



18 November 2016

SOUTH AFRICAN AIRWAYS

This is a summary of members' questions to SAA's Board members and executives. As agreed in the meeting, the board and executive must respond to these questions ten (10) days after receipt.

Questions:

TOPIC	QUESTION	RESPONSE
<i>Aircrafts/Fleet/ Pilots</i>	1. In their submission to the then Minister Nene, the entity claimed that procuring aircrafts locally with (will) not attract hedging costs but will attract fees if secured internationally. SAAs response to the committee said that either way there will be costs associated with procuring aircrafts? How is it possible that the information presented was misrepresented? The committee was advised differently to the Minister Nene? The Board must provide an explanation.	At the time SAA made a submission to the then Minister Nene, except for the Chairperson, none of the current Board members were members of the Board. Having stated that, we are informed by Management that the essence of section 54(2) application to Minister Nene in November 2015 was that if SAA was to contract at ZAR denominated transaction, it would save on the hedging costs as the consortium of banks would be more suited to manage currency fluctuation, thus bringing about cost efficiencies. However, the view of the Board is that without evidence being provided to the answer, it cannot provide an opinion on the accuracy of the assertion.
	2. The board must give a presentation and provide salient features of the Evergreen contract? How do these contracts compare with	The Board is currently reviewing the Long Term Turn-around Strategy, and the review will include all the major contracts by SAA, including the Pilots' agreements. Once

TOPIC	QUESTION	RESPONSE
	other airlines in other countries and what is the impact of these contracts on the performance of the airline? What is the board doing about these contracts?	these reviews and deliberations are done, then the feedback to the Committee will be done
	3. How does it happen that South Africa's air space is open to all but SAA cannot fly domestically within specific countries especially in Europe?	The International airlines do not have fifth freedom in South Africa. RSA, through the Department of Transport has designated the 3 international airports in Johannesburg, Cape Town and Durban as hubs and that allows international airlines to fly directly.
	4. Why is SAA not flying between Cape Town and Durban? What is the profitability of local market?	Management informed the Board that SAA used to operate the Cape Town to Durban route but discontinued it due to the losses incurred on that route. However there are structural challenges facing the airline industry and SAA is reviewing the domestic market and will consider the best options to serve the domestic market
	5. What is the business case for leasing of aircrafts? Is it cheaper to lease in the context of LTTS? What are the benefits?	SAA's balance sheet is weak and this has influenced SAA's capital acquisition decisions. While it would be better to outright acquire certain aircraft, SAA is simply not in a position to do so now as it cannot afford the cash flow associated with outright purchases (PDP payments etc). It is important to highlight that wide-body aircraft have more risks attached with outright purchase than narrow body as the market is smaller in terms of reselling. However the new Accounting Standards on leases will require that SAA recognize the aircraft in the Balance Sheet as if they are owned. This will be applicable in the 2019 financial year end.
	6. SAA is not addressing the structural issues and the profitability in relation to productivity and meeting KPI's. Government cannot continue to	The Board agrees that the government cannot continue to provide guarantees to sustain SAA. Attention must be given

TOPIC	QUESTION	RESPONSE
	provide guarantees to SAA.	to ensure that the company is properly capitalised. The Board has re-established the LTTS Committee which is mandated to drive the implementation of the long term turnaround strategy. Short term measures to address financial stability have been addressed. SAA is also in the process of appointing a Restructuring Strategic Advisor to review the LTTS and to provide recommendations on identifying the priorities for the turnaround and an implementation plan. The board is however concerned that at this stage the company is rapidly using up the available short term capital that has been secured through the shareholder guarantee. The current position is that in the short term the losses being incurred remain a significant threat. The LTTS committee will be overseeing the implementation of the long term turnaround strategy which should see a successful turnaround in the medium term.
<i>Cost compression</i>	7. What is the airline's plan for entering the African markets and acquiring air space on the continent?	The Board is currently reviewing the Long Term Turn-around Strategy which will include a comprehensive review of the opportunities on the African continent.
<i>Transformation</i>	8. What is the entity doing about rationalising the technical services in SANDF, Denel and SA Air Force?	Management has reported to the Board that, the proposed collaboration between SAAT, SANDF, Denel and SA Air Force related to the coordination of technical training between the various training schools. A few years ago SAA signed an MOU with SAX and Denel with a view to combine the training schools to be able to offer technical training to the country and to explore what other services could be offered. The coordination of shared services like procurement will be pursued with the respective entities in order to ensure that benefits of scale are derived.

TOPIC	QUESTION	RESPONSE
	9. What has been done to improve the diversification of the employment in relation to the pilots? Are there any accelerated programs to try and incorporate black people?	The Board has been advised by Management that a cadet pilot programme was put in place and saw 54 black young people achieving 750 flight hours. There are 5 cadet pilots who are already flying within SA Express and are in the final stages of their training. Furthermore, in considering employment opportunities for pilots, SAA prioritizes black candidates.
	10. How is the board going to deal with the broad based empowerment? Twenty years after democracy, only 2 % of the suppliers at SAA are black? What is the board doing to change these statistics and ensure procurement from small business?	The Board has not verified the accuracy of the 2% procurement as alluded to in the question. However, once it is verified, the board will respond in the affirmative to these questions.
<i>Financial Statements</i>	11. How much of SAA's revenue is foreign currency denominated? How much of SAA's revenue is received in USD.	In the 2015/16 Annual Financial Statement, SAA earned 51% of its revenue in foreign currency. Refer to page 75 of the Annual Report.
	12. SAA reduced their operating losses for the year under review, but how sustainable is this reduction should the external economic environment become unfavourable – rising fuel prices?	The company will be focused on growing its revenues and to continue to apply cost compression initiatives. It operates in a very competitive industry and the company is aware of the risks from external factors to its business and the airline industry. The Board wishes to clarify that the company has not reduced its losses for the year under review, which we presume refers to the 2016/17 financial year. The budgeted loss for 2016/17 was set at R1,7bn but the revised forecast refers to an expected loss of R3,5bn.
	13. How functional is SAAs internal audit.	As required by the Internal Auditing standards, the previous Audit and Risk Committee appointed an independent auditing firm to conduct an external assessment on SAA's Internal Audit function. The report was finalised in August 2016 and highlighted a number of

TOPIC	QUESTION	RESPONSE
		<p>areas where good progress has been made and areas where improvement was needed.</p> <p>The overall outcome of the assessment was that the relevant structures, policies, and procedures of the activity, as well as the processes by which they were applied, complied with the requirements of the Standard or element of the Code of Ethics in all material respects. There are significant opportunities for improvement, but these did not represent situations where the activity had not implemented the Standards or where the Code of Ethics, has not been applied effectively.</p> <p>The newly established Audit and Risk Committee will review the functionalities and competency of the Internal Audit unit as part of its Terms of Reference in the new financial year and will update the Board and other relevant structures in this regard.</p>
	<p>14. What is being done about the findings that the auditors raised in the annual report?</p>	<p>Management will be addressing these findings with the Internal Audit unit and will provide feedback to the Audit and Risk Committee on progress made at each quarterly meeting. All executives are contracted to resolve all internal and external audit findings as part of their performance measure.</p>
	<p>15. Where (were) the impairments of aircrafts a once off transaction or will it reoccur going forward?</p>	<p>The A320 impairments were linked to a specific transaction and those aircrafts were swapped with another type of aircrafts. In terms of Accounting Standards SAA is required to assess annually the impairment. In the 2015/16 financial year the exercise was done. This exercise will be performed again in the 2016/17 financial year end and once it has been completed then we will be in a position to confirm.</p>

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<i>Operations and Management</i>	16. Why were the KPIs) not achieved and why are people responsible for ensuring that they achieve these targets still employed?	<p>The airline is going through a difficult time on the whole, and a result some of the KPIs were beyond the control of management.</p> <p>Though the operating conditions were difficult, which was not unique to SAA, management tried to stay focused on the task at hand. Whilst it is recognized that there was underperformance, dismissing employees for poor performance is not the first port of call. The performance management policy encourages a developmental approach.</p> <p>See Annexure A.</p>
	17. What is the latest regarding cadet pilot training? It is important for SAA to attract young people to the airline?	Please refer to the response to question No. 9
	18. Provide details about the fleet plan. In our next meeting the airline must provide a brief on their plans.	The Board recently had a strategy session which included a review of the routes profitability and fleet plan. The Board will provide feedback to the Committee once the review is finalised.
<i>Board</i>	19. What is the new Board going to do that is different from previous boards?	<p>The new Board is sharply focused on returning the airline to financial sustainability. The Board is cognizant of the fact that its primary role is to provide strategic oversight, with Management running the day to day operations of the airline. The Board is mindful that returning the airline to financial sustainability is a collaborative effort with Management, hence it is moving with speed to appoint a permanent CEO and CFO who will then put a team together and fill all existing strategic vacancies with the aim of realizing the main objective stated above.</p> <p>The Board will also review the SAA corporate structure and the delegation of authority framework, and update them if necessary, to ensure that there is alignment with</p>

TOPIC	QUESTION	RESPONSE
		corporate governance best practices.
	20. Was the Chairperson in contact with the President or cabinet or any member close to the executive to lobby for her position and re-appointment as Chairperson of SAA?	The Chairperson advised the Committee on 16 November, that she does not need to lobby for her appointment. She did not appoint herself; such a question should be directed to the Shareholder and Cabinet.
	21. It is clear that the Chairperson immerses herself in functions within the scope of the executive of SAA. Can the chairperson provide assurance that she will not get involved in executive activities at SAA?	The Board has relied on the Chairperson, who advises that she has never been involved in any executive role. The role of the Chairperson is no different from that of a director which is defined by the Companies Act, the MOI, PFMA, and King Code on Good Governance. The Chairperson has no recollection of an incident where she assumed a management and or executive role.
	22. Can the board hand over copies of all investigation completed?	The reports will be made available, as per the instruction by the Honourable Members of the Standing Committee on Finance. The information relating to the investigations is available for perusal by the Honorable Members. That information has been submitted to Executive Authority (National Treasury) and a list of these investigations is attached as Annexure B.
	23. Has the Board Chairperson played any direct/indirect role in the “hands off Dudu” campaign” and the subsequent negative leaks about pilot unions at SAA?	The Board has relied on the Chairperson, who advises that she is not aware of the campaign referred to. The Chairperson was informed by someone who saw the article on the newspaper and on the social media. In so far as SAA Pilots Association (SAAPA) is concerned, the Chairperson advises that she has required that a study be undertaken into the risks and incremental costs that the Pilots Evergreen contracts impose on the airline. Should Parliament wish to have the confidential report on the same, upon request, through the National Treasury, the

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		Board would consider that.
	24. Does the Chairperson take full responsibility for the failures of SAA including the R7billion loss over the last two years?	<p>The Board has relied on the Chairperson, who advises as follows: “History about why and how SAA was removed from Transnet is recorded, which elaborates clearly that it was not profitable even then. But when its fleet was sold between 1999 to 2000, SAA was left with nothing, and the decision to sell the fleet, and lease them back through foreign currency has left the company in a dire situation.</p> <p>These decisions were done by aviation experts, and among them was Bain Consulting and Mr. Coleman Andrews, SAA former CEO, as was previously put before the Committee in response to this question. The same question was comprehensively dealt with in the Letter from the Chairperson to the Honourable Member of SCOF, Mr. D. Meynier.</p> <p>It must also be noted that SAA does not get cash from the fiscus, but guarantees. These are loans, and SAA services these loans and interests cost are about 1.2 billion per annum.</p> <p>This is one of the reasons why the previous Board decided to commission a forensic investigation into financial losses, as well as into procurement, and it would assist the Honourable members to see what has been discovered through this investigations.</p> <p>The Chairperson alluded to the issue of new rivals in the Domestic and Regional Markets, because of Government Open Skies Policy. There was a proposal for Policy Review, and the Chairperson pointed out that a “Whole of State Aviation Policy Framework” Discussion can assist in</p>

TOPIC	QUESTION	RESPONSE
		<p>ensuring that we guard jealously the space where SAA operates, like Ethiopian Airlines and other Airlines. It's a policy decision, as SAA's failures and successes depends also on how many competing airlines are given licenses to operate in the same regional and domestic space, and that shrinks the market share.</p> <p>Ethiopian airlines through its government is highly protected so that it becomes profitable: Landing costs, Air Traffic Navigation Service Costs, Airport Taxes are very costly for SAA. In other countries such as Ethiopia. No foreign Airline enters its Domestic Market.”</p>
	<p>25. How is it that the EY report was submitted to the Board and for 6 months was not seen by executive? Why was such a long delay?</p>	<p>The majority of the Board members became aware of this report on the 28 October 2016, on the date of the AGM. Management informed the Board that it took a long time between the various iterations between EY, the Board and its Advisor to finalise the report. It was discovered during the course of the iterations that additional work would have to be done by EY, which had not been budgeted for. It should be noted that this was a Board initiated process and Management was supposed to be engaged after the finalisation of the investigation. The Board was reluctant to share the report before the investigation had been completed. To date the report remains in a draft format.</p> <p>The Chairperson informed the Board that she believes the response above does not accurately respond to the question. The Acting CFO was present at the first presentation provided to the Board by EY in February 2016. It is therefore not correct that the report was not disclosed as suggested. At that meeting the Board instructed that the same presentation be then provided by EY to the Group Executive.</p> <p>The report was then provided to the Company Secretary</p>

TOPIC	QUESTION	RESPONSE
		<p>and the Internal Audit Executive. For unknown reasons to me, some 5 months passed before the same presentation was provided by EY to the Group executive. That meeting was aborted as the Acting CEO considered it more appropriate that each divisional executive consider their own components first. I have no problem with that suggestion but it is inaccurate to suggest the delay was EY doing. That process then took another month or two.</p> <p>The report has been considered by the executive and a draft proposed action plan provided. It remains in draft form and the question must be asked what is the executive doing about finalizing this and putting in place actions to implement its recommendations.</p> <p>If we are going to address governance issues which in turn potentially result in losses of billions of Rands, we must be provided with unquestionable facts against allegations made. We need to address allegations which are provided by credible independent professional service providers. This is what Parliament is wanting to hear from us. We are better advised disclosing these matters now than in an enquiry such as we are witnessing in Parliament with another SOE. If Parliament want a copy of the report then under appropriate confidentiality governances they ought to be permitted to review its contents</p>
	<p>26. How is it possible that a memo submitted by SAA to Treasury determining that SAA requires R7.4 billion and not R4.7 billion? How is possible that SA Board took to NT, a request of R4.7 billion?</p>	<p>Management informed the Board that SAA never applied or told National Treasury that they will need R7.4billion for going concern. Page 166 of the Annual Report states that “the directors are of the view that the guarantee support by its shareholder would be adequate for the going concern requirement in the foreseeable future”. Therefore a perpetual guarantee of R4.7 billion that was approved by</p>

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		the Shareholder in September 2016 was adequate for the 2015/16 AFS to be signed off as going concern.
	27. What is being done to suspended employees who are costing the airline millions of Rands? Have they been reviewed? What action have been taken? Have the suspended employees been interviewed? The directive from the Minister was that the Board would deal with the matter and not HR committee? When is this going to happen?	The Board operates through its committees. All committees have terms of reference approved by the Board, mandating them to deal with specified matters on behalf of the Board. Accordingly the Remuneration and Human Resources Committee (RemCo) is addressing the matter of suspended employees as well as ensuring that the assessment as per the shareholders' instruction, is conducted. Once RemCo has finalised its review, it will prepare a report for the Board's consideration.
	28. How many times has the board met since their appointment and what were the issues dealt with?	Schedule of meetings held and issues dealt with is attached.
<i>Subsidiaries</i>	29. SAA City Centre- what are the challenges being faced at this subsidiary because the target were not met (increased losses etc.). What is the strategic role of this Centre in relation to the overall strategy at SAA?	One of the initiatives of the SAA Long Term Turnaround Strategy (LTTS) is the Divestment of SATC. To date, a detailed duly signed PFMA Section 54(2) application for the divestment of SATC has been presented by SAA to the Executive Authority and is under consideration.
	30. Air-Chefs and SATC - What are the corrective measures being considered by SAA. These subsidiaries are making serious financial losses?	Air Chefs financial performance has improved over the past 3 years by improving controls and reducing cost as seen below:

TOPIC	QUESTION	RESPONSE																		
		<div data-bbox="1123 261 1833 703" data-label="Figure"> <table border="1"> <caption>Net Profit/(Loss) for the period</caption> <thead> <tr> <th>Year</th> <th>Net Profit/(Loss) (Millions)</th> </tr> </thead> <tbody> <tr> <td>2009</td> <td>-13</td> </tr> <tr> <td>2010</td> <td>24</td> </tr> <tr> <td>2011</td> <td>-2</td> </tr> <tr> <td>2012</td> <td>-70</td> </tr> <tr> <td>2013</td> <td>-71</td> </tr> <tr> <td>2014</td> <td>-46</td> </tr> <tr> <td>2015</td> <td>-17</td> </tr> <tr> <td>2016</td> <td>-13</td> </tr> </tbody> </table> </div> <p data-bbox="1123 737 1892 870">Air Chefs is planning to be profitable on an EBITDA level in FY 2017/18. However, Air Chefs remains unable to cover its capital costs, and its future is being looked at as part of the review of the LTTS</p> <p data-bbox="1123 906 1892 971">With respect to SATC please refer to the response to Question 29 above.</p>	Year	Net Profit/(Loss) (Millions)	2009	-13	2010	24	2011	-2	2012	-70	2013	-71	2014	-46	2015	-17	2016	-13
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	<p data-bbox="428 976 1100 1138">31. Mango's financials have deteriorated over the period? What exactly is happening in this space if low cost airline are supposedly thriving? Can the board give comfort to committee on what is being done to assist these subsidiaries?</p>	<p data-bbox="1123 976 1892 1138">Mango's performance deteriorated because of increased competition in the domestic market. Mitigating actions were implemented in April 2016, with a view to improve the financial performance. The improvement in the results is expected to manifest in the coming months</p>																		
	<p data-bbox="428 1146 1100 1211">32. Is SAAT experiencing problems? Why was SAA Technical (SAAT) in dispute with Tax Authority?</p>	<p data-bbox="1123 1146 1892 1243">The difference in tax with SARS that was identified was caused by a change in accounting policy. We are engaging with SARS with a view to resolve the issue.</p>																		

ADDITIONAL QUESTIONS FROM STANDING COMMITTEE ON FINANCE (SCOF)

December 2016

QUESTION	RESPONSE
<p>1. What are the details of progress made towards the appointment of the CEO, COO and CFO?</p>	<p>Headhunting agencies have been appointed for the positions of the CEO and CFO and these have been advertised. The CEO position was advertised on both the local and international media and the CFO has been advertised on the local media.</p> <p>The appointment of the CEO and CFO is overseen by the Remuneration, Human Resources and Nominations Committee, as delegated by the Board of Directors. The position of the COO will be filled with the involvement of the CEO once he/she has been appointed.</p>
<p>2. What are the details of new routes being investigated, under consideration or planned to be introduced? If so who initiated these new route considerations and what are the details of the motivation for such new routes?</p>	<p>.</p> <p>The Board is currently reviewing the Long Term Turn-around Strategy, and the review will include a comprehensive assessment of existing and potential new routes. Once this review is completed, feedback will be given to the Committee.</p>
<p>3. What are the details of routes that are being considered to be discontinued? Are any routes being considered for discontinuation, if so, why?</p>	<p>Please refer to the response to question 2.</p>
<p>4. What are the details of all contracts that National</p>	<p>Management has informed the Board that there is no outstanding information or contracts requested by National Treasury.</p>

<p>Treasury have requested SAA access to and what are the details thereof. Have SAA co-operated with National Treasury and given National Treasury full details of all the contracts under review? If not why not?</p>	<p>Management has cooperated with National Treasury's request and the following requested contract documentation were provided to NT for review-</p> <ul style="list-style-type: none"> • Security (X-ray machine) • Crew Transport (in Johannesburg , Durban and Cape Town) • Marketing & Media (Global Advertising) • Ground Handling services (in Washington DC). <p>There are ongoing engagements between the Office of the Chief Procurement Officer at NT and SAA's acting Chief Procurement Officer.</p> <p>At the beginning of the financial year a list of all tenders that will exceed R10 million is submitted to NT which then selects the contracts to be reviewed.</p>
<p>5. Has SAA stopped the implementation of the SAA Board resolution to set aside 30% of key procurement for black owned businesses as instructed by National Treasury in its letter to the SAA Acting CEO dated the 28/09/2015? If not why not</p>	<p>As the new Board we have no knowledge of the stated matter except for the communications between the shareholder and the company. The Board has not deliberated and once it has done so, will report back.</p>