



SOUTH AFRICAN AIRWAYS

A STAR ALLIANCE MEMBER 

Briefing the Standing Committee on Appropriations on the 2021 Special Appropriation Bill and Related Questions

14 May 2021



BACKGROUND OF THE GROUP

- The group comprises of SAA, Mango Airlines, SAA Technical and Airchefs.
 - SAA is a global airline that up until 27 March 2020 operated a hub-and-spoke network, linking over 40 local and international destinations across Africa, Asia, Europe, North America, South America, and Oceania.
 - Mango Airlines is a local low-cost airline. A 100% subsidiary of SAA.
 - SAA Technical is provider of aircraft maintenance services to commercial airlines in the domestic, regional and international markets. A 100% subsidiary of SAA.
 - Air Chefs is airline catering company serving daily meals on planes. A 100% subsidiary of SAA.
- Due to the airline posting significant financial losses and negative cash flows which resulted in significant negative balance sheet, SAA was placed in business rescue on 5 December 2019. Effectively SAA has been under the direction and control of the business rescue practitioners up until 30 April 2021. Other group companies were not placed in business rescue.
- SAA was grounded effective 27 March 2020 due to the Covid19 pandemic and has not operated scheduled flights since then. The pandemic continues to impact the company's plan to resume operations.
- SAAT and Air Chefs earned over 80% of their revenues from SAA, given that SAA is not operating coupled with low economic activities due to Covid19 that significantly affected these businesses and are experiencing financial difficulties. In the case of Mango it has been mainly the low economic activities.
- The funding for subsidiaries R2.7 billion was approved as part of R10.5 billion, but has not yet been disbursed. This funding is urgently required for restructuring to align reduced business, settle unpaid salaries and creditors.
- The next slides are aligned to agenda items listed in the invitation letter.



1. R2.7 BILLION REALLOCATION OF FUNDS

- We will deal with the implications of the R2.7 billion reduction on the SAA business rescue allocation to SAA Technical SOC Limited, Mango Airlines SOC Limited and Air Chefs SOC Limited. In addition, clarify as to why these funds are reallocated.
- The business rescue funding application was as per below and included R2.7 billion for SAA subsidiaries that were not in business rescue, but nonetheless were in desperate need of funding just like SAA. The R2.7 billion was not disbursed as part of funds allocated for business rescue.

Details	Funds Requested & Approved R'bn	Funds Disbursed R'bn	Outstanding R'bn
VSP & employee liabilities	3,0	3,0	0
Post-commencement finance – creditors	0,6	0,6	0
Unflown ticket liability	2,2	2,2	0
Working capital	2,0	2,0	0
Subsidiaries	2,7	0	2,7
	10,5	7,8	2,7

Urgently needed for subsidiaries. Determined in June 2020 and the financial need has worsened.

Funds to be disbursed in future

Concurrent creditors and lessors	2,3	0	2,3
Un-flown ticket liability	1,2	0	1,2
	3,5	0	3,5



2. EXPENDITURE AGAINST R10.5 BILLION APPROPRIATION

- R10.5 billion was allocated in the 2020 Second Adjustments Appropriation, however, R7.8 billion was actually received and the expenditure relates to the amount received.
- The R2.7 billion for subsidiaries remains unpaid to date as this amount couldn't be allocated as part of funds allocated for SAA business rescue.
- Voluntary settlement packages and employee liabilities paid to date R2 billion.
- Post commencement finance creditors paid to date R600 million.
- Un-flown ticket liability paid to date R800 million.
- R4.4 billion is committed and ring-fenced to settle specific SAA commitments such as employee liabilities, un-flown ticket liabilities, guarantees and working capital to support restart.



3. STATUS OF IMPLEMENTING BUSINESS RESCUE PLAN

- The Business Rescue Plan was mainly to rescue the company by restructuring its affairs, business, property, debt and other liabilities to maximise the likelihood of the company continuing to operate and restore its going concern status.
- The Table reflects the plans and the outcome thereof.

<u>Proposal</u>	<u>Outcome</u>
Restore Liquidity and Solvency Shareholder funding by appropriation allocated to proposed plan.	SAA liquid and solvent since the Receivership has been established R7.8 billion received to date. R3.5 billion to be received over three years.
Payment of secured lender debt.	Unpaid balance to be settled over 3 years under Receivership. Not paid from Concurrent allocation.
Settle general concurrent creditors.	Creditors to be compromised and remaining R600 million to be transferred to Receivership. Payment will be over 3 years.
R1.7 billion paid to lessors based on 6-month lease charges.	Lessor liability to be transferred to Receivership and paid over 3 years.
Post-commencement creditors paid in full.	Post-commencement creditors settled.
Organisational Restructure	Organisation restructured and this is ongoing
Revise company structure.	Staff reduced from over 4 500 to 1 000 by way of VSP and s189 processes.

The Plan assumed a restart in July 2020, however, the impact of Covid-19 and the timing of the receipt of funding to address the Plan have resulted in a later restart. Currently planned for July-August 2021, however, it is dependent on the macro factors such as Covid19 pandemic and satisfactory resolution of pilots matter.



4. EXIT OF BUSINESS RESCUE

- SAA entered Business Rescue on 5 December 2019 until 30 April 2021.
- A Notice of Substantial Implementation was filed by the Business Rescue Practitioners with the Companies and Intellectual Property Commission on 30 April 2021.
- SAA has therefore exited Business Rescue effective 1 May 2021.



5. STATUS OF VARIOUS SIU INVESTIGATIONS

- Eighty-four (84) of SAA contracts and forty-four (44) aircraft leases are the subject of investigation. In addition, the SIU was requested to assist with civil litigation on eight (8) other matters that the Hawks and NPA are already working on. A Senior Counsel has been appointed to deal with these matters.
- The following is an update on matters that are considered to be priority:

Investigation	Status
FlyFofa Lease Contract	This matter has been referred to the Senior Counsel for possible setting aside of the contract and civil recovery.
Regiments & McKinsey – Working Capital Projects	Investigation underway. SAA is currently negotiating repayment of money that were paid to McKinsey.
Legal Services contract in terms of RFQ-GSM117/14	The implicated Senior Legal Official was suspended.
Airbus aircraft	More evidence is still being collected at this stage.
Service providers to support and expedite the implantation of SAA’s turnaround plan in terms of RFQ-GSM15/18 and RFQ-GSM094/18	Senior Counsel has been briefed to recover R78 million.
Travel rebate benefit	Travel benefit policies under review.
The sale of Ground Power Units (GPU)s	Senior Counsel has been briefed.
Bolloré investigation	Senior Counsel is busy quantifying the values.
Aircraft Tyre Contract	Declaration of invalidity of the contract in process. Contract is active and SIU is busy quantifying the value.
The Paint Contract	Senior Counsel has been briefed.
Payment made to SAA vendors	Investigation underway.
The implementation of the 30% Broad-Based Black Economic Empowerment (“B-BBEE”) supplier; set aside initiative in respect of supply and delivery of Jet Fuel	Investigation underway.



6. OTHER FINANCIAL CHALLENGES

- SAA funding was concluded before the National Treasury announced it will no longer be providing guarantees to SOCs unless under extremely strict conditions.
 - SAA is required to provide a number of guarantees or security in order to provide consumer protection across a number of jurisdictions.
 - These will be provided by SAA using mainly cash guarantees totaling about R1 billion, thus reducing the very cash that is required to meet various commitments.
- Financial challenges facing SAA subsidiaries, exacerbated by the current economic environment, SAA not flying at the moment and delayed recapitalisation.
- Delays in timeous resolution of the pilots and union SAAPA matter will impact the restart plans and creating a sustainable SAA.