the date on which Parties have notified each other in writing, through the diplomatic channel, that their respective internal procedures necessary for its entry into force have been completed.

2. This Agreement shall be valid for twenty years and shall be automatically extended for a further term of ten years, unless either Party notifies the other Party, six months in advance through the diplomatic channel, of its intention to terminate the Agreement.

3. The termination of this Framework Agreement shall not affect the implementation of any arrangement and/or contracts made during the period of its validity but still not completed by the date of its termination, unless otherwise agreed upon in writing by the Parties through diplomatic channel.

4. Either Party may propose an amendment to the Agreement by means of a written notice through the diplomatic channel to the other Party. The amendment will be effected by mutual written consent between the Parties.

IN WITNESS WHEREOF, the undersigned, being duly authorized by their respective Governments, have signed and sealed this Agreement, in the Chinese and English languages, both texts being equally authentic.

DONE at Beijing on this 7th day of November 2014.

For the Government of the People's Republic of China	For the Government of the Republic of South Africa
吴新雄	

420

National

IN BRIEF

Armscor puts out feelers for Zuma jet

MARKET | Armscor had initiated a process to test the market for the acquisition of a new aircraft for President Jacob Zuma or the VIP unit of the South African Air Force, Defence and Military Veterans Minister Nosiviwe Mapisa-Nqakula said in a written reply to a parliamentary question. She said no specific amount had been allocated to the project, which would either proceed or not, depending on the information gleaned. Linda Ensor

Board prepares for Phiyega

LOGISTICS | The presidential board of inquiry looking into suspended national police commissioner Riah Phiyega's fitness to hold office had become operational, but would be concerned with logistical preparations in coming weeks, board of inquiry secretary Liza Tsatsi said yesterday. It will be chaired by Judge Neels Claassen. Staff Writer

Report on sale of posts ready

EDUCATION | A probe into the alleged widespread sale of public sector teaching posts and promotions had been made available to Basic Education Minister Angie Motshekga, but would be presented to her officially only next week, the department said yesterday. She is expected to discuss action with the Council of Education Ministers early next year. Staff Writer

Marikana claimants get date

TALKS | Government lawyers had invited the legal representatives of Marikana claimants to a round-table discussion next month to discuss a process to resolve the claims, the Presidency said yesterday. The discussion would be "held on or before January 29 2016" to resolve the claims in a manner that was transparent, effective and expeditious, it said. Staff Writer

George's flagship turns one

TRANSPORT | The Go George integrated public transport network reached the first-year mark yesterday. The R2.27bn network, the first nonmetro integrated public transport system and a pilot project for the roll-out of others outside city centres, became operational on December 8 last year and has since sold more than 2-million tickets. Yolande Stander

Red Ants directors in court

FRAUD | Two former Red Ants directors appeared briefly in the Johannesburg Magistrate's Court, where they are facing 102 charges of fraud and theft involving about R8m. Dennis Stephen Klassen and his daughter, Rochelle Klassen Adonis, are accused of defrauding the company. Staff Writer

Deconstructing rumours of a sixth Zuma reshuffle

WHEN in doubt, a Cabinet reshuffle is not a bad idea. And the rumour mill has it that President Jacob Zuma is doing exactly that — planning his sixth reshuffle in as many years.

Cabinet reshuffle rumours tend to be inaccurate in terms of the names of the people to be axed, as well as those making their way in. And the timing, too, is often wrong. That is partly because a lot of last-minute horse trading takes place.

Also, Mr Zuma is a hugely unpredictable animal.

NEWS Analysis
Sam Mkokeli

Tina Joemat-Pettersson | Nhlanhla Nene | Faith Muthambi

But after five reshuffles — excluding the mandatory new Cabinet when his second term started — his actions can be deconstructed with a degree of confidence.

The shake-ups are usually a work of political expediency — the managing of party dynamics often coinciding with political pressure. The looming rating downgrades, for example, are an albatross.

But some of the reshuffles are forced on him by corruption scandals. Think Sicelo Shiceka, Gwen Mahlangu and Bheki Cele.

News now is that Mr Zuma has his sights trained on the Treasury and the Department of Energy.

A source says that Nhlanhla Nene is to make way for a backbencher in the form of one Des van Rooyen, a malleable member of Parliament's finance committee.

It's worth noting, though, that the Treasury and the Reserve Bank have in the past been treated as sacrosanct institutions, to which only the cream of the crop have been deployed.

Communications Minister Faith Muthambi is, according to the rumour mill, to be moved to Energy, replacing Tina Joemat-Pettersson. This would be an eye-popping move, but definitely not desirable. But it's much of the same in the bigger scheme of things, since both women have not covered themselves in glory.

Maybe Ms Muthambi has the edge over Ms Joemat-Pettersson because of the overzealous way in which she pushes for what she deems is in Mr Zuma's interest.

Energy is one of the departments responsible for policy matters when it comes to the controversial nuclear deal.

Meanwhile, the Treasury has dragged its feet in providing funds for the nuclear deal, the apex procurement programme of the Zuma era.

The little that it has provided in the medium-term strategic framework is for preliminary scoping and such work, rather than for the actual deal.

The Treasury has also clashed recently with Dudu Myeni, the board chairwoman at South African Airways. Ms Myeni has already claimed two scalps in previous reshuffles, when ministers who stood in her way were shafted.

To manage this reshuffle, Mr Nene could be encouraged to "apply" for a job at one of the multilateral institutions, such as the Brics Bank.

Such a move would give a veneer of credibility to the "official" reasons behind a reshuffle, if it actually happens.

But Mr Zuma keeps his cards close to his chest, unless in the company of good friends such as the Gupta family, believed to have let the Cabinet reshuffle cat out of the bag in the past.

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Law required Nhleko to compile report

FRANNY RABKIN
Law and Constitution Writer

IF POLICE Minister Nathi Nhleko had refused to compile a report on the security upgrades at President Jacob Zuma's private home in Nkandla, he would have been acting unlawfully, the minister said in court papers yesterday.

The scandal over Public Protector Thuli Madonsela's Secure In Comfort report — in which she made damning findings about upgrades to Mr Zuma's private home — continues to be a thorn in the government's side. It has dominated parliamentary debates and has spilled over into the courts.

Two opposition parties, the Economic Freedom Fighters (EFF) and the Democratic Alliance (DA) have separately gone to court. The Constitutional Court has agreed to hear their applications to go straight to the highest court in February.

Part of the DA's case concerns the lawfulness of the report prepared by the minister and tabled before Parliament in March.

In heads of argument, Mr Nhleko's counsel, William Mokhari SC, said the minister was asked to compile the report by the speaker of Parliament and was constitutionally obliged to comply with the direction. "A refusal by the minister of police to carry out the lawful instructions or request of the speaker would have been tantamount to ignoring a minister's constitutional duties to Parliament," he said.

Mr Mokhari said in the time before the report was delivered, the process had not been challenged in court. In addition, the request to compile the report was "reconcilable and in accordance" with the recommendations made by the public protector, he said.

This was because the public protector recommended that Parliament must determine whether or not the upgrades were security related. To this end, Parliament relied on the police minister "making a determination as to which features are not security related", Mr Mokhari said.

In his report, Mr Nhleko absolved the president from paying back any of the costs. He said the fire or swimming pool, cattle kraal and chicken run, visitors' centre and amphitheatre were critical to the security system in Nkandla, contrary to Ms Madonsela's findings.

The DA wants the Constitutional Court to declare Mr Nhleko's report unlawful. But it had previously argued that Ms Madonsela had already identified which features were not security related. All that was left to determine was the reasonable cost of these, it said.

The DA's James Selfe said yesterday the report was unlawful because it was a "parallel process" to the public protector's, which the Supreme Court of Appeal had said was not acceptable.

Mr Nhleko had been "guided by nothing else but absolving "number one" and the report should never have been entertained by Parliament in the first place.

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Media bar at Motsoeneng hearing

PENELOPE MASHEGO
Political Writer

THE media were kicked out of Hlaudi Motsoeneng's disciplinary hearing yesterday after three South African Broadcasting Corporation (SABC) employees refused to testify in the presence of journalists.

This prompted hearing chairman Adv Willem Edeling to request that the media leave, infuriating Zola Majavu, Mr Motsoeneng's lawyer.

Lead prosecutor Tumisho Phalane said the witnesses were not comfortable testifying in front of journalists. He also said they would be "extremely prejudiced".

Jabulani Mabaso, who works at the SABC's human resources department, was the first to voice discomfort at testifying in the presence of the media.

The other witnesses are an auditing executive at the state broadcaster and a senior journalist, who are expected to testify today.

Earlier, the SABC announced that it was proceeding with only three of its charges against Mr Motsoeneng. It originally had six charges against him including gross dishonesty, gross misconduct and abuse of power — which still stand.

The gross dishonesty charge relates to Mr Motsoeneng allegedly falsifying his matric certificate.

"The SABC's records show that you commenced employment ... on or about March 1 1995 as a trainee journalist. When you applied for this position, you completed an application form. In the form ... you recorded that you passed standard 10 (Grade 12) at age 23," said Mr Phalane, reading out the charges to Mr Motsoeneng.

Mr Motsoeneng is accused of having made the same claim in subsequent applications for employment at the broadcaster. He is also accused of gross misconduct when he transferred Sully Motsweni from her GM post and made her the SABC's head of monitoring, compliance and operation service. Mr Motsoeneng is said to have created the position for Ms Motsweni without approval from the SABC's executive committee.

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421

SOUTH AFRICAN AIRWAYS

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Dear Honourable Minister,

EVALUATION OF THE POTENTIAL FOR A NEW SAA ROUTE TO KHARTOUM

In a phone call discussion with His Excellency President Zuma while in Sudan about 3 months ago, a request was made for SAA to evaluate the potential for a new route to Khartoum. I am writing to you Honourable Minister to inform you about the outcome of the Business Case that was developed by SAA. This letter also provides the basis on which the Minister can present the results to His Excellency President Zuma.

The Business Case entailed the analysis of the commercial viability of SAA operating a passenger service, three times weekly, from Johannesburg to Khartoum as an extension of our existing route to Entebbe, Uganda. Current and future forecast traffic flows were already understood to be far below those required to support a dedicated direct service from Johannesburg to Khartoum.

SAA's route network Business Cases are based on modelling of the potential demand for an SAA service amongst others. In this case, the preliminary modelling results indicate that the route would incur losses of approximately R 30 million in the first two years of operation. This route could potentially break-even in the third year of operation, assuming that all other factors (i.e. competition on the route, GDP growth, Brent crude oil price, etc.) positively meet or exceed the forecast in the modelling.

Notwithstanding these results, alternative measures such as subsidization of the initial services by the Government of Sudan, granting of fifth Freedom rights for onward connections, SAA undertaking operations on behalf of the Government of Sudan as a designated flag carrier, etc, could make this operation potentially viable.

DCM

Notwithstanding SAA's Management and Board determination to review its Network Plan annually and to explore opportunities in Africa, if the above alternative measures are negotiated to the benefit of SAA and our Shareholder Representative, ultimately the Government of South Africa, I see no reason why SAA could not commence services to Khartoum via Entebbe, Uganda as stated above. I must also hasten to say that guidance and an audience with the Shareholder Representative would help SAA to take correct decisions as per anticipated economic activities emerging in Sudan after oil and other mineral deposits recently discovered. We have also observed and are determined to aggressively expand our business in the Continent as per our African Growth Strategy, and it is in Africa where we have seen profitability.

We are clear and resolute on our Strategic Objective to support our National Developmental Agenda, and we would continue to do so as long as SAA is not negatively affected commercially. In this regard, the opportunity to provide passenger service to Khartoum from Johannesburg via Entebbe would be exhaustively reviewed taking into consideration the measures listed above.

I attach herewith a business case viability analysis for consideration.

I trust the Honourable Minister finds this in order.

Yours sincerely,

Ms. Duduzile Myeni
SAA Chairperson

Date: 2015/06/17.

423

Profit/Loss Analysis of Khartoum operations

Market Size		3 816
PDEW		10
Average Fare		191
Revenue ($)	$	1 992
Revenue (ZAR)	R	24 115
One Way		
Direct Operating Cost/bh	R	50 880
Aircraft Cost/eh	R	10 581
Total Cost/bh	R	61 461
Block hrs		2.38
Flight cost	R	146 277
Profit/Loss per flight	R	-122 158
Profit/Loss per week for 3 weekly flights	R	-732 946
Profit/Loss per year	R	-38 113 217

DCM

SOUTH AFRICAN AIRWAYS

SAA Submission
SAA Private and Confidential
For internal use only

Business Case: Commencement of SAA' own metal operation to Khartoum via Entebbe, Sudan	
To:	South African Airways – Board of Directors
From:	Chief Commercial Officer
Date:	27 May 2015

Commencement of SAA's own metal operation to Khartoum via Entebbe, Sudan

1. Purpose

The purpose of this business case is to assess the commercial viability of South African Airways' own metal services to Khartoum via Entebbe. The route would be an extension of the current Entebbe service aboard an Airbus A320.

2. Executive Summary

This document aims to assess the viability of a South African Airways own metal operations by extending the current Entebbe operations to Khartoum in Sudan, three times per week aboard an Airbus 320-200 aircraft type configured with 138 seats in total (pending aeropolitical approvals).

According to IHS (2015), Sudan is ranked at number seventeen (17) amongst the fastest growing economies in the world, largely influenced by significant revenue earnings from crude oil production even under international trade sanctions imposed against the country.

The current air travel market size between Sudan and all destinations is recorded at 1.6 million passengers per annum, with the majority of the traffic being between Middle-East, North Africa and Sudan. The geographical location of Sudan as a major air travel market is over-shadowed by six global mega air travel hubs in Addis Ababa, Cairo, Jeddah, Dubai, Abu Dhabi and Doha; impeding its abiltiy to fully develop as a hub. Sudan's demographic makeup is largely influenced by Islamic culture, thus most of the intercontinental air traffic demand is served through the middle-eastern/North African points/hubs. Khartoum has limited connectivity to/from Sub-Saharan Africa due to its location and demographic make-up which is more leaned towards the Gulf and North African countries.

The viability of the operations was evaluated using QSI methodology to assess the quality of the demand between Uganda and Sudan. The forecast indicates that the route has the potential to break-even in the third year of operations assuming that all other factors (i.e. Competition on the route, GDP growth, Brent Crude oil, Income levels, e.t.c) influencing demand for air travel remains constant or positively change.

3. The Market opportunity

3.1 Demographic, Economic Background and Outlook for Sudan

Sudan is an African country in the Nile Valley of North Africa, bordered by Egypt, the Red Sea, Eritrea, Ethiopia, South Sudan, Central African Republic, Chad and Libya.

Sudan is considered the 17th – fastest economy in the world according to IHS analysis due to rapid development of the country's economy largely from oil revenue even under international sanctions. Khartoum is the political, cultural and commercial centre of the nation. The Sudanese legal system is based on Islamic law. Sudan experiences several challenges such as rampant ethnic strife and has been plagued by internal conflicts including two civil wars and the War in the Darfur region for many years.

In Sudan's 2008 census, the population of Northern, Western and Eastern Sudan was recorded to be over 30 million. This puts present estimates of the population of Sudan after the secession of South Sudan at slightly over 36 million people. The population of metropolitan capital Khartoum (including Khartoum, Omdurman, and Khartoum North) is growing rapidly.

Sudan is still in territory dispute with South Sudan, which contained over 80 percent of Sudan's oilfields; the economic forecast for Sudan in 2011 and beyond was uncertain since the formation of South Sudan. Agriculture remains the main source of income and employing over 80 percent of Sudanese population, and makes up a third of the economic sector, while oil production drove most of Sudan's post-2000 growth.

The International Monetary Fund (IMF) is working hand in hand with Khartoum government to implement sound macroeconomic policies for sustainable growth with improvements to the country's monetary policy which has managed to stabilize the foreign exchange market. The People's Republic of China is a major trading partner, and owns a 40 percent share in the Greater Nile Petroleum Operating Company.

The recent decline in price of Crude oil has resulted in loss of revenue and it is the key driver of inflation. South Sudan's secession and the resultant drop in Sudan's oil exports, which were the primary source of foreign-exchange earnings for the country, have resulted in soaring inflation, averaging 35% y/y since July 2011—although inflation fell to 28.2% y/y as of October 2014, with a further fall expected for 2015. Fuel-subsidy cuts and devaluations of the Sudanese Pound in June 2012 and September 2013 also fuelled inflation and undermined confidence in the economic growth of the country. Although Sudan increased exports of other commodities such as gold and the South Sudanese oil production resumed, these have generated insufficient foreign exchange to stabilize the economic downturn of the country. It is expected that double-digit inflation will persist in the near-term as the weakened currency has driven up the cost of imported goods in the CPI basket (particularly food, much of which Sudan must import from abroad). Pressures on domestic prices may also emanate from supply-side disruptions owing to perennial violence.

Oil was and still remains Sudan's main export, with production increasing dramatically during the late 2000s, in the years before South Sudan gained independence in July 2011, while agriculture production remains Sudan's most-important sector, employing eighty percent of the workforce and contributing thirty-nine percent of GDP, but most farms remain rain-fed and susceptible to drought. Instability, adverse weather and weak world-agricultural prices ensures that much of the population remains below the poverty line. Sudan's economy has relatively strong long-term growth potential owing to vast natural resources.

Macro-Economic Indicators: Sudan

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nominal GDP Per Capita (US$)	$ 2 188	$ 2 339	$ 2 422	$ 2 523	$ 2 887
Real GDP (% change)	0.9%	2.7%	3.3%	3.4%	3.4%

Figure 1 Source: HIS (base year 2011)

3.2 Market for air travel to Khartoum

Sudan has a signifcant number of airfields; nine have permanent-surface runways, but only Khartoum Airport can be considered an international airport. Sudan Airways is a passenger and cargo carrier. It operates a few domestic flights. Most of its international flight routes have been cancelled following accidents and an inability to replace spare parts because of US sanctions.

Major foreign airlines that have operated scheduled flights to Khartoum include the following: Air Arabia (UAE), Egyptair, Emirates (UAE), Ethiopian Airlines, Turkish Airlines, Gulf Air (Bahrain), Kenya Airways, Lufthansa, Qatar Airways, Royal Jordanian & Saudi Arabian Airlines.

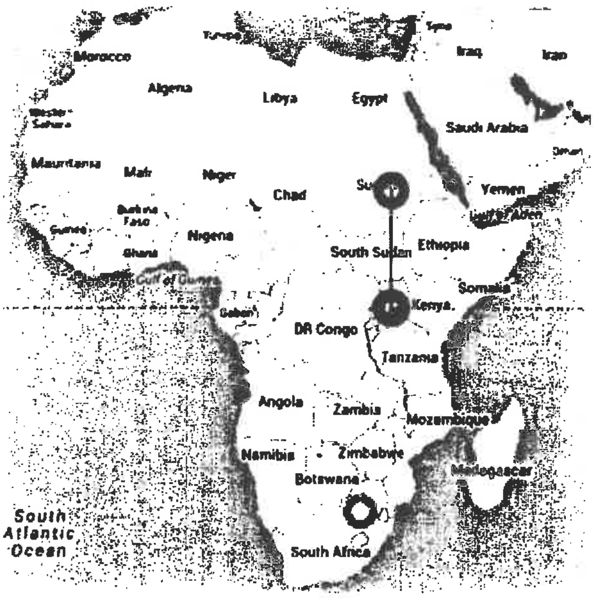

Figure 2 *Source: Great Circle Mapper*

Ethiopian Airlines dominates both JNB and EBB markets with commanding market shares of 75% and 57% respectively. Most passengers from Sudan are bound for the Middle East and North Africa, with Egypt and Saudi Arabia being the top destinations in terms of passenger travel. Most of these services are operated by Sudan Airways and Saudi Arabian Airlines. However, traffic between Sudan and Sub Saharan Africa is controlled by Ethiopian and Kenya Airways respectively.

The market size between JNB-KRT and EBB-KRT is 2300 and 3800 annual passengers each way respectively; Ethiopian Airways has the controlling market share in both routes. SAA operations to Sudan will be able to break the Ethiopian and Kenya Airways duopoly on these routes, with all three airlines competing on a one stop service basis.

Competitive Landscape

Khartoum to Sub-Saharan Africa	
Dominant airlines	**Seats/Week**
SD	14952
3T	7182
ET	5490
KQ	1344
O9	1128
Grand Total	30096

Keys:
3T= Turan Air ET=Ethiopian Airlines
KQ= Kenya Airways O9= Nova Airways
SD= Sudan Airways J4= Badr Airlines
UE= NasAir MS= Egypt Air
IY= Yemen Airways EK= Emirates Airlines

Khartoum to Sub-Saharan Africa	
Dominant airlines	**Annual Passengers**
SD	158 024
3T	113 851
J4	83 266
ET	46 126
O9	24 451
KQ	22 357
UE	8 793
MS	873
IY	725
EK	306
Grand Total	458 773

- Sudan Airways is the dominant carrier in sudan. Being the national carrier, sudan air has a vast domestic network aswell as international destinations such as Abudabi, Dubai, Cairo e.t.c.
- Turan Air and Badr Airlines are other dominant carriers in sudan.

4. Strategic Action Plan

4.1 Schedule

- SAA's schedule will be evenly spread to have a flight every other second day.
- Three weekly frequencies will allow for SAA to have a competitive schedule and to capture more than 70% of the already weak air travel market to/from Sub-Saharan Africa

Flt No.	Origin	Destination	Dep Time	Arr Time	A/C	DOW
SA 160	JNB	EBB	1400	1905	319	1234567
SA 161	EBB	KRT	2005	240	319	.2.4..7
SA 160	KRT	EBB	340	620	319	1.3.5..
SA 161	EBB	JNB	725	1040	319	1234567

Figure 5 *Source: APG.net QSI*

APG.Net (QSI) results and route profitability modelling

Assumptions:

- 3 flights per week extended to Khartoum on the current Entebbe service aboard an A320
- Traffic growth rate at 7% for the 1st three years of operations
- Brent Crude oil price as per SAA budget at USD 85
- Average fare growth rate at 3% for the 1st three years
- Current Entebbe schedule to remain as per current operations

APG. Net QSI results:

- It is forecasted that 59% and 41% of the traffic on SAA's EBB – KRT service will divert from ET and KQ who currently serves the KRT market via Addis and Nairobi respectively.

AL	Passenger Diversion	Revenue Diversion
ET	58.7%	58.9%
KQ	40.7%	40.7%
TK	0.3%	0.2%
SD	0.1%	0.1%
MS	0.1%	0.1%
3T	0.1%	0.1%
O9	0.0%	0.0%

Figure 6 *Source: APG.net QSI*

Figure 7 : Route statistics

Route Statistics				
Performance Indicators	Khartoum via Entebbe JNBEBBKRT	Khartoum via Entebbe JNBEBBKRT	Khartoum via Entebbe JNBEBBKRT	CAGR
No. flights per Week	6	6	6	0%
No. flights per Year	312	312	312	0%
No. seats (in an SAA 138-seater A320)	43 056	43 056	43 056	0%
No. RevPax (EBB)	31 824	34 415	36 692	5%
No. RevPax (KRT)	13 728	15 345	16 914	7%
Load factor	58%	64%	68%	5%
Ave Net fare (EBB)	2 612	2 737	2 869	3%
Ave Net fare (KRT)	1 601	1 678	1 758	3%
RPK1 (EBB)	93 276 144	100 870 986	107 542 866	5%
RPK2 (KRT)	23 584 704	26 363 529	29 057 690	7%
ASK1 (EBB)	126 197 136	126 197 136	126 197 136	0%
ASK2 (KRT)	73 970 208	73 970 208	73 970 208	0%

Source: APG.Net and OAG SRS Analyser

The first three years of operations on the Khartoum route is forecasted to record 7% constant traffic growth rate at the back of a tepid growth in yields with flat capacity.

4.2 Route Profitability modelling

The extension of Khartoum route on Entebbe operations is forecasted to break-even in the third year of operations; as the current market size is extremely thin, it would take some time to develop this to a sustainable level.

Figure 7: Route Profitability Model (Source: SAA RCE report FY 2014/15)

ROUTE PROFITABILITY				
ROUTE PROFITABILITY (all amounts in Rand)	[illegible] Entebbe JNBEBBKRT	[illegible] Entebbe JNBEBBKRT	[illegible] Entebbe JNBEBBKRT	% CAGR
Gross SAA PAX Revenue	105 102 816	119 954 753	135 000 297	9%
Cargo Belly Freight Net Revenue	5 465 346	5 738 614	6 025 544	3%
Fuel levy and other recoveries	43 983 763	50 132 860	56 344 608	9%
GROSS REVENUE	154 551 926	175 826 227	197 370 450	8%
PAX Cost of Sales	(8 408 225)	(9 596 380)	(10 800 024)	9%
OPERATING COSTS				
Flight Costs	(60 050 203)	(63 112 764)	(66 394 627)	3%
Schedule Costs	(36 030 122)	(37 867 658)	(39 836 776)	3%
Fuel Costs	(46 038 489)	(48 386 452)	(50 902 548)	3%
OPERATING PROFIT	**4 024 886**	**16 862 973**	**29 436 475**	94%
Operating Profit Margin	*3%*	*10%*	*15%*	*79%*
Route / Area Costs	(6 005 020)	(6 251 226)	(6 513 778)	3%
INDIRECT OPERATING PROFIT	**(1 980 134)**	**10 611 746**	**22 922 697**	326%
Aircraft Costs (existing fleet)	(18 015 061)	(20 417 069)	(22 678 960)	8%
ROUTE PROFIT ("C4") contribution to corporate overheads	**(19 995 195)**	**(9 805 323)**	**243 737**	123%
Route profit margin	*-13%*	*-6%*	*0%*	*121%*

Figure 8: Sensititity Analysis

		Yield						
		0.98	1.08	1.18	1.28	1.38	1.48	1.58
Load Factor	66%	R -39 428 201	R -26 140 778	R -12 853 354	R 434 069	R 13 721 493	[redacted]	[redacted]
	64%	R -43 334 513	R -30 447 425	R -17 560 336	R -4 673 247	R 8 213 842	[redacted]	[redacted]
	62%	[redacted]	R -34 754 071	R -22 267 317	R -9 780 563	R 2 706 191	R 15 192 945	[redacted]
	60%	[redacted]	R -39 060 718	R -26 974 299	R -14 887 879	R -2 801 460	R 9 284 960	[redacted]
	58%	[redacted]	R -43 367 365	R -31 681 280	R -19 995 195	R -8 309 110	R 3 376 974	R 15 063 059
	56%	[redacted]	[redacted]	R -36 388 261	R -25 102 511	R -13 816 761	R -2 531 011	R 8 754 739
	54%	[redacted]	[redacted]	R -41 095 243	R -30 209 827	R -19 324 412	R -8 438 997	R 2 446 419
	52%	[redacted]	[redacted]	[redacted]	R -35 317 143	R -24 832 063	R -14 346 982	R -3 861 901
	50%	[redacted]	[redacted]	[redacted]	R -40 424 460	R -30 339 714	R -20 254 968	R -10 170 221

5. Recommendations

The above case assesses the viability of SAA commercial operations to Khartoum via Entebbe. The route will be an extension of the current Entebbe service aboard an Airbus A320.

As per the business case, the proposed services show no commercial viability for SAA mainly due to the fact that:

- The market size is too thin with most passengers bound for the Middle East and North Africa, with Egypt and Saudi Arabia as the main destinations

- The geographical location of Sudan means as a travel market it is more aptly served by six major air travel hubs - Addis Ababa, Cairo, Jeddah, Dubai, Abu Dhabi and Doha - better placed to serve traffic flows compared to the Johannesburg hub

431

Joanne Scott

From: Ministry Registry
Sent: 31 July 2015 06:50 AM
To: chairperson@flysaa.com
Cc: Moire de Vos <MoireDeVos@flysaa.com> (MoireDeVos@flysaa.com)
Subject: Evaluation of the potential for a new South African Airways Route to Khartoum
Attachments: SKMBT_C454e15073017270

Dear colleagues

Please find attached correspondence for Ms Myeni's attention.

Please acknowledge receipt.

Kind regards
Joanne Scott
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Private Bag X115, PRETORIA, 0001
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432

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Ref. M4/1/9 (1298/15)

Ms Duduzile Myeni
Chairperson of the Board
South African Airways SOC Limited
Private Bag x13
OR TAMBO INTERNATIONAL AIRPORT
1627

Dear Ms Myeni

EVALUATION OF THE POTENTIAL FOR A NEW SOUTH AFRICAN AIRWAYS ROUTE TO KHARTOUM

I refer to your letter dated 17 June 2015 regarding the abovementioned matter.

I understand from your letter regarding that the evaluation of a potential new route for South African Airways (SAA) to Khartoum arose as a result of a discussion that you had with His Excellency, President Zuma.

Furthermore, I am aware that pursuant to that request SAA compiled a business case analyzing the commercial viability of SAA operating a passenger service from Johannesburg to Khartoum as an extension of the existing route to Entebbe. The business case performed by SAA showed that current and forecast traffic flows are far below those required to support commercially viable air services. Moreover, the information provided by SAA indicated that the proposed operations to Khartoum are envisaged to be loss-making. However, as I have stated in previous letters, SAA should not be entering into transactions or operations which will cause financial loss to the airline.

I have noted that SAA has recently developed, with the assistance of network planning specialists, a comprehensive network and fleet plan. This plan, if implemented successfully, has the potential to contribute significantly to the turnaround of the loss-making operations of the airline. This plan provides a summary of routes for SAA to operate to maximize profitability and it shows those routes which are not commercially viable and which should be closed, rescheduled or transferred to either South African Express Airways or Mango. The proposed new route to Khartoum is not included in the comprehensive network and fleet plan.

The business case evaluating the new route projected that the route would incur losses of approximately R30 million in the first two years of operation. Notwithstanding the projected losses, you have stated some alternative measures which could make the route financially viable. These include subsidisation of SAA services by the Government of Sudan or SAA undertaking operations on behalf of the Government of Sudan as a designated flag carrier. The costs and benefits of these alternatives have not been provided and implementation, if possible, would require the engagement of various stakeholders within both the Governments of the Republics of Sudan and South Africa before being considered. As part of the National Treasury's on-going weekly technical meetings with SAA, continuous feedback is being provided with regard to the progress of the implementation of the network and fleet plan. During these meetings, SAA indicated that the letter received from you is purely for information purposes and is not a PFMA Section 54 application.

In the event that SAA decides that it would be favourable to operate the route, a comprehensive PFMA Section 54 application would need to be submitted for my consideration. Consequently, based on the current proposal, I am not supportive of SAA commencing operations to Khartoum.

In conclusion, due to the loss-making nature of the proposed operations to Khartoum, I do not approve the commencement of operations on the envisaged route.

I trust that you will find the above to be in order.

Kind regards

NHLANHLA M NENE, MP
MINISTER OF FINANCE
Date: 30/7/2015

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national treasury
Department
National Treasury
REPUBLIC OF SOUTH AFRICA

MINISTER OF FINANCE
JS
23 JUL 2015
FILE No: M4/1/9
MINISTER OF FINANCE
1298/15

Memo

07 July 2015

NHLANHLA M NENE, MP
MINISTER OF FINANCE

EVALUATION OF POTENTIAL NEW SOUTH AFRICAN AIRWAYS ("SAA") ROUTE TO KHARTOUM

PURPOSE

1. To advise the Minister of Finance ("Minister") of the letter ***(Annexure A)*** from SAA Chairperson, Ms Duduzile Myeni, regarding the evaluation of a potential new route to Khartoum, Sudan.

2. To request the Minister **not to approve** the request for SAA to commence operations to Khartoum.

3. To request the Minister to sign the attached letter addressed to the Chairperson of SAA ***(Annexure B)***, should the Minister concur with the contents thereof.

BACKGROUND AND DISCUSSION

4. SAA performed poorly during the 2013/14 financial year, incurring R2.6 billion in losses. The dire financial performance of the airline has continued unabated in the 2014/15 financial year with **unaudited financial results revealing that the airline has incurred over R4 billion in losses for the 2014/15 financial year.**

5. In her letter to the Minister dated 17 June 2015, the Chairperson of SAA stated that His Excellency, President Jacob Zuma requested SAA to evaluate the potential for a new route to Khartoum, Sudan.

6. The analysis performed by SAA ***(Annexure C)*** showed that the current air market size between Sudan and all other destinations amounts to 1.6 million passengers per annum. The bulk of this traffic is between Sudan and destinations in the Middle East and North Africa.

7. Furthermore, the analysis revealed that the geographical location of Sudan as a major air travel market is limited due to the presence of several major hubs within close proximity of the country. The effect of the mega air travel hubs of Addis Ababa, Cairo, Jeddah, Dubai, Abu Dhabi and Doha impede the ability of Khartoum to fully develop as an air traffic hub. Moreover, Khartoum has limited connectivity to/from sub-Saharan Africa due to its location and demographics, with air travel leaning more towards the Middle East and North Africa.

8. The Chairperson of SAA, in her letter to the Minister dated 17 June 2015, stated that, the future forecast traffic flows were far below those required to support a dedicated direct service between Johannesburg and Khartoum. The market size between Johannesburg and Khartoum is too thin to allow financially sustainable operations between the two cities.

9. SAA currently operates flights between Johannesburg and Entebbe in Uganda. Due to the close proximity between Entebbe and Khartoum, an evaluation was done to assess the commercial viability of SAA's own metal operations three times per week to Khartoum via Entebbe, Uganda. This proposed new route would be an extension of the current service that SAA provides between Johannesburg and Entebbe. In order not to disrupt any of the current operations, the route to Khartoum, if determined to be viable, would merely be an extension of the current route to Entebbe.

10. The analysis was performed using Quality Service Index (QSI) methodology. QSI methodology is commonly used in the passenger aviation industry to determine the air travel demand between two points as well as an estimation of the market share an airline could capture on a specific route. As shown in table 1 below, forecasts performed by the SAA network planning team indicated that the route has the potential to break-even in the third year of operations. However, this is after incurring losses of R20 million and R10 million in the first and second year of operations respectively.

Figure 1: Khartoum route profitability

ROUTE PROFITABILITY (all amounts in Rand)	Khartoum via Entebbe: JNBEBBKRT	Khartoum via Entebbe: JNBEBBKRT	Khartoum via Entebbe: JNBEBBKRT
Gross SAA PAX Revenue	105 102 816	119 954 753	135 000 297
Cargo Belly Freight Net Revenue	5 465 346	5 738 614	6 025 544
Fuel levy and other recoveries	43 983 763	50 132 860	56 344 608
GROSS REVENUE	154 551 926	175 826 227	197 370 450
PAX Cost of Sales	(8 408 225)	(9 596 380)	(10 800 024)
OPERATING COSTS			
Flight Costs	(60 050 203)	(63 112 764)	(66 394 627)
Schedule Costs	(36 030 122)	(37 867 658)	(39 836 776)
Fuel Costs	(46 038 489)	(48 386 452)	(50 902 548)
OPERATING PROFIT	4 024 886	16 862 973	29 436 475
Operating Profit Margin	*3%*	*10%*	*15%*
Route / Area Costs	(6 005 020)	(6 251 226)	(6 513 778)
INDIRECT OPERATING PROFIT	(1 980 134)	10 611 746	22 922 697
Aircraft Costs (existing fleet)	(18 015 061)	(20 417 069)	(22 678 960)
ROUTE PROFIT ("C4") contribution to corporate overheads	(19 995 195)	(9 805 323)	243 737
Route profit margin	*-13%*	*-6%*	*0%*

Source: SAA Business case

11. SAA assumed a load factor of 58% at a yield of R1.28 per available seat kilometres. A sensitivity analysis performed as part of the route analysis showed that should load factors fall below expectations, losses on the route would deteriorate. A fall of 8% in expected load factors would result in losses of over R40 million in losses being incurred during the first year of operations.

Table 2: Sensitivity Analysis Khartoum

		Yield						
		0.98	1.08	1.18	1.28	1.38	1.48	1.58
Load Factor	66%	R -39 428 288	R -26 140 778	R -12 853 354	R 494 089	R 13 721 498	[redacted]	[redacted]
	64%	R -43 394 598	R -30 447 425	R -17 560 336	R -4 673 247	R 8 213 842	[redacted]	[redacted]
	62%	[redacted]	R -34 754 071	R -22 267 317	R -9 780 563	R 2 706 181	R 15 189 946	[redacted]
	60%	[redacted]	R -39 060 718	R -26 974 299	R -14 887 879	R -2 801 460	R 9 284 980	[redacted]
	58%	[redacted]	[redacted]	R -31 681 280	R -19 995 195	R -8 309 110	R 3 376 974	R 15 063 069
	56%	[redacted]	[redacted]	R -36 388 261	R -25 102 511	R -13 816 761	R -2 531 011	R 8 754 739
	54%	[redacted]	[redacted]	R -41 095 243	R -30 209 827	R -19 324 412	R -8 438 997	R 2 446 419
	52%	[redacted]	[redacted]	[redacted]	R -35 317 143	R -24 832 063	R -14 346 982	R -3 861 901
	50%	[redacted]	[redacted]	[redacted]	R -40 424 460	R -30 339 714	R -20 254 968	R -10 170 221

Source: SAA Business case

12. Two of SAA's main competitors on the African continent, namely Ethiopian Airways and Kenyan Airways currently have operations to Khartoum and Entebbe. It should be noted that neither airline has a direct operation between Khartoum and Entebbe. There is no commercially viable market for a direct service between Entebbe and Khartoum, therefore, all air travel to Khartoum on Kenyan Airways or Ethiopian Airways is via the hubs of Nairobi and Addis Ababa respectively.

13. SAA has recently developed, with the assistance of network planning specialists, a network and fleet plan which is aimed at improving the efficiency and effectiveness of SAA's flight operations. The plan aims to contribute to the turnaround of the airline through the envisaged profits that would be generated through entering into profitable new routes and profitable partnerships. The route to Khartoum, via Entebbe does not form part of the network and fleet plan. Commencement of operations would necessitate the allocation of much needed resources on this new route which could hinder the successful implementation of the plan and derail the turnaround of the airline. The expected losses on the route and the potential for additional losses in the event of lower than expected load factors render the route commercially unfeasible.

14. The Chairperson suggested some alternative measures to mitigate against the losses envisaged on the route. These include an initial subsidisation of operations by the Government of Sudan or SAA undertaking, for a fee, operations on behalf of the Government of Sudan as a designated flag carrier. However, the viability of these suggestions has not been explored.

15. As part of National Treasury's ("NT") on-going engagements with SAA, continuous feedback is provided with regards to the progress of the implementation of the network and fleet plan. During these engagements, SAA indicated that the letter from the Chairperson was purely for informational

purposes and that no PFMA Section 54 application would be submitted in this regard. Moreover, SAA indicated that the proposed operations to Khartoum are envisaged to be loss making, thus if pursued, would be for developmental purposes.

CONCLUSION

16. SAA has developed as part of its turnaround strategy, a comprehensive network and fleet plan. This plan provides an analysis of all commercially viable routes that the airline intends to commence operations on as well as those which the airline intends to close, transfer to South African Express or Mango. The proposed Khartoum route has not been included in this plan.

17. An analysis of route performance shows that the airline will incur significant losses as the demand for air travel on this route is insufficient to operate air travel services in a commercially sustainable manner.

18. SAA's current loss making operations dictate that the airline should only undertake operations which will contribute to the turnaround of the airline. Commencing operations to Khartoum would lead to additional losses being incurred by the airline.

19. SAA has not applied in terms of Section 54 of the PFMA to commence operations on the route. The letter from the Chairperson was for information purposes only but revealed that there was no commercial rationale to operate the route.

RECOMMENDATION/S

20. It is recommended that the Minister:

- **Notes** the contents of this memo;
- **Not approve** SAA's request to commence operations to Khartoum; and
- **Signs** the attached letter addressed to the Chairperson of SAA, Ms Duduzile Myeni ***(Annexure A)*** should the Minister concur with the contents thereof.

Compiled by: Phatuwani Rasivhetshele **In consultation** with: Ravesh Rajlal

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Recommended / ~~Not Recommended~~

pp [signature]

AVRIL HALSTEAD
CHIEF DIRECTOR: SECTORAL OVERSIGHT
DATE: 13/07/2015

Recommended / ~~Not Recommended~~

ANTHONY JULIES
HEAD: ASSET AND LIABILITY MANAGEMENT
DATE: 14/07/15

~~Recommended~~ / Not Recommended

Minister, I cannot understand why this entity can contemplate another loss-making route!!!

LUNGISA FUZILE
DIRECTOR-GENERAL
DATE: 19/7/2015

Approved / ~~Not Approved~~

NHLANHLA M NENE, MP
MINISTER OF FINANCE
DATE: 30 /7/2015
