

Presentation to PCPE

Department of Public Enterprises

18 August 2021



Contents

1. Governance
2. SOE Bill
3. Update on SOE
 - a. Alexkor
 - b. Denel
 - c. Airlines
 - i. SAA
 - ii. SA Express
 - d. Eskom
 - i. Medupi Unit 4
4. Transnet
 - a. TNPA Corporatisation



SOE Bill

- Draft by end of 2021/22 FY
- Address lack of overarching SOE legislation
- Objective:
 - Determine an appropriate Shareholder Ownership Model
 - Inform institutional arrangements for overseeing SOEs, including the future role of the PSEC;
 - Appropriately categorisation of SOEs;
 - Integrate lessons from the Zondo Commission, Mpai Commission and other public inquiries;
- Ensure the appointment of competent people of integrity in a transparent and robust process to SOE Boards and Executive positions;
- Clarify the respective roles and responsibilities of the Executive Authority, Boards and Executives;
- Regularly reviewing and updating of various guidelines



Alexkor

- Alexkor remains financially distressed however its is able to meet its immediate obligations
- PSJV restructuring critical to ensure its sustainability – options developed and being evaluated
- The Administrator position representing governance challenges – a suitable arrangement being explored
- Richtersveld Community structures remain in administration
- Long term decision on the SOE being considered



Eskom

- Declining sales volumes
- Liquidity constraints
- Access of funding to capital markets in the absence of government guarantee
- Lack of cost reflective tariff
- Debt levels
- Illegal connections
- Cable theft
- Aging power plants
- Low energy availability factor leading to load shedding
- Municipal arrear debt



Medupi Unit 4 Generator Explosion

- Medupi Power Station experienced an explosion on the Unit 4 generator at approximately 22h50 on 08 August 2021
- At the time of the incident, Medupi Unit 4 was on a short-term outage (since 06 August 2021) for repairs on some of the milling plant components
- There was additional scope requested for Eskom Rotek Industries (ERI) to identify and repair an external Generator Hydrogen leak.
- The explosion resulted in extensive damage to the generator and other components within close proximity
- The full extent of the damage is still to be determined
- The Operating Department was tasked with the purging of Hydrogen (H₂) from the Generator prior to the leak search.



Medupi Unit 4 Explosion

- Preliminary investigations indicates that the procedure for the purging of the generator may not have been followed
- Eight individuals have been suspended pending the investigation:
 - Operating Manager
 - Outage Manager
 - 2 Shift Managers
 - 4 Senior Plant Operators
- Inspector of Machinery has completed site inspection
- Recovery Manager being appointed
- ERI will strip the plant so that full damage can be assessed
- OEM involved in the effort to repair the unit and return it to service



SAFCOL

- Emerging liquidity risk due to stagnant revenue
- Strategic capital projects agreed
- Prolonged implementation period of the Timbadola projects due to delays caused by international lockdowns

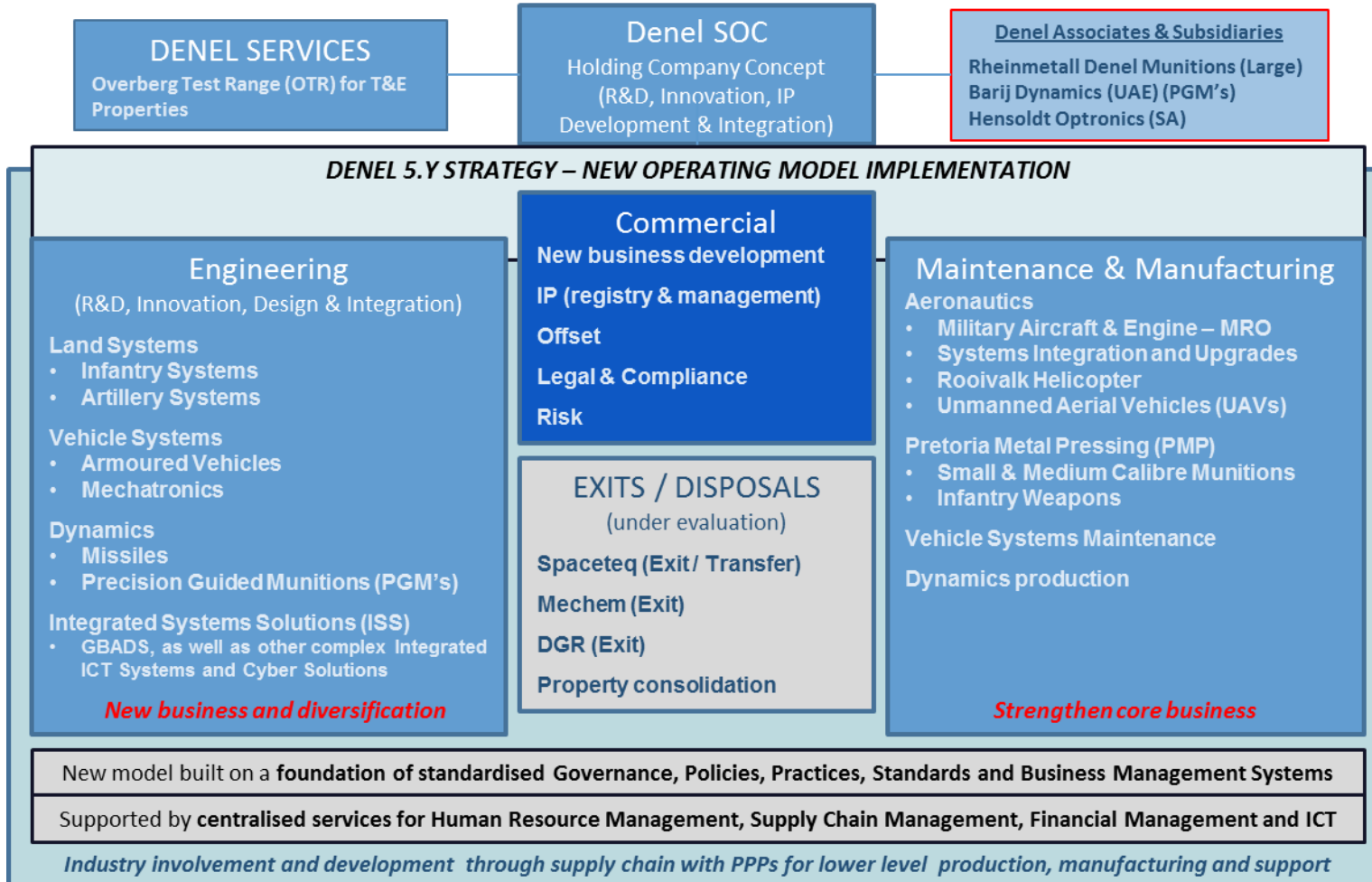


Denel

- The SOC is financial strain and a solution is being formulated
- Joint DPE/DOD/NT team tasked
- The importance of Denel to SANDF operational capabilities confirmed
- NT ensuring government guaranteed obligations are being serviced
- New operating model agreed and funding options for its implementation being explored



Denel



Critical Objective:
Retain & develop the knowledge base,
Reduce the cost base
Restructured for Efficiency, Agility, Competency, Career, Development, Diversification and Growth



Key Notes:

- Reduction in overheads & redundancies in the cost base (target 35%)
- IP protection & retention of strategic capabilities
- Commercial exploitation of IP & strategic capabilities
- Industry leader in R&D, innovation and technology development
- Streamlined Business Processes
- Development of new non-military business and technologies
- Smart Partnering to access to new technologies and markets
- Evolution of commercially driven culture

SAA

- SAA plans to resume with operations are underway
- Date for the resumption will be communicated to the market soon
- Aircraft leased for domestic and regional operations
- Air Operator Certificate renewed
- Cabin crew and pilots undergoing retraining
- The interim board and management leading the organisation
- The due diligence is at an advanced stage
- Sale and Purchase Agreement (SPA) draft produced and being negotiated
- The conclusion of the SPA will signify cessation of government control



SOUTH AFRICAN AIRWAYS

SAA Subsidiaries

Mango

- Business in business rescue from 28 July 2021
- Government has provided funding to fund the restructuring
- The BR practitioner is Mr Siphiso Sono of OPIS Advisory
- The BR process will advise on the long term future of the airline
- The DPE is hopeful that the BR will be concluded within the 3 months allowed by legislation



SOUTH AFRICAN AIRWAYS

Status Of Subsidiaries

SAAT

- SAAT is implementing a Section 189 process to reduce the headcount;
- Funds released to settle outstanding salaries and completion of longstanding maintenance contracts
- Further funds to settle severance packages should be released soon
- The business post restructuring will be smaller but with a strong base for growth

Air Chefs

- Restructuring of the business required and management should commence process
- Funds released to settle outstanding salaries

Payment of outstanding salaries



SOUTH AFRICAN AIRWAYS

SA Express

- The court on 28 July 2021 granted an extension for the provisional liquidation process;
- The potential buyer has submitted a revised offer, currently awaiting a bank guarantee to formalise the purchase process;
- National Union of Metal Workers of South Africa (NUMSA) and South African Cabin Crew Association (SACCA) have gone to the Constitutional Court to challenge the liquidation of SA Express without the involvement of Parliament in the process
- DPE responding to the application



Transnet

- The severe impact on markets both locally and globally have affected overall performance in Transnet.
- The severe inactivity during the initial stages of lockdown have continuing effects on the economy and demand for transport of freight.
- However, volumes and revenues are gradually improving
- TNPA Corporatization being managed to ensure capital markets understanding of its positive impact on Transnet
- Impact of new leadership noticeable with improving liquidity



TNPA Corporatisation

- The National Commercial Ports Policy provided guidelines on the White Paper on National Transport Policy (1996), proclaiming that four fundamental port policy guidelines as follows:
 - Establishment of the National Ports Authority;
 - Establishment of the Ports Regulator of South Africa (Ports Regulator);
 - Separation of the port authority and port operations functions; and
 - Promotion of low cost, high level of service, and shipper choice in the port operations by creating a competitive environment in the commercial ports system.



TNPA Corporatisation

- The key guiding principles underlying the new port dispensation are:
 - The current National Ports Authority within Transnet will be independent with Transnet as approved by the Minister of Public Enterprises;
 - The 'National Ports Authority' will be the landlord of the South African ports and will own all the land and the port infrastructures within the port estates;
 - Greater private sector involvement in operations will be sought through leases and concessions;
 - The allocation of leases or concessions will be open to competitive bidding; and
 - The bidding process will be transparent and based on a set of clearly stated objectives/targets, criteria and measurable deliverables.



TNPA Corporitisation

- These policy provisions form the basis of the following sections of the National Ports Act, No 12 of 2015 corporatization TNPA:

(2) As soon as this Act takes effect the Shareholding Minister must ensure that the necessary steps are taken for the incorporation of the National Ports Authority of South Africa as a company contemplated in subsection (3)."

"(3) The Registrar of Companies must- (a) register the memorandum and articles of association and incorporate National 30 Ports Authority of South Africa under the name "National Ports Authority (Pty) Ltd" with Transnet as the sole member and shareholder; (b) issue to that entity the necessary documents to enable it to conduct business as a corporate entity."

"4 (1) Notwithstanding sections 32, 66, 190 and 344(d) of the Companies Act, on a date after the incorporation of National Ports Authority (Pty) Ltd, and with the concurrence of the Minister, the Shareholding Minister may take the necessary steps to convert the company into a public company, styled "National Ports Authority Limited", vested with the authority to own, manage, control and administer ports within the Republic."



TRANSNET

TNPA Corporatization

- Government stakeholders were engaged on the intention and consensus achieved
- Operation Vulindlela
- The Minister of Public Enterprises announced during the tabling of the 2020 DPE Budget Vote of the intention to corporatize TNPA
- On 22 June 2021, the President and Minister announced the decision:
 - TNPA established as a subsidiary of Transnet
 - The Board reporting to the Transnet Board'
 - Interim Board of NPA will be appointed
- Minister of Transport supported the decision and confirmed that its is in line with the National Ports Act
- The DPE ensured that the decisions are consistent with the prescripts of the Companies Act

Long road ahead before Transnet reforms can rescue South Africa's bottom-ranked container ports



Ray Mahlaka

13 hours ago



The Port of Durban. (Photo: Waldo Swiegers / Bloomberg via Getty Images)

TNPA Corporatisation

- Interim Board Appointed
- Processes to appoint fulltime Board of Directors has commenced:
 - In line with National Ports Act
 - The process should be completed by 30 September 2021
- MOI being finalised
- Establishment of TNPA an independent subsidiary of Transnet gazetted on 29 July 2021
- Project plan developed:
 - Addresses statutory and legal matters
 - Submitted to Minister
- Transnet GCEO continuously engaging Labour at each stage
- Minister engaged Transnet major unions national leadership (UNTU/SATAWU) prior to the announcement



Thank You
