

Annual Financial Results FY2010/11 Parliamentary Presentation

Portfolio Committee – 1 November 2011



This document is confidential and circulation is restricted
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Contents

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2010/2011**

**Future outlook
2011/2012**

- ✘ Overview and Synopsis
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Overview and Synopsis

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Strategic Overview of SA Express

Vision

“To be the most successful regional airline providing the best service to our customers whilst optimising profits

Aspirations

Great place to work	Great airline to fly	Develop “Express” franchise airlines in Africa	Exceed customer service expectations
Best regional airline	Young reliable fleet	Lead transformation	Living our values

What makes us different and drives long-term strategy?

FAT Principle - Increased Frequency of flights, Availability of seats at the desired Time

Our Brand Expression

“WE FLY FOR YOU”

Strategic Focus

Consolidate presence in the domestic market	Build sustainable cargo business	Improve direct channels revenue	Implement Intra-Africa Hub Strategy	Improve on service delivery	Human Capital Development and Retention
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Wingspan

Transportation of passengers and cargo	Part of SAA Alliance	Promote frequency to lower density routes	Expand regional air services to African continent
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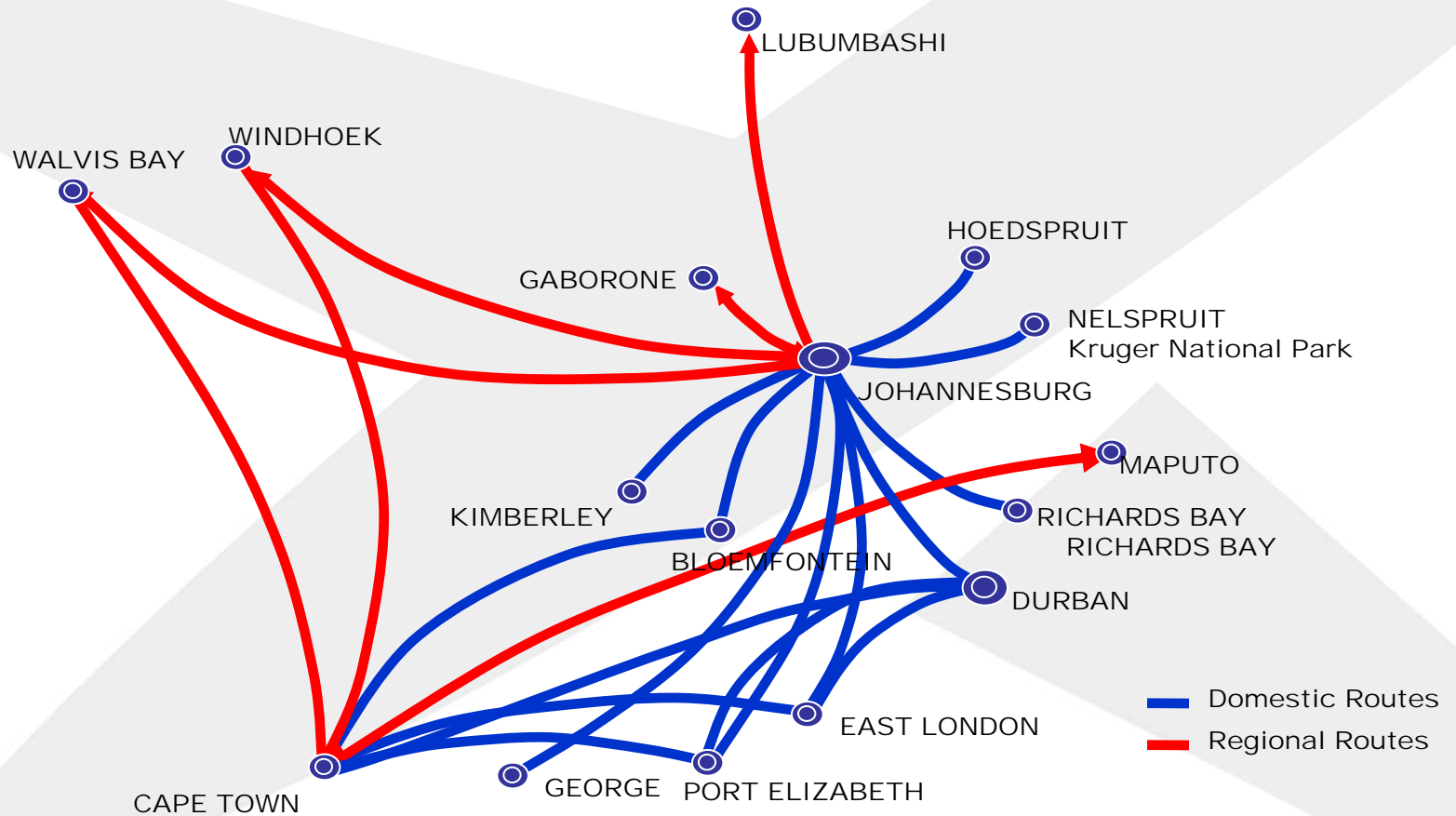
⁴ Our values

Safety First	Service Before Self	Passion	Performance Driven	Self Development	Accountability and Integrity
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IATA Review 2010

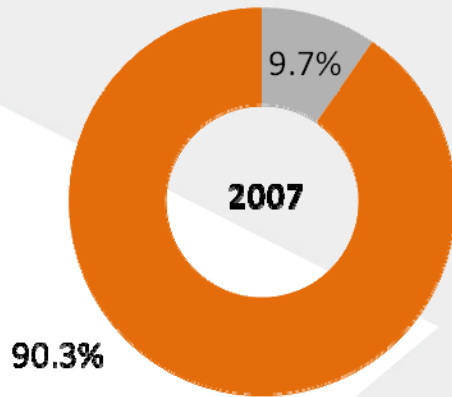
- ✘ Forecasted profits were very low due to natural and political factors and an increase in brent crude oil by \$20
- ✘ Asia continues to produce largest profit due to the rapid economic growth
- ✘ Africa's inability to adopt open skies policies, has seen it languish behind other emerging markets with respect to development of demand and supply of air transportation
- ✘ Slow economic growth is a key risk the growth of airlines – world GDP was between 3% and 4%
- ✘ Travel costs have increased due to higher input costs required

Route Network

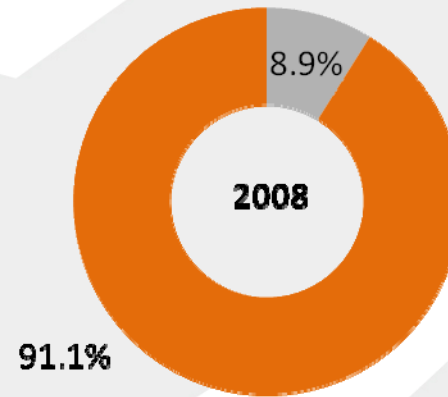


9 Domestic routes Ex Johannesburg
4 Domestic routes Ex Durban
4 Domestic routes and 3 Regional routes Ex Cape Town

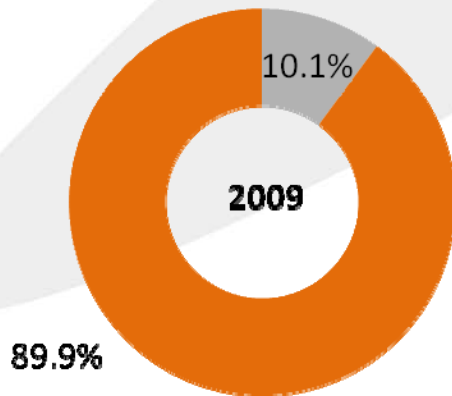
Domestic Market Share



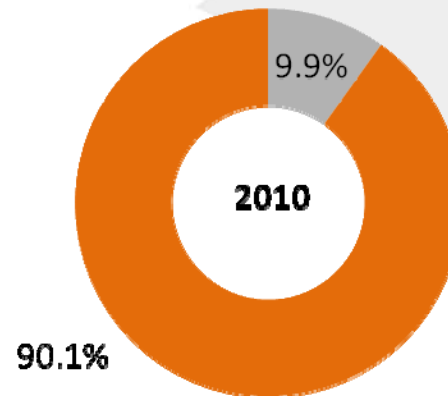
■ SA Express ■ Industry



■ SA Express ■ Industry

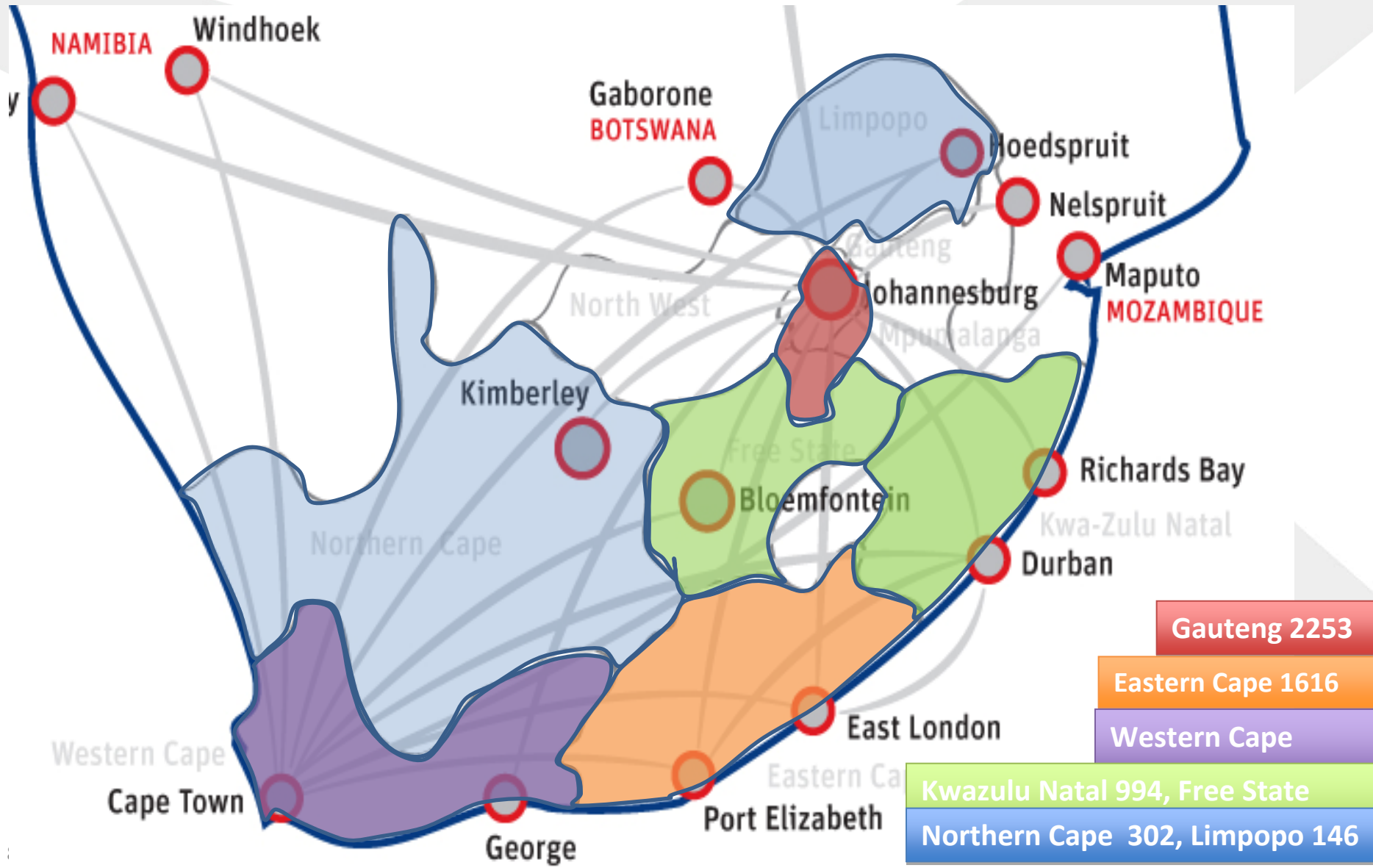


■ SA Express ■ Industry



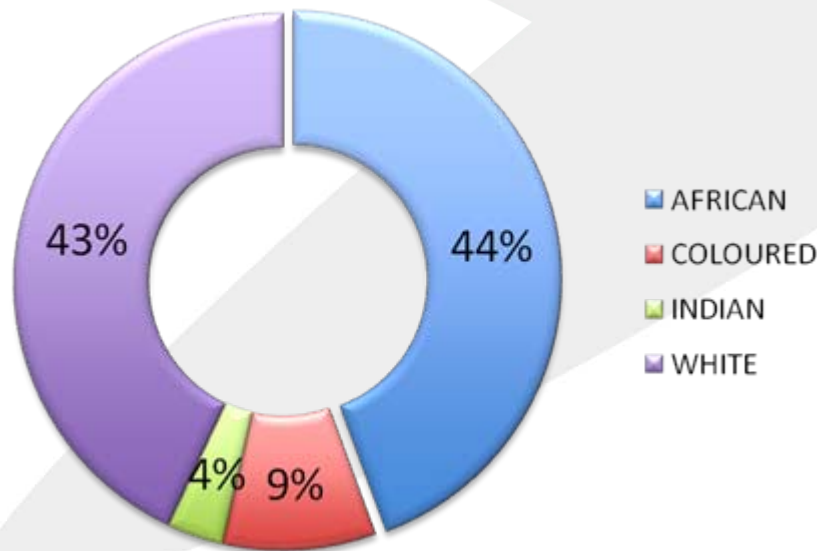
■ SA Express ■ Industry

Provincial Footprint of Operations



Employee Profile

- ✗ Currently, SA Express has 1 019 employees as at 31 March 2011
- ✗ The demographics are 57% black and 43% white
- ✗ 36% is female and 64% male



Scarce skills (pilots and technicians) remain a challenge, however the business has embarked on key initiatives to address the gaps

Operational Overview – Highlights 2010/11

HIGHLIGHTS

Technical Reliability Performance Award from Bombardier for CRJ 100/200 & Q 100/200/300
Route Network Expansion YTD 2010/11: CPT-DUR
Fleet Renewal Approval
Skill Development Programmes and Training 2010/11
MDP Programme and Cadet Programme

LOWLIGHTS

Fleet Reliability : Increased number of cancellations as a result of ageing fleet
Aircraft Availability due to two incidents
OTP target not met
Congo Express

Synopsis

REVENUE GROWTH
2.1%

INCREASE IN PASSENGERS
CARRIED
1.01%

INCREASE IN LOAD
FACTOR
3%

FLEET
27

BAGS MISHANDLED/
1000 PAX HANDLED
0.38*

REVENUE PER AVAILABLE
SEAT / KM
0.94c

COST PER AVAILABLE SEAT
/ KM (net)
0.68c

ON TIME PERFORMANCE
(15min)
85%

OPERATING PROFIT
MARGIN
3.1%

¹¹ * As reported

Shareholders Compact- 31 March 2011

SAX KPI				
KPI	Unit of measure	Compact	Actual	Progress tracker
				√ - achieved X - not achieved
Profitability				
Average Passenger Fare	R	904	944	√
Financial value creation				
Turnover	Rb	2.07	1.75	X
Passenger Load factor	Percentage	67%	64%	X
EBIT	Percentage	16%	3.60%	X
RASK (Total Income)	cents	118	94	X
RASK (Total Income excluding fuel Levy)	cents	69	79	√
CASK (Total Operating expenses + Leases + Depreciation)	cents	99	99	√
CASK (Excluding Fuel Costs)	cents	74	68	√
Return on Total Assets	Percentage	16.60%	3.30%	X
Cargo as a % of Operating Income	Percentage	1.50%	0.70%	X
Fleet				
Daily block Hours per Aircraft	Hours	7	6.03	X
On-time performance (within 15 min of scheduled departure time)	Percentage	91%	85%	X
Total Staff per Aircraft	Ratio	41.38	37.77	√
Human Capital				
Turnover per employee	Rm	2	1.72	X
Training spend to Total Income	Percentage	1%	2%	√

Financial Performance



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Current Year Overview

2011 performance compared to the 2010 in R 000					
	Total Revenue		Total operating Cost		Net Profit after tax
Actual	1,748,509	5% ↑	(1,696,083)	-13% ↑	51,354
Prior Year	1,667,280		(1,492,776)		250,759
2011 performance compared to the Budget in R 000					
	Total Revenue		Total operating Cost		Net Profit after tax
Actual	1,748,509	-16% ↓	(1,696,083)	-3% ↓	51,354
Budget	2,079,923		(1,747,329)		238,772

Financial Performance Comparison 2010: Income Statement

<u>DETAILS (R'000)</u>	<u>2011</u> <u>Actual</u>	<u>2011</u> <u>Budget</u>	<u>2010</u> <u>Actual</u>
Pax revenue	1,559,043	1,898,345	1,498,284
Cargo	12,792	31,389	13,004
Other income	176,674	150,189	155,992
Total turnover	1,748,509	2,079,923	1,667,280
Major expenses:			
Salaries	(383,315)	(378,011)	(359,324)
Ground Supp + Pax Handling	(239,725)	(213,803)	(167,652)
Fuel	(400,056)	(387,562)	(297,222)
Training	(32,909)	(29,592)	(26,496)
Operating lease rentals	(152,080)	(142,350)	(142,279)
Total expenses	(1,696,083)	(1,747,329)	(1,492,776)
Operating profit	51,427	332,594	174,505
Finance costs	(11,596)	(5,974)	(6,231)
Fair value adjustment	(1,928)	-	
Investment income	12,593	3,840	16,280
Reclassification adjustments			163,977
Nett Profit before tax	50,495	330,460	348,532
Taxation	876	(91,688)	(97,773)
Nett Profit after tax	51,354	238,772	250,759

Total turnover increased by 5% compared to 2010, however 16% below budget

Total expenses increased by 14% compared to the prior period, but was 3% below budget

Nett profit after tax decreased by 80%, and was 78% below budget

Variances to budget explained - Costs

- ✘ Aircraft incident direct and consequential cost amounting to **R15.46m**
 - ✘ Ad hoc leases R8.2 m, and increased fuel R3.1m
 - ✘ Increased flight time on CRJ 200's due to aircraft out of the system, increase of 8% on average utilisation – R1.657m
- ✘ Unavoidable costs in services and support to Congo Express > **R35m**
 - ✘ Supporting spares \$57k per month
 - ✘ Net impairment of R35m (Wet lease true cost (aircraft, insurance, crew cost) and systems – R4.75m p/m)
- ✘ Additional modifications to ageing fleet **R3,27m** (MOD purchased and AD requirements)
- ✘ Preparations for World Cup **R6.8m**
 - ✘ Outsource of a C-check, maintenance and training brought forward and spares acquired to ensure uninterrupted services to the teams

Performance Comparison 2010: Statement of Financial Position

	<u>31 March 2011</u>	<u>31 March 2010</u>
Assets		
Non-current	137,392,322	1,118,070,111
Current	698,075,281	528,080,702
Non Current Held for sale	1,108,837,819	-
Total Assets	1,944,105,422	1,646,150,813
Equity & Liabilities		
Equity	1,202,126,679	1,150,772,509
Non-current liabilities	536,169,069	288,883,617
Current liabilities	205,809,674	206,494,687
Total Equity & Liabilities	1,944,105,422	1,646,150,813

Total assets increased by 18% year on year

Equity increased by 4% year on year

Total liabilities increased by 50% year on year

Financial Performance Comparison 2010: Nett Cash Position Incl. Facilities And Other

	March 2011 R'm	March 2010 R'm	March 2009 R'm
Cash flows from operating activities	36	135	129
Cash flows from investing activities	(201)	(189)	560
Cash flows from financing activities	177	42	(113)
Net increase / (decrease) in cash	12	(12)	576
Nett cash balance	80	69	81

Cash generated increased by 200%

Facilities as at end of March

R100 m overdraft

R200m revolving credit

Available

R52m

R79m investment on call account

0

Financial Performance Comparison 2010: Sustainable Earnings Analysis

	Mar-11	Mar-10
	Rm	Rm
Profit before tax	51	348
Impairment on Congo Express excluding Opportunity Cost	35	-6
Reclassification adjustment	-	-163
Fair value adjustments	1.9	0.3
Change in estimate – UTL and leave accrual	-	-39
Fuel surcharge - UTL	-	-11
Prior period over/under accruals	14	-14
Prepayments not expensed	7.3	-7.3
Prior period errors	-	-
- non reversal of provision for dispute settlement	-	-
- SAP system error	-	-
- Interest incorrectly reversed	-	-
Total before tax	109.2	108

Sustainable earnings increased by 1.4% from the prior year, comparison limited to two years due to economic and business climate

SA Airline Industry Performance

Description	SA Express	1 Time	Comair
Net Profit Margin	3%	0.94%	2.15%
Return on Assets	3%	1.89%	3.66%
Debt Equity	61%	330%	263%
Revenue Growth	4%	4.60%	19%
Operating Expences/Aircraft (R'm)	62 817	99 514	142 042
Turnover (R'000m)	1 748	1308	3577
Net Profit (R'm)	51	12 264	76 491

*1time – financial year end 30–12–2010

*Comair – financial year end 30-06-2011



Congo Express and other burning issues

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Prior Year errors relating to 2009 AFS – R43.3m

- ✘ Interest incorrectly reversed during Transnet unbundling
R22m less tax impact = R15.7m
- ✘ Period 13 error in 2008 year passed after auditing of 2009
resulting in error of R25,6 less tax impact = R18.4
overstatement of Retained earnings and an Understatement
of Accruals
- ✘ Dispute with SAA on Unutilized Tickets . Provision raised but
on settlement in 2009 provision not reversed resulting in
overstatement of retained income and debtors R12.5m less
tax impact = R9m

Impact of prior period errors

Income statement	2009
Net profit after tax	235,4 m
Prior period errors	43,3 m
Adjusted net profit after tax	192,1 m
Add back bonus	35,1 m
Adjusted net profit	227, 2 m

The budget for the adjusted period was a net profit after tax of R220m

Statement of changes in Equity	2011 AFS
Accumulated profit reported before for the 2009 financial year	84,6 m
Total of error	(43,4m)
Accumulated profit 2009 restated	41,2 m

Statement of financial position	2011 AFS	Adjustment	Reported before
Trade Receivables	293,2 m	(34,6m)	258,6 m
Trade Payables	66,2 m	25,6 m	91,8m

Potential Irregularities Reported Post Approval Of The Annual Financial Statements

- ✘ An anonymous call was logged to SA Express' Ethics Hotline which is independently managed by KPMG, its Internal Audit Service provider
- ✘ Potential irregularities reported:
 - ✘ R 42 million amount VAT shown as a debtor by SA Express, which may not be fully receivable from the South African Revenue Services.
 - ✘ An amount of R 16 million debtor which may not be recoverable.
 - ✘ Allegations to the procurement process of an IT contract for application development (not related to AFS)
- ✘ **These allegations are material and if substantiated could negatively impact SA Express' Audited Financial Statements for the year ended 31 March 2011 or prior periods reported.**

Potential Irregularities Reported Post Approval of the Annual Financial Statements (Continued)

- ✘ The board of directors commissioned Sizwe Ntsaluba VSP Forensics to investigate these allegations and report their findings to the Board.
- ✘ SA Express has discussed these allegations and the steps to resolve it, with its Auditors, Nkonki Incorporated
- ✘ SA Express **will keep you informed** of the Forensic Audit findings relating to these allegations and assure you that SA Express is resolute in ensuring that in the event that the allegations are confirmed, it **will expediently resolve** these with the guidance of the Board and auditors and institute such measures as the auditors and Board prescribe to prevent their reoccurrence.

Congo Express

- ✘ Excitement of the launch as expansion venture into DRC short lived
- ✘ Market Conditions not as predicted
- ✘ Partner did not have capacity to inject his share of capital or share our Corporate Governance Principles
- ✘ Full understanding of consequences of DRC legislation
- ✘ Gerant's unilateral control of entity
- ✘ Lessons Learnt

Lessons Learnt – Congo Express Post Mortem

Learning	Detail
Work with key stakeholders and solicit necessary support	Ensure early involvement of the shareholder (DPE) planning and execution stages. In addition, solicit support and involvement of DIRCO, DoT, DTI and other key stakeholders in the negotiations stages
Take learning's from other SA corporate already operating in or intending to expanding into the region	Learn from such companies as Shoprite, Standard Bank, Protea Hotels, SAB which have succeeded in expanding their operations into the region
Hunt in a pack with other SoE's with same expansion objectives	Put together comprehensive value proposition that include other SoE's such as ACSA, DENEL, ESKOM
Appointment of legal & Tax advisors at planning stage	Complexity of taxation and legal environment can change country risk
Funding Partners	To investigate the option of partnering with other South African institutions to finance the expansion. These would include development finance institutions such as the DBSA and the IDC
Technical infrastructure	Early identification of existing infrastructure and qualified service providers will reduce the strain on SAX technical
Allocation of Capital	Ensure that all estimates are conservative and address thin capitalization concerns as well as operational requirements
Human Resources (Skills)	Skills need to be developed in the countries SAX operates to ensure potential deployment into Expansion initiatives and skill transfer

Congo Express – Status Update

- ✘ PFMA application was lodged and approved by the Minister and the shareholding was transferred to the co-shareholder Biz Afrika
- ✘ All constitutive agreements were terminated and terminations was duly lodged with the company registry of the DRC
- ✘ The intent remains to recover the outstanding amounts in the event that the entity continues to trade profitably in the future (freeze period 2 years from withdrawal date i.e. 31 May 2011)
- ✘ Contingent liability risk to SA Express minimised



New Growth Path Update

“The SOEs can either constrain growth or act as catalysts...”
Public Enterprises, Minister Malusi Gigaba,
(9 May, 2011 Event hosted by Sacci)



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NGP Initiatives

- ✘ Redress gender equity in scarce and critical areas
 - ✘ **Female specific** intakes planned for both Cadet Pilot and the Apprentice programmes
- ✘ **Develop more black** candidates to fast track leadership and management expertise
 - ✘ Demographics of the Management Development Programme; 52.9% Black and 47% White
 - ✘ Females; 38% , of which 29% is Black
 - ✘ **An additional intake of 8 Black women** took place in May 2011 to improve gender equity
 - ✘ 58 % of the Supervisory Skills Programme is black
- ✘ Improve workplace access for learning
 - ✘ Experiential learning opportunities are being created **in multiple departments**

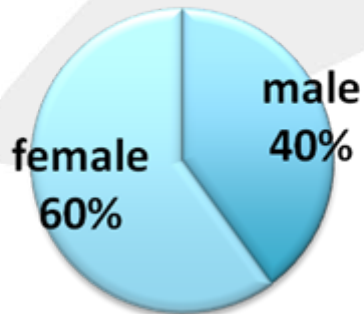
NGP Roadmap

Total development opportunities

<p>Pilots Mach 1&2</p> <p>Intake 16</p> <p>Stretch 16</p>	<p>Technical apprentice</p> <p>Intake 30</p> <p>Stretch 20</p>	<p>Other developmental programmes</p> <p>intake 31</p> <p>stretch 25</p>	<p>Experiential Learnership</p> <p>intake 9</p> <p>stretch 11</p>
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Stretch opportunities (R36m) only indicate capacity as this is not budgeted

demographics of initiatives



Total staff compliment increased by 8% to date (from 1019 in March to 1098 end September 2011)

Indirect influence to meet National Growth Path Objectives

Job Opportunities

- ✘ Black accounting firm re-appointed (two years)
- ✘ Intends to develop an in-house internal audit function next two years
- ✘ Increased fleet will result in increased staff (outsourced suppliers) to support service

Infrastructure development

- ✘ Influence stakeholders by providing capacity to enter the economy from secondary markets to primary markets to facilitate economic growth
- ✘ Fleet Renewal will result in NIPP initiatives to benefit the industry and economy

Capacity Growth by Province and Region

- ✘ SA Express currently has presence in all of the provinces, except the North West. With a commitment to serve all the provinces, SA Express requires the support from **all** Government departments to travel on the product
- ✘ Capacity increase on average amounts to 15% over the next three years, and SA Express is well underway to achieve the set target.
- ✘ SA Express is determined to link small towns to big towns not only for business but with a renewed focus on tourism

Province	Capacity increase in total at the end of 2015	Region	Capacity increase in total at the end of 2015
Gauteng	12%	Namibia	20%
Western Cape	19%	Botswana	21%
Free State	20%	Mozambique	19%
Kwazulu Natal	15%	Democratic Republic of the Congo	19%
Eastern Cape	16%		
Mpumalanga	2%		
Limpopo	2%		
Northern Cape	4%		

Africa Expansion Strategy

- ✘ Strong synergy between the SAA Group & SA Express
 - ✘ some target market overlap;
 - ✘ complimentary network and fleet;
 - ✘ and the key objective of maximising Shareholder value
- ✘ Almost all airline equity consolidation has occurred in single markets and SAA (in particular) and SA Express face competitors of much larger scale than five years ago
- ✘ Foreign airlines provide materially less support for state policy initiatives, such as New Growth Path.
- ✘ SA Express is working diligently with SAA on the expansion into West Africa
- ✘ Ghana has been identified as a window of opportunity and the team need to take immediate steps



Outlook and Strategy

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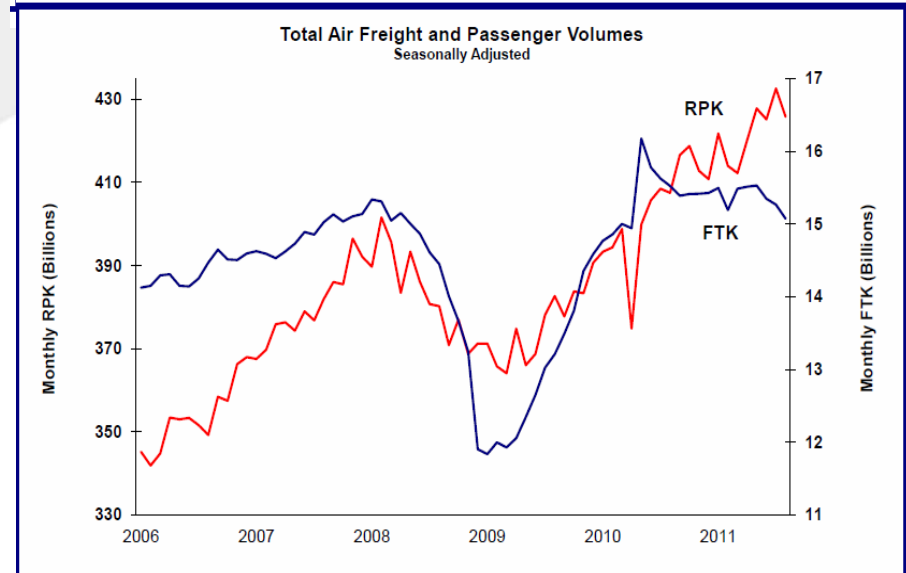
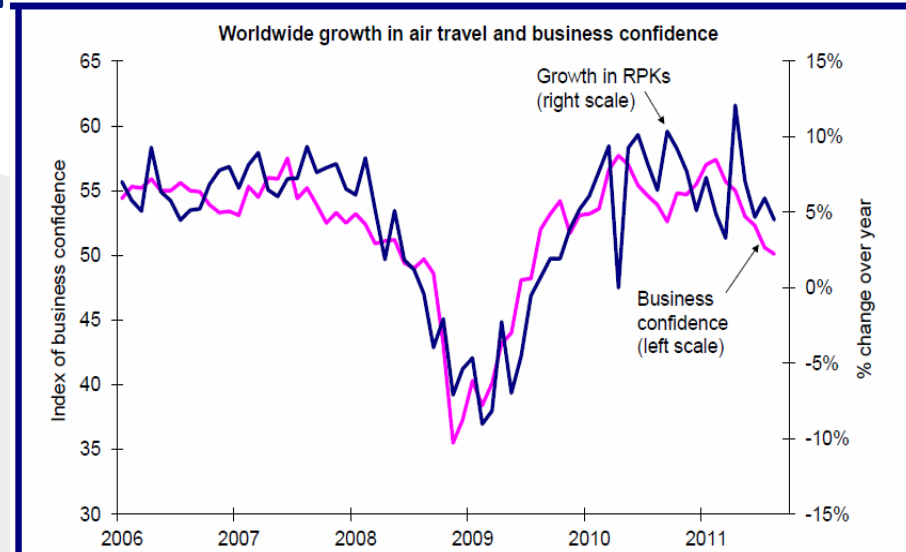


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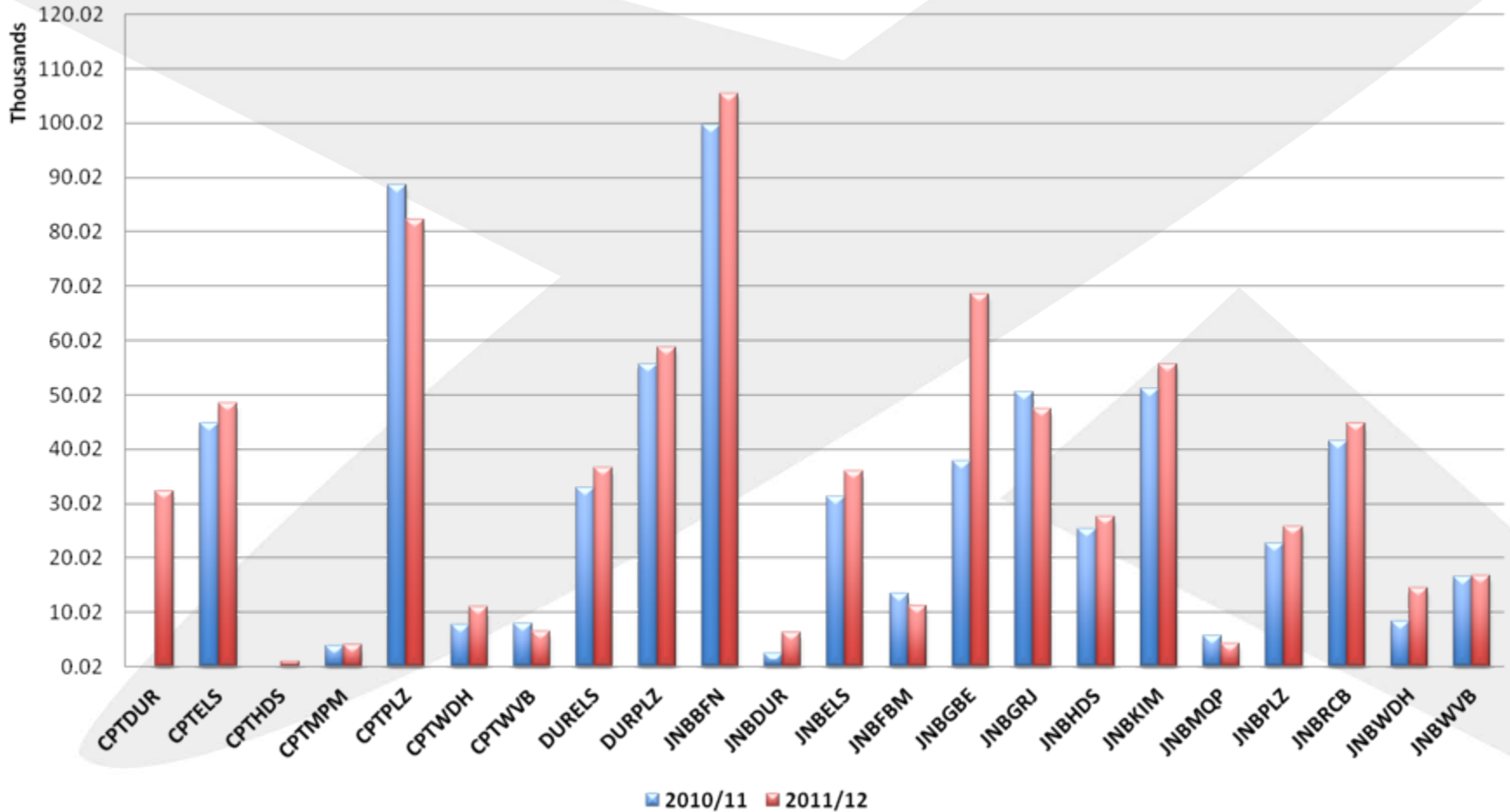
IATA Outlook 2011/12

- ✗ Negative growth forecasted for Africa -7%
- ✗ Lower profitability with weaker economies overall (Sept outlook)



Performance overview

Passengers YTD Sep 2011



Passenger numbers and revenue has increased by 14% year on year

Challenges 2011/12

Pressure on Profitability

- Fuel prices
- Legislated increases e.g. ACSA, ATNS, CAA

Fragmented domestic market and increased competition

- Declining market share, new entrants
- Price sensitivity due to LCC

Reliability

- On-time performance
- Increased maintenance turnaround due to aged fleet
- Baggage Management

Cargo

- Growth constraints due to Cargo Agreement
- Aircraft hold Capacity

Human Capital

- Scarce skill retention and attraction

Fleet renewal delay

- Higher acquisition cost due to exchange rate

Consumer Protection Act

- Increased passenger claims in the absence of an industry code

Strategic Goals 2011/12 – Focus Areas

- ✘ Improved Customer Service
- ✘ Network Growth: Domestic and Regional Opportunities
- ✘ Africa Expansion
- ✘ Human Capital Development
- ✘ Sustainable Cargo Business
- ✘ Increased Productivity
 - ✘ People (Human Capital)
 - ✘ Systems and Processes
 - ✘ Performance Management
- ✘ New Growth Path targets
- ✘ Transformation

Network Expansion 2011/2012

- ✕ Domestic opportunities include added frequencies and two new routes; CPT-HDS and CPT-KIM
- ✕ Regional Expansion has an intense focus on a third hub potential for SA Express (DUR)



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- Gaborone
- Maputo
- Windhoek
- Bloemfontein
- Cape Town
- Durban
- East London
- Johannesburg
- Kimberley
- Hoedspruit
- Nelspruit
- Port Elizabeth
- Richards Bay
- Walvis Bay
- George
- Lubumbashi

Fleet Renewal Progress

Transition planned 2012

- ✘ Total of 7 x Q400 to be added by the end of November, to date 5 has been placed into service
- ✘ Exit of 50-seat DH8 aircraft, to date 5 has exit the fleet

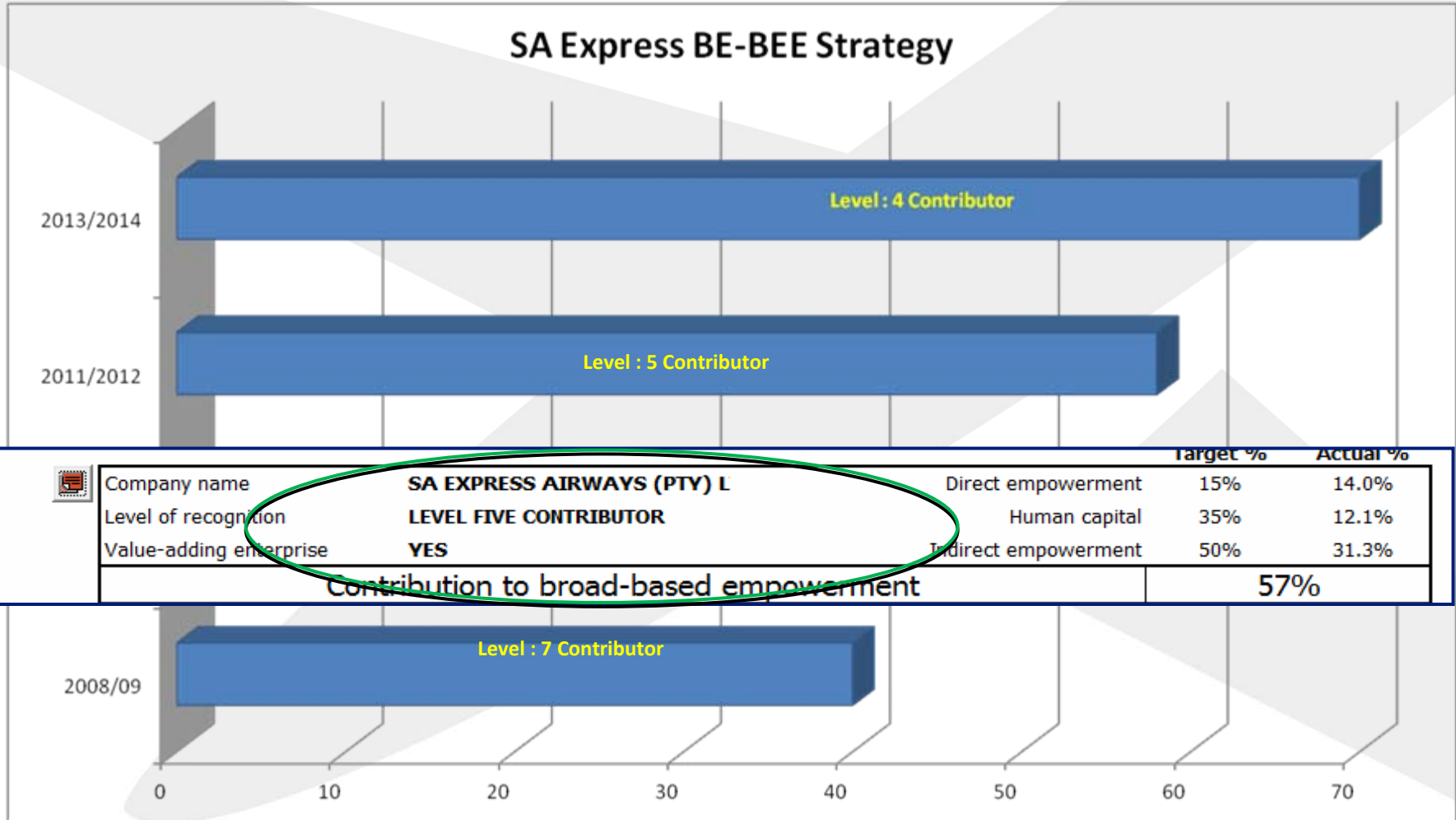
IMPACT INCREASED CAPACITY TO NETWORK

Why mixed fleet?

TURBOPROP	JET
Economy	Competitive Flexibility
Reliability	Long distance performance
Efficiency	Schedule recovery options
Environmental impact	



B-BBEE Strategy



B-BBEE target for 2011 potentially met and exceeded, verification in progress to be completed November 2011

Transformation and Localisation

- ✘ SA Express has earmarked services for black suppliers and has an aggressive strategy focused on local suppliers
- ✘ Socio Economic Development is focused on the business traveller of tomorrow and a task team has been established to identify opportunities



**Thank you
Comments & Questions**

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