

④ 061018 PC  
Public Enterprises  
(Confidential  
not available  
to public)

Thank you  
Q & A



**SOUTH AFRICAN AIRWAYS**

A STAR ALLIANCE MEMBER 

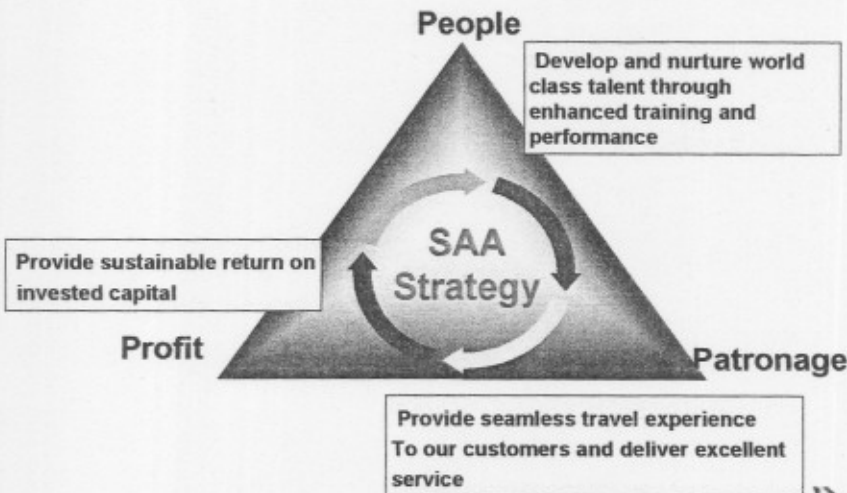
*"Bringing the World to Africa and taking Africa to the World"*

Annexure

1. Detailed Strategic Overview

## Strategic Overview

### SAA 3 Pillar Strategy



23

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



## Strategic Overview

### People

- Labour productivity – monitor staff levels (especially overhead) vs. volume of production
- Crew productivity – monitor block hours flown for pilots and cabin crew
- Ensure Succession plans are in place for business continuity and to develop managerial and leadership capacity
- Retention of key staff – Monitor retention rate for top 100 performers
- Improve Employee Relations to ensure a culture of shared values exist (no disruptions to operations due to dispute/strike)

24

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



## Strategic Overview

### Patronage

- Maintain/improve Skytrax ratings to ensure a high service quality
- Grow Market share (in key segments) – Monitor market share among key geographies and customer segments
- Improve/ maintain On time performance
- Improve Network connectivity – minimum connecting times (MCT)
- Reduce Baggage handling error rate

25

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



## Strategic Overview

### Profit

- Available Seat Kilometre, a measure of capacity
- Increase Revenue per Available Seat Kilometre
- Reduce Cost per Available Seat Kilometre
- RPK and RTK (cargo)
- Increase Profit/Profit margin
- Increase Revenue Growth
- Increase Aircraft utilization – block hours per day, a measure of efficiency
- Grow RPK to increase market share and profit
- Reduce Cost of sales ratio

26

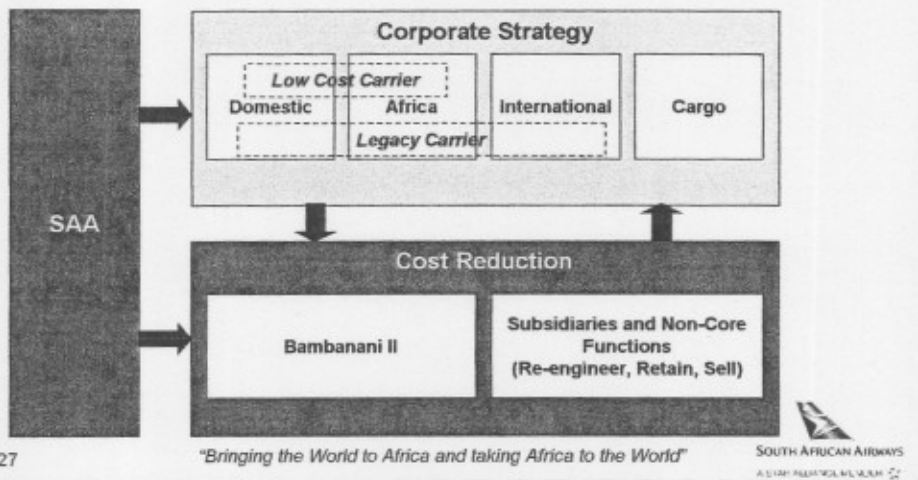
*"Bringing the World to Africa and taking Africa to the World"*



## Strategic Overview

### Strategic Initiatives

- Taking into consideration the macro environment, the airline industry trends and the resulting challenges, SAA developed a strategy supported by the strategic objectives and a number of specific initiatives.



## Strategic Overview

### Strategic Initiatives

- Low Cost Carrier
- Legacy Carrier
- International Business Review
- Cost Compression and Revenue Enhancement– Bambanani II
- Cargo growth strategy
- Subsidiaries and Non-Core Functions - Re-engineer, Retain, Sell

28

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

SOUTH AFRICAN AIRWAYS  
A STAR ALLIANCE MEMBER

## Strategic Overview

### Network strategy

- SAA's network strategy has been reviewed
- **Long haul**
  - Consolidate network in partnership with Star Alliance member carriers
  - A strong focus on the "South to South" initiative has the business working closely with our Star Alliance partners in Asia, China and India
- **Africa**
  - Increase point-to-point flying; partner with African carriers
- **Domestic/SADC**
  - Provide two separate offerings; a high service product targeting premium passengers and a low cost offering for leisure and new travellers

29

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



## Strategic Overview

### Low Cost Carrier

- The South African airline pax market has grown by almost 50% since 2003, while SAA pax volume growth has underperformed
- The market's appetite for no-frills flights has prompted us to plan the launch, later this year, of our own low-cost carrier and this project remains on track
- The Low Cost Carrier will enable SAA to participate in the surge in demand for "low fare" travel
- The Low Cost Carrier should be able to achieve a value-creating position in the domestic market, provided that it maintains a rigorous focus on maximising productivity of people and 'planes, and minimising costs
- SAA's objective is to establish a "best practice" LCC with the most seats and the lowest costs in the South African market so that the Low Cost Carrier will always have the ability to beat competitors on price
- Target Launch is still 2006, and we expect this initiative to improve SAA's bottomline significantly

30

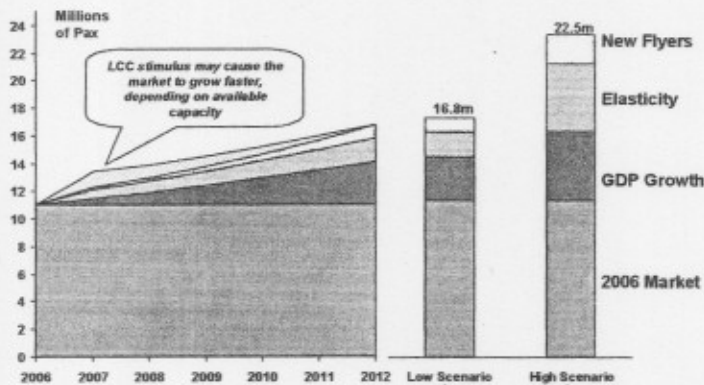
*"Bringing the World to Africa and taking Africa to the World"*



## Strategic Overview

### Low Cost Carrier

- In South Africa, less than 5% of the population uses air travel and it is clear there is room for more development in the low-cost arena
- Much of the South African Market growth will be in low cost carriers



31

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



## Strategic Overview

### Legacy Carrier

- The current legacy business is not sustainable in its current form and requires radical restructuring. The strongest strategic position for the legacy airline is to focus on premium customers
- However, substantial cost will need to be taken out of the business, creating a restructured Legacy Carrier
- The Legacy Carrier will reposition the remainder of the SAA business in the domestic market to a true premium market position
- The objective is to differentiate the Legacy Carrier business from the LCC business so as to create two distinct offerings
- The restructuring plan has been developed and the target launch is 2007

32

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



## Strategic Overview

### International Business

- SAA's international business is being repositioned to:
  - target the appropriate passenger profile
  - reduce costs in line with the broader cost-cutting initiatives
  - maximise the huge benefits to customers of SAA's Star Alliance membership, and
  - encourage and enhance passenger loyalty to the national carrier

33

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



## Strategic Overview

### International Business

#### Focus on 5 strategic platforms

Strategic Platform	Rationale
1. Focus on tourists	The inbound and outbound markets are of similar size. Many outbound customers are going on holiday and the inbound market is driven by international tourists. The inbound tourist market has more growth potential than the outbound resident market. Selling tourist add-ons (hotels, car hire, etc) will enhance margins
2. Reduce costs	SAA International's costs are at least 30% too high. Costs are high for the current "premium" positioning, let alone the need to migrate to a "tourist" airline in the inbound market. Seat density has to increase while selling costs and overheads have to reduce dramatically in order to be competitive. Cost reduction will allow more competitive pricing and stimulate both the home and tourist market
3. Increase direct services	SAA cannot compete in terms of connectivity with the major network airlines such as Emirates. However, by utilising smaller, long-range aircraft SAA can offer direct services to more destinations than the network carriers. Direct services will increase SAA's share of premium traffic, while direct daily services will ensure that SAA captures the business traffic
4. Leverage Star Alliance	Flying into Star Alliance carriers major hubs helps support SAA services by providing large amounts of connecting traffic. Star partner home carriers also provide marketing and distribution strength in their home markets (which in most instances they dominate)
5. Foster loyalty	Business class revenues from outbound travellers are important to SAA and it needs to retain the loyalty of South African travellers. In addition, South Africa has a high ratio of repeat visitor and SAA needs to build long-term relationships with these travellers through its loyalty programme. While new customers will always be important for market growth, retaining existing customers is generally a low cost way of underpinning volume and market share

## Strategic Overview

### Star Alliance

- The 2005 / 06 financial year was one of consolidation and intense preparation for SAA's historic admission to the Star Alliance of major international carriers
- SAA successfully fulfilled the 53 stringent joining requirements and became the Star Alliance's 18th member in April 2006 and the membership will yield immense benefits to our customers and the airline in years ahead

35

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



## Strategic Overview

### Customer service

- SAA's customer service programme remains on track to offer our customers improved service at all levels
- The customer-centric approach has been prioritised and the customer service division has been moved to the office of the CEO

36

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





## Strategic Overview

### Bambanani II

- The embedding of the Bambanani programme, across the organisation, remains a key focus
- Bambanani targets cost-cutting and enhanced revenue generation to ensure the long-term sustainability and future profitability of the airline
- The project has yielded good results and remains a priority for the airline
- Large potential seen and high aspirations set by ExCo for performance improvement over next 18 months – ~R820m in existing initiatives and ~R2.6b in new step-change initiatives

37

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



## Strategic Overview

### Bambanani II

#### **Key deliverables on Bambanani**

- Pricing and revenue management transformation (including schedule optimisation and route profit review) to secure optimal pricing, product offering and partnerships for SAA
- Sales and Marketing – Voyager and key account management
- Procurement improvement through targeted value teams (e.g. fuel, IT, telephony, facilities, in-flight) to minimise consumption and reduce procurement prices
- Passenger services optimisation to ensure efficient operations and the best customer experience at all stations
- Technical operations optimisation to ensure efficient operations and to optimise revenue potential
- Cargo projects: Long haul freighter implementation, short haul optimisation, cargo charter implementation and cargo operational efficiency optimisation

38

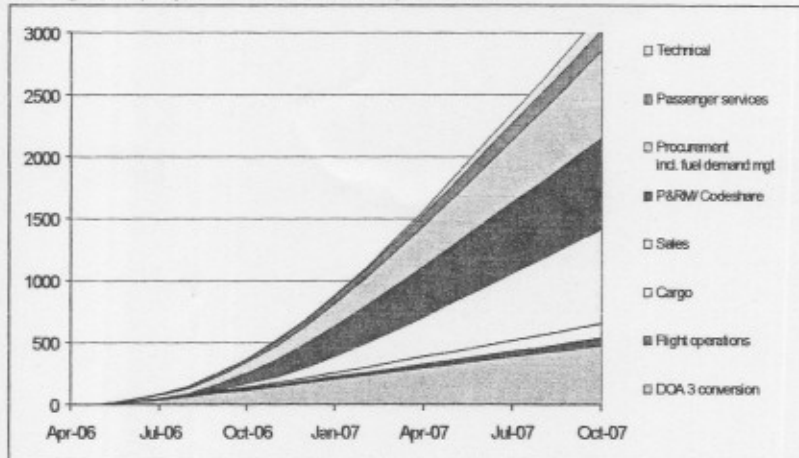
*"Bringing the World to Africa and taking Africa to the World"*



## Strategic Overview

### Bambanani II

- Savings ramp up as initiatives are implemented



39

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



## Strategic Overview

### Cargo

- Cargo growth strategy to achieve R4.5bn turnover by 2010, growing 20% CAGR
- Fleet transition away from older freighter models (B727F)
- Develop business model for mid & long haul freighters (for West Africa and international markets)
- Develop value-added services in order to increase price premium
- Further develop alliances and JVs, leveraging Star Alliance partners
- Implement an e-freight solution
- Increase operational efficiencies

40

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

