Contents

• Purpose
• Background
• 2017/2018 Corporate Plan
• 2016/2017 Financial Performance & Challenges
• The Turnaround Plan
• Q & A
Purpose

• To provide the Standing Committee on Finance ("SCOF") with an update on the following:
  – 2017/2018 Corporate Plan;
  – Turnaround Plan; and

• To update the SCOF on the initiatives undertaken thus far to return the airline to financial sustainability.
Background

- SAA implemented the Long-Term Turnaround Strategy (“LTTS”) in June 2013 which was refined in March 2015.
- In Nov 2014 to March 2015, SAA implemented the 90-Day Action Plan.
- The LTTS and the 90-Day Action Plan were respectively aimed at returning the airline to commercial sustainability and relative stability.
- The implementation of the LTTS was codified into a three-year rolling Corporate Plan which was tabled with the Shareholder annually.
- Despite these interventions, SAA continued to make losses as reflected below.
The cumulative losses have eroded the airline’s capital base and threatens its going concern/sustainability.

Consequently, SAA relies on Lenders to finance its working capital requirements.

In September 2016, the Minister of Finance appointed a full strength Board of Directors and issued an additional going concern guarantee of R4.720 billion.

To date, the Shareholder has issued going concern guarantees amounting to R19.114 billion.

A specific condition attached to the R4.720 billion guarantee was that “The primary focus of the Board must be to return the airline to financial sustainability.”
Background...cont’d

• The Board has undertaken the following:

  o Engaged with various stakeholders including the Lenders (detailed update in financial performance and challenges).

  o Held a two-day strategic planning session in December 2016 and defined 5 strategic areas of focus (strategic pillars).

  o Appointed a Chief Restructuring Officer to assist Executives with the development of the Turnaround Plan.

  o Concluded and tabled a one year Corporate Plan with the Shareholder in January 2017.

  o Appointed the Chief Financial Officer. Three (3) shortlisted candidates for the Chief Executive Officer will be tabled with the Minister by end of May 2017.
Primary Strategic Objective

- To transform SAA into a financially sustainable aviation Group.

Key Focus Areas

- Liquidity;
- Balance Sheet Restructuring;
- Revenue Enhancement;
- Cost Optimisation; and
- Strategy
Key Initiatives supporting Corporate Plan

- **Liquidity and Balance Sheet**
  - **Liquidity**
    - Cash management
    - Contingency reserve
  - **Balance sheet restructuring**
    - Manage macro-economic variables
    - Manage overheads
    - Renegotiate existing funding agreements

**Key Points:**

- Address liquidity challenge and weak financial position.
- Established Cash Conservation Office.
Key Initiatives supporting Corporate Plan... cont’d

Key Points:

- Revenue growth is critical focus area.
- Specific focus on Profitability.
- Additional quick wins have defined and are being implemented.

**Revenue Optimization**

- **Grow Revenue**
  - Ancillary revenue
  - Cargo routes Review
  - Extract value from Voyager
  - Review West Africa hub

- **Drive Route profitability**
  - Relook at partnerships
  - Alternative Revenue Air Chefs
  - Growth of Mango
  - Cancel lossmaking Routes
  - Focus on the share gap
  - Faster opening/closing of routes.
  - Strengthening of Revenue Management
  - Improved Electronic Distribution

*RASK (USD cents, adjusted for SAA’s stage length*
Key Initiatives supporting Corporate Plan... cont’d

Cost Reduction

- Compress Unit Cost
  - Cost compression
  - Maximizing Aircraft Utilization
    - Driving Distribution to Digital Channels

- Optimize Customer Experience
  - OTP Management and the reduction of Night Stops
  - Grow IT as a business enabler

Key Points:

- The focus is to minimise unit cost without compromising customer experience.
- Enhance optimal asset utilisation.
- Embedding the Cost Optimisation in the “DNA” of the organisation.

CASK (USD cents, adjusted for SAA’s stage length)
Key Initiatives supporting Corporate Plan... cont’d

Key Points:

- Optimise coordination in the group.
- Customer, People and Process are the foundation to the strategy.
<table>
<thead>
<tr>
<th></th>
<th>QTR 1</th>
<th>QTR 2</th>
<th>QTR 3</th>
<th>QTR 4</th>
<th>YTD ACTUAL</th>
<th>YTD BUDGET</th>
<th>VAR</th>
<th>PY ACTUAL</th>
<th>VAR</th>
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<tbody>
<tr>
<td><strong>Total income</strong></td>
<td>7 317</td>
<td>8 012</td>
<td>7 848</td>
<td>7 096</td>
<td>30 274</td>
<td>35 224</td>
<td>-14%</td>
<td>30 385</td>
<td>0%</td>
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<td><strong>Operating costs</strong></td>
<td>(7 982)</td>
<td>(7 738)</td>
<td>(7 905)</td>
<td>(8 306)</td>
<td>(31 931)</td>
<td>(34 940)</td>
<td>9%</td>
<td>(30 907)</td>
<td>-3%</td>
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<tr>
<td>Energy</td>
<td>(1 768)</td>
<td>(1 825)</td>
<td>(1 901)</td>
<td>(1 897)</td>
<td>(7 391)</td>
<td>(7 760)</td>
<td>5%</td>
<td>(7 334)</td>
<td>-1%</td>
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<tr>
<td>Labour</td>
<td>(1 554)</td>
<td>(1 487)</td>
<td>(1 509)</td>
<td>(1 511)</td>
<td>(6 061)</td>
<td>(6 354)</td>
<td>5%</td>
<td>(5 822)</td>
<td>-4%</td>
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<tr>
<td>Aircraft Maintenance</td>
<td>(1 155)</td>
<td>(1 072)</td>
<td>(1 128)</td>
<td>(1 143)</td>
<td>(4 498)</td>
<td>(5 355)</td>
<td>16%</td>
<td>(4 294)</td>
<td>-5%</td>
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<tr>
<td>Other Operating Expenses</td>
<td>(3 505)</td>
<td>(3 353)</td>
<td>(3 367)</td>
<td>(3 755)</td>
<td>(13 980)</td>
<td>(15 471)</td>
<td>10%</td>
<td>(13 458)</td>
<td>-4%</td>
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<tr>
<td><strong>EBITDA</strong></td>
<td>(665)</td>
<td>274</td>
<td>(56)</td>
<td>(1 210)</td>
<td>(1 657)</td>
<td>284</td>
<td>&gt;100%</td>
<td>(523)</td>
<td>&gt;100%</td>
</tr>
<tr>
<td>Depreciation, impairment &amp; other</td>
<td>(195)</td>
<td>(68)</td>
<td>(223)</td>
<td>(192)</td>
<td>(679)</td>
<td>(826)</td>
<td>18%</td>
<td>(885)</td>
<td>23%</td>
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<td><strong>EBIT</strong></td>
<td>(860)</td>
<td>206</td>
<td>(280)</td>
<td>(1 402)</td>
<td>(2 335)</td>
<td>(542)</td>
<td>&gt;100%</td>
<td>(1 408)</td>
<td>-66%</td>
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<td>Hedging gains/ losses</td>
<td>12</td>
<td>(59)</td>
<td>22</td>
<td>(43)</td>
<td>(67)</td>
<td>-</td>
<td>&gt;100%</td>
<td>57</td>
<td>&gt;100%</td>
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<td>Foreign exchange gains/ losses</td>
<td>(249)</td>
<td>(592)</td>
<td>(150)</td>
<td>(88)</td>
<td>(1 079)</td>
<td>-</td>
<td>&gt;100%</td>
<td>818</td>
<td>&gt;100%</td>
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<tr>
<td><strong>OPERATING PROFIT (LOSS)</strong></td>
<td>(1 097)</td>
<td>(445)</td>
<td>(407)</td>
<td>(1 533)</td>
<td>(3 482)</td>
<td>(542)</td>
<td>&gt;100%</td>
<td>(533)</td>
<td>&gt;100%</td>
</tr>
<tr>
<td>Net finance income (costs)</td>
<td>(268)</td>
<td>(288)</td>
<td>(309)</td>
<td>(337)</td>
<td>(1 202)</td>
<td>(1 210)</td>
<td>1%</td>
<td>(835)</td>
<td>-44%</td>
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<tr>
<td><strong>PROFIT (LOSS) BEFORE TAX</strong></td>
<td>(1 365)</td>
<td>(733)</td>
<td>(716)</td>
<td>(1 870)</td>
<td>(4 683)</td>
<td>(1 752)</td>
<td>&gt;100%</td>
<td>(1 368)</td>
<td>&gt;100%</td>
</tr>
<tr>
<td>Taxation</td>
<td>13</td>
<td>5</td>
<td>(16)</td>
<td>4</td>
<td>6</td>
<td>(0)</td>
<td>&gt;100%</td>
<td>(100)</td>
<td>&gt;100%</td>
</tr>
<tr>
<td><strong>NET PROFIT (LOSS)</strong></td>
<td>(1 352)</td>
<td>(728)</td>
<td>(732)</td>
<td>(1 866)</td>
<td>(4 677)</td>
<td>(1 752)</td>
<td>&gt;100%</td>
<td>(1 468)</td>
<td>&gt;100%</td>
</tr>
<tr>
<td>Preference dividends</td>
<td>(36)</td>
<td>(37)</td>
<td>(37)</td>
<td>(36)</td>
<td>(147)</td>
<td>-</td>
<td>&gt;100%</td>
<td>(110)</td>
<td>-34%</td>
</tr>
<tr>
<td><strong>RETAINED EARNINGS MOVEMENT</strong></td>
<td>(1 388)</td>
<td>(765)</td>
<td>(769)</td>
<td>(1 902)</td>
<td>(4 825)</td>
<td>(1 752)</td>
<td>&gt;100%</td>
<td>(1 578)</td>
<td>&gt;100%</td>
</tr>
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</table>
Update on Financial Performance

- SAA’s financial performance of R4.8 billion loss vs a budgeted loss of R1.7 billion is driven by:

  - Revenue shortfall of R4.95 billion compared to budget; and

  - A R912 million in translation losses on the balance sheet due to currency volatility impacting the “mark-to-mark” value of foreign assets and liabilities as per the accounting standards.
The Turnaround Plan

• Broadly the mandate of Seabury was as follows:
  o Chief Restructuring Officer (“CRO”); and
  o Restructuring Strategic Advisor (“Advisory”).

• The Advisory mandate entailed the following:
  o Develop the Liquidity Plan
  o Undertake baseline review and assessment of the LTTS.
  o Define Priorities and Quick Wins.
  o Develop a Turnaround Plan.
  o Optimise Alliances and Partnerships.
  o Develop a robust fully funded 5-year Business Plan.
Update on the Turnaround Plan

• Seabury in its Advisory engagement has made the following key findings:
  o The airline will return to sustainable profitability in 2019/2020 financial year and a positive operating cash flow position by April 2018.
  o Cost and revenue initiatives amounting to about R6.8 billion over a five period have been identified. R2.88 billion of these are expected to be realised in the 2017/2018 financial year.

• Successful implementation of the Turnaround plan is dependent on:
  o SAA’s going concern status;
  o Critical positions being filled;
  o Requisite capital injection;
  o Management of maturing debt; and
  o Committed and enabled employees.
Next Steps

• Table the 5-year Business Plan with the Shareholder in June 2017.

• Implement and embed the Turnaround Plan.

• Quarterly report to the Board and Shareholder on the implementation of the 2017/2018 Corporate and Turnaround Plan.

• Design and implement an organisational/cultural Framework for change.
The Flight Plan has been filed.
Ready to take off

Questions?