

Standing Committee on Public Accounts

May 2020

CONFIDENTIAL



Item	Page
Development of the BR Plan	2
BR Plan Timeline	3
Contents of the Draft BR Plan	4
PCF Utilisation	5&6
Cash Management Initiatives	7
Annexures – Key Actions to Date & Impact of COVID-19	



Development of the BR Plan

Objective of the business rescue

1. Primary objective – To maximise the likelihood of the company continuing in existence in a solvent basis (***“Restructuring option”***)
2. Secondary objective – To result in a better return for creditors or shareholder than would from immediate liquidation of the company (***“Winding-down option”***)

Restructuring option dependent on:

1. Availability of Post-commencement Finance (***“PCF”***)
2. Amount and timing of PCF
3. Desired restructuring outcome
4. Develop a business rescue plan indicative of the anticipated restructuring plan

Winding-down option dependent on:

1. Limited PCF required
2. Focus on sale of assets
 - 2.1 Appointment of valuation specialists
 - 2.2 Initiation and management of sales process





BR Plan Timeline

Date	Commentary
28 February 2020	Date at which the initial BR Plan was expected to be published (<i>in line with budget speech</i>)
28 February 2020	1 st extension of publication of the BR Plan due to funding uncertainty to 31 March 2020
15 March 2020	Declaration of the State of Disaster by the President
16 March 2020	Planned circulation date for the draft BR Plan
21 March 2020	SAA cease International and regional flights
26 March 2020	2 nd extension of publication of the BR Plan due to COVID-19 impact on the aviation industry to 29 May 2020
26 March 2020	SAA cease domestic operations
02 April 2020	Letter to DPE seeking confirmation of funding
04 April 2020	Commencement of repatriation & cargo charters
10 April 2020	Letter from DPE announcing no further funding
23 April 2020	Notice to affected parties indicating Winding-down option



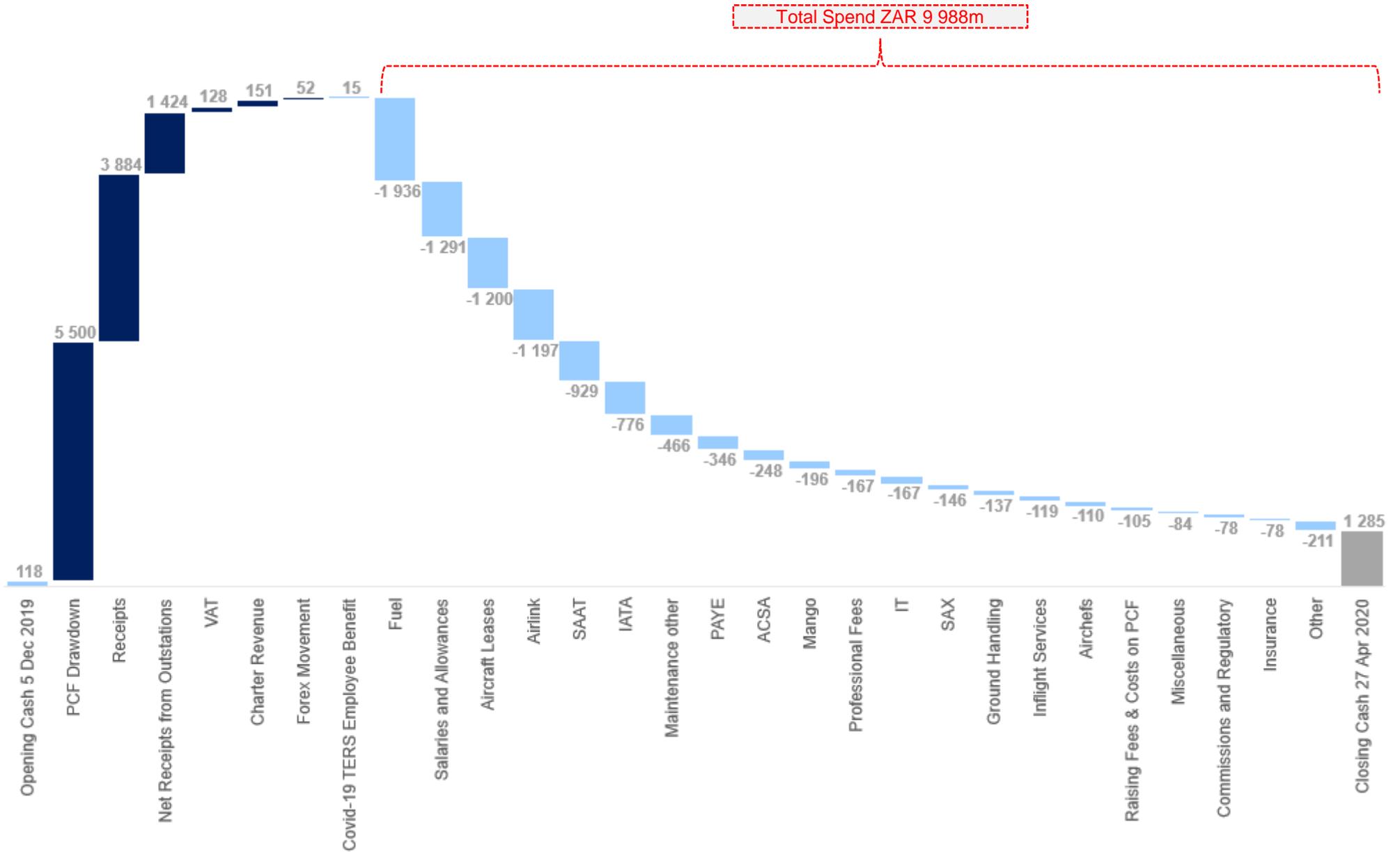
Contents of the Draft BR Plan

- Government selected the Restructuring Option to:
 - Keep the whole SAA Group of companies;
 - Restructure SAA to get rid of inefficiencies; and
 - Save approximately 5,000 jobs in the SAA Group.
- The cost of the selected Restructuring Option was R7.7bn for:
 - Repayment of creditors with amounts in moratorium;
 - Retrenchment costs for SAA & subsidiaries (SAAT, Mango & Airchefs);
 - Recapitalisation of the subsidiaries;
 - Working capital for SAA; and
 - Restructuring costs



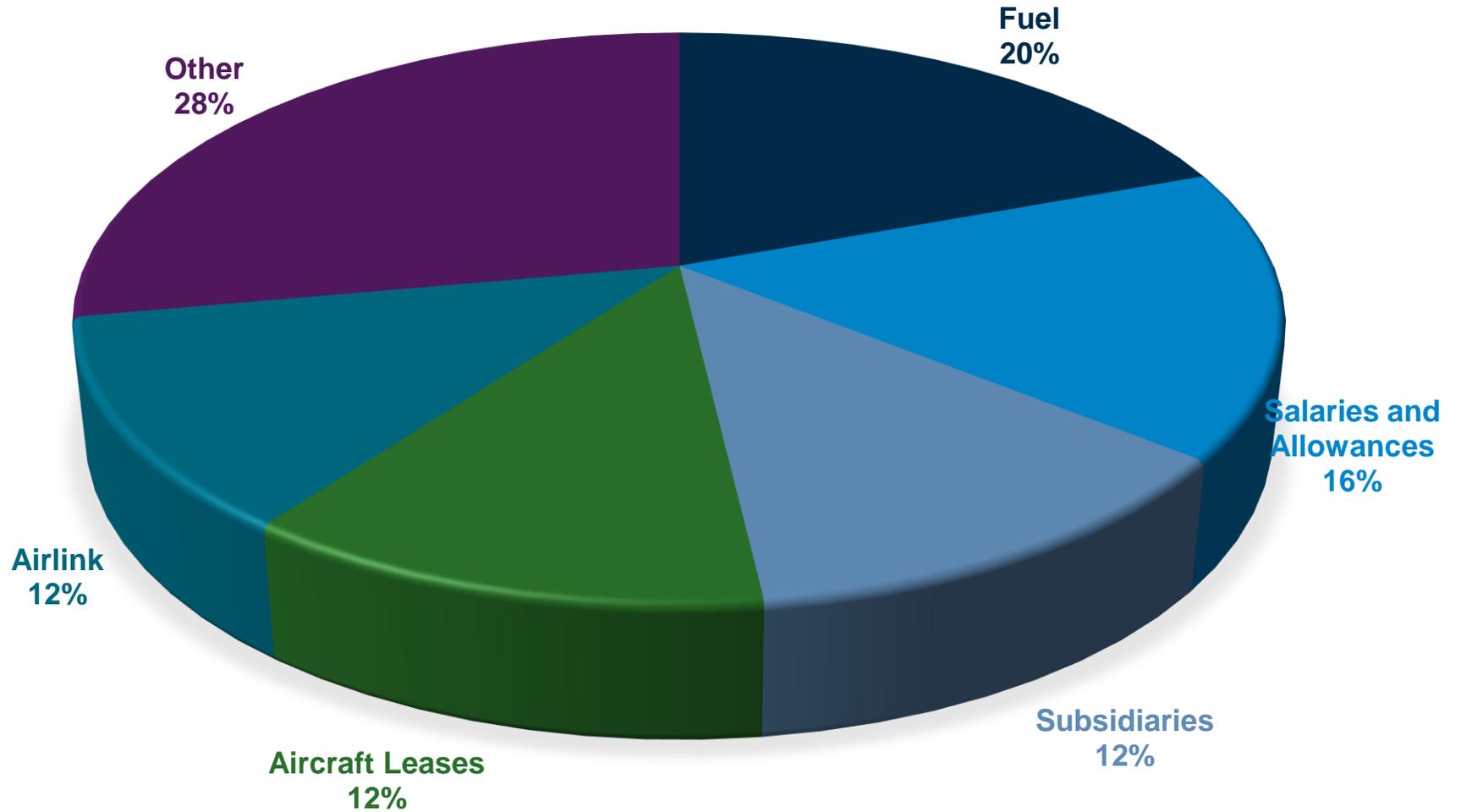
PCF Utilisation

Cash Inflow and Outflow from Commencement Business Rescue to Current (5 December 2019 – 27 April 2020 ZARm)





TOTAL EXPENDITURE





Cash Management Initiatives

1. Value for Money assessment of contracts resulted in:
 - Renegotiation of contracts (e.g. leases of planes yielded up to 40% discounts)
 - Suspension of onerous provisions on contract (e.g. retainers & commissions)
 - Cancellation of contract/non-renewal for
 - duplicated services; non-essential services and expensive (e.g. soap supplier)
 - Renegotiation of payment terms, resulting in deferral of payments (e.g. plane leases, ACSA, water & electricity, etc)
2. Suspension of loss making routes, domestically, regionally and internationally
3. Assessment of outsourced services for insourcing
 - Required an initial capital injection (e.g. staff transport, ground handling, etc)



END





Annexure 1

Key actions to date





Actions to date

Date	Action
5/12/2019	SAA was placed under business rescue supervision and Les Matuson was appointed as business rescue practitioner
7/12/2019	SAA entered into a Post Commencement Finance Facility agreement with the Lenders for an amount of ZAR 2 billion ("PCF Facility")
10/12/2019	SAA signed an Addendum with IATA extending security deposit of USD 20 million by 12 months
12/12/2019	A meeting was held with the Minister of Department of Public Enterprises and made an initial presentation
13/12/2019	A draft application for exemption from the provisions of Public Finance Management Act ("PFMA") was submitted to the Department of Public Enterprises and National Treasury to enable practitioners to efficiently conduct their mandate. If one has regard to the PFMA, prior to taking various steps (inter alia, the acquisition or disposition of a significant asset, the commencement or cessation of a significant business activity), it would be necessary for the practitioners to obtain the consent of the Shareholder (ie:- Government)
	A meeting with Lenders was held to provide an update on the Business Recue process (National Treasury and Department of Public Enterprises were also present)
	A meeting was held with National Treasury to discuss funding required for the business rescue process
	A request was submitted to the Standard Bank of South Africa Limited ("Std Bank") to reinstate the Standard Bank Working Capital Facility and other banking facilities ("Std Bank GBF Facility) in the amount of over R250 million. This allowed SAA to continue operating into January 2020 as the PCF Facility had been exhausted
16/12/2019	A presentation was made of restructuring options to the Department of Public Enterprises. This was compiled by the business rescue team with the assistance of PwC and Alvarez & Marsal (who are international distressed company experts and who have specific expertise in dealing with financially distressed airlines)
17/12/2019	A meeting was held with National Treasury to inform them that the initial R2 billion would run out by 23 December 2019, according to the forecasts
18/12/2019	The practitioners submitted the formal application for PMFA exemption (after receipt of comments from National Treasury and Department of Public Enterprises)
	Siviwe Dongwana was appointed as joint business rescue practitioner
19/12/2019	The practitioners made a presentation to Department of Public Enterprises and National Treasury setting out the various restructuring options



Actions to date

Date	Action
20/12/2019	The first meeting of creditors and employees of SAA was held
	A letter was received from the Deputy General of National Treasury confirming that the National Treasury committed to providing additional R2 billion which was expected to flow by 29 December 2019.
	The practitioners requested and were duly granted an extension to 28 February 2020 for the publication of the plan in terms of section 150 (5) of the Companies Act
23/12/2019	The practitioners made a further presentation to exco of National Treasury (and the Minister of Finance) on restructuring options
24/12/2019	The practitioners received proof of the reinstatement of the IATA guarantee by Government for USD 58 million
26/12/2019	The practitioners received the PFMA exemption letter, exempting the practitioners from complying with certain of the provisions of the PMFA
31/12/2019	The practitioners were informed by Deputy General of National Treasury that the additional instalment of ZAR 2 billion would be advanced in instalments with the first instalment of ZAR 500 million to be advanced by 3 January 2020
02/01/2020	SAA accessed the Reinstated Std bank GBF Facility in order to draw funds in respect thereto as the R2 billion had been exhausted. The practitioners did so in order to ensure that SAA remained operational whilst the Department of Public Finance and National Treasury considered the options available under business rescue
03/01/2020	The practitioners prepared an analysis which was presented to the shareholder for consideration of SAA's position and the various options available to SAA, after conducting various investigations, utilising inter alia, the services of PwC and Alvarez and Marsal. Various financial analyses were included in respect of the options available to SAA including cash flow funding requirements going forward.
15/01/2020	The Department of Public Enterprises addressed a letter to the practitioners advising that Government supported the option of restructuring SAA by creating a New Holding Company which would preserve approximately 5,000 jobs and would result in the New Holding Company being financially sustainable and operationally efficient
16/01/2020	A meeting was held between all relevant stakeholders including the practitioners, the Lenders and representatives of the Department of Public Enterprises and National Treasury. It was decided that funding could not be obtained from the Lenders
22/01/2020	The practitioners approached the DBSA for funding (supported by Government). Certain negotiations had commenced around 22 January 2020 on the basis that the DBSA was interested in acquiring 100% of the shares in Mango SOC Limited, SAA Technical SOC Limited and/or the Voyager division of SAA.





Actions to date

Date	Action
27/01/2020	An agreement was signed in terms of which the DBSA loaned to SAA an amount of R3.5 billion. This funding was then provided which gave SAA the breathing space to continue operating and develop a business rescue plan
28/01/2020	The practitioners requested and were duly granted a further extension to 31 March 2020 for the publication of the plan.
28/01/2020	A business rescue plan was then developed and was in the final stages of completion when it was contemplated that the business rescue practitioners would consult with affected persons in the development of the plan. The publication of the draft plan was set for the week commencing 16 March 2020.
06/02.2020	Announcement of flight cessation on unprofitable routes, in line with restructuring options selected by Government
09/03/2020	SAA commenced the S189 process to retrench certain of its employees.
15/03/2020	Following the global outbreak of Covid-19 which has been declared as a global pandemic by the World Health Organisation, President Cyril Ramaphosa declared a national state of disaster in terms of the Disaster Management Act, 57 of 2002.
23/03/2020	SAA ceased operations and is presently under care and maintenance
27/03/2020	The national lockdown commenced
02/04/2020	The business rescue practitioners wrote to Government through the shareholder representative ministry, the Department of Public Enterprises, and the correspondence contained the following: An update on how the COVID-19 virus was impacting on the business of SAA; Presenting a care and maintenance plan and various scenarios for the restart of the operations of SAA in the event of a prolonged lockdown, as well as the costing for this plan; A request for the extension of the foreign borrowing limits of SAA, as required by the potential international funders of overall restructuring and care and maintenance period; and Requested an urgent response from Government on their support for the care and maintenance plan and commitment on funding for SAA, which response was requested to be provided by 9 April 2020
14/04/2020	The business rescue practitioners received a response from Government, through the Department of Public Enterprises setting out the following: That Government will not support the extension of the foreign currency borrowing limit to permit foreign financing of the business rescue plan. Nor for a care and maintenance budget as proposed by the business rescue practitioners. That Government is unable to provide additional funding to sustain the business rescue process. Neither will lending guarantees be provided in respect of the business rescue process
Current	SAA has proposed an acceleration and conclusion of the section 189 process by way of a mutually agreed termination of employment and agreement of severance packages with employees BRPs have presented various alternative routes to Government following the 10 April 2020 letter on the most practical and risk-appropriate path to move forward. The BRP's are currently awaiting communication from Government on the above and will communicate any decisions to be made in due course. SAA is conducting charter operations for the repatriation of foreign nationals to their various countries and return home of South Africans stranded in foreign countries.





Annexure 2

Impact of COVID-19





Impact of Covid 19

- The effects of the COVID-19 virus started magnifying in late February 2020
- Significant and unanticipated impact on the airline industry globally which led to:
 - Cessation of operations following the travel bans and lockdowns
 - Evaporation of revenue > Liquidity issue
 - Increase in demand for refunds > Passenger claims
 - Increased levels of uncertainty: length of the lockdown period and costs of care and maintenance
- Effects of the above – More airlines filing for liquidation and business rescue
- Initial response – Care and maintenance proposal to DPE





The liquidity issue

- Resilience and ability of an airline to survive is predicated on ability to access significant cash reserves and strong balance sheets – SAA has neither
- Alternative airline needs to demonstrate to lenders or investors ability to manage increased exposure – SAA in current state cannot demonstrate this
- South Africa, the future is unclear – SAA and Comair in business rescue
- Vulnerability is shared across the sector in South Africa with serious challenges for the aviation industry moving forward.



Passenger claims (delayed/ cancelled flights)

- A significant challenge and difficult to manage
- Initial response – vouchers and automatic refunds
- Increased threat of litigation against SAA across the network
- Major Risks
 - Increase in claims against SAA
 - Call on government guarantees
 - Continued participation in IATA and membership of Star Alliance
 - Breakdown of consumer trust in the SAA brand.



Impact of Covid 19 - Global Airline Industry

The Long-term Impact of Covid 19 on Global Airlines

- Many airlines will not survive the pandemic
- Many will require massive bailouts to continue operations on a reduced scale
- USA – Federal Government committed to bailouts for the US majors
- EU – Air France, KLM has already received government-backed funding of \$7.7 billion and Lufthansa is expecting \$10 billion
- Elsewhere –Virgin Australia in voluntary administration, and bleak prospects for Norwegian and Virgin Atlantic
- Middle East, the engine room of global civil aviation, there will be upheavals
 - Qatar Airways is arguably the best-positioned airline
 - However, CEO Akbar Al Baker has stated that the airline is forced to face a ‘new reality’ and that there is no ‘foreseeable outlook for immediate positive change’
- Air Mauritius in voluntary administration
- Ethiopian Airlines’ Tewolde Gebremariam, CEO commented recently:
 - *“will we be able to sustain with only 15% of our revenue? For a short period of time, yes. But for how long? Very difficult to predict.”*