A STATEMENT BY THE BOARD OF SAA REGARDING THE ACTION BEING TAKEN BY IT PURSUANT TO THE FORENSIC INVESTIGATION BY KPMG IN RESPECT OF CERTAIN MATTERS

Following a directive from SAA's Shareholder, represented by the Minister of Public Enterprises, to investigate various allegations which had been made largely against the company's former Chief Executive Officer, Dr K Ngqula, the Board resolved to appoint KPMG to undertake a forensic investigation into such allegations.

The scope of the forensic investigation addressed all of the allegations in question, as well as ancillary issues relating thereto and a summary of the key conclusions has been published simultaneously with this statement.

Whereas the KPMG forensic investigation was prompted by allegations largely against Dr Ngqula, the outcome of the forensic investigation also outlined various weaknesses in the company's internal controls and procurement processes. As a consequence of this, the company has already introduced measures to improve financial and risk management in its business, as well as further internal controls in relation to procurement. The process of enhancing financial and risk management is an ongoing one and the systems which are currently in place will continue to be reviewed and refined to ensure that the risk of loss or harm to the company is minimised.

Following the consideration of the final report of KPMG by the Board and the obtaining of legal advice by the Board from its attorneys and senior counsel, the Board has resolved to take various steps to address the issues which have emerged from the KPMG report.

SAA's attorneys requested an interview with Dr Ngqula to seek his response to the matters raised in the KPMG report. Dr Ngqula stipulated conditions for such an interview that were unacceptable to the SAA Board and accordingly no interview took place.

Although the legal advice received by the Board is legally privileged and not available for public consideration, given that the matter is in the public interest, involving a large state-owned enterprise and public funds, and has already been widely reported on in the media, the Board, without in any way waiving the aforementioned legal privilege, has resolved to make a statement that it has taken and intends to take the following action arising from the conclusions reached by the KPMG investigation.

The Board has resolved to institute action against Dr Ngqula for the recovery of the following:

- Approximately R27 million in respect of monies which he caused to be expended on sign-on retention bonuses to employees of the company, in excess of the authority given to him in relation to such bonus scheme. The aforesaid claim does not include the recovery of any retention bonus received by Dr Ngqula as this was recouped from him upon his departure from SAA in accordance with the retention bonus scheme.

- Approximately R3,3 million in respect of the hiring of hospitality suites in various sports stadia around the country.

- At least R500 000, being the cost of the free junkets which he granted to personal friends and associates in breach of his obligations to the company.

Summons is in the process of being served on Dr Ngqula in respect of the retention bonus claim and it is anticipated that a second summons dealing with the remaining matters outlined above will be served on him shortly.

Amongst various other issues raised in the KPMG report, the conclusion of certain sponsorship agreements during the period 2006 to 2008 remains a cause for concern. These sponsorship agreements relate to a contract sponsoring Mr Angel Cabrera, the professional golfer from Argentina and a contract sponsoring the ATP (the Association of Tennis Professionals) from 2006 to 2009. The Board has referred this matter to its attorneys for further consideration as to whether SAA has any claims against any SAA employees or former employees involved in the conclusion of such contracts, to recover the amounts expended by the company in this regard. The Board wishes to emphasise that the investigation revealed no impropriety on the part of the ATP and Mr Cabrera themselves in relation to the conclusion of these contracts. SAA regards itself as bound by the contract with Mr Cabrera and intends to fulfil its obligations thereunder. Similarly the ATP contract, which had already run its term prior to the completion of the investigation, cannot be revisited.

In regard to the matters investigated by KPMG in connection with the Africa Open, the Board, notwithstanding the findings of KPMG, assessed the relative costs and benefits of pursuing any claims in this regard, and is of the view that there would not be a material benefit to the company to do so.

Furthermore, the company is in the process of taking disciplinary action against a number of its employees who were involved in failures to comply with the company's procurement procedures and policies and the requirements of the PFMA. In respect of other former employees who were involved in the identified failures, SAA is obviously not in a position to take disciplinary action against them.

The report has also brought to the attention of the Board that conduct on the part of its employees (both present and past) and its directors may also constitute contraventions of various statutes which might expose such persons to criminal prosecution.

The Board has referred certain possible criminal contraventions to the relevant commercial crimes unit for investigation and consideration by it. Further matters may be referred by the Board to the National Prosecuting Authority for its consideration as the Board, with the assistance of its advisors, continues to review the evidence at its disposal.

In respect of the tender relating to domestic and regional in-flight catering services for SAA and the disposal of Air Chefs' assets, at the time of the KPMG investigation, the process had reached a stage where a preferred bidder had been identified for the part of the tender that related to regional and domestic in-flight catering services and the disposal of Air Chefs' assets. That bidder was a consortium consisting of a local and foreign entity. The foreign entity, being the principal member of the consortium, withdrew from the tender process, as a consequence of which the participation of the consortium in the tender process came to an end. SAA accepted the withdrawal of the consortium and subsequent thereto terminated the tender process, as it was entitled to. SAA has subsequently received correspondence from the local member of the consortium, objecting to the termination of negotiations with the consortium for the conclusion of contracts in regard to the above, and the termination of the tender process relating thereto. SAA has responded to this correspondence through its attorneys,

SOUTH AFRICAN AIRWAYS

A STAR ALLIANCE MEMBER

disputing the validity of the contentions and allegations against it. It is unclear whether any litigation will arise but should this happen, SAA will defend same.

None of the other tenders investigated by KPMG have to date resulted in claims or disputes.

In relation to the tender for the outsourcing of SAA's call centres, the factual findings in the KPMG report were not of a nature which required SAA to set aside its decision to award the tender to the successful bidder. The investigation revealed, however, 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. However, the fact that this took place did not of itself mean that the SAA Board had acted beyond its powers or that the deliberations and decision of the Board were affected thereby.

The Board will deal with and respond to any further issues which may emerge from any aspect of the KPMG investigation, insofar as they arise.

Throughout the investigation, national carrier maintained its world class status with the SAA brand remaining one of the most recognised South African brands internationally. The Board would like to thank SAA staff for their loyalty and continued dedication throughout the investigation period. The investigation has now been concluded, with the Board taking decisive actions. The Board is very keen to see the company moving beyond the investigation and focus its attention in building this great national asset in line with international best practice such as the King III and the Companies Act. The

Board will continue to encourage a culture of reporting and whistle blowing within SAA which trigger the forensic investigation that the Board has concluded.

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