

27 May 2020

To: Affected Persons

RE: UPDATE TO AFFECTED PERSONS

1. Purpose of the communication to affected persons

1.1. Following several media reports flowing from the virtual SCOPA meeting that took place on Friday 15 May 2020, it is necessary for us, as the joint business Rescue Practitioners (“the practitioners” or “the BRPs”) of SAA to:

- 1.1.1.** Clarify the context concerning certain of the information reported on in the media based on a proper construction of business rescue proceedings;
- 1.1.2.** Correct certain inaccuracies and deal with the untrue statements made; and
- 1.1.3.** Provide the necessary rationale for decisions taken which we hope will enable all affected persons and the general public to gain a better understanding of the issues arising out of an extremely complex business rescue process concerning SAA.

2. Consultations and Accountability

- 2.1.** As you may be aware, the nature of a business rescue is that it is a consultative process requiring the engagement of all the affected persons. Creditors and employee committees were therefore established at the beginning of the process to facilitate consultations as well as to provide updates on the process.
- 2.2.** In addition to the statutory process mentioned above, the BRPs regularly provide the lenders with detailed reports, accounting for post-commencement finance provided to SAA by such lenders.
- 2.3.** Finally, the BRPs continuously engage with the shareholder who is also a major creditor, as a key party in this rescue, and the engagements are complimented by exchanges of correspondence and reports including those reports submitted to the lenders. Such correspondence would also extend to the sharing of media statements in advance of very key announcements, which may have an impact on the shareholder.

3. Use of consultants and excessive fees

- 3.1.** At the time of filing for voluntary business rescue, SAA was not only the first state-owned company to go into business rescue but was also the first airline in South Africa to do so. It is for this reason that a condition of the lenders to continue supporting SAA was the involvement of international airline restructuring experts. Alvarez & Marsal were identified among various other consultants for this role, and were appointed with the approval of the lenders.
- 3.2.** Use of aviation and airline experts is not outside the norm, in this regard, SAA had previously engaged the services of Seabury, a US based firm of aviation and airline experts, to assist the airline with their strategies in the past at a considerable cost.
- 3.3.** The BRPs also utilised the services of PwC to assist in the calculation of a liquidation dividend if SAA were to be liquidated. This undertaking is crucial in enabling the BRPs to assess whether a business rescue would yield a better return to creditors and for creditors to then make an assessment as to whether to support the BR process or support an immediate liquidation of the company. PwC also provided a technical financial forecasting analysis as well as an integrated financial model of a sustainable airline.
- 3.4.** In terms of the Companies Act, the BRPs assume ultimate responsibility for management and all the powers of the board of an entity in business rescue. The BRPs role therefore requires a supporting team of highly skilled professionals, especially in a company of the size and complexity of SAA. The BRP fees, should therefore be assessed in the context of a team, rather than on an individual BRP basis. Every member of the BRP team and associated consultants maintains a

detailed schedule of hours that have been expended on the assignment. All fees are included in all monthly management accounts.

- 3.5. Finally, given the complex legal issues that emanate from a business rescue process involving many different aspects of law, the support of legal advisors is key to ensuring both the integrity of the process in law as well as in responding to and resolving other legal challenges alongside the existing SAA legal advisors.

4. Response to COVID-19

- 4.1. The emergence of COVID-19 and consequent travel ban forced SAA to ground all aircrafts. Given the fact that the shareholder had not, at that time, formally communicated its commitment to us, to fund the restructuring of SAA and taking into account the uncertainties brought about by the lockdown, we recommended to the shareholder a care and maintenance plan. The care and maintenance plan was premised on the suspension of all supplier contracts (that are not required during the care and maintenance stage), completion of the s189 process, as per the Labour Relation Act, and the consequent retrenchment of all employees.
- 4.2. This proposal was rejected by the shareholder. Details indicating that there would be no funding provided for a care and maintenance plan were communicated in a notice to affected parties dated 14 April 2020.
- 4.3. The airline is currently engaged in limited operation of charters for repatriations and cargo, as the travel bans do not allow for any commercial flights. All aircraft that are being utilized have been maintained properly and all scheduled maintenance checks are carried out as per the requirements of the manufacturer and signed off properly before being released for service. SAAT have allowed a percentage of their workforce to return to work and only the appropriately authorized maintenance engineers are utilized to sign out and release aircraft back to service.

5. Accounting for the R5.5bn post-commencement finance ("PCF")

- 5.1. We refer to you page 5 of the SCOPA presentation (attached hereto) for the breakdown of all funds received during the business rescue process and the detailed expenditure of these funds up to 27 April 2020.
- 5.2. Approximately R10bn was utilised in the five months from December 2019 to April 2020. Contextually, it is worth noting from the 2017 financial statements and the draft financial statements for 2018 and 2019 that the operating costs for SAA were at least R30 billion per annum amounting to an spend of R2.5 billion per month. Thus, looked at from this perspective, the average monthly costs incurred to continue to operate SAA for the BR five month period amounted to R2 billion per month. The BRPs therefore succeeded in reducing the costs of SAA's operational costs by R500 million a month

6. The tabling of the business rescue plan

- 6.1. The Companies Act requires the publication of the BR plan within 25 business days of the appointment of a practitioner or on extension granted by majority of creditors.
- 6.2. The publication of SAA's BR Plan within the 25-day period was impossible, not only because of the size and complexity of the airline, but also because of the period during which the airline went into BR which was during the Christmas and New Year holiday period.
- 6.3. In the intervening period, substantial and essential work was performed by the BRPs and our advisors in collaboration with the SAA management in developing various restructuring plans, which were presented to the shareholder during the course of January 2020. The shareholder chose a restructuring option on 13 January 2020. The restructuring plan detailed retained routes, the number and type of aircraft to be retained to service those routes, the anticipated job losses that would result from such a selection and, more importantly, the funding requirements to effect such a plan.
- 6.4. Once the shareholder made its choice, we accelerated the implementation of cost cutting mechanisms including renegotiation of leases, the suspension of flights on all loss-making routes as well as embarking on a Section 189 consultation process. The additional funding for the chosen restructuring plan was expected to be announced in the budget speech. However this certainty was not forthcoming in the budget in February 2020 as was anticipated.

- 6.5. During March 2020 the BRPs and shareholder continued to engage on the route network for the restructured SAA in the hopes that finality on this issue would enable the sourcing of funding to implement the restructuring plan.
- 6.6. Unfortunately, the draft business rescue plan for a restructured airline, which was near complete, could not be finalised due the impact of COVID-19 which nullified all the assumptions that were included in the income projections which were used to build the “sustainable airline model.”
- 6.7. Accordingly, a new post Covid-19 plan was developed in order to preserve the assets of the airline until SAA could reliably predict the income patterns of the future. For these reasons, the care and maintenance proposals were presented to the shareholder, so that the restructuring plan could be finalised when there was more certainty in the aviation industry. When the BRPs were notified that the shareholder would not fund a care and maintenance plan, then the only option available to the BRPs was to propose a plan that would provide creditors with a better return, through a structured wind down, than a liquidation.
- 6.8. Accordingly, the BRPs developed a full restructuring plan before COVID-19 in anticipation of a funding commitment, but the plan was not shared with affected parties as the funding aspect was still uncertain. This restructuring plan was however shared with the shareholder as set out above.

7. Labour issues and Salaries

- 7.1. Due to the COVID-19 disaster management regulations, companies in South Africa have been faced with "supervening impossibility of performance" as a consequence of the regulations promulgated in terms of the Disaster Management Act. Therefore. Companies are not legally permitted to allow employees to work, neither are employees permitted to tender their services to the company, unless such services are essential.
- 7.2. As such, companies are not legally required to pay employees' salaries and benefits. In this regard, SAA has been severely affected in that it was already in a business rescue since 5 December 2019, and since there is not the usual revenue earned from flights during the lockdown, does not have the means to pay salaries as per the normal course of business.
- 7.3. The company has been providing charter flights for the repatriation of foreign citizens by their governments from South Africa and the repatriation of South African citizens from abroad back home. In addition, the airline has been running cargo flights for the transportation of essential goods. All employees who worked in the delivery of charter flights and cargo flights are being remunerated for their time. Those employees who were not required to work had to use their leave to their credit for the month of April. Where such leave was insufficient or exhausted the employee would be unpaid for April subject to the COVID-19 TERS allowance which was claimed from the UIF and paid to these employees for April.
- 7.4. On 30 April, SAA communicated to its employees that SAA does not have sufficient funds available to continue honouring the obligations of SAA to its employees, beyond 30 April 2020. While we had initially envisaged that employees would take annual leave during the lockdown, thereby earning their remuneration, this was no longer possible beyond 30 April 2020, given the financial distress of the company. As a result, and due to the COVID-19 lockdown, all SAA employees were placed on an unpaid absence with effect from Friday 1 May 2020, irrespective of positive leave balances. Specific to South African-based employees, the COVID-19 UIF TERS payments will be applied for during this period. Where employees are required to work in May and beyond and such work has been approved by their respective GMs, or where employees are required to work in respect of charter flights, those employees will be remunerated for their time worked.
- 7.5. A Leadership Compact Forum comprising the Department of Public Enterprises and all the unions and non-unionised bodies at SAA proposed that there be pay cuts for the month of May. However, SAA does not have sufficient funds available to pay salaries to all of its employees and, in fact, does not have sufficient funds to pay certain of its post-business rescue costs.
- 7.6. SAA has been granted leave to appeal the judgment in the application issued by NUMSA and SACCA, seeking to set aside the S189 process commenced in March 2020.

8. The new airline

- 8.1. Discussions are now being held between the BRPs and the shareholder to possibly restructure the airline. An announcement in this regard will be made in due course as well as an agreed timeline for the consultation on the business rescue plan as well as its publication.

8.2. It is the considered view of the business rescue practitioners that there is still a reasonable prospect of rescuing SAA, subject to the receipt of unequivocal commitment thereto and the requisite funding, and that will be set out in the business rescue plan to be published in due course.