16 MAY 2018

SAA Q4 FY2018 Report

Presentation to the Standing Committee on Finance (SCOF)

Agenda

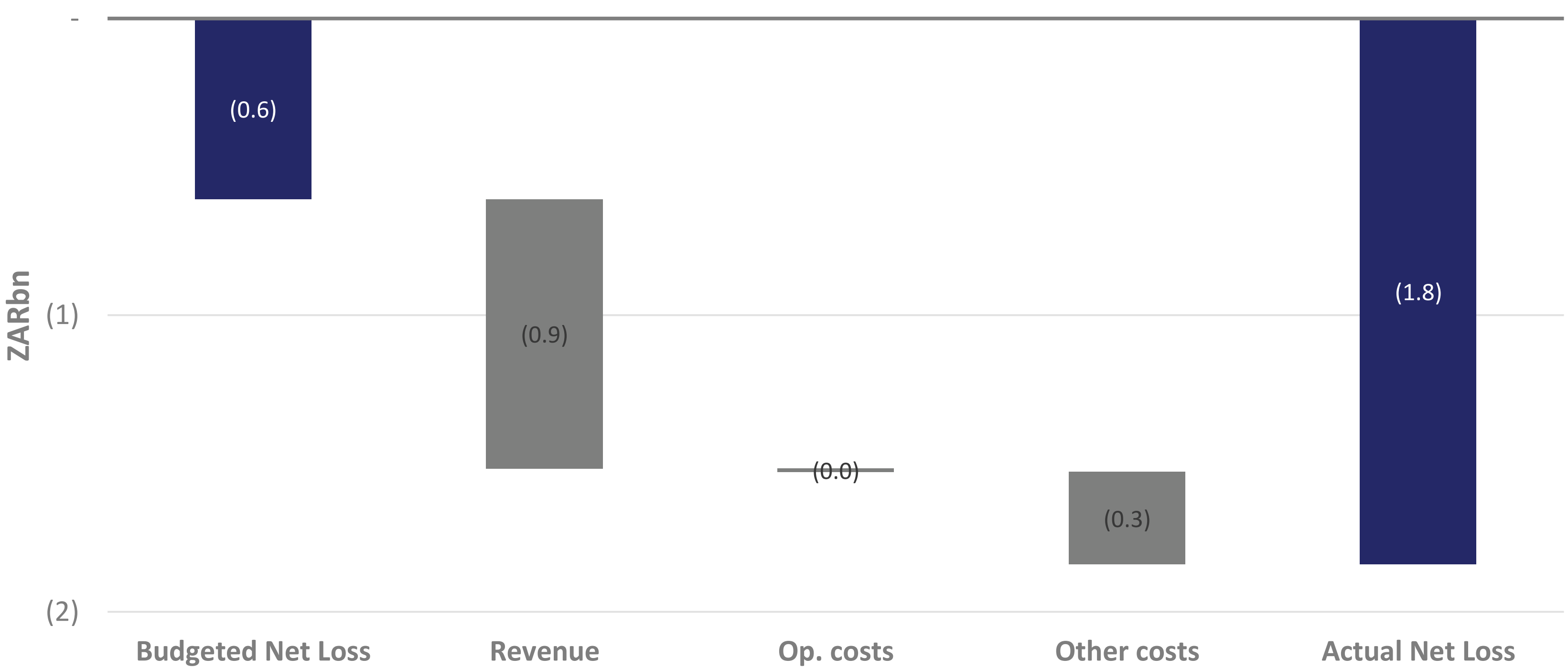
- SAA Q4 Performance
- Oversight Forum
- Addressing Audit Findings

SAA Q4 Performance

Net loss is R1.2bn worse for Quarter 4 than budget, mainly driven by revenue and currency translation losses

- Carried lower passenger numbers than the budget forecast
- Lower revenue largely driven by currency movements
- Higher currency translation losses due to strengthening ZAR relative to dollar
- Overall negative impact from currency movements on net profit of R 237 million

SAA Group net loss causes



Source: Management reports

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The Q4 FY2018 Net loss is R1.2b worse than budget

Rm	Q4 Actual	Q4 Budget	Variance	Q4 @ Budget FX	Variance
Revenue	6,962	7,868	*-12%*	7,381	*-6%*
Op cost	(7,854)	(7,921)	*1%*	(8,510)	*-7%*
EBITDA	(892)	(53)	*>100%*	(1,129)	*>100%*
EBIT	(1125)	(226)	*>100%*	(1,362)	*>100%*
Net Profit	(1840)	(610)	*>100%*	(1,778)	*>100%*

Q4 revenue R0.9bn below budget

R 419million shortfall due to currency movement

Q4 costs relatively flat

However, there is a R656 million currency movement protection, thus costs would have been worse than budget

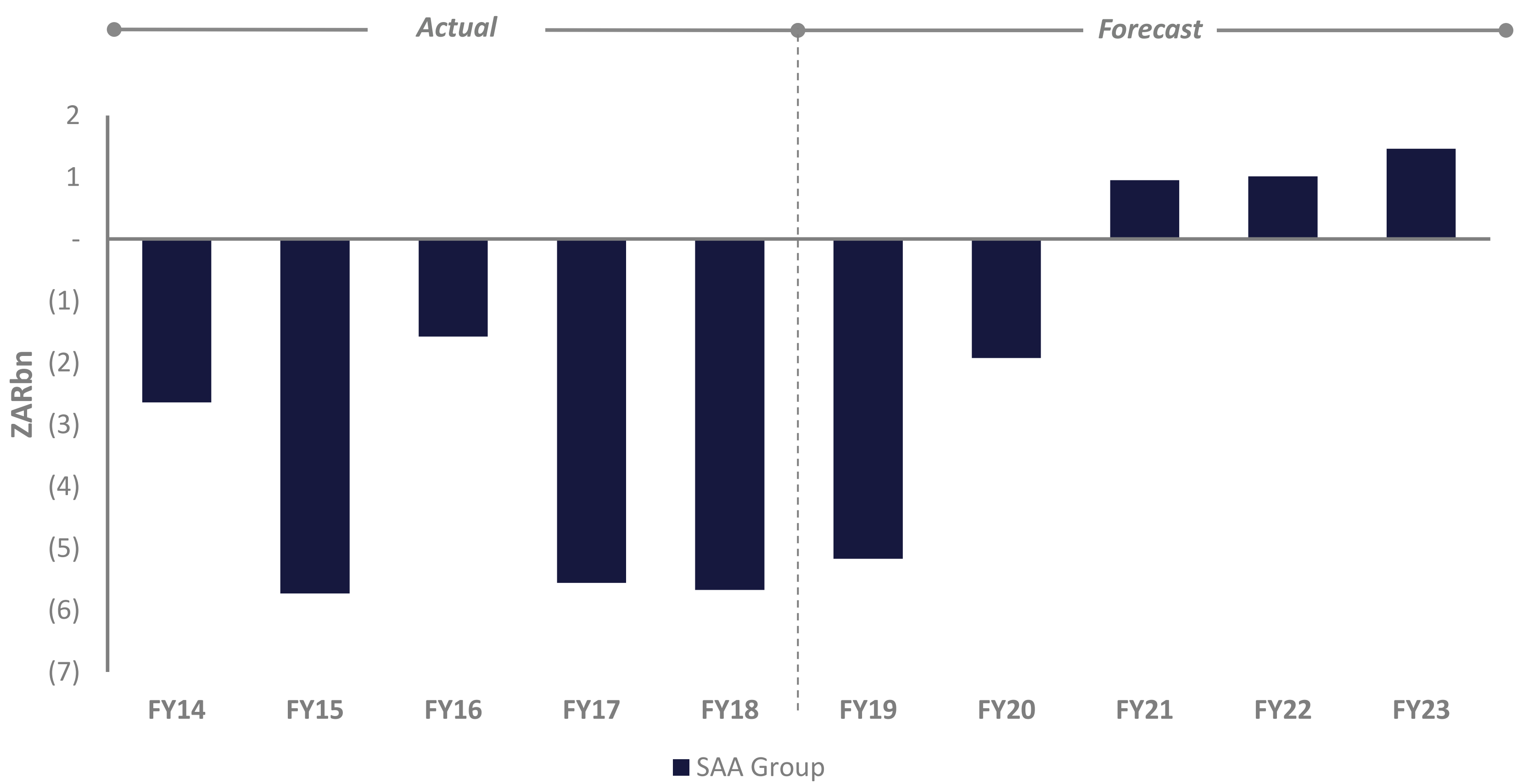
Q4 currency translation losses

Significant currency translation losses of R508million

Source: Management reports

The Group turnaround plan forecasts breakeven by FY2021

SAA Group Net Profit/Loss



Source: Management reports

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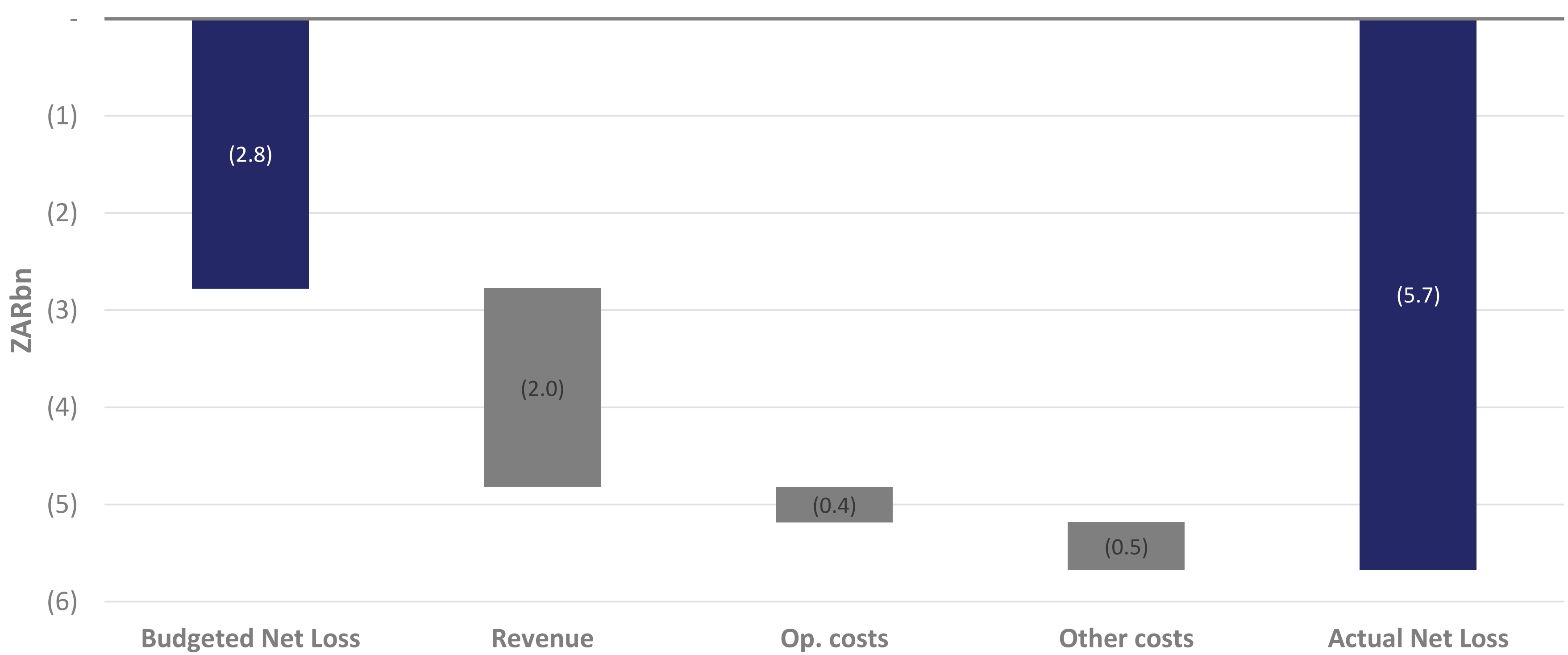
Net loss is R2.9bn worse than budget, driven both by revenue and operating costs performance below budget

SAA Group net loss causes

- Carried lower passenger numbers than previous year
- Lower average fare due to increased competition and negative sentiment
- Higher operating costs largely driven by increase in fuel costs
- Maintenance (MRO) costs ahead of budget



Source: Management reports

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The YTD FY2018 revenue is R2.04bn below budget, while costs are R0.4bn above

Rm	Q1	Q2	Q3	Q4	YTD Actual	YTD Budget	Variance	YTD @ Budget FX	Variance	YTD Prior Yr	Variance
Revenue	6,911	7,697	7,815	6,962	29,385	31,426	*-6%*	30,416	*-3%*	30,741	*-4%*
Op cost	(7,530)	(8,060)	(8,402)	(7,854)	(31,846)	(31,482)	*-1%*	(33,157)	*-4%*	(32,405)	*-2%*
EBITDA	(620)	(363)	(586)	(892)	(2,461)	(56)	*>(100%)*	(2,741)	*10%*	(1,664)	*-48%*
EBIT	(978)	(364)	(1,409)	(1,630)	(4,381)	(1,214)	*>(100%)*	(3,775)	*-16%*	(3,751)	*-17%*
Net Profit	(1,399)	(702)	(1,733)	(1,840)	(5,673)	(2,778)	*>(100%)*	(5,066)	*-12%*	(5,561)	*-2%*

YTD revenue R2.04bn below budget

- **International sales declined by 11%: - R1.425bn**
- **Regional sales declined by 6%: - R394m**
- **Domestic sales declined by 21%: - R1.094bn**
- **Other positive (e.g. Mango, Cargo, etc.): +R872m**

Part of decline caused by tactical capacity reductions

- **Maintenance costs above budget by 26%: - R1.033bn**
- **Energy expenses were 2% above budget: – R128m**
- **Labour costs were 3% above budget: – R191m**
- **Other costs were 7% favourable to budget: – R988m**

YTD costs R364m above budget

- **D&A were 20% favourable: +R234m**
- **Currency translation negative impact: – R 996m**
- **Finance costs and Tax positive impact: + R 271m**

YTD other costs R491m above budget

Source: Management reports

The FY2018 budget and LTTS were premised on certain key assumptions and initiatives; some of these have however not materialised as planned

Key Assumptions

Status of completion

1. Sale of 5x owned A340-300 aircraft
2. R900m capital budget
3. Purchase of 2x A340-600
4. R13bn recap over three years
5. Going concern

Key Initiatives

Status of completion

1. Exit 5 wide body aircraft
2. Retain narrow body aircraft
3. Reduce freighter fleet
4. Procurement benefits
5. Central Africa routes rationalisation

Negative Market Dynamics not Anticipated

1. Additional competitor capacity
2. Growth of LCCs
3. JNB by-pass
4. Cape Town reaches critical mass

Forex & Oil Price Assumptions

1. ZAR/USA at R13.2 vs R13 budgeted, today @ 12.5
2. Brent at $53.6/Bbl vs $50.0/Bbl budgeted, today @ $73/Bbl

Total P&L impact of initiatives not implemented in FY2018 is estimated at R1.6bn

Key
Not completed
Completed

A number of quick wins have recently been implemented, to arrest immediate losses and start to turn around performance …

1 Capacity Redistribution	• **Shifted 4 narrow-body aircraft to Mango** to address excess capacity for SAA and reduce impact of Low Cost Carriers (LCC) market share gain • **Planned return for 1 of 3 freighters to lessor** to optimise profitability • **At lease maturity, shift from 737-300 to ATR-72 aircraft** (freight) to further improve operating cost economics
2 Route Optimisation	• **Reviewed unprofitable routes** including reductions in West Africa, LHR and domestic transfer to Mango • Adjustment of SAA schedule to **focus on business and premium economy traffic**
3 Staff costs	• **Engaging labour** around state of the airline and possible restructuring • **Initiated discussions with labour and pilots** to achieve greater productivity
4 Organisation	• Continuing to **build Change Hub** in order to manage transformation within the business • **RfP issued for operating model redesign** – creating fit for purpose organisation
5 Other	• **Renegotiated terms with** key suppliers • **Discussions with lenders** to support financing requirements and appointment of **financial advisor** • Initial discussions with Board regarding role of **subsidiaries**

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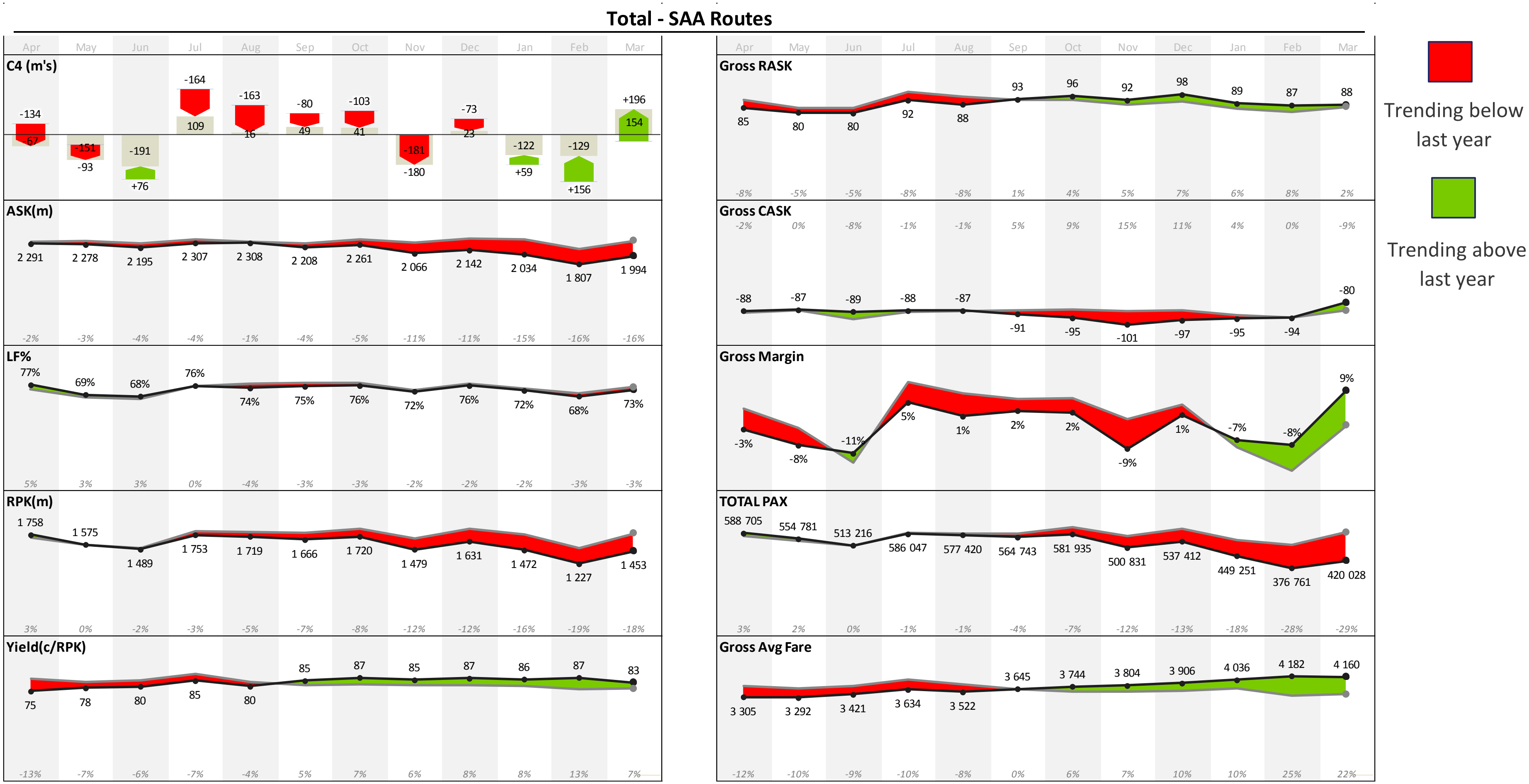
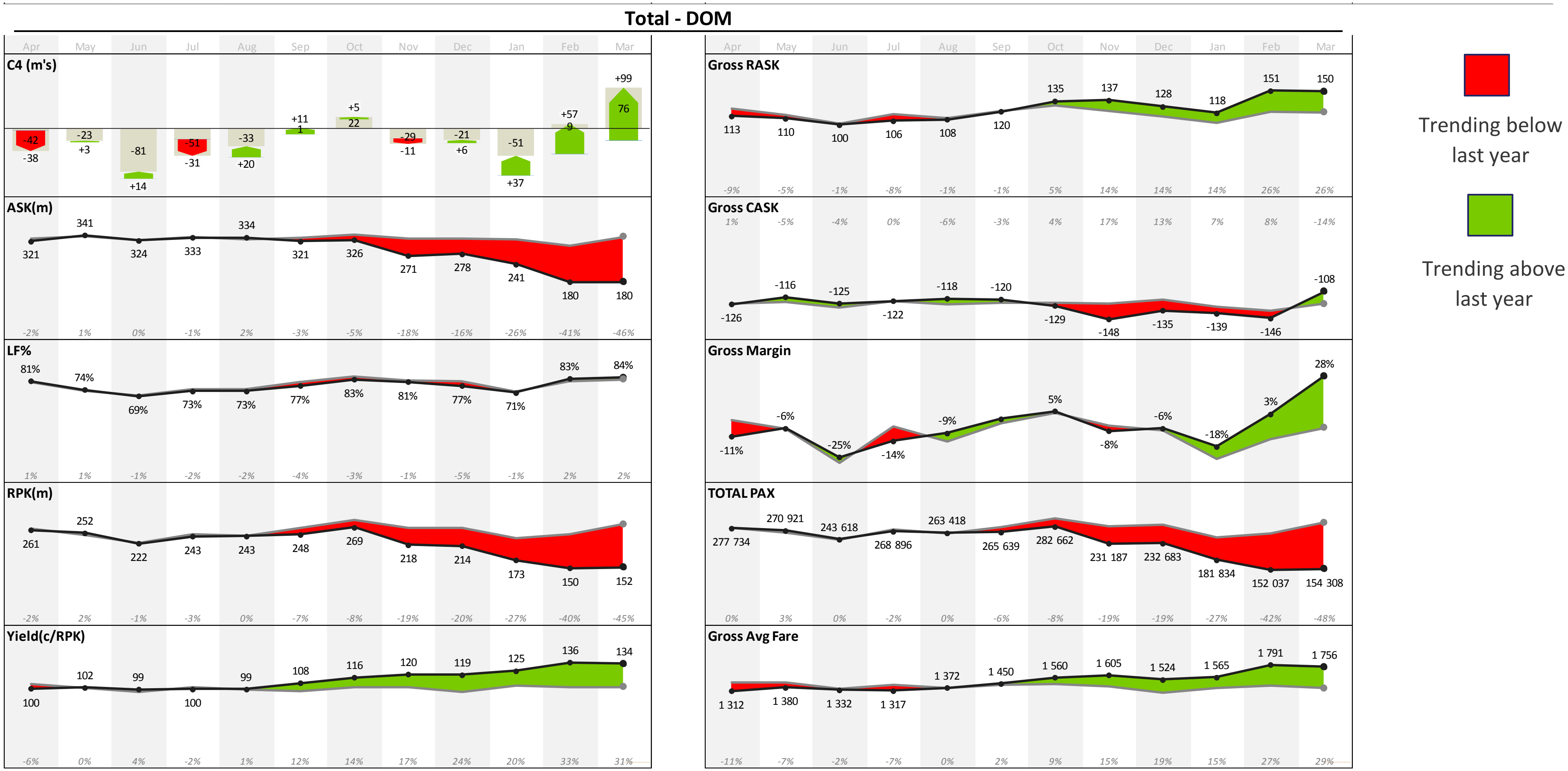
… that have led to improvements in OVERALL NETWORK…



Focus going forward is to reduce CASK, whilst continuing to improve RASK

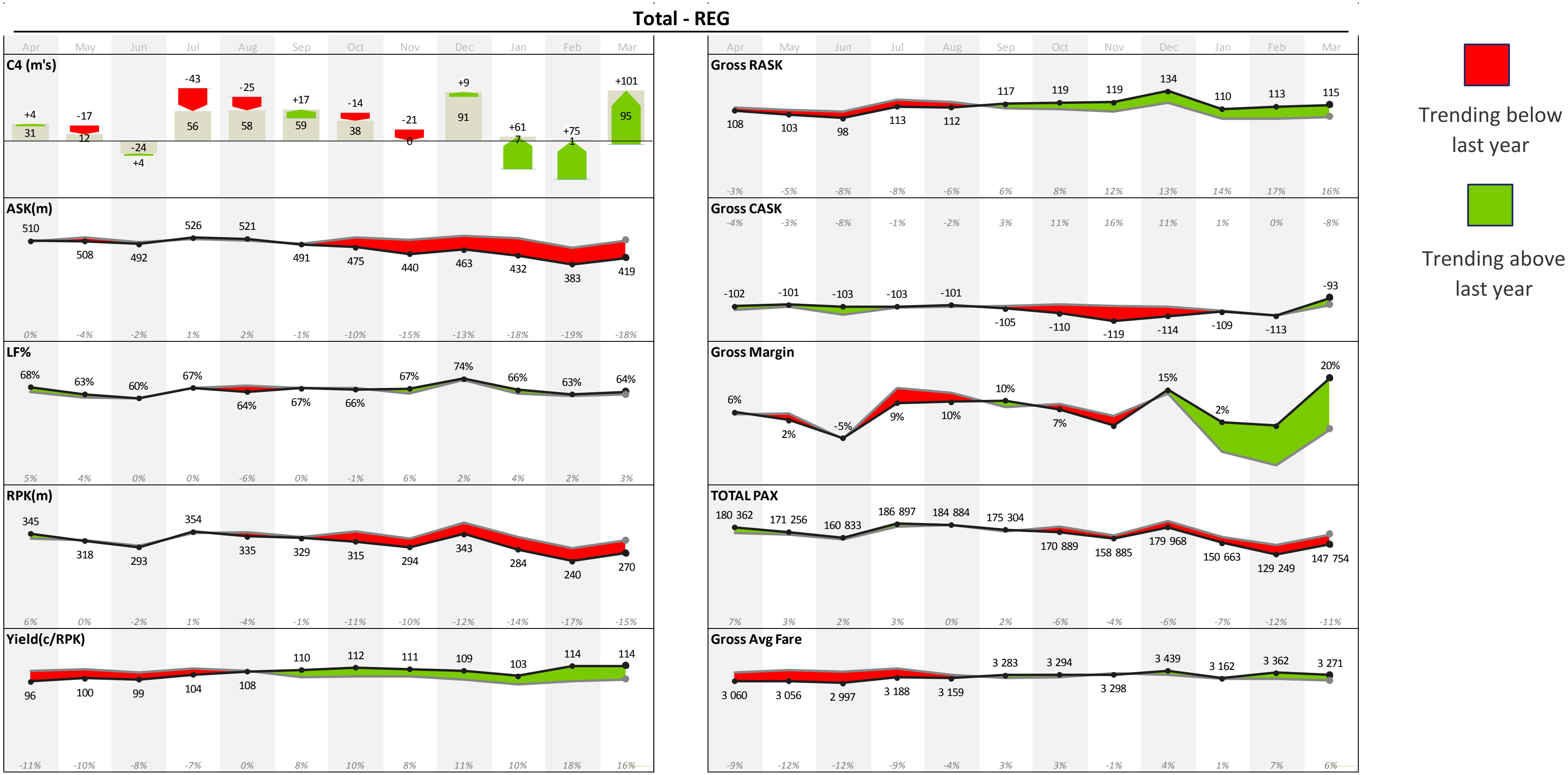
Source: Management reports

… DOMESTIC



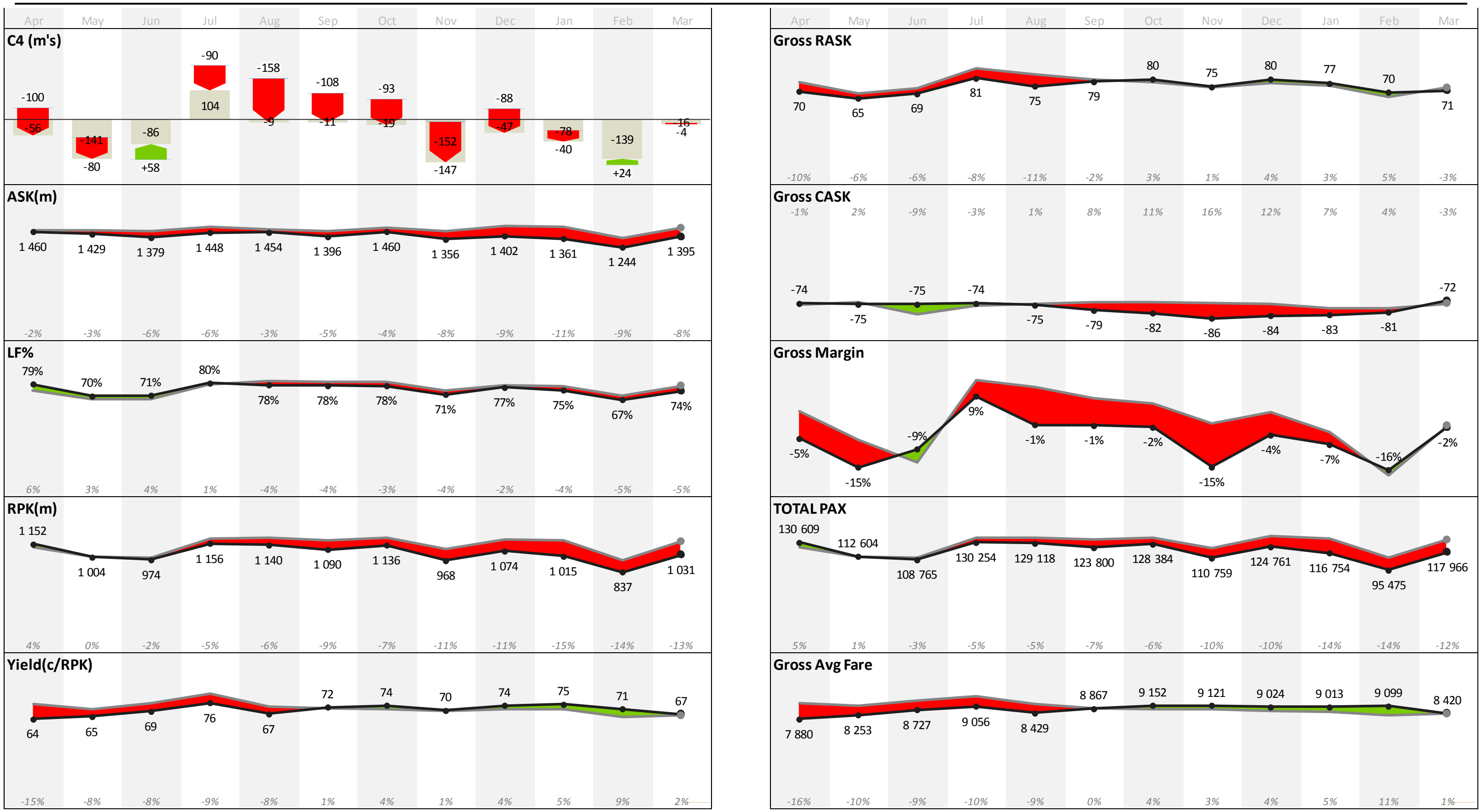
Total - DOM
Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar
C4 (m's)
-42 -38 -23 +3 -81 +14 -51 -31 -33 +20 +11 1 +5 22 -29 -11 -21 +6 -51 +37 +57 9 +99 76
ASK(m)
321 341 324 333 334 321 326 271 278 241 180 180
-2% 1% 0% -1% 2% -3% -5% -18% -16% -26% -41% -46%
LF%
81% 74% 69% 73% 73% 77% 83% 81% 77% 71% 83% 84%
1% 1% -1% -2% -2% -4% -3% -1% -5% -1% 2% 2%
RPK(m)
261 252 222 243 243 248 269 218 214 173 150 152
-2% 2% -1% -3% 0% -7% -8% -19% -20% -27% -40% -45%
Yield(c/RPK)
100 102 99 100 99 108 116 120 119 125 136 134
-6% 0% 4% -2% 1% 12% 14% 17% 24% 20% 33% 31%
Gross RASK
113 110 100 106 108 120 135 137 128 118 151 150
-9% -5% -1% -8% -1% -1% 5% 14% 14% 14% 26% 26%
Gross CASK
1% -5% -4% 0% -6% -3% 4% 17% 13% 7% 8% -14%
-126 -116 -125 -122 -118 -120 -129 -148 -135 -139 -146 -108
Gross Margin
-11% -6% -25% -14% -9% 5% -8% -6% -18% 3% 28%
TOTAL PAX
277 734 270 921 243 618 268 896 263 418 265 639 282 662 231 187 232 683 181 834 152 037 154 308
0% 3% 0% -2% 0% -6% -8% -19% -19% -27% -42% -48%
Gross Avg Fare
1 312 1 380 1 332 1 317 1 372 1 450 1 560 1 605 1 524 1 565 1 791 1 756
-11% -7% -2% -7% 0% 2% 9% 15% 19% 15% 27% 29%
Trending below last year
Trending above last year

… REGIONAL


Total - REG
Apr May Jun Jul Aug Sep Oct Nov Dec Jan Feb Mar
C4 (m's)
+4 -17 -24 -43 -25 +17 -14 -21 +9 +61 +75 +101
31 12 +4 56 58 59 38 0 91 7 1 95
ASK(m)
510 508 492 526 521 491 475 440 463 432 383 419
0% -4% -2% 1% 2% -1% -10% -15% -13% -18% -19% -18%
LF%
68% 63% 60% 67% 64% 67% 66% 67% 74% 66% 63% 64%
5% 4% 0% 0% -6% 0% -1% 6% 2% 4% 2% 3%
RPK(m)
345 318 293 354 335 329 315 294 343 284 240 270
6% 0% -2% 1% -4% -1% -11% -10% -12% -14% -17% -15%
Yield(c/RPK)
96 100 99 104 108 110 112 111 109 103 114 114
-11% -10% -8% -7% 0% 8% 10% 8% 11% 10% 18% 16%
Gross RASK
108 103 98 113 112 117 119 119 134 110 113 115
-3% -5% -8% -8% -6% 6% 8% 12% 13% 14% 17% 16%
Gross CASK
-4% -3% -8% -1% -2% 3% 11% 16% 11% 1% 0% -8%
-102 -101 -103 -103 -101 -105 -110 -119 -114 -109 -113 -93
Gross Margin
6% 2% -5% 9% 10% 10% 7% 15% 2% 20%
TOTAL PAX
180 362 171 256 160 833 186 897 184 884 175 304 170 889 158 885 179 968 150 663 129 249 147 754
7% 3% 2% 3% 0% 2% -6% -4% -6% -7% -12% -11%
Gross Avg Fare
3 060 3 056 2 997 3 188 3 159 3 283 3 294 3 298 3 439 3 162 3 362 3 271
-9% -12% -12% -9% -4% 3% 3% -1% 4% 1% 7% 6%
Trending below last year
Trending above last year

… INTERNATIONAL

Total - INT



Trending below last year

Trending above last year

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Oversight Forum

The Oversight Forum has been set up to address liquidity and capital challenges at SAA

Purpose

National Treasury and the Board of Directors of SAA have decided to form a joint task force (The Oversight Forum)

The Oversight Forum seeks to ensure that the conditions for successful strategic recovery of SAA, as directed by the Minister of Finance, are in place and further endeavour to enhance SAA and National Treasury collaborative efforts

Objectives of Forum

- Address the immediate liquidity challenges facing SAA
- Determine the long term funding requirements of SAA
- Determine the optimal capital structure for SAA
- Create the enabling environment for strategy implementation
- Determine mechanisms to implement the optimal capital structure and funding model for SAA
- The oversight Forum will be in operation from March 2018 to September 2018 and will meet on a fortnightly basis

Oversight committee definition and work plan – 6 Months

Strategic Recovery

March 2018	April 2018	May 2018	Jun 2018	Jul 2018	Aug 2018	Sep 2018

Agree shareholder Preference for SAA

- Agree strategic recovery
- Understand implications

1. ENVIRONMENT:
- Sub-optimal procurement policies
- Sub-optimal delivery capacity

Establish enabling environment for strategy implementation

- Create special determination on supply chain processes
- Review shareholder compact
- Review SMF
- Flexibility to capacitate SAA to implement strategy

2. LIQUIDITY & SOLVENCY:
- Immediate liquidity concerns that could result in involuntary business rescue
- Ensuring AG can confirm SAA is a going concern
- Ensure long term Optimal capital structure for SAA

1 Immediate liquidity concern

- Short-term working capital (Mar – Sept '18)
- Other short term finance requirement (part of six month working capital requirements)

2 SAA as a going concern

- Solvency & going concern test
- Solvency test with regards to next 12-18 months strategy and restructuring requirement
- 2018 External audit outcomes management

3 Agree on optimal capital structure for SAA & Unlock funding options

- Secure Strategic Recovery funding
- Assess different financing options (incl. path to right-sizing debt levels)
- Innovation around cost of debt
- Evaluate funding options & approve plan to unlock funds

3. STRATEGY IMPLEMENTATION:
- Full understanding of the strategy drivers
- Oversee & monitor implementations

Develop overseeing mechanism

- Unpack strategic recovery plan
- Develop simple framework to monitor progress on key milestones
- Establish KPIs and milestones

Strategy implementation overseeing and monitoring progress

- Continuous monitoring and overseeing
- Tracking of projects, costs, benefits, schedule against baselines at a program, master project and project level
- Monthly reviews with National Treasury and Board LTTS
- Communication with key stakeholders on progress and wins
- Issue tracking and resolution
- Overcome roadblocks to implementation

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Addressing SCOF focus areas

- Audit Findings
- Skills Requirements

SAA is dealing with the AG's findings … a detailed project plan is being implemented to address these findings

2016/17 Qualification Areas	Root Cause(s)	Resolution Status	Responsible Person	Target Date
1. Property, aircraft and equipment	• Annual review of useful lives and residual values on owned aircraft not done at component level • Lack of clarity on property ownership between SAA & SAAT impacted accuracy of allocation of adjustments	In progress	CFO: SAA CFO: SAAT	May 2018
2. Rotables	• Stock counts not done • Stock receipt on both Memis & SAP not done	In progress	CFO: SAAT	May 2018
3. Property, plant and equipment (PPE)	• Carrying value of assets more than recoverable amounts • Accelerated depreciation on some assets	In progress	CFO: SAA CFO: SAAT	May 2018
4. Inventory	• No records of policy being applied	Completed	HoD Financial Accounting: SAA	February 2018
5. Maintenance costs	• Accruals not made • Differences between SAA & AGSA on treatment of restoration costs	Completed	CFO: SAA	January 2018
6. Irregular expenditure	• Deficiencies in the Group SCM policy • Lack of contract management • Copies of TCCs accepted & Lack of consequence management	In progress	CPO & CFO: SAA & Subsidiaries	September 2018
7. Fruitless and wasteful expenditure	• Late payments & VISA fines • Excessive duration of suspension	In progress	CPO & CFO: SAA & Subsidiaries	May 2018
8. Material uncertainty related to going concern	• Under capitalisation • Accumulated losses	In progress	CFO	September 2018

As part of the IT disaster recovery strategy, a specific approach has been developed in order to address the gaps identified by AGSA

Key ICT findings

- Outdated IT governance
- Inadequate IT project management
- Enhancements required to the IT Disaster Recovery Plan
- IT not fully compliant with own policies

Gap Assessments

- IT Goals
- Business Goals
- KING IV
- IT Governance Structures
- COBIT 5
- ISO 27002
- ISO31000
- Prince 2 / PMBOK
- Cyber Security
- ITIL

Output

- Updated IT Governance Framework
- Updated IT Policies, Standards & Processes
- Updated IT Governance Structures
- Prioritised IT Controls
- Revised Reporting Template
- Updated IT Risk & Conformance Framework
- Updated IT PMO Methodology

Implementation Roadmap

- Priority Overview
- FY18
- FY19
- FY20

71% of the AGSA audit findings have been remediated

2018 Audit timelines

Audit Timeline	Status
February - Auditors commence interim audit	**√**
April 25 – SAA close March Period 13	√
May 11 – Submit draft AFS to ARC for approval	√
May 17 – ARC recommends draft AFS to Board	
May 31 – Board approves draft AFS for submission to auditors for audit	
May 31 – Approved draft AFS submitted to auditors for audit	
June – Integrated report compiled (plan in process already)	
July 1 – Draft integrated report submitted to auditors for review	
July 20 – Draft integrated report updated with any changes required	
July 24 – Integrated report submitted to Exco for approval	
July 27 – Exco approve Integrated report	
July 31 – Auditors complete audit	
Aug 1 - Integrated report submitted to ARC	
Aug 15 – ARC recommend Integrated report to Board for approval	
Aug 31 – Board approve Integrated report	
Aug 31 – Approved, signed Integrated report submitted to National Treasury	
Sept – AGM (date TBA)	
Sept 28 – Integrated report tabled in Parliament	
√ - Complete Red – Major audit milestones	

Limited management capacity to execute the strategy is a key risk to the implementation of the turnaround plan – Key appointments have been made

Role	Division	Status
1. Legal Officer	Legal	Interim appointment made
2. Risk Officer	Risk	Interim appointment made
3. Procurement Officer	Procurement	Appointment made
4. Chief Commercial Officer	Commercial	Filled. Started February 2018
5. General Manager: Cargo	Cargo	Still to be filled.
6. Chief Information Officer	IT	Permanent appointment made
7. CEO Mango	Mango	Resource acting
8. CEO Air Chefs	Air Chefs	Permanent appointment made
9. Head of Department: Taxation	Finance	Permanent appointment made
10. Regulatory Policy	Risk	Interim appointment made

In addition to filling of key executive roles, there is a need to reinforce them with capacity to be able to implement the strategy

Critical Skills Gap	How we intend closing the gap	Expected timeframes
• Finance • Revenue Management • Network Development • Data Science • Information Technology • Supply chain management	• Contract skills from reputable firms • Short-term assignments from highly skilled individuals e.g. retired personnel • Recruit key skills into SAA	• Key exco roles have been filled with permanent and interim resources • RFP for panel of service providers has been issued

It is important to note that given SAA's history and current state, it is difficult to attract high calibre individuals with stable careers

The End

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