GAINING ALTITUDE

SAA's Long Term Turnaround Strategy (LTTS)

Presentation to the Select Committee on Labour and Public Enterprises

February 2014



OUR VISION





OUR STRATEGY EXPLAINED

ACHIEVE & MAINTAIN FINANCIAL STABILITY

- Strengthen balance sheet
- Cost Management (including overheads)
- Revenue Management
- Cash Management
- Subsidiaries

CONSISTENT, EFFICIENT AND EFFECTIVE OPERATIONS

- Safety
- On-time performance
- Efficiency (fuel, productivity, sourcing, maintenance)
- Fleet replacement and utilisation

SUPPORT SA'S NATIONAL DEVELOPMENTAL AGENDA

- TRANSFORMATION
 - JOB CREATION
- CONNECTING RSA
 TO TRADE AND
 TOURISM
 PARTNERS

PROVIDE EXCELLENT CUSTOMER SERVICE

- Attractive value proposition
- Network optimisation (routes, brands, partnerships, alliances)
- Customer Service excellence
 Prompt Recovery

PERFORMANCE EXCELLENCE

- Staff engagement
- Improved governance
- Performance management
- Benchmarking



LONG TERM TURNAROUND STRATEGY

- LTTS is built on 3 key pillars that support strategic objectives and triple bottom line' approach for driving business sustainability and achieving economic, social and environmental objectives.
- This reaffirms the airline's position as a responsible corporate citizen and its commitment to deliver sustainable value to the Shareholder

GROUP STRUCTURE

- Divest of SATC
- Improved governance
- Establish South African Aviation Assets Group Holdings
- Group Optimisation

NETWORK, ALLIANCE & FLEET

- Cease loss making 'own-metal' services
- Alignment of airline brand & aircraft gauge to meet market demand
- Limited domestic premium service on domestic routes & greater role for Mango & SAX
- Increase networks through code-share relationships & leverage Star Alliance membership
- Wide-body fleet replacement plan

BUSINESS UNITS & SUBSIDIARIES

- Full corporatisation of SAA Tech, Air Chefs, Voyager & Cargo
- Optimise operation performance of head office and all subsidiaries



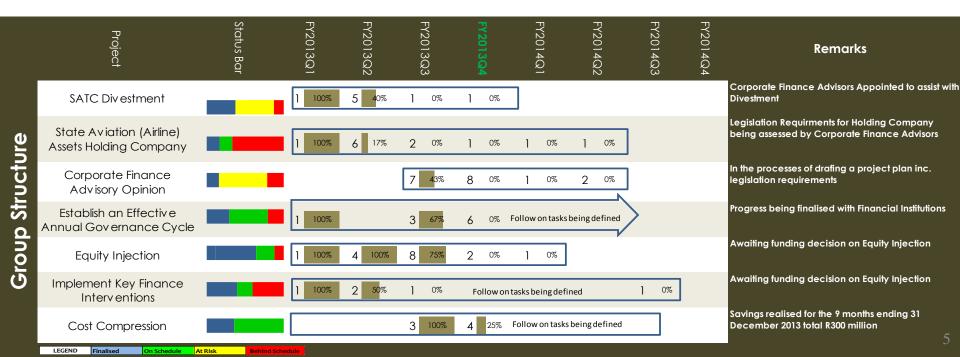
Group Structure

Achievements To Date

- Corporate Finance Advisors have been appointed and are assisting with the Divestment of SATC
- A project plan has been created for approval by the LTTS board on the creation of the State Aviation Assets Group including the legislation that will be required and presented to the LTTS Committee Board.
- An Annual Governance Cycle has been codified and approved by the Board
- In process of doing the Organizational Redesign

GROUP STRUCTURE

- Divest of SATC
- Establish South African Aviation Assets Group Holdings
- Improved governance
- Group Optimisation



Network, Alliance & Fleet

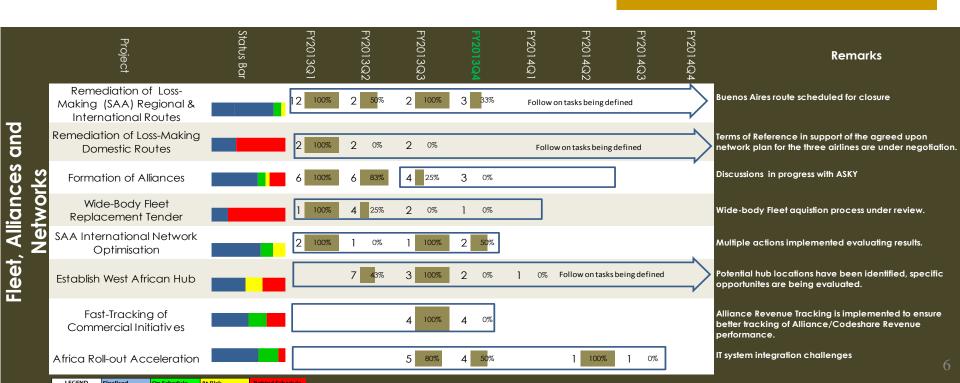
Achievements To Date

- Mango's fleet have been increased from 6 to 8 aircraft and more domestic flights were added to their schedule
- SAA now codeshare on all Mango Domestic Routes
- Additional capacity have been deployed in Africa
- Some loss-making routes e.g. Kigali have been closed and Buenos Aires will be closed end of March
- West African location study finalized with Ghana and Senegal identified as the best locations
- Additional Code-shares were implemented

2

NETWORK, ALLIANCE & FLEET

- Alignment of airline brand & aircraft gauge to meet market demand
- Cease loss making 'own-metal' services
- Limited domestic premium service on domestic routes & greater role for Mango & SAX
- Increase networks through code-share relationships & leverage Star Alliance membership
- Wide-body fleet replacement plan



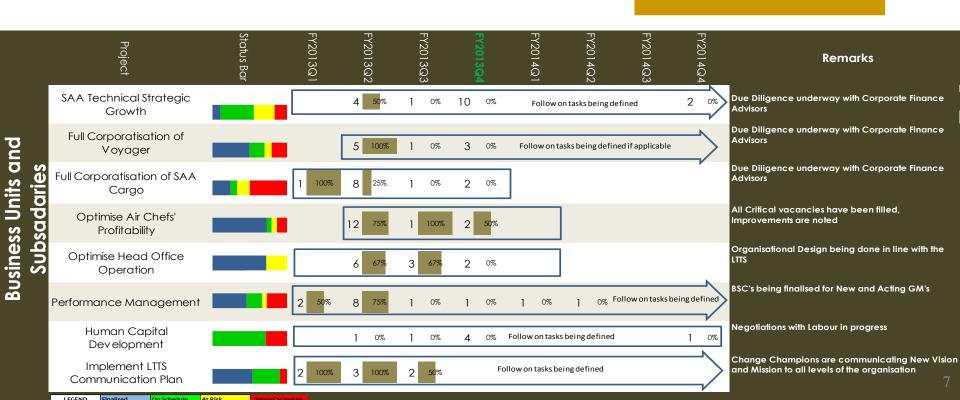
Business Units & Subsidiaries

Achievements To Date

- Corporate Finance Advisors have been appointed and are assisting with the Divestment of SATC.
- Corporate Finance Advisory opinion is also underway for SAA Technical,
 Air Chefs, Cargo and Voyager.
- Change champions have been appointed in all divisions to drive the strategy with all levels of the company

BUSINESS UNITS & SUBSIDIARIES

- Full corporatisation of SAA Tech, Air Chefs, Voyager & Cargo
- Optimise operation performance of head office and all subsidiaries







Financial Plan



SOUTH AFRICAN AIRWAYS

FINANCIAL PLAN OBJECTIVES

The financial plan has the following objectives:

- Contain the current and untenable rate of cash and Shareholder value depletion
- Redress deficiencies in the Group's capital composition
- Equip the Group with an appropriate fleet
- Realise organic growth in retained earnings
- Optimise the Group's Balance Sheet



FINANCIAL IMPACT

Financial impact of LTTS – Year 1

Achievements

Cost Compression - R 300m

Closure of Bujumbura / Kigali - R 48m

Domestic operations Improvement - R 256m including Mango

• Regional operations improvements - R 180m

Air Chefs (YoY) improvement - R3om

Codeshare re-negotiated - R 8om

Challenges

Exchange Rate volatility - R 1bn +

• Beijing - R 309m p/a

Buenos Aires - R 86m - Delayed to 2nd year



Cost Compression (project 23)

SAA commenced the Cost Compression Programme in April 2012 with the objective of ensuring a systematic, comprehensive and on-going compression of the SAA Group's operating cost base - The aim is to reduce non-fuel CASK (Cost per available seat kilometre) from 7.04 usc in 2012 to 5.63 usc or 20%, without negatively impacting the demand-side revenue per available seat kilometre (RASK).



- For FY12/13 programme benefits realised in excess of R1b with a consequential reduction on non-fuel CASK of .52 usc. (90% of these savings have been sustainable throughout FY14.)
- Savings realised for the 9 months ending 31 December 2013 total **R300** million (of which fuel savings were R75 million) with a further reduction in non-fuel CASK of 0.26 usc to 6.26 usc.
- Main areas of non-fuel savings were on the maintenance side (R83 million) through contractual savings and speedier maintenance reserve recovery lead-time and Overhead reductions (R129 million), again mainly contract related.

Unfortunately all costs in rand terms have been adversely impacted by the dramatic weakening of the Rand against the US Dollar (17% YoY) which underlies around 65% of SAA's costs, especially fuel.









Skills Development & Training



Skills Development

Key Performance Indicator	Shareholders Compact	YTD Actual	Current Status	Projected Year End Status
Training Spend	3% of personnel costs	5.74%	On Track	Achieved
Cadets	30*	9	On Track	Achieved
Technician Trainees	100	97	On Track	Achieved
Sector Specific Interns	60	53	On Track	Achieved



*With respect to the Shareholders Compact target of 30 Cadets for the current year, 9 of the 30 have been recruited to date. Recruitment for the remaining 21 is at an advanced stage. The shortlisted candidates are currently undergoing psychometric assessments and a rigorous interview selection process. These cadets will be recruited by 21 March 2014.



Long Term Employment Equity Plan Flight Operations (Pilots)

- Introduction of a Second Officer level to provide cadets the opportunity to acquire the required 1500 hours to enter SAA as a pilot. This will achieve 2 objectives namely
 - To support transformation
 - To maximise Return on Investment on Cadet Pilot Development program
- The recruitment of a Chief Pilot in line with our employment equity strategy is in progress.
- All new Pilots have been recruited in line with the Employment Equity Plan. (61% of new pilot appointments were made in line with the EE plan).

Flight Instructors Program

- There is a notable under representation of PDI candidates in the Flight Instructor ranks at SAA. SAA will be offering bursaries to suitable PDI's who aspire to become Flight Instructors.
- The tender process is at an advanced stage of evaluation and the provider will be appointed mid March 2014.



THANK YOU



