

② 061018 PC Publications/MS/15

Agenda

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



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



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	13 042	.8	12 938
Cargo	1 609	7.9	1 491
Other	991	11.3	890
Other Airline Revenue	3 781	>100	1 867
Fuel levies & recoveries	2 210	78.8	1 236
Air Traffic Liability release	1 028	>100	423
Other	543	>100	208
EBITDAR	3 134	11.9	2 800
<i>EBITDAR margin</i>	16.1%	-0.20	16.3%
EBIT (b/f fair value adj)	395	-32.0	581
<i>EBIT margin</i>	2.0%	-1.40	3.4%
Fair value movement	30	>100	346
Net finance cost	-301	-61.8	-186
Profit - Continuing operations	112	-84.8	739
Loss - Discontinued operations	-47	48.3	-91
Profit for the year	65	-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



Financial Overview

Income statement – R'm

	2006	% change	2005
Aircraft lease costs	1 897	22.9	1 543
Accommodation and refreshments	599	41.6	423
Depreciation and amortisation	842	24.6	676
Distribution costs	1 551	(10.2)	1 728
Electronic data costs	529	10.1	480
Energy	4 933	51.5	3 257
Labour	3 282	(5.1)	3 459
Material	1 466	32.6	1 106
Navigation, landing and parking fees	977	11.6	875
(Profit)/loss – sale/scraping of fixed assets	(257)	>100	25
Other operating costs	3 209	5.8	3 033
Total	19 028	14.6	16 605

- 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	700
TOTAL	1 308



Financial Overview

Balance sheet – R'm

	2006	2005
Non-current assets	8 749	10 582
Current assets	5 240	6 646
Total assets	13 989	17 228
Capital and reserves	1 179	2 705
Non-current liabilities	4 593	5 953
Current liabilities	8 217	8 570
Total equity and liabilities	13 989	17 228

- 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

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	1 456	(298)
Cash (outflow)/inflow from financing activities	(3 043)	4 029
(Decrease) in cash	(1 260)	(356)
Foreign exchange effect on cash	86	(7)
Cash at the beginning of the year	2 614	2 977
Cash at the end of the year	1 440	2 614

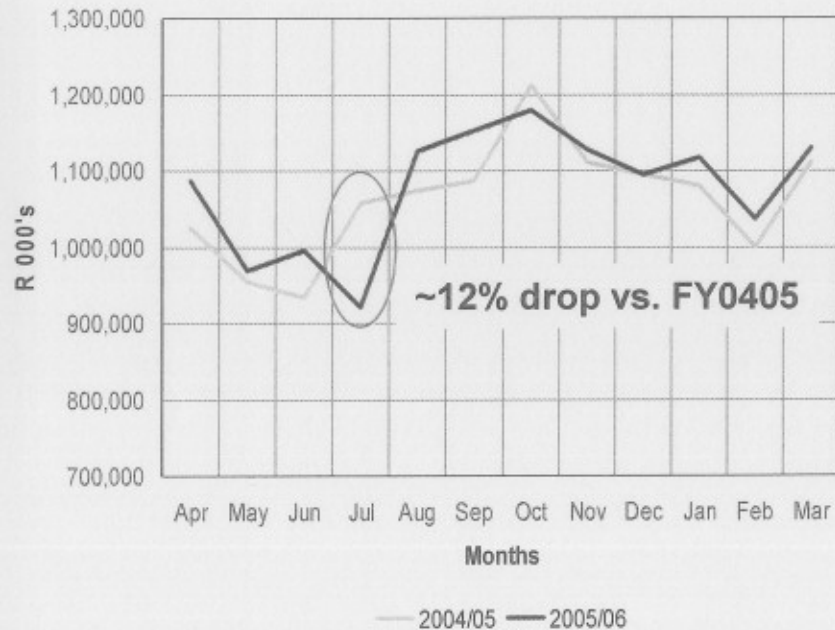
- Efficient working capital management resulted in decrease in net working capital of R1 billion
- Sale & Leaseback proceeds of R1.3 billion
- R1.4 billion aircraft related debt repaid
- R1.6 billion of Transnet's CCSL repaid



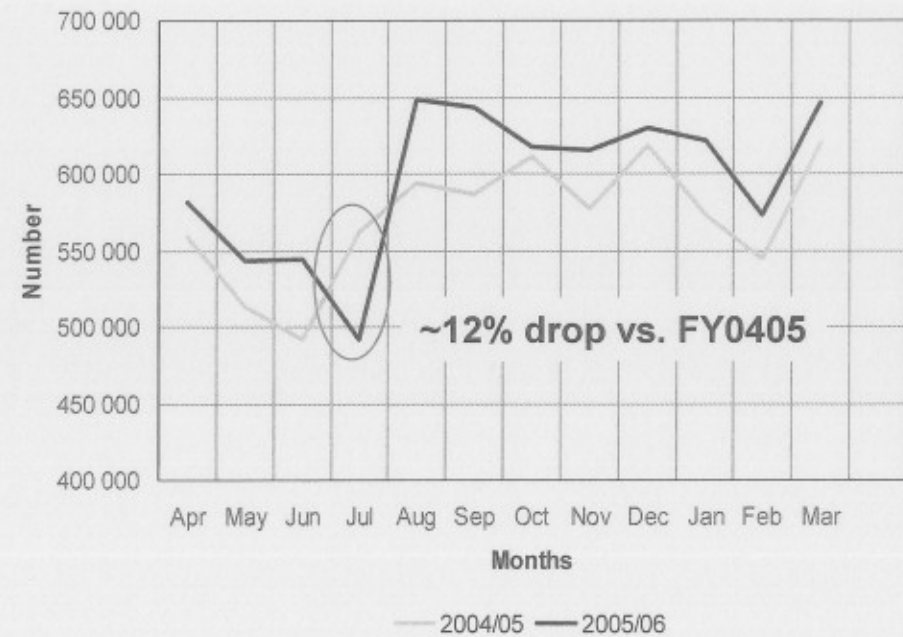
Financial Overview

Impact of strike

... on revenue



... on passenger numbers



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



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 3rd 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



Agenda

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

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

