About T-Systems South Africa

T-Systems has operated in South Africa since 1997. We are a Level 1 B-BBEE company with 30% of our shareholding held by black employees and an education-based community empowerment trust. T-Systems International (“TSI”), which in turn is owned by Deutsche Telekom, is our majority shareholder.

We understand the needs of local clients and are also able to leverage the scale, best practices and the intellectual property of our international parent. We are a significant contributor to the SA economy through the taxes we pay, the hundreds of direct and indirect people we employ, the clients we serve, and also through our skills development and supplier development programmes.

Our local clients include leading private and public-sector organisations across the logistics and transportation, energy, healthcare, financial services and retail sectors. Our value proposition is based on service quality, cost, innovation, reliability and our demonstrable commitment to South Africa.

The rate of technological and commercial change within the ICT sector is very rapid. T-Systems is changing fast too. The old model of large, long term, inflexible ICT outsourcing contracts is ending. The future is short, flexible contracts for cloud-based solutions. We are embracing this change and adopting a new “un-outsourcer” business model, in which customers have shorter flexible, pay-as-you-use contracts which they can change or terminate at their convenience at any time. We call this our Future Fit strategy.

Work with State Owned Enterprises (SOE)

T-Systems South Africa (“T-Systems” or “TSSA”) is supportive of the work that parliament, media and the Zondo Judicial Commission of Inquiry have been
conducting into state-capture. As a long-term supplier to both Eskom and Transnet, T-System has had to work with multiple boards, management teams and suppliers within this ecosystem, some of whom have been tainted by these revelations. It is therefore to be expected that questions are also directed at T-Systems about how we navigated this environment and continued servicing the SOEs throughout. In an endeavour to ensure transparency and accuracy, we provide below an overview of our long-standing relationships with Eskom and Transnet, as well as actions taken to ensure the highest levels of governance in doing business with state owned enterprises (“SOEs”).

**Acquisition of Arivia.kom**

At the beginning of 2010 after exhaustive negotiations following a competitive open tender process, TSSA acquired arivia.kom, the Eskom, Transnet and Denel-owned ICT service provider. As part of this transaction T-Systems concluded master service agreements (“MSA” or “contracts”) to provide ICT services to Transnet and Eskom for five years with the option for them to extend for a further two years.

Working with our counterparts at the state-owned enterprises (“SOEs”), T-Systems revitalised Eskom and Transnet’s ICT environments by investing in new hardware, processes and software and also in upskilling employees.

After overcoming very significant early challenges, caused in part by years of under investment in arivia.kom, T-Systems delivered a significant turnaround in service quality. T-Systems has delivered good value at commercial rates, initially at a loss due to the heavy initial investments and even fines for missed targets, but now these contracts are delivered on a commercially sustainable basis. Throughout, we adjusted our prices and service offerings to ensure alignment with independent benchmarks and the market and to support the SOEs changing IT strategy. Since 2015 T-Systems has achieved an average of between 99.1%-99.5% of its service level agreements (“SLAs”) performance targets at Eskom and at Transnet.
Transnet

Despite multiple board and management changes, T-Systems has maintained stable ICT services to Transnet since 2010, when it acquired SOE-owned IT services provider arivia.kom in an open tender. As part of this transaction T-Systems concluded an MSA to provide ICT services to Transnet for five years with the option for them to extend for a further two years until December 2016, which they did. During this period TSSA has delivered critical high-quality ICT services, including the data centre, to the state-owned freight, port and logistics company. The contract was periodically extended, with Treasury permission, so that Transnet could issue and conclude a new open tender. The tender award was contested and delayed.

In the last quarter of 2018, TSSA started to work with Gijima, the new provider, in order to hand over ICT services to them, a process of handing over key ICT services to new provider, Gijima. This followed the resolution of a lengthy commercial and legal dispute over the new Transnet IT data services contract. The trajectory of the dispute is as follows. In mid-2016, T-Systems responded to the new RFP to provide IT data services. In March 2017, it received a “letter of intent” (LOI) from Transnet indicating that T-Systems was its preferred bidder for this tender and that Transnet wanted to start contract negotiations. Rival bidder, Gijima chose to contest the award through a National Treasury complaints process and in August 2017, TSSA received a new letter from Transnet indicating that it now intended to rescind its LOI and award the contract to Gijima instead. In October 2017, Transnet filed a declaratory order in the Johannesburg High Court to set aside its decision. It wanted the court to confirm that Transnet had the power to rescind its earlier decision and instead give the contract to Gijima. Believing that it followed due process and that the contract had been awarded to it fairly (based on its competitive price, modern services and lower risk), TSSA opposed Transnet’s High Court application. Gijima filed its own counter applications.
The matter came to a head in September 2018, when Transnet – now led by another new board – affirmed the decision to award the contract to Gijima. Following extensive consultation with all the affected parties and its international shareholders, TSSA agreed to co-operate with Transnet to end the court case. T-Systems stands by the detailed case outlined in our court papers. We have however decided to cooperate with the new board as further prolonged litigation would not have been in the interests of any of the parties involved, the country or Transnet’s customers. Continuing the court case risked the absurdity of expensive litigation lasting almost as long as the initial proposed contract period. Over the years, the ICT and commercial landscape has changed dramatically. T-Systems own global and local business strategy had also shifted decisively to embrace the widespread uptake of digital transformation, cloud-services and the adoption of our “un-outsourcer” business model, which doesn’t tie customers into long inflexible contracts but instead allows them to terminate for convenience at any time. Protracted litigation and further continued uncertainly would have continued to distract us at TSSA from delivering on our future strategy.

The court subsequently upheld Transnet’s case. We have committed to ensuring a smooth transition to Transnet’s new service providers to ensure there is no disruption and we will focus on ensuring job continuity for affected employees through the process.

**Eskom**

At the beginning of 2010, after completing the arivia.kom transaction, T-Systems also concluded an MSA to provide ICT services to Eskom for five years with the option for them to extend for a further two years. Over time our services evolved as Eskom’s ICT strategy changed. For instance, between 2013 and 2015 Eskom started to insource elements of its IT. As result, during this time, TSSA’s revenue from Eskom more than halved despite significant increases in the volumes of services provided. Significant additional savings were given through to Eskom on services T-Systems delivered over the period.
During these years TSSA also periodically approached Eskom with cost-saving and innovative proposals such as smart grid systems and a smart metering solution we had co-developed and trialled with Eskom. We believe this could have saved Eskom between R4.5 billion and R6 billion over a 5-year period by helping cut back on its emergency diesel spend during the load shedding prevalent at the time. These solutions would have given Eskom greater control over the electricity consumption, and also reduce the need for load shedding.

In 2015, at the end of the 5-year MSA, Eskom elected not to extend the T-Systems contract, but instead entered into a two-year disengagement period as outlined in the terms and conditions of our original contract. A disengagement period is normal business practice for large ICT contracts and is designed to ensure that the client is not suddenly left with no ICT services and support. Contracts of the scale, scope and complexity of Eskom’s do require significant time to change. The disengagement period was to allow Eskom time to prepare new tenders, follow a thorough open tender process through its several phases, contract new suppliers, and then transition between potential different service providers.

The disengagement period has however coincided with a period of unprecedent change at Eskom and the country. The 2016 requests for proposals (RFP) was cancelled by Eskom and in 2017 revised RFPs were issued as part of an open tender process to align with Eskom’s new cloud-based IT strategy. In essence, Eskom opted to pursue four separate “tenders” instead of one overarching contract. T-Systems responded to several of the Eskom tenders issued in 2017, where these aligned with our new strategic direction.

Following Eskom’s cancellation of the 2016 RFP, our disengagement contract was extended to April 2018. Then, on 26 April 2018 Eskom requested to extend our contract again to end of August 2018. This was again extended to the end of October 2018 to allow the new board and management to complete their
procurement processes. In November 2018, Eskom cancelled these tenders and requested T-Systems to continue providing services to them until June 2019.

We are acutely aware of the many pressing challenges facing Eskom and that surmounting these is of great national importance. Ideally Eskom would complete its new ICT tender processes to give certainty to staff, suppliers and services providers. We have planned our business with full knowledge that Eskom may move some or all its services to other providers and so would welcome certainty in this regard. TSSA has engaged with Eskom’s Chairman and relevant management to discuss the way forward, as the current extensions are untenable. We appreciate the difficulties faced by Eskom, but it is our view that the periodic extensions to the IT contract are an operational and governance risk for both Eskom and T-Systems. Nevertheless, we remain committed to continuing to service Eskom and will support the transition of staff and services when Eskom is ready to appoint new providers.

**Localisation and supplier development programmes**

SOEs explicitly require corporates bidding for contracts to include a comprehensive transformation strategy including mechanisms like localisation, supplier development and skills transfer. T-Systems embraced the concept of creating or finding supplier development partners — local majority black-owned companies with whom we could contract. Some were created from scratch by funding, supporting and training our own staff to start companies and enter our supply chain. Wherever possible this was aligned with our global strategy of sticking to our areas of expertise and “buying in” or partnering with other firms (our “make or buy” strategy).

We entered these relationships openly and in good faith, in the spirit of transformation and nation building.

Over the last two years however, media investigations, reports and official inquiries revealed how what was a legitimate and well-intended policy to
transform the economy of South Africa, was in some cases, deliberately abused and that ICT contracts had been targeted. Of particular concern were allegations that certain “supplier development partners” we worked with had “compromised” the integrity of our contracts or were benefiting third parties unknown to us.

Bowman’s investigation and actions taken
T-Systems initiated an internal investigation in every case where an ESD partner was identified in the media as being allegedly involved in corrupt conduct or criminal wrongdoing. Based on those internal investigations, it was then decided that the allegations warranted a comprehensive, independent investigation.

As a result, in mid-2017, with the support of T-Systems International’s compliance division, we instructed the law firm Bowman Gilfillan Inc. (Bowmans) to conduct a comprehensive and independent investigation into the conduct of certain of our supplier development companies. In respect of the appointment of Bowmans, it is important to note that the firm was selected by virtue of its expertise in conducting such investigations, and not because of any close client relationship with the firm. The firm has a well-regarded specialist Governance Compliance and Investigations practice area, and the partner appointed to lead the investigation was a specialist forensic lawyer who had not previously done any work for T-Systems.

The Bowmans’ investigation was concluded in October 2017. The investigation found no evidence that T-Systems had ever directly or indirectly made any irregular payments, or directly or indirectly requested or approved that any ESD partner any other individual or entity to make any irregular payment on its behalf.

The investigation also included questioning our ESDs about their ultimate beneficial ownership and whether this differed from the information they provided to us or publicly available from the Companies and Intellectual Property Commission (CIPC). In three cases these questions were ignored or not answered to our satisfaction.
We can confirm that all our ESDs delivered services to TSSA on commercial terms and in line with valid contracts. At the time of contracting with these ESDs we had no reason to believe that any of the entities were linked to the Gupta family. We can also further confirm that any services provided by us to parastatals were done on the back of a valid contract and services were delivered by T-Systems in line with those contracts. The pricing in respect of both the contracts with Eskom and Transnet in particular, were originally obtained as part of a competitive bidding process and the related contracts included annual benchmarking clauses.

T-Systems immediately took remedial steps to action all of the recommendations made by Bowmans in the report which included, termination and unwinding of business relationships with three ESD partners on the basis of compliance risk identified as part of the investigation and reporting any suspicions of irregular payments by ESDs to the relevant authorities.

Although the investigation did not identify any evidence of any criminal conduct or impropriety on the part of T-Systems or its employees, the investigation did identify several compliance concerns arising from T-Systems interactions with the ESD companies.

In line with Bowman’s recommendations, we have strengthened internal governance, supplier monitoring and contract compliance rules; and will continue to act where needed, guided by our core values and ethical principles. Actions include employee training and awareness, changes to supplier on-boarding processes, and periodic reviews of our suppliers to identify potential compliance and reputational risks.

We have been open about this process and its outcomes. We have met and explained such issues to our clients, proactively met and briefed parliamentary inquiry researchers and published detailed information on our website. We have
also communicated and enforced TSSA’s five key rules for signing up business partners and customers to staff. These are:

1. Contracts must be in place for all services being rendered;
2. Services must be clearly defined in our contracts;
3. Monetary values of the services must be defined in the contracts;
4. Services must be rendered at market related prices;
5. Contracts must be obtained through a transparent process with no undue influence.

We will continue to abide by these rules and our corporate values as guiding principles.

We will continue to cooperate with any official investigation into our work with SOEs. We have approached the new boards and management of Eskom and Transnet to provide them an opportunity to engage on the Bowman’s findings and will open up our financial accounts and other management audits to them or any other bona fide investigation, as required.

T-Systems strongly support initiatives to root out corruption in the public and private sector. Where credible concerns are raised about suppliers or ourselves, we investigate, using external legal and forensic experts if needed. We act decisively where warranted.

We will continue to uphold these standards.

ENDS

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