

SUBMISSION TO THE STANDING COMMITTEE ON FINANCE RE COMPLIANCE WITH CONDITIONS OF R4.7 BILLION GOING CONCERN GUARANTEE ISSUED IN SEPTEMBER 2016

Answer to 2.4

An update as to the adherence to the guarantee conditions specific to the R4.720 billion guarantee granted in September 2016 follows below. The letter, advising that the guarantee application had been granted, specified ten conditions over and above those attached to the existing guarantees.

	Condition	Progress
3.1	<i>The primary focus of the Board must be to return the airline to financial sustainability.</i>	<p>The new Board at its first strategy meeting identified 5 key strategic pillars for the turnaround of the business namely:</p> <ul style="list-style-type: none"> ➤ Liquidity ➤ Balance Sheet Restructuring ➤ Revenue enhancement ➤ Cost optimization ➤ Strategy direction <p>The strategy focuses on bringing the business to financial sustainability, and focussing on strengthening the commercial operation through:</p> <ul style="list-style-type: none"> ➤ Building capacity and capability; ➤ Reviewing the airline's network and routes, which will inform the appropriate fleet plan; ➤ Improved focus on our customer base using more effectively SAA's information and data; ➤ Develop differentiated product offerings for both Mango and SAA; and ➤ Address SAA's cost base in line with a differentiated strategy <p>Seabury was appointed in January 2017 to assist the airline in reviewing the LTTS, particularly with a view to understanding its appropriateness for the fast evolving aviation sector and changed economic conditions. Seabury will also assist in developing a more effective implementation framework. The outcome of this analysis will result in a new 5 year Corporate Plan to be finalised in June 2017. This response is also addressing the question on the cost cutting initiatives (2.4.4 and 2.4.2)</p>
3.2	<i>SAA's strategy must be strengthened and alignment with other state owned airlines.</i>	
3.3	<i>SAA must implement more aggressive cost-cutting initiatives.</i>	
3.4	<i>The network and fleet plan must be refined on a sound basis.</i>	
3.5	<i>The airline's strategy must better differentiate the airline.</i>	
3.6	<i>The airline must co-operate with the shareholder in giving consideration to the possible merger of SAA with SAX and the potential introduction of a strategic equity partner.</i>	<p>National Treasury has appointed Bain and Co to assist them in determining the appropriate structure for its state-owned portfolio of aviation assets. The board is yet to receive communication in this regard from the shareholder regarding the outcome of the exercise.</p>

3.7	The Board must appoint a permanent CEO and CFO and other key executives in consultation with the Minister of Finance.	<p>The process for appointing the CFO has been completed and the Board approval has been obtained. The recommendation has been submitted to NT for their input.</p> <p>The first round of CEO interviews has been completed; a short list of candidates is being compiled by the panel. The second round of interviews is set to commence on the week beginning the 27th of March 2017. The panel expects to table its recommendations to the Remuneration Committee by no later than the middle of April 2017. Approval by the Board and National Treasury will then be sought.</p>
3.8	Funding must be secured to meet the airline's liquidity requirements.	<p>The Board resolved the immediate liquidity that was required by the company. There are on-going discussions with the lenders to extend the loans that are maturing in the short term. This response is also addressing question 2.4.7</p>
3.9	The Board to ensure the 2014/15 and 2015/16 AFS are finalised.	<p>This condition has been met.</p>
3.10	SAA is required to report progress on a weekly basis to National Treasury.	<p>SAA meets weekly with officials from NT where updates are shared on relevant issues.</p>
3.11	SAA must share all media communication with the Minister of Finance or his designated representative prior to the issuance of media communication and only communicate on issues that require shareholder approval where approval has been obtained from the Minister of Finance.	<p>SAA complies with this requirement</p>