Annexure 'POS-1' ~~153~~ ~~"MK6"~~

Ms. Dudu M. Myeni

Chairperson of SAA,

6th Floor, Airways Park,

OR Tambo International Airport,

Johannesburg,

South Africa

CC. The Honourable Minister of Public Enterprises, Mr. Malusi Gigaba (MP)

28 January 2014,

RE: LEADERSHIP CHALLENGES IN RELATION TO THE CHAIRPERSON OF SOUTH AFRICAN AIRWAYS (SOC) LIMITED (SAA)

1. INTRODUCTION

At the Special Board meeting held on 22nd January 2014, a matter was tabled and discussed in relation to the conduct of the Chairperson of SAA (the Chairperson). After deliberation, the SAA Board (the Board) resolved that the most appropriate manner in which to handle this matter would be to table it in the Chairperson's presence as she was unfortunately not in attendance.

The Company Secretary's office proceeded to schedule a Special Board meeting for 28th January 2014 in order to consider the Institute of Directors of Southern Africa (IoDSA) report, in preparation for the SAA Annual General Meeting (AGM) scheduled for 29th January 2014, and for the Board to discuss the above matter in the Chairperson's presence.

On 27th January 2014, the Board received email communication from the Chairperson stating that she would not be attending the said Special Board meeting, notwithstanding the Board resolution. The Chairperson further confirmed that she had shared this email communication with the Honourable Minister of Public Enterprises (the Minister).

In light of the above context, we, the undersigned, are extremely concerned SAA Non-Executive Directors, who wish to state our major dissatisfaction with the leadership of the Chairperson. The decision to put these matters, in writing, has not been taken lightly and recent developments leave us with no option but to raise these to the Chairperson and copy the Minister.

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2. THE CHALLENGE

At the AGM held on the 15th October 2012, the Minister amongst other instructions stated that: *"I have mandated the new Board primarily to turn the airline around to a position of financial independence and operational efficiency."* At the time, SAA was undergoing very challenging times with a lot of bad publicity plaguing the business. We clearly understood the Minister's mandate to us and have taken it very seriously during our tenure thus far. As such, during the past 15 months or so, the majority of us have endeavoured to give of our best in responding to the mandate bestowed upon us through delivering on the promises of the Long Term Turnaround Strategy (LTTS). Key amongst these concerns is the lack of leadership displayed by the Chairperson. The challenges outlined below demonstrate why it is extremely difficult and virtually impossible to operate optimally in an environment that is not conducive to achieving the Shareholder mandate.

We are of the collective opinion that, in accordance with our fiduciary responsibilities to SAA, we owe it upon ourselves as Board members to raise these issues. In accordance with the resolution of the Special Board meeting of 22nd January 2014, we had hoped to discuss these matters at the meeting of 28th January 2014.

2.1 Undermining the Narrow Body Fleet Financing Process (10 – 2 – 10)

On 27th May 2013, the SAA Board, at a meeting held at Airways Park, adopted a Board resolution to approve Pembroke as financiers for the first 10 deliveries of the A320 narrow body fleet. The meeting was adjourned for completion at a Cape Town venue scheduled for 02nd June 2013. Ahead of that sitting, the Chairperson wrote to the Company Secretary seeking clarity as she understood the approved resolution was for 2, and not all 10 aircraft ***(1st attempt)***. Board members responded to the correspondence to clarify that it was in fact all 10 aircraft. The Chairperson once again raised the matter at the meeting in Cape Town, suggesting that due to some new information, the board ought to reconsider the decision ***(2nd attempt)***. The Board deliberated the matter further and once again, reiterated its position to adhere to the original resolution taken at the May 2013 Board meeting at Airways Park. Subsequent to the Board meeting in Cape Town, the Chairperson again requested the Company Secretary to draw the recording of the meeting to confirm that the funding was indeed for 2 aircraft only ***(3rd attempt)***. The Company Secretary responded affirming the earlier position that the Board had resolved on Pembroke financing all 10 aircraft.

On the 23rd June 2013 the Chairperson penned a letter with the Section 54 application to the Department of Public Enterprises, advising the Minister that the Board had amended its resolution from financing 10 to financing 2 aircrafts ***(4th attempt)***. The truth is that this letter was never previewed by the Board and even more disturbing was the attempt to change a Board resolution. This amounted to a gross misrepresentation of the facts as the Board did not change its resolution. Notably, on the 8th July 2013, the Chairperson of Audit & Risk Committee, supported the Chairperson's plans to overturn the Board resolution. In addition to this, the Chairperson was cautioned in writing by at least 5 Board members against her repeated attempts to change the Board resolution, in contravention of ***Clause 27.5 of the***

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Memorandum of Association (MoA). To date her motives in relation to this matter remain a mystery to us all.

2.2 Wide Body Procurement Process

The Board confirmed in September 2012 was immediately tasked to develop and complete a LTTS that would put the airline on a sustainable path. Throughout the development of this process it was mentioned that work on the replacement of the wide body fleet was becoming urgent. The SAA Board heard for the first time that the Request for Proposals (RFP) had been issued when the Department of Public of Enterprises visited the SAA Board on 24th July 2013. Most worrying for ourselves was the explanation by the Chairperson to the Minister that day to the effect that she not only was not aware of the issuance of the RFP but, also that, she believes that the then Acting CEO, Mr Bezuidenhout, had acted independently of the Board in issuing the RFP. For one it is a requirement of the PFMA that the Ministry be pre-notified by the Board or Chairperson, acting on behalf of the Board, of any major procurement decision or steps to engage in a major procurement process. The Significance & Materiality levels of such a procurement require Shareholder approval, and the delegations to the Board from the Shareholder require that such a process be approved by the Shareholder representative. ***Section 22.3.4 of the MoA*** requires Ministerial approval for the acquisition of significant assets. These core governance steps were simply ignored.

Nonetheless, given these challenges, the Board has proceeded to implement measures for effective Board oversight of these acquisition process. The Procurement & Tender Processes Committee (PTPC) is now the responsible committee with direct oversight of management's activities in this process as resolved at the Special Board meeting on the 17th October 2013 in Durban.

2.3 Losses occasioned by the Chairpersons Procrastinations

Two stark examples have emerged to create anxiety among Board members as a direct consequence of untimely decision making on the part of the Chairperson.

First: attempts by the management team to get a Board resolution on the financing of the first 10 A320s. This is related to the period mentioned above where the Chairperson was personally pursuing alternative funding for the A320s without involving HoD:GSM and other relevant executives.

In May 2013 the CFO requested a Board sitting through the Company Secretary to seek approval for Pembroke funding and the meeting was not granted. On the 8th May 2013 the CFO sent a Section 54 application cover letter to the office of the SAA Chairperson. This was one month before delivery of the first aircraft. It has come to the Board's attention that there is a Section 54 application letter dated 23 June 2013 sent to the DPE by the office of the Chairperson. This was more than a month after the CFO letter of 8 May 2013 and three weeks after the Board resolution of 27 May 2013 resulting in a conclusion by the CAE that the Board

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was responsible for the delays of the A320s. This resulted in the timelines for the delivery of the A320s being extended by 4 months with the negative financial impact of the pre delivery payments amounting to an estimated R800m not being available to SAA at a time when cash was needed urgently. SAA was then placed in a position of having to increase its borrowing requirements with its lenders. The cost of this omission is still affecting SAA today.

Second: Similarly, attempts by the Board to convene meetings to address the wide body acquisition process, were cancelled at the instance of the Chairperson. This now means that SAA has lost the scheduled slots for the initial wide body deliveries. The full impact of these lost slots means the introduction of the new generation fuel efficient aircraft is delayed and SAA will incur unnecessary costs from 2016/17 when the first deliveries were planned for.

2.4 Investigations

Since the appointment of this Board, we are aware of at least three investigations, initiated by the Chairperson, into fellow Board members: Mr. A. Khumalo was investigated for allegedly leaking the LTTS to PwC, auditors of SAA. Mr. A. Mabizela is currently being investigated for his alleged role in a loan extended by SAA to SA Express. Currently, an investigation into the CEO is being contemplated (email dated 21 January 2014 from the Chairperson to Audit & Risk Committee Chairperson).

In August 2013, the Audit & Risk Committee approved an amendment to the Internal Audit Charter which provided for a process to be followed in the event of any forensic reports involving SAA staff, EXCO or Board. The Internal Audit Charter states the following:

The SAA Whistleblower service provider sends reports to the Chief Audit Executive (CAE) within the timelines outlined in the contract between SAA and Whistleblowers (Pty) Ltd. The CAE evaluates all the reports and decide what to investigate and not to investigate. The reports to be investigated are sent to Group Security Services Security Operations Center (GSS SOC) for investigation; these reports are then allocated a reference number and an investigator.

The CAE and HoD: Group Security Services shall handle all Whistleblower reported items to do with general staff members and members of management group below EXCO. The CAE shall submit all the matters to do with EXCO and Board members to all audit committee members. The audit committee shall deliberate on all such matters and decide, as a collective, on what matters to investigate or not to investigate. The Audit Committee shall report all such matters to the Board for noting. The Board Chairperson shall report such Whistleblower matters to the Department of Public Enterprises (DPE) within seven days of receiving the report from the Audit Committee. The office of the Company Secretary shall submit the resolution of the audit committee to the CAE who will then take the appropriate action. The CAE shall not accept requests to investigate or audit matters reported anonymously from any other source other than through the audit committee resolution as outlined in this paragraph.

None of the investigations mentioned above have followed this process.

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The latest incident illustrates the extent to which the Chairperson and the Audit & Risk Committee Chairperson are prepared to undermine the Board and its resolutions. On 21 January 2014, the Chairperson sent the Audit & Risk Committee Chairperson (and copied the Board) on a letter written to her by an anonymous whistle-blower with a number of allegations relating to Executives and the Board. Notwithstanding the clear process outlined in the Internal Audit Charter (approved by the Audit & Risk Committee and subsequently approved by the Board) the Chairperson called for an immediate and urgent external investigation on the basis that the complaint involved management – a clear deviation from the ***Board Charter Clause 9.3.2***.

The Audit & Risk Committee Chairperson responded to the Chairperson on the same day advising that *"the Members of the AC will remember that it was decided that all whistleblows must be taken to internal audit for assessment and review. This is what has been happening. However, I must state that despite the said decision and protection pledged against any possible abuse when a subordinate investigates his/her boss, it has not been easy to interview board members in previous investigations. This is also coupled by the skill and capacity that is not there in Internal Audit (Investigative capacity). With regards to the whistleblower at hand, I would recommend that you seek an independent investigator, the reason being that the CEO is involved and the company is allegedly investigating the board members. I suppose you have a right to a professional service, where necessary."*

It is important to note that firstly, the Charter provides for a process for parties to report matters through the Whistleblowing service. This is the only permissible way for matters to eventually be investigated. There was no agreement that '*whistleblows must be taken to internal audit for assessment and review.*' The Charter is clear that all such matters must be reported via the Whistleblowing service set up by SAA for this purpose.

Secondly, there has never been any concern raised by the Chief Audit Executive to the Audit & Risk Committee or the Board, of any 'investigative' capacity challenges in his department in performing its duties. The lack of 'Capacity' is now being used as one of the reasons to deviate from the Internal Audit Charter, by the Audit & Risk Committee Chairperson.

Thirdly, the Audit & Risk Committee Chairperson advises that since the CEO and the Board are implicated, the Company should procure the services of an external investigator. This is not only in direct contravention of the Internal Audit Charter, that both the Audit & Risk Committee Chairperson and the Board Chairperson should be aware of, but could easily result in unauthorized expenditure. In approving the Charter, the potential of the Chief Audit Executive investigating other EXCO members and Board members was discussed at length by the Audit & Risk Committee. The Audit & Risk Committee decided that all matters, whomever they involved, should be reported via the Whistleblowing service.

We refuse to be managed by fear and victimisation in this Board. The repeated failure by the Chairperson and the Audit & Risk Committee Chairperson to adhere to governance as outlined the Internal Audit Charter, amounts to gross misconduct.

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The conduct of the Chairperson in overtly acting against resolutions or seeking to change resolutions is becoming pervasive. It happened with the A320 financing transaction. It continues to happen with whistleblowing and investigations.

2.5 Interference in Board Committees

A Chairperson is a reference point when it comes to a number of matters that define a Board collective such as, ethics, diligence, morality, impartiality and fairness. Whilst we accept that all members of a Board need to espouse these qualities, the heavy responsibility to lead places a serious load on the shoulders of a Chairperson. It is also the responsibility of fellow Board members to ensure that they play their part in ensuring that these qualities are well adhered. One of the stages around which these qualities play themselves out are the Board as well as its supportive Committees. Important to note here are that committees are the functionary arms of the Board and their effectiveness by extension determines the effectiveness of the Board.

The guidance of the Chairperson along with the qualities mentioned above are critical for the functioning of the Committees. However, what we have become accustomed to at SAA is confusion that is sowed and interference by the Chairperson in Board Committee matters to the extent where the Chairperson claims to be a member of all Board Committees. Good corporate governance suggests that a Chairperson like any other Board member is allowed to attend any Committee meeting but is not a member of any committee except Social Ethics Governance & Nominations Committee (SEGNCO) which the Chairperson of the Board needs to Chair. This claim of being a member of committees as well as the interference, compromises the impartiality of the Chairperson who also needs to play the role of the arbiter when there are issues that require such.

A few issues worth noting are the following:

- Various investigations that are initiated by the Chairperson through the Chairperson of the Audit & Risk Committee when there is a Board approved process in place,
- Entering into a performance contract with the CEO assisted by the HR & Remco Chairperson without the HR & Remco members and the Board having sight and approved of the contract, in contravention of ***Section 21.4.3 of the MoA***.
- Attempts to defy the Shareholder's directive with regards to the Wide Body procurement transaction through trying to usurp the powers of the PTPC.

These types of acts therefore hamper the work of the Committees and serve to detract them from their mandated tasks. It further makes it difficult to trust the impartiality of the Chairperson on matters considered by the Board given the interference.

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2.6 Inefficiencies

2.6.1 Board Administration

Board meetings are often taken over by 'In-Committee' discussions and very often the agenda is often not completed. This leads to a large number of Special Board meetings being convened mostly to complete agenda items that were not addressed. Even today, there are agenda items that have been tabled at previous meetings that are still not dealt with by the board. This inefficiency has resulted in urgent matters, that require Board resolution, not being considered in time, and thereby placing the company at risk of financial loss.

2.6.2 Preparation for the 2012/2013 AGM

After repeated requests and insistence by Board members to urgently sit and consider the IoD report and prepare for the AGM, the Board eventually met on 22nd January 2014. It is of concern that the lack of planning has resulted in the AGM submission being presented to the Shareholder less than a week before the AGM. The Board still awaits the Chairperson's explanation for requesting a waiver to the AGM 15 day notice period. The Board notes that we have consecutively not complied with SAA AGM notice requirements to the Shareholder. We see no reason why the Board is characterised by inefficiencies of this nature.

2.6.2.1 The IoD Board Appraisal Report

As is customary with regards to evaluating Board performance the Board was requested to conduct an assessment of its performance. The directive to the Board was that it needed to fill in the questionnaires that were provided which as we are accustomed to is normal. Having completed this exercise, the Chair saw it fit to unilaterally amend the methodology. This according to our recollection was not agreed to by the Board. We were made to understand by the Company Secretary that the report was ready in December 2013 but that his office was not in possession of a copy. This was quite an anomaly as the process was facilitated by the Company Secretariat's office and good practice suggests that the report be disseminated by IoD to the Chairperson and the Company Secretariat. The Board has therefore struggled to obtain a copy of its report which has been in the Chairperson's possession. This has had the effect of denying the Board (and effectively Subsidiary Boards) access to feedback on its performance and has also not allowed enough time for the Board to deliberate on the report ahead of the AGM.

Furthermore a SEGNCO meeting scheduled for the 17th January 2014 could not take place as the Chairperson of SEGNCO was not in attendance – the reason proffered by the Company Secretary was not convincing. The members that were present were made aware of this fact upon their arrival at Airways Park. In addition the document i.e. the IoD report which was on the agenda was not available for circulation as the Chairperson was the only one who possessed a copy. After much prodding the report was made to the SEGNCO members by the Chairperson on Tuesday 21st January 2014 and shared by a Board member with the rest of

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the Board at the Special Board meeting held on the 22nd January 2014. This delay clearly contravenes ***Board Charter Clause 10.1.7.*** To date, the Board has not deliberated on the IoD report prior to it being tabled at the AGM. We therefore find this type of conduct in a leader very difficult to fathom as it sows mistrust and renders the Board ineffective in dispensing with its duties.

2.6.2.2 Sign off of A320 narrow body transaction

Board approval required for the amendment in the finance terms of the third aircraft in the A320 narrow body fleet transaction is a case in point. In the agenda and pack of the Board meeting of 28th November 2013, was a submission by Executives to the Board requesting an approval of a variation of the financing of the third A320 aircraft from a novation structure to a sale and leaseback structure. The matter was urgent because Airbus was to deliver the aircraft on the 30th January 2014. Failure to put in place all the financing arrangements would lead to penalties and storage fees being levied by Airbus to SAA. The 28th November 2013 Board meeting did not consider this matter. On 19 December 2013, the Company Secretary sent out email communication requesting Board approval to amend the financing arrangement of the third aircraft from a novation structure to a sale and leaseback structure. The submission highlighted the reasons for such a request, its urgency, and the financial effects of it. On 09th January 2014, the Company Secretary sent a reminder email communication, once again highlighting the urgency of the matter. Similarly on the 19th January 2014, the CEO communicated the risks associated with delays in signing off the transaction.

The Board eventually met 9 days before the third aircraft was to be delivered to SAA. At this meeting (where the Chairperson was not present), the Board was informed that due to the failure of the Board to resolve on this matter in time, SAA was expected to incur an estimated R2million of penalties and storage costs from Airbus. It was confirmed that this was purely because the Board did not meet to consider the request in time. Had it not been for management successfully negotiating with Airbus to waive the penalties and storage costs, SAA would've incurred fruitless and wasteful expenditure purely because of the inefficiencies of the Board. No leadership was provided, even when the Chairperson was alerted of the dangers of a delayed decision by Company Secretary and some Board members.

The above instance is but an illustration of what an inefficiently led Board can mean for an organisation of the size of SAA, particularly one going through a major turn-around. The Board Chairperson has repeatedly demonstrated that she is not equal to the challenge of leading this Board towards a successful turn-around of the airline. Furthermore, the inefficiencies further undermine ***Board Charter Clause 6.1.2.***

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2.7 Disregard for Board Resolutions

A Board resolution is a very serious instrument for the Board to carry out its duties and needs to be honoured and carried out with absolute diligence and care. Failure to do this puts the organisation at complete risk. In this regard an extremely worrying matter for us is what seems to be the complete disregard from the Chairperson for Board resolutions contrary to the requirements of ***Section 27.5 of the MoA***. We need to emphasise that this is an extremely grave matter which has been demonstrated above by various transgressions some of which have been outlined above. Under the current Corporate Governance dispensation the Board is jointly and severally liable for any transgressions and omissions on its part. Altering of Board resolutions puts us squarely in this class action target zone. For us concerned Board members, this is completely unacceptable and will not be tolerated as it has potential adverse impacts for our professional careers.

3. CONCLUSION

This letter demonstrates repeat transgressions of corporate governance, undermining due processes approved by the Board and a lack of diligence and care on the part of the Chairperson on extremely important matters.

All the examples employed above are illustrative of a leadership style that potentially will expose all serving Board members to liability. We specifically highlight the risks associated with non-compliance with ***Section 76 "Standards of Directors Conduct" & 77 "Liability of Directors and Prescribed Officers" of the Companies Act, 2008.***

In the exercise of our fiduciary obligations we recognise the need to uphold the highest standards of governance.These issues are seriously impacting on our performance individually and collectively. It is our sole intention to continue to put our shoulders behind the proverbial wheel with the aim of turning the organization around. Increasingly it appears to us that our best efforts will be in vain given the realities we are operating under.

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Sincerely,

Concerned SAA Non-Executive Directors

Mr. Andile Khumalo ____________________

Ms. Nonhlanhla Kubeka ____________________

Ms. Raisibe Lepule ____________________

Mr. Andile Mabizela ____________________

Mr. Bongisizwe Mpondo ____________________

Ms. Carol Roskruge ____________________

Annexure 'PO'S-2'

From: Silas Matsaudza
Sent: 08 March 2016 08:24 AM
To: Gordon Khumalo; Faizal Peer; Themba Sikhosana
Cc: Cynthia Stimpel
Subject: Updated BAC Submission
Attachments: BAC Evaluation Criteria_ Transaction Advisor_Funding.doc; Annexure_A_Appointment_of_a_Transaction_Advisor_for_SAA_Funding.docx

Dear Colleagues

Find attached the updated BAC submission. The suggested changes were made. Please review and advise as I am required to send it to the BAC this morning for a round robin.

Kind regards

Silas Matsaudza | Commodity Manager | Global Supply Management

Mobile: +2783-462-2859 | Phone: +2711-978-1629 | Fax: +2711-978-3115 | E-Mail: SilasMatsaudza@flysaa.com
Room 403, Floor 4, Block A, Airways Park, OR Tambo International- Johannesburg- SOUTH AFRICA

To:	**Board of Directors**
From:	Interim CFO
Date:	15 January 2016

MOTIVATION FOR APPOINTMENT OF A TRANSACTION ADVISOR

1 PURPOSE

To request Board to approve the appointment of a Transaction Advisor ("TA") regarding the R15bn Consolidation Debt restructuring exercise.

2 MOTIVATION

SAA requires the service of a TA and below is the value that we will receive as a business from using TA:

2.1 TA will analyse all the loan agreements that are currently at SAA's disposal;

2.2 TA will determine which of the total funding of R14bn is inefficient, either because it is expensive, encumbers SAA's ability to raise further funding because of the attached government guarantee requirement or the tenure not being suitable for SAA's Financial turnaround strategy;

2.3 Will advise SAA on how to restructure its balance sheet through the settlement of inefficient loans;

2.4 Will advise SAA of the strategic loans that, on the face of it appears to be inefficient, however for strategic reasons, it will be important for SAA to keep the loans in place, for example if these represent "equity" funding that shores up SAA's balance sheet; and

2.5 Will analyse the current SAA's leases, the majority of which exposes SAA to the hard currency exchange prejudices, given that approximately 60% of SAA's revenue is U$D denominated. With the new 5 A330s that will commence shortly, will result in approximately 85% of SAA's expenses to be U$D denominated, & recommend to SAA of options to restructure these leases to lessen their burden on SAA.

3 RECOMMENDATION

3.1 That the Board approves the request for appointment of a Transaction Advisor regarding the R15bn Consolidation Debt restructuring exercise.

Compiled by:

______________________	______________________
Phumeza Nhantsi Interim CFO	Date

Recommended by:

______________________	______________________
Musa Zwane Acting CEO	Date

SOUTH AFRICAN AIRWAYS
A STAR ALLIANCE MEMBER

Bid Adjudication Council

Electronic Tenders.

South African Airways
Bid Adjudicating Council
2016 -03- 18
RECEIVED

Bid No: GSM021/16	Date Closed: 18 March 2016
Discription of Bid: Transaction Advisor	
Number of Bids Received: Seven (7)	
Originating Business Unit::	

Time: 12h00.

Contact Person: Silas

No	Company Name	Original	Copies	CDs/Flash drives	Payment	Contact Number	Email Address
1	Deloitte + Touché	electronic				011 517 4091	rmoody@deloitte.co.za.
2.	Regiments		"			011 595 0700	NeoM@regiments.co.za.
3	Basis Point Capital		"			011 783 6136	tebcho@bpscapital.co.za.
4	Cinga Holdings		"			011 447 9745	pule@cingaholdings.co.za.
5.	Nisela capital.		"			011 268 1839.	richard.ngwenya@nisekcapital.co.za
6	Nedbank		"			011 294 9136	PhutiMo@Nedbank.co.za.
7	BnP Capital (Pty) LTD		Hand delivered			011 234 0572.	Daniel@bnpcapital.co.za / oe.
*	(cctv footage viewed - Delivered on time)					082 902 9490.	mngadi.masotsha@gmail.com

Name:__________________
Procurement Representative: __________________

Name: Mandy Coetser
BAC Administrator:

Tenders Collected by or on behalf of: Name & Surname SILAS MATSAUZA
Signature:

Acknowlegements saved on laptop. 22/3/2016.

* Copy of CD from SOC as proof.

Annexure 'POS-3'

ANNEXURE 'POS-4'

SOUTH AFRICAN AIRWAYS
A STAR ALLIANCE MEMBER

SAA Submission
SAA Private and Confidential
For internal use only

To:	Bid Adjudication Council (BAC)
From:	Global Supply Management (GSM)
Date:	11 May 2016

REQUEST FOR BAC SUPPORT TO CONFINE AND AWARD THE CONTRACT FOR THE SOURCING OF FUNDS FOR THE SOUTH AFRICAN AIRWAYS SOC LIMITED (SAA) GROUP TO BnP CAPITAL (PTY) LTD.

PURPOSE

To request for BAC support to confine and award the contract for the sourcing of funds for the SAA group to BnP Capital (Pty) Ltd

BACKGROUND

SAA appointed a Transaction Advisor to provide financial advice on the funding options available. The Transaction Advisor's scope of work includes the following services;

- analyse all the loan agreements that are currently at SAA's disposal;
- determine which of the total funding of the R14billion is inefficient, either because it is expensive, encumbers SAA's ability to raise further funding because of the attached government guarantee requirement or the tenure not being suitable for SAA's Financial Turnaround Strategy;
- advise SAA on how to restructure its balance sheet through the settlement of inefficient loans
- advise SAA on the strategic loans that, on the face of it appears to be inefficient, however for strategic reasons, it will be important for SAA to keep the loans in place, for example if these represent "equity" funding that shores up SAA's balance sheet; and
- analyse the current SAA's leases, the majority of which exposes SAA to the hard currency exchange prejudices, given that approximately 60% of SAA's revenue is USD denominated. With the new 5 A330s that will commence shortly, will result in approximately 85% of SAA's expenses to be USD denominated, & recommend to SAA of options to restructure these leases to lessen their burden on SAA.

After an assessment of the airline's current financial position, the Transaction Advisor pointed out the urgent need to source funds to settle the loans that are about to mature.

MOTIVATION

Loans to the value of R7.3 billion are maturing on 30 June 2016 and SAA is obliged to settle the loans on or before the maturity date. Due to time constraint, the only feasible approach is to engage the appointed Transaction Advisor to urgently source the funds required to settle the loans. Sourcing of funds was not included in the Transaction Advisor's scope of work as SAA believed that funds could be successfully sourced without the Transaction Advisor's assistance. The outcome of SAA's efforts to secure funding without the assistance of the Transaction Advisor in the market has proved otherwise. It is against this background that, GSM on behalf of the Business Unit is requesting for BAC support to confine and award the contract for the sourcing of funds to settle the loans maturing on 30 June 2016 to BnP Capital (Pty) Ltd. A duly signed confinement declaration form is attached as Annexure A.

FINANCIAL IMPLICATION

The industry norm is that Transaction Advisors charge a success fee ranging from two (2) to three (3) percent of the funds sourced and SAA negotiated the percentage with the Transaction Advisor. The two parties settled for a success fee of one point five (1.5) percent should BnP Capital (Pty) Ltd be tasked to urgently source the funds.

Indicated below is the projected success fee to be paid to BnP Capital (Pty) Ltd if the Transaction Advisor succeeds in sourcing the R15 billion required to settle all the loans. The success fees will not be a once off payment. The terms will be negotiated with the Transaction Advisor to ensure that the payments of the success fee are staggered.

TOTAL FUNDING REQUIRED	NEGOTIATED SUCCESS RATE	PROJECTED SUCCESS FEE
R 15 000 000 000.00	0.015	R 225 000 000.00

COUNTER PARTY

- GSM
- Finance

RISK

If the required funds are not secured urgently, SAA will not be able to meet its financial obligations. This has serious implications on the airlines going concern status.

PFMA IMPLICATION

There is none at this stage.

APPROVAL PROCESS

- BAC support
- CEO support
- FIPCO support
- SAA Board approval

NATIONAL TREASURY DATABASE OF RESTRICTED SUPPLIERS

As at 11 May 2016, GSM has verified that BnP Capital (Pty) Ltd is not listed as one of the restricted suppliers.

RECOMMENDATION

It is recommended that the BAC support the request to confine and award the contract for the sourcing of funds for the SAA group to BnP Capital (Pty) Ltd, at an estimated total cost of R256 500 000.00 including VAT.

SIGNATURES:

1. Compiled and verified that the submission is in line with the SAA SCM Policy:

Silas Matsaudza
Commodity Manager

11-05-2016
Date

2. Confirmation of budget or corrective measure to ensure no overspend:

Faizal Peer
Financial Controller: Shared Services

11/5/16
Date

3. Recommended by:

~~Cynthia Stimpel~~ Michael Kluger
~~Group Treasurer~~
Acting Group Treasurer

11/5/2016
Date

Recommended under the premise that the company is under pressure to arrange funding

Phumeza Nhantsi
Interim CFO

11/5/2016
Date

I recommend and this will be approved provided the interest rate that the company incur will be favourable (5.5%-7%)

4. Supported by:

Mzolisi Runggu
Manager: Operational Compliance

11/05/2016
Date

ANNEXURE 'POS-5'

To:	SAA BOARD OF DIRECTORS
From:	INTERIM CFO
Date:	20 MAY 2016

SAA BOARD OF DIRECTORS' WRITTEN RESOLUTION NO 2016/B16: CONFINEMENT AND AWARD OF THE CONTRACT FOR THE SOURCING OF FUNDS FOR SOUTH AFRICAN AIRWAYS SOC LIMITED (SAA) GROUP TO BNP CAPITAL ((PTY) LTD

PURPOSE

The purpose of this submission is to request the Board to approve the confinement and award of the contract for the sourcing of funds for the SAA Group to BnP Capital (Pty) Ltd.

BACKGROUND AND MOTIVATION

The Finance, Investment and Procurement Committee (FIPCO) considered and approved this item for recommendation to the Shareholder through a round robin process on 20 May 2016.

For further information in this regard, the Board members are referred to the accompanying submission marked **Annexure "A"**.

RECOMMENDATION

It is recommended that the Board of Directors approves the confinement and award of the contract for the sourcing of funds for the SAA Group to BnP Capital (Pty) Ltd.

NAME OF DIRECTOR	*IN FAVOUR*	*AGAINST*	*ABSTAIN*
D C MYENI	✓		

SIGNED: ____________________   DATE: ____________________

ANNEXURE 'PES-6'

CONFINEMENT RE AWARD OF CONTRACT FOR FUNDING TO DnP CAPITAL	2016/6/16
1. MS DUDUZILE MYENI	Favour Email 20/06/2016
2. MS YAKHE KWINANA	Favour Form 27/6/2016
3. DR JOHN TAMBI	Favour Form 27/6/2016
4. MR MUSA ZWANE	Favour Form 23/06/2016
5. MS PHUMEZA NHANTSI	

ANNEXURE 'POS-7'

To:	SAA BOARD OF DIRECTORS
From:	INTERIM CFO
Date:	20 MAY 2016

SAA BOARD OF DIRECTORS' WRITTEN RESOLUTION NO 2016/B16: CONFINEMENT AND AWARD OF THE CONTRACT FOR THE SOURCING OF FUNDS FOR SOUTH AFRICAN AIRWAYS SOC LIMITED (SAA) GROUP TO BNP CAPITAL ((PTY) LTD

PURPOSE

The purpose of this submission is to request the Board to approve the confinement and award of the contract for the sourcing of funds for the SAA Group to BnP Capital (Pty) Ltd.

BACKGROUND AND MOTIVATION

The Finance, Investment and Procurement Committee (FIPCO) considered and approved this item for recommendation to the Shareholder through a round robin process on 20 May 2016.

For further information in this regard, the Board members are referred to the accompanying submission marked **Annexure "A"**.

RECOMMENDATION

It is recommended that the Board of Directors approves the confinement and award of the contract for the sourcing of funds for the SAA Group to BnP Capital (Pty) Ltd.

NAME OF DIRECTOR	*IN FAVOUR*	*AGAINST*	*ABSTAIN*
Yakhe Kwinana	✓		

SIGNED: ____________ DATE: 27/5/2015

Legal must be involved to work with BnP Capital (Pty) Ltd to ensure that all legal requirements are met.

To:	SAA BOARD OF DIRECTORS
From:	INTERIM CFO
Date:	20 MAY 2016

SAA BOARD OF DIRECTORS' WRITTEN RESOLUTION NO 2016/B16: CONFINEMENT AND AWARD OF THE CONTRACT FOR THE SOURCING OF FUNDS FOR SOUTH AFRICAN AIRWAYS SOC LIMITED (SAA) GROUP TO BNP CAPITAL ((PTY) LTD

PURPOSE

The purpose of this submission is to request the Board to approve the confinement and award of the contract for the sourcing of funds for the SAA Group to BnP Capital (Pty) Ltd.

BACKGROUND AND MOTIVATION

The Finance, Investment and Procurement Committee (FIPCO) considered and approved this item for recommendation to the Shareholder through a round robin process on 20 May 2016.

For further information in this regard, the Board members are referred to the accompanying submission marked **Annexure "A"**.

RECOMMENDATION

It is recommended that the Board of Directors approves the confinement and award of the contract for the sourcing of funds for the SAA Group to BnP Capital (Pty) Ltd.

NAME OF DIRECTOR	*IN FAVOUR*	*AGAINST*	*ABSTAIN*
Dr. John E Tambi	Yes		

SIGNED: [signature]

DATE: 27/05/2016

ANNEXURE 'POS-8'

SOUTH AFRICAN AIRWAYS
FLYSAA.COM

South African Airways
Company Secretary
Suite 2, 6th Floor
Airways Park
1627

Private Bag X13
ORT International Airport
1627

Tel: 27 11 978-6553
Email: companysecretary@flysaa.com

SAA BOARD OF DIRECTORS' WRITTEN RESOLUTION NO 2016/B16: CONFINEMENT AND AWARD OF THE CONTRACT FOR THE SOURCING OF FUNDS FOR SOUTH AFRICAN AIRWAYS SOC LIMITED (SAA) GROUP TO BNP CAPITAL ((PTY) LTD

The Board by Round Robin 2016/B16 as of 24 May 2016 **RESOLVED** to approve the confinement and award of the contract for the sourcing of funds for the SAA Group to BnP Capital (Pty) Ltd.

Certified a true copy.

Ruth Kibuuka
Company Secretary
Date:

Company Secretary
SOUTH AFRICAN AIRWAYS
South African Airways SOC Ltd
Registration No 1997/022444/30

Annexure 'POS-9'

Media article resignation of Meyer

http://www.bdlive.co.za/business/transport/2015/11/20/meyer-quit-saa-to-cut-ties-with-board

Meyer quit SAA to cut ties with board

by Nicky Smith, 20 November 2015, 05:43

Wolf Meyer, right, and Dudu Myeni. Picture: SOWETAN

FORMER South African Airways (SAA) chief financial officer Wolf Meyer says he resigned from the national airline because he no longer trusted the board or its chairwoman Dudu Myeni.

Mr Meyer's departure comes in the same week that acting CEO Thuli Mpshe was replaced by Musa Zwane, who was head of SAA Technical.

Nonexecutive director Tony Dixon left last month while SAA's chief commercial officer, Sylvain Bosc, is on "special leave" and unlikely to return.

Mr Meyer, who wanted to set the record straight about the "real reasons" for leaving the airline, spoke to Business Day a day after he was "nailed" by SAA board members in a parliamentary briefing.

"I resigned because I could no longer associate myself with the conduct of the board and the direction the board was steering the company in," Mr Meyer said. He said in the past two-and-a-half years, he had endured at least four investigations. The pressure and allegations of impropriety had eroded his trust in the board.

SAA has been involved in laborious negotiations to balance out its cash problems with its obligations to pay for new aircraft it ordered years ago.

A solution was reached, negotiated by Mr Meyer and Airbus officials, to change the deal to allow for SAA to acquire the use of new, fuel-efficient aircraft and to save R1.6bn.

It is understood Ms Myeni wanted the contract to lease five A330 wide-body aircraft changed to an outright sale to a third party that would buy the jets on SAA's behalf. She has not disclosed the name of this third party to the other two parties.

However, her plans appear to be in a state of flux as there are now multiple versions of what it is that is being proposed.

In Parliament on Wednesday, SAA's audit committee head Yakhe Kwinana told MPs an EY report had shown that no value for money had been generated from R25bn that SAA had spent on goods and services. She said it had also disclosed that there were no proper contracts in place for some of the services rendered to SAA. Mr Meyer was blamed for this.

"If I was so terrible why didn't they suspend me after all those investigations?" Mr Meyer said.

SAA spokesman Tlali Tlali said on Thursday the airline would not comment further on Mr Meyer's departure.

ANNEXURE 'POS-10' ABSA CAPITAL

From: Cynthia Stimpel
Sent: 24 May 2016 04:16 PM
To: Phumeza Nhantsi
Subject: FW: HYPOTHETICAL QUOTE on SOURCING OF FUNDS
Attachments: Success Fee Calculation for the TA.xlsx

Dear Phumeza
I know you have been very busy, however, can you please look at this email below, and could we please discuss?
Thanks and regards
Cynthia

Cynthia Stimpel | Group Treasurer | Finance

Phone: +27 11 978 3653 | E-Mail: CynthiaStimpel@flysaa.com
Room 404 A 4th FloorAirways Park- Johannesburg- South Africa

From: Cynthia Stimpel
Sent: 20 May 2016 17:02
To: Phumeza Nhantsi
Subject: FW: HYPOTHETICAL QUOTE on SOURCING OF FUNDS

Dear Phumeza

With reference to the discussion we have two weeks ago regarding the Fee calculation for the Transaction Advisor, I send a message to Thuli at ABSA, and asked her hypothetically what price would they quote on an amount of R15 Billion as an arranger and participation.
She has listed her pricing in the emails below.
When I do the calculations according to this hypothetical quote from ABSA (see attached spreadsheet for various calculations), I see that SAA can save 5 sixths of the funds calculated for the BnP Capital Transaction. (in other words only pay one sixth of this amount of R256 million – as her quote is 25 bps which is 0.0025 or 0.25%). Even if we did take the highest fee – which is 0.50% the amount would equate to R85 million inclusive of Vat. (I have also send an email to Angela Makone at RMB, as well as ZEN at Standard Bank – but they have not come back to me as yet).

Therefore, I am still very uncomfortable with the document which has been approved by the BAC for a Fee of 1.5% to be paid on the success rate fee with BnP Capital, and thought to ask you whether we can still reconsider the decision taken of confining to one service provider, and rather open this wider to all.

My recommendation would be that we send a new RFP for a Transaction Advisor to source funds and participate or only to source funds. Once we have obtained the funds then the current Transaction Advisor can still continue with the original mandate or agreement as listed. From a reputational risk perspective for SAA, the fee amount would send the wrong signals into the market, and especially our Bankers.

We are all tasked to save money for SAA, and I strongly believe that we can make a concerted effort to save this cost for SAA.
I am available on my phone if you wish to discuss this further even over the weekend, or else we can meet and discuss on Monday, please, as this is imperative that we review and reconsider this proposal in order to save money for the company and keep this company's best interest at heart.

Best regards
Cynthia

Cynthia Stimpel | Group Treasurer | Finance

Phone: +27 11 978 3653 | E-Mail: CynthiaStimpel@flysaa.com
Room 404 A 4th FloorAirways Park- Johannesburg- South Africa

From: Thuli.Zulu@absacapital.com [mailto:Thuli.Zulu@absacapital.com]
Sent: 18 May 2016 17:34
To: Cynthia Stimpel
Subject: RE: HYPOTHETICAL QUOTE

My pleasure

From: Cynthia Stimpel [mailto:CynthiaStimpel@flysaa.com]
Sent: Wednesday, May 18, 2016 5:33 PM
To: Zulu, Thuli: ABSA Capital (JHB)
Subject: RE: HYPOTHETICAL QUOTE

Thank you so much.
Best regards
Cynthia

Cynthia Stimpel | Group Treasurer | Finance

Phone: +27 11 978 3653 | E-Mail: CynthiaStimpel@flysaa.com
Room 404 A 4th FloorAirways Park- Johannesburg- South Africa

From: Thuli.Zulu@absacapital.com [mailto:Thuli.Zulu@absacapital.com]
Sent: 18 May 2016 17:31
To: Cynthia Stimpel
Subject: RE: HYPOTHETICAL QUOTE

Not quite, the Arranger will earn the 10 bps and then in addition their portion of the debt will be 25bps of participation fee. So in essence one party will have 35-50 bps and other are 25-40bps because they are only participating.

I'd negotiate hard to get close to 25bps given the quantum involved

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From: Cynthia Stimpel [mailto:CynthiaStimpel@flysaa.com]
Sent: Wednesday, May 18, 2016 5:22 PM
To: Zulu, Thuli: ABSA Capital (JHB)
Subject: RE: HYPOTHETICAL QUOTE

Hi Thuli
Would this be calculated on the full quantum amount of borrowing – i.e. let's say a total of 50 bps on R15 Billion?
Thanks and regards
Cynthia

Cynthia Stimpel | Group Treasurer | Finance

Phone: +27 11 978 3653 | E-Mail: CynthiaStimpel@flysaa.com
Room 404 A 4th FloorAirways Park- Johannesburg- South Africa

From: Thuli.Zulu@absacapital.com [mailto:Thuli.Zulu@absacapital.com]
Sent: 18 May 2016 17:08
To: Cynthia Stimpel
Subject: RE: HYPOTHETICAL QUOTE

Dear Cynthia

Arranging fees are generally lower than 10 bps and you will also need to factor participation fees for the Lenders and the Arranger which usually range between 25-40 bps. A deal can always be made.

Regards

Thuli

From: Cynthia Stimpel [mailto:CynthiaStimpel@flysaa.com]
Sent: Wednesday, May 18, 2016 1:04 PM
To: Zulu, Thuli: ABSA Capital (JHB)
Subject: HYPOTHETICAL QUOTE

Dear Thuli
Would it be possible to give me a Hypothetical Quote on the following: I am trying to benchmark some numbers, please?
This is a purely hypothetical question:
*Should SAA go into the market for a Transaction Advisor or Funds Arranger for an amount of R15 billion – what would be the fees for this servic*e, from yourselves.

Best regards
Cynthia

Cynthia Stimpel | Group Treasurer | Finance

Phone: +27 11 978 3653 | E-Mail: CynthiaStimpel@flysaa.com
Room 404 A 4th FloorAirways Park- Johannesburg- South Africa

Annexure 'POS-11'

From: Masotsha Mngadi <mngadi.masotsha@gmail.com>
Sent: 31 March 2016 08:55 AM
To: Mandy Coetser
Subject: Re: Response to the Proposal of a Transaction Advisor on the South African Airways' Long Term Funding Project - Reference no.: GSM10/16 - Submission Date - 12h00; 18 March 2016 - Submission by BNP Capital & Inline Trading 10 (Proprietary) Limited ("Sub...

Good morning Mandy,

Hopefully you have had a restful evening.

Following my telephone conversation with you yesterday, certain issues, with respect, puzzle me.

Firstly, if/when you opened your (SAA) tender submission box at the set deadline of 12h00 on Friday, 18 March 2016, you would have found our submission envelope (or not if we didn't timeously submit, or at all), and therefore you would have known if/that we have timeously submitted our submission envelope (or not), or whether we submitted at all. From your questions yesterday, it appears that this information was not at hand.

Secondly, our organisation has a number of employees, and there are specific people who work on specific deals, for instance, the RFP GSM 10/16. So not everyone knows what everyone is working on. For example, if I phoned SAA Airways park, not everyone would know of the work you did on a particular day. I mention this because yesterday you mentioned a telephone conversation and an email exchange with our office. The team that is working on the RFP GSM 10/16 have no knowledge of this telephone call or email that you mentioned. They know that we had timeously submitted our submission envelope, and so would not have responded as per your mentioned response.

Be that as it may, our concern is that our submission envelope is missing, and that SAA could not find it.

You asked me yesterday what time/date was our submission envelope delivered. I hope that SAA has verification processes at/near the SAA tender submission box. For ease of reference, the individual who delivered our submission envelope, delivered it on 17 March 2016, between 17h00 and 18h30, was wearing a navy blue suit, powder blue shirt, no tie, the envelope delivered was a white A3 envelope, with the wording GSM 10/16 boldly written on both sides of the envelope. When our submission envelope was inserted into the SAA Tender box, in addition to the ladies who were behind the counter, 2 security guys, wearing black short sleeved jerseys with a yellow line around the collar, with white shirts underneath their jerseys, were standing on the left side of the SAA Tender box if you are facing it, & the individual who submitted it had a short, casual conversation with the 2 security guys.

We kindly await your acknowledgement of receipt.

Thanks, kindest regards.

Masotsha Mngadi

On 29 Mar 2016 4:59 PM, "Masotsha Mngadi" <mngadi.masotsha@gmail.com> wrote:

Good afternoon Mandy,

I have been trying to call your landline - 011 978 6009 - your phone goes to voice mail.

I am following up on the submission, which was submitted by way of 3 hard copies, in a white A3 envelope stapled and initialled, with the wording "GSM10/16" in big letters, on both sides of the envelope, to the SAA tender box, on the afternoon of 17 March 2016.

We have not received written acknowledgement of receipt.

Please would you send to me and to the addressee on the submission the written acknowledgement of receipt.

Looking forward to your response.

Thank you in anticipation.

Masotsha Mngadi.
Mobile phone - 0829029490