

Briefing by South African Express to the Portfolio Committee on Public Enterprises on the Turnaround Strategy

29 August 2018

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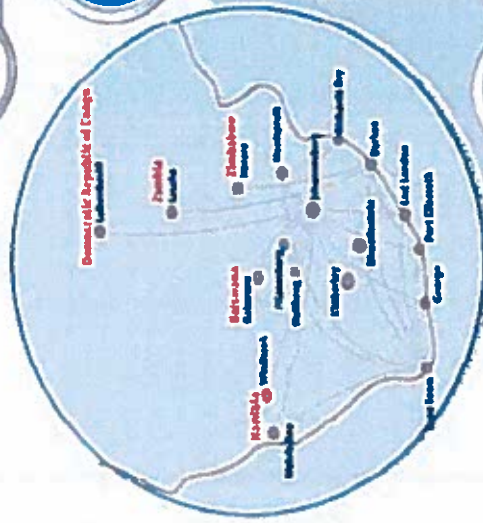
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Company Mandate

Statutory

1. Provide transportation of Passengers, cargo and mail, air charters and other related services
2. Promote frequency of services on lower density routes and to expand regional air services capability in the Republic of the African Continent and surrounding islands.

Problem Statement Prior to Suspension

Airline Performance

Fleet Size	No of Routes
22	170 6R
Available Aircraft	Reliable Aircraft
13 (59%)	10 (77%)
Fight Cancellations	Delays
3%	1/3 PAX > 15 min
OTP	Routes Profitability
65%	3D 2R

Weak balance sheet

Long outstanding debts

Frozen credit lines

Liquidity challenge

Monthly cash-burn

High cost structure

Finance Challenges

Corporate Challenges

Low staff morale

High staff turnover

High rate of management vacancies

Onerous agreements/contracts

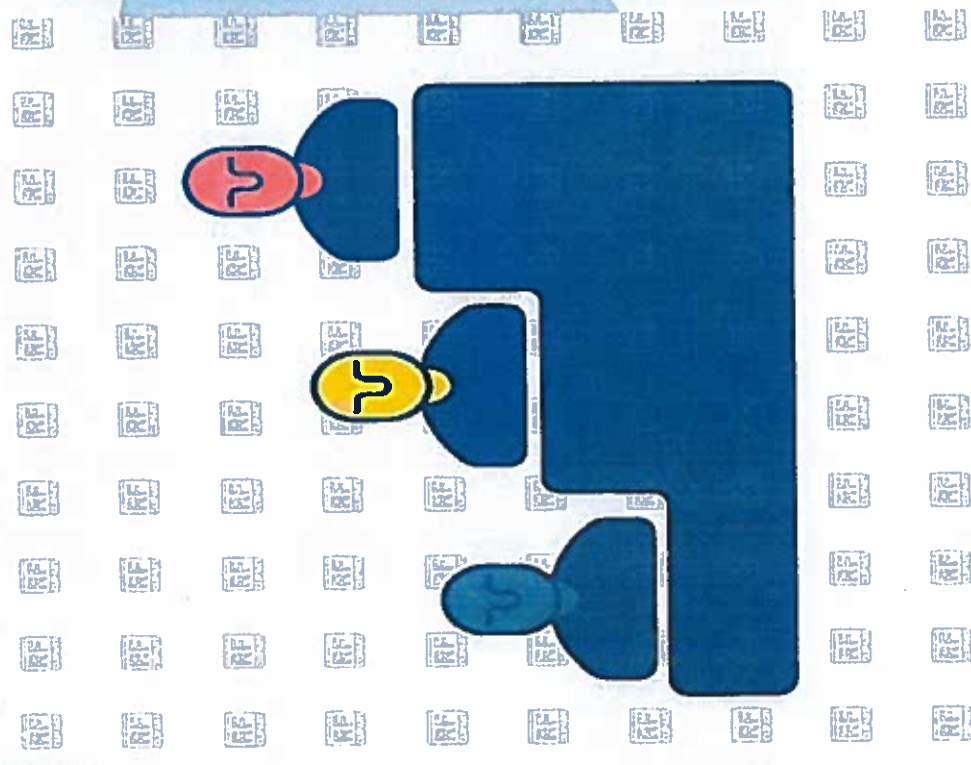
Zero accountability

Shortage of skills

Cause of Suspension of AOC & AMO

- × Lack of management accountability and break-down in the SMS
- × Financial stability of the airline

SACAA Finding Types



Level 1 5	-severe non-compliance /conformance -very serious safety/security risk
Level 2 12	-major non-compliance /conformance - Can be resolved quickly
Level 3 0	-less serious safety/ security -left to airline to resolve and inform SACAA

Suspension and Corrective Action

Subject	Action	Date
Suspension of AOC & AMO on 24 May 2018	<ul style="list-style-type: none"> Meeting with SAA & SAX Establish crisis management centre Activated SAX Compensation Policy Rerouting of passengers IQM training (EXCO & NPH) 	<ul style="list-style-type: none"> 24 -28 May
Level 1 Findings	Action	By
Past findings	<ul style="list-style-type: none"> Embed SMS various platform Fill vacant EXCO positions Safety Management Committee established Responsible managers to report on all open issues 	<ul style="list-style-type: none"> 24 May 2018 From 30 May 30 May 30 June
Acting positions	<ul style="list-style-type: none"> NPH have been designated Structure reviewed 	<ul style="list-style-type: none"> 7 June Q2 2018/19
Funding	<ul style="list-style-type: none"> R1.74 b guarantee issued & recapitalisation request submitted 	<ul style="list-style-type: none"> 22 June 2018
Reliable Maintenance programme	<ul style="list-style-type: none"> Revise maintenance control manual Engineering analyst to review Bombardier data & recommended to RPA Reliability Analyst & Board to be placed 	<ul style="list-style-type: none"> 30 May From 29 May Q1 2019/2020
RTS of OOS	<ul style="list-style-type: none"> 12 aircraft to be returned to service 9 previously self grounded aircraft removed from licence 	

Level 2 Findings

- × Wet leases- No procedures to add aircraft to operation
- × Cargo handling _ lease with SAA expired
- × Organogram- Maintenance organogram confusing
- × AMO personnel – Human factors recurrence training lapsed
- × Spares robbing- AMO unable to provide parts tracking system
- × YBR – had a check not called for by regulations
- × Minimum equipment list – MEL stems can be extended – SA Express used extensions too often
- × Training of flight crew – expired CRM training crew
- × Maintenance & AMO – insufficient segregation of duty
- × Dangerous goods oversight – process not effective
- × Maintenance control manual
- × Technical customer complaints- not effectively resolved

Lifting of Suspensions

- Attending to Aircraft preservation & line maintenance
- Revision of various manuals
- Vigorous assessment of documentation, processes and procedures
- Aircraft inspection
- Demonstration phase

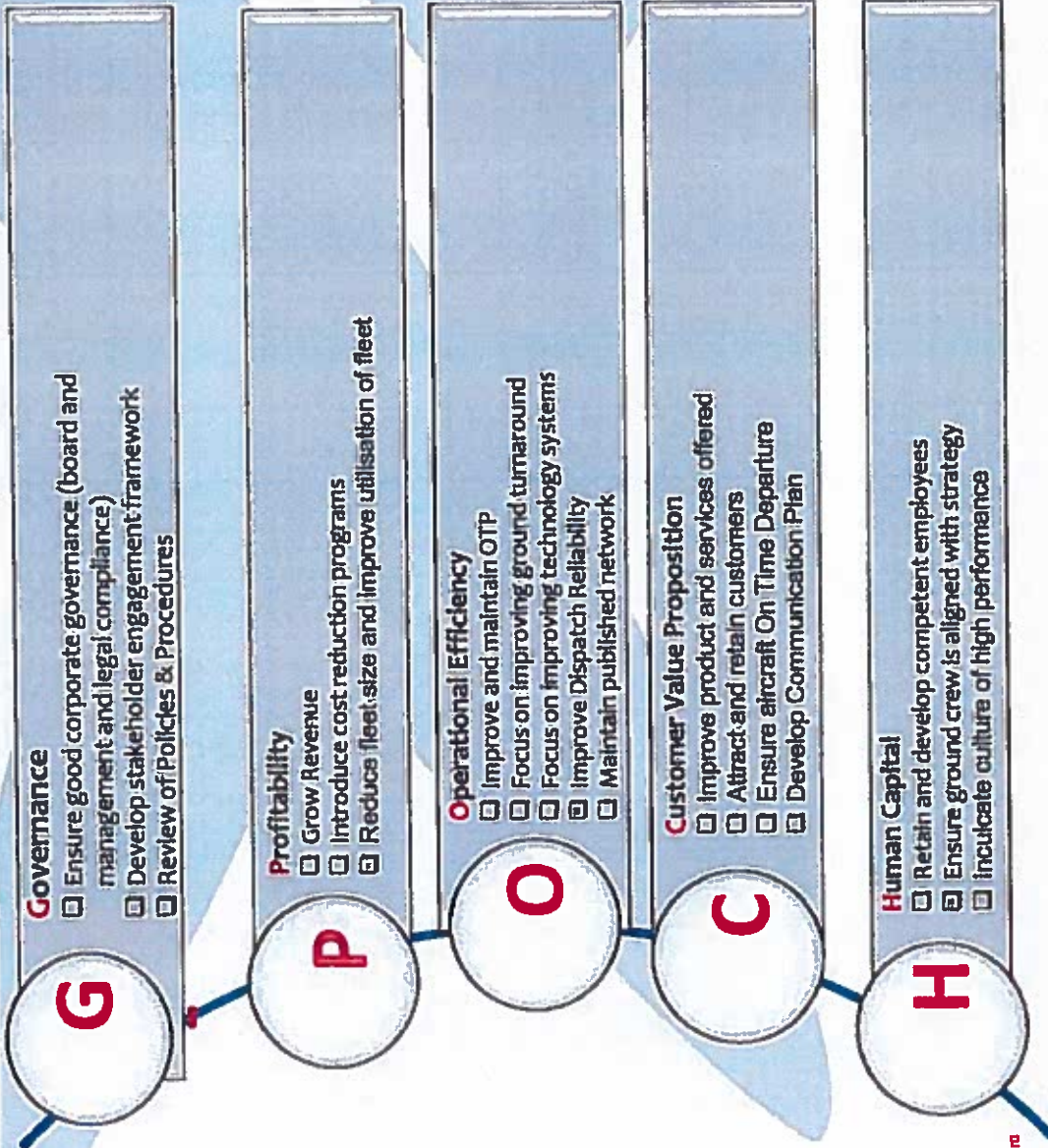
AMO
Suspension
lifted
22 June 2018

AOC
Suspension
lifted
26 July 2018

TURNAROUND STRATEGY

SAX will drive performance and commercial sustainability on the strength of the 5 pillar strategic focus with clear Initiatives and

Outcomes: **G-POCH**



SAX will drive performance and commercial sustainability on the strength of the 5 pillar strategic focus with clear Initiatives and Outcomes: **G-POCH**



Initiatives & Outcomes (0 - 6 Months - Phase 1)

- Board appointments and induction completed
- Board Sub-Committees constituted
- Review of critical policies and procedures,
- Revise Shareholder Compact and Corporate Plan (FY2018/19)
- Close all outstanding Auditor General (AG) findings
- Full compliance with SACAA
- Maintain AOC and AMO with 12 aircraft on AOC

Initiatives & Outcomes (6 - 12 Months - Phase 2)

- Finalise Shareholder Compact and Corporate Plan FY2019/20)
- 100% compliance with regulatory (SACAA) requirements
- Close all Auditor General (AG) new findings from 2017/18 FY
- Maintain AOC, AMO and Certificate of Worthiness for entire fleet (12+) upon CAA subsequent yearly audit
- Maintain compliance with all relevant laws and PFMA requirements

SAX will drive performance and commercial sustainability on the strength of the 5 pillar strategic focus with clear Initiatives and Outcomes: **G-POCH**



Initiatives & Outcomes (0 - 6 Months - Phase 1)

- Improve Revenue
 - Introduce high yield regional routes
 - Focus on consolidating ORTIA as the main hub
 - Strengthen revenue and yield management
 - Reopen Cape Town as base (from January 2019) and start
- Reduce Costs
 - Reduce aircraft lease costs
 - Cancel all charters
 - Renegotiating fuel contract
- Capital Restructuring
 - Develop 5 year financial projections & restructured balance sheet including;
 - Capital injection to improve debt gearing and
 - Return to profitability

Initiatives & Outcomes (6 - 12 Months - Phase 2)

- Improve Revenue
 - Expand regional route network
 - Forge partnerships and JV with regional airlines
 - Collaborate with SAA
- Reduce Costs
 - Submit a Long Term Fleet Plan
- Capital Restructuring
 - Obtain shareholder approval for capital injection to improve debt gearing

SAX will drive performance and commercial sustainability on the strength of the 5 pillar strategic focus with clear Initiatives and Outcomes: **G-POCH**



Initiatives & Outcomes (0 - 6 Months - Phase 1)

- Improve and maintain OTP at or above 90%
- Improve aircraft reliability through adequate spares
- Review procedures and documentation for parts movement
- Open Cape Town maintenance base from January 2019
- Invest in Aircraft Reliability Program
- Submit for board approval – Proposal for SAAT and SAX Technical consolidation

Initiatives & Outcomes (6 - 12 Months - Phase 2)

- Continuously review procedures and documentation for parts movement
- innovative IT systems to improve aircraft utilisation
- Maintain 100% Aircraft Availability to ensure schedule stability
- Redesign organization and Operations Dept to achieve 90% OTP or greater
- Ensure there is a back up or spare aircraft at each hub
- Finalise closer co-operation between SAAT and SAX Technical

SAX will drive performance and commercial sustainability on the strength of the 5 pillar strategic focus with clear Initiatives and Outcomes: **G-POCH**



Initiatives & Outcomes (0 - 6 Months - Phase 1)

- Enhance customer experience
 - OTP
 - Value -add services
 - Achieve acceptable Customer Satisfaction Index/Measurement
- Reduce
 - customer complaints
 - missing bags
- Design a Customer Recovery Communication Plan
- Review Frequent Flyer Program (Voyager) to improve customer loyalty
- Design innovative reward system for frequent fliers on SAX routes

Initiatives & Outcomes (6 - 12 Months - Phase 2)

- Enhance product and service (reservations, onboard and airport)
- Increase frequencies on key routes to provide flexibility to customers
- Review merits in deployment and utilisation of digital platforms for customer engagement
- Drive media campaign through all channels including social media

SAX will drive performance and commercial sustainability on the strength of the 5 pillar strategic focus with clear Initiatives and Outcomes: **G-POCH**



Initiatives & Outcomes (0 - 6 Months - Phase 1)

- New Vision and Mission; and Values
- Organisation structure fit purpose;
 - Right size organisation
 - Appoint Executive Management/Leadership
- Performance Management Framework
- Executive Management performance agreement aligned to shareholder compact targets
- Design a Reward/Incentive Scheme for all employees
- Inculcate a performance culture across the organisation
 - Design BSCs for leadership

Initiatives & Outcomes (6 - 12 Months - Phase 2)

- Implement Performance Management Framework across the organisation
- Implement Reward/Incentive Scheme for all employees
- Implement BSCs for leadership level
 - Focus on training to upskill of staff at all levels
 - Review wages and salaries structures to identify areas of savings in consultation with Labour

Initiatives and Outcomes will be a basis for Management BSCs with clear measurable Performance Metrics

Measurements Metrics

- Compliance with King IV, PFMA and other applicable laws and regulators
- Timorous submission of Shareholder's Compact, Corporate Plans and Quarterly reports

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- Profitability
- CASK/RASK Per route
- Load factors
- Base closure
- Turnaround times
- Cost Savings
- Liquidity
- Gearing ratio

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- Aircraft utilisation
- OTP
- Maintenance metrics
- Turnaround times
- Fuel consumption metrics
- Revenue management and Pricing

O

Initiatives and Outcomes will be a basis for Management BSCs
with clear measurable Performance Metrics

Measurements Metrics

- Customer feedback/Customer Satisfaction Index/Ratings
- SAA Technical & SAX Technical Consolidation
- New products introduction

C

- Employee Satisfaction Survey (ratings)
- Restructured Organisation
- Labour consultations
- Motivation/Performance Schemes
- Culture
- Customer experience feedback (booking, check-in, cabin, flight crew)
- Pilots utilisation

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Way Forward

- × Develop detailed turnaround strategy to submit to Ministers of Finance and Public Enterprises by 22 September 2018
- × Develop Fleet Plan before end of 2018