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## GEARING FOR GROWTH

SAA Roadshow, October 2006



# SOUTH AFRICAN AIRWAYS

A STAR ALLIANCE MEMBER 

*"Bringing the World to Africa and taking Africa to the World"*

## Agenda

1. Financial Overview
2. Industry Overview
3. Strategic Overview
4. Conclusion and way forward

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## Financial Overview

### Highlights

- Passenger numbers up 4.5%, but yields down (3%)
- Capacity increased 5.6%
- Load factors constant at 70%
- Total revenues up 13.0%, with Passenger revenue flat up only 0.8%
- Costs (excluding fuel) increased by 5.5%
- Fuel costs increased by 51.5%
- Bambanani initiatives bearing fruit ~ R500m of savings achieved
- Successful sale and leaseback of two Airbus A340-600 aircraft
- Positive cash flow from operating and investing activities
- R1.6 billion repaid to Transnet

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## Financial Overview

### Income statement – R'm

	2006	% change	2005
Total Revenue	19 423	13.0	17 186
Airline Revenue	15 642	2.1	15 319
Passenger revenue	15 342	.8	12 938
Cargo	1 603	7.9	1 491
Other	697	11.3	890
Other Airline Revenue	2 781	>100	1 867
Fuel levies & recoveries	2 218	78.8	1 236
Air Traffic Liability release	1 028	>100	423
Other	543	>100	208
EBITDAR	3 034	11.9	2 800
EBITDAR margin	16.1%	-0.20	16.3%
EBIT (bif fair value adj)	895	-32.0	581
EBIT margin	2.0%	-1.40	3.4%
Fair value movement	1 604	>100	346
Net finance cost	1 041	-61.8	-186
Profit - Continuing operations	-84.8		739
Loss - Discontinued operations	48.3		-91
Profit for the year	-36.5	-90.0	648

NOTE: 2005 were restated for IFRS

- Airline revenues up 2.1%
- Release of air traffic liabilities up ~R400m due to new systems implementation
- Margins weakened due to a decline in yields and increase in fuel cost
- Bambanani initiatives mitigated margin weakness
- Air Tanzania - discontinued operations

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## Financial Overview

### Income statement – R'm

	2006	% change	2005
Aircraft lease costs	1 887	22.9	1 543
Accommodation and refreshments	390	41.6	423
Depreciation and amortisation	842	24.6	676
Distribution costs	1 661	(10.2)	1 726
Electronic data costs	523	10.1	480
Energy	4 603	51.5	3 257
Labour	23 282	(5.1)	3 459
Material	1 466	32.6	1 106
Navigation, landing and parking fees	471	11.6	875
(Profit)/loss – sale/scraping of fixed assets	(257)	>100	25
Other operating costs	3 209	5.8	3 033
<b>Total</b>	<b>48 625</b>	<b>14.6</b>	<b>16 805</b>

- Once-off costs, mainly legacy costs and exogenous factors, negatively impacted SAA FY2006 results .....

	2006
Impact of strike	300
Maintenance of Parity (MOP)	208
Competition Commission	100
Fuel cost not covered by fuel levies	782
<b>TOTAL</b>	<b>1 390</b>

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## Financial Overview

### Balance sheet – R'm

	2006	2005
Non-current assets	7 713	10 582
Current assets	6 240	6 646
<b>Total assets</b>	<b>13 953</b>	<b>17 228</b>
Capital and reserves	1 179	2 705
Non-current liabilities	4 593	5 953
Current liabilities	8 217	8 570
<b>Total equity and liabilities</b>	<b>13 989</b>	<b>17 228</b>

- Non-current assets decreased due to Sale & Leaseback of A340-600's
- Net asset value declined after SAA repaid Transnet R1.6 billion of the R4.0 billion Compulsory Convertible Subordinated Loan
- Transnet will convert the balance of R2.4 billion to Ordinary Equity
- R1.4 billion aircraft related debt repaid during the year

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## Financial Overview

### Cash flow statement – R'm

	2006	2005
Cash generated from operations	336	2 021
Net finance costs and derivatives	(9)	(6 108)
Net cash inflow(outflow) from operating activities	327	(4 087)
Cash inflow(outflow) from investing activities	9 456	(298)
Cash (outflow)/inflow from financing activities	(3 043)	4 029
(Decrease) in cash	(3 900)	(356)
Foreign exchange effect on cash	35	(7)
Cash at the beginning of the year	2 614	2 977
Cash at the end of the year	20 230	2 614

- Efficient working capital management resulted in decrease in net working capital of R1 billion
- Sale & Leaseback proceeds of R1.3 billion
- R1.4 billion aircraft related debt repaid
- R1.6 billion of Transnet's CCSL repaid

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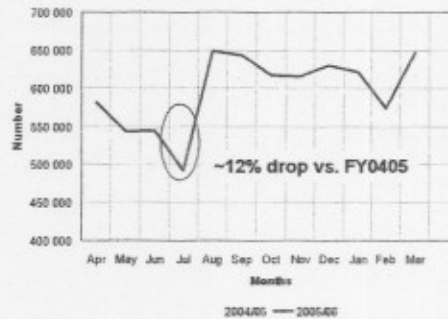
## Financial Overview

### Impact of strike

... on revenue



... on passenger numbers



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## Financial Overview

### Financial risk management

- **Currency risk management.....**
  - SAA exposed to currency risk from foreign revenues earned, foreign expenses incurred and aircraft financing transactions
  - SAA hedges between 50% and 75% of exposure on a 12 month rolling basis
  - Currency risk also managed through cash collection and conversion strategies
- **Jet Fuel .....**
  - Jet fuel is SAA's largest expense
  - SAA hedges 40% - 60% of its jet fuel price exposure on a 12 month rolling basis
- **Interest rate risk....**
  - SAA interest rate exposure arises from aircraft financing structures
  - SAA manages its interest rate exposure through adjusting fixed vs floating ratio and USD vs ZAR ratio of its aircraft financing portfolio

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## Financial Overview

### Unbundling & Recapitalisation

- **Unbundling from Transnet.....**
  - Sale of SAA from Transnet to DPE concluded for R2.05 billion
  - Suspensive conditions to be fulfilled by 31 December 2006, mainly
    - PFMA legislative requirements
    - Approvals from 3<sup>rd</sup> parties & replacement guarantees
    - Resolution of E Class Shareholder matter
- **SAA Recapitalisation....**
  - SAA will be raising R3.2bn - R4.0bn equity to restructure its balance sheet
    - position SAA for future growth and expansion
    - lower cost of capital
    - improve gearing and cover ratios
    - mitigate currency risks

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## Industry Overview

### Key themes - Global

- 2005 was a turbulent year for the airline industry
- Global airline industry losses approx US\$6 billion in 2005 (IATA estimates)
- Oil price is wild card, cutting into airlines' efficiency gains and profit
- Oil prices are volatile and remain uncertain
- Airlines need to:
  - Reduce cost and improve efficiencies
  - Consolidate and join global alliances
- Low Cost Carriers continue to be a threat to legacy carriers

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## Industry Overview

### Key themes - Africa

- Increased competitive threat (AF/KLM/KQ, EK)
- Increased partnering and code-share
- BASA constraints (e.g. Nigeria, Angola, Yamoussoukro Declaration)
- Strong market growth
- Franchise opportunities
- Aircraft maintenance opportunities
- Increasing Cargo opportunities

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## Industry Overview

### Key themes - South Africa

- Strong pax growth – (only 5% of South Africans fly)
- LCC position strengthening
- Competition intensity driving yields down
- Fuel costs bite
- Strong voice of Labour
- Growing online bookings

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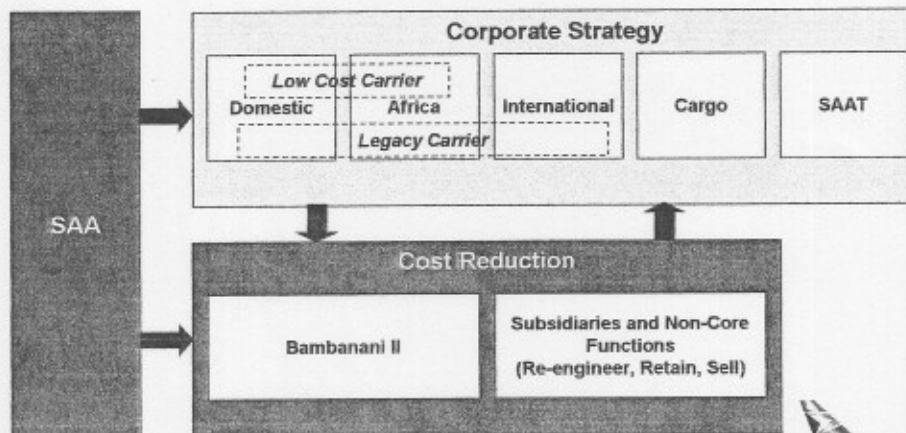
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# Strategic Overview

## Strategic Initiatives

- SAA strategy and specific initiatives



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## Strategic Overview

### Network strategy

- |                        |  |
|------------------------|--|
| • <b>Domestic/SADC</b> | - Launch low cost offering for leisure and new travellers<br>- Premium offering for business passengers  |
| • <b>Africa</b>        | - Partner with African carriers – Ghana, Nigeria<br>- Increase point-to-point flying   |
| • <b>International</b> | - Consolidate network in partnership with Star Alliance<br>- Lie flat seats<br>- Focus on tourists<br>- Increase direct services<br>- Reduce costs |

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## Strategic Overview

### Strategic Achievements

#### .....FY2006

- Historic admission to the Star Alliance
- Bambanani II embedded across the organisation
- IT system implementation complete – Amadeus, Pegasys, Rapid
- Strong leadership and management team in place
- Marketing achievements – ATP, SAA Tennis Open, SAA Open

#### .....FY2007

- Improved pricing and revenue management
- Improved customer experience
- Voyager Credit Card
- Strong SAA Cargo growth to achieve R4.5bn turnover by 2010
- SAA Technical pursuing partnerships, 3<sup>rd</sup> party business & Freighter conversions
- 2010 World Cup preparations
- Launch of LCC

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## Conclusion and Way forward

- Looking forward, SAA will focus on the following strategic initiatives:
  - Realising Star Alliance benefits
  - Continued focus on Bambanani II
  - Improving Customer Service
  - Implementation of Network strategy - Low-cost carrier, Legacy business, International business
  - Gearing Cargo and SAA Technical for growth
  - Restructure, Retain or Sell Subsidiaries and Non-Core Functions
  - Recapitalising SAA & Finalising Unbundling from Transnet

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