



BRIEFING BY THE DOE AND SFF ON STRATEGIC FUEL STOCKS AND STORAGE FACILITIES

**MFANO NKUTHA
SIVUYILE NGQONGWA**



A subsidiary of CEF (SOC) LTD

REQUEST FROM THE COMMITTEE

- **COMPANY OVERVIEW INCLUDING HISTORY**
- **OVERVIEW OF ASSETS UNDER MANAGEMENT**
- **CURRENT STATUS OF THESE ASSETS**
- **OVERVIEW OF THE FUNCTIONING OF SFF**
 - HOW INCOME IS DERIVED
 - FINANCIAL STATUS OF SFF
- **FUTURE EXPANSION PLANS**

PRESENTATION FORMAT

- **INTRODUCTION TO SFF**
 - HISTORY
 - MANDATE
 - SFF OPERATIONS
 - FINANCIAL STATUS
- **PRODUCT STORAGE**
 - STRATEGIC STOCKS POLICY
 - IDENTIFIED LOCATIONS
- **FUTURE PLANS**

HISTORY

- DEPARTMENT OF ECONOMIC AFFAIRS INITIATED THE CREATION OF A FUND FOR THE STOCKPILING OF STRATEGIC CRUDE OIL
- SFF IS INCORPORATED IN 1964 WITH IDC AS A SHAREHOLDER
- IN TERMS OF GUIDELINES LAID DOWN, AMOUNTS WERE COLLECTED FROM OIL COMPANIES FOR THE FUND.
- INTEREST FREE LOANS FROM EXTERNAL PROCUREMENT FUND WERE ALSO MADE TO SFF
- SUBSEQUENTLY A MONTHLY LEVY WAS ALSO PAID TO SFF FROM THE EXCISE DUTY ON PETROL
- 17 JUNE 1975, SFF MOA AMENDED BY SPECIAL RESOLUTION TO DEFINE ITS OBJECTS MORE CLEARLY I.E. THE PROCUREMENT, STOCKPILING AND PRODUCTION OF FUELS OF STRATEGIC IMPORTANCE TO RSA
- 15 APRIL 1976, SOF (PTY) LTD WITH SFF AS ITS SOLE MEMBER AND SHAREHOLDER IS INCORPORATED – THE MAIN OBJECTIVE IS TO MANAGE THE STRATEGIC OIL FUND (NOW CENTRAL ENERGY FUND).

MANAGEMENT HISTORY

- SFF IS MANAGED BY SASOL UNTIL 27 MARCH 1984
- IDC TAKES OVER SFF MANAGEMENT FROM SASOL
- PETROSA MANAGES SFF FROM 29 OCTOBER 2002
- CEF MANAGES SFF FROM 01 APRIL 2010
- IN 02 JANUARY 2013 SFF MANAGES IT'S OWN AFFAIRS

MANDATE

s17(1) – THE MINISTER MAY, IN A PRESCRIBED MANNER, FOR THE PURPOSES OF ENSURING SECURITY OF SUPPLY, DIRECT ANY STATE-OWNED ENTITY TO ACQUIRE, MAINTAIN, MONITOR AND MANAGE NATIONAL STRATEGIC ENERGY FEED-STOCKS AND CARRIERS.



CHAPTER 5 – SECURITY OF SUPPLY, NATIONAL ENERGY ACT 34 OF 2008

SFF OPERATIONS



Saldanha Bay in-ground storage



Milnerton above ground storage



Oil Pollution Control division



Ogies underground bunkers

STORAGE FACILITIES

SALDANHA BAY, WESTERN CAPE

- **6 X 7.5 MILLION BARRELS UNDERGROUND TANKS.**
- **40 YEARS USEFUL LIFESPAN REMAINING.**
- **FACILITIES ARE ISO 9001, ISO 14001 AND ISO 18001 CERTIFIED.**
- **TWO TANKS DEDICATED TO STRATEGIC STOCKS AND BALANCE TO COMMERCIAL CLIENTS.**

MILNERTON, WESTERN CAPE

- **39 X 200 000 BARRELS ABOVE GROUND TANKS.**
- **CURRENTLY UNDERGOING INTEGRITY TESTS TO DETERMINE USEFUL LIFE.**
- **FACILITIES ARE ISO 9001 AND 14001 CERTIFIED.**
- **NO STRATEGIC STOCKS AND ONLY THREE IN USE FOR COMMERCIAL PURPOSES.**

HOW SFF FUNDS ITSELF

ASSET BASE

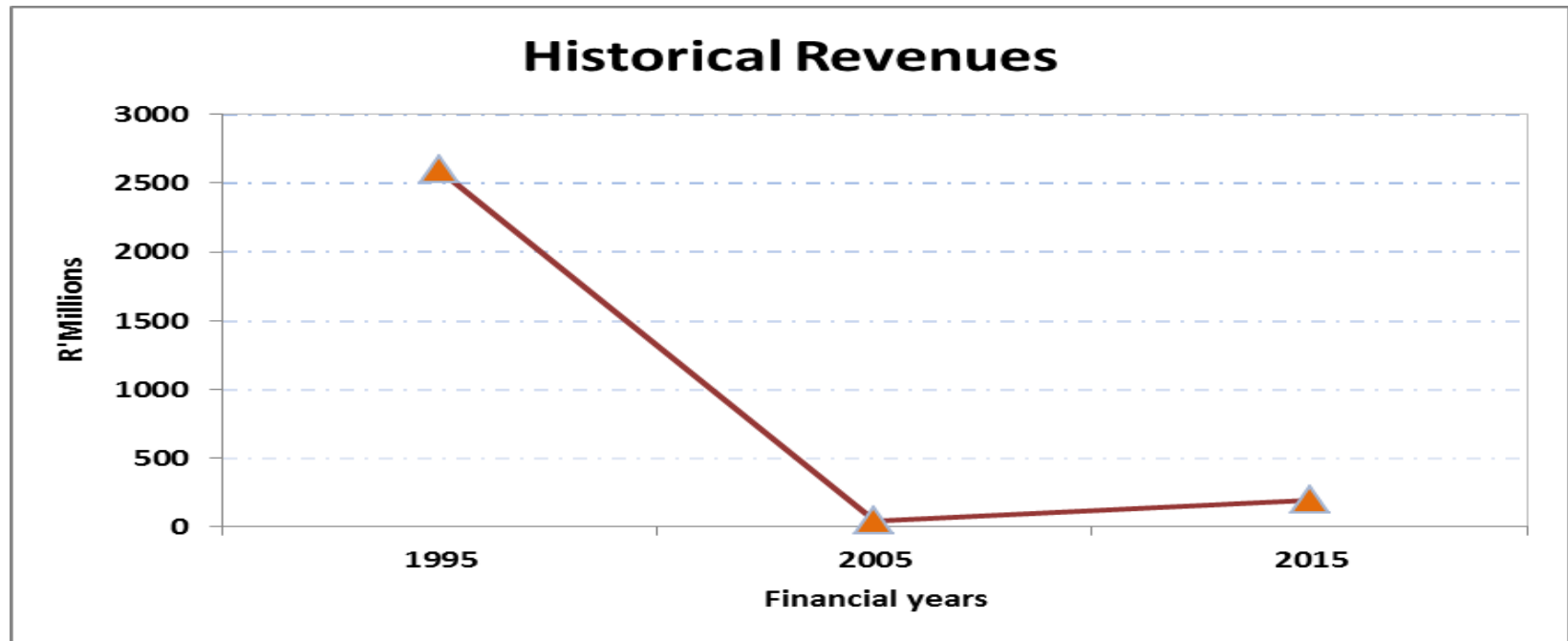
- INTEREST ON CASH RESERVES, AND
- LEASING OF AVAILABLE STORAGE SPACE TO CRUDE OIL TRADING COMPANIES.

FUNDS UTILISATION

- GENERATED CASHFLOWS ARE USED TO MAINTAIN THE INFRASTRUCTURE AND FUND ALL SFF'S OPERATIONAL EXPENDITURE.
- EXCESS FUNDS ARE TRANSFERRED INTO CASH RESERVES.

FINANCIAL STATUS OF SFF

HISTORICAL REVENUES



- On real terms (amounts not even adjusted for inflation factor) revenue generated by SFF in the year 1995 (R2.6 billion) was more than 10 times higher than revenue generated in 2015 (R198 Million), and the question is why?
- The answer to this question lies in the withdrawal of policy instruments that were at the disposal of SFF at the time e.g. Importer of refined product for the country.

BUSINESS MODEL OR “ACCIDENTAL” BUSINESS MODEL?

- On withdrawal of these policy instruments, SFF had to do an introspection of what it is that it had accessed to.
- At its disposal were the crude oil storage tanks that belonged to the State.
- These crude oil storage tanks were not fully utilised and as such the spare capacity could be leased out to oil traders.
- However this “business model” had its shortcomings as it was borne out of default than design.
- It is subject to the whims of crude oil price fluctuations and biased to a market of the crude oil price that is in down turn than upswing.
- It is a fact that the periods of crude oil price being depressed are few and far between than market where the crude oil price is in upswing therefore the “default” business model is found wanting more often than not and the cash balances invested come to rescue.
- Also with SFF charged with the responsibility to manage and maintain the strategic crude stocks and by extension the storage facilities and these functions require funding to manage and maintain.
- SFF, even post withdrawal of policy instruments, had never requested financing from the Fiscus as it had always ‘lived within its means’.

COMMENTARY ON SFF REVENUES

- In the year 2008 with the world economy at its dizzying heights, the oil price set a new world record hitting \$147 per barrel on the 11 July 2008.
- Barely 2 months later the world was sank into recession as a result of the so called “sub prime” crisis and the oil price came crashing down to \$32 per barrel.
- This depression in oil price was good news to SFF as it enabled the company to enter into contracts with the oil traders that lifted the company revenue from the lows of R42million to highs of R427million in the financial year 2011.
- On expiry of these contracts with the oil traders and the oil price having been in upswing trend since 2008 the oil traders were not keen on renewing oil storage contracts.
- That resulted in our revenues tumbling down till the oil price nose dived in June 2014 from the highs of \$111 per barrel to about \$48 per barrel in January 2015.
- The positive impact of this decline in oil price started having a meaningful impact in SFF revenues in January 2015 as the period between June to September 2014 there was no market movement in storage business and the period September to December 2014 was characterised by short term contracts at lower storage rates.

COMMENTARY ON SFF REVENUES

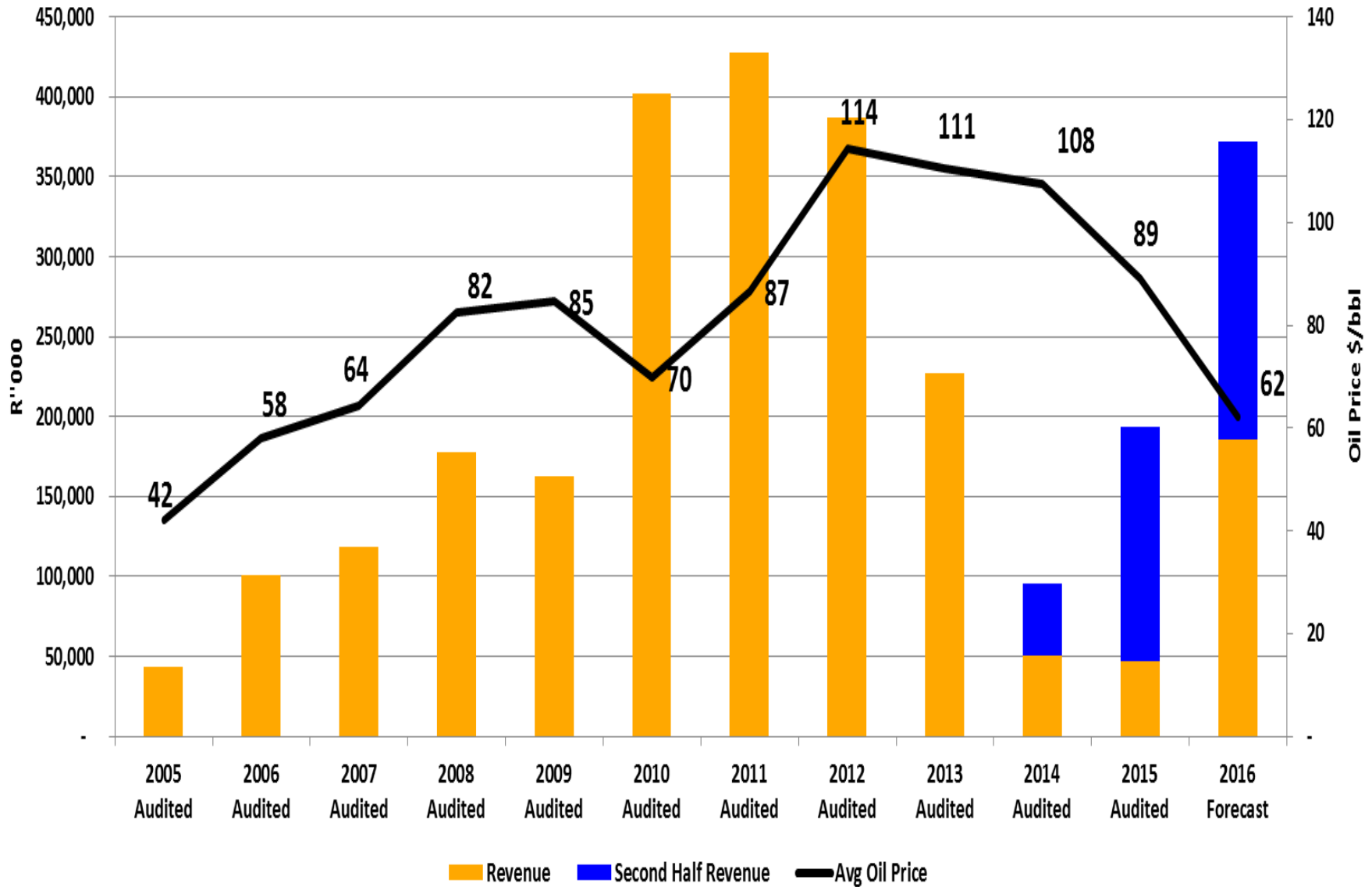
□ 2014/15 to 2013/14

- The revenue generated in the last three (3) months of 2014 calendar year is 2014 which is our third quarter of the financial year is 115% (R54.5M/R47.2) of the revenue generated in the first half of the current financial year.
- Revenue generated in the nine (9) months to December 2014 is 104% (R101M/R97M) of the total revenue generated in the previous financial year of 2013/14.
- Whilst revenue generated in the full financial year 2014/15 in comparison to the financial year 2013/14 was more than 200%.

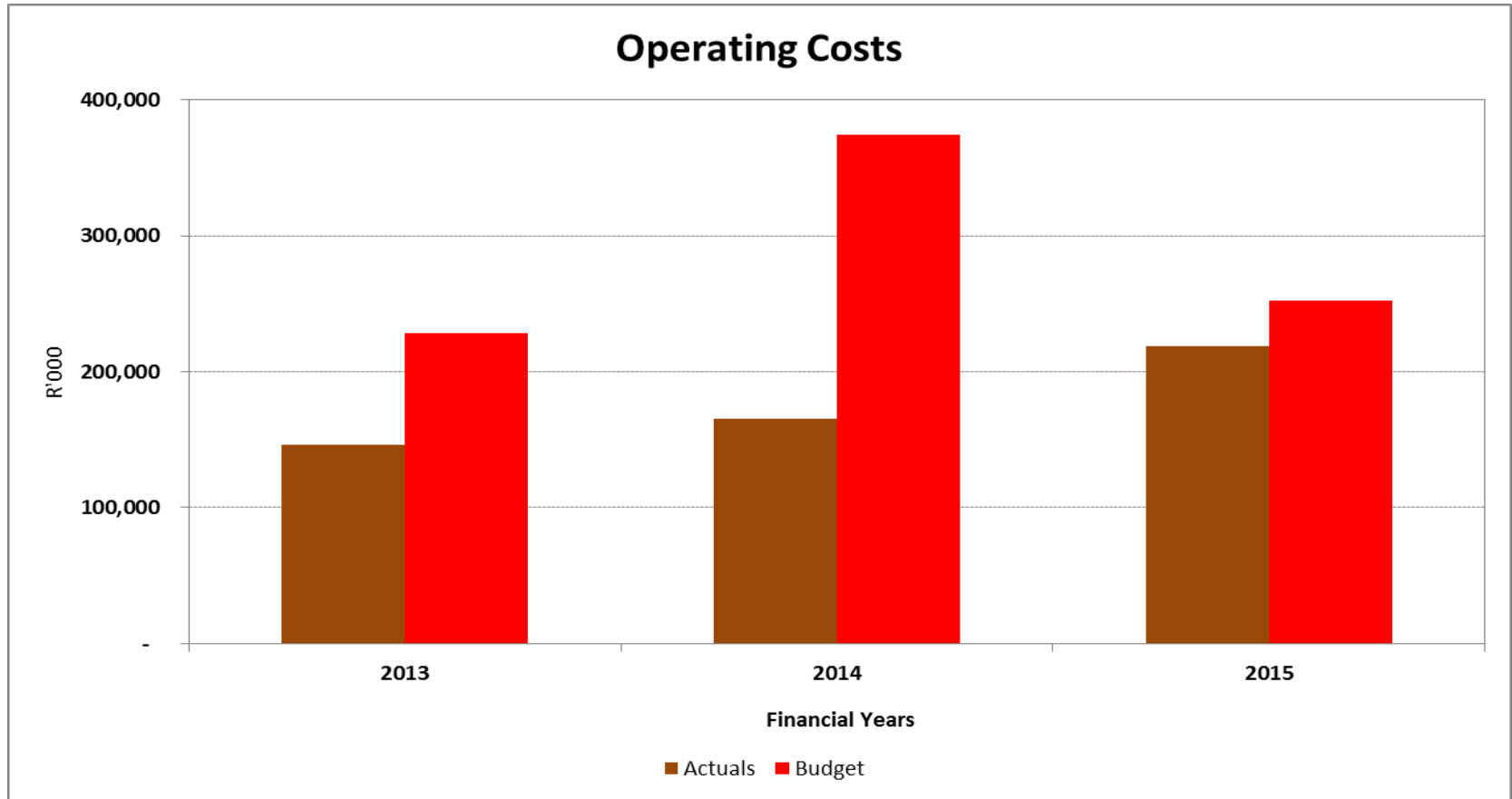
□ 2015/16 Financial year

- The revenue generated in the first three (3) months of this financial year is already only 3% below the revenue generated in the full financial year 2013/14.
- Forecasted revenue of this financial year is R372million which will lift the company revenue to the levels of the 2010/11 heights in our really first year of this round of contango whilst the 2010/11 performance was the final year of that contango episode.

SFF Revenue to Crude Oil Prices



OPERATING COSTS



- In managing an operation that has a vulnerable business model to market swings as SFF, requires a steadfast cost containment regime.
- Over the period that is depicted above SFF has been significantly below budget.

INCOME STATEMENT

ZAR'000

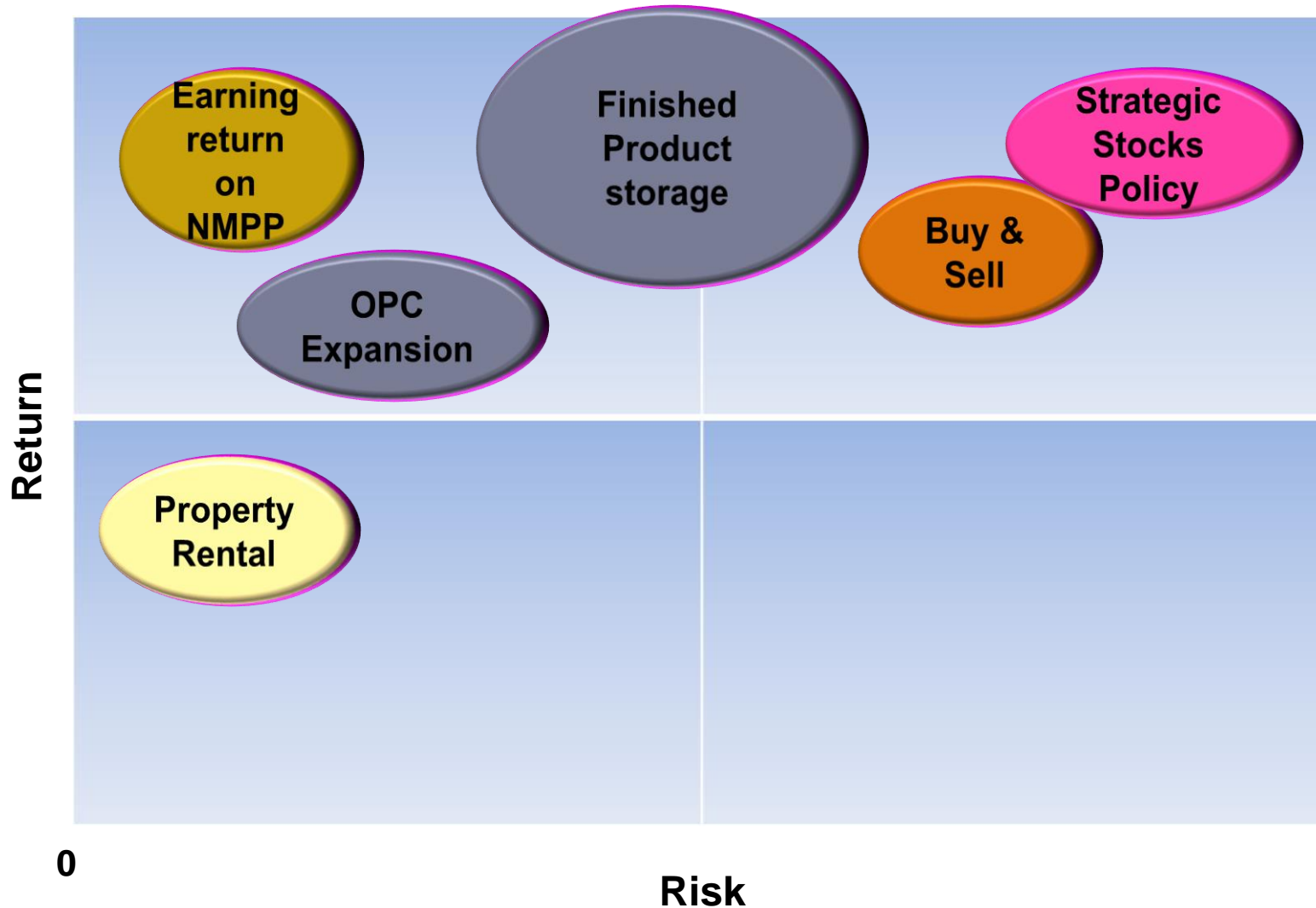
FINANCIAL YEAR	2012-13 Audited	2013-14 Audited	2014-15 Audited	2015-16 Budget	2016-17 Forecast	2017-18 Forecast
Revenue	227,173	92,143	198,644	324 680	351 161	334 070
Interest Income	99 460	99 336	108,550	100 000	106 000	112 360
Taxation	-	-	-	-	-	-
Headline Earnings	153,864	19,236	81,082	116 827	105 982	112 341

BALANCE SHEET

ZAR'000

FINANCIAL YEAR	2014-15	2015-16	2016-17	2017-18	2018-19
Non-current Assets	3 204 224	3 733 870	4 191 783	4 137 492	4 107 492
Current Assets	2 060 397	1 723 220	1 346 776	1 478 495	1 612 495
Total Assets	5 264 621	5 457 090	5 538 559	5 615 987	5 719 987
Equity	4 811 867	4 860 708	4 933 657	5 002 379	5 106 379
Non-current liabilities	330 806	449 459	449 459	449 459	449 459
Current liabilities	121 948	146 923	155 444	164 149	164 149
Total Equity and Liabilities	5 264 621	5 457 090	5 538 560	5 615 987	5 719 987

BEYOND CONTANGO



STRATEGIC STOCKS POLICY ISSUES

STRATEGIC STOCKS POLICY

- GOVERNMENT POLICY
- DEPARTMENT OF ENERGY IS THE ACCOUNTABLE AUTHORITY
- SFF IS THE IMPLEMENTING AGENCY
- SFF-DOE TASK TEAM HAS PRODUCED THREE DOCUMENTS
 - FUNDING PROPOSAL TO NATIONAL TREASURY I.E. LEVIES, DEBT AND INCOME FROM STOCK ROTATION (2014)
 - TAX TREATMENT OF STRATEGIC STOCKS TO NATIONAL TREASURY (2014)
 - POTENTIAL STORAGE LOCATIONS FOR PETROLEUM PRODUCTS (2015)

LOCATIONS UNDER CONSIDERATION

- ISLAND VIEW - DURBAN
- RICHARDSBAY PORT
- EAST LONDON
- CAPE TOWN PORT
- JAMESON-PARK PRECINCT

MATTERS OUTSTANDING

FINALISING STOCKS LEVELS REQUIREMENTS

CONCURRENCE FROM NATIONAL TREASURY FOR LEVIES TO BE IMPLEMENTED

FEASIBILITY STUDIES FOR THE SHORT-LISTED STORAGE SITES

THANK YOU