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Ms Cheryl Carolus  
Chairperson of the Board  
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Our ref L21007-17981

15 July 2010

Dear Madam

## Summary of key conclusions from the forensic investigation conducted at the instance of the SAA Board in respect of certain matters

### Introduction

Following a directive from SAA's shareholder to investigate various allegations which had been made against primarily the company's former Chief Executive Office, Dr K Ngqula, the Board appointed KPMG to investigate these various allegations as well as ancillary issues arising therefrom.

The matters to which the attention of the Board had been drawn and/or which the Board considered necessary to be investigated, were the following:

- 1 The circumstances surrounding the grant of retention bonuses to various employees of the company.
- 2 The possible existence of irregularities regarding the conclusion of certain sports sponsorship agreements by the company.
- 3 Dr Ngqula's involvement in the Africa Open Golf Tournament and possible conflicts of interest relating thereto.
- 4 The procurement of jet fuel by SAA from a supplier in which Dr Ngqula held an indirect financial interest.

KPMG Services (Proprietary) Limited is a company incorporated under the South African Companies Act and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss corporation.  
KPMG Services (Proprietary) Limited is not a Registered Auditor in terms of the Auditing Profession Act, 26 of 2005 and does not provide audit services as defined in Section 1 of this Act.  
Registration number: 1999/012076/07

Policy Board:  
Chief Executive: RSI Kgirane  
Executive Directors: M Basballi, DC Duffield, A Mail, TH Hache, FB Leib, JS McIntosh, AM Makgahudi, D van Hoerden  
Other Directors: LP Fomle, A Jaffer, E Magotho, PJ Mink, CM Rood, T Ragsdale, Y Sidoroff (Chairman of the Board), A Thakathi, JM Voo

The company's principal place of business is at KPMG Crescent, 85 Empire Road, Parktown. A full list of the directors' names is available for inspection.

\* Bristle



- 5 The circumstances surrounding the tender process for the award of a contract for the provision of regional and domestic in-flight catering services to SAA and the disposal of the assets of SAA's subsidiary Air Chefs (Pty) Limited.
- 6 The circumstances surrounding the outsourcing of SAA's call centres.
- 7 The possible existence of irregularities regarding the re-instatement by Dr Ngqula of the expired voyager miles of a service provider and issues related thereto.

SAA also requested us to undertake a high-level review of its procurement procedures.

The investigation process involved the perusal of records and consultations with numerous witnesses. Dr Ngqula was, however, not consulted.

Our final report was delivered in December 2009.

The report is obviously legally privileged and not available for public consideration. However, at the request of the Board we have prepared this summary of the findings arrived at during our investigation, which the Board, without in any way waiving the aforementioned legal privilege, has agreed to the release. This summary should therefore not be considered a complete account of our findings and conclusions.

Edward Nathan Sonnenbergs Inc., the attorneys advising the SAA Board in relation to the investigation, has confirmed to us that, in their view, this document contains an accurate (albeit not comprehensive in the nature of the document) high level summary of the key conclusions of our report.

### **Retention Bonuses**

In 2007, at the time when SAA was undertaking a substantial exercise of restructuring its business, a retention bonus scheme was approved which was intended to incentivise key and critical employees to remain employed by SAA by paying them retention bonuses over a period of time provided they remained in SAA's employ for the duration of the scheme (if they left before this they were required to repay). A maximum financial cost for the scheme was

approved and the implementation of the scheme was delegated to Dr Ngqula and a member of his then executive support team.

Our investigation revealed, however, that retention bonus contracts were concluded, by or with the approval of Dr Ngqula, for a total amount which, in aggregate, exceeded the maximum financial limit that had been imposed for the scheme, in an amount of over R27 million. Such excess was not authorised by the Board and it was beyond the power of Dr Ngqula to expend such monies.

### **Sports Sponsorship Agreements and Sports-related matters**

#### ***Sports sponsorships contracts***

The investigation found that Dr Ngqula had concluded a number of sport sponsorship agreements, the values of which were substantially in excess of the limit of his delegated authority in connection with concluding sponsorships (which limit was R1 million until 26 November 2006 and R2 million thereafter). The sport sponsorship agreements in this regard were the following:

- A contract sponsoring Mr Angel Cabrera, the professional golfer from Argentina, over a three year period to a minimum value of R21 million (with additional performance bonuses provided for); and
- A contract sponsoring the ATP (the Association of Tennis Professionals) from 2006 to 2009 in an amount of approximately R120 million.

#### ***The African Open***

The report revealed that a consortium and/or companies in which Dr Ngqula and his wife had an interest, obtained rights to a Sunshine Tour sanctioned golf event to be held in January 2008, which event became known as the Africa Open, and that Dr Ngqula was involved inter alia in securing sponsorships for the event (inter alia from a competing airline), while still employed by SAA and at the time when he was in the process of terminating SAA's sponsorship of the South African Open Golf Tournament.

### ***Dr Ngqula's Grant of Junkets to friends and associates at SAA's cost***

During the course of the investigation, we identified that, in a number of instances, Dr Ngqula appears to have used SAA resources for the benefit of personal friends and associates unrelated to SAA's business. The instances identified in this regard, the cost of which to SAA was in excess of R500 000, involved overseas trips to the following sporting events:

- The 2006 Soccer World Cup in Germany;
- The 2007 Rugby World Cup in France; and
- A 2008 ATP tennis tournament in Monte Carlo.

### ***Hospitality Suites***

The report revealed that Dr Ngqula, against advice received internally and externally (inter alia based on the company's then financial position), concluded leases with a total rental value of approximately R3.3 million for various hospitality suites at four different stadia around the country, which suites were hardly utilised.

### **Reinstatement of Voyager Miles**

The report revealed no substance to the allegations made regarding the possible existence of irregularities regarding the re-instatement by Dr Ngqula of the expired voyager miles or the voyager accounts of a service provider and issues related thereto.

### **Awarding of Jet Fuel Contracts by SAA to a supplier in which Dr Ngqula has an interest**

We investigated the award of jet fuel contracts by SAA during the tenure of Dr Ngqula between 2004 to 2009.

Of the three tenders that were issued by SAA for the provision of jet fuel during this period, a supplier in which Dr Ngqula held a significant indirect interest, was awarded a portion of the contracts.

In respect of two of these tenders, Dr Ngqula failed to disclose his indirect interest in the supplier in accordance with the requirements of the Companies Act and the Public Finance Management Act.

In respect of the first two tenders which were awarded in 2004 and 2006, there was no information available to determine whether SAA was prejudiced commercially by the conclusion of such contracts with the supplier, but in respect of the third contract awarded in 2008, the terms of such contract were negotiated on behalf of SAA by an independent, international expert and all indications are that SAA obtained favourable commercial terms from such supplier.

The report also revealed that the internal process followed in respect of the evaluation of the 2008 tender fell short of the requirements of SAA's Procurement and Supply Chain Manual. This notwithstanding, the report did not reveal that such shortcomings resulted in financial prejudice to SAA.

#### **Tender in respect of Regional and Domestic In-Flight Catering Services and the Disposal of Air Chef's Assets**

The report revealed that the process followed in respect of the evaluation of this tender breached inter alia the requirements of SAA's Procurement and Supply Chain Manual.

#### **Tender in respect of the Outsourcing of SAA's Call Centres**

The report revealed that the process followed in respect of the evaluation of the bids received in respect of this tender fell short of the requirements of SAA's Procurement and Supply Chain Manual.

The investigation undertaken by us also revealed that one of the directors of the SAA Board failed to disclose an indirect interest in a member of the consortium which was awarded the contract, or to comply with the obligation of directors, so conflicted, to recuse themselves from participating in any deliberations on the contract in question.



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Yours faithfully

Nesisa Fubu  
Director