**	**1 180**	**1 284**
Number of employees	**126**	**118**	**184**	**196**	**–**	**–**	**–**