GAINING ALTITUDE

SAA’s Long Term Turnaround Strategy (LTTS)

Presentation to the Select Committee on Labour and Public Enterprises

February 2014
OUR VISION

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
ACHIEVE & MAINTAIN FINANCIAL STABILITY
- Strengthen balance sheet
- Cost Management (including overheads)
- Revenue Management
- Cash Management
- Subsidiaries

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

CONSISTENT, EFFICIENT AND EFFECTIVE OPERATIONS
- Safety
- On-time performance
- Efficiency (fuel, productivity, sourcing, maintenance)
- Fleet replacement and utilisation

PERFORMANCE EXCELLENCE
- Staff engagement
- Improved governance
- Performance management
- Benchmarking

SUPPORT SA'S NATIONAL DEVELOPMENTAL AGENDA
- TRANSFORMATION
- JOB CREATION
- CONNECTING RSA TO TRADE AND TOURISM PARTNERS
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
In order to ensure all the tasks in the LTTS are being addressed, a high-level dashboard was created to track 244 short-term initiatives. This was grouped into 23 projects. The principle used is a binary project tracking methodology as indicated in the LTTS strategy section on the implementation blueprint and the project implementation plan provided to the monthly DPE meeting.

**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.

### Remarks

- Corporate Finance Advisors appointed to assist with divestment.
- Legislation requirements for Holding Company being assessed by Corporate Finance Advisors.
- In the process of drafting a project plan including legislation requirements.
- Progress being finalised with financial institutions.
- Awaiting funding decision on Equity Injection.
- Corporate Finance Advisors appointed to assist with divestment.
- Awaiting funding decision on Equity Injection.
- Savings realised for the 9 months ending 31 December 2013 total R300 million.
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

<table>
<thead>
<tr>
<th>Project</th>
<th>Status Bar</th>
<th>FY2013Q1</th>
<th>FY2013Q2</th>
<th>FY2013Q3</th>
<th>FY2013Q4</th>
<th>Remarks</th>
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<tbody>
<tr>
<td>Remediation of Loss-Making (SAA) Regional &amp; International Routes</td>
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<td>2</td>
<td>1</td>
<td>3</td>
<td>Follow on tasks being defined</td>
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<tr>
<td>Remediation of Loss-Making Domestic Routes</td>
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<td>2</td>
<td>2</td>
<td>2</td>
<td></td>
<td>Follow on tasks being defined</td>
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<td>Formation of Alliances</td>
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<td>6</td>
<td>4</td>
<td>3</td>
<td></td>
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<tr>
<td>Wide-Body Fleet Replacement Tender</td>
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<td>4</td>
<td>2</td>
<td>1</td>
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<td>SAA International Network Optimisation</td>
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<td>1</td>
<td>1</td>
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<td></td>
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<tr>
<td>Establish West African Hub</td>
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<td>4</td>
<td>3</td>
<td>2</td>
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<tr>
<td>Fast-Tracking of Commercial Initiatives</td>
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<td>Africa Roll-out Acceleration</td>
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<td>4</td>
<td>2</td>
<td>1</td>
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</tbody>
</table>

Buenos Aires route scheduled for closure
Terms of Reference in support of the agreed upon network plan for the three airlines are under negotiation.
Discussions in progress with ASKY
Wide-body Fleet acquisition process under review.
Multiple actions implemented evaluating results.
Potential hub locations have been identified, specific opportunities are being evaluated.
Alliance Revenue Tracking is implemented to ensure better tracking of Alliance/Codeshare Revenue performance.
IT system integration challenges
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.

LEGEND

Status Bar

- Finalised
- On Schedule
- At Risk
- Behind Schedule

Remarks

- Full corporatisation of SAA Tech, Air Chefs, Voyager & Cargo
- Optimise operation performance of head office and all subsidiaries
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 - R 30m
  • Codeshare re-negotiated - R 80m

• **Challenges**
  • Exchange Rate volatility - R 1bn +
  • Beijing - R 309m p/a
  • Buenos Aires - R 86m - Delayed to 2\textsuperscript{nd} 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

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

*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.*
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