

Mezzanine Level  
Domestic Departures Terminal  
OR Tambo International Airport  
1627

PO Box 1273  
OR Tambo International Airport  
1627



04 November 2021

**SOUTH AFRICAN AIRWAYS SOC LIMITED**

**Attention: The SAA Interim Board Chairperson – Prof. M John Lamola**  
Email: MJLamola@flysaa.com

**Cc: THE DEPARTMENT OF PUBLIC ENTERPRISES**

**Attention: The Minister of Public Enterprises – Minister Pravin Gordhan, MP**  
Email: Ministry.Registry@dpe.gov.za

**Attention: The Director General – Kgathatso Tlhakudi**  
Email: Kgathatso.Tlhakudi@dpe.gov.za

**RE: MANGO AIRLINES SOC LIMITED ("MANGO") – BUSINESS RESCUE PLAN PUBLISHED ON 29 OCTOBER 2021**

Dear Sirs

1. I write this letter to you in my capacity as the appointed Business Rescue Practitioner ("**BRP**") of Mango Airlines SOC Limited ("**Mango**" or "**the Company**"), and specifically in response to your letter dated 30 October 2021 (but only received under cover of an email dated 3 November 2021).
2. I have noted the concerns raised by the Board of Directors of South African Airways SOC Limited ("**SAA**"), which I understand primarily to be in relation to:
  - a. Mango resuming flight operations in December 2021 and SAA's view that it is neither feasible nor viable to do so until Mango has secured an investor to fund its operations; and
  - b. a request by SAA that any funding injected into Mango's business rescue process should not be utilised to fund working capital aimed at resuming flight operations as proposed in the published business rescue plan ("**the plan**").
3. Firstly, I must clarify that your letter of 6 October 2021 which communicated that SAA was not in a position to provide any funding or support to Mango, was in response to my letter to SAA to establish whether, *inter alia*, Mango would receive any additional financial support for its restructuring (which includes the resumption of flight operations) other than the R819



million funding already allocated in terms of the Special Appropriation Act. Therefore, it has always been my understanding and intention that the purpose for the utilisation of the R819 million would include Mango resuming operations. This has also been consistently communicated to SAA and the Department of Public Enterprises ("the DPE") in my various engagements with them. It was on this basis that the proposals contained in the plan have been drafted in the manner that they have. The letter from SAA addressed to the DPE on 26 October 2021 also suggests that SAA, at least on the date of the letter, also understood the funds would be used to fund restructuring and working capital. The 26 October 2021 letter is attached hereto marked "A" for your ease of reference.

4. I have some fundamental concerns about SAA's request that any funding injected into Mango should not be utilised for working capital (which by definition includes operations). I do not agree with the views shared by SAA in this regard and it is important that I highlight these concerns to you and demonstrate why it is crucial that Mango resumes operations as soon as possible as contemplated in the published plan.
5. Mango's business is that of flying passengers, it is the only way it generates revenue. Not doing so, when, on a balance of probabilities Mango has a good chance of generating revenue to cover its overheads, is mostly value destructive.
6. Not flying has the following negative implications:
  - a. In order to maintain its Air Operator Certificate ("AOC"), Mango is required to have serviceable aircraft registered in its name. If Mango does not resume operations, there is no incentive for Macquarie Aircraft Leasing Services (Ireland) Limited ("Macquarie") to keep any of its aircraft in Mango's AOC. Should this happen, Mango will lose its AOC and will cease being an airline. The current plan secures 3 serviceable aircraft at reduced lease rates and a flexible and shortened lease period that is renewable. In addition, by having reconfigured the 3 aircraft with the best available components within the existing fleet, large maintenance costs like heavy checks and performance restoration of engines are avoided during the lease period.
  - b. A mothballed airline is guaranteed to be loss-making (further losses in this instance). It cannot generate revenue; it only incurs costs.
  - c. Every day that Mango is not flying it is eroding its customer base.
  - d. By not flying, Mango is putting its route rights at risk.
  - e. By not flying Mango will face the ire of customers with pre-paid tickets, estimated at approximately R183 million, which further damages the Mango brand.
  - f. By not flying, most (if not all) of Mango's staff will need to be retrenched, which defeats the purpose of business rescue seen in the context of saving jobs in the country with an abnormally high unemployment rate. With Mango not flying key staff members are already starting to look for jobs elsewhere. This will make a restart more difficult.
  - g. The longer the airline is mothballed, the more costly a restart will be with larger associated risks.

- h. Running an investor process with a mothballed airline will attract a much narrower pool of interested buyers.
  - i. An operating airline is more valuable than a mothballed airline (for many reasons).
- 7. I have, together with my team, done extensive analyses of route data, competitors' offerings, operating costs and factoring in multiple scenarios of Covid lockdowns, and have come to the conclusion that there is a high likelihood that Mango can generate sufficient revenue as a contribution to overhead costs, that essentially acts as an additional injection of working capital and affords the airline time to initiate a competitive investor search process, to sell an airline that fundamentally retains its value proposition as it continues to operate.
- 8. We have further done an in-depth investigation into the existing aircraft and put together a subset of these aircraft to have the best available components that will require the least maintenance on both engines and frame in the medium term. The business has also been massively de-risked by getting Macquarie to agree to short term leases. This arrangement provides an investor flexibility to extend the short term leases whilst making arrangements for a refreshed larger fleet for Mango to recapture its market share.
- 9. Therefore, it is difficult to understand the position taken by the SAA Board as neither SAA nor the DPE has provided comprehensive reasons why resuming operations is considered disproportionately more riskier than mothballing operations.
- 10. In considering the above, could you please confirm in no uncertain terms as to what SAA's position is regarding the conditions attached to the R819 million funding (now R719 million). If after having considered what is mentioned above SAA's position is still that the balance of the funding must not be utilised for working capital to resume operations, then it would mean that the plan in its current form cannot be implemented. The consequence of this is that the meeting to be convened for purposes of voting on the plan will have to be adjourned for purposes of amending the plan to provide for a proposal that does not assume the resumption of operations. It is inevitable that such a proposal will also require that Mango retrenches most (if not all) of its employees. I reiterate that in my opinion, this may be detrimental to the process of acquiring a suitable investor and the successful rescue of Mango generally.
- 11. The meeting to vote on the plan will be convened on 15 November 2021 and SAA may then at that meeting propose an adjournment, address all affected persons on the reasons for the adjournment and also make any proposals on amendments to be made to the plan.
- 12. Kindly note that an urgent meeting has also been convened with the creditors' and employee representatives' committees for Friday, 5 November 2021 (tomorrow). At those meetings I will update the committee members on the developments since the plan was published, specifically the matters dealt with herein. This letter together with your letter under reply will also be made available to the members of the respective committees.
- 13. I look forward to your urgent reply, specifically the confirmation requested in paragraph 10 above.

Yours faithfully,



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Sipho Sono

Business Rescue Practitioner

Mango Airlines SOC Limited (in business rescue)



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Dear Director General

## REQUEST FOR TRANSFER OF FUNDS APPROPRIATED FOR THE RECAPITILISATION OF MANGO

1. The Honourable Minister's letter dated 25 August 2021, stated with regards to funding for SAA subsidiaries, a Special Appropriations Act was passed at the end of June. The department has commenced with the transferring of funds to the airline to address some of the urgent funding requirements. It was determined that further funding will be disbursed as agreed between the Department and SAA management.
2. Mango Airlines SOC Limited (Mango) was, in terms of the Special Appropriation Act 11 of 2021, allocated an amount of R819 000 000. Further to a disbursement of R100 million made in August 2021 shortly after the commencement of Mango's business rescue proceedings, no additional funds have been provided to the company. SAA management hereby requests the transfer of the remaining funds appropriated for Mango in the amount of R719 000 000 to be transferred to SAA, for investment in Mango, in order that Mango is able to fund its business rescue plan, which requires funding for both restructuring and working capital.

### Directors

MJ Lamola (Interim Chairperson), TTM Kgokolo (Interim Chief Executive Officer), Z Mhlontlo (Interim Chief Financial Officer), NO Fadugba<sup>\*1</sup>, EL Van Harte\*, MMB Zwane\*

\*Interim Non-Executive Director  
<sup>1</sup> British Citizen

Company Secretary – RN Kibuuka

South African Airways SOC Ltd

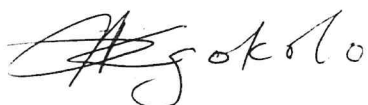
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A STAR ALLIANCE MEMBER 

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3. The business rescue plan for Mango will be published on the 29 October 2021, hence the matter of funding is extremely urgent. It will be appreciated if the funding can be made available as soon as possible. The request is supported by correspondence from Mango Business Rescue Practitioner dated 22 October 2021 requesting from SAA shareholder funding.
4. We humbly request that these funds be transferred to SAA as soon as possible to enable the business business rescue process to be completed i.e. restructure the business, embark on measure to reduce costs, settle creditors and such others.

Yours sincerely,



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**Mr. Thomas Kgokolo**  
**Interim Chief Executive Officer**  
**Date: 26 October 2021**



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**Mr. Fikile Mhlontlo**  
**Interim Chief Financial Officer**  
**Date: 20 October 2021**