MINISTRY
PUBLIC ENTERPRISES
REPUBLIC OF SOUTH AFRICA

MEDIA RELEASE

MINISTER GORDHAN CLARIFIES THE TERMS OF THE DISPOSAL OF THE 51% STAKE IN SAA SOC LTD

Note to Editors:

This is an explanatory release to all media to highlight the salient points of the presentation to Parliament's Standing Committee on Public Accounts (SCOPA) by the Minister of Public Enterprises on 10 May 2022, regarding the disposal of 51 % Shareholding in South African Airways (SAA).

Why a Strategic Equity Partner for SAA?

- *To position SAA for future financial and operational success.*
- *Secure funding for SAA's future operations from the private sector partner.*
- *Operation of SAA by reliable, competent and commercially experienced aviation partners.*
- *Provides Government with continued participation in SAA's future success.*
- *No further financial contributions by Government in SAA.*
- *The risks and rewards of the public-private partnership are equitably balanced.*
- *Government has a Golden Share.*
- *The intent is for the Consortium to acquire a 51% controlling stake in SAA and will inject R3 billion over a period of 2 years.*

GOVERNMENT'S OBJECTIVES

Government's objectives for a post-restructured SAA SOC Limited are to achieve the following:

i. No dependence on the fiscus going forward,

ii. Create a viable, agile and sustainable airline through a restructuring process in business rescue,

iii. Build a model public-private partnership,

iv. Be a catalyst for growth, develop skills, talent for all South Africans, and

v. Create a foundation for the possible listing of SAA in the future.

Despite it's rich history, SAA has struggled financially over the past decade because of:

- Gross mismanagement and corruption, and
- State capture and abuse of SAA resources

This caused persistent financial losses, internal controls were decimated, there was a breakdown of consumer trust and confidence, and ultimately a loss in market share.

These challenges have been further exacerbated by the COVID pandemic, which affected domestic and global aviation sector.

To address these issues, Government chose the path of restructuring through business rescue instead of liquidation.

Liquidation would have meant the demise of the company, the employees would have received a very small payment (possibly R28 000) as opposed to severance packages which enabled them to support their families while looking for alternative employment; and all assets would have been sold in a "fire sale" to pay off creditors.

Clearly business rescue, despite its challenges, was a better proposition.

Government supported the need for a new, restructured airline and the need to mobilise funding from various sources, including from potential equity partners. This was deemed as the only realistic path for the emergence of a sustainable and competitive airline that can provide an integrated domestic, regional and international services, could emerge.

Furthermore, Government decided to acquire a strategic equity partner that will be able to operate and fund the "New SAA".

The finance for operating a "New SAA" will come from the Takatso Consortium. Government will not be contributing any finance to the new airline. However, as pointed out below, Government will receive dividends as a preferential shareholder.

This would benefit South Africa as a whole.

KEY ELEMENTS OF THE TRANSACTION

Takatso Consortium ("**Takatso**") was identified as the preferred strategic equity partner. Takatso is a consortium of private sector participants that have the requisite combination of financial and operational capabilities required for the successful operation of SAA.

The proposed transaction with Takatso (**"the Transaction"**) has been structured in a manner that provides SAA with the greatest chance of success and allows for appropriate risk and reward sharing between the public and private partners.

Financial contributions to be made

- The Consortium will provide R 3 billion working capital to the new airline. Government makes no contribution at all to the working capital of SAA.
- The assets that the "New SAA" will retain is calculated at approximately R3 billion. This was done through an independent valuation expert. The total consideration due to Government is R3,000,000,051.

Takatso Consortium has confirmed that they are able to fund the transaction.

Furthermore, Government has successfully negotiated a preference share in the venture. What this means is that Government and the fiscus will benefit when SAA becomes profitable by being the first, or preferred Shareholder, to receive dividends.

Golden Share

Government will also obtain a "golden share". A Golden Share means a share which can outvote all other shares on specific matters. In this transaction, Government's "golden share" means that:

i. The consortium cannot sell the airline without the consent of Government;

ii. Government will have full veto rights on matters of national interest;

iii. The name, the brand and the logo will belong to Government; and

iv. A non-dilutable shareholding of 33.3%, should further capital raising be done.

Transformation and development

Takatso and Government have also agreed on a set of developmental and transformational objectives, which among others, includes:

(i) Developing key aviation management skills amongst South Africans,

(ii) A training program to enhance the position of black pilots within a demographically diverse pilots corp,

(iii) As SAA increases its footprint and widens its services, it will support

expansion of industry in the East Rand,

(iv) Contribute to revival of the tourism industry, which is critical to job creation, and

(v) Build a set of partnerships to increase aviation connectivity on the African continent.

We are looking forward to the conclusion of the regulatory processes as soon as possible. This process has ensured that a number of jobs are retained within SAA and further job creation can happen as SAA upscales its business in the African continent and globally.

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Issued by the Ministry of Public Enterprises

12 May 2022