MINISTRY OF FINANCE
REPUBLIC OF SOUTH AFRICA

MEDIA STATEMENT

MINISTER NENE'S REMARKS AT SAA'S POST-AGM MEDIA CONFERENCE

Background

- State-owned companies and public entities make an important contribution to the realisation of government's economic and social objectives. Most major economic infrastructure investments are financed on the balance sheets of state-owned companies. Hence they need to be financially sound and operationally effective, contributing to development without being a drain on public finances.
- It is for these reasons that government has announced a new framework for the funding of state-owned companies. In addition, Cabinet decided in December that the Deputy President will provide oversight over the three state-owned companies Eskom, South African Airways (SAA), and South African Post Office (SAPO).
- The framework covers the following:
  - Funding for state-owned companies will be raised in a way that has no effect on the budget deficit;
  - In some instances, government will dispose of non-strategic assets to raise resources for financial support. Such assets could include property, direct and indirect shareholdings in listed firms, non-strategic government shareholdings in state-owned companies and surplus cash balances in public entities;
  - Private investment to strengthen the balance sheets of state-owned entities will also be explored; and

    - Funding allocations will not be automatic, but will depend on entities demonstrating sound business plans and greater efficiencies.
- The funding framework will distinguish purely commercial activities from the costs of exercising developmental mandates. It will include closer monitoring to ensure efficient delivery on government priorities, while simultaneously promoting improved commercial performance.
- Funding for a state-owned company will only take place once the proceeds of asset sales are deposited into the National Revenue Fund, and such funding will require a special appropriation bill tabled in parliament by the Minister of Finance. Over the medium term, any funding of state-owned companies will be contingent on the implementation of sound restructuring plans with strong government oversight.
- National Treasury, together with the relevant line departments, will continue to monitor all guarantees that have been issued to SOCs closely. Further government support in the form of guarantees will only be provided on the basis of a sound business plans.
- Government has also introduced more stringent financial reporting requirements for public entities.

Let me reiterate, over the medium term, any funding of state-owned companies will be contingent on the implementation of sound restructuring plans with strong government oversight. Given fiscal constraints over the next two years, re-capitalisation will not be drawn from tax revenue or added to the debt of national government. Recapitalisation of of state-owned companies will only be funded in a manner that does not increase the budget deficit, this includes the sale of non-strategic state assets. Government policy remains that state-owned companies should operate on the strength of their balance sheets.

With specific reference to the national airline:

- SAA's continued losses - details of which management has explained today - resulted in Government adopting the " Business Unusual" approach to stabilize and contain SAA's financial bleeding. The airline's turnaround strategy, the LTTS, was not delivering the desired turnaround. Government then intervened in November 2014, with the Department of

Public Enterprises and National Treasury jointly providing oversight over SAA.

- SAA subsequently crafted a 90 Day action plan, which is premised on the LTTS but with emphasis on executing quick-wins, including route closures and revenue initiatives. That said, it will take time for the benefits to show on SAA's bottom line. For example, the route withdrawals will only take effect from February/March.
- The R6.488 billion guarantee was issued on the basis that the 90 day action plan is robust and provided firm deliverables. For example, SAA must produce annual savings of about R1.3 billion.
- The work for SAA will not be over and there will still be other tough measures that they will have to take in order to get the airline back on track. National Treasury is working with SAA in revising and refining the existing LTTS, which will have the primary mandate of the returning the airline to financial sustainability. Importantly, SAA must be self-sustaining as no recapitalization will be forthcoming from the shareholder and SAA will therefore be required to generate the required profits to return the airline to financial sustainability.

Issued on behalf of the Ministry of Finance

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