SAA releases results for the 2013/14 financial year

Relative business stability remains a key objective of the 90 Day Action Plan as the return to complete Long-Term Turnaround Strategy implementation is top of SAA’s agenda

- Group revenue up by 12 percent with operating losses showing a decline despite challenging trading conditions.
- Contributions from domestic and regional operations grew by 10 and 17 percent respectively.
- Intercontinental operations remained loss-making with a R235 million increase in operating losses to R1,6 billion. Re-configuration of loss making routes to Beijing as well as to Mumbai will significantly improve performance.
- Subsidiary Mango reports record profit during the period in review.
- Ongoing impact of a weakened currency and high fuel prices during the period in review.
- Further impairments required in terms of the Long-Term Turnaround Strategy.
- 90 Day Action Plan agreed with National Treasury to address implementation gaps of the Long-Term Turnaround Strategy that includes network optimisation and clawing back savings through ongoing contract reviews.
- 90 Day Action Plan set to return the business to relative stability.

During the period in review, the SAA Group has realised growth in revenues by 12 percent (from R27,1 billion to R30,3 billion) with an operating loss (EBITDA) of R374 million reported (R425 million FY 2012/13). Cost containment during the financial year yielded sustainable savings of R453 million.
The SAA Group’s domestic operations remain profitable with 10 percent growth in its profit contribution from R722 million to R791 million. Regionally, African routes performed positively with a 17 percent increase from R648 million to R761 million. SAA’s long-haul intercontinental operations recorded an increased loss from R1.3 billion in the previous financial year (2012/13) to R1.6 billion in losses reported for the 2013/2014 financial year. SAA has reduced its cost per available seat kilometre (CASK) by 5 percent from 7.05 US cents to 6.19 US cents during the period in review.

The volatility of the Rand has seen a decline in value of over 34 percent during the 2013/14 financial year and has placed local airlines at a disadvantage considering the fact that nearly 60 percent of all input costs are priced in foreign currency while forex revenues represent only 40 percent of gross income. The disparity when measured against international competitors places the business in a challenging competitive position; an increase of 2 percent in overall input costs impacted the bottom line positively. During the period in review SAA realised net hedging gains of R76 million compared to hedging losses of R84 million incurred in the previous financial year.

**Fleet Impairments**

Another significant cost included in the financial statements for the period in review is the impairment relating to aircraft. A critical element of SAA’s Long-Term Turnaround Strategy is the future replacement of its existing wide-body fleet with new generation, more fuel-efficient twin-engine aircraft. In this regard, the seven wide-body aircraft owned by SAA had to be revalued in terms of International Financial Reporting Standards (IFRS) to take into account their anticipated remaining useful life. This revaluation resulted in an impairment of R782 million, as well as an additional R192 million write down on related spares and inventory, which are reflected in the statements.
Further impairments were recognised relating to the delivery of four new A320 aircraft. These form part of a legacy agreement for 20 aircraft, dating from 2002, which was renegotiated in 2009. However, the contract provides for annual escalations which resulted in the purchase price exceeding the market value at date of delivery—thus leading to a further impairment of R369 million. Unfortunately, similar impairments are expected on future deliveries on this contract. SAA’s remaining capital commitment for these purchases is R822 million.

**Returning To Relative Stability**

SAA has been reliant on guarantees from its Shareholder (the South African Government) for several years and the delay in the release of the financial statements for the 2013/14 financial year is directly related to the continued weakness of the company’s Balance Sheet and due to the company being technically insolvent. Currently guarantees total R14,3 billion (R6,4 billion in December 2014 and R7,9 billion in additional guarantees prior).

It is the intent of the Board (reconstituted in October 2014) and SAA management to reduce the reliance on guarantees and return the business to relative stability. The lack of implementation of several critical aspects of the Long-Term Turnaround Strategy, during the latter half of the period in review, has resulted in the need for a further guarantee (as issued in December 2014) to ensure the continued going concern status of SAA over the short-term.

A full review of the LTTS is also underway to ensure revalidation in line with the current needs of the business given SAA’s failure to adequately implement the plan. The Shareholder and newly-constituted Board have made it clear to Management that the 90 Day Action Plan’s primary outcome must be the resumption of LTTS implementation. The 90 Day Action Plan period ends on 24 March 2015, where-after implementation of a revalidated LTTS will be resumed, albeit trailing 16 months behind schedule.
90 Day Action Plan Status Highlights: Optimisation of the SAA Network

Under the 90 Day Action Plan, guided by unimplemented aspects of the LTTS, SAA has reconfigured loss making aspects of its intercontinental network as well as implemented mitigating actions to minimise customer inconvenience along with considered potential commercial gains.

1. SAA will optimise its intercontinental network with network expansion through code sharing already growing SAA’s network;
2. The introduction of flights between Johannesburg and Abu Dhabi (announced in December 2014) with substantial SAA-coded network end point growth in the Asia-Pacific region through its deepened commercial relationship with Etihad Airways. The route is expected to attract inbound traffic from several destinations within its geographic reach while also adding a large number of additional outbound destinations via the Middle-Eastern hub.
3. SAA has announced an expanded partnership with Air China (early December 2014), opening up a host of new possibilities to improve the connectivity between southern Africa and China.
4. SAA has increased regional frequencies between Johannesburg and several key, high volume regional destinations including Mauritius, Zambia, Zimbabwe and Mozambique among others.

90 Day Action Plan Status Highlights: Further Cost Compression

1. A full contract review is under way with onerous agreements being examined. It includes all supplier agreements including a review of aircraft leasing contractual positions.
2. SAA procurement has been mandated to realise a further 10-15% benefit on existing and new supplier agreements.
3. An immediate freeze on headcount was implemented with a moratorium on any new appointments.

90 Day Action Plan Status Highlights: Governance
1. Members of the executive management team was tasked to manage the full implementation of the 90 Day Action Plan, to correct LTTS implementation failures. They meet twice weekly to review progress and a weekly oversight engagement is held with a National Treasury Technical Team.
2. Critical LTTS interventions are contained in the 90 Day Action Plan, with a LTTS Executive Steering Committee formed to more closely monitor implementation throughout the business.

90 Day Action Plan Status Highlights: Solvency and Liquidity Status
1. Through the newly issued guarantee, SAA has retained its going-concern status and ensured short term solvency and liquidity challenges.
2. Full implementation of the 90 Day Action Plan, leading into LTTS implementation, will return the company to relative stability and ultimately sustainability in the medium to long term.

90 Day Action Plan Status Highlights: Future Funding The Business
1. While the former shareholder Minister signalled that the Government would contemplate a Strategic Equity Partner for SAA, the notion is in its infancy and SAA Management will present several future-funding options to the Board and, in turn, the Shareholder by the end of the 90 Day Action Plan period for consideration.
90 Day Action Plan Status Highlights: Legal and High-Level Governance

1. An immediate review of all contractual burdens and governance implications or defects within the legal framework of the company is well underway. This includes the review of onerous agreements, correction thereof and other matters that impact the framing of remedial activity; the re-establishment of foundation laying for LTTS implementation within a tight governance environment.

90 Day Action Plan Status Highlights: Reorganisation and Optimisation of Assets

1. The examination of all assets in the business and reorganisation thereof in terms of the requirements of the LTTS is well underway and on track.

90 Day Action Plan Status Highlights: Improved Communication

1. SAA has commenced the process of reengineering its internal and external communication efforts to effectively communicate with all direct and indirect Stakeholders and South African citizens, particularly with reference to the implementation of the 90 Day Action Plan as well as the LTTS.

Issued by SAA Communications

For more information contact:
Tlali Tlali
tlalitlali@flysaa.com
+27 82 333 3880

About South African Airways (SAA)

South African Airways (SAA) is the leading carrier in Africa, serving 57 destinations, in partnership with SA Express, SA Airlink and its low cost carrier, Mango, within South Africa and across the continent, and ten intercontinental routes from its Johannesburg hub. It is a member of the largest international airline network, Star Alliance. SAA’s core business is the provision of passenger airline and cargo transport services together with related services, which are provided through SAA and its wholly owned subsidiaries: SAA Technical; Mango its low cost carrier; and Air Chefs, the catering entity of SAA. SAA is the winner of the
'Best Airline in Africa' Award in the regional category for twelve consecutive years and the winner of 'Service Excellence Africa' for three years. Mango and SAA hold the number one and number two successive spots as South Africa's most on-time airlines.