PRESENTATION TO STANDING COMMITTEE ON APPROPRIATIONS

Update on State Owned Companies

PRESENTED BY:

Asset and Liability Management Division

Date: 14 February 2023

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

2030 NDP

STAY SAFE
VACCINATE TO SAVE SOUTH AFRICA

LAND BANK

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

2030 NDP

STAY SAFE
VACCINATE TO SAVE SOUTH AFRICA

LAND BANK

- The Land Bank has been in default since April 2020 and the new Board of the Land Bank has been trying to cure the default position of the Bank so as to enable the Land Bank to function as a sustainable DFI.
- Three versions of the liability solution have been rejected by lenders thus far and the Land Bank is currently negotiating liability solution version 4 (LS4) with its lenders.
- The Land Bank is prioritising the resumption of lending activities which will focus on new development clients and also maintaining the quality of the Bank's existing client portfolio.
- The Minister is in the process of transferring the R5 billion in the current financial year to the Land Bank, and providing conditions that will support the utilisation of the money including curing the default and support the blended finance programme.
- The Minister and the Land Bank are currently in the process of appointing a permanent Chief Executive Officer (CEO) and filling other critical vacancies in order to help strengthen the executive leadership of the Land Bank.
- The Land Bank received an unqualified audit opinion from the Auditor General for the 2021/22 financial year which signals the significant improvements made in the Bank's internal controls and the remedial action plan implemented to remedy the findings of the past two financial years.

LAND BANK

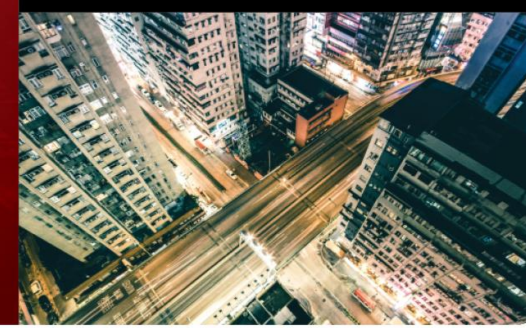
- Almost R5 billion of the R7 billion recapitalisation is planned to flow to the Land Bank before the end of the 2022/23 financial year. The R5 billion meant to support the Land bank is still housed in the government contingency reserves fund.
- The remaining R2 billion is targeted to repay guarantee lenders. Almost R100m of the R2 billion has already paid the World Bank as call on guarantees.

- The Land Bank is still exempted from Tabling Corporate Plan until the debt default cured. However, the Land Bank is still submitting the shareholder compact.

Land Bank Q2 2022/23 financial summary

- For Quarter 2 YTD, Land Bank recorded a net profit of R122.1 million against a budgeted loss of R237.2 million and a Prior Year (PY) profit of R981.4 million. This is mainly due to a net impairment release and a decrease in the non-interest expense driven by a decrease in the SLA admin fees as the Bank insourced that book.
- Land Bank generated net interest income of R336.0 million compared to R195.1 million reported in the PY primarily due to interest expense decreasing by R255.1 million from R1.3 billion to R1.0 billion, as Funding Liabilities reduced.
- Funding Liabilities decreased to R23.6 billion, from the R34.1 billion reported in the PY due to significant capital repayments to lenders.
- Net loans and advances decreased to R17.5 billion from the R20.9 billion reported in the PY. The main contributor is the reducing loan book owing to restricted disbursements and customer settlements as clients leave Land Bank for other institutions.
- Non-performing loans (NPLs) decreased by R1.6 billion from R12.3 billion in the PY to R10.8 billion in Q2, with cures of R773 million and settlements/ write-offs of R1.27 billion, but this was offset by R448 million in new NPL’s. The NPL ratio increased from 47.7% in the PY to 48.8% at the end of Q2, due to the reduction in the gross loan book.

ESKOM



FINANCIAL CHALLENGES

- Eskom is the single biggest risk to the South African economy and resolving the security and reliability of electricity supply must be prioritised.
- Eskom's high levels of debt pose significant risks to its going concern status and financial sustainability as well as to the fiscus.
- Eskom's profitability is significantly hampered by poor long-term sustainability arising from an inadequate tariff path, poor generating plant performance, increasing municipal arrear debt as well as high debt servicing cost.
- Eskom reported a loss before tax of R8.9 billion as at 31 December 2022, against a budgeted loss of R4.8 billion (Dec 2021: profit before tax R3.7 billion).
- Eskom's gross debt securities and borrowings has increased to R423.2 billion as at 31 December 2022 (March 2022: R396.3 billion), which Eskom attributes largely to the impact of the weakening of the Rand on foreign denominated borrowings.
- Eskom is reliant on Government support to provide debt relief and to ensure Eskom's status as a going concern. Of R21.9 billion in equity allocated for the 2023 financial year, R11 billion was received by 31 December 2022, with the remaining balance received in January 2023.
- At 31 December 2022, R323 billion (92%) had been committed from the R350 billion government guarantee facility granted to Eskom, leaving R27 billion unallocated for future funding. Eskom's guarantee facility agreement is expiring ON 31 March 2023.
- The non-payment of municipal debt is a systemic challenge to the electricity industry as a whole and have increased to R56.3 billion (March 2022: R44.75 billion), implying an increase of 84.3% which a worsening trend in the non-payment of current accounts. Eskom has pursued a multipronged strategy aimed at recovering the municipal arrear debt owed, with little success.
- On 12 January 2023, NERSA announced its decision to award Eskom an average tariff increase of 18.65% for FY2024 and 12.74% for FY2025. This decision will positively contribute to Eskom's financial sustainability.

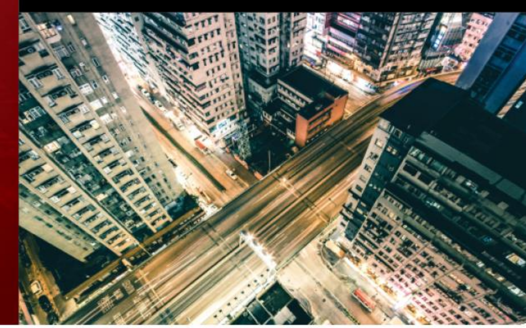
OPERATIONAL CHALLENGES

- Eskom Generation continues to experience unreliable performance of its power-generating plants mainly due to delayed and inadequate maintenance as well as delays in the commissioning of new plants, and faults detected in the new units that have been commissioned.
- Eskom has also seen an increase in break downs and major incidents in the financial year, resulting in Units being unavailable. Incidents such as those at Medupi Unit 4, the Kusile Units 1, 2 and 3 smoke stack failure, the Kusile Unit 5 air heater fire and the Koeberg Unit 1 extended planned outage means that over 4 500MW will be offline for an extended period.
- As at 31 December 2022, Eskom's reported Energy Availability Factor (EAF) at 57.25% is lower than the previous year (Dec 2021: 62.89%), and significantly worse than the target of 65%.
- This decrease in EAF is largely due to an increase in unplanned losses (UCLF) reported at 31.2% (Dec 2021: 24.65%), offset by a reduction in planned maintenance and other load losses (OCLF).
- Eskom's average partial load losses of 5 979MW have increased significantly compared to the previous year (December 2021: 4 737MW) and performed significantly worse than target. The increase in partial and full load losses contribute significantly to the high UCLF.
- Due to the poor performance of the generation fleet, Eskom has had to significantly increase its usage of Eskom and IPP OCGT's to support the power system and limit the stage of loadshedding. Loadshedding was implemented for 191 days since the beginning of the financial year.
- OCGT production stands at an unprecedented 2 297GWh, as at 31 December 2022, at a cost of R16.78 billion, which is significantly higher than the R10.03 billion spent in 2022 financial year.

ESKOM COMPLIANCE WITH EQUITY CONDITIONS

- For 2022/23, 24 conditions that are attached to the equity allocation have been imposed on Eskom which are clustered as follows:
  - ❑ **Financial conditions**: 13
  - ❑ **Operational conditions**: 9
  - ❑ **Restructuring conditions**: 1
  - ❑ **General:** 1
- To monitor progress towards complying with these conditions, a bi-monthly monitoring task team comprising of officials from National Treasury, DPE and Eskom was established.
- In reviewing compliance with these conditions, National Treasury considers areas where Eskom fully complied, not complied and partially complied with the required information:
  - ❑ Fully complied means that all the required information was provided.
  - ❑ Not complied means the information was not provided or dates were not met.
  - ❑ Partially complied means that the information provided did not meet National Treasury's requirements and therefore Eskom has to submit additional supporting information in order to fully comply with the conditions.
- As at 31 December 2022, Eskom complied with all these conditions and provided the required information, and where further investigations and approvals are required, Eskom provides the best available information.

SOUTH AFRICAN POST OFFICE (SAPO)



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

2030 NDP

STAY SAFE
VACCINATE TO SAVE SOUTH AFRICA

SOUTH AFRICAN POST OFFICE

Background

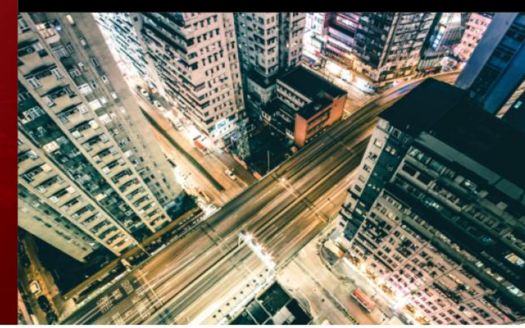
- SAPO has historically struggled with defining its strategic role as a commercial enterprise, operating within a rapidly changing ICT environment, whilst balancing its distinct developmental mandate.
- Although a number of reforms have been implemented and SAPO's mandate was strengthened to provide the basis for its turnaround, the entity continues to struggle with its commercial revenues.
- SAPO in consultation with DCDT have finalised SAPOs new strategy (The Post Office of tomorrow) which aims to turn the business around in light of the technological changes that had forced the entity to lag behind.
- The DCDT has also developed a draft postal services market study that seeks to determine the economic viability and need for SAPOs services in a changing postal landscape.
- These studies need to be aligned to ensure funding the continuation of SAPO operations does not lead to loss of funds due to misallocation towards non revenue generating activities.
- The DCDT needs to urgently finalise and publish the postal services market study to determine the future role of SAPO in the postal sector.
- It Is important to note that the implementation of the new strategy has commenced, however it remains challenged due to the lack of funding on a number of key projects which underpins the strategy.
- SAPO has developed a E-commerce strategy that underpins the shift of SAPOs business to an online platform.

SOUTH AFRICAN POST OFFICE

Financial Update as at 31 December 2022

- SAPO's financial position continues to be severely constrained and cash flow is managed very closely.
- Year to date revenue of R1,9 billion this is R1,6 billion or (46%) lower than budget and R590 million or (23%) lower than the previous year.
- Expenses of R3,8 billion is R1,2 billion or (25%) lower than budget and R631 million lower than the previous year.
- It must be noted that the expenditure still exceeds revenue which results in a loss of R1, 576 million after taking into account the Universal Services Obligation (USO) subsidy.
- Outstanding liabilities amounted to R5,3 billion with statutory payments of R2,9 billion or 55% of the amount.
- SAPOs USO mandate continue to be funded on budget.
- To date, 317 employees left the service at 31 December 2022 through Voluntary Severance Packages.
- No further funding has been allocated to SAPO for the 2022/23.
- No government guarantees are currently in place for SAPO.

DENEL



national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

2030 NDP

STAY SAFE
VACCINATE TO SAVE SOUTH AFRICA

DENEL

Background

- Denel continues to experience liquidity and solvency challenges. Leading to the entity being unable to meet its financial commitments i.e., guarantee obligations (resulting in government to stepping-in to honour guarantee payments), supplier and salary payments, tax obligations etc.
- Denel has revised its strategy with a new turnaround plan.
- Elements of the revised turnaround plan are based on cost and organisational restructuring, delivery on the existing order pipeline, growth through collaboration with industry and clients, smart partnering to secure access to markets and technology.
- During the 2022 MTBPS, Denel was allocated R3.4 billion subject to pre- and post-conditions. This allocation is to be augmented with R1.8 billion from the sale of Denel's non-core assets.

DENEL

- Continued liquidity constraints have led to work stoppages and non-delivery on contracts, resulting in contract terminations.
- Denel is insolvent, with reported liabilities in excess of assets to the tune of R1.1 billion, against the budgeted R406 million, as at 31 December 2022.
- Due to poor revenue generation, the entity is unable to cover its cost base leading to operational losses.
- As at 31 December 2022, Denel reported a net profit of R269 million attributed to once off proceeds of R992 million from the liquidation of DMBT surplus funds. Overall, the entity remains behind budget for the year.
- Denel has not submitted audited annual reports for the past two years.

SOUTH AFRICAN AIRWAYS

national treasury
Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

2030 NDP

STAY SAFE
VACCINATE TO SAVE SOUTH AFRICA

SOUTH AFRICAN AIRWAYS (SAA)

Background

- NT was requested to provide quarterly updates to Parliament on the utilization of the R2.7 billion allocation to SAA subsidiaries.
- The R2.7 billion allocation to SAA subsidiaries forms part of the R10.5 billion that was allocated to SAA during the 2020 MTBPS.
- However, the Second Adjustments Appropriation Act specifically and exclusively earmarked the entire R10.5 billion for the implementation of SAA's business rescue plan. Hence, the R2.7 billion could not be transferred to the SAA subsidiaries since the subsidiaries were not under business rescue.
- The Special Appropriation Act provided the following funding for each subsidiary:
  - ❑South African Airways Technical SOC Ltd (SAAT) – R1 663 000
  - ❑Mango Airlines SOC Ltd (Mango) – R819 000; and
  - ❑Air Chefs SOC Ltd (Air Chefs) – R218 000.
- SAA has exited business rescue as at 30 April 2021 but the airline remained under care and maintenance until September 2021 when it resumed operations.
- Net Group losses for the first 3 Quarters of the year amounted to R50 million, a significant improvement from the budget loss of R637 million.
- SAA is no longer technically insolvent. The Net Equity Value as at R31 December 2022 amounted to R1 billion.

SOUTH AFRICAN AIRWAYS (SAA)

Mango

- On 10 August 2021, the South Gauteng High Court granted the Board of Directors' application to place Mango under voluntary business rescue.
- The Business rescue plan was subsequently published on 29 October 2021.
- Of the R819 million allocated to Mango, R100 million was transferred to the airline for the payment of the July, August and September 2021 salaries as well as to cover the costs of developing the Business Rescue Plan.
- During November 2021, an amount of R320 million was transferred to Mango for Voluntary Severance Packages and other Restructuring Costs.
- The remaining R399 million was transferred on 31 March 2021 for restructuring/business rescue.
- Mango Business rescue process i gone beyond the target exit time of May 2022.
- Mango's Business Rescue Practitioner is focusing on securing a Strategic Equity Partner.

South African Airways Technical (SAAT)

- The full R1.663 billion allocated to SAAT has been transferred to the entity and utilized as follows:
  - ❑ R704.2 million was used to pay long outstanding salaries to employees for the period September 2020 to July 2021.
  - ❑ R79 million for the purchase of spares.
  - ❑ R879 million for the completion of the restructuring process and working capital for the business.
- SAAT generated profits during the first 2 quarters of the financial year, but incurred a loss during the last quarter which has resulted in a YTD loss of R2.4 million.
- SAAT is solvent with a positive equity value of R1.7 billion as at 31 December 2022.

SOUTH AFRICAN AIRWAYS (SAA)

Air Chefs

- The full R218 million has been transferred to Air Chefs and has been utilized as follows:
  - ❑R107 million for the payment of employee salaries for the period April 2020 to July 2021.
  - ❑R111 million for the restructuring of Air Chefs.
- Although loss-making, the company's financial performance has improved when compared with prior years.
- As at 31 December 2022, the loss incurred for the YTD was R6 million which is a significant improvement when compared to the R195 million incurred during the same period of the prior financial year.

AIRPORTS COMPANY OF SOUTH AFRICA

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

2030 NDP

STAY SAFE
VACCINATE TO SAVE SOUTH AFRICA

AIRPORTS COMPANY SOUTH AFRICA

- **Government supported ACSA through the purchase of preference shares of R2.3 billion in 2020/21**
- ACSA revenue generation was severely impacted by travel restrictions and the grounding of airlines.
- ACSA passenger volumes are expected to recover to pre-pandemic levels by 2026/27.
- The entity is now focused on improving its aeronautical revenue as well as greater diversification of its revenue base by focusing on non-aeronautical revenue.
- ACSA has incurred a loss (unaudited) of R1.47 billion for 2021/22. However, this in an improvement on the loss of R2.56 billion which was incurred in 2020/21.
- ACSA performance has continued on its upward trajectory having generated net profits of R403 million for the first 3 quarters of 2022/23.
- No additional fiscal support will be required for the foreseeable future with ACSA expected to start generating net profits from 2023/24.

TRANSNET

national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

2030 NDP

STAY SAFE

VACCINATE TO SAVE SOUTH AFRICA

TRANSNET

- Transnet Freight Rail operations have been negatively impacted by ongoing security incidents, locomotive unavailability and the poor state of the rail infrastructure.
- Inefficiencies of the Transnet's freight rail network poses a significant risk to the South African economy and requires urgent intervention.
- The decline in freight rail is a result of a confluence of factors which amongst others include:
  - Operational inefficiencies;
  - Theft and vandalism; and
  - Underinvestment in the network
- Port productivity is significantly lower than benchmark African and European ports (as per published studies). Maintenance of critical equipment is the main contributor as the port of Durban seldom has higher than 60% availability of container equipment.
- One of the conditions attached to funding provided to Transnet in 2022/23 is that an independent review let by the National Treasury of all freight corridors and associated port operations will be undertaken with a specific focus on identifying opportunities for operational efficiency improvements.