

Chairperson and Members of the Committee

Thank you for in such a short space of time since our last engagement providing the Board and management of South African Airways to interact with your committee once more.

At our last meeting we remarked that the invitation was at a very opportune time as there had then been so much sound and fury around the national carrier that nationally we might have lost sight of actually how well SAA are doing under the circumstances. We had reason at the end of that engagement to believe that the presentations by the Department of Public Enterprises and the management of South African Airways managed to inform persuasively enough this committee of Parliament to accept that the national carrier was in fact operationally doing quite well under prevailing circumstances.

The sound and fury increased since then. The appreciation for this opportunity is therefore even more than at the previous occasion.

Chairperson, your letter of invitation was titled "Request for report to the Portfolio Committee on Public Enterprises on the circumstances surrounding the termination of the contract of employment of the former chief executive officer of South African Airways."

You were kind enough to pose in your letter of invitation seven questions as a framework for our response to the overall question to be answered in this presentation. I understand from our discussion last night that these are not necessarily the only questions from the portfolio committee. Your wise guidance in having provided a framework is, however, very valuable and I shall in this presentation largely respond to

those questions and elaborate on other issues regarded as relevant to the main topic.

I summarise in précis terms those seven questions.

- The reasons for the Board revisiting its initial decision about special leave and deciding to terminate the CEO's services instead?
- What is now happening to the announced forensic investigation?
- The investigation by the Board is as a result of a report delivered from the Minister: did the Board know about these allegations before this and why then did it not investigate prior to the Minister's report?
- Why terminate the contract prior to the finalisation of the investigation or disciplinary action against the CEO?
- What is the settlement amount and how was it arrived at?
- Does the amount include anything of the infamous retention premiums?
- If there were to be found by the forensic investigation impropriety on the part of the former CEO what are the rights of SAA?

Chairperson, I shall not address the questions necessarily in that sequence but shall aim to have all of them covered, and then obviously be available at your discretion and under your guidance for questions from the committee. I beg your and

your committee's indulgence for being as comprehensive as we may be in responding to your welcome enquiries.

I say "welcome enquiries" because our Board genuinely welcomes this public engagement. Public media comment and reportage had been overwhelmingly negative and pejorative without much attempt to understand the industry, the company, the recent history of SAA, the governance context or the particulars of this matter.

If I may conclude this introductory part of our presentation on a subjective note: the manner and tone in which discussions on this matter are being conducted have the potential of casting aspersions on the integrity of some highly respected persons on the Board of SAA. An old Irish text from the late 18th century has the speaker reminding the presiding judge that to him "fame is dearer than life", fame not meaning being famous, but rather that reputation and integrity are the assets people cherish in their lives. If aspersion is cast on that, life itself becomes devalued.

Chairperson, in replying to the basic question as to why the employer (the Board) chose to settle with the former CEO in the way reported – and commented on by national Cabinet in a press release dated 18 March – we shall draw much on a newspaper reply we did in response to an open letter addressed to us by a columnist of that paper.

I must also state, Chairperson, that after the Cabinet press release, of which I am sure all members of this Committee are aware, that contained the following sentence amongst others, "the state will also seek legal advice on the processes that were followed by the board in reaching the settlement with the CEO without the express approval of the state as shareholder", the

chairman of the board sought and obtained a meeting with the President accompanied by the shareholder Minister.

The President was fully briefed and provided with a file containing correspondence and minutes of meetings involving the Board and the shareholder Minister regarding the settlement with the former CEO. The Chairperson of the Committee is being provided the same in the understanding of the confidentiality of those documents.

The point of the disclosure of these documents to the President and the chairperson of this committee is to dispel the notion that the Board unilaterally and without consultation decided to arrive at a settlement with the former CEO.

This, Chairperson, is not to pass the proverbial buck. The decision was ultimately and formally taken by the Board as the employer. The documents in the possession of your chairperson will show, though, that the Board decision was after the express indication of the wishes of the shareholder as conveyed in an extra-ordinary general meeting called by the shareholder, and at every step with the formal consent of the shareholder. The Cabinet statement, and then with its corollaries about "issues of governance, management and reasons for the reported under-performance of the airline" came as something of a surprise to us and the Board.

May that be as it is, though, let us proceed in attempting to answer some of your questions, Chairperson. And I again remind members that some, if not much, of this response might already have been read in a Sunday paper this last weekend.

The Board of South African Airways took the decision to terminate Khaya Ngqula's contract for what we thought to be very logical reasons.

If the Board had not decided to separate with Mr Ngqula, he would still be earning his salary and retention premium while on special leave. The conundrum that faced us – Board and shareholder, I must stress - was that if the independent inquiry into the allegations made against him uncovered nothing of substance, it would have meant his return to work.

Even if the investigation does find against him, he would have the right to appeal, and SAA would have continued to pay him his full package during the course of a potentially lengthy appeal. It is not as if South Africa's public entities had not seen such episodes of suspension of CEO's, appeals and suspensions of suspensions, followed by further suspensions and suspensions of suspensions.

It needs to be made clear that if the investigation should uncover evidence of wrongdoing, Mr Ngqula's separation from SAA will not protect him from the consequences of the investigation the Board instigated.

The Board and the shareholder believed it best that once Mr Ngqula had taken special leave, we needed to draw a line under his continued formal involvement in the airline and were happy to reach an agreement with him.

This was done, I must state at the risk of overstating, in full consultation with the shareholder.

In summary therefore: the Board took the decision to negotiate a termination due to the need to stabilise the Company and allow the operations to go on without the uncertainties of a CEO on special leave/leave of absence from the Company.

At the time the decision was taken in regard to the CEO's leave of absence, the Board did envisage the need to discuss termination for the purpose of business stability. To this extent the processes were undertaken with the awareness and involvement of the Shareholder.

The Board used the CEO Employment Contract as a basis for reaching the Termination Agreement. All amounts considered were audited and verified. Reputable labour lawyers were involved throughout the process.

Details of the settlement will be fully revealed in our Annual Report when it is published in September. One detail we may disclose in spite of the normal and conventional confidentiality clauses in settlements like these is that Mr Ngqula has repaid his retention premium in line with SAA policy.

Chairperson, insofar as the retention premiums are contentious – and they are part of the items being looked into by the forensic investigators - let me report to you that they are paid, in the main, to highly skilled, dedicated hard working managers at a variety of levels at SAA, as well as scarce technicians, without whose contribution the airline would be severely constrained.

There had been dismissive comments about the international marketability of SAA executives. These comments are misplaced and probably symptomatic of the national malaise of underrating ourselves. Our people at SAA are constantly being approached to work elsewhere.

Further, it may be remembered that under the restructuring program about which we reported to this committee, SAA management and not the general staff lost proportionally the highest number of people due to resignations as well as

redundancies, arguably a unique occurrence in South African corporate history. The committee may well recall the critical (or was it jubilant?) reports on how SAA was being drained of skills fleeing overseas.

It was absolutely essential to find a device which would help us to hold onto the core of managers that remained. The retention premiums are a disciplined payment in that they require the recipients - as Mr Ngqula's example shows - to repay them should they leave the airline. In that sense they are working: we are retaining an excellent management corps and a strong core of technicians at a time of high skills mobility in the airline industry.

(Incidentally, Chairperson, a detailed report on the implementation of the retention premiums is underway to you while the probity of this scheme is part of the brief of the forensic investigation seeing that the allegations brought by the trade unions in their approach to the then new Minister of Public Enterprises included references to "retention bonuses paid by the executive to themselves").

The independent forensic investigation continues. I shall provide the chairperson confidentially with the latest update from the investigators. We fear that the broadness of the terms may result in a lengthy and drawn out process but have asked for a progress report to the Board at its next meeting on 31 March.

1915

for a blacker colour to the point of its next meeting on 21
may 1915 in a further and final set of notes and plans agreed
from the instructions. It was then the province of the town
brought the construction committee with the first order
The independent technical investigation committee 1915

but by the committee to investigate.

Further investigations required reference to 'technical reports
also known to their attention to the area and reports of
technical investigations showing that the effectiveness of the
work the board of the company is held to the right of the
independence of the technical committee is particularly to the
(investigation) 'Construction' a detailed report on the

technical report.

cost of construction at a time of high value working in the
the the technical and external investigations cost and a group
group the cost of the work. In that sense they are working
technical - at the board, a committee group - to reduce their
investigation to a detailed report in that they reduce the
to point out the cost of construction that is shown. The committee
it was proposed generally to find a value which would be

technical report.

(of the 1915) reports on the 2/1/15 was being planned of
technical report. The committee will now review the technical
investigation, although a further occurrence in 1915.