



## NATIONAL ASSEMBLY

### QUESTION FOR WRITTEN REPLY

**QUESTION NUMBER: 1516 [NW1717E]**

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**1516. Mr R A Lees (DA) to ask the Minister of Finance:**

Whether Government imposed any conditions on the SA Airways (SAA) Board when each Government guarantee was granted to SAA in each of the past three financial years; if not, in each case, why not; if so, what (a) are the details of each condition and (b) progress has the SAA Board made to comply with the conditions in each case?

NW1717E

### REPLY:

SAA was issued with two government guarantees in the past three financial years; R6.88 billion on 22 December 2014 to sign off and approve the 2013/14 Annual Financial Statements (AFS) and R4.72 billion on 08 September 2016 to sign off and approve the 2014/15 and 2015/16 AFS. Table 1 below highlights the conditions attached to each of these two government guarantees issued and the progress made by SAA on each condition.

#### Legend:

Condition complied with	
Condition partially complied with	
Condition not complied with	

**Table 1: SAA Guarantee Conditions**

<b>Conditions related to the R6.88 billion guarantee issued on 22 December 2014</b>		
Within 1 month, SAA to provide a comprehensive implementation plan for the 90 Day action plan interventions outlining the milestones and timelines for delivering the targeted savings and responsible person.	SAA submitted the 90 Day Action plan implementation dashboard.	
SAA together with the Government will review and stress test the financial model and refined LTTS.	SAA provided a financial model which was stress tested by government and the airline.	
Within 3 months, SAA to develop proposals on the network structure, fleet strategy and structure of the airline for consideration by Government.	SAA appointed InterVistas to assist the airline in developing a new Network and Fleet Plan which was considered by government.	
Within 3 months, SAA to identify areas where it intends reducing operational costs and develop implementation plans to reduce such costs	SAA identified cost compression initiatives and developed an implementation plan.	
Within 3 months, SAA to strengthen its governance, internal controls and working capital management, develop an implementation plan in this regard and provide monthly progress reports to government.	SAA has indicated that it has strengthened its governance and has included a detailed summary in the 90 Day Action Plan report. No monthly progress is given in this regard.	
SAA to provide weekly reports to NT on its utilisation, cash position and daily cash forecasts.	SAA provides weekly reports of its daily cash forecast and utilisation thereof.	
<b>Conditions related to the R4.72 billion guarantee issued on 08 September 2016</b>		
The primary focus of the Board must be to return the airline to financial sustainability.	This condition has been included in SAA's 2016/17 Shareholder compact The SAA Board has finalised its five year Corporate Plan, which represents the airline's turnaround strategy.	
SAA's strategy must be strengthened and alignment with other state owned airlines ensured.	The SAA Board has reviewed and revalidated the airline's strategy which forms part of the approved turnaround strategy and informs the 5 year Corporate Plan. The next step is aligning the strategy with other State Owned Airlines.	
SAA must implement more aggressive cost cutting initiatives as recommended by the Aviation expert (Deloitte) in areas of fuel, aircraft ownership, labour, maintenance, repair and overhaul and procurement.	Initiatives identified by Deloitte have not been implemented. However, Seabury has identified additional cost compression initiatives in SAA's 5 year Corporate Plan.	
The network fleet plan must be refined based on a sound business case so that the airline takes advantage of opportunities to scale back the operations of the airline to focus only on operating routes which positively contribute to the profitability of the airline, closes routes that have been making losses for longer than one year, and ensures that the network plan is aligned with other state owned airlines.	The SAA Board has reviewed and revalidated the airline's strategy which forms part of the approved turnaround plan strategy and informs the 5 year Corporate. The next step is for SAA to close routes that have been loss making for more than a year and aligning the network plan with other State Owned Airlines.	
The airline's strategy must better differentiate the airline, enabling it to continue to compete effectively, inter alia through addressing customer value proposition.	The SAA Board has reviewed and revalidated the airline's strategy which forms part of the approved turnaround strategy and informs the 5 year Corporate Plan. NT is in the process of assessing SAA's turnaround strategy and 5 year Corporate Plan to determine whether the airline has addressed this condition.	
The airline must work with National Treasury (NT) and the Department of Public Enterprises (DPE) in giving consideration to the possible merger of SAA with South African Express (SAX) airlines and the potential introduction of a strategic equity partner.	SAA has availed itself and its subsidiaries to work with the consultant, Bain and Company SA. SAA officials availed themselves in engaging with DPE and NT officials on a regular basis during the time that Bain and Company SA was	

	conducting the Study.	
The Board is required to appoint a permanent Chief Executive Officer (CEO), Chief Financial Officer (CFO) and other key executives in consultation with the Minister of Finance.	In progress. The CFO has been appointed. Candidates for the CEO position have been shortlisted. It is anticipated that after the CEO is appointed then he/she will then fill other key executive positions.	
Funding must be secured to meet the airline's liquidity requirements.	SAA has secured funding for its liquidity requirements and is in the process of refinancing.	
The Board is required to ensure that the AFS for both 2014/15 and 2015/16 are finalized.	SAA's 2014/15 and 2015/16 AFS have been finalised and tabled in parliament.	
SAA is required to report progress on a weekly basis to NT until such a time that the Minister of Finance determines.	NT and SAA convene weekly monitoring meetings.	
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 to do so.	This matter is dependent on media communication by SAA. Currently, NT is not aware of any non-adherence to this condition.	

**Source: National Treasury**