

Financial and Operational Performance - Progress Update

Presentation to The Portfolio Committee
5 August 2015

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Flight Plan – Contents

- ✕ Summary Situation as at Sep 2014
- ✕ Addressing the Situation
 - ✕ Short term - Austerity Measures 1-6 months
 - ✕ Medium term - Austerity Measures 7-18 months
 - ✕ Successes
 - ✕ Challenges
 - ✕ Next Steps

Situation as at Sep 2014

✘ **High Costs**

- ✘ fuel
- ✘ labour
- ✘ aircraft leases
- ✘ technical costs
- ✘ other operating costs

✘ **Ageing Aircraft**

- ✘ On time performance - customer service
- ✘ maintenance costs
- ✘ reputation of the company

✘ **Pressure from Competition**

- ✘ Too many start-up airlines cause pressure on operations and dilute fares affecting profitability

Austerity Measures – Cost Containment

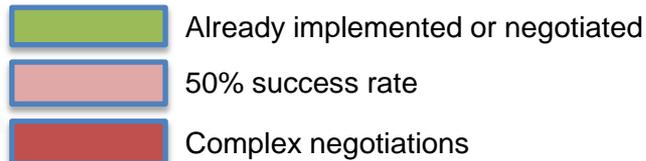
- ✗ **Labour Restructuring** – review overstaffing, revise salary framework downward
- ✗ **Schedule Optimisation** - Network consolidation and match capacity to passenger demand
- ✗ **Contracts Termination** - Reduce and terminate some contracts with certain suppliers to improve costs structure and improve inefficiencies
- ✗ **Lease Reviews** - Engaging aircraft lessors to request lease reductions
- ✗ **Sale and Leaseback of SAX Owned Aircraft** - Continue to investigate potential Sale & Leaseback of owned aircraft to free cash
- ✗ **Technical** - Outsource the Technical Department (to SAA Technical) via the LTTS MRO plan
- ✗ **Stock** - Sell unused inventory to free cash locked up in long-held spares

Operational Performance Improvement

- ✘ **Acquisition of new generation aircraft** - the ageing fleet needs to be changed for younger and new aircraft
- ✘ **Fleet streamlining to ensure fleet commonality** - this helps with availability of aircraft
- ✘ **Negotiate better supplier terms** - with Bombardier to ensure Spares Depot is geared to back maintenance properly with all parts
- ✘ **Training of technicians** - improve speed of defect identification and repair in the short term; medium term plans are to consolidate MRO with SAA Technical
- ✘ **Operations training** - Training of ground staff to ensure service is improved and uniform
- ✘ **Empower frontline and management to resolve issues without escalation**

Austerity Measures Targets

<u>Targeted Initiative</u>	<u>Oct 14 - Mar 15</u> <u>In R'm</u>	<u>Apr 15 - Mar 16</u> <u>In R'm</u>	<u>Apr 16 - Mar 17</u> <u>In R'm</u>	<u>Actions taken</u>
Review Catering	1,64	19,64		Menu changed and now mainly serving nuts, chips and other dry goods
Insourcing passenger handling		10,26		Self handling in Johannesburg. Able to create about 50 jobs.
Fuel Cost		7,54	15,08	Negotiate own contracts and cherry pick where value is achieved
Negotiate Royalty payment paid to SAA		4,33	10,40	Negotiations are in place
Voyager agreement			10,00	Exit mile-keeper programme
Ground handling agreement	1,52	18,23		Change ground handling company
Negotiate down expensive maintenance contracts	19,30	38,60		Negotiated with Lufthansa, Pratt&Whitney and other agreements
Reduce unused inventory		6,94		In negotiations with Bombardier to reduce unused inventory
Reduce lease costs		9,90	19,80	Exit one aircraft lease and negotiate payment terms with major banks
Optimise schedule	74,58	179,00		Exit unprofitable routes, reduce number of flights on certain routes and change times where necessary
Labour review	2,5	41,5	91	Certain positions not replaced and combined with others. Restructured certain salary frameworks to avoid high annual increases without merit
TOTAL SAVINGS TARGETED	97,04	335,94	146,28	



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Successes

- ✘ The initiatives implemented are ensuring that the airline is financially sustainable:
 - ✘ Reduced debt by 49.9% between September 2014 and July 2015 (R569m > R378m before the utilisation of the Shareholder Guarantee)
 - ✘ Quarter 4 profitable compared to the previous 3 quarters losses — R6m
 - ✘ First two months of FY2015/16 profitable
 - ✘ Implemented all initiatives successfully, except for Labour - working with Organised Labour to find other cost cutting programmes that will not lead to retrenchments
 - ✘ restructuring
 - ✘ natural attrition
 - ✘ cutting on certain benefits ie: bonuses
 - ✘ Projected profits for full financial year of FY2015/16 are R60m

The company strategy is meant to address:

- ✗ Improve revenue generation
- ✗ Reduce Operating Cost
- ✗ Ensure people skills are improved
- ✗ Address the ageing fleet and improve aircraft utilisation
- ✗ Improve Corporate Governance and Internal Controls



FINANCIAL STABILITY

Thank you



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