PARLIAMENT
OF THE REPUBLIC OF SOUTH AFRICA

Overview of the Department of Public Enterprises and the State-Owned Companies

MAKING YOUR FUTURE WORK BETTER

Presented by the Parliamentary Researcher
Ms. Lee Bramwell

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Content

1. Department of Public Enterprises (DPE) mandate

- Aims to drive investment, productivity and transformation in the Department's portfolio of state-owned companies (SOCs), their customers and suppliers to unlock growth, drive industrialisation, create jobs and develop skills.

- The mission of the Department is to provide decisive strategic direction to the SOC, so that their businesses are aligned with the National Growth strategies arising out the National Development Plan (NDP)

1.1. National Development Plan (NDP)

- The Department's overall mandate is to ensure that the SOCs within its portfolio are directed to serve Government's strategic objectives as outlined in the NDP.

- Through its mandate, the Department contributes to the NDP's objectives through **outcome 4 (decent employment through inclusive economic growth)** and **outcome 6 (an efficient, competitive and responsive economic infrastructure network).**

1.2. Medium Term Strategic Framework (MTSF)

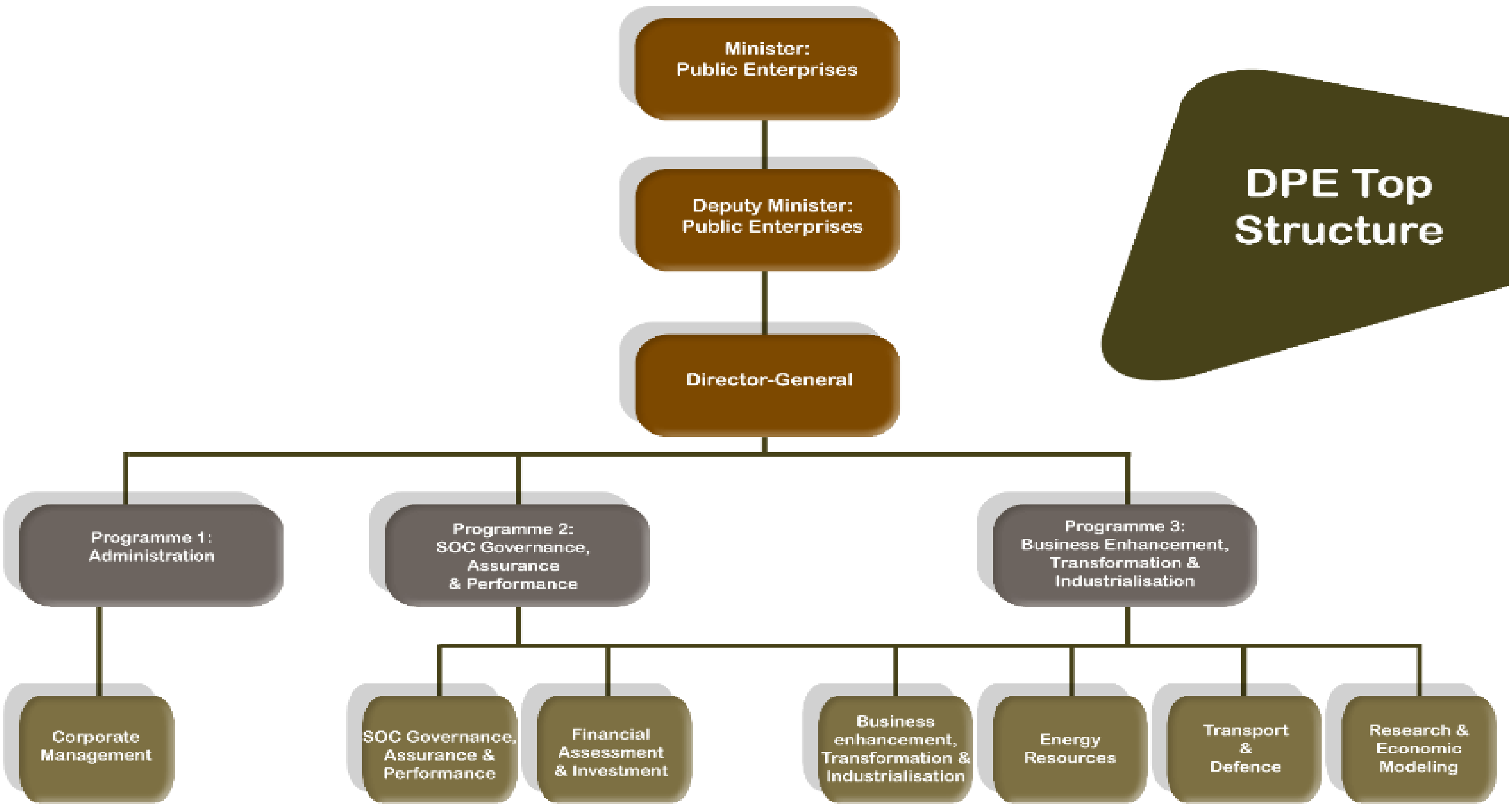
- Initiate reforms to restore good governance and financial stability at public institutions and state-owned companies.

- Develop & Implement an infrastructure programme which includes continuing with the programme to build, revamp and maintain electricity infrastructure, including generation, distribution and reticulation to ensure sufficiency and sustainability of supply and development of alternative energy sources.

1.3. Medium Term Budget Policy Statement (MTBPS)

- Sets out a series of urgent economic reforms needed to build a more competitive economy
- Includes reforming the governance of SOCs, rationalising state holdings and encouraging private-sector participation
- Requires most major economic infrastructure investments to be financed on the strength of the balance sheets of SOCs
- Support to state-owned companies will depend on sound and sustainable business cases, and on strengthening internal governance

1.4. Departmental Structure



Programmes

- 3 Programmes, namely:
  - Administration
  - SOC governance and performance
    - Management, Legal, Governance, and Financial Assessment and Investment Support
  - Business Enhancement and Industrialisation
    - Business Enhancement Services
    - Energy Resources (Eskom, Alexkor and SAFCOL)
    - Research and Economic Modelling
    - Transport and Defence (Transnet, SAA, SAX, Denel)
- **Budget** – R293 million for the 2019/20 financial year
- **Personnel** – 232 staff members for the 2019/20 financial year
- **Challenges** – Finalisation of the Shareholder Management Bill, effective oversight of the SOCs

2. SOC Mandate

- The Department does not directly execute programmes but seeks to leverage the state ownership in the economy to support the delivery of key outcomes outlined in the NDP and the Medium Term Strategic Framework (MTSF).

- The Department has oversight of Alexkor, Denel, Eskom, The South African Forestry Company (SAFCOL), South African Airways (SAA), South African Express (SAX) Airways and Transnet.

a) Alexkor

- Alexkor was established in terms of the Alexkor Limited Act, No. 116 of 1992, amended in 2001.
- 100% owned by Government
- Its core business is the mining of land and alluvial diamonds
- Focused predominately on the Richtersveld area on the north-west coast of South Africa
- Land mining is undertaken by the Pooling and Sharing Joint Venture (PSJV) while Alexkor has the marine mining rights.

Alexkor cont……

- Day-to-day activities include:
  - Exploration
  - Mining – Land (PSJV), Marine (IMDSA)
  - Diamond cutting and polishing through a preferred service provider (SSI)
  - Land rehabilitation

- Revenue of R209 million, operating loss of R13.9 million due to high operating expenses

- 2017/18 unqualified opinion with matters of emphasis

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Alexkor cont……

- The Richterveld community successfully instituted a land claim against Alexkor, which resulted in the Deed of Settlement (DoS) signed in 2007.

- The outcome of this land claim settlement impacted on the company's mining and non-mining operations, as the settlement agreement stipulated, inter alia, the following:
  - All land and buildings subject to the land claim will be transferred to the Richtersveld Communal Property Association (CPA);
  - Certain erven and erected buildings within the to-be-established township of Alexander Bay will be transferred to various social institutions and government authorities to normalise the social and government structures;
  - The land mining rights will be transferred to the Richtersveld Mining Company (RMC) (49%), whilst the company will retain its marine mining rights (51%)

Alexkor – Deed of Settlement

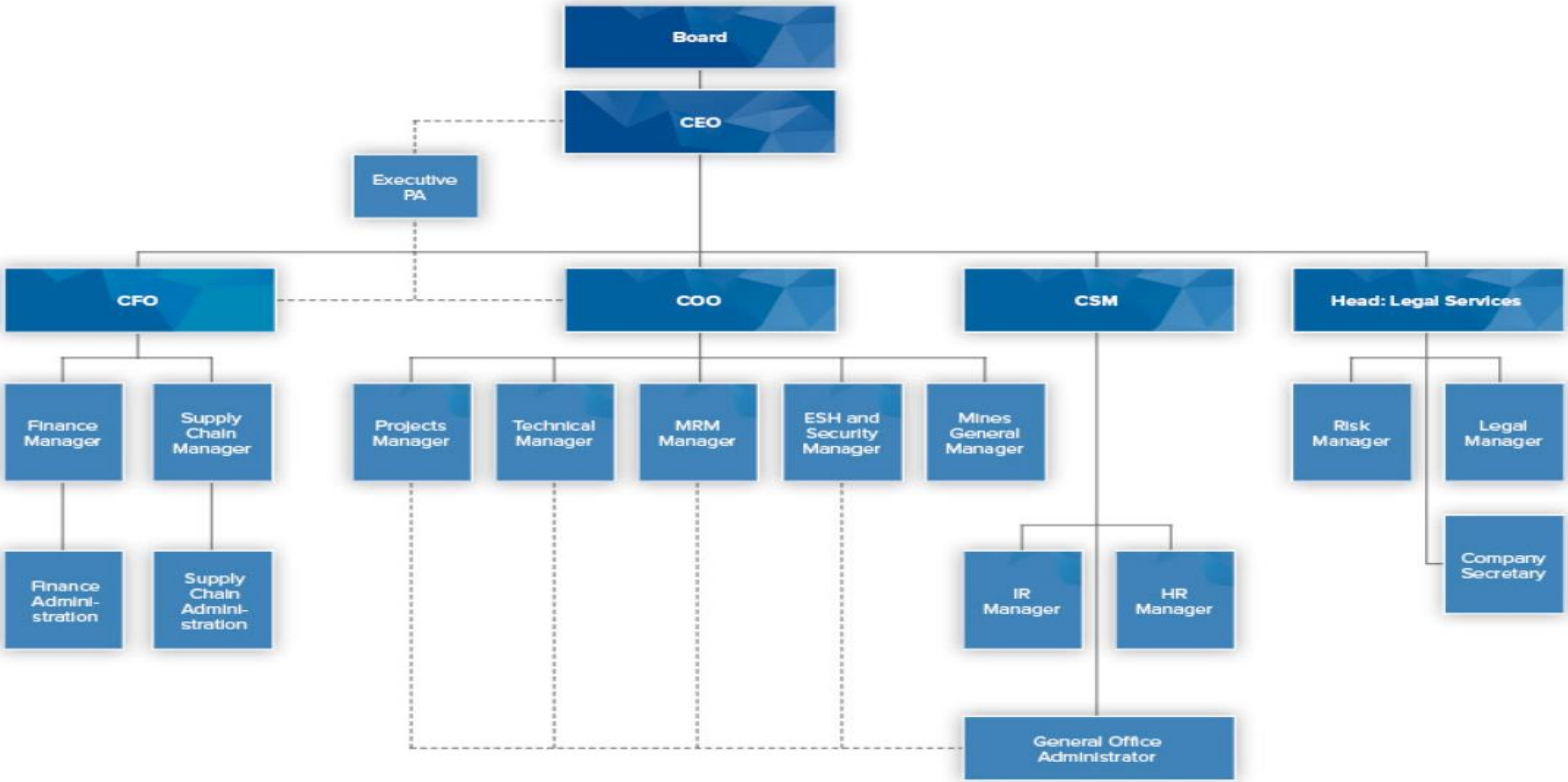
- Requires Alexkor to exit its 51% equity holding in the PSJV in a socially responsible manner

- Alexkor was required to establish a formal township in Alexander Bay, which included the upgrade of all municipal services to meet the municipal standards (i.e. roads, stormwater, sewage and reticulation networks, etc.)

- The transfer of several properties to the community

- Requires that all overdue historic rehabilitation responsibilities remain the responsibility of Alexkor

Alexkor Organisational Structure



Alexkor - Challenges

- DoS requires transfer of residential properties to the Community.

- Parties agreed that Alexkor would lease the properties for a period of 10 years, they further agreed that R45 million would be paid upfront to the Richtersveld Property Holdings company for Alexkor to retain the right of occupation.

- Challenge – the Property Holding company lay dormant and the entity was not properly constituted.

Alexkor - Challenges

- Agreed to pay the money directly to the 3 000 beneficiaries but this requires a court order as it differs from what is required by the DoS.

- Community in-fighting

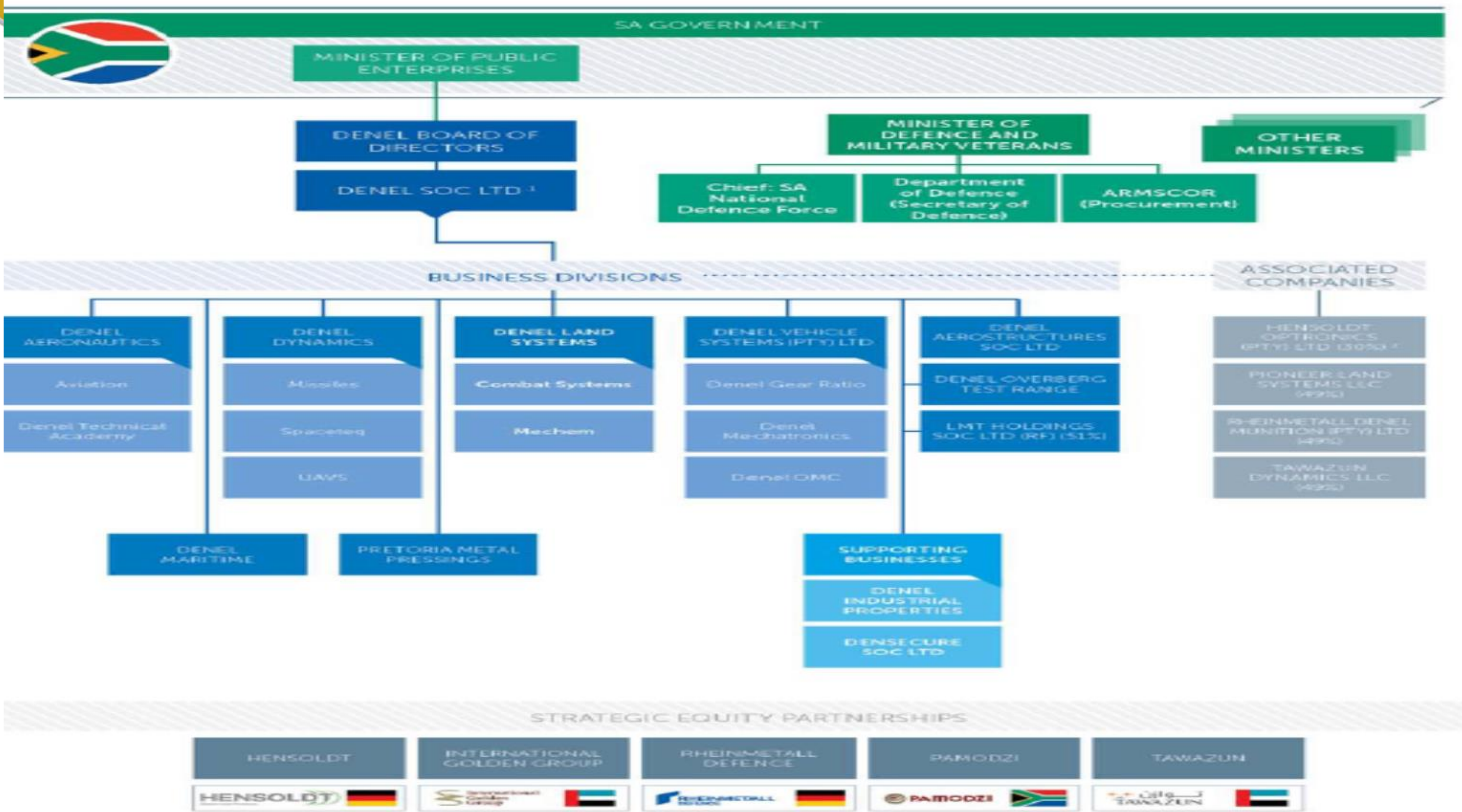
- Longevity of Alexkor operations – differing information
- Financial challenges

- Allegations of maladministration

b) Denel

- A commercially driven company and strategic partner for innovative defence, security, aerospace and related technology solutions.
- Denel provides turnkey solutions of defence equipment to its clients by designing, developing, integrating and supporting artillery, munitions, missiles, aerostructures, aircraft maintenance, unmanned aerial vehicle systems and optical payloads based on high-end technology.
- Revenue of R5 billion in 2017/18, with a loss of R1.8 billion in 2017/18 (unaudited)
- 2017/18 AFS not submitted to Parliament, 2016/17 received an unqualified opinion with a finding on its irregular expenditure
- Staff complement of approximately 5 000 permanent and fixed-term contractors

Denel Organisational Structure



Denel - Challenges

- Between 2011 and 2017, the company consistently recorded profits

- Order book of R18 billion

- Due to the nature of the defence industry, Denel needs upfront capital to begin manufacturing, with payment only flowing once targets have been met. Without this, Denel cannot meet its obligations.

- Denel Asia saga damaged the company's reputation

Denel - Challenges

- Liquidity challenges, suppliers withholding deliveries due to delayed payments
- Entering into loss making contracts
- Governance challenges
- Government support with a total guarantee facility of R3.43 billion expiring in 2023
- Option of Strategic Equity Partners

c) Eskom

- Eskom was established in terms of the Eskom Conversion Act (Act 13 of 2001)

- Generates, transmits and distributes electricity to industrial, mining, commercial, agricultural and residential customers and redistributors

- Revenue R180 billion, Profit before depreciation and amortisation R31.5 billion, loss for the year R20.7 billion

- Sales volumes decreased by 1.8%

Eskom

- Total Assets R758 billion, debt and borrowings R440 billion

- Municipal debt + interest R19.9 billion, Soweto + interest R13.6 billion (payment level 12.5%)

- Staff complement of 46 665 (March 2019) both permanent and fixed-term contracts

- 2018/19 qualified audit opinion with findings and emphasis of matter

Eskom Organisational Structure

Legal structure (noting only major subsidiaries)

Eskom Holdings SOC Ltd

- Eskom Enterprises SOC Ltd
  - Eskom Rotek Industries SOC Ltd
  - Eskom Uganda Ltd
  - Pebble Bed Modular Reactor SOC Ltd
  - South Dunes Coal Terminal Company SOC Ltd
- Escap SOC Ltd
- Eskom Finance Company SOC Ltd
- Eskom Development Foundation NPC

Eskom Pension and Provident Fund

Note that Eskom Holdings SOC Ltd is the main operating company, which houses the electricity business and also holds investments in subsidiaries. The Eskom group comprises the operating company and its subsidiaries and joint ventures.

Line divisions	Service functions	Strategic functions
Generation Transmission Distribution Customer Services Group Capital (new build)	Primary Energy Group Finance Group Human Resources Group Procurement Group IT Group Security	Risk and Sustainability Strategy Support Legal and Compliance Corporate Affairs Assurance and Forensic (reports directly to the Board)

Eskom - Challenges

- Aging fleet, inadequate maintenance and breakdowns > deterioration of plant performance, under investment (mines, plants)

- Delays in commissioning new power stations (Medupi and Kusile)

- Reduction in sales, low tariff increases, reduction in revenue, cannot cover increasing costs of primary energy (mainly coal)

- Introduction of renewable energy impacting on business

- Eskom business structure in question due to changes in the sector and economy

Eskom - Challenges

- Situation worsened by weak governance, mismanagement and lack of internal controls and governance processes, unstable leadership

- Debt servicing costs and operating expenditure increasing while revenue has been declining

- Lack of clarity in the energy sector, the Integrated Resource Plan has not been finalised, no clarity on the energy mix for SA going forward

- Credit ratings downgrade

d) SAFCOL

- Established in terms of Management of State Forests Act (Act 128 of 1992)

- Government's forestry company which conducts timber harvesting, timber processing and related activities, both domestically and regionally

- Manages 10.5% of forests in South Africa, operates in Mpumalanga, Limpopo and KwaZulu Natal, 189 760 hectares of plantations

- IFLOMA in Mozambique manages 82 574 hectares

SAFCOL

- Total area under management is 272 307 hectares
- Business offerings include: commercial management of forest plantations, logs and lumber, and ecotourism
- Revenue R926 million, Operating loss R136 million, Net loss of R80 million
- 2017/18 qualified audit opinion with findings

SAFCOL Organisational Structure

Figure 1: SAFCOL's structure.

SAFCOL consists of:

(a) SAFCOL SOC Ltd,
(b) KLF SOC Ltd with its subsidiary IFLOMA,
(c) Abacus Forestries SOC Ltd, and
(d) Kamhlabane Timber SOC Ltd.

SAFCOL further holds minority shares on behalf of communities in four companies, namely:

(a) Siyaqhubeka Forests (Pty) Ltd (25.00%),
(b) Amathole Forestry Company (Pty) Ltd (16.00%),
(c) MTO Forestry (Pty) Ltd (17.58%), and
(d) Singisi Forest Products (Pty) Ltd (10.90%).

SAFCOL - Challenges

- Depressed log and lumber market conditions
- Mismanagement, Weak governance processes and internal control, leadership instability
- IFLOMA under care and maintenance, operational performance improving
- Not meeting its full potential
- Employer in rural areas
- Diversification strategy, export market
- Land claims (57% of land that SAFCOL operates are under land claims)
- Conflict with communities
- Land Settlement Model (lease-back model)

e) South African Airways (SAA)

- Established by the South African Airways Act 5 of 2007, is South Africa's national air carrier.

- It is mandated to provide a full suite of domestic and international services.

- Supports the developmental state by operating and growing new air links between South Africa and its major trade and tourism partners; and Transformation, skills development and job creation

- Has four wholly-owned subsidiaries: Mango, SAA Technical, Air Chefs, South African Travel Centre

SAA

- Additionally SAA Cargo, SAA Voyager (non-corporate businesses)

- 2016/17 Qualified audit opinion, 2017/18 AFS still not submitted

- Revenue for 2017 R30.7 billion, operating costs R33.5 billion, operating loss R2.8 billion, loss for the year R5.6 billion

- Incurred losses for the past 12 years

- Staff complement at 31 March 2017 was 5 275 employees

SAA Organisational Structure

SAA GROUP

KEY ENABLERS

- STRATEGIC PLANNING
- CUSTOMER SERVICES
- HUMAN RESOURCES
- INFORMATION TECHNOLOGY SERVICES
- SHAREHOLDER AND STAKEHOLDER RELATIONS
- ENVIRONMENTAL SUSTAINABILITY
- LEGAL, RISK AND COMPLIANCE
- PROCUREMENT
- FINANCE

SAA

A full-service network carrier with an operational focus on the African continent as well as on inter-continental services, targeting both business and leisure traffic flows

COMMERCIAL

Sales

Revenue Management

Network Planning

Supported by Marketing, Ancillary Revenue, Alliances, Product Development

OPERATIONS

Airport Operations

Flight Operations

In-flight Services

Global Operations Control Centre

Group Safety

Quality Assurance

Group Security Services

Maintenance Standards

CARGO

Dedicated to commercial freight

VOYAGER

Africa's strongest airline revenue-based loyalty programme

SUBSIDIARIES

SAA TECHNICAL

Africa's largest aircraft maintenance, repair and overhaul business

MANGO

A low-cost carrier primarily operating in the South African domestic market

AIR CHEFS

A catering business operating in Johannesburg, Cape Town and Durban

SATC

A retail travel business with franchises in South Africa and other African states

SAA - Challenges

- Mismanagement, ineffective governance processes and internal controls
- Unsustainable cost structure, high indebtedness
- Fleet configuration inappropriate
- Implementation of the Long Term Turnaround Strategy (LTTS)
- High level of competition, high fuel costs, exchange rate impacts on costs of airline

f) SA Express (SAX)

- SA Express is a domestic and regional air carrier with a mandate to be an African airline

- One of its primary functions is to convey passengers from the smaller airports in the country to the larger airports and strengthen the network

- Offering flights to most destinations within South Africa and services between Botswana, Namibia, and Democratic Republic of Congo
- 2016/17 and 2017/18 AFS outstanding due to going concern uncertainty
- Financial issues worsened from the 2013/14 financial year

SAX - Challenges

- Similar to SAA
- Unstable leadership
- Aging fleet, high maintenance, breakdowns > impact on operations and revenue
- Cash flow constraints, inability to raise cash due to weak balance sheet
- Inadequate capital
- Loss of staff, critical skills
- High operating costs (fuel costs, maintenance, exchange rate)
- Mismanagement, ineffective governance processes and internal controls

g) Transnet

- Wholly owned by the state and the custodian of the country’s freight railway, ports and pipelines infrastructure

- Its mandate is to assist in lowering the cost of doing business in South Africa, enabling economic growth and ensuring security of supply by providing appropriate port, rail and pipeline infrastructure in a cost-effective and efficient manner, within acceptable benchmarks

- Revenue (30 Sept 2018) R37.6 billion, profit for the period R2.8 billion

- Total assets R365 billion, borrowings R130 billion

g) Transnet

- Staff complement (March 2018) of 55 666 employees

- Received a qualified audit opinion in 2017/18 due to irregular expenditure

- Statement of Strategic Intent:
  - Provide cost-competitive logistics
  - Grow rail market share
  - Integrate SA with the region, the continent, and the rest of the world
  - Leverage private-sector investment in infrastructure and operations
  - Optimise sustainable, social and environmental outcomes of all business activities

Transnet Organisational Structure

- Transnet consists of the following activities
  - Transnet Corporate Centre
  - Engineering – engineering solutions to support rail and port operations
  - Freight rail – integrated rail transportation flow of various goods and commodities from inland customers to ports and from ports to inland customers
  - Pipelines – integrated rail and pipeline solution to ensure reliable and safe transportation of gas and petroleum products
  - National Ports Authority – Oversight of the total port system and logistics chain
  - Port Terminals – flow of imports, exports and transhipments through cargo terminals

Transnet Organisational Structure

- Two specialist units
  - Group Capital – lead the execution of Transnet's capital expenditure programme, project support and engineering, procurement and construction management
  - Transnet property – support Transnet by optimising and diversifying Transnet's business portfolio through growth in existing and new markets

Transnet - Challenges

- Mismanagement, ineffective governance processes and internal controls
- Low economic growth impacts on Transnet business, revenue, and operations
- Delays in capital programme, procurement, escalation of costs
- Dual role of Transnet regarding oversight (NPA) as well as being a player in the market Port Terminals
- High port charges
- Uncertainty in the energy sector, will affect gas and pipelines business

Thank you