South African Airways
Airways Park, Jones Road
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Johannesburg, South Africa

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1627

14 April 2020

Dear Sirs

RE: SOUTH AFRICAN AIRWAYS (SOC) LIMITED (IN BUSINESS RESCUE)

1. The Company was placed into voluntary business rescue on 5 December 2019.

2. The Government announced that R4 billion would be made available as post commencement finance ("PCF") for the following three objectives:

   2.1. To provide short-term liquidity to the Company to trade for a maximum period of two months ending 31 January 2020;

   2.2. To provide the business rescue practitioners with an opportunity to assess the Company and present to the Government possible restructuring options; and

   2.3. For the Government to choose one of the restructuring options and commit the funding necessary to effect it through the business rescue process.

3. This PCF of R4 billion was to be provided in two tranches of R2 billion as follows:

   3.1. The first tranche to be provided immediately by the existing lenders of the Company comprising of South African banks and was expected to be fully utilised by the end of December 2019 after the payment of salaries; and

   3.2. The second tranche was to be provided by the Government directly to the Company once the first tranche was exhausted.

4. As you are aware the second tranche of funding did not arrive on time as Government had some legal challenges with dispensing the funding directly and the existing lenders would not advance this funding on behalf of Government. This led to a loss of support from travel trade partners resulting in a halt in forward bookings and this led to the Company forecasting that it would run out of funding on Friday, 17 January 2020.

5. The shutdown was averted at the last minute through a number of interventions, by the business rescue practitioners, Government and some travel trade partners.

6. The above interventions provided a very short cash runway, which enabled the Company to secure further funding in the amount of R3,5 billion from the Development Bank of Southern Africa ("DBSA").

7. The DBSA funding was intended to support the Company through to the end of February 2020 at which point the Government would have elected its preferred restructuring scenario for the Company and committed funding to support this restructuring scenario.

8. It was also during this period in January 2020 that the government indicated its preference for the restructuring of the Company amongst the four scenarios presented to it on 3 January 2020. The scenario supported by Government would have seen the highest retention of jobs possible and the restructuring of the Company so that it was sustainable, non-reliant on Government funding in the future and a platform for growth.

9. This scenario required a minimum restructuring cost of approximately R7.7 billion to be utilised, inter alia, as follows:

   9.1. Dividend to concurrent creditors

   9.2. Restructuring costs

   9.3. Retrenchment costs

   9.4. Recapitalisation of subsidiaries

10. It was anticipated that the restructuring funding for the Company will be provided in the budget speech by the Minister of Finance given on 26 February 2020. Hence the business rescue plan was initially planned to be published on 28 February 2020.

11. The budget was, however, silent on the amount of the restructuring funding for the Company but provided an allocation of R16.4 billion for the repayment of legacy debt and PCF (provided by the existing lenders and the DBSA) together with interest thereon. The impact of the lack of clarity on the funding of the restructuring scenario supported by Government meant that the business rescue plan could not be published while this uncertainty continued. The business rescue practitioners then undertook several engagements with Government in order to ascertain how the funding would be made available.

12. More importantly, the business rescue practitioners since their appointment undertook various cost-cutting initiatives which, together with ticket revenue, enabled the extension of the cash runway beyond the end of February 2020, which was the initial projection of when the funding made available would run out. These initiatives included:

    12.1. Suspension/cancellation of contracts that were onerous for the Company and in some instances deemed to be out of touch with market value and thus potentially corrupt;

12.2. Renegotiations of various contracts to either align them with market value or to change the terms completely;

12.3. Suspension of the loss making routes that were a cash flow burden on the Company.

13. The effects of the COVID-19 virus started magnifying in late February 2020 with significant and un-anticipated impact on the airline industry globally which led to:

13.1. The widespread immediate cessation of operations following the travel bans and lockdowns;

13.2. The evaporation of all revenue from ticket sales and an increase in the demand for refunds;

13.3. An increased level of uncertainty regarding the length of the lockdown period; and

13.4. An increased level of uncertainty of the costs of care and maintenance of the airline infrastructure during the lockdown period and the cost to restart operations after the lockdown.

14. As the airline industry was the first to experience the negative effects of COVID-19 many governments indicated their support for their domestic airlines.

15. Following the announcement of the lockdown by the President in his address to the nation and the subsequent issuing of regulations that amounted to a ban of international travellers, the Company ceased all its international and regional flights.

16. This was followed by the cessation of all domestic flights after the announcement of the lockdown period.

17. On the 2 April 2020 the business rescue practitioners wrote to Government through the shareholder representative ministry, the Department of Public Enterprises, and the correspondence contained the following:

17.1. An update on how the COVID-19 virus was impacting on the business of the Company;

17.2. Presenting a care and maintenance plan and various scenarios for the restart of the operations of the Company in the event of a prolonged lockdown, as well as the costing for this plan;

17.3. A request for the extension of the foreign borrowing limits of the Company, as required by the potential funders of overall restructuring and care and maintenance period; and

17.4. Requested an urgent response from Government on their support for the care and maintenance plan and commitment on funding for the Company, which response was requested to be provided by 9 April 2020.

18. On 14 April 2020, the business rescue practitioners received a response from Government, through the Department of Public Enterprises setting out the following:

18.1. That Government will not support the extension of the foreign currency borrowing limit to permit foreign financing of the business rescue plan;

18.2. Nor for a care and maintenance budget as proposed by the business rescue practitioners;

18.3. That Government is unable to provide additional funding to sustain the business rescue process;

18.4. Neither will lending guarantees be provided in respect of the business rescue process;

18.5. However, the practitioners must consider their options within their available resources.

19. It is for this reason that we as the business rescue practitioners are providing this necessary and critical update to all affected parties.

20. We are currently assessing the impact of this development on the business rescue process and will communicate any decisions to be made in due course.

21. In the interim, the Company is conducting charter operations for the repatriation of foreign nationals to their various countries and return home of South Africans stranded in foreign countries.

22. In addition, the Cargo division has increased its activity during this time including bringing into the country critical medical supplies and equipment necessary for the fight against the COVID-19 virus.

23. The dedication of the employees of the Company across various levels has been commendable in the delivery of these repatriation charter flights, especially because most staff are asked to volunteer to physically assist with these charter operations due to the health risk involved.

Yours faithfully

Siviwe Dongwana
Business Rescue Practitioner

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Business Rescue Practitioner