**Part (a) Identify and describe Sage’s key strengths, weaknesses, opportunities and threats.**

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
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<tr>
<td>S1. Sage is the leader in the area of research and development of renewable energy in South Africa, providing it with growth opportunities.</td>
<td>W1. Wind power is currently the smallest contributor to the total mix of electricity production in South Africa, which limits the bargaining power of renewable energy suppliers in terms of pricing, resulting in smaller profits being available for financing of expansions compared to those of other South African electricity generating companies.</td>
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<td>S2. To date Sage is the only company in South Africa that has a fully operational wind power station, Klipheuwel, which generates 95% of local wind energy – it can thus play a dominant role in the market which will enable it to grow. (Alt: strong position in the market protects Sage in the short-term from competition and results in additional revenue generation)</td>
<td>W2. Currently is seems as if Sage only has one fully operational wind power plant, i.e. Klipheuwel, that is responsible for 95% of the wind power electricity supply in South Africa. This farm is operated at full capacity and can only supply 1 000 MW of electricity per year, which limits the company’s opportunities to grow in the short term.</td>
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<td>S3. UK Green Energy as shareholder provides access to foreign skills, expertise and finance in the renewable energy market, which other South African companies will not have, while the involvement of SARGE ensures access to local expertise. This creates a competitive advantage for SAGE,</td>
<td>W3. Large capital outlay is required to enable growth – limited access to funding could restrict growth.</td>
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<td>S4. The fact that SAGE is partly owned by a South African SOC implies government having a vested interest in SAGE which holds benefits such as engaging with regulators on key issues, access to government grants etc.</td>
<td>W4. Wind farms normally are not profitable for the first ten years after they become operational – this could limit growth as it may be difficult to convince financiers to invest in a company that expects to make huge losses on large amounts invested for at least ten years.</td>
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<td>S5. The fact that none of Sage’s directors/management has the necessary knowledge of the legislation pertaining to their industry, applicable to Sage drives the risk of non-compliance with regulatory and legal requirements applicable to Sage, which could result in the demise of Sage.</td>
<td>W5. The fact that Sage does not appear to have a significant black shareholding resulting in its BEE status not being favourable, can be a limitation in securing contracts going forward.</td>
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<td>W6. The fact that Sage has experienced significant losses during the past two years. Management is aware that the entity has liquidity problems and might be at risk of not being able to improve its cash position. This might pose a risk to the future existence of the entity.</td>
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W8. The over-reliance on the bank overdraft which creates both financial risk and increases the cost of funding of SAGE, indicates an inappropriate funding mix.

Opportunities

O1. Media and other stakeholders in South Africa, such as overseas investors, the South African government and environmental groups, are driving the move towards renewable energy which includes wind power – this could open up opportunities for funding and growth.

O2. Sage’s focus on renewable energy and the fact that the company is listed, could result in funding, particular foreign funding, being attracted from socially responsible investments (SRI) investing in Sage in future.

O3. The fact that the Medupi power plant of Eskom is delayed until 2018 is an opportunity for Sage to negotiate premium prices at which to sell its wind energy, especially as there will be a shortfall of electricity supply in South Africa due to the delay.

O4. It is expected that energy demand in South Africa will grow between 2014 and 2020. The limitations of Eskom create opportunities for Sage to fill the gap in the market. As there is no oversupply of energy in South Africa, this presents SAGE with an opportunity for growth.

O5. Renewable energy generation is growing fast globally and this is an opportunity for Sage to expand and follow global trends – it may be easier to convince prospective financiers to invest in the company to finance growth.

O6. Sage is developing a second wind farm, the Darling wind farm, which is 25% complete. When this wind farm is 100% complete, it will lead to an increase in the capacity of Sage to deliver wind energy to the market, resulting in higher profits for Sage. These profits could be invested in growth projects.

O7. Renewable power demand is expected to increase by up to 60% in each of the next five years. This creates an opportunity for Sage to increase profits as its product will be the energy of choice in the future – such profits could finance further growth of the company.

O8. The president of the United States has committed to an investment of R300 billion in renewable energy in South Africa. This creates the opportunity for Sage to obtain further financing/grants to optimise its existing and future projects in order to grow its business. The South African government has indicated that Sage has the potential to make optimal use of a significant portion of these funds because it is considered to have great potential.

O9. Municipalities in South Africa want to purchase a fixed quantity of renewable energy from market participants at a price in excess of the market price. This is an opportunity for Sage to increase its current capacity and to sell its excess energy production to these municipalities and in the process improves its profitability and create financing for future growth opportunities.

O10. The government and municipalities as well as the media want to eliminate the monopoly that Eskom has in South Africa. This provides an opportunity for Sage to grow and to get the backing of the South African government as well as other interest groups who want the monopoly to end.

O11. Sage is currently doing research into solar energy production. Should this prove to be a viable alternative and be incorporated into its business strategy, it would provide an opportunity to generate profits that could finance expansions into renewable energy production.

Threats
T1. Changing the wind patterns in South Africa could lead to unfavourable circumstances for wind energy generation – this could lead to lower income and profits which would hamper growth prospects and could even create going concern risks for Sage.

T2. Sage may construct its wind farms in inappropriate locations. This could result in less than optimum energy output and also pressure from environmental groups should endangered birds be threatened by its wind farms creating a reputation risk for SAGE.

T3. Because Sage is still a rather new company, the operations of the business may possibly not be managed efficiently and effectively resulting in sub-optimal use of infrastructure, which may result in an inability to supply power to customers. This could lead to a drop in sales and dissatisfaction among stakeholders who may return to other sources of energy – less profits will thus be generated to fund growth.

T4. Sage is completely reliant on large amounts of loan funding for continued operations. Its continued existence as a going concern is thus dependent on tight monetary control and faith of investors in the management of the company. Should investors abandon the company, it will not be able to continue as a going concern.

T5. The current liabilities of the entity have increased significantly compared to that of the prior year. There might be a threat that creditors of Sage might file for liquidation, especially if Sage has a going concern problem and management has no formal plans in place to address this.

T6. Sage does not meet the requirements of UGE relating to the shareholder loan. The loan is therefore not underwritten in terms of the subordination agreement at year end. This could result in Sage not being able to continue as a going concern.

T7. The going concern issue can be further exacerbated by the fact that the wind farms only become profitable after 10 years. It will be difficult to convince financiers to take such a long view on the company in assessing the credit risk of the company in providing financing.

T8. The industry in which Sage operates is highly regulated and if regulations are not adhered to, it might result in the incurrence of huge penalties, which is a threat given directors/management’s lack of knowledge of the legislation, ultimately impacting on Sage’s profits and it being a going concern in future.

T9. Given that the turbines are imported, the risk of being exposed to adverse currency changes would impact negatively on the costs and liquidity position of Sage. Importing the turbines from China creates other logistical challenges extending time frames to complete construction of the wind farms and maintaining them in future.

T10. Selling electricity to municipalities could exacerbate the liquidity problems faced by Sage given that many South African municipalities are notorious when it comes to paying their suppliers on time.

Other points limited to two additional points plus correct description