



South African Express Airways (SOC) Limited Select Committee 11 September 2019



sa express

we fly for you

 SA Express Airways

 FlySaExpress

www.flyexpress.aero

Contents

Company Mandate	Turnaround Strategy
Background	Performance Against G-POCH Strategy
Problem Statement Prior to Suspension	Capital and Funding
Airline Groupings	Current Fleet (Pre & Post Suspension)
Vision, Mission and Core Values	Performance Highlights
Route Network	Right Sizing the Organisation
Executive Committee	Network Expansion
Demographics	Action against Corruption
Transformation	



Company Mandate

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, on the African Continent and surrounding islands.

The airline operates from OR Tambo International airport (ORTIA) and Cape Town bases serving secondary routes in South Africa and regional routes to Botswana, Namibia and the Democratic Republic of Congo (DRC). It also provides feeder air services that connect with the South African Airways (SAA) network.

Background

- South African Express Airways (SAX) was established in 1994 as a regional feeder airline to South African Airways
- SAX operates predominantly on routes that are secondary within South Africa and the region, e.g. Bloemfontein, Kimberley, Gaborone and Botswana. These routes cannot be served viably with larger aircraft
- The majority of SAX customers (75%) are business travellers commuting between major hubs and secondary routes (the Hub-and-Spoke system)

Problem Statement Prior to Suspension

Airline Performance

Fleet Size 22	No of Routes 17 D 6 R
Technical Dispatch Reliability (77%)	
Delays 1/3 PAX > 15 min	
OTP 65%	Routes Profitability 3 D 2 R



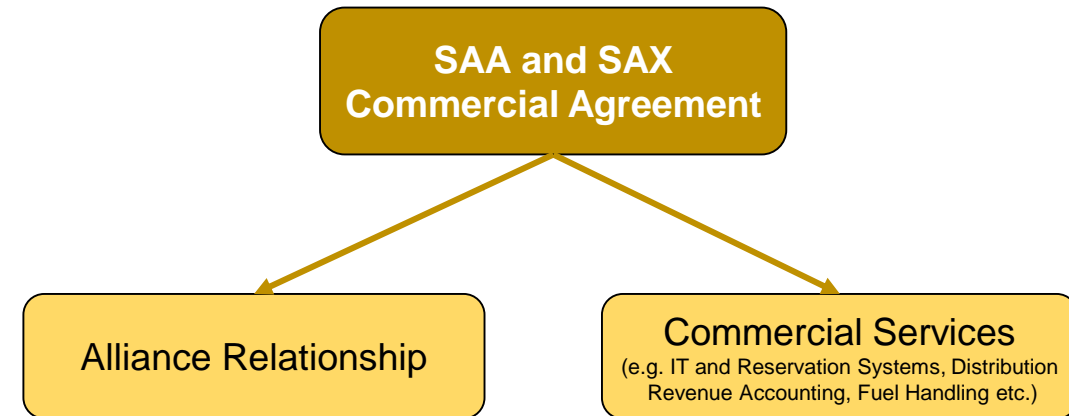
Finance Challenges	Weak Balance Sheet
	Long outstanding debts
	Frozen credit lines
	Liquidity challenge
	Monthly cash-burn
	High cost structure

Corporate Challenges	Low staff morale
	High staff turnover
	High rate of management vacancies
	Onerous agreements/contracts
	Zero accountability
	Shortage of skills

Financial Markets Characterize Airlines in One of the Three Groupings

- Mainline network carriers (e.g. South African Airways)
 - Legacy carriers with large hubs
 - High costs resulting from high labor costs and hub inefficiencies
 - Enjoy revenue premium driven by network and service product advantages
- Low cost carriers (e.g. Mango)
 - Single class service with minimal frills
 - No hubs or interlining of traffic
 - High productivity of aircraft, labor and facilities
- Regional carriers (e.g. South African Express)
 - Feed mainline carriers at their hubs
 - Operate point to point service in less dense markets
 - May be independent or partially spun off from mainline parent

SAA is 100% owned by Government
SA Express is 100% owned by Government
[State Aviation Assets]



SAX is positioned as a regional/feeder carrier feeding SAA routes and other international carriers.

Our Vision and Mission

Vision

Our Vision is to be “A sustainable world-class regional airline with extensive footprint in Africa”

Mission

Our Mission is to “become an integrated, sustainable regional airline connecting secondary and main airports”

Core Values

OUR Core Values



Safety First

A safety first culture is the cornerstone of our pursuit for service and operational excellence for our passengers and employees.



Self-development

We strive to instil a culture of continuous learning and development of our staff to keep abreast of our dynamic and ever-changing environment.



Service before self

We continuously strive to exceed our customers' expectations. Nothing is too small, too big or too onerous for us to handle.



Passion

Our passion is driven by the 'SA Express Way' - where work is delivered in an enthusiastic manner, successes are celebrated as a team.



Performance Driven

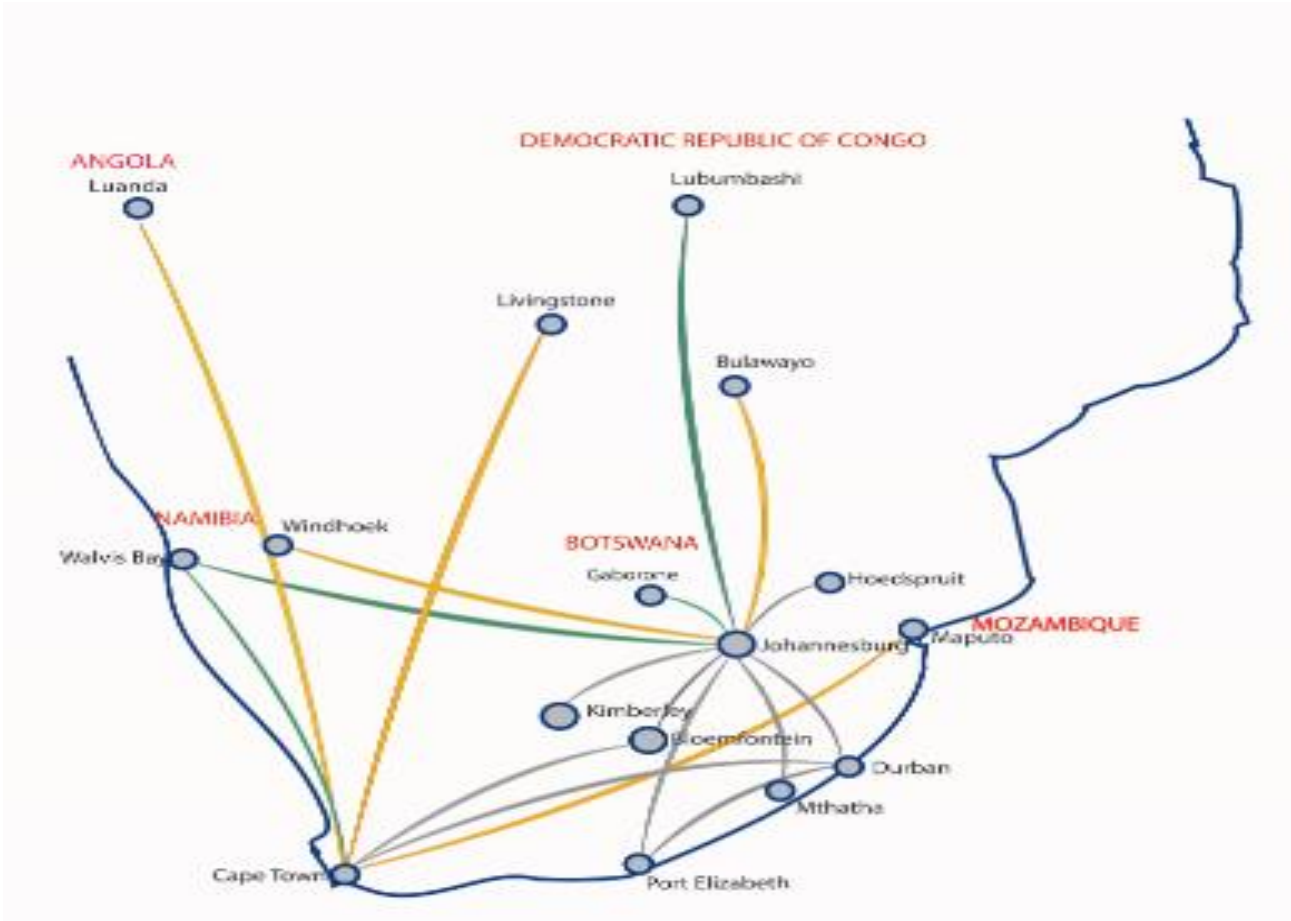
We persistently endeavour to achieve high performance through the implementation of a clearly defined vision and business strategy.



Accountability & Integrity

Accountability is absolute and integrity is not an option. We vigorously strive to embed a corporate culture that fosters model employee behaviour and conduct.

SA Express Route Network



- Current Regional Routes – Green
- Domestic – Grey
- Planned routes - Orange

Current Route Network


Domestic Routes

- Johannesburg – Bloemfontein
- Johannesburg – Kimberley
- Johannesburg – Mthatha
- Johannesburg – Durban
- Durban – Port Elizabeth
- Johannesburg – Port Elizabeth
- Johannesburg - Hoedspruit
- Cape Town - Bloemfontein

Regional Routes

- Johannesburg – Lubumbashi
- Johannesburg – Gaborone
- Johannesburg - Walvisbay
- Cape Town - Walvisbay

SA Express Executive Committee

	Executive	Designation	Aviation Experience
	Siza Mzimela	Interim CEO	23 years
	Andre Odendaal	CFO	10 years
	Bongani Tshabalala	GM: Technical	23 years
	Arson Malola-Phiri	GM: Commercial	18 years
	Fikile Thabethe	GM: Legal	8 years
	Thuli Mpshe	Acting GM: Human Capital	12 years
	Capt. Iain Findlay	Person Responsible: Flight Operations	20 years
	Tsietsi Mogotsi	Person Responsible: Aircraft	15 years

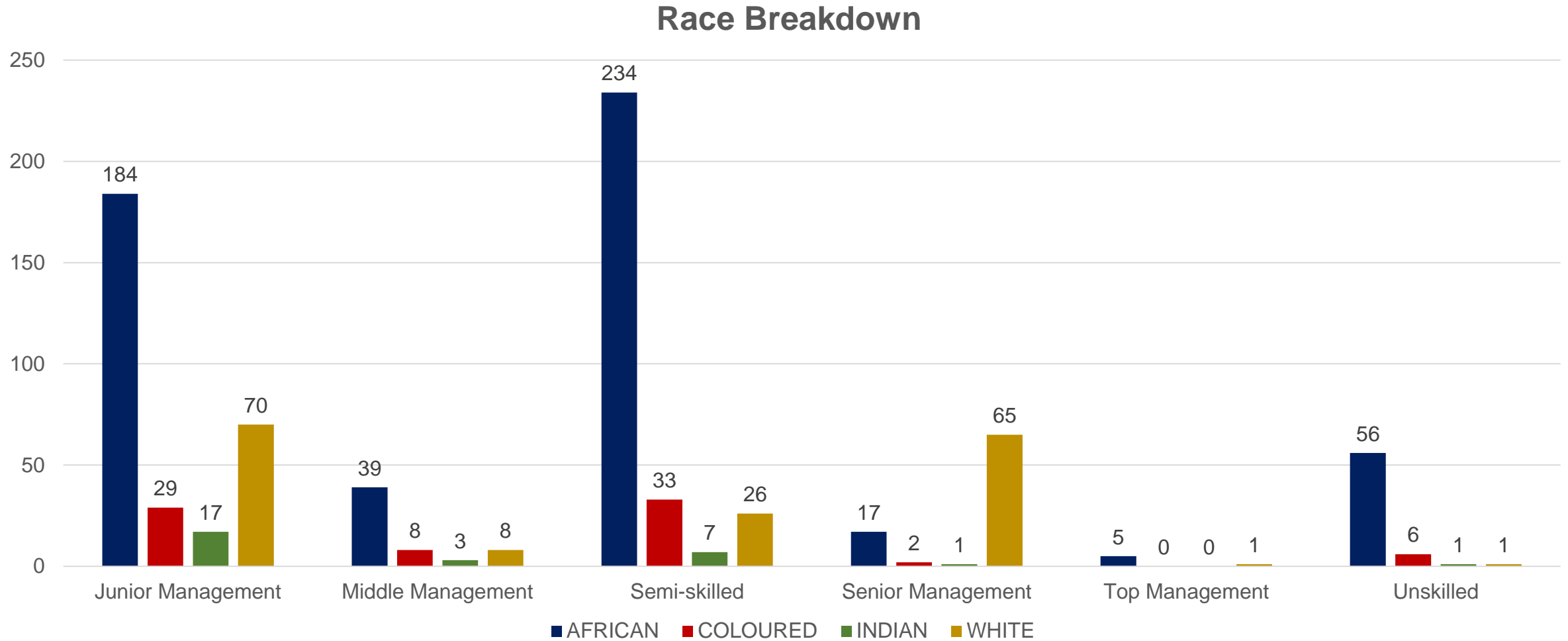
Demographics

- SAX employs a total of **813** employees as at 31 July 2019:
- Demographics
 - Black/Indian/Coloured – 642 (both male and female)
 - White – 171 (both male and female)

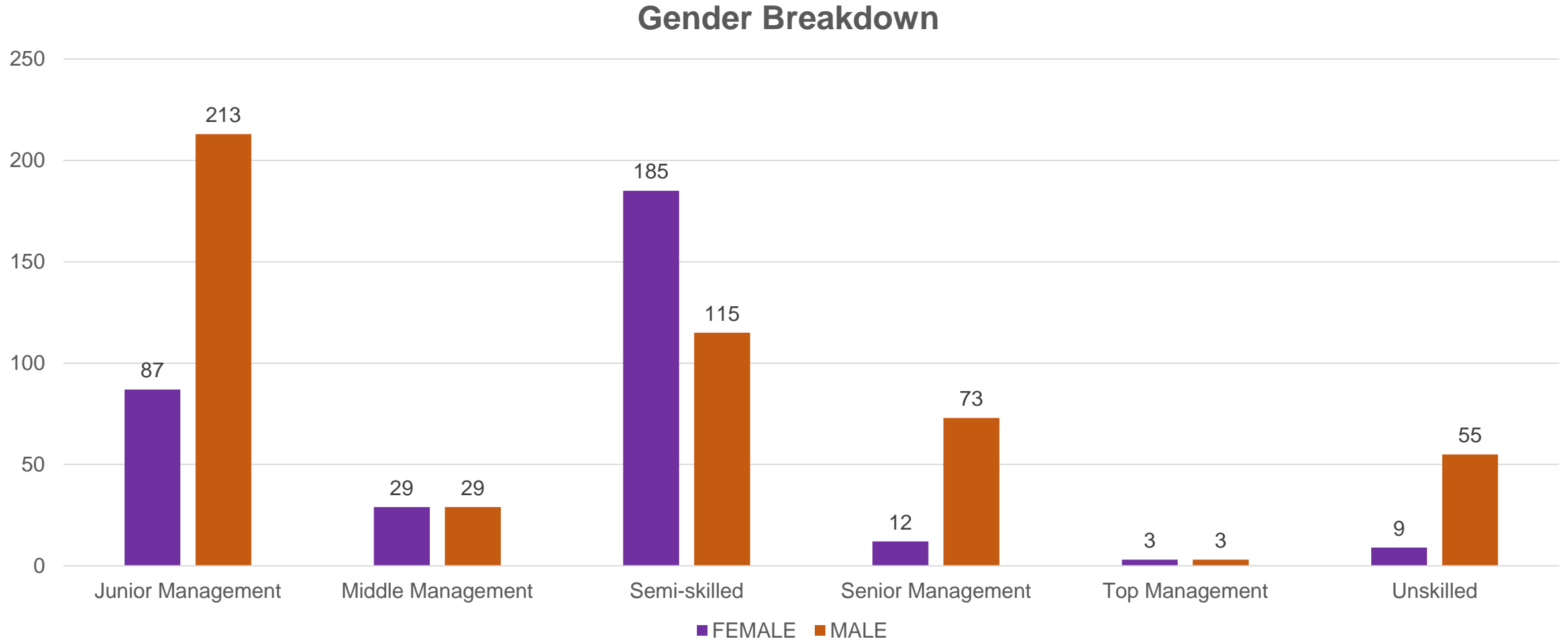
SAX EQUITY PER OCC GROUP - July 2019

Group	FEMALE					MALE					Grand
	AFRICAN	COLOURED	INDIAN	WHITE	Total	AFRICAN	COLOURED	INDIAN	WHITE	Total	Total
Top Management	3				3	2			1	3	6
Snr Management	8	1		3	12	9	1	1	62	73	85
Middle Management	21	4	1	3	29	18	4	2	5	29	58
Junior Management	58	11	9	9	87	126	18	8	61	213	300
Semi-Skilled	139	21	7	18	185	95	12		8	115	300
Unskilled	9				9	47	6	1	1	55	64
Grand Total	238	37	17	33	325	297	41	12	138	488	813

Demographics - Race

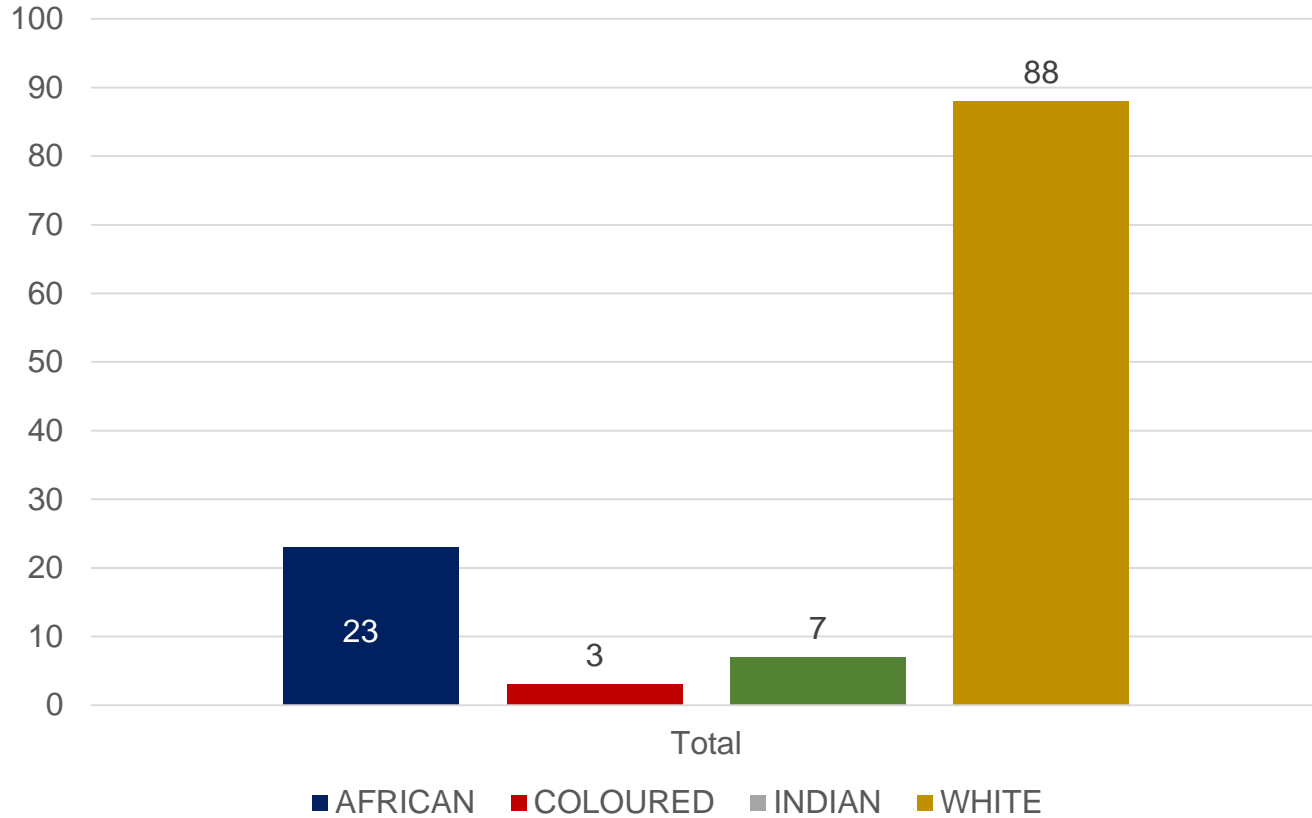


Demographics - Gender



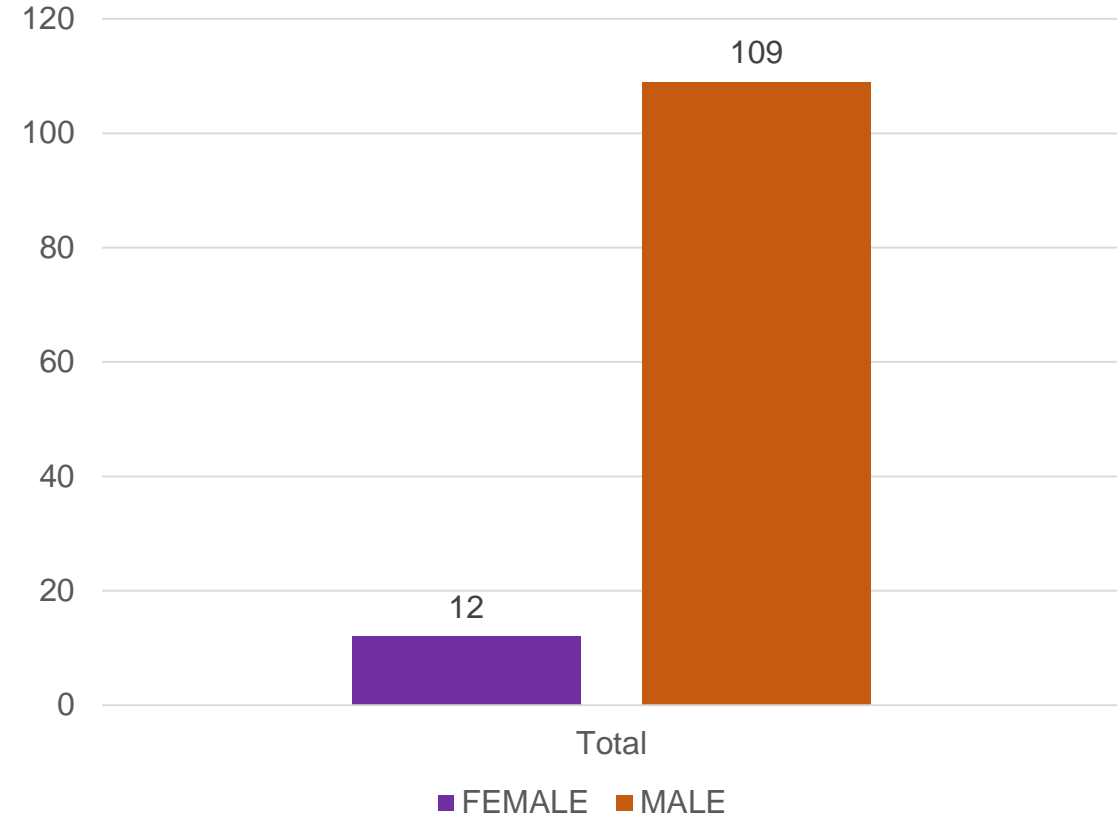
Demographics - Pilots

Pilots by Race



Pilots of Colour = 33
= 27%

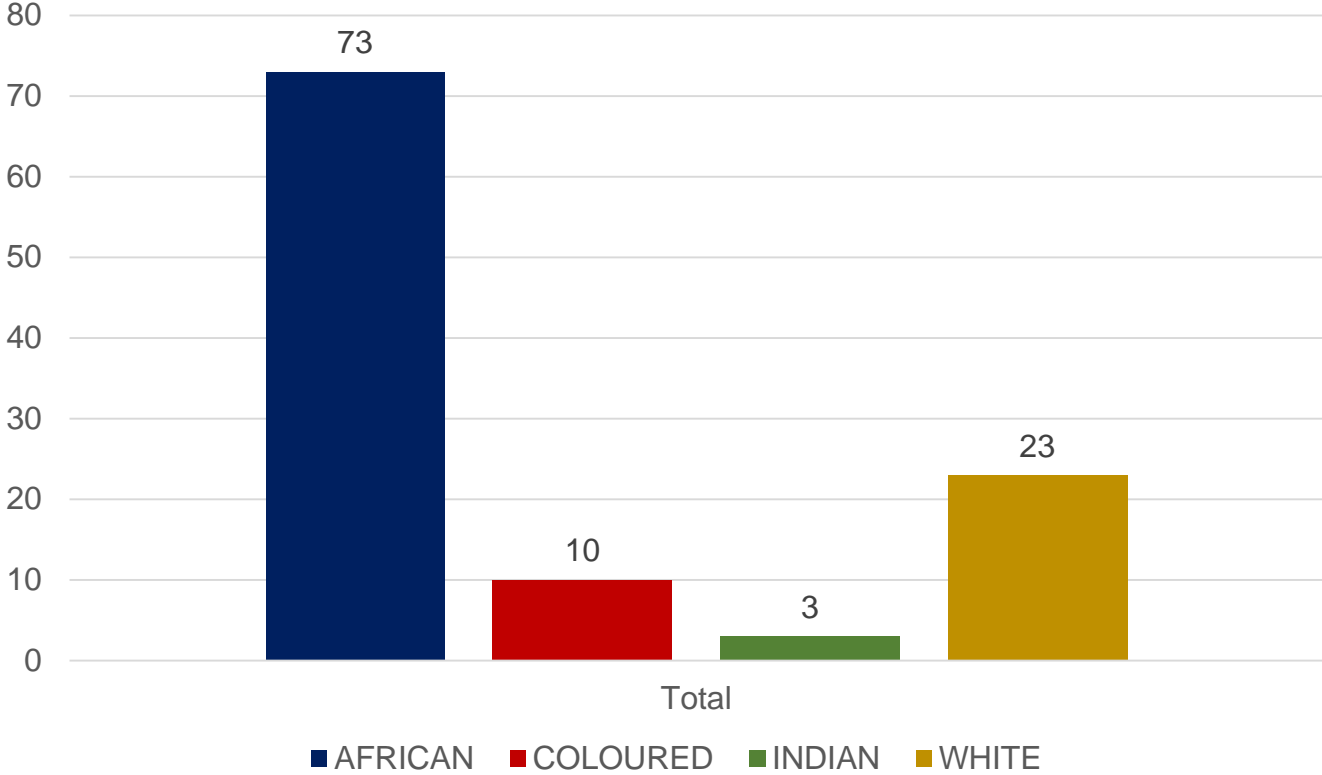
Pilots by Gender



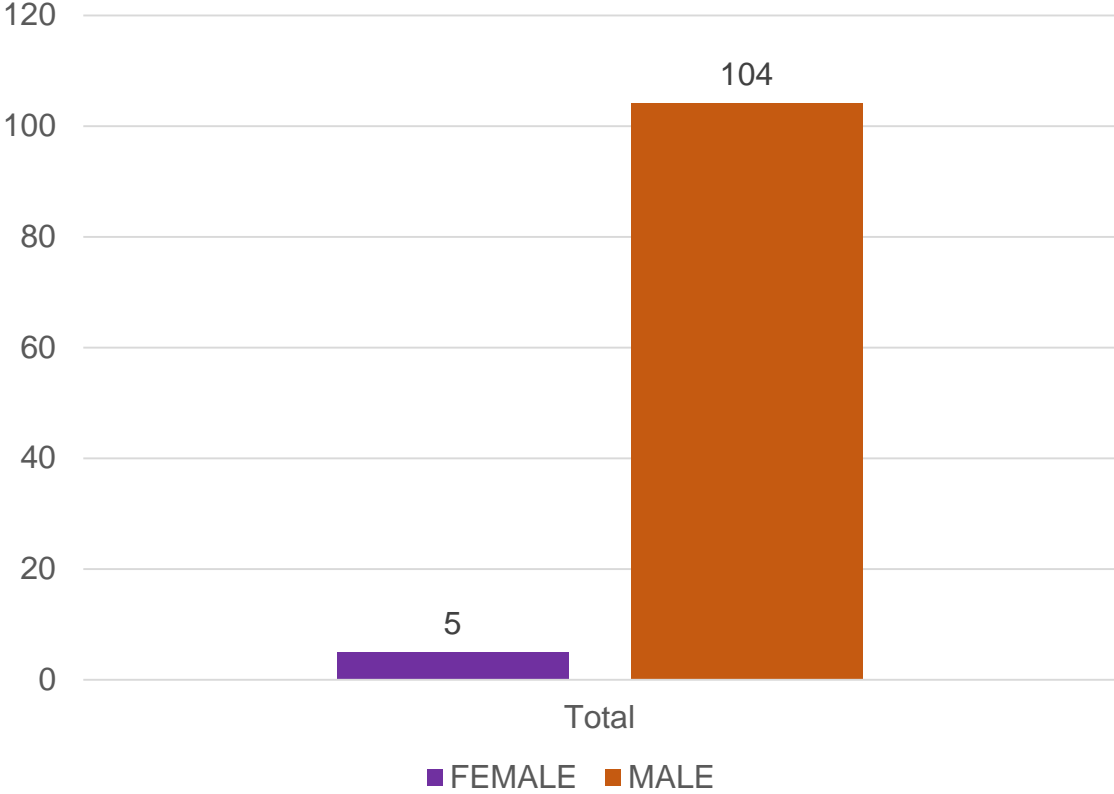
Female Pilots = 12
Female Captains = 4

Demographics - Technicians

Technicians by Race



Technicians by Gender



Technicians of Colour = 86 *Majority
= 79%

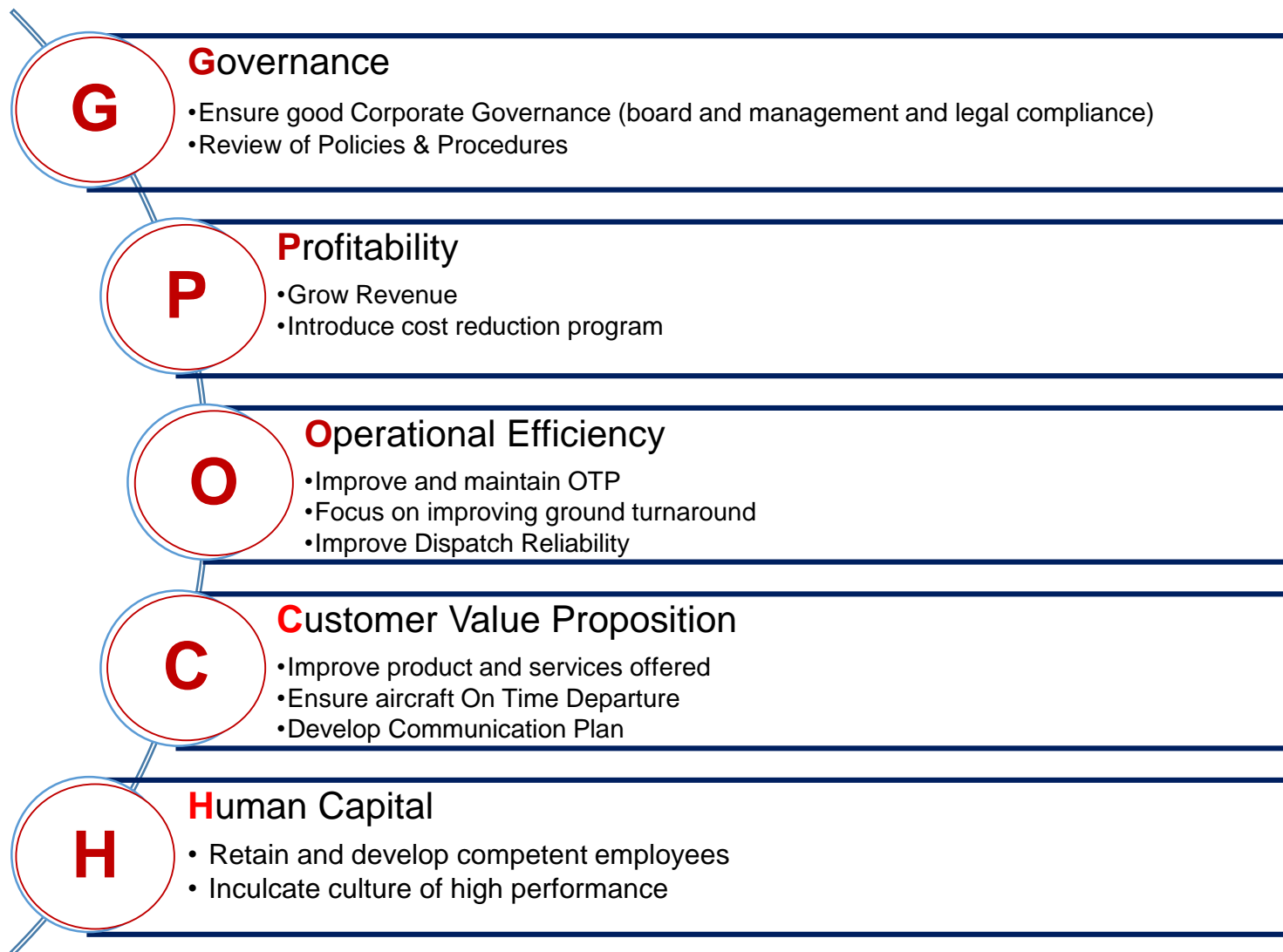
Female Technicians = 5

SA Express Contribution to Transformation

Number of PILOTS TRAINED who subsequently resigned to join SAA and Mango.		
	Male Flight Deck Crew	Joined SAA/Mango
Black	53	33
White	220	123
Coloured	10	7
Indian	22	15
	Female Flight Deck Crew	Joined SAA/Mango
Black	14	9
White	27	20
Coloured	5	3
Indian	1	1

Turnaround Strategy

SAX adopted the **G-POCH Strategy** based on the principles of Governance, Profitability, Operational Efficiency, Customer Value and Human Capital



Performance Against G-POCH Strategy

G

Governance

- Board appointed in May 2018, and sub-committees are in place
- Compliance with SACAA - key Post Holders and Executives with Aviation Experience appointed
- Air Operator Certificate (AOC) audited in 2019 and re-issued
- Aircraft Maintenance Organisation (AMO) audited and re-issued
- Critical policies and procedures were reviewed
- In the process of addressing AG findings.
- Legislative Manuals as per SACAA requirement have been completed

} Key improvements noted

P

Profitability

- Revenue shows an upward trend despite many challenges
- Unfavourable contracts cancelled/re-negotiated
- Aircraft lease costs have been reduced and savings were shown on the CRJ700's and CRJ200's
- All Charters have been cancelled
- Employee costs have been reduced with 10% with all discretionary overtime eliminated

O

Operations

- 11 aircraft registered on the Air Operators Certificate versus 15 initially planned (Operational Aircraft lower @ 4 currently)
- The implementation of the Fleet Plan (15 Aircraft Fleet) has been delayed due to the liquidity challenges
- Consignment Stock to reduce number of AOG's secured for CRJ-700 aircraft
- Improved technical dispatch reliability to 98%

C

Customer Value Proposition

- OTP improved from 64% prior to grounding to above 78%
- Cape Town Base opened in January 2019
- Increased frequency on key routes has provided flexibility to customers

H

Human Capital

- All Post Holder positions and Executive positions have been filled with permanent positions (EXCO with an average aviation experience of over 15 years)
(Head of Safety, Person Responsible Aircraft, Person Responsible for Flight Operations, GM: Technical and GM: Commercial, GM: Legal, CFO, CRCO)
- Right Sizing in process - to be concluded by end of September 2019.
 - 124 positions affected

Capital and Funding

- SA Express received re-capitalization of R1.2bn in February 2019
 - Ring-fenced to settle only government guaranteed debt
 - Addressed solvency issues
 - SA Express is solvent
- We have been advised that re-capitalization of R300m is approved by National Treasury

Current Fleet (Pre & Post Suspension)

Fleet: On AOC (A) vs Number of Aircraft per Corporate Plan (B) vs Actual Operational (C)

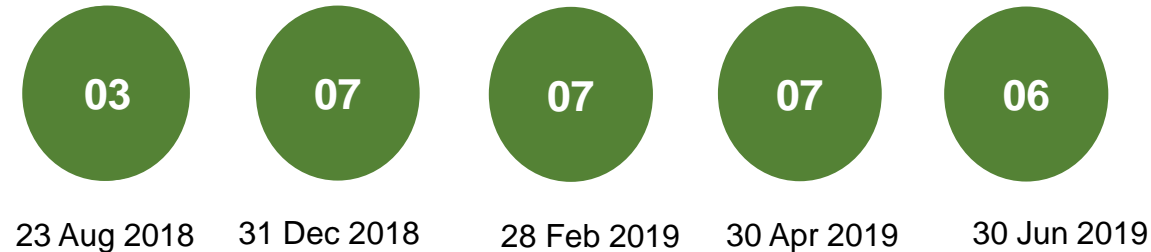
Aircraft on AOC (A)



Planned per CP (B)



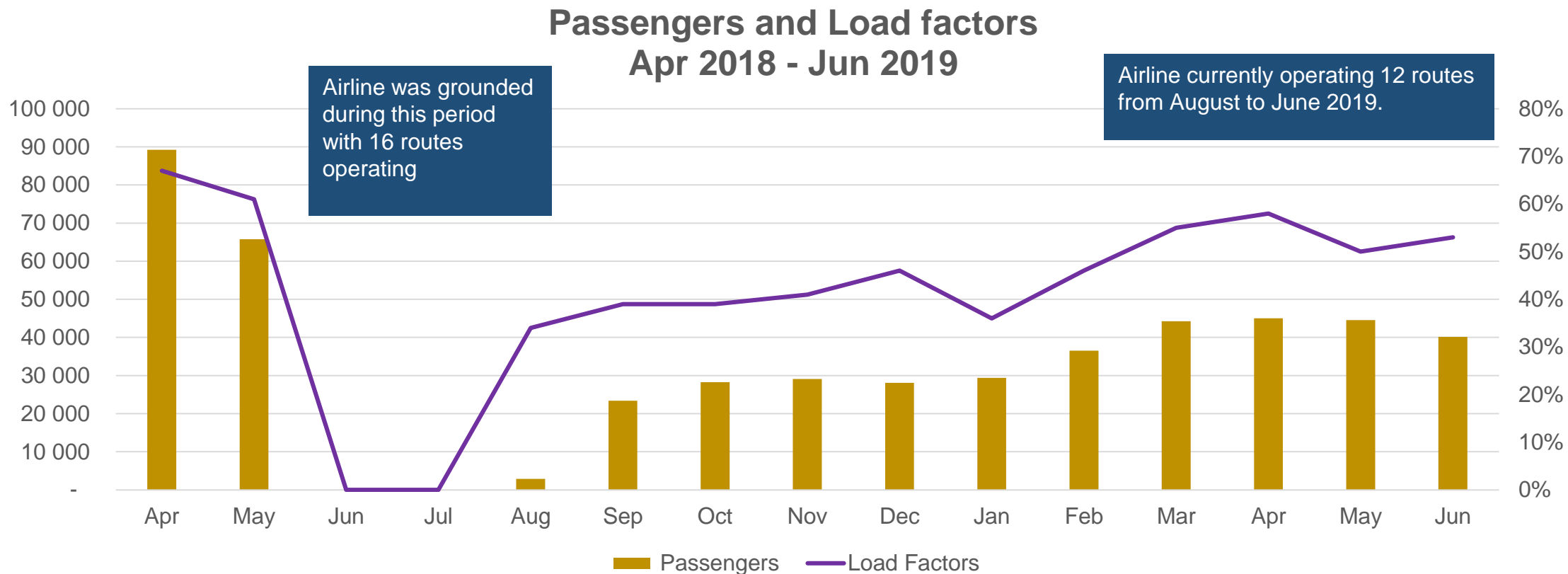
Actual (C)



- SA Express fleet daily average utilisation per aircraft is 09h21
- A number of new routes that SAX was unable to implement due to unavailability of planned aircraft are as follows: CPT-HDS; CPT-MPM; CPT-GBE; CPT-PLZ; JNB-BUQ; JNB-WDH.

Performance Highlights

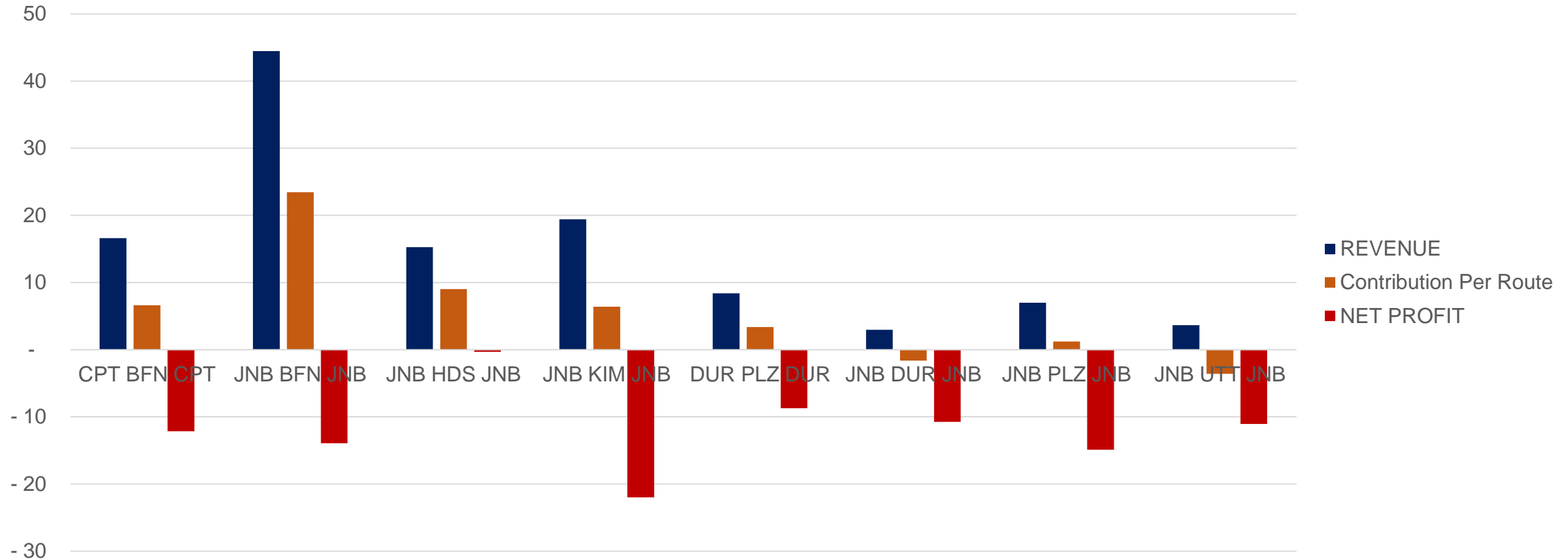
Company Performance – Passenger Volumes



- Passenger Volumes show a positive trend from January to April 2019
 - Mthatha route was launched in December 2018 successfully
 - The Cape Town base was successfully relaunched in January 2019

Company Performance – Domestic Performance

Route Profitability - Domestic



As at 30 June 2019:

At contribution level, the current network is performing well above budget. The losses stem from the fixed cost base.

Company Performance – Regional Performance

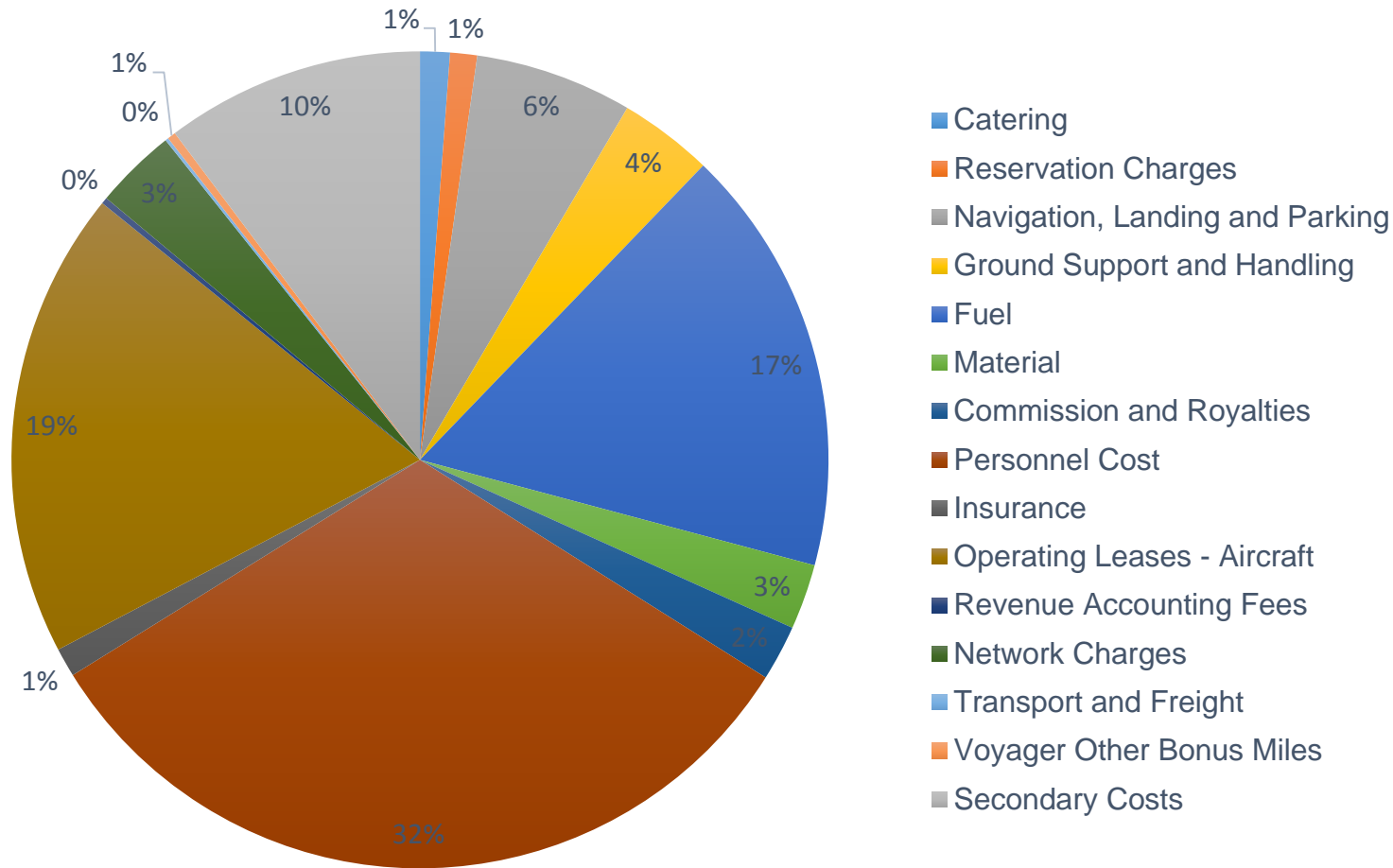
Route Profitability - Regional



As at 30 June 2019:

At contribution level, the current network is performing well above budget. The losses stem from the fixed cost base.

Company Performance – Costs Breakdown



Cumulative primary and secondary costs amounted to R240m as at 31 May

2019:

- Personnel Costs – R77m (32%)
- Aircraft Leases – R44m (19%)
- Fuel – R40m (17%)
- Secondary expenses amounted to R25m for the period ending 31 May 2019 (10%)

Right Sizing the Organisation

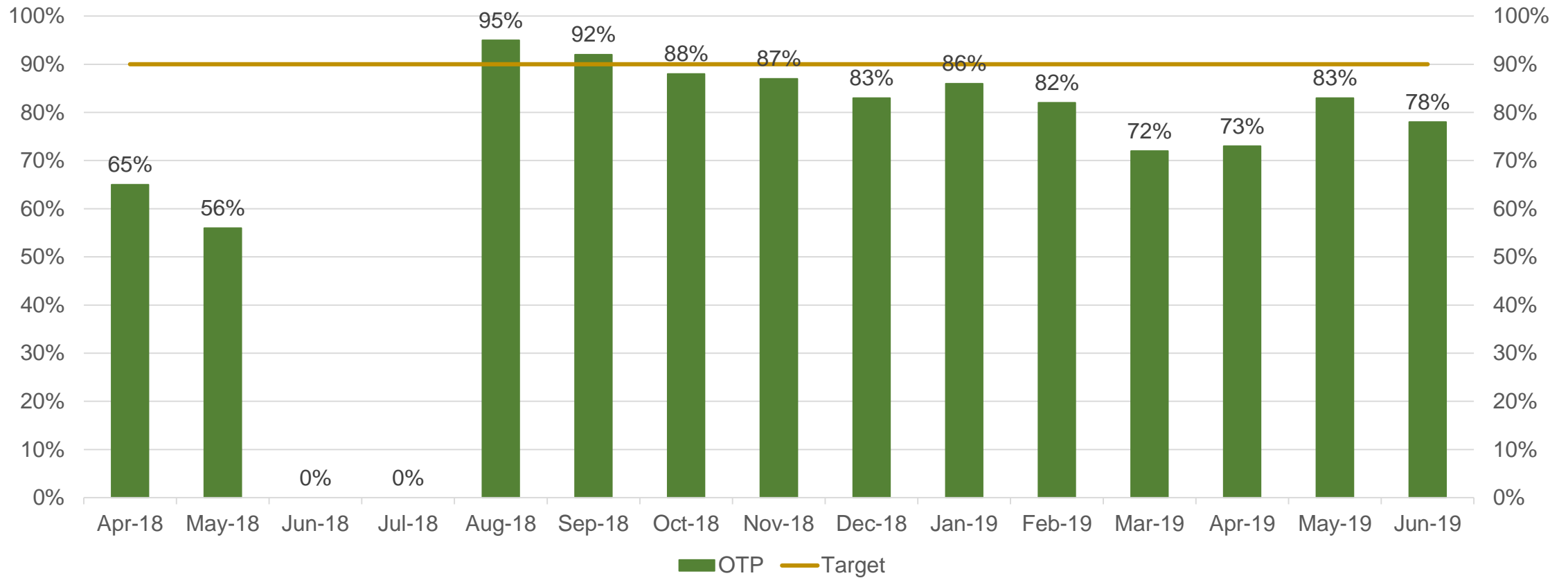
- SA Express requires a fit for purpose (lean and mean) structure, supporting a performance driven culture executed by skilled employees. One of the pillars of cost reduction in the GPOCH Strategy is in Personnel Costs hence the focus on Right Sizing.

HEADCOUNT FOR THE LAST FIVE (5) YEARS		
FINANCIAL YEAR END	NUMBER OF EMPLOYEES	NUMBER OF AIRCRAFT
31 March 2014	740	26
31 March 2015	1127	26
31 March 2016	1036	24
31 March 2017	983	23
31 March 2018	895	23
24 May 2018 - GROUNDING	896	23
31 March 2019	811	11

- Clearly there has been a huge increase in headcount particularly in FY 2014/15 and 2015/16.
- Approach to Right Sizing:
 - SA Express no longer flies to George, Richards Bay and Durban as base and therefore these stations will be closed.
 - Process Followed: **VSP** – to be concluded by 30 September 2019

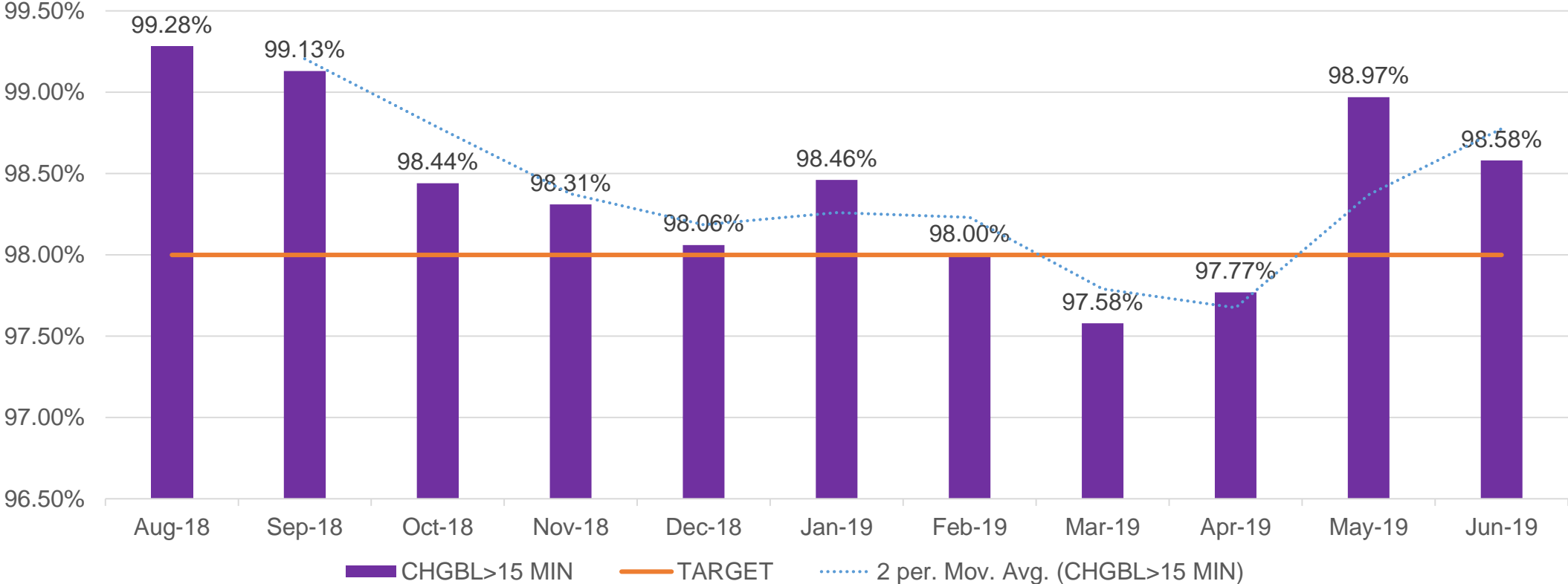
Company Performance – On-Time Performance

OTP



Company Performance – Technical Dispatch Reliability

TDR
Apr 2018 – Jun 2019



Network Expansion – 2019 – 2022 Financial Year

CRJ/Q400

JNB

*Capacity and Freq Increase

New

*BFN

*HDS

*WVB

*GBE

*FBM

ELS

WDH

LVI

BUQ

CRJ

CPT

*BFN

PLZ

GBE

LVI

MPM

LAD

Zondo Commission of Inquiry into State Capture

- SA Express Airways employees testified on the following matters at the Zondo Commission in June 2019:
 - North West/Koroneka (Ground Handling Services Contract)
 - EML Engineers and Construction (Jet Fuel Contract)
- We have submitted all the remaining information that was requested by the Zondo Commission of Inquiry into State Capture:
 - Financial Statements/Annual Reports
 - New Age
 - Regiments/Trillian Capital
 - Assisting with evidence on travel records
- The Board submitted a report on 'State of Governance at the time of Grounding' vs 'State of Governance currently' to the Zondo Commission

Action against Corruption

The company opened criminal cases against the individuals who benefited or played a role in these unscrupulous activities.

Cases Reported to SAPS			
Case Number	Date reported	Status	Comments
SAPS CAS 202/5/2019	24/05/2019	Investigation in progress	North West Province matter
SAPS CAS 228/5/2019	27/05/2019	Investigation in progress	North West Province matter (Koreneka)
SAPS CAS 249/5/2019	29/05/2019	Investigation in progress	North West Province matter (Valotech)
SAPS CAS 43/6/2019	06/06/2019	Investigation in progress	North West Province matter (Koreneka)
SAPS CAS 19/07/2019	02/07/2019	Investigation in progress	Bag port matter
SAPS CAS 29/07/2019	03/07/2019	Investigation in progress	North West Province matter (Koreneka)
	2018	Case opened by Board Member, Mr T Abrahams.	North West Province matter (Koreneka)

Action against Corruption

- Irregular and suboptimal commercial agreements are being investigated, inter alia:
 - Namane Capital (Internal Disciplinary Action concluded)
 - North West/Koreneka (Criminal Charges have been laid)
 - EML Fuel Supply (Internal Disciplinary Action concluded)
 - Mothebe Shuttles (The (alleged offender) employee involved resigned.)
 - Solenta Aviation (Solenta Aviation lost the against the initial arbitration award)
- Bagport Africa
 - Civil Litigation matters, Parties are awaiting confirmation of court date from the Supreme Court of Appeal. The estimated date would be during last quarter of 2019.
 - Criminal case charges have been laid

Thank you

