



**SOUTH AFRICAN AIRWAYS**

## **ANNEXURE C – ROADMAP TO FINALISE ANNUAL FINANCIAL STATEMENTS (AFS)**

### **1. Going concern**

SAA has been unable to satisfy its going concern status resulting in a delay in finalising the AFS for the 2017/18 and 2018/19 financial years.

While the shareholder has provided significant support as per the recent MTBPS, SAA still needs specific commitments for its working capital requirements. Securing funding continues to be a challenge.

SAA cannot finalise its AFS, within the prescribed time, until the going concern status is confirmed. This can only currently be enabled by the shareholder through financial support in the form of additional equity capital (for working capital purposes) or issuing of guarantees in support of loan funding in a timely manner. To date the shareholder has not confirmed this.

The Public Finance Management Act of 1999 states: “the public entity must prepare and submit Annual Financial Statements for audit within two months after the end of the financial year”.

The Companies Act No 71 of 2008 states: “A company satisfies the solvency and liquidity test at a particular time if it appears that the company will be able to pay its debts as they become due in the ordinary course of business for a period of 12 months after the date on which the test is considered”.

Financial statements are prepared on the basis that the entity is a going concern and will continue its operations for the foreseeable future – at least 12 months after being approved.

SAA is concerned about the risk associated with a disclaimed audit opinion from the Auditor General (AG) on business operations and liquidity. As such we requested the AG to provide us with a draft disclaimed audit opinion for the

#### **Directors**

TN Mgoduso\* (Acting Chairperson), Z Ramasia (Acting Group Chief Executive Officer), DJ Fredericks (Interim Chief Financial Officer), Al Bassa\*, ML Kingston\*<sup>1</sup>, HP Maluleka\*, AH Moosa\*, G Rothschild\*, MP Tshisevhe\*

\*Non-Executive Director

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Company Secretary – RN Kibuuka

South African Airways SOC Ltd

Reg. No. 1997/022444/30

A STAR ALLIANCE MEMBER 

company to consider the legal and cash flow implications. The AG was not comfortable to provide this.

## **2. 2018 AFS:**

The AG has completed the audit for the 2017/18 financial year subject to confirmation of the going concern assumption.

During various interactions with the AG over the 2018 external audit the company made it known that it required the support of the lenders and government to extend the maturity of its legacy debt of R9.2 billion for a period longer than 12 months. In addition, the company also had to secure sufficient funding for working capital for a 12-month period after the AFS were signed off to satisfy the liquidity requirement and to support the going concern assumption. The Board has allowed operations to continue based on the strength of two legal opinions received from Bowmans (see Annexure B). There was also no indication from the shareholder that guarantees and financial support would not be made available. However, given the recent inconsistent messages from government about support for SAA it has created huge uncertainty.

It must also be noted that in various engagements with the lenders to satisfy the going concern assumption for the 2018 AFS, the lenders were not willing to extend facilities even on the strength of government guarantees. This led to continuous delays and the resultant subsequent recapitalization from the shareholder was not timely. The hesitant and inconsistent approach to addressing the recapitalization of SAA has made it difficult for the Board to conclude on its going concern status. The option to prepare the AFS on a liquidation basis at the time was considered but could not be applied, as government support was not formally withdrawn. However, the inconsistent approach to dealing with recapitalization and the reluctance of lenders to extend for a period exceeding twelve months, resulted in short term rollovers and has added to uncertainty.

In the circumstances it is clear that the uncertainty of not knowing whether shareholder's funding is available to the Board and commitment to supply a suitable guarantee to the lenders means the Board can no longer rely on the Bowmans opinion and therefore it would be reckless for the company to continue trading. In the circumstances the Board will be meeting to reconsider its options and reconsider its position.

## **3. 2019 AFS:**

The Auditor General AG commenced the 2018/19 audit during 2019 but withdrew after performing some of the interim audit work as SAA was not considered a going concern and the draft AFS would not be submitted timeously. This was to

afford SAA an opportunity to resolve its going concern status before the AG could return and complete the audit.

SAA have prepared the draft annual financial statements for the 2018/19 financial year. The AFS have been prepared on a going concern basis and are compliant with International Financial Reporting Standards. However, the board is unable to approve them unless the going concern status has been established with certainty. As such the company is not in a position to submit its AFS for audit.

As stated above the Board will be meeting to reconsider its options and reconsider its position.