

SAA Corporate Strategy

Presentation to Standing Committee on Finance

2 September 2015



Contents

1. Overview
2. Long-Term Turnaround Strategy (LTTS) - Refined
3. Strategy summarised
 - Review Network and Fleet
 - Increase revenue
 - Cost reduction
4. Financial performance
5. Conclusion

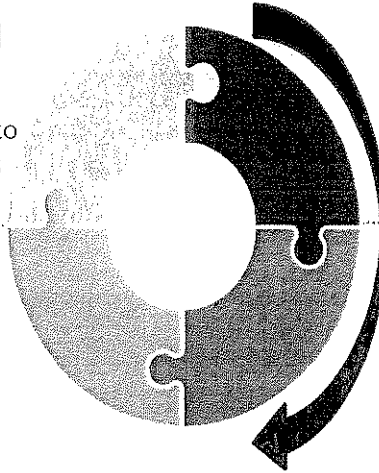
Overview

1. Long-Term Turnaround Strategy April 2013

A holistic strategy was created to address the challenges SAA was experiencing.

4. 2015 Corporate Plan April 2015

FY16-18 Plan, based on the 90 Day Action Plan-includes the refinement of the LTTS.

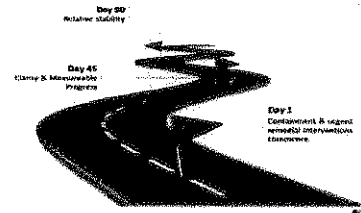


2. Implementation of LTTS slowed down 2014

Challenges experienced with implementation e.g. Delay in cancellation of routes and new fleet. No Equity injection etc.

3. 90 Day Action Plan November 2014

Approved by Board and Inter-Ministerial Committee



90 Day Plan included:

Commercial and Financial Interventions Implemented

- Cost reductions achieved.
- Network remediation - Beijing, Mumbai, Abu Dhabi.

Governance Defects Corrected

- Memorandum of Incorporation revised.
- Materiality and Significance Framework reviewed.

Long-Term Turnaround Strategy Refined

- Reviewed assumptions (e.g. Fuel Price)
- Adjusted for current internal and competitive realities.



LTTS Refined

Vision

'Africa's Leading World-Class Airline'

Mission

To deliver commercially sustainable world-class air passenger and aviation services in South Africa, the African continent and our tourism and trading partners.

Strategy

Support South Africa's National Developmental Agenda

To achieve and maintain commercial sustainability

Provide excellent customer service

Achieve consistent, efficient and effective operations

Foster performance excellence



Air passenger and cargo services



Premium direct services to 42 Destinations, in 30 countries and further 1,400 Star and codeshare destinations around the World



Lowest Cost Operator in SA, profitable and cash generative Domestic and Regional services

Aviation Support Services



Largest FAA accredited aircraft maintenance & repair facility in Africa



30,000 airline meals produced per day

SAA's Mandate has remained unchanged

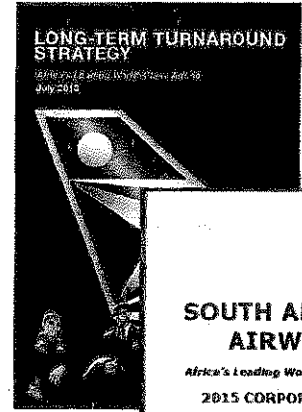
- Informed by the SAA Act, No 5 of 2007.
- The Company's Memorandum of Incorporation defines the main object of SAA as "to engage in passenger airline and cargo transport services, air charter services and other related services"

LTTS Refined (cont)

Certain areas had to be addressed and adjusted

Certain LTTS assumptions were refined and a 3 year Corporate Plan completed incorporating the following amendments:

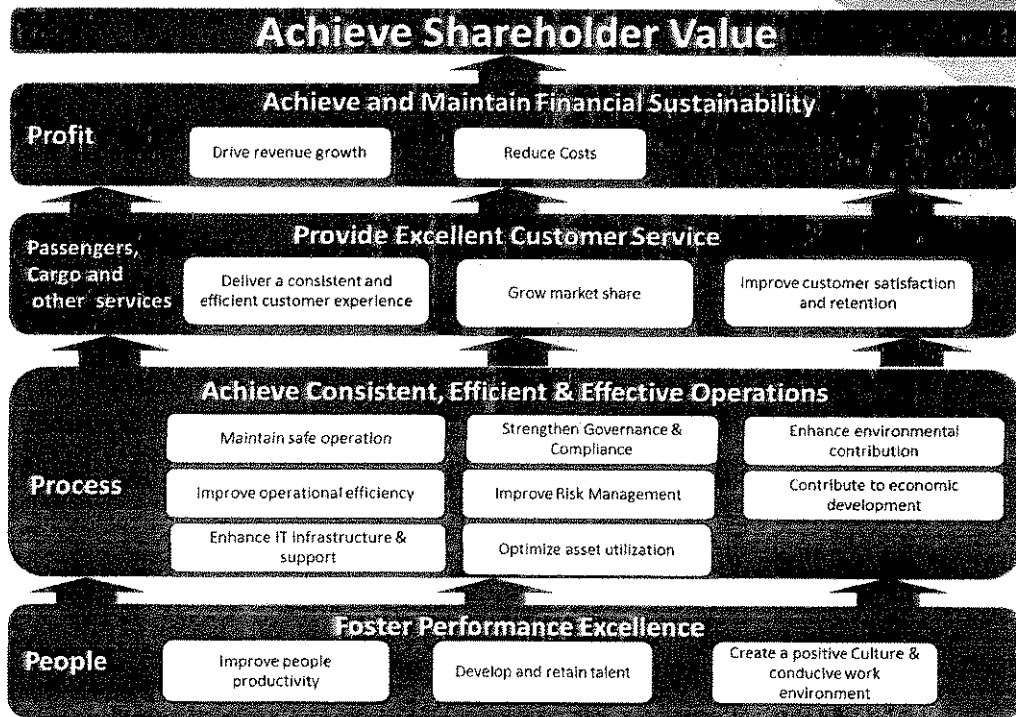
- Financial plan was adjusted based on revised exchange rate and fuel price assumptions;
- Equity injection no longer assumed;
- Headcount Rationalisation was included;
- Increased focus on implementation and performance management;
- Fleet and Network Plan was reviewed; and
- Provision was made for the current competitive landscape



Refinement was done in consultation with National Treasury as well as other government departments but is ultimately approved by the SAA Board



Strategy summarised



SAA needs to Grow Revenue and Reduce Costs in order to achieve long term sustainability



Strategy – Review Network and Fleet

The core of an airline's strategy is the Network & Fleet Plan



- The Network Plan reviewed and refined – based on current and forecast demand
- According to Oxford Economics study SAA's operations have a positive impact on the GDP
- The Fleet Plan was developed based on the Network Plan
- Fleet and Network Plan forms the basis of the strategy and were refined with the support of external specialists

E.g. Washington via Accra



Strategy – Increase Revenue

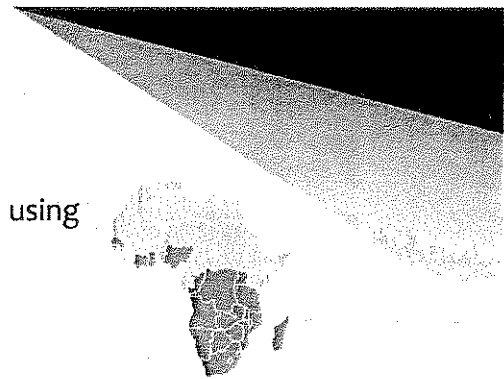
Corporate Network and Fleet Plan

SAA will increase its revenue by rightsizing capacity and using the correct brands in the different markets.

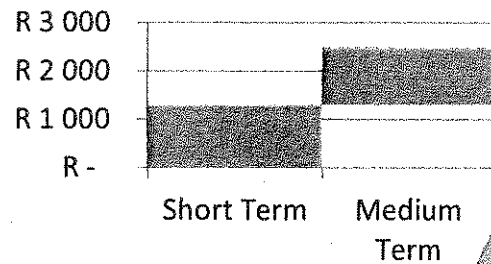
Focus SAA Brand on African Growth and Network Optimization

Growth of SAA in Regional market by redeploying SAA capacity from the domestic market

Domestic market growth potential in Low Cost Segment - Mango



Network Improvement opportunities identified (R'm)

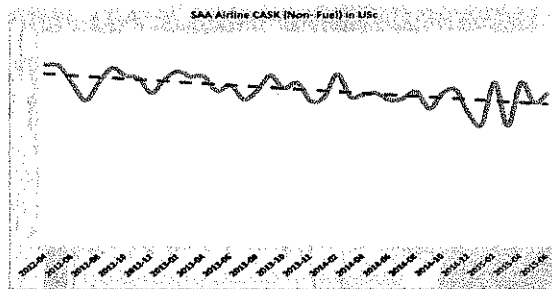


The Revenue forecasts significantly affected by External factors e.g. Market and Policy impacts



Strategy - Cost Reduction

- Airline unit costs are permanently under pressure especially with the commoditization of the market.
- SAA has been driving a successful cost Compression Programme since 2013 with R2.2b savings achieved to date
- SAA achieved a 17% reduction in non-Fuel Unit Cost over the past three years and will continue its drive to achieve an additional 13% reduction in the next three years
- Cost reduction remains a priority and focus for the Group.

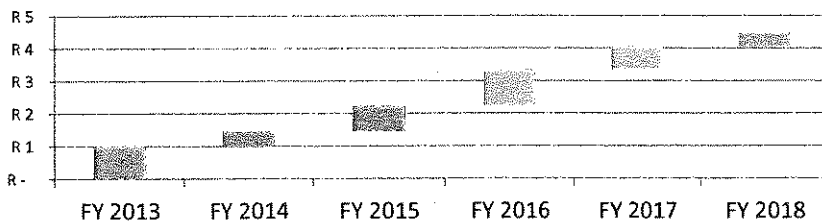


Strategy - Cost Reduction (cont)

Some of the Key Focus areas

- Aircraft Cost reduction - negotiation of new leases and current lease extensions
- People Cost reduction - headcount rationalisation in progress
- Realisation of significant procurement contract savings
- Maintenance Contract renegotiations
- Aircraft Utilization improvements

Savings Achieved and Planned (R'-billion)



R2bn+
savings
targeted for
the next
three years



SAA is striving to convert the current Cost Compression Programme into a Cost Compression Culture

Financial Performance

FY ended 31 March 2015

Difficult operating environment marked by:

- Increased competition
- Revenue pressures – Ebola, Xenophobia etc.
- Weakening currency
- Legacy impairments
- Finance costs

Current financial year

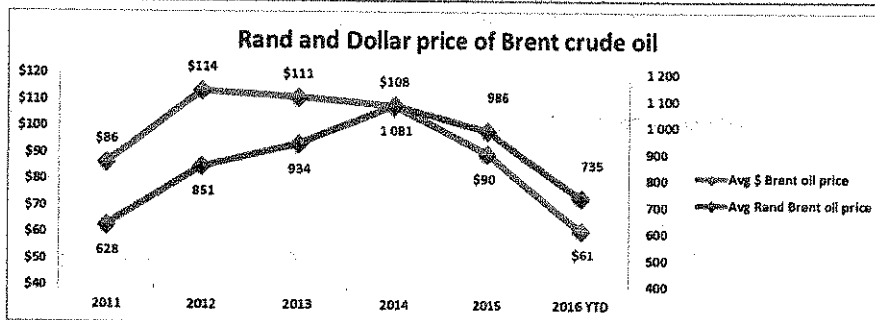
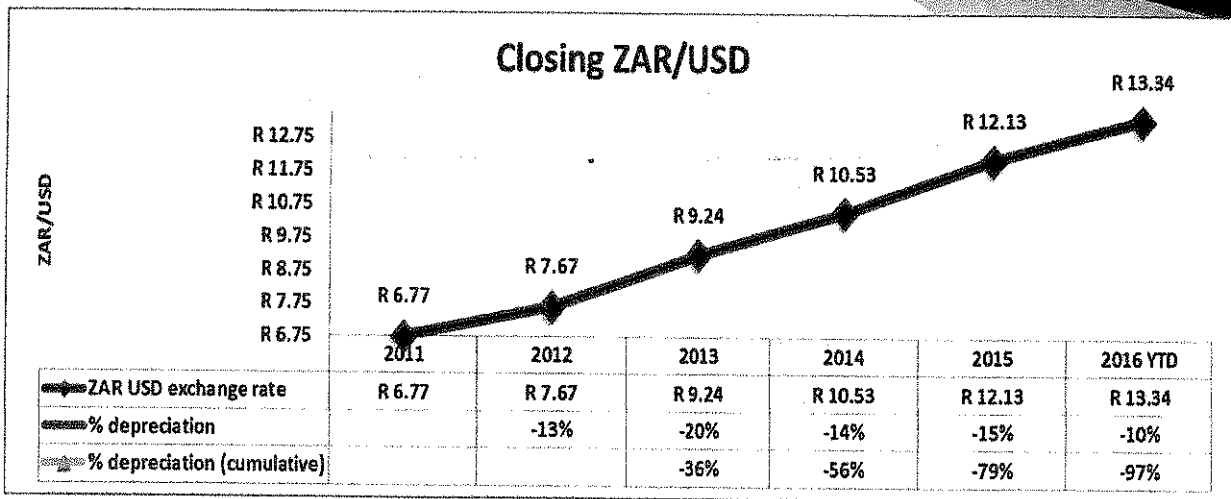
Continued challenges with regard to

- Weakening currency
- New immigration regulations - unintended negative consequences
- Intensified competition



Traffic size have reduced 6% for the fist Quarter

Financial Performance (cont)



Financial Performance (cont)

Although still loss making, SAA's ytd operating result has improved by 43% yoy

Revenue

- Revenue levels 11% below prior year - significant drop in average fares across the industry on the back of the lower oil price, competition and operating environment

Operating cost lower and well controlled

- YTD expenditure 9% lower yoy – assisted by continued Cost Compression and lower Brent price

Interest charge

- Interest charge increased significantly due to increased reliance on debt to meet working capital requirements

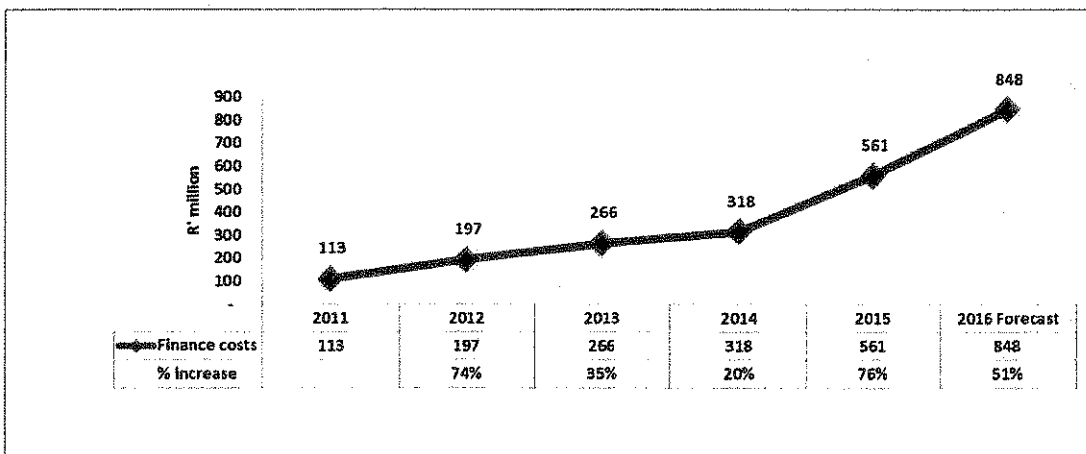


SOUTH AFRICAN AIRWAYS
A STAR ALLIANCE MEMBER

Page 13

Financial Performance (cont)

TOTAL FINANCE COSTS



SOUTH AFRICAN AIRWAYS
A STAR ALLIANCE MEMBER

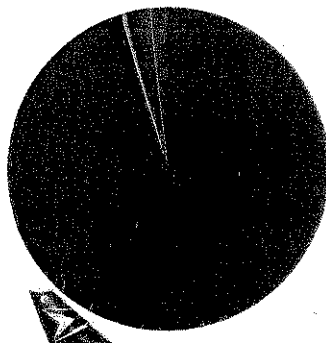
Page 14

Black Emerging Industrialists Project

Objectives:-

- Avail business opportunities to:
 - BWO – Black Women Owned
 - BYO – Black Youth Owned
 - PwD – People with Disabilities
 - MV – Military Veterans
- Provide training opportunities to do business with SAA
- Share tender opportunities / information with target groups

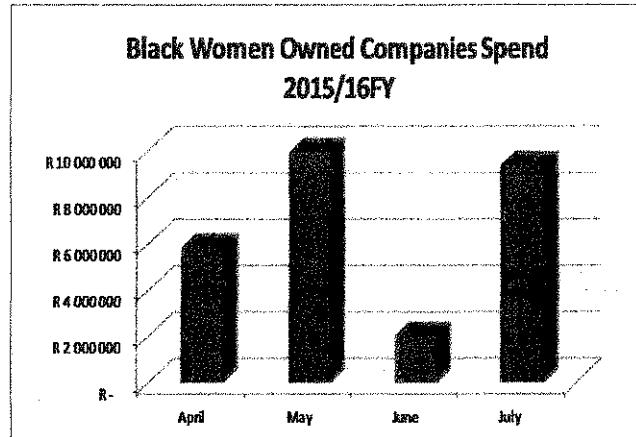
**Preferential Procurement Spend Quarter 1
2015/16 FY**



- Spend on B-BBEE Compliant Companies
- Spend on 50% & more Black Owned Companies
- Spend on 30% & more Black Women Owned Companies
- Spend on SMMEs (EMEs&QSEs)

SOUTH AFRICAN AIRWAYS
A STAR ALLIANCE MEMBER

**Black Women Owned Companies Spend
2015/16FY**



Page

SAA & Dti MOU

Update (Signed on 18 May 2015)

Progress update:-

- Paying SME's within 15 days
- 3 x Supplier Engagement Summits in Midrand, Durban, Port Elizabeth
- Events attended by between 100 – 500 delegates: (MV's, BWO, BYO, PwD)
- Exploring other strategies to promote transformation by reviewing of tender documents, or tender fees
- Development of collaborative Supplier Development Programme
- Established a Joint Steering Committee to drive implementation of the transformation roadmap

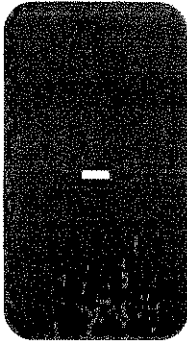
Challenges:-

- Current reporting does not cover BYO, MV's, or PwDs, hence making it difficult to compile spend data

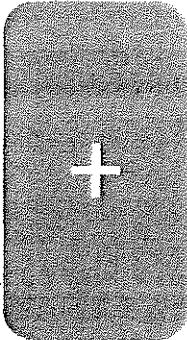
SOUTH AFRICAN AIRWAYS
A STAR ALLIANCE MEMBER

Page

Conclusion



- Weakening currency
- Competition has intensified
- Unintended consequences of the Immigration and visa regulations
- Current capital structure
- Leadership instability



- SAA's rated best full service airline in Africa
- Mango rated best LCC in Africa.
- Optimisation of Network and Fleet
- Cost compression culture embedded
- Operating performance is improving
- LTTS Strategy refined



THANK YOU

