



**public enterprises**

Department:  
Public Enterprises  
REPUBLIC OF SOUTH AFRICA

**MEDIA STATEMENT BY THE DEPARTMENT OF PUBLIC ENTERPRISES**

***GOVERNMENT'S PRELIMINARY RESPOSE TO THE PUBLICATION OF SAA BUSINESS RESCUE PLAN***

**16 JUNE 2020** – Government, as the sole shareholder of SAA, supports the business rescue plan where it results in a viable, sustainable, competitive airline that provides integrated domestic, regional and international flight services.

Government remains committed to support a competitive, viable and sustainable national airline. This is to resolve the untenable situation of the current South African Airways (SAA), specifically for its employees and its creditors, as well as to support important economic objectives.

The aviation industry in South Africa requires the capabilities of a SAA that is reconstituted, restructured and reinvigorated, without the legacy burdens, including corruption, poor leadership and unsustainable costs, which have beset SAA's past.

SAA was placed in business rescue on 6 December 2019. Effectively SAA has been under the complete direction and control of the Business Rescue Practitioners (BRPS).

The Companies Act prescribes that the primary function of a business rescue process is to develop and implement a rescue plan with the view of fundamentally restructuring the business affairs and other liabilities of a company in distress, in a manner which maximizes the likelihood for it to continue to exist on a solvent basis.

If this is not possible, the second option is to dispose of assets so that company in distress can obtain better returns for its creditors and shareholders than they would otherwise receive from the liquidation of the company. Given the prospects of rescuing SAA, government was against the option of liquidation.

The BRPs had a substantial period of time and additional financial resources – R5.5 billion to augment the revenue of SAA - at their disposal to undertake the tasks expected of a BRP, which, in terms of the Companies Act, to develop a detailed business rescue plan, to consult with creditors, other affected stakeholders like employees, the Shareholder and the Board and management of the company under business rescue. In addition to this amount, further revenue was generated over the last six months, through repatriation flights and cargo flights for essential goods.

As the shareholder of SAA, government, taking into account the broader national interests, has made it clear that the desired outcome should be to establish a viable, sustainable national carrier that must emerge from the business rescue process. Particularly so as government is expected to marshal the resources necessary for this process from diverse sources.

Through government guarantees, the BRP's have had significant additional financial resources at their disposal to enable them to restructure SAA by stemming the tide of wastage, an excessive cost-structure and cash burn. We will assess the plan which, we are concerned, might have not been adequately accomplished.

In addition, government has enabled consultations with employee representatives in the Labour Consultative Forum. This process must be embraced by the BRPs and taken to a state of completion.

As a shareholder government wishes to engage constructively towards the national interest objective of creating a viable, competitive, sustainable airline in a constrained fiscal environment, taking into account the impact of COVID-19 pandemic on this situation.

We repeat: Government as the sole shareholder supports the business rescue plan where it results in a viable, sustainable airline that provides integrated domestic, regional and international flight services.

**ENDS.**


**For more enquiries: Sam Mkokeli 0820842051**

A handwritten signature in black ink, appearing to be 'P. B. N.', located in the bottom right corner of the page.

"FA31" 569



**SOUTH AFRICAN AIRWAYS**

A STAR ALLIANCE MEMBER 

**INTEGRATED REPORT**  
FOR THE YEAR ENDED 31 March 2017





# CONTENTS



## CREATING SUSTAINABLE VALUE

Key Metrics for 2016/2017	4
Mandate, Vision and Mission	5
Our Strategic Objectives	5
Our Values	5
Milestones	6
Our Network and Fleet	8
SAA Group	10
Shared Services	26
Creating Sustainable Value	28
Value-added Statement	30
Our Board	32
Executive Committee	34

## STRATEGY FOR FINANCIAL SUSTAINABILITY

Message from the Chair	38
SAA's Operating Context	40
Implementation of SAA's Long-Term Turnaround Strategy	41
Strategy for 2017/2018 Financial Year	42

## 2016/2017 REVIEW

CEO's Report	46
Key Operations	47
Subsidiaries	56
Shared Services	61
Definitions	77

## OUR INTEGRATED REPORT

This integrated report seeks to inform our stakeholders of our business activities, performance against strategic objectives and management focus during the year 1 April 2016 to 31 March 2017. The report covers all entities and divisions within the SAA Group as reported in the annual financial statements. It combines information related to the financial, social, environment and governance aspects of our organisation.

The integrated report is published in line with the King III Code on Corporate Governance, the Companies Act, Act No 71 of 2008, the Public Finance Management Act, Act No 1 of 1999 and with reference to the IR Framework defined by the International Integrated Reporting Council. Our approach to integrated reporting is to communicate how our organisation's strategy, governance, performance and prospects lead to the creation of value over the short-, medium- and long-term. We are committed to embracing and furthering our advancement in integrated reporting in the years to come.



## GOVERNANCE, RISK AND COMPLIANCE

Governance Report	80
Social, Ethics, Governance and Nominations Committee Report	85
Report of the Audit and Risk Committee	86



## GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS

Statement by the Company Secretary	92
Directors' Report	93
Report of the Auditor-General	98
Group and Company Statement of Profit or Loss and Other Comprehensive Income	106
Group and Company Statement of Financial Position	107
Group and Company Statement of Changes in Equity	108
Group and Company Statement of Cash Flows	109
Notes to the Group and Company Annual Financial Statements	110



## CORPORATE INFORMATION

Corporate Information	181
-----------------------	-----

## BOARD APPROVAL

The Board is responsible for the integrity of this integrated report. The Board has applied its collective mind to the preparation and presentation of the integrated report and is satisfied that the report is a fair and reasonable representation of SAA's performance and prospects. The annual financial statements were approved by the Board on 6 December 2017 and subsequently, this integrated report was approved by the Board on 27 February 2018.

**JB Magwaza**  
Chairperson

South African Airways SOC Limited  
28 February 2018

**N Fakude**  
Deputy Chairperson

South African Airways SOC Limited

## NAVIGATION

*This integrated report is cross-referenced with other sources of information as shown below.*



More information about SAA and its activities can be found on the Company's website [www.flysaa.com](http://www.flysaa.com)



## ACHIEVEMENT

### ARRIVAL OF NEW AIRBUS A330-300 AIRCRAFT

In December 2016 SAA was delighted to take delivery of the first of five new Airbus A330-300 aircraft ordered to complement SAA's existing long-haul Airbus, domestic and regional fleet.

The aircraft have been a welcome addition to the ten Airbus A320's delivered in recent years and which now play a key role in maintaining SAA's reputation as an award-winning airline.

The A330-300s offer cutting-edge technology, are environmentally friendly, and extremely comfortable. "The aircraft can carry 249 passengers, with 46 in premium Business Class and 203 in Economy Class. The delivery of this new aircraft is an important milestone for SAA in respect of the implementation of our long-term network and fleet strategy unveiled three years ago," says Aaron Munetsi, Acting Chief Commercial Officer. "We expect that the new aircraft will bring much needed efficiencies and impact positively on the Company's profitability," says Munetsi.

SAA staff celebrated the arrival of the new aircraft with a traditional water-canon salute.





## 01

**CREATING SUSTAINABLE  
VALUE**

Key Metrics for 2016/2017	4
Mandate, Vision and Mission	5
Our Strategic Objectives	5
Our Values	5
Milestones	6
Our Network and Fleet	8
SAA Group	10
Shared Services	26
How We Achieve Shareholder Value	28
Value-added Statement	30
Our Board	32
Executive Committee	34



## KEY METRICS FOR 2016/2017



**THE SAA GROUP IS A DIVERSIFIED AIRLINE GROUP PROVIDING PASSENGER AND CARGO TRANSPORT, AND RELATED SERVICES. FOR THE PAST 83 YEARS, SAA HAS CONNECTED SOUTH AFRICA TO ITS MAJOR TRADE AND TOURISM PARTNERS, PLAYING A VITAL ROLE AS A CATALYST FOR GROWTH AND DEVELOPMENT ACROSS THE AFRICAN CONTINENT.**

## KEY METRICS FOR 2016/2017

- R30,7 billion total annual revenue
- 64 aircraft, SAA 52, Mango 10, and SAA Cargo 2
- 8 domestic destinations, SAA 5, Mango 7, with some markets served by both airlines
- 25 regional destinations, SAA 24, Mango 1
- 8 international destinations served by SAA
- 9,7 million passengers carried annually, SAA 6,8 million, Mango 2,9 million
- 75 percent passenger load factor
- 31 684 million available seat kilometres
- 111 000 tonnes cargo carried
- 11 million meals prepared annually by Air Chefs
- 2,7 million Voyager members globally – an 11 percent increase



*Handwritten signature: M.B.M.*



## VISION

Africa's Leading  
World-Class Airline

## MISSION

To deliver commercially sustainable world-class air passenger and aviation services in South Africa, the African continent and our tourism and trading partners.

### MANDATE, VISION AND MISSION

SAA's mandate is defined in the SAA Act, Act No 5 of 2007 and is reconfirmed in the Shareholder's Compact, drafted by National Treasury in its capacity as the SAA Shareholder Ministry. The SAA mandate is to "engage in passenger airline and cargo transport services, air charter services and other related services" in support of the state's desire "to promote air links with the Republic's main business, trading and tourism markets within the African continent and internationally."

SAA is required to pursue this mandate in a manner that is financially sustainable, while being compliant with applicable operational regulations and legislation.

This mandate accordingly informs SAA's Vision and Mission.

### OUR STRATEGIC OBJECTIVES



Support South Africa's  
**National Developmental  
Agenda**



Achieve and maintain  
**commercial sustainability**



Provide excellent  
**customer service**



Achieve consistent,  
**efficient and effective  
operations**



Foster **performance  
excellence**

### OUR VALUES



#### Customer Focused

Striving to meet the unique needs of customers (internally and externally) by tailoring each interaction to suit their needs.



#### Accountability

Taking responsibility for individual and team actions, decisions and results by establishing clear plans and goals and measuring our progress against them.



#### Integrity

Practising highest standards of ethical behaviour in all our work and maintaining credibility by ensuring our actions match our words.



#### Safety

Living our safety philosophy by striving for zero safety incidents through proper training, work practice, risk management and adherence to safety regulations at all times.



#### Excellence in Performance

Setting goals beyond the best, reinforcing high quality performance standards and achieving excellence by implementing best practices.



#### Valuing our People

Committing to their satisfaction, development, and well-being, by treating them with respect, dignity and fairness.

# MILESTONES

## SAA LAUNCHED WITH 40 EMPLOYEES, A JUNKERS JU 52/3M AIRCRAFT, 3000 PASSENGERS

One of the oldest airlines in existence



1934

## SAA'S FIRST INTERCONTINENTAL SERVICE, TO BOURNEMOUTH, UK, TOOK THREE DAYS WITH OVERNIGHT STOPS MADE AT NAIROBI AND CAIRO

Seven decades of travelling the world



1945

## IN-FLIGHT ENTERTAINMENT INTRODUCED

Offering the finest entertainment in the skies



1948

1986



## SAA FLIES TO LUSAKA, ITS FIRST REGIONAL SERVICE

Eighty years of service across the SADC region

1937



## CABIN CREW FIRST INTRODUCED ON SAA FLIGHTS

Excellent customer service

1946



## AIR CHEFS ESTABLISHED

Passionate about food



**SAA VOYAGER LAUNCHED**

Miles is a currency and your rewards are exceptional

**MANGO LAUNCHED**

Creating value in air travel

**SAA THE FIRST AFRICAN AIRLINE TO OPERATE USING BIOFUEL**

Africa's greenest flight



1994

2000

2006

2006

2015

2016

**SAA TECHNICAL WAS CORPORATISED AS A WHOLLY-OWNED SUBSIDIARY OF SAA (SOC) LIMITED**

World-class aviation maintenance and repair organisation

**SAA JOINED STAR ALLIANCE**

Connecting people and cultures

**ARRIVAL OF NEW AIRBUS A330-300 AIRCRAFT**

The new aircraft will bring much needed efficiencies and impact positively on the Company's profitability

# OUR NETWORK AND FLEET

## SAA OPERATIONAL OVERVIEW

6	CONTINENTS
5	DOMESTIC DESTINATIONS
24	REGIONAL DESTINATIONS
8	INTERNATIONAL ROUTES TO 7 COUNTRIES
AVERAGE OF 18	DAILY FLIGHTS BETWEEN JOHANNESBURG AND CAPE TOWN
1 330	STAR ALLIANCE DESTINATIONS
6 840 523	PASSENGERS
5 752	EMPLOYEES
111 000	TONNES OF CARGO

SAA PROVIDES SEAMLESS PASSENGER AND CARGO TRANSPORT SERVICES ACROSS THE AFRICAN CONTINENT AND TO THE WORLD. WE BELIEVE THAT THE RAPID LIBERALISATION OF THE SKIES WILL IMPROVE INTRA-AFRICA AIR CONNECTIVITY, AND WILL ENSURE THAT SAA AND ITS PEERS CONTINUE WITH THE PIONEERING TASK OF BRINGING THE WORLD TO AFRICA AND TAKING AFRICA TO THE WORLD.

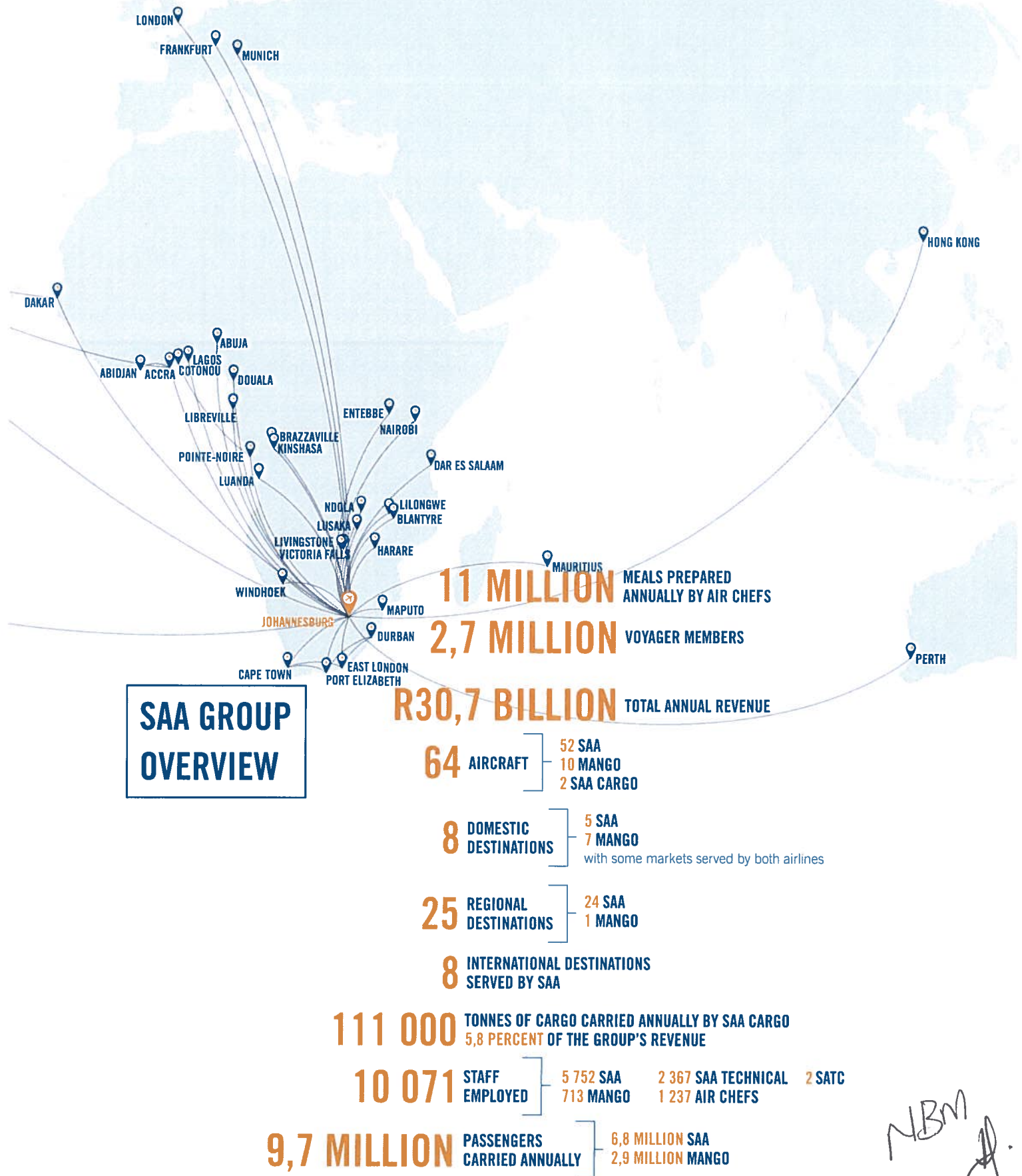
## FLEET

SAA FLEET **54** 52 SAA  
2 CARGO FREIGHTERS

8	A319-100s	8	A340-300Es
12	A320-200s	9	A340-600s
6	A330-200s	6	B737-800s
3	A330-300s	2	B737-FREIGHTERS

NBM  
J.





# SAA GROUP

## SAA IS A DIVERSIFIED AVIATION GROUP WITH INTERESTS AT VARIOUS LEVELS WITHIN THE AVIATION VALUE CHAIN WITH A STRONG FOCUS ON THE AFRICAN CONTINENT.

- **R30,7 billion total annual revenue**
- **10 071 staff employed**
- **R38 million annual training spend**
- **34 000 jobs created in South Africa**
- **R9,2 billion, approximately 0.3 percent contributed to the national GDP every year**

The SAA Group is a 100 percent State-owned Company, with shareholder oversight vested in National Treasury. SAA was established in February 1934, when the South African Government took over Union Airways. It has been state-owned since then, except from 1999 to 2002, when Swissair held 20 percent of the equity in the Company. SAA is required to pursue its mandate, which includes providing aviation services and contributing to the development of South Africa in a manner that is financially sustainable, while being compliant with applicable operational regulations and legislation.

SAA provides passenger and cargo transport services, supported by operations. SAA is a full-service network carrier with an operational focus on the African continent as well as on inter-continental services, targeting both business and leisure traffic flows. It is a member of the largest international airline alliance, Star Alliance.

SAA's four wholly-owned subsidiaries are:

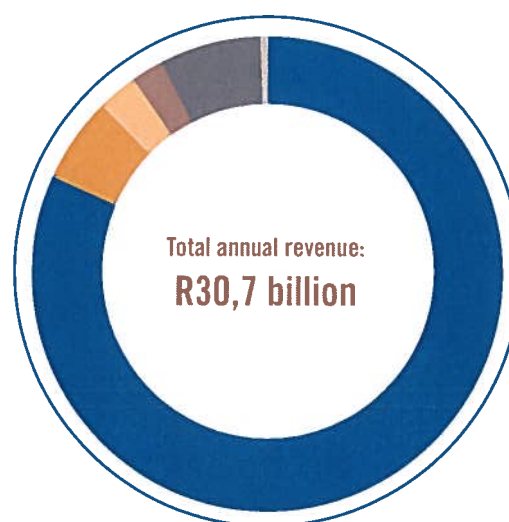
- **Mango**, a global best-practice low-cost carrier (LCC) primarily operating in the South African domestic market, which increasingly acts as a feeder airline to SAA
- **SAA Technical**, Africa's largest aircraft Maintenance, Repair and Overhaul (MRO) business
- **Air Chefs**, a catering business operating in Johannesburg, Cape Town and Durban
- **South African Travel Centre**, a retail travel business with franchises in South Africa and some other African states

SAA also maintains two other substantial non-corporate businesses:

- **SAA Cargo**, an air cargo service provider with capacity primarily sourced from the "belly space" of SAA's passenger aircraft fleet
- **SAA Voyager**, Africa's strongest airline loyalty programme

SAA has considerable scale, which is further strengthened by licensing its airline code on two feeder airlines: SA Express, a 100 percent state-owned airline, whose oversight shareholder is the Department of Public Enterprises and Airlink, a privately-owned airline.

## REVENUE FY2017



• SAA Airline:	81,84%
• SAA Cargo:	5,84%
• SAA Voyager:	2,64%
• SAA Technical:	2,29%
• Mango:	6,98%
• Air Chefs:	0,41%

## FOUR-YEAR FINANCIAL HIGHLIGHTS

Total income	Operating costs	Operating profit/(loss) before interest, tax, depreciation and amortisation
2017 30 742 million	R33 502 million <sup>(a)</sup>	(R2 760 million)
2016 30 716 million	R30 194 million <sup>(b)</sup>	R522 million
2015 30 492 million	R33 407 million	(R2 915 million)
2014 30 266 million	R30 640 million	(R374 million)

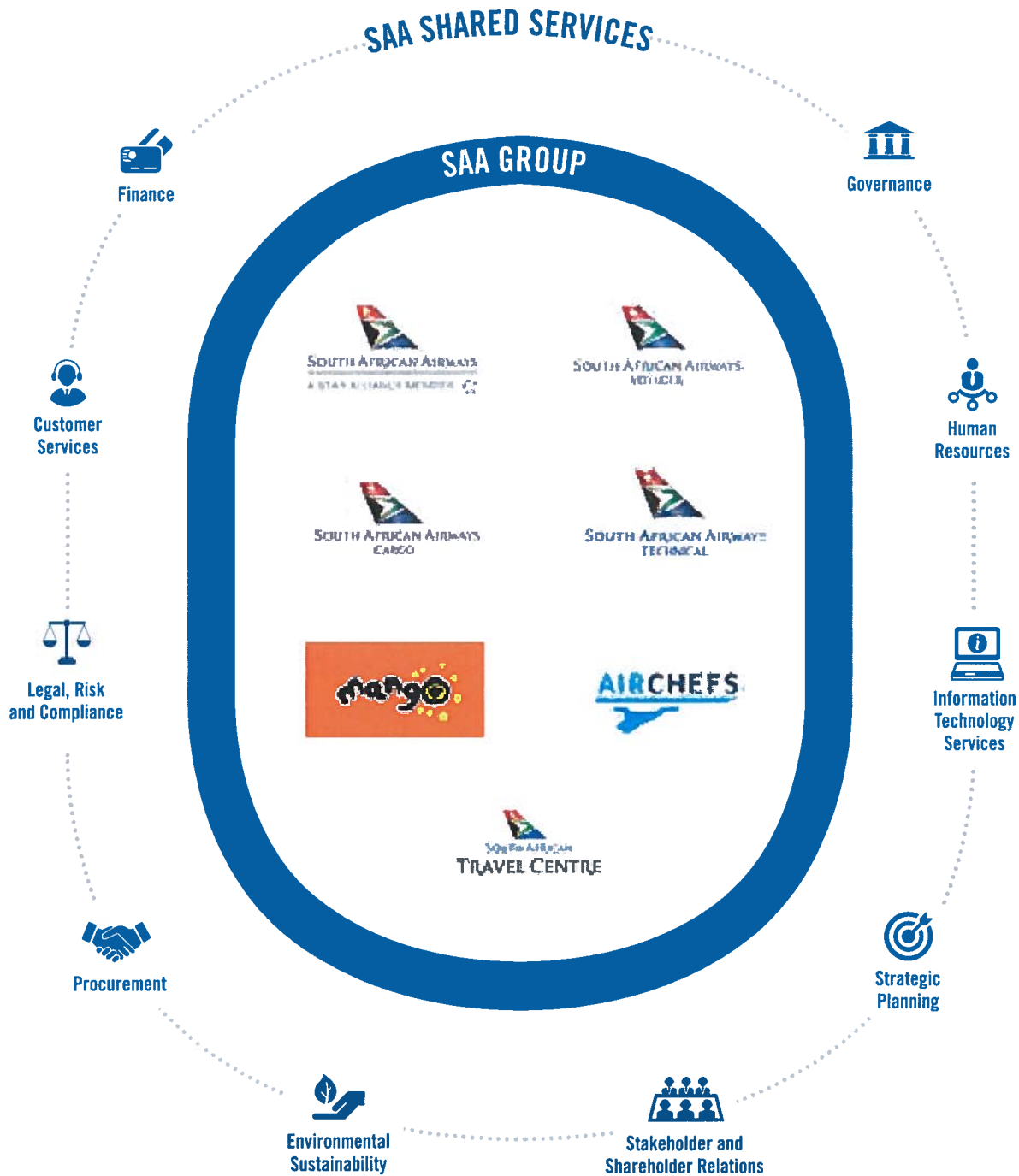
(a) Note that Operating costs of R33 502 million included a fair value and translation loss of R1 092 million.

(b) Note that Operating costs of R30 194 million included a fair value and translation profit of R808 million.

*Handwritten signature*



SAA GROUP HAS A HIGHLY VERTICALLY INTEGRATED CORPORATE STRUCTURE:



MBM

## SAA GROUP (continued)



### SAA MAINTAINS ITS IMPECCABLE SAFETY RECORD AND IS THE MOST REVERED BRAND IN AFRICA.

- 54 SAA fleet
- 6 840 523 total passengers
- 77 percent passenger load factor (SAA)
- 28 005 million available seat kilometres
- 53 155 flights in the year

SAA is the national carrier of South Africa, targeting business and leisure traffic, flying to over 36 destinations across Africa, the Middle East, Asia, Europe, Australia and North and South America. SAA has a well-established network, which is served either directly or through its low cost airline brand Mango, or Star Alliance partners.

SAA is the most awarded airline on the African continent and has 15 consecutive Skytrax awards, recognising the carrier as the best African airline and Africa's first 4-star airline. SAA's customer-centric approach ensures that it provides an excellent passenger experience and an innovative product offering.

The airline operates through two divisions:

- SAA Commercial
- SAA Operations

### SAA COMMERCIAL

OUR ROUTE NETWORK GIVES MORE PEOPLE GREATER ACCESS TO AIR TRAVEL THAN EVER BEFORE, AND THE WORLD-CLASS CUSTOMER EXPERIENCE WE OFFER HAS ENSURED THAT WE REMAIN AN AIRLINE OF CHOICE ON THE AFRICAN CONTINENT.

- 52 aircraft
- 5 domestic destinations
- 24 regional destinations
- 8 international destinations

SAA Commercial is responsible for the sustainable strategic utilisation of the Company's assets and resources to generate revenue and profit.

SAA Commercial operates through four key departments:

- Network Planning
- Sales
- Revenue Management
- Voyager

*NBM J.*





Supported by:

- Marketing
- Digital Sales and Ancillary Revenue
- Alliances – utilising relationships to add revenue
- Product Development

### African Growth Strategy

SAA Commercial is driving the African Growth Strategy by entrenching SAA's strategic position in Africa to capitalise on the rapid economic growth on the continent. SAA is the longest serving network carrier, with a route network that gives more people greater access to air travel than ever before. SAA's competitiveness in Africa is highly dependent on the extent and reach of its network in conjunction with its ability to anticipate and provide for the travel needs of the ever growing middle class on the continent. SAA is proactively growing its footprint by deploying its own aircraft as well as by collaborating with other African airlines with which SAA has established relationships such as interline and/or code-share agreements, to defend and grow its core markets.

### Network and Fleet Planning

An airline's network reach is the key differentiator in the markets in which it operates and underpins the airline's competitive advantage. We operate in a highly competitive environment that is dynamic and ever changing. It is therefore imperative that the Group remains focused on the ever-changing needs of its customers. This is accomplished by the meticulous

planning that goes into the airline's network and fleet plan. The network plan takes into consideration the air travel market in general, the performance of the airline's current routes, and opportunities for growth in new markets. Optimising the network plan strengthens SAA's position in the domestic market, entrenches and improves the Group's footprint in African markets, and sustains its international network. Network Planning determines the product offering, cost structure, and revenue generation potential, taking into account market demands, the most efficient use of our fleet, as well as extracting value from partnership agreements. The network plan works as the basis for the formulation of the day-to-day operations of the airline and is a key contributor to the schedule integrity expressed in terms of on-time performance.

### Revenue Management

The Revenue Management team employs resources including human capital, technology, and specialist analytic tools to maximise the revenue generation of the airline. The desired successful outcome is to be in a position to offer the right seat, at the right price, to the right customer, at the right time, on the right aircraft.

The network plan aims to align the outcome of our analytics with accuracy that then enables us to determine the ideal fleet size so that we are able to optimise the profitable deployment of our assets. Our aim is to make sure that we are the first choice for our customers, to the extent that travel in Africa is synonymous with South African Airways. Our aircraft are one of the most expensive assets we have, and every minute of

*HBMJ*

## SAA GROUP (continued)



operations counts towards the sustainability of our business, hence the uncompromising and extreme focus of our team on making sure that our aircraft are deployed for operations to the highest utilisation level possible. Network Planning ensures that we are forever evaluating opportunities for new routes to increase the aircraft utilisation to drive profitability, as well as considering remediation or cancellation of unprofitable routes.

Dynamic scheduling enhances connectivity and enables the airline to optimally synchronise airport slots. SAA's Commercial division regularly receives enhanced international training to keep up with the latest and best in class trends for aircraft scheduling. Our investment in our team and in the cutting edge technology required in this area enables us to remain one of the leading carriers on the continent.

SAA always endeavours to operate more frequencies to the same or new destinations using the most appropriate aircraft. Where an increase in demand is identified, additional capacity is deployed by operating bigger aircraft. The fleet plan takes into account modern technology and the consumer product preference.

### Alliances and Partnerships

Just like most airlines, SAA cannot serve all their target markets in their own network, using their own aircraft, and as such, we enter into strategic relationships with other airlines. Indeed SAA was the first African airline to align itself with a global branded alliance, Star Alliance. This year we are proud to celebrate 11 years as a Star Alliance member. The airline also maintains non-alliance partnerships with other African airlines as well as other global airlines so that we can address the needs of specific market segments.

### Sales, Marketing and Product Development

Customer service starts with the first interaction with the customer, which is the realm of the Sales and Marketing departments. The Network and Scheduling departments contribute to customer service providing inter-connectivity between network segments and routes that meet customers' needs.

### 2016/2017 Achievements

- 11-year anniversary of Star Alliance membership
- Washington Accra route performs well
- New route launched: Johannesburg to Abuja, Nigeria

### SAA Commercial supports SAA's strategic objectives through:

- Ensuring that the airline operates at an optimal level of sustainability to support strategic industries that access global markets, tourism, and the majority of industries 🇿🇦
- Reviewing and revitalising SAA's network and fleet requirements to ensure financial sustainability while establishing a sustainable footprint on the African continent 🌍
- Driving revenue through dynamic, world-class network management, fleet utilisation, and customer value propositions that enhance our ability to upsell and increase our ancillary revenue 🇿🇦 🌍 🌐 🌐
- Promoting, and providing access to South Africa as a tourism and business destination 🇿🇦

HBM



## SAA OPERATIONS

**OUR NUMEROUS AWARDS ARE A VALUABLE AFFIRMATION THAT WE OFFER OUR CUSTOMERS QUALITY ACROSS A RANGE OF PRODUCT AND SERVICE-DELIVERY AREAS.**

- **6,8 million passengers carried annually**

SAA Operations is responsible for the day-to-day running of the airline. This comprises the logistics required to provide SAA's product and ensure its safety. Customers' experience and perception of value is determined by the sum of all interactions they have with SAA. The majority of these are delivered through SAA Operations and contribute to providing a competitive product that secures market share and drives revenue. SAA Operations functions through:

### Airport Operations

Airport Operations includes airport ticket sales, passenger check-in, boarding, lounges, arrivals and baggage handling worldwide. Airport Operations measures its effectiveness based on the Skytrax service evaluations and adjusts its operations as required to ensure excellent and cost-effective operations.

### Flight Operations

Flight Operations includes SAA pilots, training, standards and flight planning/navigation. The SAA Training Department is highly regarded, proactive and forward thinking. The airline ensures that it achieves maximum certification and extensive training.

### Inflight Services

Inflight Services includes SAA cabin crew and the in-flight inventory necessary for all on-board logistics. SAA's cabin crew is key to consistently producing a safe and appealing product. As the on-board face of SAA, the airline highly values their ability to handle challenging situations and still ensure an excellent experience for customers. The cabin crew are instrumental in SAA's position as a highly awarded airline internationally. SAA will continue to focus on meeting customers' increasing expectations and invest in the training of the crew.

### Global Operations Control Centre

Global Operations Control Centre (GOCC) includes operations control, crew movement, flight dispatch, departure control, ramp and logistics, and 'flight following' radio. The Global Operations Control Centre ensures that its operations are world-class by keeping abreast of the latest trends in, and systems for, control centre infrastructure.

### Group Safety

SAA's excellent safety record is maintained through continuous world-class training and quality control processes that ensure that every flight meets the rigorous standards of various regulatory bodies. The implementation of an ICAO-approved Safety Management System (SMS) has enabled all processes and systems to be monitored and managed applying a risk-based approach in a highly complex aviation environment.



## SAA GROUP (continued)



### Quality Assurance

SAA's quality assurance practice ensures the airline remains at the forefront of the aviation industry. SAA strives to exceed the minimum quality assurance standards at all times. It adheres to stringent internal audits and has an entrenched safety culture. SAA maintains its IATA Operational Safety Audit and E-IOSA audit as well as its Air Operator Certificate.

### Group Security Services

Group Security Services is responsible for preventing acts of unlawful interference perpetrated against SAA and protecting facilities, staff, and assets from general crime internally and externally through the following:

- Developing and implementing Security and Aviation Safety Policies, Procedures, and Systems to secure and safeguard all SAA Civil Aviation Operations from unlawful interference, and introducing appropriate security measures to protect passengers, baggage, cargo, employees, and company property
- Identifying, measuring, and advising on operational and physical security trends, risks, and processes
- Implementing sound security threat and risk management principles in all Group Security Services operational processes and procedures
- Conducting objective, effective, and professional criminal investigations and employee vetting, to prevent theft, fraud, pilferage, and any illegal, unlawful actions against SAA







### Flight Technical and Maintenance Standards

SAA Operations maintains oversight and control of all maintenance through monitoring and analysis to ensure the airworthiness of SAA aircraft.

### 2016/2017 Achievements

- SAA awarded a 4-Star ranking from Skytrax, in both Economy and Business Class, for a 15th year in a row
- SAA's five domestic stations each honoured with a prestigious ACSA Feather Award in 2016
- ATOL Best Airline in category Efficiency of Check-in Staff by Airport Terminal Operations Ltd
- Global Traveler Magazine Awards – Best Airline in Africa, Best Airline for On-board Service, Best Airline for Flight Attendants, Best Airport Lounges
- Ask Afrika Icon Brands – Overall Winner Business Airlines, Overall Winner Personal Airlines
- Sunday Times Generation Next Awards – Coolest Domestic Airline
- Business Traveller Africa Conference and Awards – Africa Short Haul Airline

### SAA Operations supports SAA's strategic objectives through:

- Shaping and supporting SAA customers' experience, which contributes to the commercial sustainability of the airline 
- Delivering a quality product through consistent, efficient, and effective operations and excellent customer service   
- Managing and reducing overhead costs of operations and people 
- Ensuring excellent customer service 

*HBMD*



## SAA VOYAGER

### AFRICA'S LEADING WORLD-CLASS LOYALTY PROGRAMME.

- 2,7 million Voyager members globally – up 11 percent
- For every 1,3 Miles issued, 1 Mile was redeemed
- 17,5 million Miles were donated to charitable organisations

#### Vision

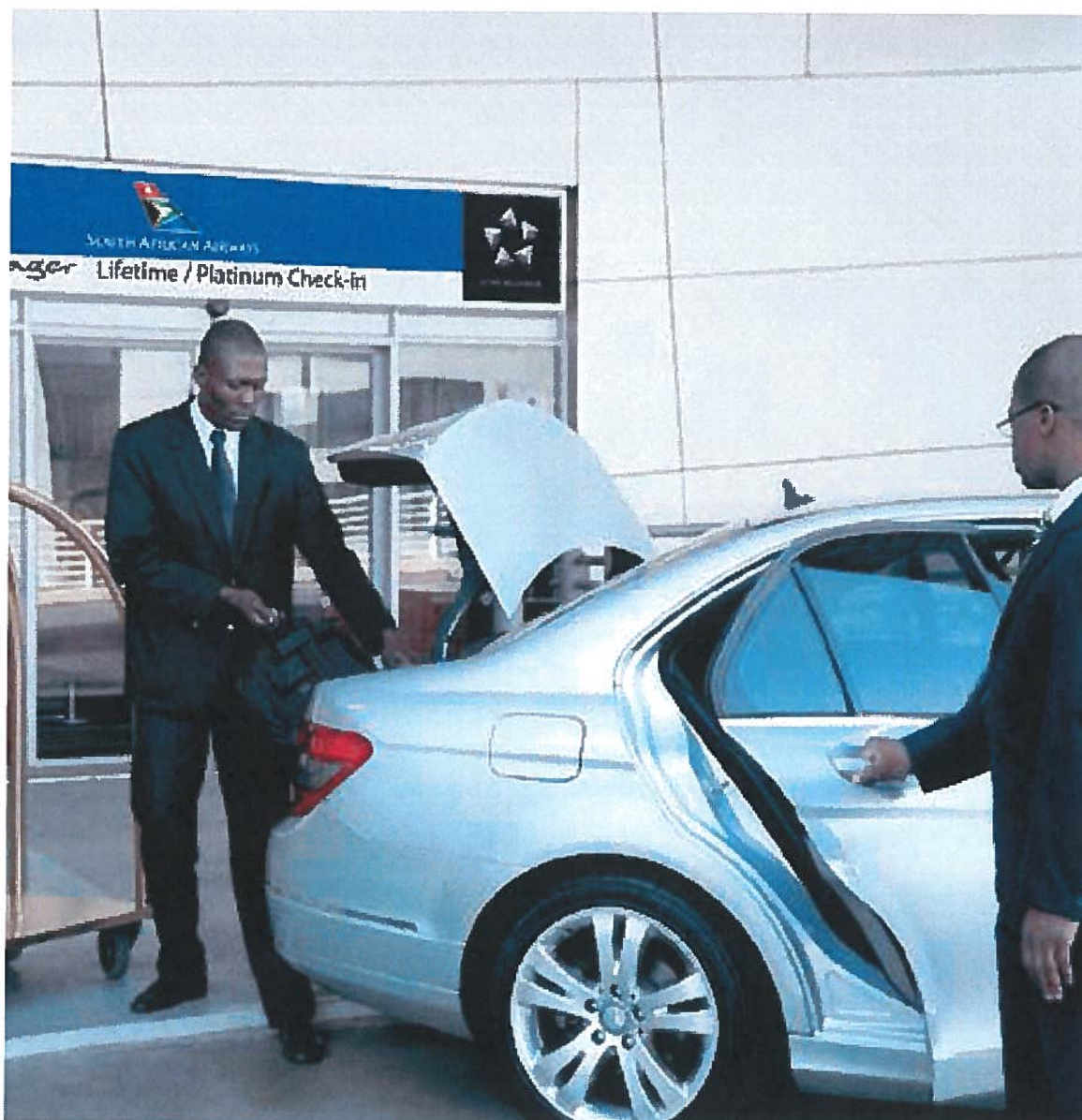
Africa's leading world-class Loyalty Programme.

#### Mission

To reward and recognise our loyal members through the delivery of a commercially sustainable, best in its class loyalty programme in South Africa and the African continent.

SAA Voyager is a key element of SAA's Customer Value Proposition as it:

- Attracts and retains customers
- Differentiates SAA's offering in a highly competitive market
- Recognises customer loyalty
- Constitutes a key element of SAA's customer growth proposition
- Augments customer service offerings
- Enriches operations
- Plays a vital role in performance excellence
- Supports African growth by providing an attractive incentive to existing and new customers on the African continent.



## SAA GROUP (continued)



The programme is a recognition value model. High-value and high-yield customers are attracted by, and retained through, the opportunity to earn and spend on air, and limited non-air, aspects of the programme. This drives loyalty to SAA and its feeder models Mango, SA Express (SAX) and Airlink.

Over the past 22 years, SAA Voyager has successfully provided SAA with a distinct competitive advantage in a very competitive market, attracting and retaining high-value and high-yield customers.

SAA Voyager is the first revenue-based frequent flyer programme in Africa. In February 2015, SAA Voyager introduced significant changes to the programme to enhance its value proposition and secure customer retention in the highly competitive market. Miles earned changed from a basis of "distance travelled" to a "revenue-spend" earning structure for flights operated by SAA. The changes attach a transparent economic value to the Mile of eight cents, if redeemed on SAA – one Mile for every R1,60 spent with five percent return.

SAA Voyager offers five tiers – Blue, Silver, Gold, Platinum and Lifetime Platinum, each providing preferential treatment and prestige. SAA Voyager offers its members an opportunity to earn Miles from 68 programme partners, which can be spent in a diversified manner.

### Programme Partners

- 27 Star Alliance member airlines (SAA excluded)
- 11 Non-Star airlines (inclusive of SA Express (SAX), Airlink, Swaziland Airlink, and Mango)
- 9 Financial Partners
  - Conversion Partners: Investec, Nedbank Greenbacks, American Express, Standard Bank (Ucount Rewards), Discovery Credit Card
  - Accrual Partners: SAA Voyager/Nedbank Credit Card, Diners, SAA Voyager/Ecobank Credit Card, Bidvest Bank
- 3 Car Rental Partners
- 8 Hotel and Resort Partners
- 9 Lifestyle and Retail Partners
- 1 Other: SAA Cargo (conversion of Cargo ZAR paid/kg to Voyager Miles)

### 2016/2017 Achievements

- First revenue-based frequent flyer programme in Africa operational for a full two years
- 30 percent of SAA passengers' spend is from active SAA Voyager members.

### SAA Voyager supports SAA's strategic objectives through:

- Attracting new and retaining valued customers for SAA 🔄
- Recognising loyalty through tier based value proposition 🔄 🏆
- Reward customers equitably through the accrual and redemption of Miles 🔄 🏆
- To provide excellent customer service 🏆 🏆



## SAA CARGO

### AFRICA'S LEADING AIRFREIGHT SERVICE PROVIDER.

- 111 000 tonnes airfreight carried annually
- 54 percent cargo load factor
- Two aircraft

#### Vision

To be the leader in air cargo services between Africa and the world.

#### Mission

We commit to effective and time-sensitive airfreight solutions creating sustainable profit margins for our shareholders and lasting value for our stakeholders.

SAA Cargo provides effective, reliable and time-sensitive airfreight solutions, transporting general cargo, perishables, mail, livestock, vulnerable, and valuable cargo worldwide. The division uses capacity in the belly-space of SAA's passenger aircraft, has a small fleet of dedicated freighter aircraft, and offers *ad hoc* charter services for more urgent deliveries. SAA Cargo's network spans South Africa, Africa, and the world, leveraging interlines and partnerships to provide customers with extensive reach and seamless connectivity worldwide.

#### DOMESTIC

Johannesburg, Cape Town, Port Elizabeth, Durban, East London, George, and Bloemfontein

#### REGIONAL

Lagos, Accra, Lusaka, Entebbe, Kinshasa, Harare, Luanda, Maputo, and Nairobi

#### INTERNATIONAL

**Asia-Pacific** – 12 countries (direct passenger flights to Hong Kong and Perth and interline agreements with partners for the other destinations)

**Europe** – Germany, Italy, France, Switzerland, the UK, Ireland, Spain, Eastern Europe, and Nordic countries (direct passenger flights to Frankfurt, Munich and London and interline agreements with partners to the other destinations)

**North and South America** – Argentina, Brazil, Mexico, and the USA (direct passenger flights to New York, Washington, and São Paulo and interline agreements with partners to other destinations in both South and North America).

#### 2016/2017 Achievements

##### Air Cargo Brand of the Year in Africa Winner

International Award for Excellence in Air Cargo, voted for by the worldwide readers of the STAT Times. The award recognises the strength of SAA Cargo's brand among airfreight users in Africa and is testament to high levels of service reliability.

##### Best Cargo Airline – Africa Winner

Air Cargo Airline of the Year Awards 2017, hosted by Air Cargo News, voted by the readers of Air Cargo News.

SAA Cargo Amsterdam office was awarded Best Air Cargo Supporter for the Europe-Southern Africa Route for 2016 by Euro Cargo, an independent General Sales Agent and charter specialist based in Holland that specialises in cargo sales, warehouse supervision, flight operations, and after sales.

#### SAA Cargo supports SAA's strategic objectives through:

- Facilitating trade and development between South Africa and key African and international markets 🌍 🔄
- Developing cargo routes aligned to key trade flows in the region 🌍
- Operating cargo services based on profitability and commercial sustainability 🔄
- Providing excellent customer service to the logistics industry 🌟
- Ensuring secure, consistent, efficient, and effective operations ⚙️
- Fostering performance excellence 🏆 🏅



*Handwritten signature*

## SAA GROUP (continued)



### SAA TECHNICAL

#### AFRICA'S LARGEST AIRCRAFT MAINTENANCE AND REPAIR ORGANISATION.

- 300 523 air-frame maintenance man-hours for the year

#### Vision

To be Africa's leading world-class Maintenance, Repair and Overhaul facility.

SAA Technical is a world-class Maintenance, Repair and Overhaul company (MRO) with over 70 years' experience. The Company supplies line and heavy maintenance services to more than 75 percent of South Africa's domestic commercial airlift, including SAA, Mango and other domestic and international airlines. The primary operations are located at extensive premises at OR Tambo International Airport, with other smaller operations in Cape Town, Durban and Lanseria.

SAA Technical is the most advanced full service provider in Africa, with excellent facilities and comprehensive support from component and workshops services. The Company has maintained full uninterrupted FAA certification (US Federal Aviation Authority) since the early 1990s and complies with regulations and licenses including the European Aviation Safety Agency (EASA), South African Civil Aviation Authority (SACAA), SANAS (South African National Accreditation System), EASA Part 147 training accreditation and is an ISO 14001 organisation.

Two years ago, SAA Technical was restructured to improve efficiency and flexibility. Building on this, in the past year a comprehensive, fully integrated software package called AMOS was implemented. The programme manages the maintenance, engineering, and logistics requirements of modern airlines. After an extensive implementation process that included reviewing and mapping of work processes, the system went live in April 2017. This was to enhance SAA Technical's position in the competitive MRO industry to improve productivity and cut costs and enable higher automation of maintenance, repair, and overhaul.

SAA Technical employs 2 367 people across a broad skills base comprising maintenance-related employees. SAA Technical offers an extensive apprentice programme aimed at training apprentices for its own business and the wider-aviation industry.

#### Services:

- Minor/line maintenance
- Major/heavy maintenance
- Component and repair cycle workshops
- Machine shops
- Component shops
- Accessory shops
- Landing gear workshop

The Company is a wholly-owned subsidiary of the SAA Group, with its own Board comprising two Executive Directors, the CEO and CFO, and three non-Executive Directors, from SAA's Board.

*Handwritten signature*













### 2016/2017 Achievements

- MRO IT system AMOS implemented for improved efficiency
- Established a line station in Entebbe

### SAA Technical supports SAA's strategic objectives through:

- Focusing on opportunities to reduce maintenance and overhaul costs, which are the largest costs to an airline that are semi controllable 
- Generating third party revenue  
- Providing world-class aviation maintenance   
- Driving supplier development by supporting the set-up of new aircraft spares companies 
- Promoting women in aviation 



## SAA GROUP (continued)



### AIR CHEFS

#### A LEADING SOUTH AFRICAN CATERING COMPANY, WITH THE CAPACITY TO PRODUCE 44 000 MEALS A DAY.

- 11 million meals prepared annually

#### Vision

Africa's leading world-class catering company.

#### Mission

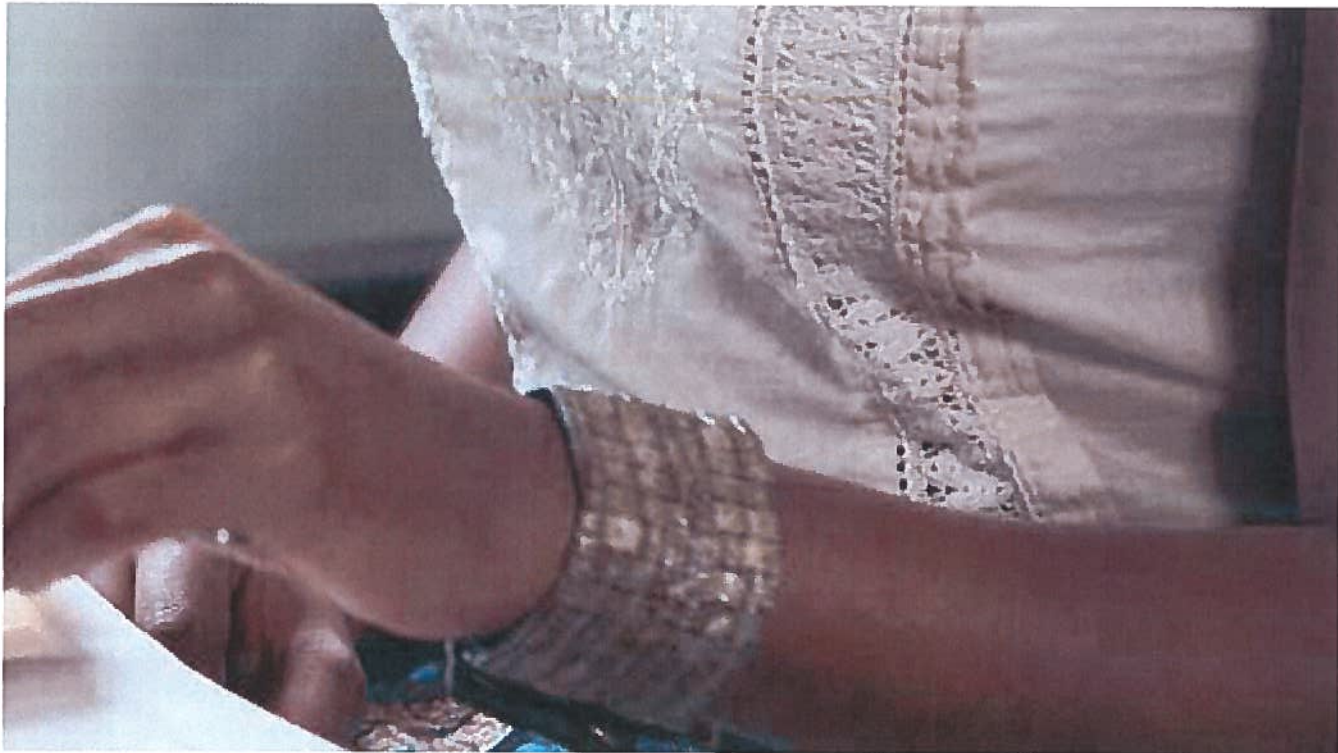
Deliver commercially sustainable airline catering services in South Africa and Africa.

Air Chefs provides in-flight catering services to SAA, SWISS International Airlines, SA Express, and Mango in South Africa, as well as a few other airlines. More than 80 percent of Air Chefs' revenue emanates from the SAA Group. Recently the Company has diversified its offering to target the wider food service market, providing catering to corporate clients, ready-made meals for contract caterers and other food service offerings.

Air Chefs has central production units in Johannesburg, Cape Town, and Durban in close proximity to international airports, OR Tambo International Airport, Cape Town International Airport, and King Shaka International Airport. The production facilities are ISO22000 certified, demonstrating its commitment to food safety systems and Hazard Analysis of Critical Control Points (HACCP) principles and criteria. During the year, the Company opened a new state-of-the art catering facility at the King Shaka International Airport, which promises growth opportunities in the province.

Air Chefs has a fleet of hi-loader trucks and refrigerated vehicles, which provide swift transport in ideal conditions. The Company employs more than 1 200 employees, who receive ongoing in-house and external training to ensure high standards of food preparation, quality assurance, and adherence to world-class food safety management programmes.

Air Chefs is a wholly-owned subsidiary of the SAA Group, with its own Board comprising two executive directors, the CEO and CFO, and three non-Executive Directors, from SAA's Board.



### 2016/2017 Achievements

- Made a profit
- Landed its first international airline catering contract
- Air Chefs celebrated 30 years as caterer
- Ranked in the Top 5 Best Managed Catering Companies in the country as chosen by the Top 500
- Opened a new facility in Durban

### Air Chefs supports SAA's strategic objectives through:

- Driving revenue growth through securing new business 🔄
- Improving processes and systems to deliver more efficient operations and a better quality product 🔄 🍷 🍷
- Contributing revenue from non-aviation markets 🔄
- Providing excellent customer service and a high quality product shapes customers' perception of value 🍷 🏆
- Supporting local South African economies by sourcing supplies from black-owned companies 🏠



# SAA GROUP (continued)



## MANGO

**FOR OVER TEN YEARS MANGO HAS BEEN THE PREFERRED LOW-COST CARRIER FOR DOMESTIC TRAVELLERS IN SOUTH AFRICA, TRANSPORTING MORE THAN TWENTY MILLION PASSENGERS.**

- 10 aircraft
- 8 domestic destinations
- 1 regional destination

Mango is a low-cost carrier (LCC) that targets leisure travellers and price-sensitive business passengers in the domestic and regional market. Mango offers low cost, affordable fares, positioning it as a leading competitor in price-sensitive markets where SAA cannot viably compete. Mango offers its customers the widest booking and payment options through an extensive distribution network.

Mango's key areas of focus are:

- Innovation
- Operational efficiency
- Guest Service

Mango was launched in late 2006 and since then has garnered the reputation as South Africa's most innovative airline and a pioneer in the market. It was the first carrier to sell flights through grocer Shoprite Checkers and the first to offer booking and payment facilities via its mobile app. Mango is the first and only airline in the world to accept store charge cards as payment online and through its call centre.

Mango flies between South Africa's major airports and offers air services between:

- Johannesburg (OR Tambo International) and Cape Town
- Lanseria (Johannesburg) and Cape Town
- Johannesburg and Durban
- Lanseria (Johannesburg) and Durban
- Cape Town and Durban
- Bloemfontein and Cape Town
- Johannesburg and Port Elizabeth
- Johannesburg and George

Mango also operates twice-weekly flights between Johannesburg and Zanzibar.

The Company is a wholly-owned subsidiary of the SAA Group, with its own Board comprising three Executive Directors, the CEO, CFO, GM Commercial, and two non-Executive Directors, from SAA's Board.

## 2016/2017 Achievements

- Net profit in 2016/2017, marking a significant reversal from losses in the previous year
- 87.5 percent departure on-time performance achieved

## Mango supports SAA's strategic objectives through:

- As the leading LCC competitor in price-sensitive markets 🔄
- Defending SAA's share of the domestic market 🔄
- Providing an innovative product and excellent customer service 🔄 🐾

HBN J.



## SOUTH AFRICAN TRAVEL CENTRE

### SOUTH AFRICAN TRAVEL CENTRE OFFERS A FULL SPECTRUM OF PRODUCTS AND SERVICES, CATERING TO CORPORATE AND LEISURE TRAVEL.

- 24 franchisees

SA Travel Centre is a franchise-based retail travel agency held over from a dissolved Lufthansa City Centre partnership in the early 2000s. The Company consists of 24 franchisees. It has six (6) IATA-accredited members, 16 non-IATA accredited members, and two (2) offices in Africa. Through these branches, SA Travel Centre offers competitive rates and services on car rental, air travel, travel insurance, foreign exchange, global tour products, cruise holidays, packaged tours, assistance with VISA applications, and accommodation across the globe. Each SA Travel Centre agency is independently-owned and run by seasoned travel agents who are focused on consistently offering the best value to their clients.

SA Travel Centre is considered non-core and SAA is in the process of disposing thereof.

HBM  
J.



# SHARED SERVICES

## SHARED SERVICES ARE THE KEY BUSINESS ENABLERS THAT SUPPORT THE SAA GROUP IN DELIVERING SUSTAINABLE VALUE.

### STRATEGIC PLANNING

Strategic Planning supports SAA in the pursuit of its strategic objectives, with the primary emphasis on achieving and maintaining commercial sustainability.

### CUSTOMER SERVICES

#### Service Vision

We aim to become the most awarded airline for customer service excellence out of Africa to the world and from the world to Africa.

#### Service Culture

Inspiring the world with the warmest African hospitality.

Customer Services drives ongoing initiatives to enhance customer experience, maintain and improve customer satisfaction, and monitor service measures.

Customer Services plays a key role in managing stakeholder relations, and is often the first point of contact. Customer feedback enables an assessment of perceived value, which impacts contribution to the future revenue and service standards.

Customer feedback is shared with the business so that trending matters can be remediated and or positively shared. SAA takes an operations-based approach to how the business is informed by complaints, aiming to maintain an efficient ecosystem for the customer experience.

#### Strategic Focus

Excellent customer service is one of the five strategic objectives of the Long-Term Turnaround Strategy (LTTS) and is also the cornerstone of commercial sustainability for airlines worldwide.

To enhance customer experience and create value, Customer Services encapsulates the experience of the customer from the first contact to the end of their journey and beyond, to building loyalty and retention.

World-class, reliable customer service is central to SAA's performance and long-term sustainability.

Customer Services comprises two departments:

- **Customer Service Recovery team**, manages service interactions for SAA, supported by telephone, email, and social media platforms
- **CRM/CSS team**, is responsible for customer-focused business improvement initiatives that support achieving the deliverables derived from the LTTS

Continued monitoring of service measures such as on-time performance, contact centre service levels, and baggage pilferage rates, are key focus areas within the SAA business.

### HUMAN RESOURCES

SAA believes that its employees – through their abilities, passion, and efforts – are the foundation for the success of the Group. We are committed to ongoing engagement with our employees to ensure they are motivated, productive and have a strong connection to SAA's brand. Human Resources strives to create a high performance, values-based culture to deliver a commercially sustainable outcome, in line with the Group's mandate.

Assessing and managing talent is a continuous and integral part of SAA. HR is responsible for building a talent pipeline not only for SAA but for the South African aviation industry. The SAA Academy of Learning and SAA Technical offer youth development programmes including:

- Internship Programme, an opportunity to gain business skills in the aviation industry through valuable work experience for a limited period
- Cabin Crew Skills Programme, a programme providing tuition towards attaining a SA CAA Cabin Crew Member Licence
- Technical Apprenticeship Programmes, apprenticeships in 11 trade disciplines relating to aviation maintenance
- Workplace Experience Programme – an opportunity given to young graduates to gain skills for them to be employable in future

### INFORMATION TECHNOLOGY SERVICES (ITS)

Information Technology Services is a critical business enabler across the Group. The aviation industry is technology driven and is evolving more rapidly than ever. Technology and automation are changing the way customers interact with airlines as digital transformation in the industry continues at a swift pace. Innovation is the key to competitive advantage, and airlines need flexibility and agility to manage a rapidly evolving aviation value chain.

Information Technology Services is responsible for providing IT solutions that are competitive, cost effective, and efficient in a secure environment. ITS designs, develops, and maintains solutions to assist in measuring route profitability, automated airport operations, optimise utilisation of the fleet and crew, manage cargo operations, maintenance of the fleet, and facilitate the uptake of products by our customers.

### SHAREHOLDER AND STAKEHOLDER RELATIONS

Engaging and building relationships with all of SAA's stakeholders is crucial to the Group's sustainability. SAA is an integral part of South African society, with the South African Government as its sole shareholder. The Group is a large organisation with over 10 000 employees, a wide array of suppliers, and millions of customers, past, present, and future. SAA operates in communities across the globe, in a highly legislated and regulated industry, which has high levels

of government involvement worldwide. SAA's broad base of stakeholders are vital to the success of the business and their perception of SAA, the Group's reputation, is a valuable asset that needs to be safeguarded.

Shareholder and Stakeholder Relations plays a key role in risk and reputation management at SAA. The unit is the custodian of the Group's reputational risk and provides the Board oversight of the Group's relationships. SAA is committed to developing a stakeholder inclusive approach, aligned with the recommendations of King III of 2009 and with consideration of King IV.

### Shareholder and Stakeholder Relations comprises:

- **Stakeholder Relations**, responsible for positioning SAA's brand by managing its reputation and increasing the confidence of the Shareholder in SAA's capability to deliver on its strategic intent
- **Communications**, responsible for internal and external communications across the Group (excluding Mango), as well as the production of corporate publications such as the airline's in-flight magazine Sawubona and annual reports
- **CSI and Corporate Events**, hosts events that support key strategic stakeholder engagements and is responsible for projects that contribute to the wider South African society through supporting and uplifting communities
- **Transformation**, responsible for policy formulation and implementation oversight of Group-wide efforts to comply with B-BBEE requirements, including reporting and support of the government's broader socio-economic transformation agenda
- **Environmental Sustainability**, responsible for ensuring SAA has the least amount of impact on the natural environment possible, as part of SAA's mandate to benefit the citizens of South Africa and globally, and to address climate change

## LEGAL, RISK AND COMPLIANCE

The aviation industry is a multifaceted and highly regulated environment. The risk universe is complex and diverse with risk exposure managed across a number of different parts of the business. Effective and prudent management of risk is the cornerstone of the Group's sustainability.

The Legal, Risk, and Compliance team oversees the overall strategic and operational risk of the business. Monthly and quarterly reports are submitted to ExCo. Quarterly monitoring reports are submitted to the Audit and Risk Committee and the boards of SAA Technical and Air Chefs.

The Legal Risk and Compliance department is a shared service that supports the entire Group. The Risk department ensures that the risks facing the Group are identified and mitigation controls are established and implemented by management to mitigate the identified exposure to the Group. The Compliance department focuses on legal and regulatory risks and monitors the implementation of regulatory controls. The Legal team manages the Group's legal risk by overseeing contractual terms and conditions, analysing and monitoring litigation, and promoting general legal support and advice to the Group.

## PROCUREMENT

Procurement is responsible for the fair, equitable, transparent, competitive, and cost-effective management of the supply chain management function. Cost compression is a critical imperative for the commercial sustainability of SAA and one of the pillars of the LTTS.

Procurement plays a key role in meeting SAA's developmental mandate in its stewardship of the Group's preferential procurement and enterprise development programmes.

### SAA Procurement Transformation Mission

- To lead and accelerate transformation in the South African aviation industry and focus on the inclusive opportunities for black-owned, women-owned, disabled, and youth-owned businesses
- Development and implementation of a sustainable, environmentally friendly procurement strategy

## FINANCE

The Finance department manages SAA's financial profile. There have been losses over many years eroding equity. We operate in a massively capital intensive business. SAA is one of the most highly geared major airlines globally. This level of debt is not sustainable. We are developing a financially sustainable funding plan that will address the Company's cash and liquidity requirements.

## GOVERNANCE

A robust corporate governance framework promotes accountability of management and improves transparency and disclosure. During the year, a new full strength Board was appointed by National Treasury. The Board is committed to applying the principles of corporate governance recognising that this is essential in protecting the interests of all stakeholders. The new Board will set the tone, leading the Group in an ethical and responsible manner, guided by principles of transparency, integrity, responsibility, and accountability.



# CREATING SUSTAINABLE VALUE

## STRATEGIC OBJECTIVE, FOCUS AND OUTCOMES

To transform SAA into a financially sustainable aviation group.

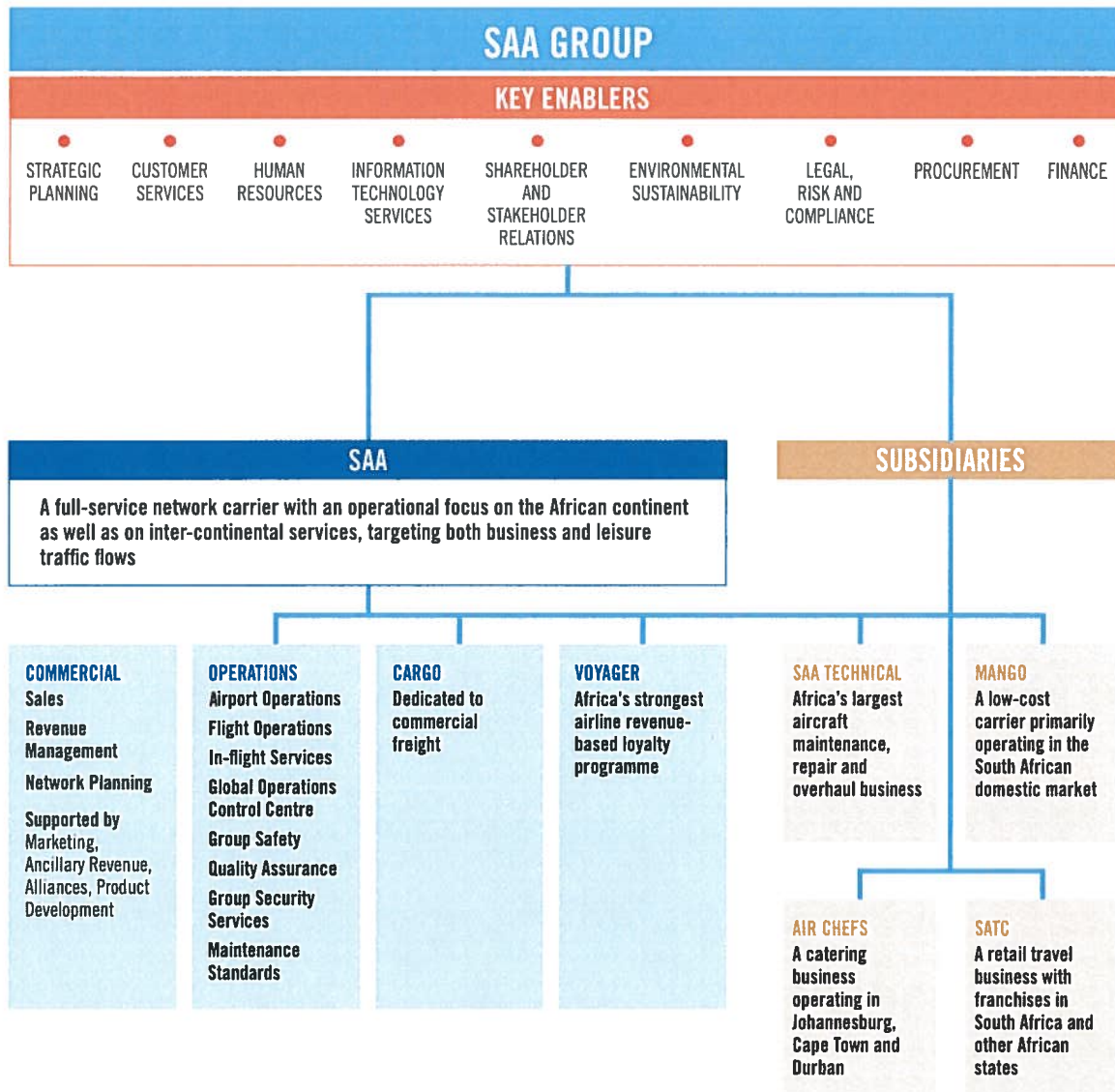
Pursuant to the primary strategic objective, the key strategic focus areas are: STABILISE, DEFEND and BUILD.



HRM

## OUR BUSINESS ACTIVITIES

SAA is a vertically integrated diversified airline group providing passenger and cargo transport services, supported by operations across the airline value chain.



*Handwritten signature/initials*



# GROUP VALUE-ADDED STATEMENT

for the year ended 31 March 2017

R MILLION	2017	2016 Restated
Total income	30 742	30 716
Cost of services	(27 371)	(24 363)
<b>Value added</b>	<b>3 371</b>	6 353
Income from investments	40	26
<b>Wealth created by operations</b>	<b>3 411</b>	6 379
<b>Distribution of wealth</b>		
Employees (salaries, wages and other benefits)	6 131	5 831
Government (income tax)	–	2
Providers of capital (interest)	1 630	1 030
<b>Total wealth distributed</b>	<b>7 761</b>	6 863
Wealth distribution funded through debt	(4 350)	(484)
<b>Wealth created by operations</b>	<b>3 411</b>	6 379
<b>Dealings with government</b>		
<i>Gross contributions to government</i>		
Company taxes	–	2
Rates and taxes	4	5
Customs and excise duties	21	32
	25	39
Other government grants	(7)	(9)
<b>Charged against group income</b>	<b>18</b>	30
<b>Collected on behalf of government</b>	<b>2 686</b>	2 875





## OUR BOARD

The group has a Board for the airlines, South African Airways (SAA) and Mango, as well as for its subsidiaries; Air Chefs, SAA Technical (SAAT), and SA Travel Centre (SATC).

The full governance report, including details of board committees, terms of reference, and the *curriculum vitae* of the board members, are available from the Company Secretary's office (refer page 92) or can be found on the South African Airways website, [flysaa.com](http://flysaa.com), under Corporate SAA / About SAA.

The SAA Board consists of:

○ 11 Non-Executive Directors      ○ 2 Executive Directors

**ARC** Audit and Risk Committee

**SEGC** Social, Ethics and Governance Committee

**REMCO** Remuneration, Human Resources and Nominations Committee

**FINCO** Finance and Investment Committee

**LTTSC** Long-Term Turnaround Strategy Committee

**Committee Chairman**



**1** **MR JOHANNES BHEKUMUZI MAGWAZA (75)**  
Chairperson and non-executive director

Appointed: 3 November 2017

**REMCO**



**2** **MS NOLITHA FAKUDE (53)**  
Deputy chairperson and non-executive director

Appointed: 3 November 2017

**REMCO** **FINCO** **LTTSC**



**3** **MR VUYANI JARANA (47)**  
Group Chief Executive Officer and executive director

Appointed: 1 November 2017



**4** **MS PHUMEZA NHANTSI (39)**  
Chief Financial Officer and executive director

Appointed: 4 March 2016



**5** **MR AHMED BASSA (58)**  
Non-executive director

Appointed: 3 November 2017

**ARC** **LTTSC** **SAA TECHNICAL SOC LIMITED**



**6** **MR MARTIN KINGSTON (60)**  
Non-executive director

Appointed: 3 November 2017

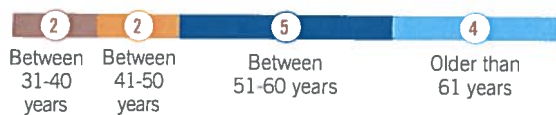
**ARC** **FINCO** **LTTSC**

*Handwritten signature: HBM*

## Demographics



## Age



## Gender



**7 MR PETER MALULEKA (62)**

Non-executive director

Appointed: 1 September 2016

SECCO LTSC AIR CHEFS SOC LIMITED



**8 MS THANDEKA MGODUSO (60)**

Non-executive director

Appointed: 1 September 2016

REMCO SECCO LTSC SAA TECHNICAL SOC LIMITED



**9 MS TINYIKO MHLARI (34)**

Non-executive director

Appointed: 3 November 2017

ARC FINCO MANGO SOC LIMITED



**10 MR AKHTER MOOSA (65)**

Non-executive director

Appointed: 1 September 2016

ARC FINCO SAA TECHNICAL SOC LIMITED



**11 MR GEOFF ROTHSCILD (70)**

Non-executive director

Appointed: 3 November 2017

REMCO SECCO AIR CHEFS SOC LIMITED



**12 MS BAJABULILE SWAZI TSHABALALA (51)**

Non-executive director

Appointed: 1 September 2016

ARC FINCO LTSC AIR CHEFS SOC LIMITED



**13 MR PETER TSHISEVHE (47)**

Non-executive director

Appointed: 1 September 2016

SECCO FINCO LTSC MANGO SOC LIMITED

*Handwritten signature/initials.*



# GROUP EXECUTIVE COMMITTEE

The board has delegated management of the day-to-day business and affairs of the SAA Group to the Group Chief Executive, with full power on behalf of and in the name of the Group. The Group Chief Executive, who is held accountable for the performance of the Group, including the airline, and its subsidiaries, has in turn established a Group Executive Committee (ExCo). The committee provides counsel to the Group Chief Executive, acts as a sounding board and ensures overall coordination across the SAA Group. Ultimate decision making powers remain vested with the Group Chief Executive and all members of the committee exercise powers in accordance with their delegated authority.

Members of the committee are depicted below.



**1 MR VUYANI JARANA (47)**

Group Chief Executive Officer

*Appointed: 1 November 2017*



**2 MS PHUMEZA NHANTSI (39)**

Chief Financial Officer

*Appointed: 25 November 2015*



**3 MS RUTH KIBUUKA (53)**

Company Secretary

*Appointed: 1 June 2015*



**4 MR PETER DAVIES (69)**

Chief Restructuring Officer

*Appointed: 16 October 2017*



**5 MR JOSUA DU PLESSIS (43)**

Chief Strategic Officer (Acting)

*Appointed: 14 September 2015*



**6 MS LUSANDA JIYA (50)**

General Manager: Shareholder and Stakeholder Relations

*Appointed: 1 October 2014*



**7 MR MARTIN KEMP (48)**

CEO Air Chfs (Acting)

*Appointed: 1 November 2013*

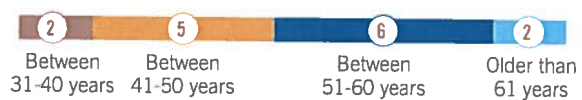


**8 MR TLELI MAKHETHA (57)**

General Manager: Cargo

*Appointed: 1 December 2010*

*Handwritten signature: HAM*  
*Handwritten signature: J.*

**Demographics:****Age****Gender**

**9 MR COBUS MC QUIRK (46)**

Chief Information Officer (Acting)

*Appointed: 1 December 2017*



**10 MR AARON MUNETSI (57)**

General Manager: Commercial (Acting)

*Appointed: 16 December 2015*



**11 MS ZUKISA RAMASIA (54)**

General Manager: Operations

*Appointed: 1 May 2012*



**12 MS VUYISWA RASEROKA (56)**

General Manager: Human Resources (Interim)

*Appointed: 22 November 2017*



**13 MS FIKILE THABETHE (40)**

General Manager: Legal, Risk, and Compliance (Acting)

*Appointed: 1 November 2017*



**14 MR NIC VLOK (70)**

CEO Mango (Acting)

*Appointed: 1 August 2016*



**15 MR MUSA ZWANE (53)**

CEO of SAA Technical

*Appointed: 1 November 2010*

Handwritten signature: BM





## ACHIEVEMENT

### ALL FEMALE CREW FLY TO GHANA

**In August 2016, SAA celebrated Women's Month, together with the anniversaries of its service between Accra, Ghana and Washington DC, by fielding an all-female crew on its flight SA056.**

South Africa commemorates Women's Month in August as a tribute to the more than 20 000 women who marched to the Union Buildings on 9 August 1956 in protest against the extension of Pass Laws to women.

"Women are significantly underrepresented in many of the areas in this industry, hence SAA organised the all women-operated flight in celebration of women's achievement in this industry, as well as an encouragement for other women to join the aviation industry and take up careers as pilots, ground engineers, load controllers, flight dispatchers, operations controllers, or ramp agents," says Zuks Ramasia, SAA's General Manager: Operations.

The new non-stop route was launched on 4 August 2015 between Accra's Kokota International Airport and Washington DC's Dulles International Airport. Since its inception and due to its high load factors this route has proven popular and profitable.





## 02

**STRATEGY FOR  
FINANCIAL  
SUSTAINABILITY**

Message from the Chair	38
SAA's Operating Context	40
Implementation of SAA's Long-Term Turnaround Strategy	41
Strategy for 2017/2018 Financial Year	42



NBM  
J.

## MESSAGE FROM THE CHAIRPERSON



**IN THE 2016/2017 FINANCIAL YEAR, SAA MARKED 83 YEARS OF OPERATION DURING WHICH THE AIRLINE HAS PLAYED A PIVOTAL ROLE IN SOUTH AFRICAN SOCIETY AND ITS ECONOMY, CONNECTING SOUTH AFRICA TO ALL OF ITS MAJOR TRADE AND TOURISM PARTNERS.**

On behalf of the SAA Board, I present to our stakeholders our Annual Report covering the financial year 1 April 2016 to 31 March 2017. These were very difficult and challenging times at SAA. This is reflected in the delayed release of this report due to uncertainty regarding the going concern status of the Group. SAA's history of poor financial performance, has led to a reliance on debt, which is underpinned by government guarantees that are necessary to sustain its operations. This is an untenable situation for any business enterprise. SAA has long struggled with adequate capitalisation and a lack of capital injection from the Shareholder, which has weakened the balance sheet and prevented the implementation of the Long-Term Turnaround Strategy (LTTS) to return the airline to long-term and sustainable viability.

Notwithstanding the much reported challenges facing the Group over the past 10 years, SAA has remained a well-recognised and respected brand in the aviation industry. We have a highly rated track record of passenger safety and sound operations and on-time performance, as well as numerous air travel recognition awards. Due to the outstanding support of our employees, customers, regulators, and policy makers, SAA continues to be an industry leader on the continent. SAA was the first airline in Africa to fly a commercial flight using biofuel. In the year under review, SAA and Mango flew aircraft using a blended fuel made from locally grown tobacco plants. This has huge potential for transforming rural agriculture and promoting livelihoods in South Africa.

Having been appointed on 3 November 2017 the newly constituted Board is under no illusion regarding the enormity of the task of turning SAA around and building a financially sustainable enterprise. With almost 10 million passengers per annum, SAA is material in Africa's air travel market. The Group contributes over 53 000 direct and indirect jobs, R10 billion in economic value-add and provides approximately 15 percent of South Africa's global connectivity, an important contribution given South Africa's geographic location. SAA has a critical role to play in driving intra-Africa trade through enabling Pan-African air travel connectivity.



The Long-Term Turnaround Strategy developed by the Company provides a blueprint for transforming SAA into a financially sustainable enterprise. As the new Board, we appreciate the work overseen by our predecessors and thank them for their contribution. Our immediate focus is to bring organisational stability and strengthen governance and accountability. We are working tirelessly to ensure that the top executive structure of the organisation is filled by competent people. Significant progress has been made with the appointment of a highly regarded CEO who is empowered to get a competent executive team in place as soon as possible. The inadequate control environment, as borne out by the Auditor-General's findings, is receiving the urgent attention of executive management.

As a matter of urgency, we need to address liquidity concerns, continue the restructuring of the balance sheet, contain costs, and improve customer experience, whilst implementing our strategy. The receipt of a R10 billion capital injection from the Shareholder is a much welcomed development that will go a long way in addressing our weak balance sheet position. Nevertheless, SAA remains under-capitalised with a significant negative equity position. Finding solutions to the balance sheet challenges requires concerted action by the Shareholder, SAA's Board and the executive team. The announcement by the Minister of Finance during his medium term budget policy statement that SAA will seek a strategic equity partner is a welcome development for SAA. The possible consolidation of the Government's aviation assets through integrating SA Express into SAA will also contribute to the Group's strategy. SA Express operates thin to medium capacity routes using appropriate lower gauge aircraft to improve overall economics of transporting passengers. We keenly await the output of the inter-ministerial committee charged with the task of overseeing the integration.

The Board has taken note of the findings documented in the Report of the Auditor-General as laid out on pages 98 to 104 of this report. Executive management has been tasked to address the issues raised as a matter of urgency. Of particular focus, will be the effectiveness of the measures implemented to improve the control environment. If the current control environment does not improve, the risk of misstatements and financial losses through fraud and corruption remains.

We have also taken note of the non-achievement of Key Performance Indicators (KPIs) as laid out on page 97 of this report. Addressing this matter has been prioritised, including resolving issues such as the effectiveness of consequence management in the organisation.

The Board is committed to overseeing the plan to transform SAA into a financially sustainable enterprise focused on customer experience. Returning to profitability and delivering free positive cash flow is a key objective and essential to our licence to operate. As a Board we are geared to taking SAA to new heights and are dedicated to returning the airline to financial viability.



**JB Magwaza**

*Chairperson*

*South African Airways SOC Limited*

28 February 2018



# SAA'S OPERATING CONTEXT

Airlines and the wider air transport supply chain create substantial value for consumers and the broader economy. Air transport has transformed the world, providing rapid connections, which have enabled the globalisation of markets. SAA has always played a key role on the African continent by taking Africa to the world and bringing the world to Africa.

Aviation is a highly complex and integrated industry with dependencies on an array of internal and external, as well as cross functional factors.

## MACRO-ECONOMIC ENVIRONMENT

Aviation growth tracks GDP growth. World GDP growth is projected to gradually strengthen from 2.5 percent in 2016 to 3 percent in 2017 and 3.2 percent in 2018. Sub-Saharan African GDP is expected to grow from 1.4 percent in 2016 to 2.4 percent in 2017, 3.0 percent in 2018 and in South Africa from 0.28 percent in 2016, 0.94 percent in 2017, and 1.06 percent in 2018.

The strengthening of the Dollar contributed to falling GDP growth in emerging markets, which impacted growth in commodity producing countries. Economic growth in the sub-Saharan Africa region moderated in 2016, and is expected to face continued pressure in 2017, as a result of much lower oil prices and the commodities price slump. Non-oil-exporting countries such as Kenya, Burkina Faso, Côte d'Ivoire and Senegal did record GDP growth rate increases. However, growth momentum in sub-Saharan Africa is expected to remain fragile, with regional growth dipping to 1.4 percent, the lowest level of growth in more than two decades. Most oil exporters are in recession, and conditions in other resource-intensive countries remained difficult.<sup>1</sup> Although growth in the region has slowed, sub-Saharan Africa is still a region with tremendous growth potential and will remain the second-fastest growing region in the world for the foreseeable future, after emerging Asia.

Growth in South Africa is expected to rebound somewhat, driven by moderately stronger global growth, more favourable weather conditions, reliable electricity supply, less volatile labour relations, recovering business and consumer confidence, and stabilising commodity prices.<sup>2</sup>

Strengthening ZAR/USD rates had a significant financial impact on SAA in 2016 resulting in net translation losses on mark-to-market variation of foreign denominated assets and liabilities as foreign denominated assets exceed foreign denominated liabilities.

## Oil Prices

The rebalancing in the oil market has led to rising oil prices, a factor that will significantly impact the industry outlook for 2017. An average oil price of \$64/barrel (Brent) is forecast for 2017 compared to an average of \$44,6/barrel (Brent) in 2016. This is expected to drive jet fuel prices from \$52,1/barrel (2016) to \$64,0/barrel (2017). As a result, it is anticipated fuel will account for 18,8 percent of the industry's cost structure in 2017, which is significantly below the 2012/2013 peak of 33,2 percent.

## Exchange Rates

The Rand has historically been characterised with high volatilities, but the tumultuous performance of the currency, particularly against the US Dollar in 2016 was unprecedented. Approximately 55 percent of the Company's operating expenditure is foreign currency-denominated, with less than 50 percent of revenue in strong foreign currencies. As a result, any weakening of the rand against major currencies has a significant impact on the Group's cost base.

<sup>1</sup> Brookings Institution, *Foresight Africa 2017*

<sup>2</sup> *African Economic Outlook, South Africa*, Authors: Wolassa Lawisso Kumo, Fatou Nyang Leigh, Arthur Minsat

## SAA'S COMPETITIVE ENVIRONMENT GLOBAL AVIATION

Airlines are expected to report a \$31,4 billion profit in 2017 down from \$34,8 billion in 2016. IATA expects 7,2 billion passengers to travel in 2035, a near doubling of 3,8 billion air travellers in 2016. However, there are considerable differences in performance across regions with the majority of profits coming from the North American carriers. African carriers are expected to deliver the weakest financial performance, with a net loss of \$100 million predicted. This is on par with 2016. The region's weak performance is driven by low commodity prices, foreign exchange turmoil, and the impact of the drop in oil prices on oil producing African economies. Despite this, Africa is still the best growth opportunity as longer term economic growth potential on the continent remains excellent.

## Domestic Market

Demand in South Africa's domestic market remained flat with weak growth recorded during the year as intensifying competition from low-cost carriers (LCCs) led to oversupply of capacity and consequent pressure on average fares. About 48 percent of domestic seat supply now comes from LCCs. The competitive environment further deepened with the introduction of FlySafair. However, SAA remained the market leader in capacity in the domestic market particularly on the Johannesburg – Cape Town and Johannesburg – Durban routes. Mango has a slightly lower but still major market share.

## Regional (Africa) Market

Regional markets have been restricted and typically subject to bilateral agreements between states and the granting of temporary rights to operate specific services to specific carriers. The traditionally high yields attained by carriers in Africa are likely to be under some threat, with the liberalising markets and the implementation of the Yamoussoukro Decision in 2017, which will open up the African skies. This will provide SAA with both opportunities and an increasingly competitive market as a result of additional capacity into the local market.

SAA's low growth relative to its major African and non-African competitors, is increasing pressure on SAA's revenues and yields. SAA is starting to face LCC competition on regional international routes. Sub-Saharan Africa will undergo a significant transition where LCCs will grow from their 2016 minority share of 10 percent to a majority of 45 percent over the next 10 years. Ethiopian Airlines has doubled in size since the beginning of the decade, and Turkish Airlines has the largest network in Africa among foreign carriers.

## International Market

Emirates is leading the international market. Mid-hemisphere carriers have considerable advantages over end-of-hemisphere carriers like SAA. Airlines based in mid-hemisphere hubs, with the right aircraft can fly non-stop to almost any major airport in the world. South Africa's relative geographic remoteness means longer flights and therefore increased costs for carriers on these routes. The major beneficiaries of this are Middle East airlines, such as Emirates, Qatar Airways and Etihad. The growth of seat capacity from Middle Eastern carriers into South Africa is having a significant impact on international traffic flows to South Africa.

*Handwritten signature/initials: HBM*



### IMPLEMENTATION OF SAA'S LONG-TERM TURNAROUND STRATEGY (LTTS)

The LTTS was designed to return SAA to commercial sustainability and provide greater support for the National Developmental Agenda. **The LTTS refined the organisational vision and mission, and outlined five strategic objectives:**



#### Support South Africa's National Developmental Agenda

- Connecting South Africa to trade and tourism partners



#### Achieve and Maintain Financial Stability

- Strengthen Balance Sheet
- Reduce Costs
- Increase Revenue
- Improved Cash Management



#### Provide Excellent Customer Service

- Attractive Value Proposition
- Customer Service Excellence
- Prompt Recovery



#### Consistent, Efficient, and Effective Operations

- Network Optimisation (routes, brands, partnerships, alliances)
- Safety First
- Improved On-time Performance
- Efficiency (fuel, productivity, sourcing, maintenance)
- Fleet Optimisation and Utilisation



#### Performance Excellence

- Improved Performance Management
- Benchmarking

NBM  
J.



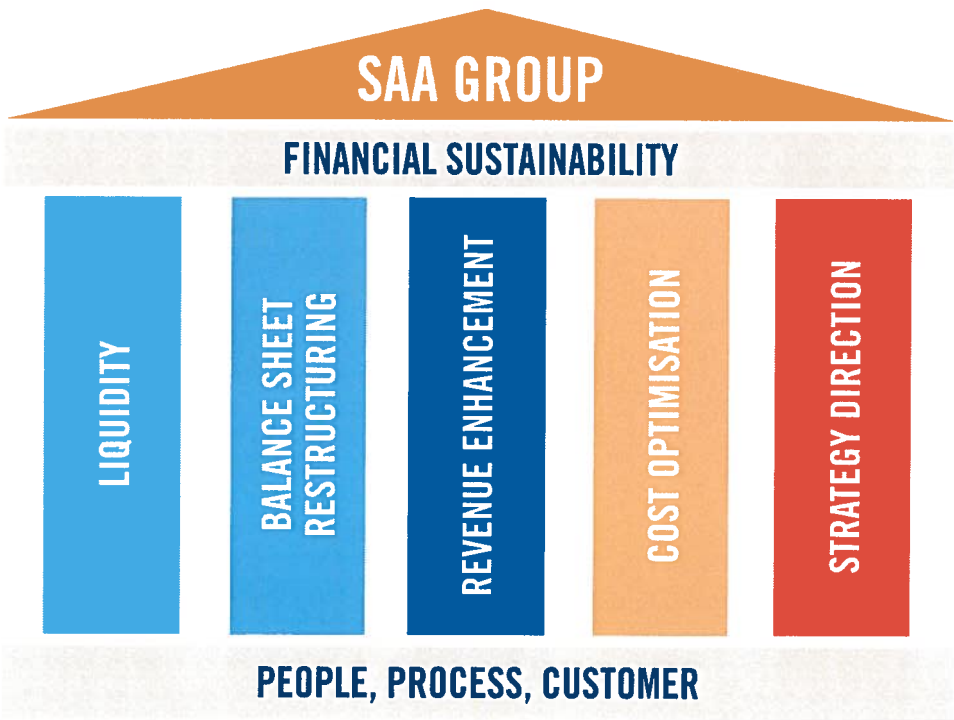
# STRATEGY FOR 2017/2018 FINANCIAL YEAR

THE LTTS IS REVIEWED ANNUALLY TO TAKE INTO CONSIDERATION THE CHANGING AND COMPETITIVE ENVIRONMENT IN WHICH SAA OPERATES. IMPLEMENTATION OF STRATEGY IS REFINED TO ADAPT TO SAA'S OPERATING CONTEXT, TAKING INTO ACCOUNT INTERNAL AND EXTERNAL FACTORS THAT DETERMINE SAA'S STRATEGIC RESPONSE.

SAA is faced with an even tougher competitive landscape than in previous years and the airline's financial performance and position has further deteriorated.

SAA tabled a one year corporate plan for April 2017 to March 2018 that supports SAA's strategic objectives, with the primary emphasis on curtailing its financial losses and setting the airline on a path to sustainability. SAA's high cost structure and heavy debt burden will continue to weigh heavily in the year ahead.

**PRIMARY STRATEGIC OBJECTIVE: TO TRANSFORM SAA INTO A FINANCIALLY SUSTAINABLE AVIATION GROUP.**



*[Handwritten signature]*  
*MBM*

## KEY FOCUS AREAS:

The Corporate Plan for the next year will focus on specific key areas that will enable SAA to return to financial sustainability.



### Liquidity and Balance Sheet Restructuring

#### Focus areas:

- Cash management including a cash conservation office
- Improved management of macro-economic variables
- Creation of a contingency reserve
- Renegotiating existing funding agreements



### Revenue Optimisation

#### Key initiatives:

- Remediation of loss-making routes
- Air Chefs to grow its product offering
- Implementation initiatives to grow ancillary revenue aggressively
- SAA Voyager to focus on the redemption of miles
- Mango's contribution plans for enhancing revenue across the Group are driven by product differentiation



### Cost Optimisation

#### The five focus areas:

- Aircraft utilisation
- Driving distribution to digital channels
- Cost compression
- Minimise disruption costs
- Harnessing IT as an enabler



### Strategic Direction

Over the years, SAA has been confronted by multiple challenges that have resulted in the current financial status. Consequently, the strategy is being reviewed and where necessary revised to ensure that it remains valid and relevant for the Group to deliver on the mandate of the Shareholder.

#### Key focus areas:

- Clarifying the strategy context
- Redefining the competitive advantage
- Enhancing strategy choice and operating model
- Articulating strategy back to business vision, mission, and strategic objectives
- Optimising airline Group co-ordination

*Handwritten signature: HBM*

## ACHIEVEMENT

### SAA'S BIOFUEL FLIGHT MAKES 'GREEN' HISTORY

**SAA has long investigated the possibility to cut its carbon footprint through the use of biofuel. In July last year SAA and Mango made history on its flights between Johannesburg and Cape Town using sustainable biofuel made from locally grown tobacco plants.**

Called Solaris, after the energy tobacco plant used, the nicotine-free, hybridised plant that lends itself to the production of biofuel. Solaris produces small leaves and prodigious flowers and seeds that are crushed to extract a vegetable crude oil. The crushed remaining seedcake is then used as a high protein animal feed supplement that also contributes to food security.

South Africa's previously large tobacco crop has declined considerably, but growing tobacco for feedstock promises to revitalise tobacco farming and the related employment in the region. It also establishes a new regional bio-jet fuel supply chain of which South Africa can be proud.

The aircraft or engines require no modification as the biofuel can be blended with conventional fossil jet fuel and used as a 'drop in' fuel. The SAA and Mango flights carried 300 passengers from Johannesburg to Cape Town on Boeing 737-800s powered by a fuel blend made up of 30 percent aviation biofuel and 70 percent fossil fuel.

Lusanda Jiya, SAA's General Manager: Shareholder and Stakeholder Relations, says that the project has brought economic and rural development to the Limpopo province in keeping with SAA's mandate to support the South African National Developmental Plan.





## 03

**2016/2017  
REVIEW**

CEO's Report	46
Key Operations	47
Subsidiaries	58
Shared Services	61
Definitions	77



A handwritten signature in black ink, likely of the CEO, located in the bottom right corner of the page.

# CEO'S REPORT



## INTRODUCTION

I write this report as the new Group CEO of South African Airways to reflect on the achievements of the 2016/2017 financial year at a time when SAA is facing major challenges both internationally as well as in the domestic market. Increased competition in the international market is impacting on passenger numbers and yields, whilst the increase in available seat capacity, largely driven by low cost carriers (LCCs), has had a similar impact on the domestic market.

Despite the widely reported challenges affecting SAA, the business fundamentals are still solidly in place. South African Airways has a good reputation and track record for passenger safety and its on-time performance is amongst the best in the aviation industry. Moreover, SAA has maintained its operational excellence with huge endorsement coming from the 15-year streak of a 4 Star ranking by Skytrax as well as a host of other accolades.

A capital injection of R10 billion has helped restructure the balance sheet and improve our equity position. Even with R10 billion, SAA will remain with a negative equity position, a situation we together with the SAA Board of Directors, and the shareholder, are tirelessly working to improve.

## FINANCIAL PERFORMANCE

In the 2016/2017 financial year, SAA recorded very little revenue growth of R26 million, from R30.716 billion to R30.742 billion, mostly attributed to increased competition in international and domestic markets, reduction in passengers, and declining yields. On the other hand, operating costs rose by R3.308 billion, 11% higher than the previous year. The cost to income ratios continued to move in the wrong direction, an undesirable outcome for any business.

With 55 percent of the SAA cost base linked to foreign currency, the group has significant exposure to foreign exchange fluctuations.

SAA has to focus on increasing revenue as well as reigning in costs leading to improved margins and creating headroom to compete in an ever increasing competitive market.

## ENHANCING CUSTOMER EXPERIENCE

Improving customer experience is our number one priority. Our value proposition is underpinned by higher order commitment to maintain high safety standards, and improved customer experience in every customer interaction we engage in. We sustain our outstanding safety record through strict adherence to quality assurance, regular training, and a system of accreditation by international bodies in the aviation sector. Aircraft profile is an important part of any airline's service offering and arguably the most difficult to address. The source of our sustainable competitive advantage is quality of service in all customer touch points. We will continue to improve our service to our customers.

Voyager, our loyalty programme, is the key element of SAA's value proposition. It is the first airline loyalty programme that is based on revenue. We are extremely proud of its contribution to the Group.

Our distribution partners who sell our propositions in the market remain our pillar of strength. We will continue to invest in rich propositions including a diverse route network as well as customer experience improvements.

## OUR ROUTE NETWORK

With 25 destinations in Africa, our route network remains the widest network on the continent, making us the carrier of choice for the inbound international traveller and code-share partners, and our franchise partners, such as Airlink and SA Express. We will continue to optimise our route balance, geographical coverage, frequency, and route profitability.

## LONG TERM TURNAROUND STRATEGY (LTTS)

SAA has embarked on a five-year turnaround strategy to build a financially sustainable group. The pillars of the five-year turnaround plan include:

1. Liquidity – SAA has not been generating free cash flow for many years largely due to lack of profitability. It is important to drive key initiatives that will reduce cash burn and drive business performance
2. Balance Sheet Restructuring
3. Revenue Stimulation
4. Cost Optimisation
5. Refining the Strategy for SAA

**Vuyani Jarana**  
Group Chief Executive Officer  
South African Airways SOC (Limited)

28 February 2018



## KEY OPERATIONS



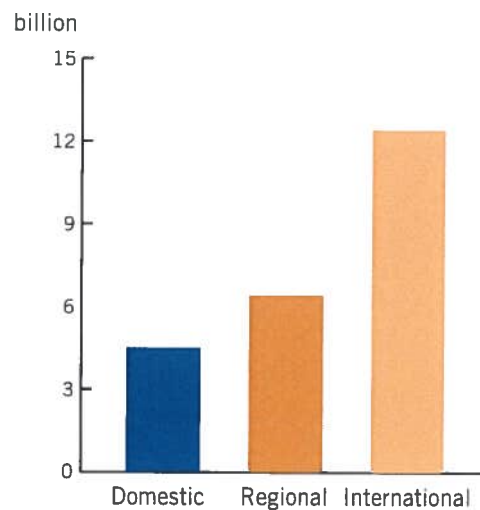
### SAA COMMERCIAL

SAA Commercial's performance for the year under review reflects the difficult macro-economic conditions, with fluctuating currency and Brent crude prices, and a fiercely competitive environment, which constrained revenue production.

The nominal increase in revenue year-on-year was less than anticipated. The increase compared with the previous year, is largely a result of the local currency weakness, but does reflect an increase in airfares on all our routes. Currency devaluation is a double-edged sword in that, on the one hand, it makes the destination attractive to visitors who view it as a value for money proposition and thereby increases traffic. As long as revenue is generated in those markets, this works in favour of the business.

However, the same devaluation depresses local demand and inhibits stimulation, which results in less traffic flows into the network. The extremely competitive global aviation industry adversely impacted our revenue production because of dilution of yield through price wars, decline in demand in the oil and gas dependent markets, and increasing costs in the hard currency denominated markets.

### SAA Airline Revenue



*Handwritten signature: TBM*



## KEY OPERATIONS (continued)

### DOMESTIC MARKET

The domestic market experienced declining passenger demand and static fares due to competition and the emergence of Cape Town and Durban as secondary gateways. The weaker demand in Business Class is attributed to companies being more stringent with their budget allocations for travel. Domestic fares remained flat compared to the previous year, reflecting intensifying competition and increasing capacity in the market. This was particularly evident on the Cape Town and Durban routes where low-cost carriers (LCCs) increased capacity and/or frequencies. The Cape Town – Johannesburg route, which is the largest connecting point in SAA's network, experienced significant challenges from local and international operators. Increased capacity deployed by LCCs and additional capacity from international operators eroded demand on the Durban route, which was the best performing domestic route in the previous year. However, since late 2015, significant additional capacity from international markets was diverted to these subsidiary gateways resulting in the bypassing of our main hub, OR Tambo International Airport.

To address the challenges in the domestic market, the SAA Commercial team has implemented interventions such as fare promotions, capacity consolidation, and rationalisation of the network schedule with our affiliated partners, most of which have yielded positive results. Regional throughput continues to underpin a strong market for SAA.

### REGIONAL MARKET

Our focus on the Africa markets is based on the Long-Term Turnaround Strategy (LTTS) commitment that gives us a clear mandate to grow our footprint and retain our sustainable profitable route network structure. The competitive landscape has changed so much over the past decade to the extent that Africa is now one of the most competitive markets. The focus on Africa by mainly non-African airlines has resulted in a glut of capacity and in turn that has given rise to protracted price wars. The resultant yield dilution has adversely impacted on our profitability. This intense competition will become a norm because most airlines are aggressively expanding capacity into the African market to offset intensifying pressures in the wider global market. LCC competition is on the increase on regional routes meaning that yields will remain compressed for the

foreseeable future. The emergence of ultra-luxury bus services from neighbouring countries in the SADC region are also posing a challenge.

Southern African and Indian Ocean routes remain robust, although they are also increasingly attractive to other operators. However, SAA is well positioned to defend its market share and continues to take advantage of strong demand in the region. Enhancements to SAA's route network enabled the airline to offer more frequencies to Harare, Maputo, and to Mauritius, as well as increase capacity to Victoria Falls.

Mauritius is one of SAA's top performing routes, in terms of growth and revenue earnings. The country remains one of the fastest growing economies on the continent with consistent demand-side growth in both business and leisure travel. SAA has been flying to Mauritius for more than 50 years and now more than 100 000 South African passengers travel there every year. In addition, demand continues to grow from the African continent and internationally, a result of the liberal visa on arrival policy for all African passport holders. In October 2016, SAA introduced the new Airbus A330-200 on its Mauritius route, adding extra capacity of 200 seats per week. This caters for the increased demand and provides an improved in-flight product.

SAA introduced a new code-share route with Air Seychelles from Seychelles to Durban. Air Seychelles has a direct service between Seychelles and Durban that operates twice a week, launched in March 2017. This is an extension of the code-share partnership between SAA and Air Seychelles that was established in October 2013 with SAA as a marketing carrier between Johannesburg and Seychelles – Praslin Island operated by Air Seychelles.

In East Africa, SAA remains one of the leading operators to the region where we enable trade and tourism development. This year marked a momentous occasion when SAA celebrated 25 years of continuous operations to Nairobi. Tourism initiatives by SAA and SA Tourism have positioned South Africa as one of the top holiday destinations for Kenyans in particular and East Africans in general, with over 150 000 Kenyans visiting South Africa annually. Kenya is also an attractive destination for South African businesses looking to expand into the continent.



MAM

In the region, Tanzania is one of our major markets where we have established ourselves as the airline of choice for both business and leisure travellers. The Zanzibar archipelago, in conjunction with the Kilimanjaro and Serengeti experiences, are world renowned and continue to be the major draw-cards for travel to the region. SAA's 14 flights per week to Dar es Salaam are very popular and continue to offer the best travel options to that country.

With a well-articulated tourism focus, Uganda is gaining ground and making steady inroads on the international arena as a tourism destination. The commencement of crude oil production will no doubt bring additional traffic to the country and our focus is to continue to serve the requirements of the travelling public while we continue to act as a catalyst of economic growth.

Star Alliance members, SAA and Ethiopian Airlines, extended their 2013 code-share service agreement in October 2016 and again in March 2017. The two largest African carriers now code-share from Addis Ababa to Johannesburg, and from Addis Ababa to Bamako in Mali, as well as to Cape Town and Durban, in South Africa, Windhoek in Namibia and Toronto in Canada.

In West Africa, SAA celebrated 20 years of operating to Accra, Ghana, a key growth market for South African goods and services as well as an investment destination for South African companies. Ghana is growing at a tremendous rate, with a 6.8 percent averaged GDP Annual Growth Rate from 2000 until 2016. The country is positioning itself as an economic hub and entry point to West Africa. In the year prior, SAA introduced flights between Accra and Washington DC, after being granted traffic rights that enabled SAA to become the first African carrier to offer a direct service between Accra and Washington DC. From Washington DC SAA also offers convenient connections to and from over 50 markets in the United States and Canada through its airline partners United Airlines, JetBlue Airways and Virgin America.

The Accra to Washington DC route has proved very popular on both sides of the Atlantic by offering a convenient flight to both the business and the visit family and friends market segments.

This is more significant bearing in mind that there is a substantial number of not only Ghanaians but West Africans in the diaspora who have strong ties that keep them travelling between the USA and the African West Coast. SAA maintains a mutually beneficial relationship with Africa World Airlines, our Ghanaian partners. This airline partnership offers SAA customers from Washington DC and Johannesburg seamless connectivity via Accra to other destinations in Ghana such as Kumasi, Tamale, as well as to Lagos, Nigeria.

SAA operates to five destinations in central Africa – Kinshasa in the Democratic Republic of Congo, Douala in Cameroon, Brazzaville and Pointe Noire in the Republic of Congo, and to Libreville in Gabon.

Socio-economic dynamics played a significant part in performance on routes to some of the Central Africa operations and as a result the network has been restructured, replacing the Johannesburg – Pointe Noire – Cotonou service, with a triangular service: Johannesburg – Pointe Noire – Brazzaville – Johannesburg to consolidate the two markets. Flights to Brazzaville have increased from two to three weekly to improve the weekly service offering on the route and accommodate additional Pointe Noire traffic. SAA will continue to serve Cotonou, in Benin and will now do so utilising its service to Libreville, Gabon, effectively introducing a new sector between Libreville and Cotonou.

SAA has secured traffic rights enabling it to pick up and drop off passengers between Libreville and Cotonou in both directions. The Cotonou market has grown substantially and is now served three times a week. Frequency to Libreville has been increased from four to daily flights. That means the flights from Libreville to Douala have been reduced from four to three flights weekly. To improve performance on the Kinshasa route where SAA is the only operator between Johannesburg and Kinshasa, weekly services were reduced from seven to six.

Trade relations between the Monetary Community of Central Africa and the SADC region are growing. Serving these markets is part of SAA's African growth plan.



# KEY OPERATIONS (continued)

## INTERNATIONAL MARKET

Internationally, all routes except for São Paulo and London showed improved performance due to the increase in average fares and growth in traffic. This has particularly benefited the Munich, Frankfurt, New York, and Perth routes, as well as the Hong Kong route, which is a critical link between Latin America and East Asia. The London route remains extremely competitive with major airlines from other regions making a beeline to serve the entire SADC region via Johannesburg. Some of these operators have also commenced operations to Cape Town thereby by-passing our hub at OR Tambo International Airport.

At year end, SAA announced the realignment of its South American network with the objective of right-sizing the network to ensure that the airline continues serving the South America route with the best connectivity and the capacity required to meet the growing demand from the entire South American subcontinent. The Brazilian economy has been on a slow growth path due to various reasons and as such the demand from Brazil declined. Our focus is to ensure that we continue to serve this market and we will be able to enhance our offering in line with market dynamics.

## FLEET

SAA's Fleet Acquisition Plan is on track, with three new Airbus A330-300 wide-body aircraft deployed during the year. The aircraft are operating on the route between Washington Dulles International Airport and ORTIA via Dakar, Senegal, as well as via Accra, Ghana. The aircraft forms part of five new A330-300 aircraft on order, which will enable the airline to expand its current route network and improve its efficiencies. The A330-300s are suitable for routes of up to 11 hours. The range and superior payload will enable SAA to expand its route network in Africa and beyond. The A330-300s also offer state-of-the-art technology and have the latest innovations in on-board comfort and amenities.

The A330s complement SAA's existing Airbus long-haul and domestic/regional fleet, which includes 12 A320s which were delivered last year. A number of these aircraft have also been deployed across Sub-Saharan Africa to destinations in a four-hour range such as Windhoek, Lusaka, Entebbe, Dar es Salaam, and Mauritius.

## REVENUE MANAGEMENT

Revenue generation increased year-on-year, even though there was not a significant increase in capacity. We achieved an increase in the quality of revenue, as a result of fare adjustments in line with market supply and demand dynamics. Our philosophy remains based on the role we play as an enabler of economic growth by facilitating trade across the width and breadth of the African continent.

## SALES

Sales remains a key focus for the SAA Commercial team where our main focus is in improving the quality of revenue and increasing revenue throughput. SAA's Sales team performed exceptionally well considering the market dynamics and challenges that we faced and were provided with as much support as possible. Equipment and systems were upgraded and we enabled the team through training and development initiatives. A number of staff attended SABRE's Global Distribution Systems Fares and Ticketing Course and IATA Advanced Sales Course. SAA Commercial recruited new graduates, some as interns, to bolster teams in South Africa. Across the network sales teams received market specific training. The Sales Force Customer Management System was implemented domestically and in London and Frankfurt with the next phase being the roll out in the remaining markets in Africa, Asia, and South America.

We have enhanced our ancillary revenue portfolio by bringing on board some of the latest practices, which include options for the customer as well as their service providers. A dynamic team of product specialists has developed value-added products and services to entice customers to tailor their experience through ancillary products. These include bidding for an upgrade, blocking an empty seat next to you, or the opportunity for traders to pay for excess baggage prior to departure. Other lifestyle enhancement ancillary products are in the pipeline that will bring choice to food and entertainment.

SAA supports the Department of Tourism's objective to stimulate business and leisure tourism to South Africa. Stimulating tourism has the added effect that it boosts job creation. SAA offices in Africa and internationally are intensely involved in promoting tourism to South Africa through a variety of activities. During the year SAA participated in the World Travel Market® Africa, a fast growing inbound and outbound travel and tourism expo. SAA partnered with SA Tourism to bring travel agents from East Africa and from West Africa on educational trips to South Africa. SAA participated in the World Travel Market in London to encourage tourism to South Africa from the United Kingdom and the rest of Europe. SAA North America launched the Go See Southern Africa campaign to create awareness of the great destinations and excellent value that is offered throughout Southern Africa for tourists from North America and beyond.





## SAA OPERATIONS

### Cost Compression

SAA Operations achieved a cost saving of R90.8 million against a target of R31.1 million. Cost savings were attained in a number of areas, including international and domestic airport operations, the Global Operations Control Centre, Flight Operations, and Inflight Services.

### Airport Operations

Airport Operations strives to ensure excellent and cost effective operations and measures its effectiveness based on the Skytrax service evaluations. SAA retained its 4-Star Skytrax ranking, in both Economy and Business Class, for the 15th consecutive year, confirming its place amongst the top airlines in the world. Skytrax World Airline Star Ratings are recognised as a global benchmark of airline standards. The Skytrax annual award is based on the outcome of detailed product and service standards audits throughout the airline, which this year included SAA's new Airbus A330-300 aircraft. The process is not connected to any customer ratings. A 4-Star Airline rating signifies airlines providing a good standard of product and staff service across all travel categories, including cabin seating, safety standards, cabin cleanliness, comfort amenities, catering, tax-free sales, reading materials, in-flight entertainment, and staff service.

The 4-Star ranking confirms that SAA has maintained quality levels on all the services in the domestic market, across the African continent, and internationally. Achieving the 4-Star Airline ranking in the year under review demonstrates SAA's ability to maintain a world-class product and service standards for customers despite this being a particularly challenging year for the industry.

Awards demonstrate that SAA is standing its ground as one of the leading airlines in the world, despite the challenges the Group is facing.

### On-Time Performance

Airport operational efficiency is measured primarily through the internationally accepted standard, On-Time Performance.

#### ON-TIME PERFORMANCE

Target	Achieved FY2016/2017
87%	87,21%

During the year, SAA Operations established a committee comprising representatives of the entire value chain contributing to on-time performance, including SAA Technical, Customer Services, SAA Commercial, and Procurement. This is to improve communications and instil a proactive approach to potential problems in service delivery.

### Baggage Handling

In an initiative aimed at making travel easier and more convenient for customers, SAA and ACSA activated Self-Service Bag Counters at OR Tambo International Airport. Passengers on domestic flights, who have checked in online, are able to tag their own baggage and place it on the carousel.

Airport Operations measures pilferage rate per 1 000 bags.

#### PILFERAGE RATE

Target	Achieved FY2016/2017
0,20	0,20

### FLIGHT OPERATIONS

SAA is in the process of developing an automated dynamic fuel saving monitoring system to improve fuel-efficiency and save fuel costs.

*Handwritten signature: TBM*

## KEY OPERATIONS (continued)



### EXTENDED DIVERSION TIME OPERATIONS (EDTO)

International regulations stipulate that operators may not fly routes in twin engine aircraft that are more than 60 minutes from the closest adequate airport, without approval from the State Regulator. SAA is one of only four airlines in the world that have been granted approval to operate routes in the Airbus A330 that are up to 240 minutes from the closest suitable en-route alternate.

These regulations, that previously applied only to twin engine aircraft, have been extended by the South African Civil Aviation Authority (SACAA) Regulations to also include aircraft with more than two turbine engines. SAA is currently working with the SACAA and Airbus to ensure compliance with the latest Regulations and Standards. The result of this collaboration is that the SACAA will be one of the first regulators in the world to ensure full compliance with the ICAO EDTO Standards and Recommended Procedures. The EDTO regulations enhance the safety of flights that are operated over remote areas, safety is improved while operating costs are optimised.

### Initiatives for FY2018

- Flight Technical will continue to develop the Electronic Flight Bag to leverage the potential efficiencies of electronic documentation and communication
- Automated Documentation Check for visas and passports, to verify and reduce visa infringements, will be implemented
- Centralised Load Control: The departure control processes, traditionally conducted at every station, is in the process of being centralised to increase automation and productivity



## SAA VOYAGER

The 2016/2017 year was the second full year that SAA Voyager has operated as a revenue-based airline loyalty programme. The division's performance for the year reflects the continued success of restructuring the product construct with retained earnings of R184 million.

Active members increased 11 percent globally and an annual churn rate of 2.1 percent has been recorded. The SAA active members for Africa increased by 17.1 percent, indicating that the programme changes were to the benefit of SAA's Long-Term Turnaround Strategy (LTTS).

The strategic change in how Miles are earned is beneficial to all members but particularly to those travelling on the African continent as distances are shorter, but ticket prices are at a premium. SAA Voyager continues to contribute to securing SAA's African footprint and contribute to driving the Group's African Growth Strategy.

Miles redeemed for SAA travel, equaled 68,7 percent of the total number of Miles redeemed by active programme members. The redemption movement increased by 3.8 percent (198.2 million Miles) year-on-year.

The division implemented further changes to the operation of the programme and the effective management of the business model and its financials. The latter contributed R36,2 million towards SAA Voyager's bottom-line for the 2016/2017 year.

The JourneyBlitz redemption seat sales where members enjoy discounts of up to 85 percent on SAA-operated flights remains an unparalleled value proposition in the industry and 290 million Miles were redeemed through these redemption seat sales.

While SAA encourages Voyager members to use their Miles, if they are unable to and the Miles are due to expire, members have the opportunity to donate their Miles to charities.

The charity organisations which SAA Voyager supports are the Reach For A Dream Foundation, Wings and Wishes and the World Wildlife Fund For Nature.

## Looking Ahead

In the year ahead, SAA Voyager will continue to actively recruit new members to drive growth in the programme. In addition, mobility product enhancements will continue, shaped by members' needs and regional focus. The launch of part-cash part-mile payments, where members can use Miles to settle any portion of their journey, will provide additional flexibility and increase active membership.



## KEY OPERATIONS (continued)



### SAA CARGO

Globally the airfreight industry is depressed, reflecting the sluggish global trade, which is the key driver of the freight market. SAA Cargo revenue was 25 percent below target and six percent below the revenue of the previous year. Cargo's financial performance continued to be adversely impacted by lower than expected volumes and yields. Volumes were down three percent year-on-year.

SAA Cargo has suffered from a consistent downward pressure on yields over the past few years, which was exacerbated in the year under review by a global price war. This is complicated by different airlines' pricing strategies for cargo space, which make staying competitive difficult or in some cases impossible.

Operating costs were 16 percent down compared to the previous year. Landing costs and costs attributable to fuel surcharges increased. However, SAA managed to maintain load factors, a measure of capacity utilisation.

The domestic market remained flat with the drought impacting South Africa's export of perishable goods. In general the South African export market continues to face severe demand decline due to decreased international demand for South African exports. This is a matter of concern as the export volumes failed to react to periods of weakness in the domestic currency, which for all intent and purposes makes South African goods cheaper to international markets when measured in hard currency terms. Intense competition created by massive injection in belly-load capacity of wide body passenger operators impacted negatively on domestic yields particularly in the third quarter.

Soft commodity prices contributed to poor performance of African economies such as Nigeria, Malawi, Zimbabwe, and Angola, which resulted in reduced export volumes. Angola and Nigeria are two of South Africa's largest trading partners. Both these markets continued to experience the effects of the collapse of the oil price in the year under review. This resulted in a drop in consumer spend, and in turn a decrease in demand from South African retailers operating in these countries. Weak market conditions combined with the difficulty of repatriating money from oil producing countries also curtailed the expansion plans of these South African retailers.

Internationally, Europe and the Asia-Pacific region continued to experience a decline in export demand and American markets still show low airfreight volumes as volumes from the Americas are challenged due to lower yields, excess capacity via trans-Atlantic operators, and a struggling Brazilian economy.

The recession in Brazil continues to have a huge impact on SAA Cargo's performance as Brazil was the Company's largest market in the region and was a key gateway to other South American countries. The protracted customs strike in Brazil paralysed the cargo market. Despite coming to an end in January 2017, the strike has had a lasting effect on market dynamics in the region. SAA Cargo is addressing this by focusing on new clients with higher yield potential.

The termination of the Mumbai route in the previous years, impacted SAA's capacity for airfreight out of India, one of South Africa's biggest trading partners. SAA Cargo has entered into partnerships with other airlines but is constrained by limited capacity and high costs.

*Handwritten signature/initials.*



### Cargo Fleet Stabilisation

Two Boeing B737-300 Freighters were secured for a period of three years, which will significantly improve capacity going forward.

### E-freight Implementation

SAA Cargo continued to make strides towards its ongoing goal of increasing the use of e-Freight across its network. e-Freight is an industry-wide programme that aims to entrench a paperless transportation process for air cargo employing digitised standard documents adapted for electronic commerce. This promotes efficiencies and enhances security, eliminating the need for multiple data entry, reducing errors and enabling advance data transmission to the authorities.

SAA Cargo is in the top 20 companies to introduce e-Freight and is rated number 30 in the world. SAA domestic flights are 100 percent electronically based and 31 percent of SAA Cargo's international flights have adopted e-Freight. This compares to the global average of 42 percent. Regional routes are proving more challenging and more activation is needed.

### Safety, Security and Compliance

SAA Cargo was found to be fully compliant in the annual United States' Transport Security Administration audit, the South African Civil Aviation Authority audit, and the Australian Aviation Authority audit during the year. The Company also successfully underwent the biannual IATA Operational Safety Audit.

SAA Cargo received a five-star NOSA Rating for its King Shaka Airport in KwaZulu-Natal and four-star ratings in Johannesburg and Cape Town.

### New Facility for Pets

In October 2016, SAA Cargo introduced a new pet lounge facility for domestic pets at Cargo's OR Tambo International Terminal. The facility is specially designed for pets' comfort and safety, and minimises any environmental factors that may cause distress. The facility is staffed by a specialised team who provides handling and co-ordination services, making sure every travelling pet enjoys a comfortable and a hygienic environment, while waiting to be escorted on board their flight.



## SUBSIDIARIES



### SAA TECHNICAL

SAA Technical embarked on a number of strategic and tactical initiatives to improve its operational and financial performance, specifically in areas of business processes and productivity improvements.

The Company is in a consolidation phase and is reviewing the market, with a view to redefining its service offering to target high profit, high risk opportunities. Africa remains a strong focus.

During the year, SAA Technical established a new line station, in Entebbe, which required minimum capital investment and manpower but generates attractive rates, offers advantageous penetration into African markets and provides visibility for the brand.

SAA Technical focused on improving efficiencies to address key factors including:

- Quicker turnaround times in filling of critical positions
- The implementation of AMOS, which went live on 1 April 2017
- Automating the processes for technicians on both Line and Base Maintenance
- Optimising spares support during heavy maintenance checks
- Increasing capability in the back shops adding to the one stop shop methodology

### AMOS

The implementation of the AMOS platform will enable SAA Technical to innovate rapidly and enhance its competitiveness in the market.

The move to AMOS was a necessity that enabled SAA Technical to move from an outdated, unsupported platform to a much newer, modern software solution, which was to offer opportunities for improved work processes, productivity, and efficiency. The changeover on 1 April 2017 did not come without numerous challenges. These are being managed and reduced. Although this was the first step, the full benefits are still to be realised when the associated improvements are implemented.

### Third Party Revenue

Growth in third party work was restricted by demand from SAA as a significant segment of the fleet is at a stage of major maintenance checks. SAA Technical maintained contracted third party aircraft but took on limited *ad hoc* work. This impacted third party revenue for the year and temporarily slowed progress on the Company's strategy to increase third party work.

TBM





### Dispatch Reliability

Overall dispatch reliability of on-time departures for the year under review is 98.8 percent for the SAA fleet and 99 percent for its other customers, exceeding contractual agreement targets. Dispatch reliability is a measure of the competence of the operational line maintenance service, using the number of delays per 100 departures as an indicator.

During the year SA Technical underwent mandatory SACAA and EASA audits that form part of the SAA Technical certification by various regulators in the jurisdictions where SAA flies. The findings and observations of these audits have been communicated to management and are receiving the necessary attention.

### Harnessing Previously Disadvantaged Groups

SAA Technical places a strong focus on supplier development. During the year, SAA Technical assisted in setting up nine businesses that provide aircraft spares. The Company has also made its mark in actively promoting women in aviation by employing female technicians. The number of female technicians has grown from four in 1994 to 114 in 2016.

## SUBSIDIARIES (continued)



### AIR CHEFS

Air Chefs continued the previous year's trend of improved performance, breaking out of negative territory, and recording a profit for the first time since 2010. Revenue was up 11 percent to R493 million compared to R444 million in the year prior. This is attributable to higher volumes and pricing on SAA international routes as well as increases in revenue from airport lounges. The benefits of the restructuring programme in the previous year, and the success of the new pricing strategy, is evident in lower cost levels and an increased contribution from existing contracts. Employee costs were also down, following the head count rationalisation and a change in the shift system.

Improved inventory management translated to dramatically increased margins over the past two years, however, the impact of the drought resulted in margins coming under major pressure. The effect of the drought on prices across all commodities is evident in the increased cost of sales, up 53.14 percent compared to 51.29 percent in the previous year.

Air Chefs secured new business, and its first international carrier, SWISS International Airlines starting in November 2016. Industrial action at LSG Sky Chefs for a short period in the first quarter, provided a window of opportunity to demonstrate to a number of global carriers Air Chefs' capabilities, and that the Company is ready for business.

The strategy to diversify into non-airline customers gained traction with Air Chefs securing a contract to provide meals for Ster-Kinekor Lounges. This will be rolled-out nationally. Another promising opportunity of providing food products for a major franchise group is close to final confirmation.

HBM  
J.





In June 2016, a new catering facility opened at King Shaka International Airport, which positions Air Chefs to capitalise on significant growth opportunities in the KwaZulu-Natal province. A number of international airlines are now flying from Durban, and other food service companies in need of large-scale catering, offer opportunities for expansion. The brand new and modern facility is three times larger than that of the previous premises at the old Durban International Airport and offers the potential for large-scale growth. The facility will act as a central production facility and can safely and comfortably produce up to 7 500 cooked and prepared meals a day. Increased capacity means Air Chefs can also offer Halaal meals out of Durban, for the first time.

The purpose-built facility is equipped with a bonded stores area, where international airline customs-approved and certified equipment and stock is held that is meant for use on board flights, and not for entry into the South African space for customer use or consumption. A bonded stores area is a key requirement of international airlines, who entrust the storage and management of their equipment and special products to their catering partner.

The new facility was designed with HACCP in place to facilitate monitoring compliance. The environmental impact of the business was taken into account in the set up and equipping of the facility. It makes use of plate heat exchangers to reclaim waste heat energy from the unit. This heat is transferred to a 1 000 litre pressure vessel, which supplies the facility with all its hot water requirements, meaning that no geysers or heat pumps are required to operate the unit.

Air Chefs is committed to the South African Government's Policy of Localisation, with all procurement 100 percent local. 39 percent of Air Chefs' suppliers are black-owned companies.

The potential to grow Air Chefs' revenue by focusing on alternative revenue streams in additional market segments is considerable. However, to unlock this revenue growth, Air Chefs will require an equity partner.



## SUBSIDIARIES (continued)



### MANGO

In the 2016/2017 financial year, Mango reversed losses of the previous year, recording a net profit after tax of R12,5 million, despite the tough economic environment. Passenger numbers for the year were slightly lower: 2,9 million compared to 3 million in 2015/16. This is a result of a decrease in seat supply of 3.4 percent. Average fares grew by six percent, while load factor improved 0.8 percent year-on-year.

Mango effectively contained costs by limiting cost increases to 1,2 percent. Savings were realised by a downward capacity adjustment and a favourable 1,5 percent drop in the Brent Crude price for the year. However, this saving was counteracted by the weakening of the Rand Dollar exchange rate.

Mango's operating environment is expected to remain challenging, given South Africa's weak economic outlook in the year ahead. In response, Mango will prioritise revenue protection and cost-containment strategies.

### Strategic Focus

The domestic market remains oversubscribed in terms of available low-cost carriers (LCC) seat capacity. Mango has taken a strategic decision to refrain from unsustainable price sparring with other LCCs. South African consumers deserve airlines that offer value, affordability and, importantly, longevity. As such, the airline has taken a decision to focus on its strengths: innovation, operational efficiency and excellence in customer service.

### Innovation Delivers Results

Innovation and a relentless pursuit of excellence are the cornerstones of Mango's business and fundamental to its culture. Mango is still the only airline worldwide that accepts store cards as payment and offers a wide variety of distribution and payment options to ensure ease of access to its product.

### Operational Efficiency Attracts Business Travellers

Mango reported an excellent on-time performance of 87 percent. This has, in part, contributed to Mango's steady increase in business passengers. Passenger mix is now made up of around 40 percent business travellers and 60 percent leisure travellers.

### Ensuring an Excellent On-board Experience

In 2017 Mango was voted the Best Low Cost Airline in the Middle East and Africa by TripAdvisor's Travellers' Choice, testament to the service excellence provided by on-board staff. Mango has also been nominated for two World Travel Awards in 2017.

### Providing Drought Relief

The focus of Mango's corporate social investment programme was on providing drought relief services in partnership with Operation Hydrate. Further, Mango is passionate about education opportunities for young people and participated in career days for those interested in the airline industry and provides a media incubation programme for interns from disadvantaged backgrounds. Mango also supports the Johannesburg Ballet Township Development Programme.

### Looking ahead

In the short-term, Mango will focus on growing market share on the routes that it already operates and to drive cost-control and operational efficiencies while ensuring continued commercial success.

A handwritten signature in black ink, appearing to read 'P. B. Ngwenya', is located in the bottom right corner of the page.

# SHARED SERVICES

## CUSTOMER SERVICES

### Achievements

- SAA once again scooped the "Africa Long Haul Airline" and "Africa Short Haul Airline Award" at the Business Traveller Africa Conference and Awards 2016
- SAA won the accolade adding to a line-up of awards the airline received for the year including a 4-Star Skytrax ranking, in both Business and Economy Class, for a 15th consecutive year
- SAA was named "Best Airline in Africa" from the Global Traveler Magazine. In addition to this award, SAA received honourable mention in the following categories:
  - Best Airline for On-board Service (SAA #2)
  - Best Airline for Flight Attendants (SAA #10)
  - Best Airport Lounges (SAA #9)
- SAA Cargo was named the Air Cargo Airline of the Year hosted by Air Cargo News in London
- SAA is proud to have received the following Magellan Awards:
  - Gold: Airline Marketing – Promotional Video "What It Means To Be African"
  - Gold: Airline Marketing – Direct Mail SAA Product Brochure
  - Silver: Tour Operator Marketing – Trade Collateral SAA Vacations 2016 Brochure
  - Sawubona, the in-flight magazine of SAA, scooped the award for Africa's Leading In-Flight Magazine for the second year in a row at the World Travel Awards™

### Measuring Customer Satisfaction

We survey customers who travelled on SAA regularly, with the aim to truly understand our customer and architecting a plan for delivering exceptional customer service and empowering employees to deliver it.

Customers' satisfaction throughout their journey is measured using the feedback received from surveys conducted, as well as advocacy where customers recommend SAA's service to others.

Customer feedback is important, the airline remains committed to incorporating customer feedback and insight into improving the overall customer experience.

Service performance is measured on a monthly basis against the following KPIs:

- Customer Efficiency Score 82 percent
- Customer Satisfaction Score 80 percent
- Social Media Positive Sentiment

### Customer Efficiency Score

The Customer Efficiency Score is calculated by utilising the performance of our service centres against the revenue generated by passengers for a particular month in relation to customer satisfaction. Weightings are assigned to Business Class and Economy Class passengers.

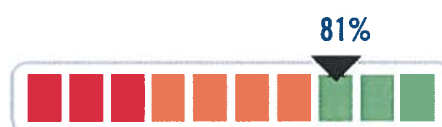
The final performance is **76 percent**



### Customer Satisfaction Score

The customer satisfaction score takes into consideration service detractors within SAA's control and calculates a final customer satisfaction score by measuring it against performance.

The final performance is **81 percent**



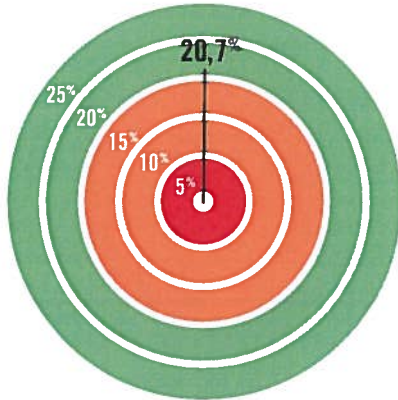
*Handwritten signature/initials.*



# SHARED SERVICES (continued)

## Social Media (Positive Sentiment)

The positive sentiment score is aggregated utilising specific software. It is calculated by analysing all forms of media related to SAA. The graph below illustrates the sentiment captured for the 2016/2017 financial year at 20,7 percent.



## Refreshing Service Delivery

During the year, initiatives to improve a seamless customer experience covered the following areas:

- Social Media Active Engaging
- Customer Service Training
- Customer Service Policies
- Touchpoint Efficiencies
- On-Time Performance
- Technology Enhancements

SAA introduced the following customer service enhancements during the year:

- Family check-in services at OR Tambo International Airport for families with Unaccompanied Minors during the holiday periods with active reading campaigns for our young travellers
- Unaccompanied Minors Campaign to ensure that the children's experience is seamless at Family Check-In, Unaccompanied Minors holding area, and SAA international and domestic lounges
- Improvement in our food and beverage offering with the introduction of African-inspired regional meals (specific to East and West Africa) in Business Class
- The airline continues to serve an awarding winning selection of locally produced wines
- Business Class amenity kits were designed by a young South African designer. Currently new designs for the 2018 collection are in progress
- The introduction of three new Airbus A330-300 aircraft saw the launch of new Business Class seating, giving every passenger access to the aisle as well as ensuring increased privacy. The new inflight entertainment product is state of the art allowing fast navigation and high definition viewing

- Refresh of the flysaa.com website
- Improvement of policies in support of customers with special needs
- Introduction of a new pet facility for our Cargo division at OR Tambo International Airport

## Harnessing the Customer Experience

To strengthen its competitive advantage, SAA has refined some of its products and services to enhance its offering to customers. SAA has embraced the integration of technology into this service offering to provide convenience to customers.

Maintaining and improving customer satisfaction is increasingly complex as customers' expectations change. Customers expect more flexibility, a seamless experience before embarking, an enjoyable journey that includes good food and in-flight entertainment, and to share their experience on social media, good or bad. Therefore, focusing on the customer experience has become the single most important way for SAA to achieve success.

## Consumer Regulations

SAA has to ensure that its policies are aligned to consumer regulations in the markets we serve. As there is an increasing emphasis on a customer's perception of value in the application of consumer rights, it is essential that SAA manages service failures to achieve the best outcome possible.

During the year, the Customer Services team focused on ensuring compliance with new and revised consumer regulations and policies that have been introduced in countries in which SAA operates. These include:

- The Brazilian Civil Aviation Authority introduced new legislation, which came into effect in March 2017
- People's Republic of China introduced a new regulation, the "Provisions on the Management of Flight Regularity", which came into effect on 1 January 2017
- The Consumer Protection Act in the UK has recently been overhauled with the introduction of the Consumer Rights Act 2015
- New consumer regulations have been adopted in West Africa that are similar to the EU regulations – the SAA policy is already in alignment

## Looking Ahead

Customer Services will continue to improve the SAA experience through monitoring and analysing data from customer feedback.

More comprehensive analysis of customer insights will be enabled by utilising online data. In addition, corporate sales trends and statistics will be used to improve product offerings brought to market.

## ACHIEVEMENT

### SAA WINS 16 AWARDS

**SAA CONTINUED TO DO THE COUNTRY PROUD BY SWEEPING THE BOARDS, WINNING NO LESS THAN 16 AWARDS FOR AIRLINES OPERATING IN BOTH THE AFRICAN AND INTERNATIONAL MARKETS.**

**OF SPECIAL SIGNIFICANCE IS THAT SAA WON THE SKYTRAX AWARD FOR THE BEST AIRLINE IN AFRICA FOR THE 14TH CONSECUTIVE YEAR. THE SKYTRAX AWARDS ARE CONSIDERED TO BE THE OSCARS OF THE AVIATION INDUSTRY.**

Equally important is that retail travel publications gave SAA, during the year under review, kudos in a variety of categories ranging from Best On-board Service and Best Airport Lounges (Global Traveller Magazine). The airline's marketing operations also got the thumbs up in the Magellan Awards in Travel Weekly when it won a Gold Medal for its promotional video "What it means to be African", and another Gold in the Airline Marketing – Direct Mail Category for its SAA Product Brochure. Among the other prestigious awards garnered include the Business Traveller Africa Conference Awards for the Best Africa Long-Haul Airline and for Africa Short-Haul Airline.

In May 2016, SAA Cargo had the honour of being voted Air Cargo Airline of the Year by the readers of Air Cargo News. Tleli Makhetha, General Manager SAA Cargo, says that the awards are based on the voting results of more than 18 000 supply chain professionals over a two-month period. "Shippers, the beneficial owners of the goods, and their logistics partners, were asked to vote on the publication's website for the airline that provided the best overall customer experience and for the best service provider in each region."

Of equal importance, at the end of last year, SAA was honoured with a prestigious ACSA Feather Award for each of SAA's five domestic stations.



Lusanda Jiya, General Manager: Shareholder and Stakeholder Relations (left) and Thola Nzuza, Manager: Marketing and Communications – SAA Cargo; with the Air Cargo Brand of the Year in Africa award.

# SHARED SERVICES (continued)

## HUMAN RESOURCES

SAA recognises the value of employees as the most important resource the organisation has to drive its strategic objectives. During the year, HR's key strategic thrust was on people management interventions designed to move SAA forward on its current change trajectory to transform the airline into a financially sustainable aviation group. By sourcing talent, robust training, ensuring employee wellbeing, an effective performance management programme, and fair remuneration practices; the full potential of SAA employees as a strategic resource could be realised.

## TALENT MANAGEMENT

Ensuring a competent work force through managing human talent as a key strategic resource, forms the basis of SAA's approach to human resources management. Managing human talent starts before an employee is appointed. It starts where SAA ensures the company is the employer of choice. Therefore, the work of reaching out to young people at both tertiary and high school levels right through to the recruitment phase, with the imperative to source and attract high calibre individuals with the right set of technical and interpersonal skills, contributes to the sustainability and competitiveness of the Group.

Employees are then supported through career management programmes to channel their careers to ensure they support organisational objectives. Employees receive opportunities to develop through training by participating in either specialist or functional training. Mentorship and coaching offer employees the opportunity for further learning and growth contributing significantly to individual and organisational performance. Going forward the focus will be on managing future and existing talent through recruitment drives and training.

SAA is encouraged by the headway made during the year under review in managing talent at SAA. A major achievement was the launch of a programme for the development of management at senior levels, which will assist in creating leadership stability and preserving the institutional memory of the Group, as well as mitigating the impact of leadership changes. A focused career management programme, known as the Level 2 Succession Management Programme, gave managers the opportunity through learning and training to prepare themselves for possible future promotion through the ranks.

The SAA Leadership Framework was reviewed and has been integrated into the recruitment and selection process and career development discussions. The Framework is aligned to best global and current leadership practices. During the year, SAA also introduced Divisional Talent Review Committees to support the Executive Talent Review Committee.

An effective performance management system creates a high-performance culture aligned to the SAA strategy to ensure organisational goals are met consistently in an effective and efficient manner. As part of the comprehensive Talent Management Framework for SAA, key and critical talent will be considered for secondments or talent exchange programmes to enhance their career development progression. In addition a retention strategy is being developed with the aim of retaining high performers who have mission critical and scarce skills in the organisation.

## Training

The company continuously invests in training for a motivated, skilled, and safety conscious work force. Based on the highly regulated environment in which the airline operates, training focuses on both functional and developmental training. In the year under review, SAA spent 0.57% of its labour cost on training, focusing on compliance, safety, professional, and technical skills. As SAA's financial position improves, the investment in strengthening and developing SAA's work force would also be increased.

Aviation-specific training prioritises keeping SAA's customers safe, with the enhancement of professional and technical skills of those in critical positions. Pilots, cabin crew, technicians, and ground personnel, all undergo mandatory recurrent training. Recurrent training includes ground and refresher training, which incorporates aeroplane systems, operational procedures and requirements, inclusive of pilot incapacitation, accident/incident and occurrence review, as well as crew resource management.

Pilots undergo annual compulsory Safety and Emergency Procedures Training (SEPT) as well as recurrent training to validate their ability to operate the aircraft types they are qualified to operate. Proficiency is tested in several ways, including written exams, practical simulator assessments, and operational line checks and assessments.

Cabin crew training is overseen by the Head of Inflight Services as a statutory requirement by the SA Civil Aviation Authority (SACAA). Cabin crew undergo different categories of training. Safety training is paramount, and this includes Aviation Medical (AVMED) recurrent training, as well as Safety and Emergency Procedures Training (SEPT). Further, cabin crew also receive hospitality training and customer service training, which have shown a direct impact on our service delivery as an airline. SAA maintained quality levels on all the services it offers – in our home market, across the African continent, and internationally. SAA retained its 4-Star airline rating for Economy and Business Class for the 15th year in a row, a confirmation of consistent service standards.

SAA cabin crew is the pride of the airline; their specialised first aid training enables them to assist with medical emergencies and has often saved lives on board; on occasion they have even helped deliver babies.

2016 saw SAA continue its partnership with South African Express (SAX) to train cadet pilots to fast-track the attainment of required flying hours to enter SAA as a First Officer; the entry level requirement is 1 500 flying hours. Currently there are five employees in training at SAX.

The SAA Technical (SAAT) apprentice schools offered Training Apprenticeship Programmes for 130 unemployed youth during the year, exposing them to various aviation maintenance trade disciplines. They received tuition and practical training towards attaining a technical qualification. The new recruits addressed aviation-specific critical skills requirements, with 48 learners employed permanently during the year.

At SAA Cargo, employees regularly undergo aviation regulatory and functional training interventions required for operational compliance and sustainability. Air Chefs training includes health and safety compliance, specific skills training, management, and logistics training.

SAA employees were supported in maintaining professional registration through continuous professional development programmes funded by SAA. Professional bodies include SAICA, HPCSA, CIPS, SAILA, and others.



As the leading airline on the continent, SAA is a regional trainer. The SAA Academy of Learning is an IATA Regional Training Partner in the SADC region, offering specialised aviation-related courses such as Pricing and Revenue Management, Sales and Airline Management, Regulatory and Compliance courses for Cargo, and Passenger Handling to airlines within the Sub-Saharan region. Going forward SAA will explore this facility as a revenue stream as SAA anticipates that 20% of the delegates will be from the Sub-Saharan Africa market in the next financial year.

SAA supported the National Developmental Plan by introducing 43 unemployed youth to the world of work. Twelve learnt the skills of airline ground staff, 20 learnt the jobs of Cabin Crew, and 11 were exposed to the workplace in general. Although SAA was not able to absorb these young people due to its current financial status, the young people were given workplace experience opportunities.

### An Employer of Choice

To attract the right talent to join the airline, SAA actively promotes the company as an employer of choice offering a variety of career options. A specific focus is on young people at both tertiary and high school levels. SAA annually participates in a number of career days and air shows reaching thousands of learners. The SiVulindlela truck, which is set up to look like the inside of an aircraft, has created much interest in the many careers on offer in aviation at schools throughout the country.

In the year under review, SAA's search for graduates interested in pursuing aviation as a career of choice once again resulted in thousands of applications. Unfortunately given the company's current financial challenges, SAA was unable to offer all of these graduates permanent positions. During this financial year 12 graduates were employed by SAA.

The SAA Bursary Programme supports employees without the relevant undergraduate qualification to attain a diploma or degree. A total of 210 employees were awarded bursaries in the last academic year. While the programme is currently earmarked for employees only, the airline realises the need to use the bursary programme as a recruitment tool by extending it to the public, albeit it on a small scale, due to SAA's current financial position.

The Talent Acquisition programme focused on optimising talent sourcing with the implementation of a new on-line recruitment and applicant tracking system. Internal and external candidates were assisted in registering on a careers website, resulting in an accessible on-line talent pool of over 50 000 registered candidates.

### Continuous Business Improvement

HR uses the latest technologies to smooth out processes and to enable learning, with the general approach being to move away from paper-based systems to IT driven processes.

During the year in review, HR embarked on the optimisation of its SAP Human Capital Management system, to replace the paper-based systems and processes that are manual, labour-intensive, and cumbersome. The HR SharePoint site was updated. This provides access to SAA-related HR tools and guides for the HR community.

An automated SAP Human Capital Management system will improve the current high levels of validation errors. The system will also facilitate the allocation of staff resources, currently deployed in low value adding activities, to strategic activities that will enhance productivity levels. SAP Human Capital Management also has the capability to support organisational

strategies and employee expectations. The aim is to help standardise HR processes thereby reducing the cost of HR service delivery. During the year, SAA activated the Employee Relations function of SAP Human Capital Management, which assists with the management of disciplinary matters and grievances.

To bring employees closer to the values the SAA brand stands for, an Employee Engagement Programme was launched to engage employees to share those burning issues of concern. The intention is to address these and reconnect employees with the Group's values and brand. Going forward these issues will be addressed by leadership with employees during face-to-face sessions.

### Employee Wellbeing and Medical Services

In addition to offering them a robust training calendar, SAA also nurtures the physical and emotional wellbeing of employees. SAA continues to ensure the wellbeing of its employees through the company's fully-funded comprehensive personal support programme, "Heartbeat". The programme is designed to assist employees to keep up with the continually changing workplace environment, and, together with their dependants, to help them with managing relationship and work-related stress and challenges.

The total engagement of the Heartbeat Programme has remained constant and above industry standards, and the trend in uptake is positive. Employees have been assisted with the management of stress, financial health, and interpersonal relationships, both at work and at home, with the two main presenting problems – stress and anxiety, being managed accordingly. In keeping with modern trends, employees are also assisted with the pursuit of a healthy diet and lifestyle. Going forward, SAA strives to achieve a more proactive approach and assist the organisation and its people to have greater emphasis on a health-work culture, aiming to enhance SAA's status as an employer of choice and demonstrate the airline's commitment to valuing its people. Onsite clinics bring the Heartbeat service to the workforce and assist managers with identifying relevant issues or trends for timely interventions.

This programme provides a supporting role and complements the operational services of SAA Medical Services, a fully equipped and functioning medical division staffed by doctors and professional nurses as SAA operates in a highly regulated environment with mandatory medical checks for cabin and cockpit crew. Cabin crew older than 40 undergo compulsory medical checks annually and pilots depending on their rank, have medical checks annually or every six months.

Ground staff undergo audiogram and vision screening every two years to certify that they are medically fit to work on the airport apron. Drivers who work airside further undergo alcohol, drugs, and full medical testing to keep their driving permits current.

The primary responsibility of SAA Medical Services is to look after the health of employees and to ensure wellness and reduce absenteeism. A project to reduce poor sick leave records and assist with monitoring sick leave trends, as well as with the on time capturing of sick notes, was initiated during the year. The Medical Services department is also licensed to offer family planning services onsite.

As part of the Long-Term Turnaround Strategy (LTTs), SAA is being repositioned as a financially sustainable aviation group, which implies a prolonged and increasingly stressful change process. Environmental and occupational exposure of employees to unsafe environments also have to be tracked to ensure timely and effective intervention.

# SHARED SERVICES (continued)

Moving forward, this area becomes increasingly important with a realigned focus dealing with Occupational Health and Safety to also assist employees throughout the company with health and safety issues and employee wellbeing.

As part of employee wellbeing programmes employees are surveyed from time to time to gauge morale and establish how they feel about the organisation. The most recent results indicated that there is room for improvement.

## Performance Management

Performance Management is an important pillar in the attainment of a turnaround plan, with the goal of creating a high-performance culture aligned to the SAA strategy to ensure organisational goals are met consistently in an effective and efficient manner.

SAA has made some progress in strengthening performance management, albeit slow. The alignment of strategic and operational KPIs have been improved, starting with the consolidation of the strategic objectives into a strategy map to engender Group-wide awareness and understanding of the critical success factors in creating shareholder value. Strategic KPIs were then cascaded to ExCo and HOD managers' scorecards to ensure alignment. Workshops were conducted throughout the year to entrench the performance management objectives and assist managers with performance contracting, monitoring, and reviewing.

SAA is currently in a state of flux with the main focus on transforming the business, however, HR firmly believes that as a strategic partner, HR and business strategy can be aligned to meet targets. Going forward the company will offer further training ensuring that performance management becomes a daily occurrence to entrench change management and ongoing improvement, starting at the top levels, as it is important to set the tone at the top from where it can be cascaded.

## Remuneration Philosophy

Group Remuneration Philosophy was approved by the Board in 2015, which provides guidance on remuneration policies and practices as well as performance. To ensure a strong link between performance and remuneration, a holistic approach to remuneration and incentives is followed.

Provision is made in the policy for incentives, but due to SAA's financial status, implementation had to be deferred.

## Employment Equity

As at 31 March 2017, SAA had 5 752 employees of which 5 275 are based in South Africa, and 477 in regional and international stations delivering safe and good services to our customers.

SAA's workforce is well represented in the different occupational levels across top and senior management, professionally qualified employees (including SAA's pilots), skilled, semi- and unskilled employees.

As the company progressively implements its turnaround, SAA's labour force cannot be increased. As part of labour cost optimisation, a freeze on employment, promotions, and salary adjustments were implemented. SAA remains upbeat that once the company enters a growth phase, as is envisaged in the Stabilise, Defend and Build strategic approach, SAA will turn the current downward trend around.

		South African								Foreign National		Grand Total
		Male				Female				Male	Female	
Occupational Level		African	Coloured	Indian	White	African	Coloured	Indian	White			
Top Management	Actual	3	0	0	0	4	0	0	0	1	0	8
	Target – March 2017	3	0	0	1	3	0	0	0	1	0	8
Senior Management	Actual	20	1	4	15	10	5	1	6	1	1	64
	Target – March 2017	27	2	5	16	19	5	2	7	1	1	85
Professionally qualified	Actual	150	42	70	584	106	20	38	121	2	1	1 134
	Target – March 2017	281	54	44	659	188	26	26	70	3	1	1 352
Skilled	Actual	157	42	30	82	192	47	30	87	0	1	668
	Target – March 2017	284	45	23	43	274	50	33	47	0	1	800
Semi-skilled	Actual	1 008	174	62	160	1 341	256	112	258	7	15	3 393
	Target – March 2017	1 374	230	68	209	1 485	322	145	348	14	21	4 216
Unskilled	Actual	1	0	0	0	4	0	0	0	0	0	5
	Target – March 2017	10	1	0	0	9	2	0	0	0	0	22
Temporary Employees	Actual	1	0	0	1	1	0	0	0	0	0	3
Grand Total	Actual	1 340	259	166	842	1 658	328	181	472	11	18	5 275
	Target – March 2017	1 979	332	140	928	1 978	405	206	472	19	24	6 480

Table 1: SAA Employment Equity status as at 31 March 2017

Note: Professionally qualified includes pilots; semi-skilled includes cabin crew and ground staff

### SAA's Performance against Department of Transport (DOT) Targets

SAA did not achieve all its employment equity targets across various job grades. SAA and DOT targets for top management were exceeded, those for senior management exceeded the DOT target and improved on the SAA target. DOT targets for pilots were exceeded whilst SAA's target was not met. Both the DOT's and SAA's targets for people with disabilities were not met.

### SAA's Pilots

Although SAA acknowledges that much work still needs to be done, the airline made good progress with employment equity since 1994, when for the first time in its history pilots of colour could join its ranks.

The SAA Cadet Pilot Training Programme was brought from Australia to South Africa in 2003. The programme was immensely successful and 147 cadets trained were employed by SAA. The programme was placed on hold in 2007 until 2011. Following its re-launch in 2011, a total of 88 cadets were selected between 2011 and 2015. Unfortunately, again due to financial constraints, the programme was placed on hold in January 2015 until further notice.

SAA will continue to look at ways of increasing representation of its pilot corps, although the absorption rate of young pilots into the ranks is low, due to the financial position of the company. Some progress has been made with increasing the number of women who fly for SAA, with 70 female pilots now flying for SAA. The uptake has been slow as there are not that many available female pilots in the market to start with as this male domain is slowly becoming a more attractive career option for women. HR is mindful that again due to the finances of the company SAA cannot embark on any concerted effort to increase the uptake.

		South African								Foreign National		Grand Total
		Male				Female				Male	Female	
Occupational Level		African	Coloured	Indian	White	African	Coloured	Indian	White			
Professionally qualified	Actual	65	26	47	526	7	2	4	57	1	0	735
	Target – March 2017	85	30	44	539	10	4	5	63	0	0	780

**Table 2: SAA Pilots Profile as at 31 March 2017**

As at year-end, SAA employed 36 people with disabilities, a figure which regrettably falls far short of SAA's targeted 194 employees. Representation of people with disabilities remains a challenge, however, the company is working at improving this through voluntary confidential disclosures, mindful of realities of the aviation industry where employees with special needs can do office work, work at check in counters, and airports, but some areas are excluded such as pilots and cabin crew.

		South African								Foreign National		Grand Total
		Male				Female				Male	Female	
People with disabilities – March 2017		African	Coloured	Indian	White	African	Coloured	Indian	White			
Grand Total	Actual	5	2	1	8	6	2	2	10	0	0	36
	Target – March 2017	56	14	5	30	57	12	6	14	0	0	194

**Table 3: SAA People with Disabilities Profile as at 31 March 2017**



## SHARED SERVICES (continued)



### INFORMATION TECHNOLOGY SERVICES

During the year, Information Technology Services (ITS) adopted a new operating model addressing the structure, customer engagement, and best practices' frameworks. The operating model breaks down the "silos", facilitating a broad set of performance improvements and transformation objectives. This model reduces costs, enhances performance, and will prepare SAA for next generation IT infrastructure products. The adoption of a governance forum that manages 'business demand' for new systems, digital transformation, and process automation is now in place.

PLAN	BUILD	RUN
<ul style="list-style-type: none"> <li>Align ITS Strategy to SAA Strategy</li> <li>Enterprise Architecture</li> <li>Portfolio Management</li> <li>ITS Investment Management</li> <li>Customer Relationship Management</li> </ul>	<ul style="list-style-type: none"> <li>Requirements Definition</li> <li>Developments</li> <li>Acquisition</li> <li>Resource Management</li> <li>Solution Architecture</li> <li>Project Management</li> </ul>	<ul style="list-style-type: none"> <li>ITS Service Management</li> <li>Application Maintenance</li> <li>Infrastructure Maintenance</li> <li>Customer Service</li> <li>Performance Management</li> </ul>

### Driving Innovation

ITS continued to focus on SAA's innovation and digital roadmap, with the following projects completed:

- Flysaa.com website was upgraded, redesigned, and launched with new features and functionality giving more choice to customers and encouraging more engagement. An increase in digital sales has been recorded since the launch of the transformed website
- New mobile booking app for IOS and Android devices was launched
- Pilot and cabin crew electronic flight bags were enhanced. On-time flight departure functionality for cabin crew tablets was implemented to enable cabin crew (rather than ground crew) to assist passengers
- Self-check-in, self-boarding, self-bag tagging and self-bag drop solutions were rolled out at domestic airports
- The cloud adoption was enhanced through the implementation of Office 365. Systems that are already in the cloud are Salesforce, Amadeus suite, and the private cloud storage in data centres

### Business Intelligence

Information Technology Services' focus on business intelligence and constantly improving analytics is ongoing. SAA employs operational performance analytics to monitor and improve its performance indicators, products and services. Customer surveys for passengers and Cargo customers are conducted by employing analytical tools.

The ongoing leveraging of the Salesforce capability within the Group was strengthened during the year.

Further enhancements to Salesforce were executed for the Customer Services processes. This will streamline customer complaints and queries and assist with addressing them in the most efficient and effective manner. In time, the functionality will be enhanced to perform analytics, identify trends, and improve SAA's understanding of customer behaviours.

Salesforce was rolled out in most sales regions, including the UK, USA, and Germany with implementation for SAA's local corporate office underway.

Salesforce enhancements will remain a strategic focus area in the year ahead, with specific attention to marketing, campaign management, social media integration, customer analytics, including roll-out for the Cargo customer services and sales processes.

## OPERATIONS BUSINESS PROCESS AUTOMATION

### SAP

During the year, Information Technology Services focused on optimising SAP, an enterprise resource planning system. ITS standardised all enterprise support processes on SAP and deployed SAP in most international outstations. Information Technology Services is in the process of implementing SAP in the following areas:

- SAP Success Factors Implementation (Performance Management)
- SAP Procure to Pay functional enhancement and deployment to all outstations.
- SAP Business Warehousing and Reporting
- SAP Profit and Cost Management
- SAP S4 Simple Finance

### AMOS

AMOS is an extensive programme that was implemented to automate all of the SAA Technical Maintenance, Repair and Overhaul processes (MRO), including fleet maintenance plans, spares and stock supply, and inventory management. AMOS went live on 1 April 2017.

### Cost Compression

During the year, Information Technology Services reviewed all the services from suppliers and renewed contracts where necessary. ITS achieved cost savings of R20 million as a result of contract optimisation, reduced license costs, and Type B messaging. Type B Messaging is a means of exchanging electronic messages with aviation partners and businesses operations across the globe.

### IT Governance

Information Technology Services continued to focus on good governance and information security. Information governance has become increasingly critical as the dependency on information and systems increases. Cyber security is a growing threat in aviation. Best practice information security and a sound governance framework are pivotal in addressing this risk. During the year, SAA adopted the Information Technology Services Governance Framework, aimed at achieving the following:

- Information security governance entrenched across the Group
- Strategic alignment of information security with business strategy
- Establishment of an information security action plan
- Development and implementation of information security policies and standards
- Provision of a risk management process
- Ongoing review and improvement of controls
- Compliance with regulations
- Assurance on business continuity

The Audit and Risk Committee has oversight of IT Governance on behalf of the Board.

### Key Projects for 2018

- Implementing the new Payment Card Industry security standards
- AMOS upgrade
- SAP standardisation
- Focus on website as a sales channel
- Cargo operational system/s
- Business Intelligence improvements
- IT Security and Governance
- Customer Services and analytics

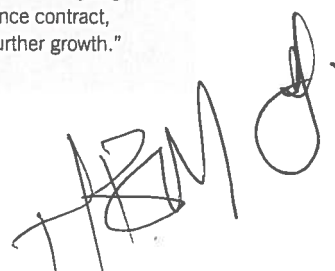
## ACHIEVEMENT

### SAA TAKES BEE IT COMPANY TSHINTSHA TO THE NEXT LEVEL

SAA's Supplier Development programme has set Tshintsha Business Solution (Pty) Ltd on the path to becoming one of the SAA Group's fully fledged primary IT suppliers. In March 2017, SAA Technical completed the extensive implementation of AMOS, an industry leading MRO software system that will considerably improve efficiencies in the business.

BEE company, Tshintsha Business Solutions was brought in as part of the Supplier Development programme and partnered with Hexaware Technologies Limited for the provision of data migration services from the legacy SAA MRO system to the new AMOS MRO system. The agreement with Hexaware included the development of five Tshintsha Business Solutions resources in IT skills at the Hexaware India university. All of these resources are young graduates with very little work experience. On completion of their training, SAA's ITS advanced the five graduates by engaging Tshintsha in an IT Services contract for the provisioning of maintenance and support responsibilities on the AMOS system.

"We recognised the potential in Tshintsha as a company and worked together to develop the Company and its employees," says Phinda Ncala, SAA's Chief Information Officer. "SAA has committed to ongoing support with the award of a maintenance contract, which will position the Company for further growth."



# SHARED SERVICES (continued)



## SHAREHOLDER AND STAKEHOLDER RELATIONS

### 2016/2017 Highlights

- SAA reached over 30 000 students creating awareness of careers in aviation
- Africa's first ever green flight

### Shareholder and Stakeholder Relations

Shareholder and Stakeholder Relations provides strategic counsel to SAA to ensure that the stakeholders who drive sustainability of the Group are working together to achieve a common goal. Shareholder and Stakeholder Relations' primary focus is to meet and manage the interests, expectations, and impact of a wide array of shareholders.

SAA is a business with a high cost structure and little equity, requiring that the Group rely on borrowings to fund its working capital needs. Financial stakeholders, including the Shareholder, banks, and potential funders, are a key stakeholder group. During the year, the Board engaged these stakeholders to devise interventions that will stem the deteriorating financial status of the airline.

Strengthening government relations across the continent, and globally, is key to our business. Stakeholder Relations played a pivotal role in building relations, amongst others, with governments in West Africa in support of network initiatives as we continued to strengthen SAA's footprint in the region. Notably, SAA also took the opportunity to build on existing good relations with the Ghanaian Government and key industry stakeholders during the first anniversary of the Accra – Washington route, one of the most profitable routes in our network.

Notably, SAA participated in the Department of Transport process of reviewing the Aviation Policy. This policy was approved by Cabinet in February 2017.

## Communications

External communications continued to focus on extracting positive messaging from the business. Informing customers through the mass media on operational developments (route network changes, improved product offering, weather related flight cancellations, and operational issues) remain a core focus.

Worth noting during the review period was the operation of Africa's first-ever "green" flight, when SAA operated a flight to Cape Town on Friday 15 July, in celebration of the first biofuel flight made from tobacco plant oil extracts farmed in Limpopo. Partners in the project, such as the aircraft manufacturer Boeing, international and local producers of the tobacco plant, farmers from the area, and a large media contingent participated in this first ever "green" flight. This historic event attracted considerable media coverage across all media.

SAA received a number of awards throughout the year, the most notably being the Skytrax Awards for Best Airline in Africa which the airline has won for 14 years in a row. A number of other milestones were celebrated such as flying to Accra, Ghana for 20 years. A fully-constituted Board was appointed in September 2016. SAA welcomed the first of five new Airbus A330-300 aircraft in December, operating on routes to São Paulo, Dakar-Washington, Munich, and Accra-Washington.

In January 2017 the focus shifted to a turnaround programme named "Project Phakama", and preparing and executing a communications plan for the project.

Internal Communications continued its strategic focus of keeping employees informed and engaged during the year and updated on operational and other matters using a variety of internal communications channels. Employees participated in company events such as a Heritage Day cook-off celebrating the different cultures in South Africa.

SAA's Annual General Meeting (AGM) was concluded for FY2015 and FY2016 on 28 October 2016, followed by a media conference. The AGM was the first since the appointment of 12 new non-Executive Board members in September 2016.



## Corporate Events

Various strategic events were held at different times in the year to support business in strengthening stakeholder relations and profiling the Company and its services:

- On the first anniversary of SAA's non-stop Washington DC flight services from Accra, SAA hosted valued stakeholders and patrons in Ghana at a stakeholder's dinner to commemorate this occasion
- In commemoration of Women's Month in South Africa, the flight to Accra from Johannesburg was operated by an all-female crew, SA056 on 25 August. The crew comprised of ten female Cabin Crew members and two female Flight Deck Crew
- SAA held an internal employee event, Heritage Month Cook-off, to celebrate cultures across the country and encourage team building
- Ghana High Commission hosting of Ghana Fest. The event took place from 17 to 19 September 2016. SAA provided support in return for marketing exposure

## Sustainability

Includes compliance reporting on aspects of B-BBEE, localisation, as well as Environmental Sustainability and Corporate Social Investment. These areas, which share the common purpose of ensuring a positive impact of SAA's operations on the socio-economic and natural environment, all fall within the ambit of Shareholder and Stakeholder Relations.

## Transformation

In line with the strategic counsel function of the Shareholder and Stakeholder unit, the Group Transformation unit is positioned to provide policy direction and tools to aid execution and corporate reporting across the broader spectrum of transformation requirements. The responsibility for implementation of the specific elements comprising B-BBEE vests with the airline's operational divisions, for example, Preferential Procurement at Global Supply Chain Management (GSM) please see page 76, Employment Equity and Skills Development at Human Resources please see page 64.

The establishment of a dedicated Group Transformation function in the 2014/2015 financial year heralded the beginning of a new era for SAA. In 2015/2016 important milestones were reached that focused primarily on laying the strategic foundation and policy framework for the airline's transformation efforts. These milestones include:

- Development and Board approval of a Group Transformation Policy in tandem with an amended Supply Chain Management Policy
- In line with the Long-Term Turnaround Strategy (LTTS), incorporated Environmental Sustainability (Green Procurement) in the Board approved Supply Chain Management Policy
- Board approval and roll out of the Group Corporate Social Investment Policy

- Improved reporting to the Social Ethics Governance and Nominations Committee (SEGNCO) on all the elements of the B-BBEE scorecard
- Shaping the industry transformational landscape by contributing substantially to the revision of the aviation sub-sector B-BBEE Codes, which have now been gazetted in terms of section 9(5) of the B-BBEE Act (2003) by the Minister of Trade and Industry as Notice no. 2 of 2016 Gazette no. 39744
- Attaining a 95 percent proportion of total domestic procurement spend from B-BBEE compliant suppliers as at 31 March 2016, relative to 92 percent in the previous financial year

With the policy and business process foundation in place, SAA is better positioned to integrate transformation into the airline's business infrastructure whilst taking full cognisance of its financial situation. As a Group entity, SAA is driven by a transformation philosophy that seeks to position the airline amongst the leading organs of state when it comes to viable and sustainable pursuit of the National Development Agenda in an innovative manner that is also informed by the Broader Public Sector Procurement Regulatory Framework.



## Corporate Social Investment

SAA's CSI activities focus on four main areas:

- Strengthening education especially around maths, science, and technology
- Response to natural disasters
- Medical emergencies that require air transportation
- Caring for our environment

Despite limited resources in the year under review, SAA has built strong partnerships and found creative ways of delivering on its responsibility to be a beneficial and caring corporate citizen and support and uplift communities.

# SHARED SERVICES (continued)

## Key Projects

### SAA VOYAGER

Members of Voyager donated Voyager Miles to the following organisations:

- Wings and Wishes, to assist with the transportation of sick people to clinics or treatment facilities.
- Reach for a Dream, to enable children with life threatening illnesses to travel and realise their dreams.
- World Wildlife Fund, to assist with the mobilisation of conservationists in their effort to conserve biodiversity assets (endangered wildlife, species, habitats, and ecosystems).

The following information is the total miles (millions) and equivalent ZAR value that each of the beneficiaries received during the financial year:

BENEFICIARY	NUMBER OF MILES	ZAR VALUE OF MILES
Wings and Wishes	3 649 821	291 986
Reach for a Dream	8 394 284	671 543
World Wildlife Fund	5 467 823	437 426
<b>TOTAL</b>	<b>17 511 928</b>	<b>1 400 954</b>

### SAA CARGO

During the 2016/2017 financial year, SAA Cargo (airfreight) contributed R174 736 to CSI projects by transporting quilts for the Love Quilt project, and by moving items such as artwork for the Nelson Mandela Foundation, donated goods, and medical supplies.

### AVIATION AWARENESS

SAA CSI, supported by SAA Technical, SAA Training and Development, SAA Cargo, and Mango participated in several career days and air shows around the country, reaching over 60 000 scholars.

A career day at Mahlenga Secondary School in Bronkhorstspuit for 500 learners, was held on 26 April 2016. SAA handed out career brochures, school back packs, beanies, scarfs, gloves, and lunch packs to all the learners. SAA donated a mobile container library to the school with 370 books. The total cost of the in-kind donation was R97 500.

SAA partnered with the Gauteng Department of Education on the opening of a specialisation school in Soweto on 9 May 2016. The Curtis Nkondo School of Specialisation, a learning facility of the future, focuses on subjects such as engineering, maths and science, information and communications technology, commerce, and entrepreneurship. SAA Technical donated a Boeing B747 jet engine to the newly-revamped school in Soweto. The engine will provide inspiration to learners and be a reminder of the kinds of careers their studies can build toward.

### OTHER PROJECTS WHERE SAA PARTICIPATED WERE:

- The Annual SA Air Force Museum Air Show on 6 and 7 May 2016 at Swartkops, Pretoria
- National Cell C Take a Girl Child to Work Day
- Morongwa Projects Careers and Education Expo in June 2016 at the Rustenburg Show Grounds
- SAA's Youth Month Career Summit at Airways Park, the Northern Cape Department of Education's Kimberley Career Awareness Expo. The exhibition at the Kimberley Air Force Base attracted around 4 000 learners from previously disadvantaged backgrounds
- TETA Career Expo in Secunda, Mpumalanga
- The Africa Aerospace and Defence Show (AAD) at the Waterkloof Military Base
- National Department of Tourism Career Awareness Exhibition Bloemfontein, Free State
- As part of the Transport Month celebrations, the South African Civil Aviation Authority, an entity of the DOT, hosted an air show at Phalaborwa Gateway Airport in Limpopo
- International Civil Aviation Day (ICAD) 2016, organised by the DOT in partnership with KwaZulu-Natal Provincial Government at Margate Airport in Margate
- The Sci-Bono Discovery Centre National Science week event held in Newtown
- SASOL National Science Week Career Exhibition in Sasolburg
- The Department of Public Enterprises' Telematics Switch-on event at Tsakane Secondary School, Tsakane, Ekurhuleni

## SAA supported the pillars of its CSI policy, with the following initiatives:

### SOCK DRIVE

SAA CSI ran a drive requesting head-office employees to donate new pairs of socks from 4 to 15 July 2016. Volunteers assisted with the packing and distribution of the socks to non-governmental organisations, Little Eden, an organisation that takes care of disabled people with mental challenges; Hospice in Orlando, Soweto – who care for sick people; and the Thembisa Old Age home. The project was a success as we were able to collect 150 pairs of socks, which were donated on Mandela Day on 18 July 2016.

### SAA IMBUMBA FOUNDATION PARTNERSHIP AND MISS SOUTH AFRICA

On 7 July, SAA activated a partnership with Richard Mabaso of the Imbumba Foundation. This partnership saw SAA CSI and SAA's Employee Wellbeing unit collecting more than 200 000 sanitary pads donated by employees and distributed to rural school learners around the country. As at 21 October 2016, SAA provided 2 650 girls with dignity packs, and continues this partnership with the aim of reaching 5 000 girls.

### READ FOR LEISURE PROGRAMME

At the commencement of the December 2016 holiday period, SAA encouraged young travellers and all scholars to read during the holidays. We participated in NaliBali reading activations to unaccompanied minors.

### CHILDREN OF FIRE

Children of Fire is an independent non-partisan organisation established to improve the lives of impoverished, badly burned children and young people through direct assistance. CSI donated Christmas gifts to 25 beneficiaries. The event took place on 15 December 2016 and gifts such as reading books, wrist watches, and portable music players were presented. About R3 000 was utilised from the CSI account to make these beneficiaries' Christmas a happier one. SAA CSI partnered with Children of Fire to provide corrective surgery for burn victims (children) who cannot afford plastic surgery.

## ACHIEVEMENT

### CARING4GIRLS CSI INITIATIVE

**SAA is always proud to celebrate Nelson Mandela International Day and supports the universal human rights and values that he stood for. We heed his call to work towards making a difference in the lives of others who are less fortunate.**

The airline fully endorses participating in the 67 minutes' of service each year on this special day. SAA is recognised as the official partner of the Nelson Mandela Foundation, collaborating on a number of educational projects as part of its Corporate Social Investment (CSI) programme.

In the year under review, we supported the annual Trek4Mandela Kilimanjaro expedition to raise funds and awareness for the Imbumba Foundation's Caring4Girls programme. Imbumba provides sanitary care for less privileged girls across South Africa, so they don't have to miss out on school because they are menstruating. Research has shown that girls from marginalised backgrounds can miss up to 50 school days each year, a fact that has an adverse effect on their educational prospects.

"We were also delighted to welcome the founder of Imbumba Foundation, Richard Mabaso, as our brand ambassador to the SAA Caring4Girls initiative in which SAA will mobilise its employees and donate sanitary pads to a school in Johannesburg," says Lusanda Jiya, SAA GM Shareholder and Stakeholder relations.





# SHARED SERVICES (continued)

## ENVIRONMENTAL SUSTAINABILITY

As a State-owned Company (SOC) tasked to deliver on the National Developmental Mandate of Government for the benefit of the citizens of South Africa, SAA has undertaken to operate in a manner that has the least amount of impact on the natural environment possible. SAA has a robust 10-year strategy to significantly reduce the impact of operations on the planet and to become a leading South African corporate in the war on climate change.

SAA has several key programmes designed to ensure that environmental sustainability is integrated throughout the airline and is a top priority.

### IATA Environmental Assessment Programme (IEnvA)

This stringent environmental assessment programme allows airlines to simplify regulatory compliance, demonstrate good governance, and ensure the highest level of environmental sustainability. SAA has been part of this process from its genesis and currently chairs the IEnvA Oversight Working Group.

The IEnvA Programme assesses environmental performance against sustainability standards across a broad range of disciplines, including, but not limited to, the management of air quality and emissions, noise, fuel consumption and operational efficiency, recycling, energy efficiency, sustainable procurement, and biofuel utilisation.

Because of the complexity and global presence of airlines, as well as the number of role-players and touch points, IEnvA implementation follows a phased approach:

#### STAGE 1

Stage 1 ensures an airline has developed the foundation and framework for its environmental management system. Stage 1 also certifies an airline has identified and complied with its environmental legal requirements.

#### STAGE 2

Stage 2, the highest level of IEnvA assessment, ensures that an airline has implemented all of the IEnvA programme standards, identified and mitigated its significant environmental impacts, and has set performance targets. Stage 2 also certifies that an airline has developed processes for monitoring and reviewing its performance against its targets and objectives, thus driving environmental efficiency.

In December 2016 SAA underwent an extensive audit and was re-awarded IEnvA Stage 2 status.

### Project Solaris – A Focus on the Future

The airline, together with partners Boeing, SunChem, and SkyNRG, launched a biofuels project, named Project Solaris, after the tobacco plant used. Developed at Marble Hall in Limpopo, the project saw the harvesting of its first crop, comprising 50 hectares of the nicotine-free Solaris tobacco plant, in December 2014.

With its seed oils processed into jet fuel, the biofuel offers a possible lifecycle reduction of up to 50 percent in carbon emissions. Beyond this advantage, an optimised supply chain could reduce overall emission by up to 75 percent. The new technology also has a broader social benefit by supporting skills transfer, job creation, and the expansion of opportunities for South Africans in the agro-innovation sector, thereby playing a role in fulfilling the airline's developmental mandate.

SAA joined the Roundtable on Sustainable Biomaterials (RSB) as a full member in 2015 and has also been elected to sit as a Chamber member of the RSB that assists in refining and developing sustainability standards for the industry. RSB approval is considered the 'gold standard' in sustainability in biomaterials.

SAA works very closely with the WWF-SA on a range of environmental sustainability projects. WWF-SA has been commissioned by the Boeing Company to undertake a comprehensive biofuel study centred on Project Solaris to understand any unintended consequences of the programme – both positive and negative.

On 15 July 2016, SAA became the first airline in Africa to undertake a sustainable biofuel flight when a flight from Johannesburg to Cape Town flew on a biofuel mix of conventional jet fuel and biofuel refined from sustainable Solaris oil.

This demonstrated SAA's commitment to sustainability and that the project is viable and fuel can be produced from the Solaris energy tobacco.

More than 1 600 passenger flights all over the world have taken place using biofuel since its approval in 2011, and SAA has joined their esteemed ranks.

Aside from the benefits to SAA in reduced emissions, the social and economic benefits to South Africa are simply astounding.

### Energy, Reduction, Recycling, Collaboration

SAA has implemented a Group-wide effort to reduce energy consumption by utilising energy-efficient technologies within all buildings and commercial properties while investigating methods of generating clean energy for the Group to further reduce the impact on the environment. This, coupled with recycling programmes and other initiatives already underway, is expected to have positive environmental and financial outcomes for SAA in the near future.

A number of strategic relationships have been formalised with key environmental stakeholders in South Africa such as the Forest Stewardship Council and the WWF-SA. These relationships help SAA to monitor and implement continuous improvements to the environmental sustainability programme ensuring that all bases have been comprehensively covered.



## LEGAL, RISK AND COMPLIANCE

### Strategic Focus

SAA is striving to create an enabling business environment with a foundation of sound risk governance that drives decision-making processes.

A disciplined and deliberate focus on sound risk management will foster a natural progression and evolution towards a maturity of risk management, which is aligned to SAA's strategic objectives.

Progress in implementing the Long-Term Turnaround Strategy (LTTS) risk strategy is reflected in the establishment of programmes such as monthly risk assessments, training and awareness to improve the quality of risk management, and the implementation of integrated risk management and governance.

### Risk

The Board is ultimately accountable and responsible for risk management. SAA has adopted an enterprise-wide approach to risk management, guided by the Group Risk Policy and Framework, which is aligned to ISO31000.

During the year there was an increased integration of the Risk Management function within SAA from various stakeholders contributing towards improving the effectiveness of enterprise risk management across the Group.

A concerted effort will be made to embed enterprise risk awareness throughout the Group. The aim is to ensure an increased focus with regular interrogation of risk management and continued introduction and/or improvement of controls where necessary.

The Group Risk Policy and Framework was reviewed during the year in consultation with the Shareholder.

The Group Risk function maintains an Annual Risk Plan, which is tabled with the Board prior to implementation. The Annual Risk Plan encapsulates risk management activities for the financial year. It is included in the Corporate Plan and is used for monitoring. A risk register was compiled, which identified required controls that are needed and actions to be taken by the risk owner. Internal Audit reviews and monitors the controls in place for effectiveness.

Legal, Risk, and Compliance are looking to improve governance by using tools that facilitate the implementation

and maintenance of governance and risk management best practices.

The procurement of the Governance, Risk, and Compliance Tool was finalised and will be implemented at an appropriate time.

### Compliance

During the year under review, compliance procedures and controls emanating from the Compliance Risk Framework as approved in the previous year, were institutionalised.

The framework addresses the material regulatory risks associated with non-compliance of regulatory requirements. Implementation of the procedures and control has been a steady process of embedding compliance and risk management into the Group.

The Group Compliance Policy was approved and adopted by the Group. A Risk-based Compliance Plan, formed by the compliance risk profile, i.e., high-risk legislation, has been developed and is being implemented. The regulatory universe was defined in the previous year, following a Group-wide engagement process in which all applicable laws were identified. This will now form the compilation of comprehensive policies to ensure compliance, which in turn will underpin monitoring and consequences for non-compliance.

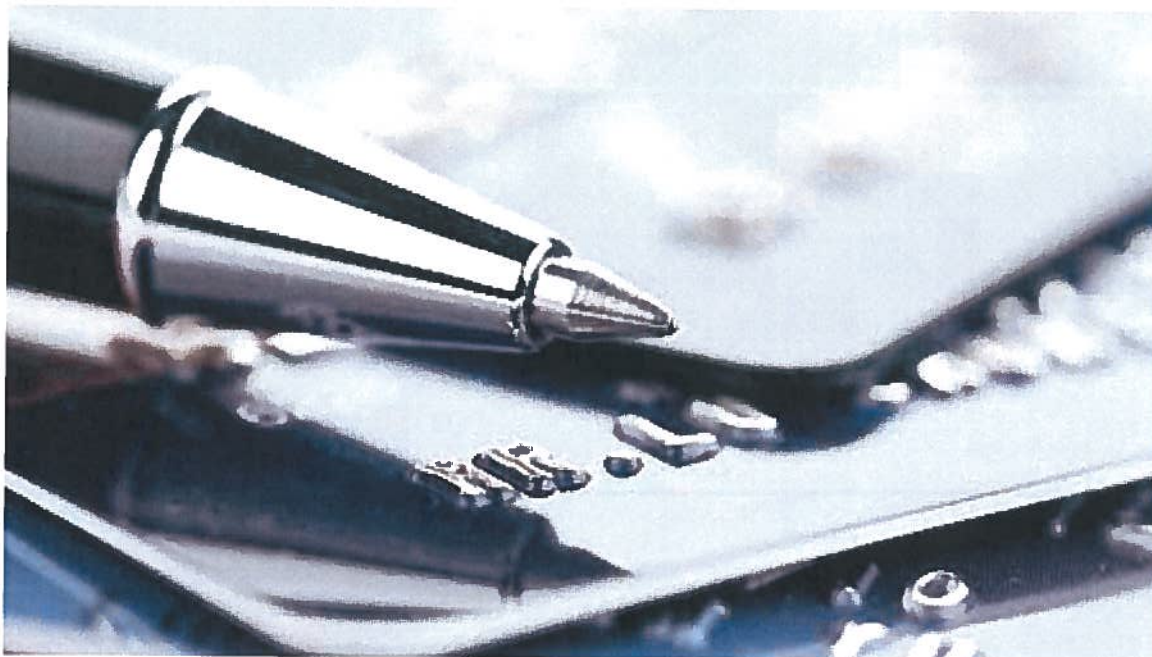
A clear line of sight on international regulations is maintained and is starting to produce positive results and improve potential non-compliance to regulations. Creating early awareness of compliance requirements enables the Group to address them more proactively.

SAA continues to create awareness of the criticality of the Public Finance Management Act (PFMA) compliance, domestically and internationally. The SAA Board continues to monitor implementation of the PFMA Compliance Plan as well as the PFMA tracker used to record non-compliance.

### Legal

The Legal department is responsible for managing legal risk, including litigation risk, that SAA is faced with from time to time. This entails constant analysis and monitoring of litigious matters and provisions made for various claims. The Legal department manages the Group's legal risk with respect to contracting, litigation management, and legal advice and support.

## SHARED SERVICES (continued)



### PROCUREMENT

During the year, Procurement partly conducted a review of supply chain management function including systems, processes, and issues in performance. There are, however, still outstanding issues within the department that still need to be addressed. Some of the issues are emanating mainly from lack of resources, which lead to few staff members having to handle several complex commodities and transactions. This is risky for GSM. The other burning issue is based on the gaps in the GSM structure. Although an independent study was conducted with the final recommendations, there was never any implementation. The processes, systems and performance issues still need to be reviewed robustly.

#### Procurement governance structure

SAA's Procurement Framework is governed by the Public Finance Management Act (PFMA); The National Treasury Practice Note 3 of 2016/2017 and other public procurement regulatory instruments established by National Treasury. Annual procurement plans and quarterly procurement reports are submitted to National Treasury. Currently the SCM policy is being reviewed and amended to ensure flexibility and to further strengthen procurement governance. Currently, the SCM policy has a number of gaps that should be filled as a matter of urgency to ensure efficient and consistent adherence to applicable laws. The framework entrenches the separation of power and reduces the likelihood of conflicts of interest.

### Socio-economic Procurement and Supplier Development

SAA, after the amendment of the PPPFA which came into effect on the 1 April 2017, plans to develop a Supplier Development Framework and Strategy, which will be in line with the updated SCM policy and the applicable provisions that were amended to regulate B-BBEE empowerment by State-owned Companies. SAA plans to empower the small local black-owned companies whenever is feasible to do so, in terms of Regulation 9 and 3 of the Amended PPPFA.

SAA's supplier enterprise development programme is aimed at facilitating SMMEs to compete in the relevant markets. SAA has partnered with the Industrial Development Corporation (IDC) and other developmental agencies to assist SMMEs. Furthermore, SAA is currently working closely with the Department of Trade and Industry on the Black Industrialist programme and localisation of procurement.