



SOUTH AFRICAN AIRWAYS

Office of the Chief Executive Officer

17 June 2008

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Fatima Chohan
Chairman
Portfolio Committee
Department of Public Enterprises

Dear Ms. Chohan

Kindly receive response to questions raised at SAA's presentation to the Portfolio Committee which took place on 4 June 2008.

Question 1:

Information pertaining to the composition of SAAT's board and members' attendance.

Answer 1:

The SAAT Board consists of the following Board Members Khaya Ngqula, Billy Modise and Jan Blake. According to the Company Sec Office two recorded meetings took place for the year starting January 2008, on 14 February 2008 and 19 May 2008. At the said meetings the following members were present:

- February 2008 - Khaya Ngqula, Jan Blake, Billy Modise. At this meeting Jan Blake resigned and Clive Else was appointed as Director.
- May 2008 - Khaya Ngqula, Billy Modise and Clive Else.

Question 2:

Confirmation from CEO of SAAT that safety is not compromised based on supplier negotiations for lower prices of parts.

Answer 2:

SAT has always had a very strict policy regarding the procurement of Aircraft related parts/components and repair services. The procurement of these parts/components is from only reputable FAA (American Regulatory Authority) and EASA (European Regulatory Authority) approved Companies with years of experience in providing the said parts and services, where the majority of the parts/components are supplied by the Original Equipment Manufacturer (OEM).

Prior to the SAA Group restructuring process, SAT identified opportunities to renegotiate better contract pricing by selecting a Single Source Service Provider rather than the dual/multiple source service providers currently being used.

The new contracts provide savings in terms of better pricing due to use of a single supplier rather than several, the longer term over which the supplier's overhead cost can be spread, guaranteed Turn Around Time, better warranties and reciprocal work opportunities for SAT (which is where the service provider commits on send outsourced work opportunities to SAT as part of this contract).

Directors

Prof GJ Gerwel* (Chairman), Dr. K Ngqula (President and Chief Executive), *, LM Mojela*, F Du Plessis*, M Kalyan*, M Whitehouse*, ¹Dr N Moyo*, ²Dr J Schrempf*, B Modise*, PG Joubert* *Non Executive. ¹ Zimbabwean, ² German

Theima Melk Company Secretary



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Notwithstanding price reductions negotiated, the new contracts prohibit the suppliers from providing substandard parts/components, but rather specify that the Supplier can only make use of Original Equipment Manufacturer parts and/or FAA/EASA approved parts.

Furthermore, in order to become an aircraft component/parts/service provider to SAT, all vendors' credentials are double checked by SAT's Quality Assurance Department before they are approved and loaded on the SAP system as an approved Supplier.

Whenever a part/component is procured it will undergo an incoming inspection, whereby the necessary FAA/EASA release label is inspected. If there is any doubt as to the quality of the part, its origin, traceability or authenticity of the paperwork, the component is placed in quarantine and returned to the Vendor if the matter could not be resolved.

It is also important to note that as part of the FAA/EASA regulatory requirements, SAT must have traceability for all parts/component, whether they are serialised, rotatable components or expendable components. Serialised components must be tracked and a record must be kept of all maintenance work that had been performed on the unit throughout its life.

In conclusion, SAT does not procure, use or support the use of bogus, grey market, pirate, untraceable or unauthorised parts and will not support any savings initiative which might affect the quality and safety of its customers' aircraft.

Question 3

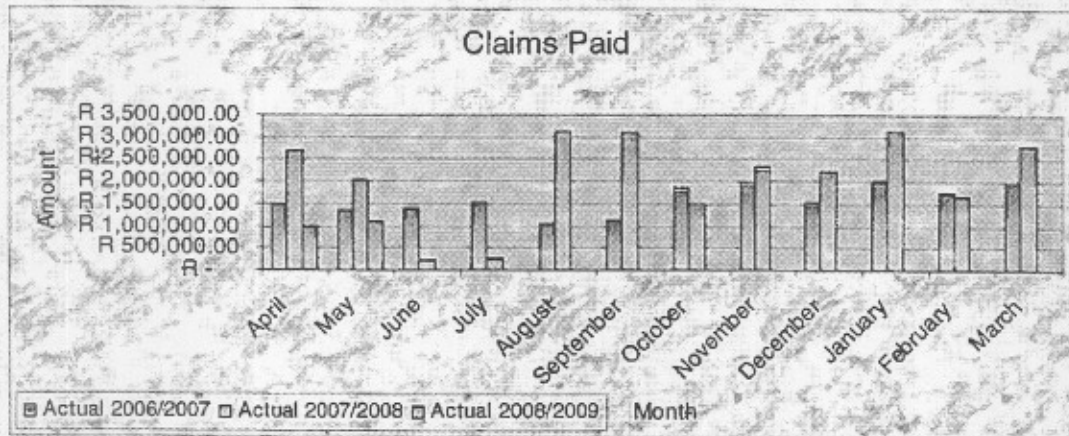
What amount of baggage claims have we paid out last year (2007)?

Answer 3:

Claims Costs					
Cost Centre 1604					
<i>Month</i>	<i>Actual 2006/2007</i>	<i>Month</i>	<i>Actual 2007/2008</i>	<i>Month</i>	<i>Actual 2008/2009</i>
<i>April</i>	R 1,511,263.00	<i>April</i>	R 2,702,004.47	<i>April</i>	R 976,024.90
<i>May</i>	R 1,338,486.22	<i>May</i>	R 2,054,991.31	<i>May</i>	R 1,106,627.84
<i>June</i>	R 1,394,758.52	<i>June</i>	R 204,639.88	<i>June</i>	
<i>July</i>	R 1,542,830.20	<i>July</i>	R 258,764.85	<i>July</i>	
<i>August</i>	R 1,066,400.46	<i>August</i>	R 3,141,402.78	<i>August</i>	
<i>September</i>	R 1,129,351.63	<i>September</i>	R 3,100,236.84	<i>September</i>	
<i>October</i>	R 1,874,845.27	<i>October</i>	R 1,499,550.06	<i>October</i>	
<i>November</i>	R 1,965,627.70	<i>November</i>	R 2,328,850.53	<i>November</i>	
<i>December</i>	R 1,524,773.43	<i>December</i>	R 2,242,076.47	<i>December</i>	
<i>January</i>	R 2,011,964.42	<i>January</i>	R 3,126,121.68	<i>January</i>	
<i>February</i>	R 1,764,374.93	<i>February</i>	R 1,660,301.84	<i>February</i>	
<i>March</i>	R 1,974,995.94	<i>March</i>	R 2,808,921.82	<i>March</i>	
Total	R 19,099,671.72	Total	R 25,127,862.53	Total	R 2,082,652.74



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Question 4

A written explanation of what the Retention Premium is, who benefited by it and the criteria applied in respect of allocation

Answer 4

The purposes of the retention premiums is to ensure long term stability within SAA in order to deliver on the restructuring initiatives as proposed to DPE. The retention premiums are applicable to all levels of management and payable over a maximum period of three years. 127 Managers entered into a contract with SAA. For the purpose of eligibility to this scheme, the following profiles of managers were identified as potential candidates: -

- **Top performers / High Flyers (Consistent superior performers)**
Shows great deal of competency, performs consistently and exceptionally and further fits the organization culture of SAA. These categories of employees are regarded as high flyers by management/leadership based on their displayed expertise and skills over time.
- **Unique expertise/experience**
These skills are classified as unique due to new technology and/ or experience not easily found in the Company or the market or that is unique to the airline industry.
- **Staff with critical skills**
Those skills, which are categorized as **crucial for the sustainability of the Company**, based on the core business. Should these skilled employees desert the Company, business will be adversely affected.
- **Staff with scarce skills**
These skills are classified as **scarce based on the market demand and supply factors**. These skills are important for the restructuring phase based on the current and/or future work requirements.

For the FY 2007/2008 an amount of R4,544,340.70 was paid. For the FY 2008/2009 to date an amount of R9,075,608.84 was paid.

It should be noted that if a manager resigns from SAA all monies already paid will be paid back to SAA.



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Question 5:

A written breakdown of the years of experience of pilots, technicians and ground staff

Answer 5:

Pilots:

Average Years Service	
Years Service	11847
Total Pilots	752
Average	16

Technicians:

Average Years Service	
Years Service	24531
Total Technicians	1398
Average	18

The average years service for Cabin Crew is 9.93 years and for Ground Staff 10.56 years.

Total staff:

Years Service	0	1	2	3	4	5	5-9	10-46
No of Employees	154	258	229	308	294	314	2282	3636

Question 6:

More detail on the vacancies at year end

Answer 6:

Exits per job categories by major reasons for the period 1 April 2007 to 31 May 2008							
Positions	Headcount	VSP's	Resign	Exp. Contract	Retire	Other	Total
Cabin Crew	2129	375 17.6%	130 6.1%		4 0.2%	18 0.8%	527 24.8%
Flight Deck Crew	802	14 1.7%	47 5.9%		26 3.2%	2 0.2%	89 11.1%
Ground Staff - Airport	1352	136 10.1%	150 11.1%		3 0.2%	23 1.7%	312 23.1%
Ground Staff - Cargo	603	54 9.0%	46 7.6%			5 0.8%	105 17.4%
Ground Staff - Corporate	1211	243 20.1%	142 11.7%		3 0.2%	8 0.7%	396 32.7%
Management	630	119 18.9%	117 18.6%	1 0.2%	7 1.1%	5 0.8%	249 39.5%
Technicians	1692	8 0.5%	257 15.2%		12 0.7%	9 0.5%	286 16.9%
Technical (other i.e. admin)	959	22 2.3%	86 9.0%	34 3.5%	9 0.9%	11 1.1%	162 16.9%
Grand Total	9378	971 10.4%	975 10.4%	35 0.4%	64 0.7%	81 0.9%	2126 22.7%



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Question 7

Which routes have been closed and opened the last 5 years and the reasons for that ?

Answer 7:

These are the routes closed in the past 5 years.

International

Atlanta – as part of joining the STAR Alliance SAA needed better feeder traffic from the STAR partners out of the hubs that they serve. Atlanta is a Delta hub.

Paris – Paris was making approximately R200m loss per year. With the grounding of the B747 as part of the restructuring process, the aircraft was moved to the London route that has better profitability

Zurich – Zurich was making losses especially when the joint venture proved not to be beneficial to SAA

As part of the mandate received from government that SAA should operate profitable routes, the following regional and domestic routes were also not profitable and therefore closed: Kigali (Rwanda), Zanzibar, Johannesburg - George, Port Elizabeth- East London

The following routes were launched in the past 5 years.

Munich – based on a business case for profitability. Showed profits in shorter timeframe than anticipated in the business case

Washington – As part of joining the STAR Alliance – Atlanta(a Delta hub) was closed and Washington (United hub) opened

Capetown- Frankfurt – to accommodate seasonal traffic during the summer months

Libreville (Gabon) – business case show profitability

Livingston – business case show profitable route

Zanzibar – as part of the Air Tanzania deal. This has proved to be not beneficial to SAA and therefore closed the route

Question 8

When will the 2010 plan be completed and the committee wants to be notified when this has been submitted to DOT as per 2010 project plan as they would like to also be briefed

Answer 8

The plan was now submitted to DOT 9/06/2008 and SAA can brief the committee when convenient to the committee

Question 9

A list of all the corporate initiatives over the past four years, with an indication of successes, failures and the measures it took to address the failures and challenges.

Answer 9

Before the restructuring, which was the first fundamental turnaround plan in SAA history the following corporate initiatives to bring about change in the organization were embarked upon:

1. Bambanani campaign was launched in November 2004. This programme identified cost-cutting measures across the company. At end of March 2006 approximately R600m was realized, although 25% under target.
2. Bambanani 2 was launched on 12 May 2006 following the confirmation of specific initiatives proposed by the SAA Leadership Team to close this 25% gap. Although the projects were completed the monetary value was not reflected in the financials.



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The biggest lesson learned during these 2 corporate projects was that the projects can not be measured separately from the financials and credit for completion can only be given if these savings are reflected in the income statement specifically. This lesson was taken into the restructuring programme embarked upon in 2007 and strong monitoring and evaluation and auditing was introduced to confirm claimed savings. This resulted in almost R1b confirmed and audited savings from the restructuring that was reflected in the financial statements for 07/08.

Other lessons learned and incorporated into the restructuring programme were personal accountability for leadership worked into performance contracts, transparency, constant (weekly, monthly) monitoring and feedback to the organization and other stakeholders and lastly to bring the staff and unions on board from day 1.

We trust that the above responses are in order. If you have further questions please do not hesitate to contact my office.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Khaya Ngqula', written over a light background.

KHAYA NGQULA

PRESIDENT AND CHIEF EXECUTIVE OFFICER