

29 May 2012



South African Airways

Parliamentary Committee on Public Enterprises



SOUTH AFRICAN AIRWAYS

A STAR ALLIANCE MEMBER 

Challenges Faced

Very tough times for the Industry

▪ **Global Airline Industry is under pressure:**

- Qantas announces losses and cuts hundreds of jobs
- American Airlines, one of the world's biggest airlines, is in bankruptcy
- Lufthansa reports loss of Eur 381mm for 1st Qtr & announces 3500 job cuts
- Spanair and Malev closed down
- Malaysian Airlines, TAP Portugal, Jet Airways and Iberia announce withdrawal from South Africa
- Emirates announces 61% decline in profits
- Virgin cancels its London-Nairobi service

▪ **Locally, regionally, things are also difficult for everyone:**

- Velvet Sky ceases operations
- Comair, operator of BA and Kulula, reports first loss in 61 years

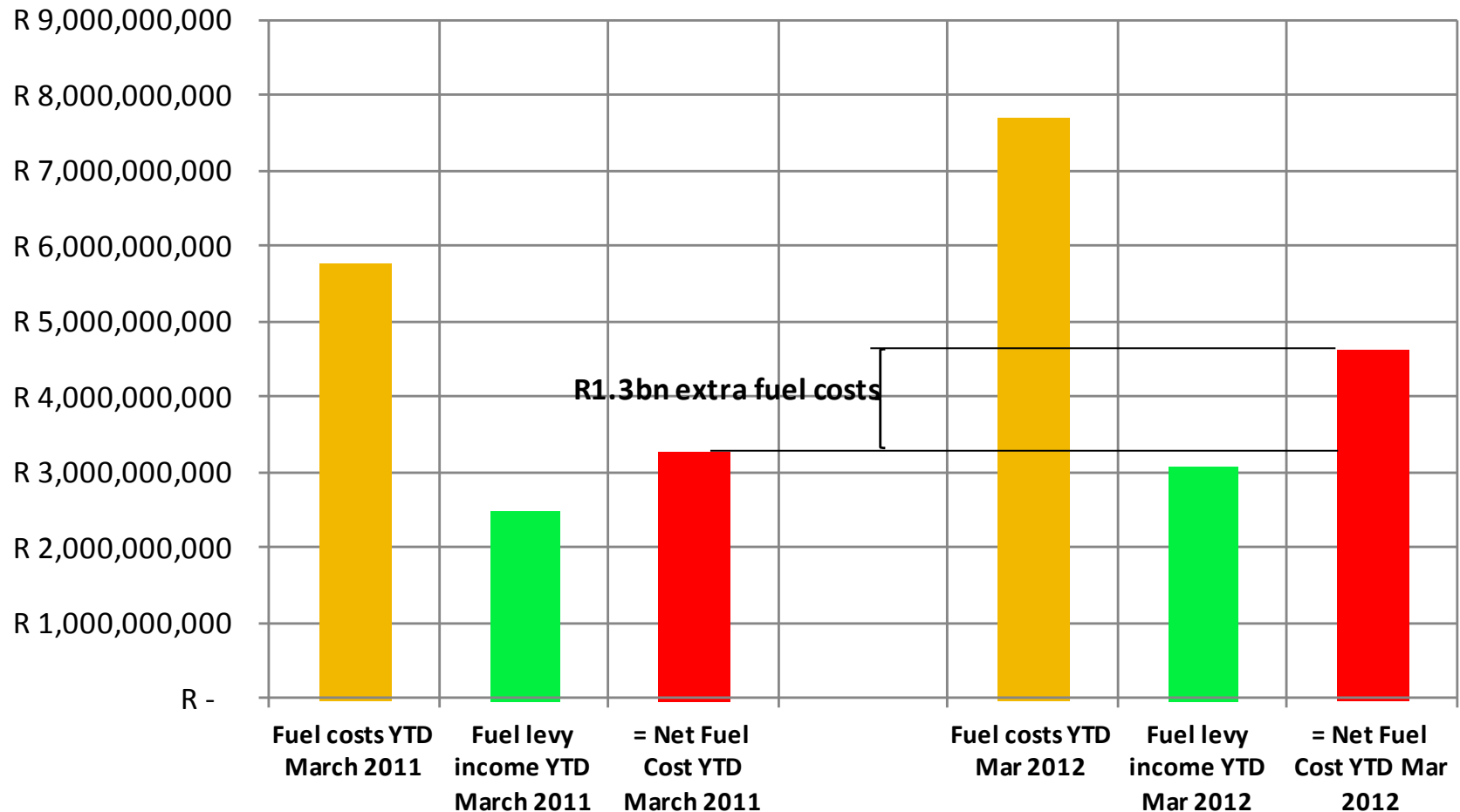
Challenges Faced

- **Pressure on the industry comes from a number of area, including:**
 - Airline fuel – global expenditure will rise by \$32 Billion this year according to IATA
 - Air traffic management
 - Airport user fees
 - Drop in passenger demand
 - Services such as catering, etc

- **Airlines in Africa face very specific challenges:**
 - Majority of revenue is generated in weaker currencies while significant portion of costs are billed in USD and EUR
 - Premium on fuel prices in many African countries
 - Restrictive access to highly regulated markets

Challenges Faced

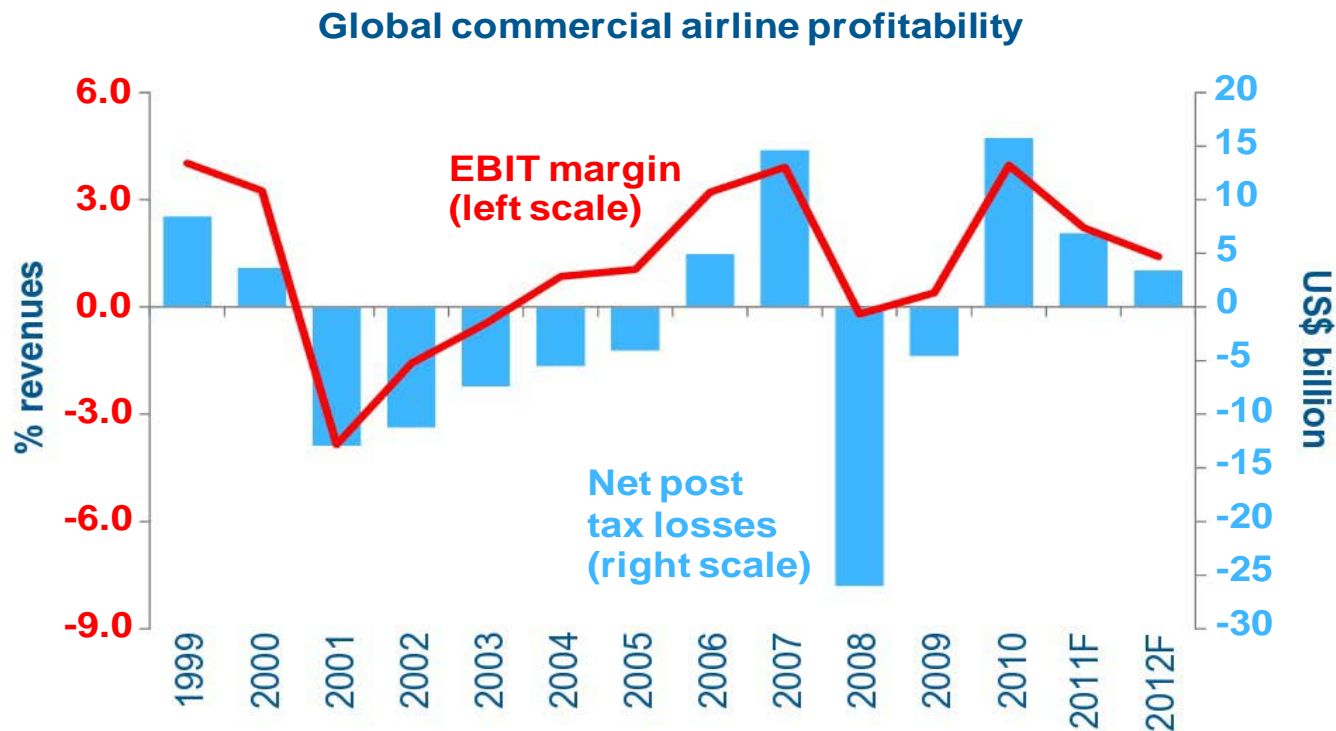
- SAA has faced a dramatically larger fuel bill, even after fuel levy recoveries



Challenges Faced

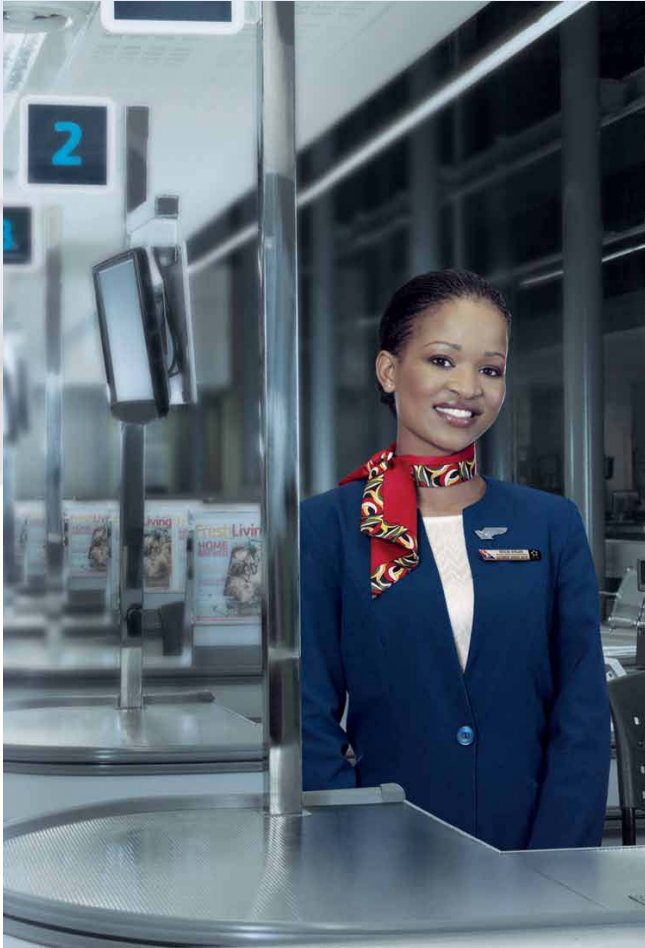
- 2012-13 Outlook: Airline Profits remain under pressure

Airline profits forecast to fall further in 2012



Global Network

SAA is an Airline of Substantial Scale



SAA services more than **700** destinations worldwide in conjunction with Star Alliance Partners

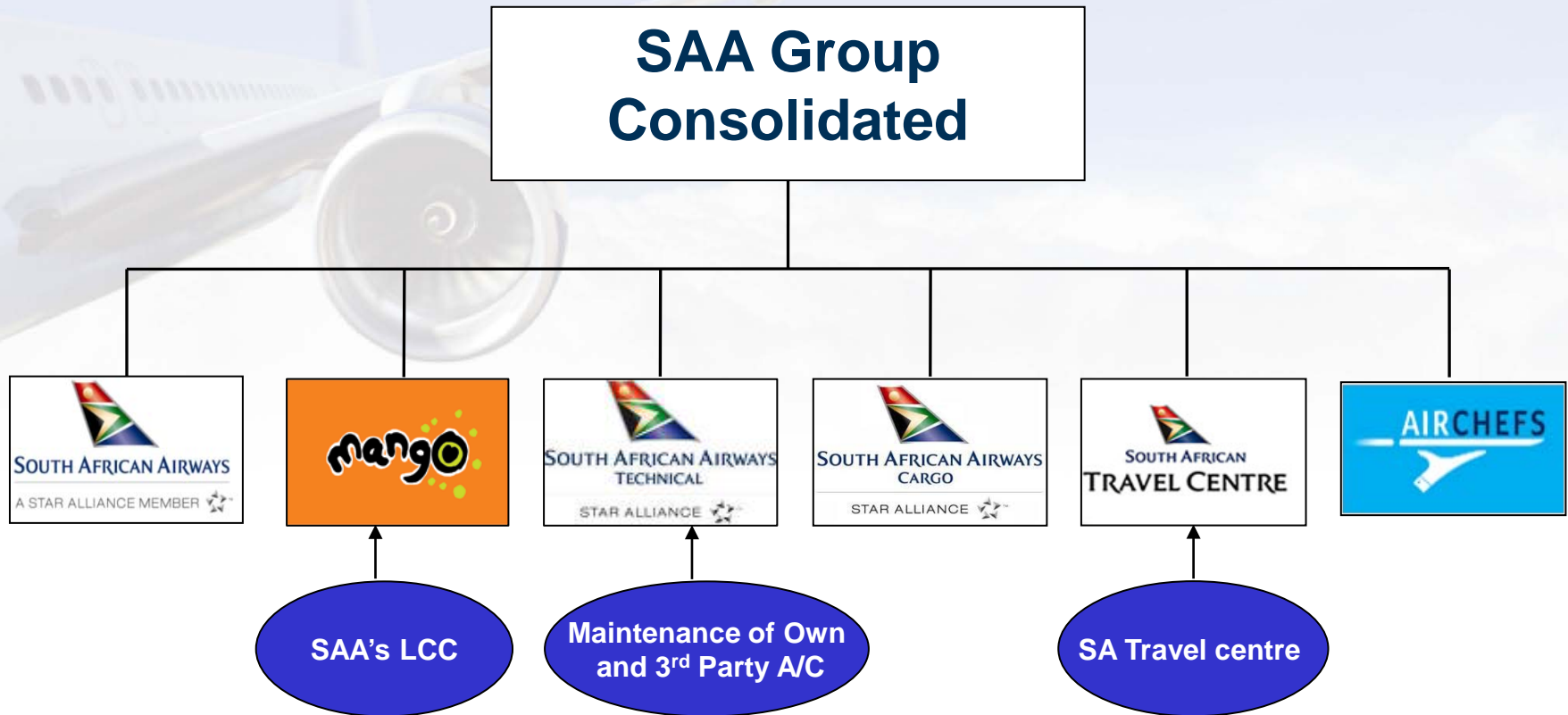
SAA's Global Network

- **37** Cities in **26** Countries on **6** Continents
- **6.53 mil** customers flown each year
- **52,386** flights operated world-wide
- **50** aircraft...and growing

“SAA, Bringing the World to Africa, and taking Africa to the World.”

SAA Group

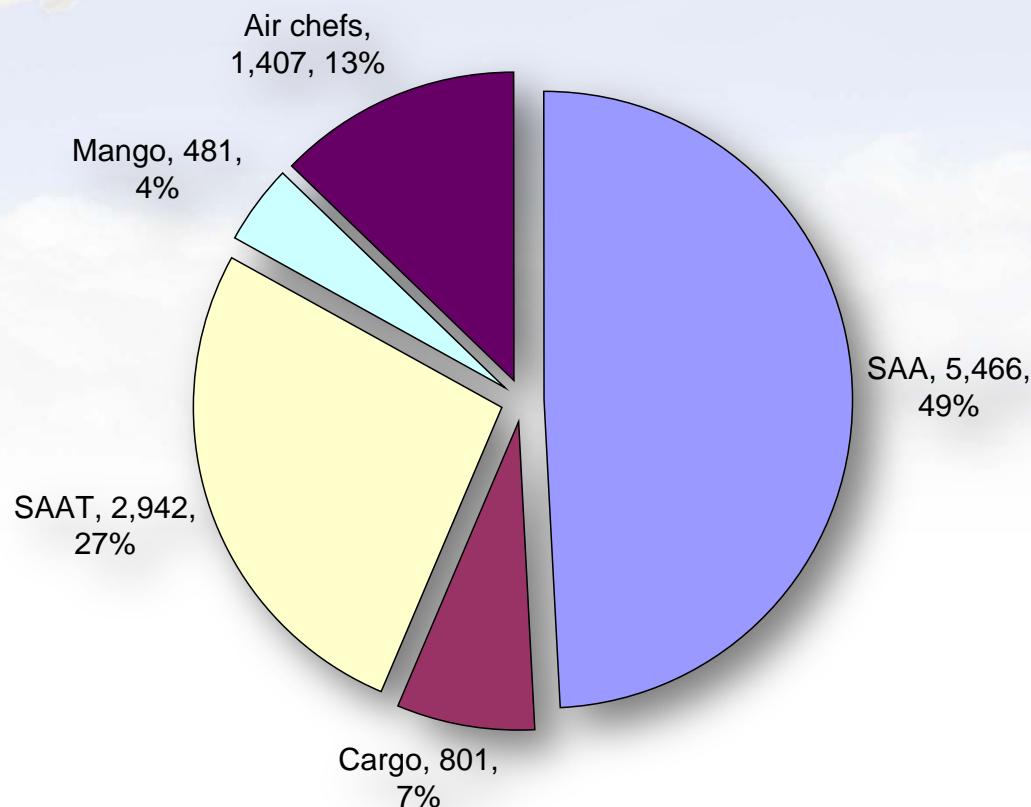
SAA Consolidated Airline Group is operating in a highly competitive global market providing passenger and cargo transport services together with related services.



Direct Contribution of SAA *:

- Direct GDP ZAR 2.7 billion
- 0.12% of GDP
- Direct employment 11,097 jobs
(as of end of 2011)
- 0.08% of jobs

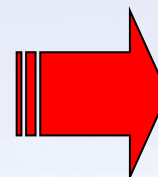
Employment in South Africa



Direct and Indirect Contribution of SAA *:

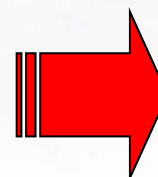
GDP / employment
impact

Indirect – supply chain impact



- ZAR 3 billion of GDP
- 18,000 jobs

Induced – spending impact



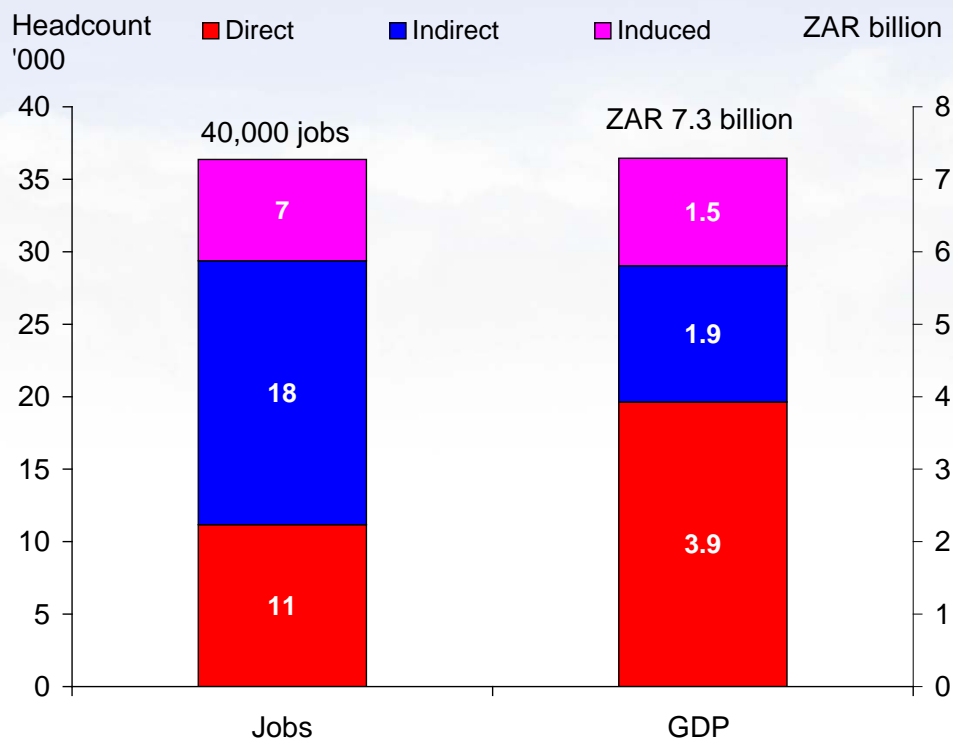
- ZAR 1.2 billion of GDP
- 7,000 jobs

The Group is a major client to a wide range of South African businesses
There are substantial induced contributions to GDP as those working for the Group and its suppliers spend their incomes

Travel and Tourism impacts of SAA *:

- A third of international visitors to South Africa arrive by air
- 31% of international visitors by air arrive on a Group flight
- Those visitors spend ZAR 5.9 billion in South Africa
- That spending supports 40,000 jobs and generates ZAR 7.3 billion to GDP once multiplier impacts are considered

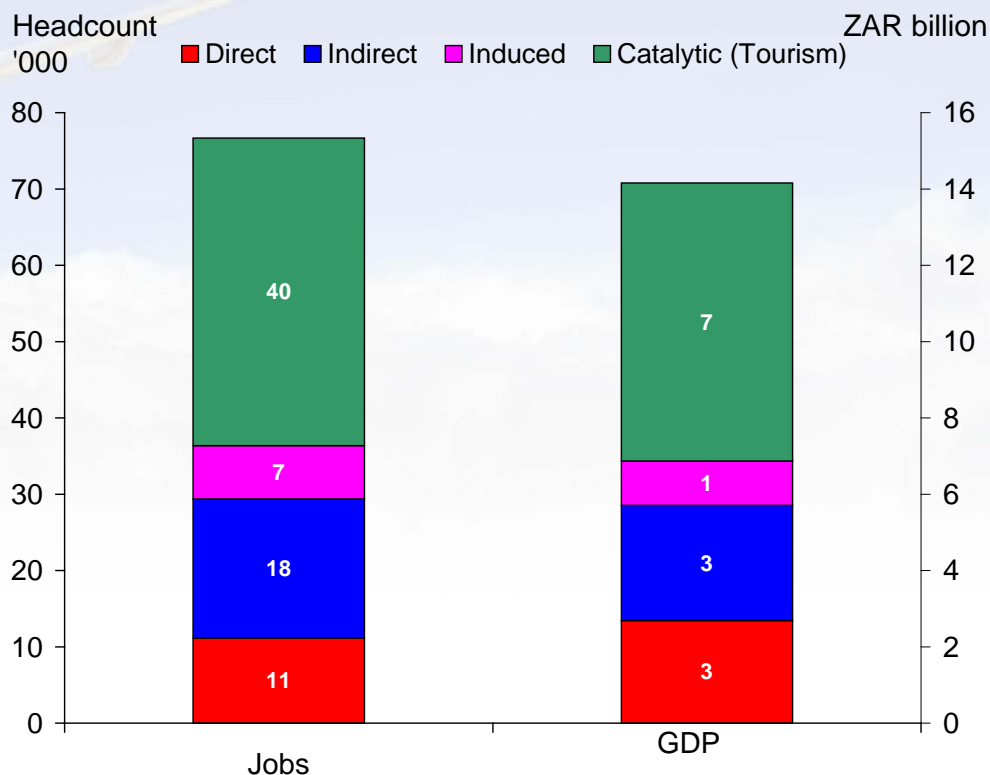
Travel and Tourism benefits



Aviation's Direct Economic Impact

A substantial contribution to South Africa's economy*:

- GDP = ZAR 14 billion
 - 0.6% of GDP
 - 77,000 jobs
 - 0.6% of jobs
- (both direct and indirect)





SAA's exciting projects & developments

- New Routes Introduced
- Innovative Product Enhancements
- Customer Service Improvements
- Environmental Initiatives
- Cost Containment
- Fleet Plan
- Growth Strategy

Strategies: SAA New Routes Introduced

SAA proudly introduced the following routes in this last fiscal year with 2 more new African points to follow during this year.

New Routes in the Operating Plan and Flight Schedule

Route	Scheduled Opening	Scheduled times
Ndola	1 Oct 2011	3 X Week
Kigali and Bujumbura	17 Jan 2 012	3 X Week
Ponte Noire	26 Jan 2012	2 X Week
Beijing	31 Jan 2012	3 X Week
Cotonou	17 May 2012	2 X Week

Strategies: SAA Product Enhancements: A330 Cabins

SAA's has commenced phasing in new Business Class and Economy Class on our A330's

SAA's New Cabin

- New Interior Design
- New seat design with additional ergonomic comforts
- New generation IFE system with enhanced technology



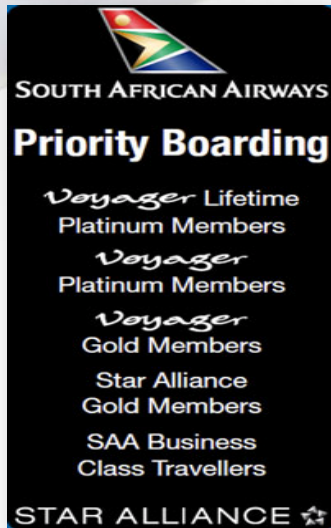
Strategies: Product Enhancements: Onboard Entertainment



- SAA is moving into innovative entertainment technologies with new 10-inch tablets and enhanced IFE Systems
- Tablet entertainment is on trial in Business Class on Regional flights of longer than 3 hours

Strategies: SAA Customer Service Improvements

Following conclusion of 2011 Skytrax Audits in prior year, SAA has once again achieved 4-Star Rating for 10th consecutive year for 2012. 4-star ratings include Air New Zealand, British Airways, Emirates, Etihad, Lufthansa and Qantas, to name a few.



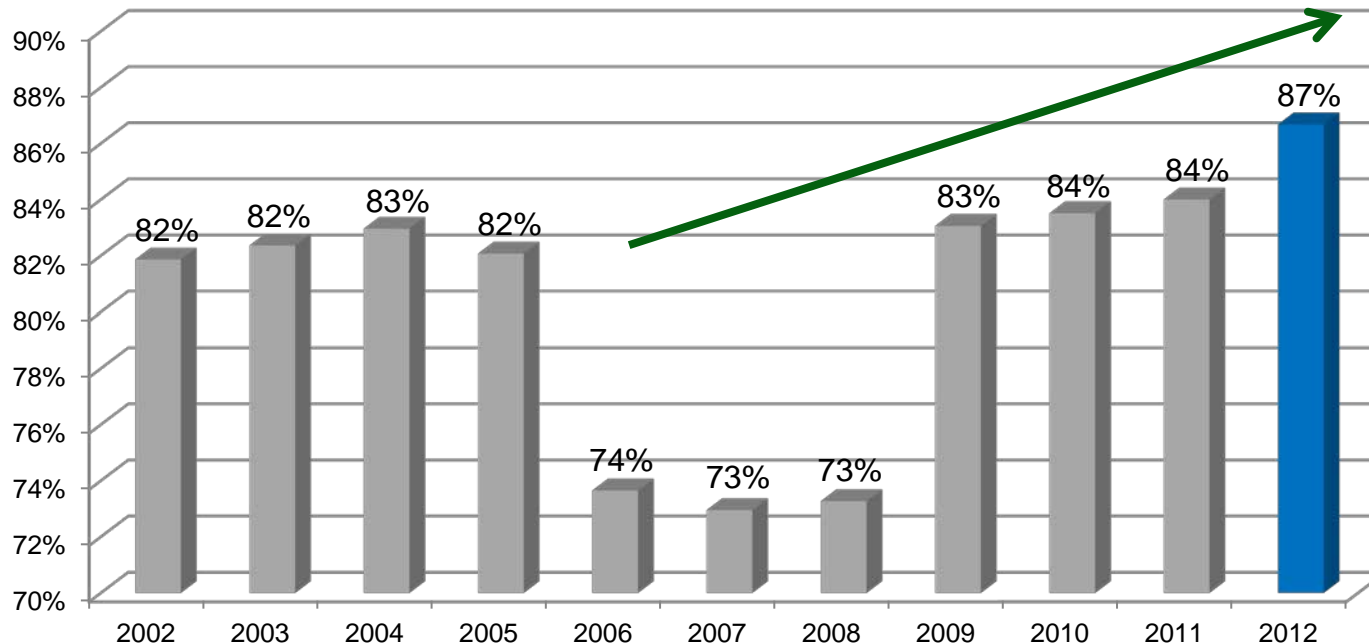
Priority Boarding for SAA flight departures from all SAA Airports - effective 1 April 2012, world-wide customer service initiative creating consistency and professionalism globally.

Strategies: SAA Customer Service Improvements

Baggage Drop Counters for SAA flight departures from South African based airports - Effective 1 January 2012, dedicated counters for passengers using online / mobile check-in, soon to be roll-out world-wide to create consistency and professionalism globally.



Best On-Time performance in 12 years (87%)



Strategies: Major Customer Service Enhancements



Key customer service focus areas for 2012

- Customer Service Training
- Project Zero – Correct baggage discrepancies
- Enhance the Hub & Connection Passenger Assistance

Strategies: SAA Environmental Responsibility

SAA Group aims to be the most environmentally sustainable airline in Africa by successfully implementing the following programmes:



- IATA Voluntary Carbon Offset programme (For completion in April 2012)
- Accurate Carbon Footprint Reporting (For completion in May 2012)
- IATA Environment Programme (IEnvA)
- Group wide reduction and recycling initiative
- Energy usage reduction; and self sufficiency

Settlement with Competition Commission

Significant progress has been made in resolving legacy competition issues for the period 2000-2006

- **Air Cargo investigation**

Settled with the Commission with no admission of liability or administrative penalty levied against SAA

- **SA Competition Commission v Malaysia Airlines & others (Far East Asia)**

Investigation into airlines allegedly colluding to fix prices on the Far East Asia routes – settled with the Commission with an admission of liability by SAA and an administrative penalty of R18.8m

Unintentional contravention due to participation in coordinating discussions following significant global fuel price increases

Settlement with Competition Commission

- **2010 FIFA Soccer World Cup Investigation**

Settled with the Commission with no admission of liability and no administrative penalty against SAA

- **US air cargo civil claim**

Class action in respect of alleged conspiracy to raise prices for airfreight shipping services – settled with the class action Plaintiffs with no admission of liability in the amount of \$3.29m plus notice and administration costs

South African Airways has initiated a global search for a qualified and internationally recognised strategic partner to assist SAA in establishing and running a flight academy which will :-

- Operate as a centre of excellence to South African and other African airlines
- Ensure focussed, expert training for new pilots
- Recruit learners from South Africa and Africa, with emphasis on attracting future pilots from previously disadvantaged backgrounds

An annual intake of 150 to 250 is anticipated

Cadet Pilot Programme & Artisans Trainees

■ **Cadet Pilots**

SAA has met the Shareholder's target for Cadet training for FY 2011/12

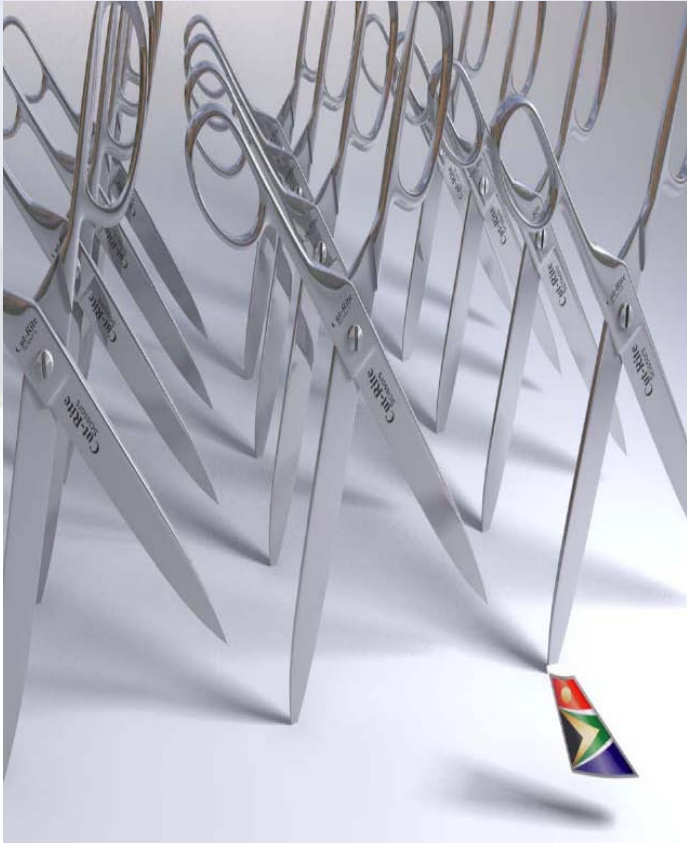
Included in these figures are candidates who have been awarded a bursary towards the Cadet Pilot Development Programme. This is aimed at providing further training towards the completion of the Commercial Pilot License. 4 internal SAA employees and 7 external candidates have been selected. Successful candidates will be considered for placement at SAA in line with its transformational goals.

■ **Artisan Training**

SAAT has met the Shareholder's target of 105 Artisan training for FY 2011/12

Strategies: SAA Cost Containment

SAA has an aggressive programme to reduce its non-fuel costs:



- 25 projects running across the entire organisation
- Top priority of all management and staff
- Aims to achieve cost reductions and cost compressions of over R1billion in 2012-13
- Critical to the sustainability of the airline
- SAA needs to achieve these savings without affecting the customer experience

Strategies: SAA Cost Containment

Legacy issues resolved & SAA support of Sponsorships has been overhauled:

- SAA has reduced its number of sponsorship partners, and is rationalising some remaining sponsorships including golf, local tennis and football. In its 2011-12 FY SAA spent R79m on sponsorships (of which 88% is legacy sponsorship - ATP and SARU. SARU renewed on purely VIK in future)
- Established a stronger policy & procedural framework
- Sponsorship requests and opportunities are subject to rigorous Business Cases
- SAA no longer sponsors for cash consideration but rather value-in-kind - for example air tickets in exchange for sponsorship rights and benefits



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Strategies: SAA's Growth Strategy

Main considerations for SAA's comprehensive growth strategy:

- Ability to increase services to current and new destinations via our Johannesburg hub especially into and out of Africa
- Significant investment in fuel efficient new aircraft
- Continued focus on increasing our yield and passenger volume
- Increased focus on our Cargo business as we provide more network expansion
- Review of joint venture opportunities with our Star Alliance partners

Strategies: Growth Through New Aircraft

Short Haul Aircraft

- Replacement of entire SAA's fleet of Short Haul Boeing 737-800s by 2017
- 2 x A320 delivered on 12 January and 17 February 2012
- Delivery of 20 new, fuel efficient, Airbus A320s in the next five years

Long Haul Aircraft

- Replacement program for the current long haul aircraft has started
- 6 x A330-200 delivered between February and December 2011
- Expect to finalise a major aircraft order by year end to replace current non-efficient long haul aircraft

Strategies: Results are starting to show

- Solid yield improvement of 17%
- Load factor up to 2% in 2012
- Passenger Revenue up 20% in the last quarter
FY2011/12
- Recent performance of the UK is however concerning
- Fleet Utilization up 4%
- 21% Passenger Connecting through JNB

Strategies: Results are starting to show



- Mishandled Baggage down 8%
- Passenger Compliments up 10%
- Passenger Complaints down 13%
- 88% Reservation calls answered in 20 Sec
- Voyager membership up 3%
- Voyager redemption seats available up 27%

Key Success Factors for SAA

- Fleet renewal – fuel efficient aircraft
- Introduce Premium Economy cabin
- Expand Business Class cabin
- Improve on board product & IFE

Thank you



**“SAA
Bringing the World to Africa,
and taking Africa to the World”**