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MEDIA RELEASE

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To: All members of the media

UPDATE ON AIR NAMIBIA'S RECENT DEVELOPMENTS AND WAY FORWARD

The Air Namibia Board of Directors herewith issues this statement to clarify recent significant developments involving the airline as well as misconceptions which may have been created as a result. This statement is specifically aimed and intended to impress upon the company's stakeholders that the Board of Directors have always acted in good faith and in the best interest of the company in the discharge of their fiduciary duties. The board acknowledges that it owes its primary duty to the company and should jealously guard the interests of the company at all costs, a basic tenet of corporate governance.

1. Appointment of the Board and immediate challenges

The Board of Directors of Air Namibia was appointed by the Government of the Republic of Namibia on 17 December 2018, effective 1 January 2019, with the express mandate to ensure that the airline breaks-even in three years. The board duly embraced its mandate and started executing its role in earnest. Throughout its tenure, the directors always endeavored to uphold the highest levels of integrity and professionalism as it represents the interests of the Shareholder and the Company.

The Board of Directors immediately started working on finalizing the new business model and Integrated Strategic Business Plan as developed by the Technical Committee on Air Namibia with the specialist assistance of consulting firm, Ultimate Solutions Consulting (UK). Cabinet took the view that previous efforts and attempts to resolve the Air Namibia challenges had failed to yield positive results because the airline operated on a flawed business model.

The new Board, having inherited a company that was faced with diverse challenges, finalized the first 100 days in Office compiling an Inception Report which dealt with the issues of fleet, network, commerce, safety, legal, governance, finance and human capital. The report, which concluded that the Airline was in a sorry state, was shared with the key primary stakeholders.

A recurring theme of the Board tenure has been enormous financial challenges, which could be attributed to historic poor financial management, inappropriate business model, deteriorating brand equity, skills mismatch in strategic areas, ill-conceived route network, aging fleet, and poorly negotiated leases, amongst others. It was always clear that the organization would require significant capital injection from the shareholder, if the issues facing the airline were to be addressed in a comprehensive and holistic manner. Despite all the challenges faced by the organization, the airline still managed to record the following milestones, albeit under trying circumstances:

- Finalised an Inception Report setting out the state of affairs in the organisation during June 2019.
- Developed the Integrated Strategic Business Plan during June 2020.
- Finalised the recruitment of the CEO during June 2020.
- Improved the flight On-time Performance to 86%
- Successfully executed several national cargo and evacuation assignments after the onset of Covid-19
- Become self-sustaining in terms of funding local operational costs, from revenue generated from ticket sales.

2. <u>The Challenge Air Case</u>

The Board inherited legacy debts, one of which was a debt emanating from litigation against Challenge Air. The case dates back as far as 1998 and related to the sub-leasing of an aircraft by Air Namibia from Challenge Air. Subsequent to Challenge Air being placed in liquidation, the liquidators of the now defunct airline sought to enforce their rights against Air Namibia.

This process culminated in arbitration proceedings in which Air Namibia was represented by Namibian, South African and European Senior Counsels. An award was made against the airline. The award was made an order of Court in Germany during 2015, and Challenge Air was recognized by the Namibian legal system during July 2019 for the purpose of bringing enforcement proceedings against Air Namibia in the Republic of Namibia.

Air Namibia concluded a settlement agreement with Challenge Air during November 2019, which the airline complied with until the outbreak of Covid-19 in Namibia. The subsequent travel restrictions caused a serious dent on the airline revenues to a point that the airline's ability to continue honouring its obligations against Challenge Air in terms of the settlement agreement was severely compromised.

Challenge Air then filed an application to liquidate Air Namibia on 5 October 2020, which application was initially set down for hearing on 29 October 2020. The application was then postponed to 1 December 2020 and later postponed to 29 January 2021. The postponement of the liquidation application on 1 December 2020 was granted on condition that Air Namibia and the Ministry of Public Enterprises furnishes Challenge Air with an acceptable and reasonable payment plan in respect of the current outstanding debt. The Ministry of Public Enterprises had, in the meantime joined Air Namibia as a second respondent to the liquidation application.

Air Namibia continued engaging the shareholder about the need to find an acceptable payment plan to the matter, in order to avert liquidation on 29 January 2021. Late evening of 28 January 2021, the shareholder communicated that it would not avail funds for Air Namibia to settle with Challenge Air. It had also become clear at the time that the Ministry of Public Enterprises, as second respondent, had also taken the decision not to defend the matter. The inevitable consequence was, in all likelihood, a liquidation with all its disastrous consequences. Faced with the real prospect of liquidation, Air Namibia engaged and reached a settlement with Challenge Air for the debt owed to the latter. The Board was faced with two mutually exclusive options: settle on the terms agreed on or face liquidation on 29 January 2021. Seized with having to make difficult judgment call, the Board considered the fact that the outstanding debt owed to Challenge Air was significantly lower than the assets of the company that even if the most valuable asset was attached, the company would still continue operating. If, however, had the company been liquidated then we would not be talking about Air Namibia. It is worth mentioning that the company had no direct position from the shareholder on their views regarding liquidation.

On the issue of consultation with the shareholder, the Board can confirm that the shareholder was engaged and their position was to leave the matter to the Board, so long as the impression was not created that settlement agreement would bind the shareholder.

The Board signed with the full understanding that the agreement had no guaranteed backing of the State and there is no single mention of the Government/State/Ministry of Public Enterprises in the agreement. It should also be noted that, the window of opportunity to file for liquidation still remains open. In all these, the Board stands firm by its decision believing that the decision was taken in the best interest of Air Namibia.

3. Implications of Liquidation

It may be worth the while to set out what liquidation would mean for Air Namibia and its stakeholders, both primary and secondary.
The liquidation of the airline would have triggered events of default under lease agreements in respect of which the Shareholder issued Guarantees, which in turn would have nullified all options the shareholder is considering regarding the future of the airline as insolvency constitutes a repudiatory breach of the lease agreements. The impact on employees would have been even worse in the sense that liquidation would have meant termination of employment for all 636 employees of the airline.

It is common cause that the first payment in terms of the payment plan concluded by Board is due on 18 February 2020 which, in the absence of support from the Shareholder, leaves sufficient time in which alternatives can be explored as far as the future of the airline is concerned. The Board of Directors, in resolving to agree to this payment plan, is of the view that it has secured a window in which the Shareholder can finalize ongoing efforts as far as the future of the national airline is concerned.

All adverse consequences cited above were avoided by the conclusion of the agreement with Challenge Air. The Board of Directors remain firm that it acted in the interest of the Shareholder. The Board is of the opinion that it is in the best interest of the airline and the Shareholder to avoid liquidation and, therefore, implement the re-start plan that was presented to the Shareholder.

4. Governance Challenges: the role of the Shareholder and the Board

The Board has, over a significant part of its tenure, had to endure the usurping of its functions by the state as shareholder, which is not consistent with sound SOE governance. It is a fundamental principle that the role of the State, as shareholder, is to provide high level policy direction to SOEs, while the board is responsible for leading and directing the SOE in achieving its goals and objectives. The Board oversees and monitors management in executing the decisions and strategy of the organization. The situation with Air Namibia has degenerated to a point where the following governance transgressions have been experienced in that the shareholder ministry:

- directly engages employees and trade unions, by-passing the Board,
- negotiates contracts involving the company without the knowledge of the Board,
- procures advisory services on behalf of the company,
- manages the appropriated budget earmarked for the company without the involvement of the Board. In fact the airline had an amount of NAD 948 Million in the 2020/2021 fiscal year by the Ministry of Finance and approved by Parliament and the Board has to date not been briefed on how these funds were disbursed to the airline if at all, other than a monthly allocation for employee salaries.
- has initiated a restructuring exercise, without prior knowledge of the Board.

These are unfortunate instances that fly in the face of good corporate governance and have made it extremely difficult for the Board to execute its fiduciary role.

5. <u>Air Namibia Re-start plan versus the N$ 7 billion Plan the Shareholder keeps talking about</u>

An impression has often been created that the airline needs N$ 7 billion to re-start its operations. This figure is not factual and was based on a wrong premise. In fact, the N$ 7 billion involved bringing forward future debts from as far into the future as 2025 and create the impression that these debts are due and payable. This figure has also been further clarified with the shareholder at no fewer than three (3) forums.

The airline has, in response to the latest industry developments, recently developed a new strategic plan which provides for restructuring Air Namibia into a leaner, competitive and sustainable airline. It is worth mentioning that, indeed the airline sits with historical debts (dating back to as far back as 23 years) and those debts that are Government guaranteed need to be serviced whether the airline is liquidated or not. Currently the airline owns an all-paid-for fleet of 6 aircrafts, and which can be utilized to generate revenue without the burden of lease costs. The board has also long terminated all the loss-making routes and these are not part of the re-start plan. In summary: all leases will be terminated, all non-profit making routes are removed from our network, most contracts and agreements are being re-negotiated. Thus, we will be sitting with a very lean and cost-effective airline.

Liquidation would result in all more than 636 employees losing their jobs, whereas the re-start plan will preserve at least 50% of those jobs, while enabling the airline to add value to the domestic economy.

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ISSUED BY: **AIR NAMIBIA BOARD OF DIRECTORS**

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