

SAA INTEGRATED REPORT 2013

29 January 2014



SOUTH AFRICAN AIRWAYS

A STAR ALLIANCE MEMBER 

MEDIA BRIEFING PROGRAMME

29 January 2014

SAA Chairperson – Ms Dudu Myeni

Keynote Address – Minister of Public Enterprises, Mr Malusi Gigaba, MP

SAA Group CEO - Mr Monwabisi Kalawe

SAA Group CFO - Mr Wolf Meyer - Financial Results Presentation

SAA Group CEO - Mr Monwabisi Kalawe

Q&A

One-one-one interviews



SOUTH AFRICAN AIRWAYS

A STAR ALLIANCE MEMBER 



SOUTH AFRICA'S NATIONAL FLAG CARRIER

with a developmental & commercial mandate

Developmental
Mandate

Commercial
Sustainability



SOBER ASSESSMENT

STRENGTHS	CHALLENGES
Group output contributes R3,6bn to GDP & R5,6bn indirectly (supply chain & employees)	Negative equity
Creates 11,500 direct jobs 23,000 indirect jobs	Cash injection required for long-term healthy balance sheet
Award winning and customer focussed airline	60% R/\$ costs that are Dollar denominated creating significant pressure
LTTS (Gaining Altitude Strategy)	All long-haul routes are loss making
Strong safety record	
World class on-time departure stats	
Supportive Shareholder	

THE INDUSTRY

State of play in the airline industry



Increased liberalisation of markets

Major shifts in global air traffic

Airline market consolidation

Commoditisation of short-haul travel

African carriers face stiff competition on intercontinental routes

Global market shows improvement



YEAR UNDER REVIEW

OPERATIONS

Good Performance

SAA achieved a 91,17% on-time performance average and won the *FlightStats*

On-Time Performance Service Awards in the category “Middle East and Africa Major Airlines”



YEAR UNDER REVIEW

CUSTOMER SERVICE

1. Strengthened alliance and code-share relationships
2. Skytrax Award for Best Airline in Africa for the 10th consecutive year
3. Four-star Skytrax rating reconfirmed

Continue to win awards





BIGGEST HIGHLIGHT FOR 2013
THE DEVELOPMENT OF OUR
LONG TERM TURN AROUND STRATEGY (LTTS)

SAA Gaining Altitude

OUR STRATEGY

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



OUR STRATEGY EXPLAINED

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

SUPPORT SA'S NATIONAL DEVELOPMENTAL AGENDA

- TRANSFORMATION
- JOB CREATION
- CONNECTING SA TO MAJOR TRADE & TOURISM PARTNERS

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



A close-up profile of a woman with dark hair, smiling and wearing a silver and black headset. The headset has the South African Airways logo and text on the earpiece. She is looking towards a computer monitor in the background, which is slightly out of focus. The overall scene suggests a customer service or call center environment.

OVERVIEW OF OUR FINANCIAL RESULTS 2013

HIGHLIGHTS

Total Income up 14%



Cost savings in excess of R1bn



Operating loss before interest, tax,
depreciation and amortisation
improved by 40%



Extended guarantee



Controllable costs up 5%



ABRIDGED INCOME STATEMENT

	2012-13	2011-12	Variance
Total Income	27,098	23,861	14%
Total Operating Costs	27,523	24,564	12%
Operating loss before interest, tax depreciation and amortisation	(425)	(703)	40%
Depreciation and amortisation	(565)	(530)	7%
Net impairment	(23)	(44)	48%
Net gain on disposal of PPE	22	25	12%
Operating loss	(991)	(1,252)	21%
Finance Costs and Investment Income	(179)	(105)	70%
Loss Before Taxation	(1,170)	(1,357)	14%
Taxation	2	514	>100%
Loss for the year (after tax)	(1,168)	(843)	39%



REVENUE

	2012-13	2011-12	Variance
Airline Revenue	25,566	22,593	13%
Other Income	1,532	1,268	21%
Total Revenue	27,098	23,861	14%

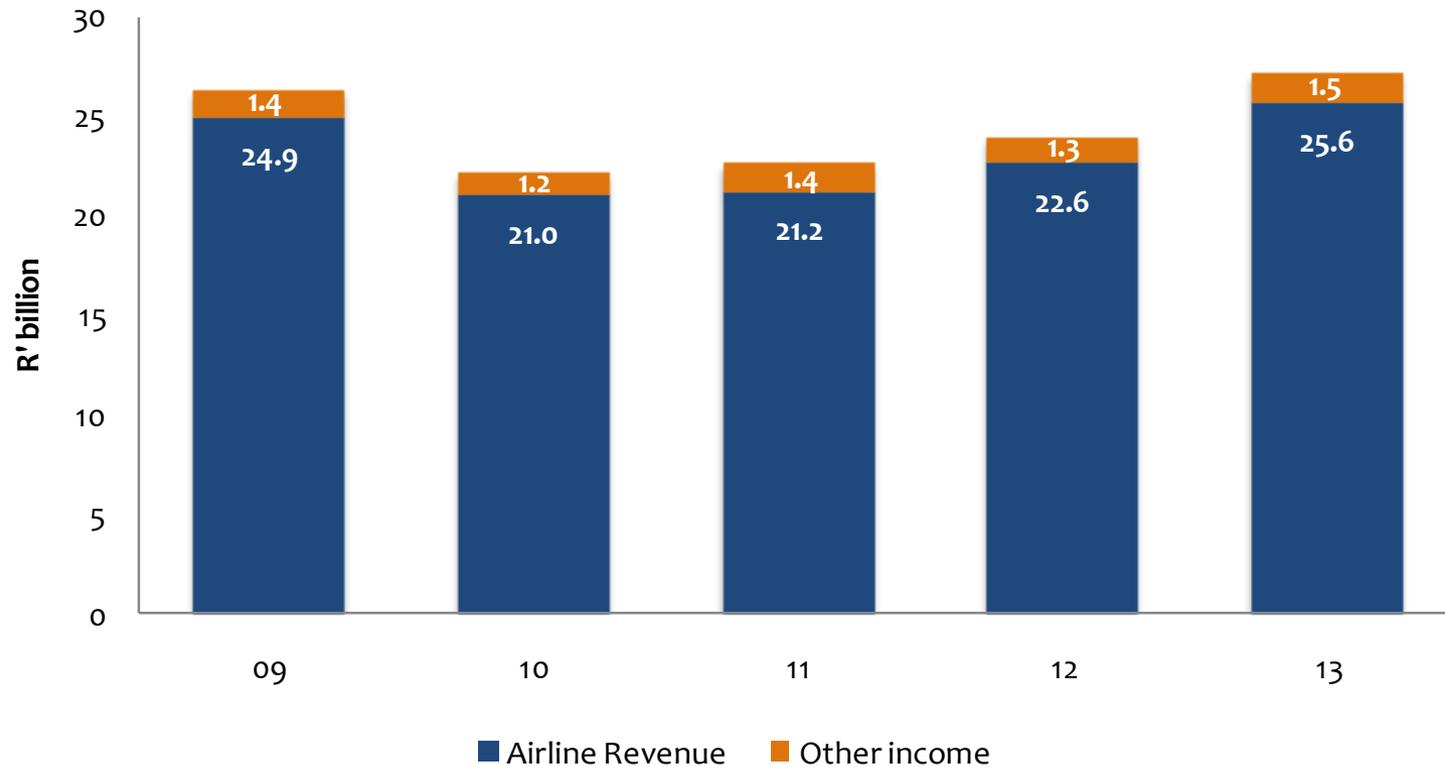
Contributing factors to increase in total revenue:

- air fares up by 7%
- 8% increase in revenue passengers
- 3% increase in load factors
- 3% increase in ASK's



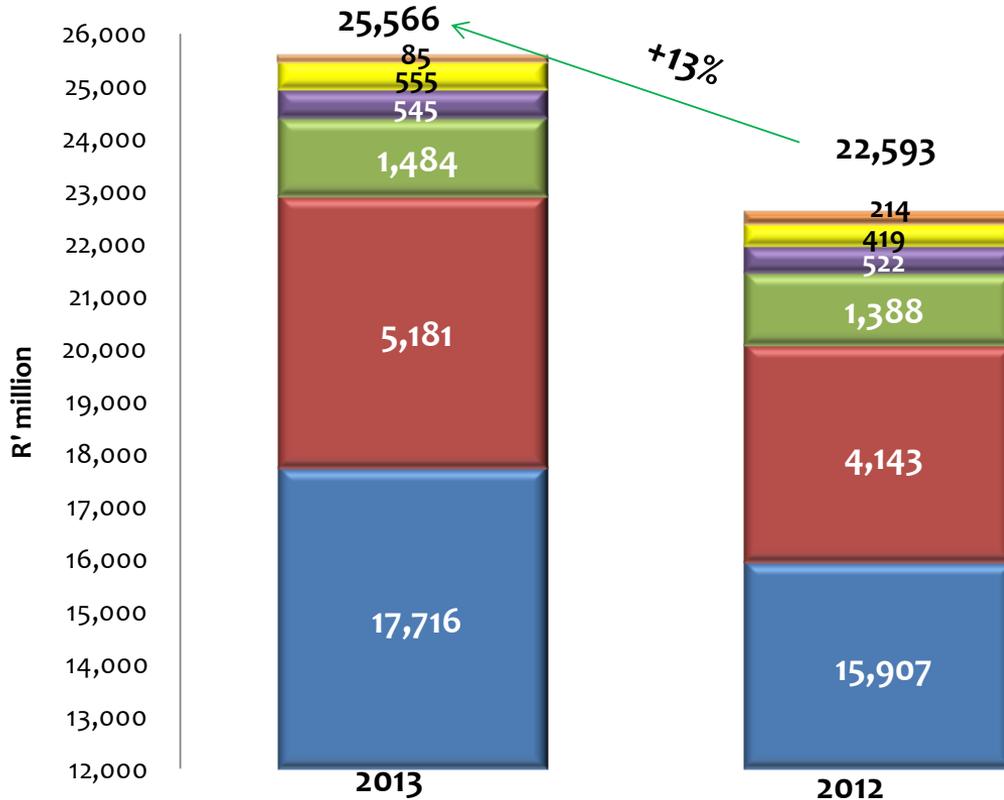
REVENUE ANALYSIS (cont)

Total Income



REVENUE ANALYSIS

Total Revenue Up by R2,973 (13%)



COMMISSION RECEIVED DOWN 60%

- Drop in commissions received largely as a result of the sale of the Galileo division.

VOYAGER INCOME UP 32%

- Higher utilisation and expiry releases.
- Increase in third party revenue

TECHNICAL SERVICES REVENUE UP 4%

- 3rd Party revenue decreased marginally but compensated by currency movement.

FREIGHT AND MAIL REVENUE UP 7%

- Cargo volume down by 2,7%.
- Yields up 9.5%.
- ATK's up 2.8%.

FUEL LEVIES AND OTHER UP 25%

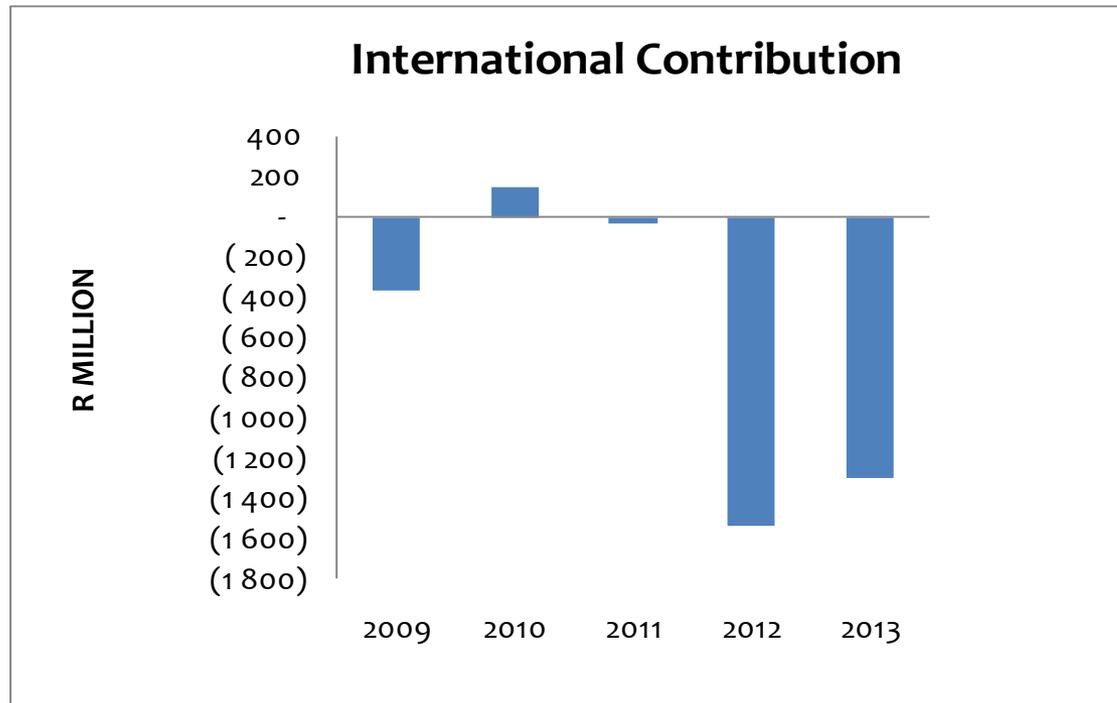
- A combination of increased YR recoveries (ZAR/USD impact) and prescribed tickets.

PASSENGER REVENUE UP 11%

- Increase in revenue passengers and RPK's.



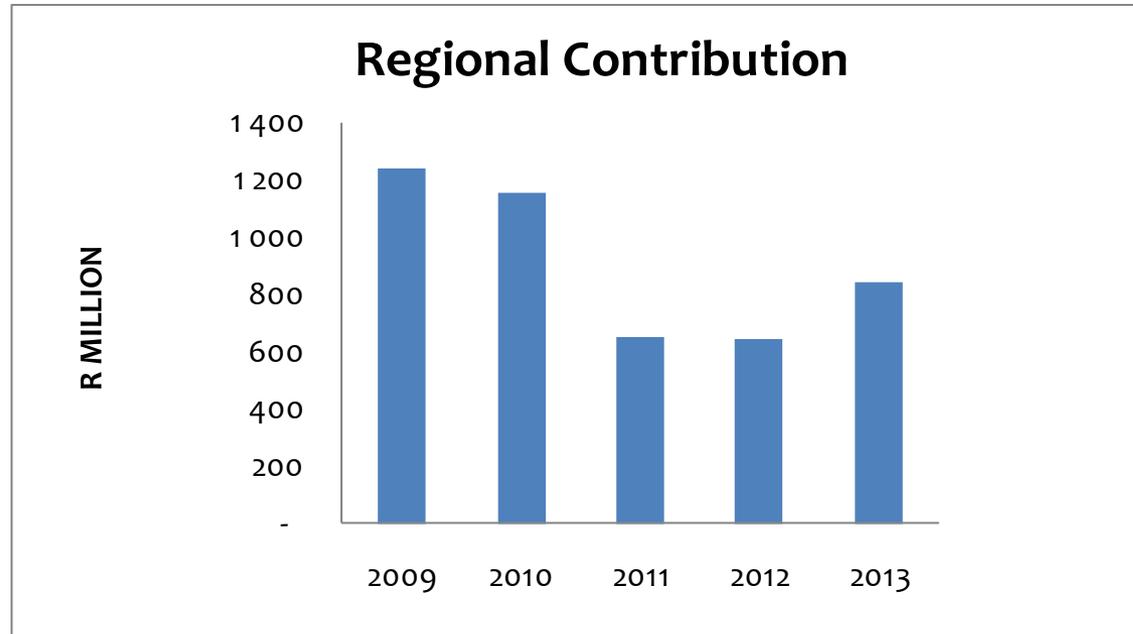
INTERNATIONAL CONTRIBUTION



- Fuel costs had the most impact on long-haul routes
- In the years which produced losses, the average fuel price was at levels in excess of US\$ 80 and US\$ 100 (2012 and 2013).



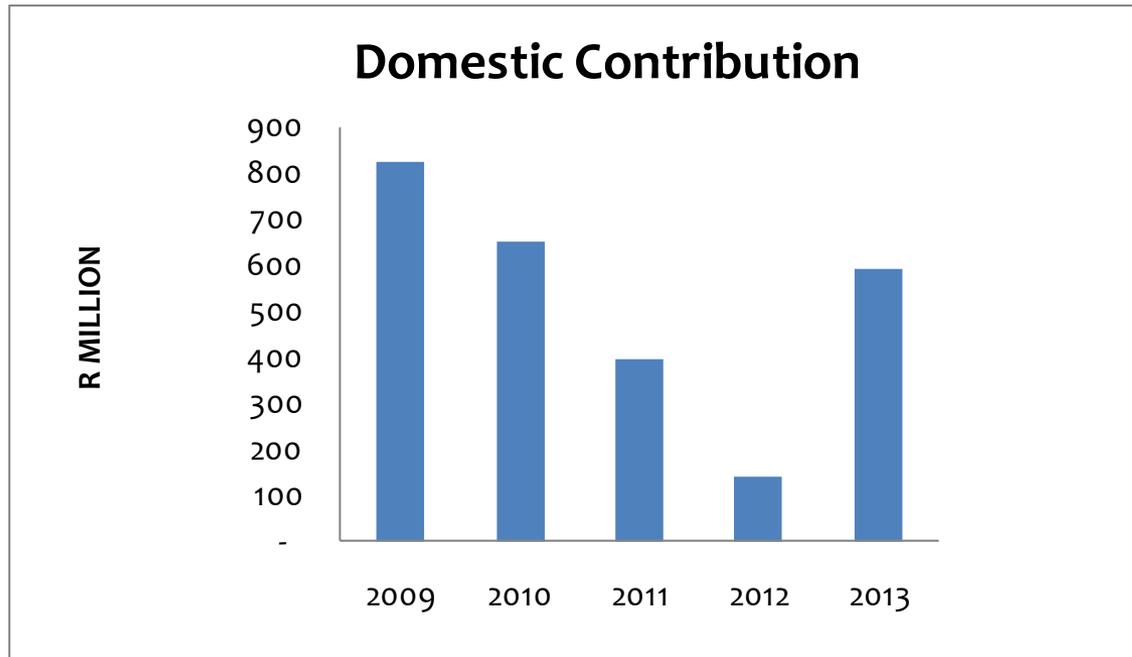
REGIONAL CONTRIBUTION



- Competition from Middle East carriers in the region has placed pressure on average airfares
- New destinations and frequencies launched during 2011 are now maturing
- Further routes launched in 2012 are similarly starting to yield more positive returns



DOMESTIC CONTRIBUTION



- Domestic routes have traditionally contributed positively to the airlines performance
- The 2012 financial year was particularly hard hit by the fuel price and the economic climate, restricting the Group's ability to adjust airfares
- The domestic market contracted by 15% in 2012.



OPERATING COSTS

	2012-13	2011-12	Variance
Total Operating Costs	27,523	24,564	12%

- Approximately 60% of all operating expenses are foreign currency denominated – mainly USD
- Operating costs severely impacted by weakening of the ZAR against the USD (13% y-o-y)
- Operating costs positively impacted by the results of the Cost Compression Programme – R1bn
- **In real terms, operating costs down 2% from prior year**



COST COMPRESSION PROJECT – R1bn

INDICATIVE IMPACT OF COST COMPRESSION PROJECT				
R'm		2013	2012	%
Actual Cost	Total operating cost	27,523	24,564	12%
Fx impact	Impact of exchange rate movement on non-ZAR expenditure, i.e. movement of ZAR 7.48 to ZAR 8.42 to the USD	-2,068		8%
		25,455	24,564	4%
Activity adjustment	There was a year-on-year increase in ASK as well as in Load factor. The impact of Revenue Passenger Kilometres (RPK) was calculated on the variable cost.	-847		3%
Adjustments	There was a marginal improvement in the Fuel price	146		-0.5%
Inflation adjusted	Inflation was weighted based on the currencies used for payment e.g. ZAR 5.9%, US\$ 2.9%, UK 2%, Rest 4.9 (excl Fuel)	-628		2%
	Note: Full year impact of various prior year cost increases not taken into account.			
		24,126	24,564	-2%



OPERATING COSTS ANALYSIS

Fuel cost up	15%
Employee expenses up	3%
Aircraft maintenance up	33%
Aircraft lease cost up	17%
Navigation, Landing & Parking up	18%
Other operating expenses up	6%



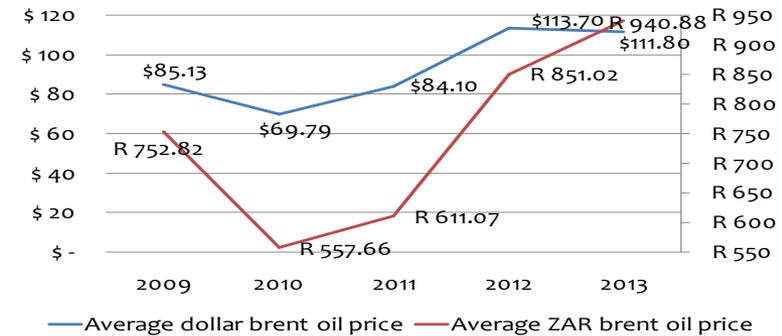
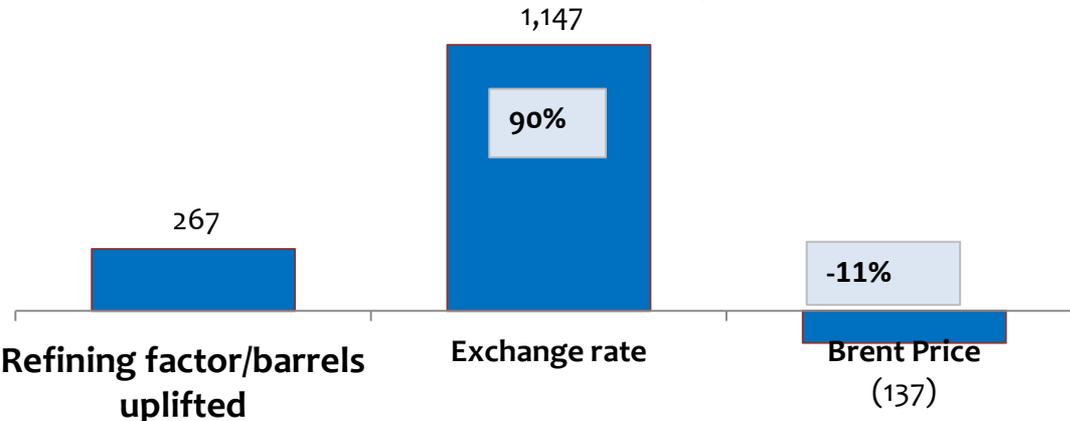
OPERATING COSTS (cont)

	2012-13	2011-12	Variance
Fuel	9,579	8,302	15%

Increase R1,277 million (+15%)

- Average Brent crude price decreased by 2% - \$113.7 to \$111.8 per barrel
- Average ZAR/USD exchange rate weakened by 13% - R7.48 to R8.42
- Fuel comprised 35% of total operating expenditure (2012: 34%)

Increase analysis: R1 277m (15%)



OPERATING COSTS (cont)

	2012-13	2011-12	Variance
Employee Expenses	4,848	4,711	3%

Increase R137 million (+3%)

- Excluding the prior year pension fund adjustment, the increase is 5%
 - No increase for management
 - Pilots contractual increase of 7.2%
 - General staff increase of 6.1%

Headcount	2012-13	2011-12	Variance
Total	11,433	11,044	4%

- The headcount increased by 4%. Compulsory conversion of contract workers to permanent staff. Currently a freeze on employment and only critical positions are being filled.



OPERATING COSTS (cont)

	2012-13	2011-12	Variance
Aircraft Maintenance	2,310	1,739	33%

Increase R571 million (+33%)

- Maintenance cost contractually driven – PBTH, maintenance reserves and return conditions
- The increase in Aircraft Maintenance costs can be analysed as follows:

Increase in costs attributable to weakening of the Rand	18%	R314m
Additional provision raised due to changes in the fleet plan: <ul style="list-style-type: none"> • Early return of 6 A319-100 aircraft • Extension by one year of the A340-200 aircraft • Extension by two years of one A340-600 aircraft 	4%	R72m
Total increase in Material cost	11%	R185m
Total increase	33%	R571m



OPERATING COSTS (cont)

	2012-13	2011-12	Variance
Aircraft Lease Costs	2,097	1,797	17%

Increase R300 million (+17%)

Increase attributable to the following:

- Full year impact of new A320's and A330's entering the fleet in prior year
- The impact of the weakening ZAR

Leased fleet	2010-11	2011-12	2012-13	Change
A330	2	6	6	-
B737	25	22	21	-1
A319	11	11	11	-
A320	0	2	2	-
A340	16	11	11	-
Total	54	52	51	-1



OPERATING COSTS (cont)

	2012-13	2011-12	Variance
Navigation, Landing & Parking	1,748	1,476	18%

Increase R272 million (+18%)

- Excluding the exchange rate impact, the increase versus the prior year is R243 million (+14%)
- Landing and Parking
 - The Landing and Parking fees contributes to the bulk of the increase in this expense line
 - The ACSA increase of 28% only came into effect in December 2011, therefore the 2012-13 bears the full year effect of the increase



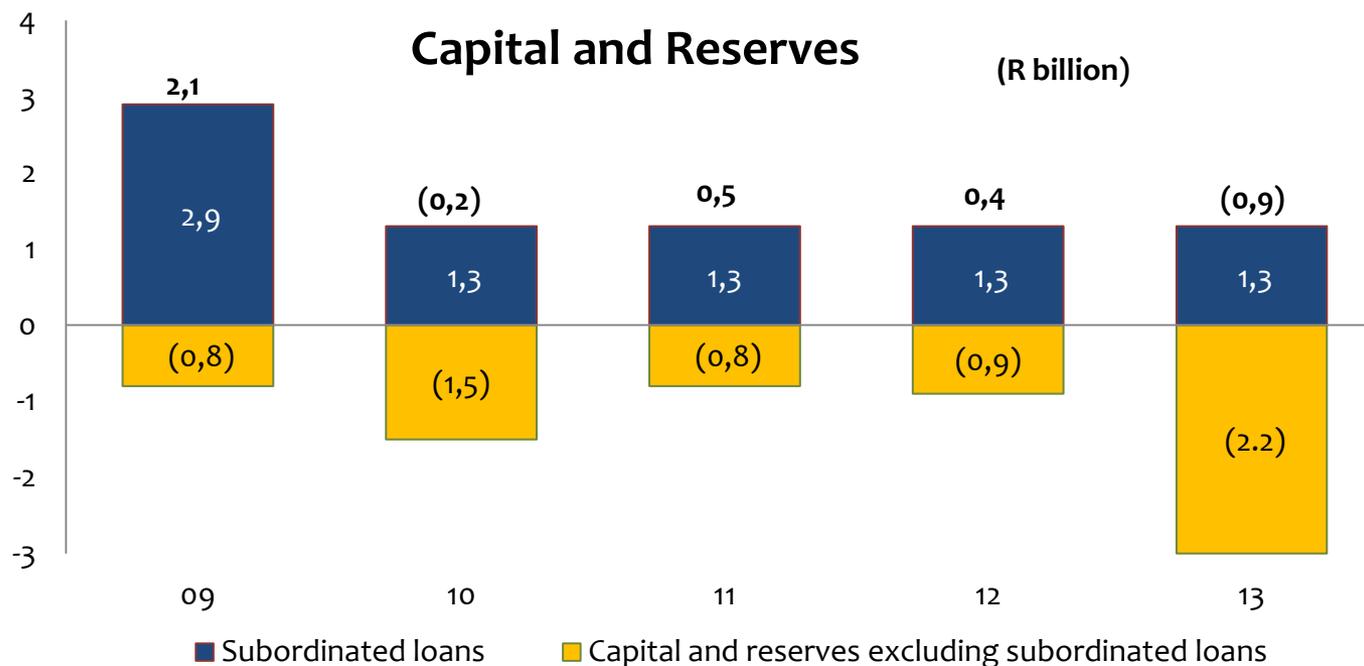
FAIR VALUE MOVEMENTS & TRANSLATION DIFFERENCES

	2012-13	2011-12	Variance
Net translation gain on foreign assets and liabilities	179	81	>100%
Net fair value loss on hedging instruments	(84)	(18)	>100%
- Realised gain on derivatives	181	211	-14%
- Fair value loss on derivative financial instruments	(265)	(229)	-16%
Total fair value movements and translation profit	95	63	51%



STATEMENT OF FINANCIAL POSITION

	2012-13	2011-12	Variance
Capital and Reserves	(2,149)	(857)	>100%
Subordinated Loan	1,300	1,300	0%
Total Capital and Reserves	(849)	443	>100%



STATEMENT OF FINANCIAL POSITION

	2012-13	2011-12	Variance
Total Non-current assets	8,145	7,833	4%
Total Current Assets	4,475	5,654	-21%
Cash and Cash Equivalents	(1,100)	(33)	>100%
Other Current Assets	5,575	5,687	-2%
Total Non-current Liabilities	3,265	4,079	-20%
Long-Term Loans	1,020	1,305	-22%
Other Non-current liabilities	2,245	2,774	-19%
Total Current Liabilities	10,204	8,965	14%
Net Assets	(849)	443	>100%



CASH FLOW

	2012-13	2011-12	Variance
Net cash and cash equivalents	(1,100)	(33)	>100%

- R5m net cash generated from operating activities (2012: -R1.1bn)
- Net Capex additions of R423m during the current financial year
- PDP payments of \$45.5m (R383m)
- Repayment of R208m on Long-term borrowings



GAINING ALTITUDE



CATALYSE CHANGE

What is needed to catalyse change for a successful airline turnaround?

Clarity on the nature & size of the problem amongst all stakeholders

Clear definition of target business model

Secure survival, then quickly focus on success

- Implement financial turnarounds then focus on “flying forward”.

**SUCCESSFUL
AIRLINE
TURNAROUND**

Solve the big picture

- Tweaking on current model is not enough

Strong and empowered leadership

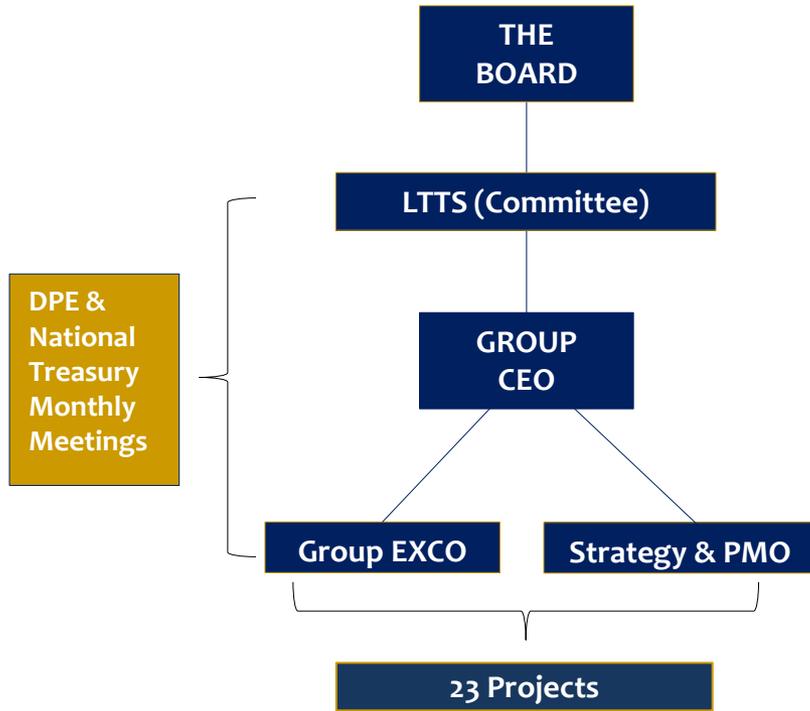
- Tenure & performance

Focus on a few large levers

- Significant management focus required for change to occur

LTTS OVERSIGHT STRUCTURE

The Turnaround Office has been set up to catalyse change



Multiple forums are in place to oversee implementation

STRATEGIC DIRECTION

- Monitor and prioritise the programme portfolio
- Manage and coordinate programme interfaces
- Detect and analyse conflicts
- Manage scoping and ramp-up

TRANSPARENCY AND SUPPORT

- Drive transparency by tracking financial & non-financial progress (milestones, KPIs)
- Focus management attention on key challenges
- Problem solve

ENABLING

- Implementation of communications plan
- Drive capability building targets
- Drive adequate embedding of knowledge management

ACHIEVEMENTS TO DATE

FINANCIAL

- Cost Compression of R220 million YTD
 - YTD growth in revenue 11%
-

NETWORK ALLIANCE & FLEET

- Mango expansion – increased fleet and schedule. SAA codeshare on all Mango Domestic Routes
 - Additional capacity have been deployed in Africa
 - West Africa hub location investigation in progress
 - Loss-making routes are being closed (ie Kigali, Buenos Aires in March)
 - Code Share with TAM and ETIHAD
-

BUSINESS UNITS & SUBSIDIARIES

- Voyager Redemptions implemented on Mango
 - Air Chefs financial performance showing early signs of improvement
 - SAAT setting up line maintenance stations in the rest of the continent
 - SATC divestment
-

GROUP STRUCTURE

- An Annual Governance Cycle has been codified and approved by the Board
 - DPE is in the process of setting up a Ministerial Task Team (MTT) to guide the establishment of an Integrated Aviation Group
-

FOCUS IN 2014

CRITICAL ISSUES

- Engagement on Capital Injection
 - Wide-Body Fleet Replacement
 - Whole-Of-State Aviation Policy
-

BUSINESS

- Aggressively drive revenue generation & Cost Compression programme
 - Focus on Customer Service as key differentiator
 - Galvanise internal and external support for Gaining Altitude Strategy
 - Africa Expansion Strategy
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2014 marks our 80/20 year celebrations
Celebrating our 80th anniversary and 20 years of Freedom

Q&A



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