

Restructuring of State Owned Enterprises



**PARLIAMENTARY MEDIA
BRIEFING
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Introduction

- Purpose of today's briefing is to provide a comprehensive overview of restructuring to date and to highlight future plans
- Approach will be to focus on progress and developments to date in four key sectors followed by an outline of future plans and timelines



Overview

- Energy
- Telecommunications
 - IPO
 - M-Cell
- Defence
- Transport
- Forestry
- Mining - Alexkor
- Performance Monitoring and Benchmarking
- Strategic Analysis





Global Trends

The electricity sector of most countries in the world are being driven by:

- The desire to improve allocative and operational efficiencies
- The desire to widen customer choice
- Technological change
- Financing needs and markets
- Environmental pressures
- The particular needs of the country





Progress to Date

2001

- Incorporation of Eskom as a company in terms of the Eskom
- Conversion Bill (July 2001)
- Appointment of new Board of Directors by October 2001.
- Generation, Transmission and Distribution set up as operating divisions
- Ongoing restructuring of the non-regulated entity of Eskom - process of identifying a SEP for Rotek underway





2002 – 2003

- Implement Generation, Transmission and Distribution as wholly owned subsidiaries of Eskom
- Ringfencing of Distribution Business: Distribution moves out of Eskom Holdings into a separate EDI holdings company (Dependent on EDI process led by DME).
- Commerce re-commissioning of 10% of Eskom's capacity with BEE focus

2003 – 2004

- Commence sale process of generation capacity (up to 20% of Eskom's capacity) with the focus on FDI and BEE





2005 and beyond

- Further planning and development of the market structure will be dependent on prevailing conditions
- This is subject to the development of an appropriate regulatory framework and market rules being in place.



M-Cell

- Our objectives are
 - to encourage the development of a strong local telecommunications sector with strong growth prospects and high quality service, and
 - to maximise value through an efficient and orderly sale process
- The disposal of Transnet's stake in M-Cell is an important part of the programme of restructuring of Government ownership in the telecommunications sector
- In July 2000 Government sold 75 million shares to Johnnic Communications @ R33 per share resulting in Transnet holding 24% of M-Cell



M-Cell

- The detailed preparatory work is now complete for the next phase of the disposal to be implemented
- On 30 May we issued the Request for Proposal (RFP) and other transaction documents to suitable potential bidders
- Since the transaction process commenced, market conditions in the sector has continued to slide, depressing the price of M-Cell stock even further
- Government is committed to sell its strategic stake in M-Cell at a price that reflects the true market value of the stock



Telkom IPO

- We are ready for the planned listing of Telkom during this financial year (subject to market conditions)
- The Legislative amendments have been published and the Portfolio committee on Communications is presently engaged in public comments on the bill
- The Regulatory provisions have been developed and ICASA has indicated that it will be published in time.
- We are pleased to report that negotiations with Thintana are progressing well and should be concluded within the next four weeks



Telkom IPO

- The Company preparations for the listing are at an advanced stage
- Listing Venues are JSE (primary) and NYSE (secondary)
- The size of the offering will be finalised shortly
- IPO will be the largest telecoms listing on JSE
- We will also launch the largest Black retail offering in South Africa which will be preceded by an unprecedented education campaign of significant scale to highlight the benefits of share ownership to historically disadvantaged South Africans



Denel

- BAE Systems invited to become SEP in Denel on the basis of the complementary fit between the two broad based defence groups. Offer submitted to Government which is undergoing analysis. When analysis is complete Government will start negotiations with BAE
- Turbomeca of France invited to become a SEP for Denel's Airmotive division. Offer submitted to Government which is undergoing review.
- On basis that acceptable commercial terms are reached, aim is to complete both transactions by end 2001.





Transnet End State

- Government and Transnet's management are currently of the view that Transnet should remain a holding company and position itself as an integrated transport infrastructure and logistics company.
- A Cabinet decision on the Transnet end state is expected by November this year. This will not only clarify Transnet's end-state but also the future of its divisions and subsidiaries.





Spoornet

- Establishment of Rail Safety Regulator including legislation by end of calendar year – DoT (provisional)
- Incorporation of Spoornet (March 2002)
- We are in the process of refining the original restructuring model for Spoornet
- Model will be guided by the objectives of having a sustainable rail infrastructure network and improving efficiencies of existing businesses of Spoornet.
- The successful turnaround of GFB is a critical success factor in the restructuring of Spoornet
- We are currently engaged in discussions with organised labour on the appropriate restructuring model for Spoornet to be announced soon.





Portnet

- Ports policy was finalised in August 2001 - to be followed by new Ports legislation - NDoT
- Establishment of National Ports Authority and Port Operations Division (August 2001)
- Establishment of regulator (March 2002) – NDoT (provisional)
- Multiple Tariff reform finalisation (December 2001)
- Concessioning of some port operations to commence after enabling legislation has been finalised (Mid-2002)





Petronet

- Completion of technical analysis on restructuring model for Petronet (November 2001)
- Implementation of policy framework for regulation of liquid fuel pipelines (November 2001) – DME (provisional)
- Legislation for regulator (December 2001) - DME (provisional)
- Establish liquid fuel pipelines regulator (February 2002) – DME (provisional)





SAA

- Finalise negotiations with SairGroup on 10% call option by December 2001
- Global market conditions in the airline industry and the financial standing of SAA will determine the timing of the decision to list SAA



Achievements / Progress to Date

KwaZulu-Natal Transaction

- Legal Agreements signed by SAFCOL and Purchasing Consortium.
- Target date for sale and transfer of Assets - October 1, 2001.
- Sale Value will be R100 million

Eastern Cape North Transaction

- Sale and transfer of assets to purchaser has been concluded
- This is the first transaction concluded
- Sale Value was R 17 million



Future Plans

Northern Forest Transaction Package

- The Timetable for the Transaction is confirmed.
- The Invitation to Offer was available to the three preferred bidders on July 6, 2001
- Formal bids received 14 September 2001
- Recommendation of preferred bidder by evaluation committee anticipated by October. 5th, 2001.
- Cabinet approval for preferred bidder anticipated by November 30, 2001
- Sale of Shares and transfer of Assets is anticipated by February, 2002.



Future Plans

Southern and Western Cape land conversion

- Cabinet has approved the conversion of 45,000ha of Safcol unsustainable forestry assets to other uses over a 20 yr period
- 7000ha immediately available for distribution
- This includes 4642ha earmarked for conservation, 1170ha for agriculture and other options including housing 312ha
- Over the period to 2005, 12556ha will be available for conservation and 2499ha for agriculture
- This process is a major step in the ensuring that uneconomic forestry forestry assets are transferred to and for the benefit of the people of SA.



Future Plans

Southern and Western Cape - SEP

- Safcol is in negotiations with Steinhoff regarding the formation of a JV between the two parties to increase the capacity and technology of the Safcol sawmill
- This will involve a major capital investment from Steinhoff and downstream employment opportunities in this area





Enactment of the Alexkor Limited Amendment Bill

- Bill introduced and is currently considered by Parliament
- Bill seeks to remove restrictions imposed on government when desiring to dispose its shareholding in Alexkor
- Public Hearings on the Bill were held on 5 September 2001. Bill to be finalised in October 2001





Phase 1 Restructuring

- An RFP will be issued by February 2002 for the introduction of a 25% Strategic Equity Partner into Alexkor
- Government has set aside a 10% stake for the community of Namaqualand



Shareholder Compacts

- Cabinet has approved the shareholder compacts for Denel, Transnet and Eskom as well as the shareholder compact model as a vehicle for management of relations between SOE's and government as a shareholder.
- Government signed off on Transnet shareholder compact in June 2001 .
- Shareholder compacts with Denel and Eskom are ready for signing
- Corporate Governance Protocol currently under review in line with King II Report.



Status of engagement with organised labour

- NFA remains the framework of engagement with organised labour
- Government is committed to the policy framework on restructuring unveiled in August 2000
- We have no intention of departing from the policy - our expressed mandate is to accelerate the pace of implementation
- At a sectoral level engagements with organised labour is progressing well
- Examples are the joint working groups established in the energy sector, MOU in the process of being finalised on the restructuring of Denel, and a common framework on the restructuring of Spoornet



End

***Thank you
for attending***

