South African Airways (SOC) Limited (in business rescue)
Registration number 1997/022444/30
(“SAA”)

18 March 2021

General Update to all Affected Persons

Prepared by:
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1. Post Commencement Finance ("PCF")

1.1. The duly adopted business rescue plan ("the Plan") gave rise to a funding commitment of R10.3 billion comprising the following amounts:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividend to Concurrent Creditors</td>
<td>R600 million (payable in three instalments from 2021)</td>
</tr>
<tr>
<td>Settlement with Lessors</td>
<td>R1.7 billion (payable in three instalments from 2021)</td>
</tr>
<tr>
<td>Voluntary Separation and Severance Packages</td>
<td>R2.2 billion</td>
</tr>
<tr>
<td>Post Commencement Creditors</td>
<td>R800 million</td>
</tr>
<tr>
<td>Unflown Ticket Liability</td>
<td>R3 billion</td>
</tr>
<tr>
<td>Restart Working Capital</td>
<td>R2 billion</td>
</tr>
</tbody>
</table>

1.2. We draw your attention to the following two matters relating to the above amounts:

1.2.1. The dividend to Concurrent Creditors and the settlement of Lessors are payable in three annual instalments from August 2021; and

1.2.2. The R10.3 billion above is separate from the R16.4 billion that is payable to the Lenders, as these amounts have already been appropriated in the February 2020 Budget Speech by the Minister of Finance.

1.3. The Department of Public Enterprises ("the DPE") made a submission for a funding commitment of R10.5 billion for the implementation of the Plan. The funds were allocated through the Medium-Term Budget Policy Statement ("MTBPS") speech by the Minister of Finance in October 2020, which is broken into the following categories:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Voluntary Separation Packages, Severance Packages and Unpaid Salaries</td>
<td>R2.8 billion</td>
</tr>
<tr>
<td>Post Commencement Creditors</td>
<td>R800 million</td>
</tr>
<tr>
<td>Unflown Ticket Liability</td>
<td>R2.2 billion</td>
</tr>
<tr>
<td>Restart Working Capital</td>
<td>R2 billion</td>
</tr>
<tr>
<td>Recapitalisation of Subsidiaries</td>
<td>R2.7 billion (not part of the business rescue)</td>
</tr>
</tbody>
</table>
1.4. We draw your attention to the following two matters relating to the above amounts:

1.4.1. The funding for the recapitalisation of subsidiaries of R2.7 billion does not form part of the outcome of the business rescue process or the Plan.

1.4.2. The R10.5 billion above is separate from the R16.4 billion that is payable to the Lenders as that has already been appropriated in the February 2020 Budget Speech by the Minister of Finance.

1.5. It must be noted that the funding commitment of R10.5 billion as submitted by the DPE to National Treasury, did not cater for the full business rescue commitments due to some of the amounts being needed to address commitments in the future. The said commitments encompass, the Dividends to Concurrent Creditors, Settlement with Lessors and a portion of the Unflown Ticket Liability.

1.6. Following the allocation in the MTBPS, the DPE committed R3.5 billion to SAA to be made available immediately in tranches prior to the balance of the R10.5 billion being made available. This was termed critical funding.

1.7. The first tranche of R3.5 billion was made available by the DPE in December 2020 in the amount of R1.5 billion with the following conditions for its utilisation:

1.7.1. Payment of two (2) months unpaid salaries;

1.7.2. Payment of Post-Commencement Creditors;

1.7.3. Working Capital portion for SAA; and

1.7.4. Settlement of amounts owed to subsidiaries.

1.8. The BRPs were thus unable to utilise these funds as the conditions provided were non-compliant with the provisions of Companies Act 71 of 2008, as amended (“the Companies Act”) in relation to the prioritisation of payments, which is generally referred to in the business rescue as the payment waterfall.

1.9. The second tranche of R3.5 billion was made available to SAA in January 2021 in the amount of R1.3 billion, again with the following conditions attached thereto:

1.9.1. Payment of 3 (three) months salaries as part of the settlement of unpaid salaries and ring-fencing of the remainder;

1.9.2. Payment of Post-Commencement Creditors;
1.9.3. Working Capital portion for SAA; and
1.9.4. Payment of voluntary severance packages ("VSPs") for non-management staff only.

1.10. The above conditions superseded the conditions that were initially stipulated by the DPE when the first tranche was made available.

1.11. On 12 February 2021, further funding in the amount of R5 billion was made available by the DPE, following the outcome of the parliamentary appropriations process, for the following:

1.11.1. Payment of VSPs for non-management staff; and
1.11.2. Payment of VSPs for pilots and management.

1.12. We are engaging with the DPE on the utilization of the balance of the funds, which will need to be consistent with the proposals per the Plan.

1.13. To date R7.8 billion has been received from the DPE from the R10.5 billion committed in the MTBPS and is made up as follows:

1.13.1. 1st tranche of R1.5 billion;
1.13.2. 2nd tranche of R1.3 billion; and
1.13.3. 3rd tranche of R5 billion.

1.14. It must be noted that no funds have been received for the recapitalisation of the subsidiaries in the above tranches. The BRPs were advised by the DPE that the balance of funds would be made available for the subsidiaries once certain government processes have been resolved.

2. Utilisation of PCF:

2.1. Employees

2.1.1. To date an amount of R360.7 million has been paid to 3 888 (three thousand, eight hundred and eighty eight) employees being the three months settlement of unpaid salaries. This represents 85% of the total workforce.

2.1.2. To date an amount of R1.55 billion has been paid to 3 140 (three thousand, one hundred and forty) employees with regards to the VSPs
that have been taken up. Further amounts will be paid when certain of
the remaining employees that have taken up the VSPs get processed to
exit the Company.

2.2. Post-Commencement Creditors:

2.2.1. We have undertaken a process to reconcile all Post-Commencement
Creditors’ accounts based on the most recent statements and other
relevant information.

2.2.2. In performing most of these reconciliations, it has become apparent that
there is a need for engagements with some creditors in order to reach
agreement on some of the items reflected on the statements. Therefore,
given the volume of creditors, this process has taken a considerable
amount of effort and time, but we hope to finalise the payment process
by the end of March 2021.

2.2.3. Once there is agreement with these creditors on the reconciliation,
payments will be remitted to the relevant creditors.

2.2.4. To date an amount of R400 million has been remitted towards Post-
Commencement Creditors.

2.2.5. This process is ongoing and engagements with creditors are continuing
in earnest.

2.3. Unflown Ticket Liability

2.3.1. This amount is earmarked for flying passengers that have flights that are
still to happen or that were issued travel vouchers in substitution of the
tickets issued thereto which the airline could not previously honour.

2.3.2. The travel vouchers are valid until March 2023 so as to cater for the
current travelling uncertainties, especially for international travel.

2.4. Working Capital

2.4.1. This amount is currently being utilised for the current costs of care and
maintenance.
2.4.2. The rest of the funds will finance the restart of the operations post business rescue.

3. Employee Matters:

3.1. The settlement of unpaid salaries has been taken up by and paid to over 85% of the eligible current and former employees. The settlement is equivalent of a three-month salary *in lieu* of eight months unpaid salaries from April to November 2020.

3.2. A settlement agreement was signed on 24 December 2020, by four (4) unions being NTM, SATAWU, AUSA and Solidarity as well as by the two formations representing non-unionised employees.

3.3. The settlement agreement was also extended to members of unions that had not signed the settlement agreement for individual acceptance. Due to the lockout of the pilots, which started on 18 December 2020, SAA has not concluded the unpaid salaries settlement agreement with the South African Airways Pilots Association (“SAAPA”) members and certain other pilots. However, SAA has requested SAAPA to allow individual pilots to settle in their individual capacity with SAA, if they so wish, but this has been refused by SAAPA.

3.4. The Regulating Agreement, which is the collective agreement governing the relationship between SAA and SAAPA, prohibits SAA from making a number of operational and strategic commercial decision without the agreement of SAAPA.

3.5. It is for this reason the BRPs believe a restructured airline can only be successful should it not be encumbered by the onerous provisions of the Regulating Agreement, hence the current lockout of and ongoing negotiations with SAAPA to have the Regulating Agreement terminated.

3.6. VSPs

3.6.1. 3246 (three thousand, two hundred and forty six) employees across all categories accepted the VSPs, which closed at the end of August 2020, thus concluding their employment with SAA and exiting from SAA.

3.6.2. Payments in relation to VSPs have been made in two parts, the first part comprised amounts, which could be paid by SAA without requiring a tax
directive, and the second comprised those amounts that required a tax directive from the South African Revenue Service (“SARS”).

3.6.3. Part 1 comprised of payment of:

3.6.3.1. One month’s notice payment;
3.6.3.2. Accrued leave payment;
3.6.3.3. Pro rata 13th cheque (if applicable); and
3.6.3.4. Back pay of a 5.9% 2019 salary increase (if applicable).

3.6.4. Part 2 comprised of payment of:

3.6.4.1. One week’s remuneration for each completed year of service;
3.6.4.2. VSP top up (if applicable); and/or
3.6.4.3. VSP incentive (if applicable).

3.6.5. The VSPs were paid to eligible employees as follows:

3.6.5.1. Part 1 payment to:

3.6.5.1.1. Cabin Crew and Ground Staff on 12 February 2021;
3.6.5.1.2. Managements, Specialists and Pilots on 17 February 2021.

3.6.5.2. Part 2 payment to all employees on 26 February 2021.

3.6.6. A handful of VSP payments remain outstanding due to various reasons. The payroll team is working hard to resolve the issues.

3.6.7. Following the exit of the employees who elected to take VSPs, 1 346 (one thousand, three hundred and forty six) employees remain employed by SAA. These employees are subject to the s189A process, which is nearing completion. A total of 687 (six hundred and eighty seven) employees have been placed into the new structures on revised terms and conditions. A total of 659 (six hundred and fifty nine) employees have not been placed which include 383 (three hundred and eighty three) pilots. Employees who were not placed could elect to be
placed in a Training Lay Off Scheme, be retrenched or were invited to
apply for positions within the new structure that have not yet been filled.

3.7. SAAPA lockout:

3.7.1. The majority of pilots of SAA are represented by SAAPA as an affiliate of
the Air Lines Pilots Association of South Africa ("ALPA-SA"), which
concluded the Regulating Agreement in the early 1990s.

3.7.2. SAA has been in negotiations with SAAPA for the termination of the
Regulating Agreement and the acceptance of the new terms and
conditions of employment required for the restructured airline.

3.7.3. Having failed to reach an agreement in the numerous negotiations on
the terms and conditions, SAA issued a lock-out notice to SAAPA,
effective 18 December 2020, which remains to the date hereof.

3.7.4. During the lockout period, SAAPA’s members are not entitled to be paid
any remuneration or benefits by SAA.

3.7.5. The negotiations to seek a full and final settlement with SAAPA are
continuing notwithstanding the lock-out and to date there have been
certain elements of settlement that have been agreed to in principle by
SAA and SAAPA but the main contention is around the financial terms of
the settlement.

3.7.6. The BRPs are hopeful that a settlement that is acceptable to both parties
will be reached, more importantly, that such a settlement would be in the
best interest of the airline going forward.

4. Court Cases/Litigation

4.1. During this business rescue, we have been involved in several different litigious
matters. We will first address those that have been finalised and then those still
pending.

4.2. Finalised litigation proceedings:

4.2.1. Comair:
4.2.1.1. Prior to commencement of business rescue, Comair claimed that SAA had acted in an anti-competitive manner and were awarded a significant sum and the outstanding amount remaining unpaid was approximately R796 million. The legal costs were in the process of being taxed, which taxation was almost finalised when SAA entered business rescue supervision.

4.2.1.2. A settlement was reached prior to business rescue to pay the Comair settlement amount over time. This settlement was not honoured due to lack of funds. The Comair claim has since been compromised in the business rescue.

4.2.2. NUMSA and SACCA

4.2.2.1. Urgent Labour Court application: May 2020

4.2.2.1.1. This was the application instituted to declare the issuance of S189 notices prior to a business rescue plan being published to be procedurally unfair. This application succeeded and the judgment of the Labour Court was upheld by the Labour Appeal Court.

4.2.2.1.2. The S189 process was re-initiated once the Plan was adopted and will be finalised once the requisite funding is made available to SAA.

4.2.2.2. Urgent Labour Court application: January 2021

4.2.2.2.1. This is an application launched by NUMSA and SACCA to declare SAA and the BRPs’ actions unfair in that they have required employees to waive their rights to remuneration, in order to receive immediate payment.
4.2.2.2. Judgment was handed down in this matter on 8 February 2021 in terms of which NUMSA’s and SACCA’s application was dismissed with costs.

4.2.3. Airlink:

4.2.3.1. Claim for funds:

4.2.3.1.1. Airlink claimed funds from SAA that they alleged belonged to Airlink as they were monies paid to SAA for Airlink having flown passengers using SAA’s shared code. The funds were usually paid over by SAA to Airlink each month.

4.2.3.1.2. Airlink’s litigation was unsuccessful and they applied to the SCA and the SCA also dismissed their application.

4.2.3.2. Interdict application:

4.2.3.2.1. Airlink instituted proceedings against SAA in a two part application the first to *inter alia* interdict the meeting of creditors to vote on the proposed Plan, and the second to *inter alia* declaring that the business rescue proceedings has terminated alternatively declaring them unsuccessful.

4.2.3.2.2. Airlink were unsuccessful on the first part.

4.2.3.2.3. Airlink thereafter ultimately withdrew this application.

4.3. Pending litigation:

4.3.1. SAAPA:

4.3.1.1. Dispute resolution in terms of the BR Plan:
4.3.1.1.1. SAAPA have two disputes which have been referred to an expert as contemplated in clause 47 of the Plan, which disputes are as follows:

4.3.1.1.1.1. Whether or not SAAPA’s members’ pre-commencement employee claims, made preferent by section 144 (2) of the Companies Act are capable of being lawfully compromised; and

4.3.1.1.1.2. Whether or not the principle of supervening impossibility applies to excuse non-payment of the salaries of SAAPA’s members.

4.3.1.1.2. This dispute has been referred to an expert for adjudication.

4.3.1.2. Termination of the Regulating Agreement:

4.3.1.2.1. SAA instituted an application to set aside the regulating agreement prior to the commencement of the business rescue proceedings.

4.3.1.2.2. The proceedings were suspended during the business rescue proceedings but the suspension has been uplifted by the BRPs during November 2020. SAAPA has been put on terms to file its answering affidavit. It has, in the interim, delivered an interlocutory
application, arguing that the matter cannot proceed while SAA is in business rescue. We are awaiting a hearing date for the interlocutory application and will not pursue the main application pending the outcome of the interlocutory application.

4.3.1.3. Lockout application:

4.3.1.3.1. SAA locked out the SAAPA pilots in relation to the ongoing demand for, *inter alia*, the termination of the regulating agreement and the revision of existing terms and conditions for SAAPA pilots.

4.3.1.3.2. SAAPA instituted an application to set aside the lock out and SAA successfully defended the application.

4.3.1.3.3. SAAPA has now launched an application for leave to appeal that judgment, which SAA is opposing.

4.3.1.4. Payment application:

4.3.1.4.1. SAAPA has also instituted an application out of the High Court of South Africa, Gauteng Local Division, under case number 11078/2021 for payment of its members 2019 13th cheque and June 2020 salaries.

4.3.1.4.2. SAA has opposed this application.

4.3.2. James Robert Camm and Others (Namibian proceedings):

4.3.2.1. In this matter SAA sued various erstwhile Namibian employees in Namibia claiming payment of amounts (over
N$13 million) which these employees have stolen from SAA in terms of a fraudulent scheme relating to baggage claims.

4.3.2.2. Judgement has been taken against certain of the defendants and their pension funds benefits appropriated.

4.3.2.3. Certain of the defendants have settled on the basis that they forfeit their pension funds and certain of the defendants continue to defend the proceedings. To date an amount of N$1,475,499.30 has been recovered.

4.3.3. Judy Clayton and Others (Australian proceedings):

4.3.3.1. This matter involves Australian erstwhile employees who made an “adverse action” and “underpayment claim” for several million Australian dollars.

4.3.3.2. Prior to business rescue a mediation process took place and SAA was advised (by its legal advisors in Australia) to settle by paying these employees A$431,000. Prior to a deed of settlement being drawn SAA was placed under business rescue.

4.3.3.3. The employees were willing to continue and execute the settlement and be paid A$31,000 but SAA advised them that these employees would be concurrent creditors and advised that SAA would accept that they be paid 7.5 cents in the Rand like all other concurrent creditors and if they would not accept this position, SAA would in due course consider having the business rescue process made effective in Australia.

4.3.3.4. The employees have not accepted this proposal and the matter currently stands adjourned.

4.3.4. Black Management Forum – re appointment of Mango’s Chief Executive Officer:
4.3.4.1. An application was instituted seeking to set aside the appointment of the CEO of Mango, Mr Nico Bezuidenhout.

4.3.4.2. SAA was cited in the matter as it is Mango’s shareholder and had some involvement in the recruitment and appointment process.

4.3.4.3. SAA delivered its notice of intention to oppose the matter during February 2020, and had delivered the record of the decision-making process, as required in terms of rule 53 of the Uniform Rules of Court.

4.3.4.4. We anticipate that because Mr Nico Bezuidenhout has left Mango’s employ, the Black Management Forum will not pursue the matter further. They were required to deliver their supplementary affidavit some months ago, but nothing further has transpired in the matter.

5. Receivership

5.1. Once the BRPs have filed a notice of substantial implementation and SAA is discharged from the business rescue proceedings, the Receivership shall be deemed to have commenced and the Receiver/s shall be tasked with their duties as contemplated in the Plan.

5.2. The BRPs are required to propose the Receiver/s to the creditors of SAA, who then shall, by a majority vote, confirm the appointment of the Receiver/s. In terms of clause 36.2 of the Plan, a minimum of 1 (one) Receiver and the maximum of 2 (two) Receivers to be appointed to act as the agents of the General Concurrent Creditors, Lenders and Lessors to receive their respective distributions in accordance with clauses 36.3 and 36.4 of the Plan.

5.3. A notice has been issued to affected persons of the nominated Receiver/s, and calling for votes by the creditors, by way of proxy, to confirm the appointment of the Receiver/s after which the Receiver/s will be deemed to have been appointed and they can then commence with their duties.
5.4. The role and duties of the Receiver are detailed in clauses 36 and 37 of the Plan and the key duty of the Receiver is to ensure the distribution of Restructure Proceeds to affected persons.

6. What has the business rescue process achieved?

6.1. The primary achievement of the business rescue process was to transition SAA from being an insolvent company to a company that is both solvent and liquid.

6.2. To this end, the liabilities of the airline have been reduced by R35.7 billion as a result of the compromise that has been negotiated by the BRPs with Concurrent Creditors and Lessors, as shown below:

<table>
<thead>
<tr>
<th></th>
<th>Pre-BR Liability / Damages Claims</th>
<th>Dividend per BR Plan</th>
<th>Reduction of Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>Concurrent Creditors</td>
<td>R8 billion</td>
<td>R600 million</td>
<td>R7.4 billion</td>
</tr>
<tr>
<td>Lessors</td>
<td>R30 billion</td>
<td>R1.7 billion</td>
<td>R28.3 billion</td>
</tr>
<tr>
<td></td>
<td>R38 billion</td>
<td>R2.3 billion</td>
<td>R35.7 billion</td>
</tr>
</tbody>
</table>

6.3. Reduction of SAA’s workforce from 4700 (four thousand, seven hundred) employees to approximately 1 000 (one thousand) employees by means of the provision of VSPs and a successful s189 process.

6.4. Reduction of general overheads of the airline through renegotiation of supplier contracts based on a value for money principle.

6.5. Preservation of critical memberships of the airline that are paramount to the commercial success of its business (e.g. IATA, Star Alliance, etc.).

6.6. Preservation of the infrastructure and other airline assets.

7. Outstanding issues and conclusion of the business rescue process

7.1. In order to file a notice of substantial implementation, the BRPs must ensure that the following has been fulfilled:

7.1.1. Payment to employees, at a minimum, the unpaid salaries or a provision is made for such payment.

7.1.2. Payment of the Post-Commencement Creditors.
7.1.3. The election of the Receivers by creditors and the establishment of the Receivership.

7.2. The aforesaid attendances are being dealt with as critical by the BRPs and are being addressed as expeditiously as possible and is it anticipated that these items will be fully addressed by the end of March 2021.
FREQUENTLY ASKED QUESTIONS

Q1: Did the BRPs ask for an additional R3.5 billion from the Minister of Finance in the last budget cycle of 2021? If yes, what are these additional funds for?
A1: All request for funding for the implementation of the Plan were made to the shareholder department, the DPE in June 2020. Specific to the R3.5 billion referred to by the Minister of Finance, this was not a new request of funds by the BRPs. This amount is already part of the commitment of the shareholder to the funding required in terms of the Plan that is only due in the future as set out in paragraph 1.5. of the update to affected parties. This amount is made up of the following:
1. R1.7 billion due to Lessors;
2. R600 million due to Concurrent Creditors; and
3. R1.2 billion for the balance of Unflown Ticket Liability.

Q2: Is the funding of the subsidiaries part of the BRP funding request to government?
A2: The business rescue process is limited to SAA as a statutory entity and does not extend to its subsidiaries. Thus, the Plan only provides for funding for the implementation of the SAA restructuring as set out in the Plan and does not cover any of the subsidiaries save that they need recapitalisation.
To this end, the BRPs did not request any funding for the subsidiaries in the Plan.

Q3: Why is my VSP amount lower than expected? The same unexplained deductions were made on the unpaid salaries payments.
A3: As stated in 3.6, the VSP amounts comprised of various remuneration components. The following amounts were recovered from the amounts due to employees:
- Tax at the marginal rate for the components not subject to a tax directive;
- Tax as prescribed by the tax directive received from SARS for the amounts relating to severance pay;
- Any outstanding amounts due to SARS as per IT88 forms received from SARS;
- Risk and admin costs paid on behalf of the employees to various pension and provident funds;
- Amounts due in respect of IT equipment and luggage purchased; and
- Any other amounts due by the employees to SAA.

Q4: Why were the VSPs paid in two instalments instead of one, as per the agreement?
A4: Following the receipt of the funds for VSP payments, a decision was made to expedite the payment of some monies to the applicable employees and to split the payments of amounts due to employees. The amounts paid in Part 2 were subject to the receipt of SARS tax
directives for each employee. The application for over 3 200 tax directives was a time-consuming process and required the additional time for processing.

Q5: When is the lockout of the pilots going to be lifted?
A5: The lifting of the lockout is dependent on the outcome of the negotiations currently underway between SAA and SAAPA.

Q6: When is the SAA business rescue process coming to an end?
A6: The BRPs will file a notice of substantial implementation with the CIPC resulting in the termination of the business rescue process as soon as the outstanding items highlighted above have been addressed, the BRPs are making every effort to finalise these outstanding items by the end of March 2021.

Q7: Why did this business rescue process take so long? Is this normal in the business rescue space?
A7: The funding of the SAA business rescue was always dependent on Government funding and the substantial implementation thereof on the receipt of that funding to implement the Plan. The only way for Government to provide funding to SAA is through the budgeting processes.

The Company struggled for over three months in early 2020 to obtain funding from lenders notwithstanding a R2 billion Government guarantee. It was only in October 2020 (which is 11 months since the commencement of the rescue), that Government eventually allocated R10.5 billion for the implementation of the Plan. R7.8 billion of those funds were only received at the end of February 2021 (more than a year after the commencement of the business rescue).

The receipt of the funds in February 2021 enabled the BRPs to finalise the implementation of the Plan that includes payments to employees and creditors. Once these payments are finalised, the BRPs intend on filing the notice of substantial implementation, currently estimated to be the end of March 2021.

We wish to draw your attention to the “Status of Business Rescue Proceedings in South Africa” report published by the CIPC on 14 August 2020 (page 5) wherein the average period to substantial implementation of business rescues in South Africa since the year 2011 is 16.74 months. Put simply, an average business rescue has taken more than a year since the business rescue regime became effective in 2011.

Based on the above the business rescue period of SAA currently at 14.5 months appears to be within the above CIPC record.
Q8: What is the progress regarding the Strategic Equity Partner?
A8: This process is being driven by and is the responsibility of the DPE, as the shareholder. They will provide updates on this process when they deem it appropriate.

Q9: When is SAA planning to resume flying?
A9: The SAA board and management are busy working on the restart plan and the resumption of operations of the restructured SAA. SAA has received funding for this purpose.