

Aviation Club, United Kingdom
Address by Wrenelle Stander, via Skype
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Such a great honour to be addressing you today during the same week as International Women's Day...

Let me start by sharing more about myself

My 26 years of working life which zig zagged cross the aviation and energy industries - provided me with many amazing opportunities.

I've been privileged to run enterprises, manage big capital projects, work in an organisation with a complex global matrix, and I have served on numerous Boards.

The complexity of the aviation industry is what attracted me as a student almost 29 years ago.

My fascination with the aviation industry started in 1990 when I was doing an MBA at the School of Business, Oxford Polytechnic, in the United Kingdom.

My intellectual fascination has always been about the impact of government policy on the strategy and profitability of organisations, hence my MBA thesis which was entitled "The impact of deregulation on the European airline industry," I used British Airways Plc, as a case study to assess how a common European market would impact the airline's strategy.

This led to an internship at British Airways Plc, United Kingdom. This is where my relationship with both British Airways and aviation started - it was not to be a strictly linear journey though.

Over the last 26 years I have held a range of Executive leadership positions within the South African civil aviation

industry, amongst others, in addition to my current role as Chief Executive Officer, Comair Limited I also served in the following roles.

- Managing Director: Air Traffic and Navigation Services Company (ATNS);
- Deputy Chief Executive Officer: South African Civil Aviation Authority (SACAA); and
- Chief Director: Aviation and Maritime Regulation, National Department of Transport (NDOT).

...the SA aviation industry...

South Africa's travel market comprises 16 million passengers per annum, with airline services being provided by a mix of state owned and private airlines.

State owned airlines include: SAA, SA Express, Mango with 41% share of the market.

Privately-owned airlines include: Comair, listed on the JSE, SA Airlink; & Fly Safair with 59% share of the market.

As at end of December 2019, Comair's market share was 37% kulula (18%) and BA (19%)

Fly Safair has grown into a formidable competitor, in the LCC market - where they compete with the Comair kulula brand. Their market share has grown to 18% of the total SA market over the last four years.

... Comair has an interesting story...

The Comair story all started with some idle chatter amongst three South African Air Force Pilots, in the middle of the Egyptian desert...

In 1946 – more than 7 decades ago – Commercial Air Services began operating with its first charter flight from Johannesburg

to Durban, mainly servicing some of the remotest places in Africa.

New South African Aviation regulations in 1948 allowed for Comair to begin its first scheduled service.

Only after the South African Domestic Aviation Industry was deregulated early 1990s that Comair entered the main domestic routes.

In 1996, the company became a franchise partner with British Airways. From this point, Comair became known as British Airways Comair, and took on the colours and livery of British Airways PLC. The company listed on the Johannesburg Stock Exchange in 1997.

In 2001, Comair launched South Africa's first 'no-frills' carrier in the form of kulula.com - kulula means 'easily' in Zulu.

From 2001 Comair started to vertically integrate to reduce the costs of operating its business.

- **Training centres.** In 2001, Comair opens its own Training Centre, today we have an extensive portfolio of cabin crew, pilot and other technical training
- **Lounges.** In 2009, Comair launches its first SLOW Lounge, in partnership with one of the main banks of the country - FNB and RMB Private Bank. This was extremely successful, and we have now Slow lounges in all our main airports
- **Catering.** In 2012, Comair launches its own catering unit, Food Directions in 2012. Recently we started serving other customers.

...eventful last few months

This being said, the last few months have been quite eventful.

If someone told me that joining Comair would be such a roller coaster, I would not have believed it, however, I would probably still have gone for it.

The last 16 months have been punctured with threatened labour strikes, the grounding of the MAX 8, the unexpected grounding of 14 of our aircraft for 2 days, multiple top leadership changes both at Board and Executive level resulting in a complete refresh of the Board and Executive team.

..Comair Limited navigating strong headwinds...

Overall, revenue continued to perform well increasing by 3% over the last six months despite tough operating conditions

Comair Limited reported its first headline loss largely as a result of the IFRS 9 loss allowance on the SAA damages claim.

Big uncontrollable swing items impacting our performance and I will share more detail on each of these.

...Fleet transition...

Since September 2017 South African Airways Technical has not been able to provide the service levels Comair needed to operate its schedule.

Our customers experienced the full impact of a lack of aircraft availability on the on - time performance of the airline operation.

A decision was taken to transition the fleet from SAAT to LTMI over a three-year, four-step process. Good progress was made during FY19 to ensure an improved line maintenance service is underway and is progressing well.

- Step One: Ensuring the Comair fleet management organisation is able to provide certain functions previously supplied and managed by SAA Technical was completed during FY19.

- Line station support: LTMI in JNB and CPT; SAAT on a “on call” support at other stations for B737-800 only;
 - Refuelling: Temporary arrangement in place with Bidvest for domestic stations and with SAAT for regional stations;
 - Aircraft pushback: Six-month arrangement in place with Bidvest at smaller stations, plans underway to ensure Comair ramp controllers are trained to push back the aircraft as is the case at the main airports for LTMI aircraft (ZWW, ZWY, ZWX, ZWZ, after the un-grounding of the MAX: (ZCA, ZCB), as well as all aircraft currently with SAAT; and
 - Component support for LTMI maintained aircraft: (Wheels, Brakes, Tyres, Safety equipment)
- Step Two: Establishment of the Comair Technical Operational Centre to improve communication between operations, flight crew, and the two AMO’s was completed in FY19 and is adding significant value to the operation.
 - Step Three: Establishment of LTMI to provide planning, engineering and component services, as well as line maintenance services in JHB and CPT was completed during FY19.
 - Step Four: Transition of the fleet from SAAT to LTMI

The transition from South African Airways Technical (SAAT) to Lufthansa Technik Maintenance International (LTMI) for the fleet’s line maintenance has been accelerated as far as is feasible, while maintaining the flight schedule and on-time-performance targets. Seven of the 26-strong fleet are already being maintained by LTMI, with significant improvement in aircraft availability. The transition requires grounding the aircraft to extract historical maintenance records. This is timed to coincide with a major maintenance, minimising disruption to the

flight schedule. The complete fleet transition is due by the second half of the 2020 calendar year. LTMI recovers initial set-up costs and scales up its facilities to coincide with the transition, so Comair will not see any meaningful cost benefits until FY22.

...Impact of MAX8 grounding: Options ranging from cancellation to compensation...

Following the delivery of the first B737-MAX 8 in February, the fleet renewal process which is underway hit some road humps with the grounding of the 737-MAX 8 fleet.

We have however taken delivery of five 737-800 leases to replace the 737-400's that would have been phased out by December 2019.

We took delivery of one of the eight MAX aircraft on order shortly before the Operations of the Boeing 737 MAX 8 aircraft were suspended on 13 March 2019 by the US Federal Aviation Administration. No re-certification date has been forthcoming from Boeing, but Comair continues to incur cumulative losses and disruption to fleet availability. The grounding hampers the Group's ability to forecast future fleet requirements.

Comair has also contributed USD45 million (USD26 million in cash and USD19 million funded) in pre-delivery deposits towards the 737 MAX 8 order. The ongoing uncertainty surrounding re-certification as well as the prescribed return-to-service processes of the 737 MAX 8 has led Comair to accelerate compensation negotiations and explore the legal and financial consequences thereof.

...SAA Damages Claim...

On 15 February 2019 the Company entered into a full and final settlement agreement (“Settlement Agreement”) with South African Airways (SAA) and which Settlement Agreement was made an order of Court by the Supreme Court of Appeal.

In terms of the Settlement Agreement, SAA would pay Comair a settlement amount of R1.1bn plus interest.

The Settlement Amount would be made in accordance with a payment schedule commencing 28 February 2019 and terminating on 28 July 2022.

SAA failed to make the payment of the capital and interest amount due on 28 December 2019. Consequently, SAA is in breach of its obligations in terms of the Settlement Agreement, and the full outstanding amount of R790 million, as at 31 December 2019, became due in terms of the Settlement Agreement.

SAA was placed in voluntary Business Rescue on 5 December 2019. The Business Rescue Practitioner is required to determine whether or not there is a reasonable prospect of a successful business rescue. If not, SAA will be placed into liquidation.

The future recoverability of the amount outstanding from SAA is uncertain. Comair recorded a loss allowance of R285 million in terms of IFRS 9 against the SAA damages claim receivable as at 30 June 2019. Following the SAA Business Rescue Process, the Board of Directors of Comair has decided to increase the IFRS 9 loss allowance as at 31 December 2019 by R505 million to the full value of the outstanding Settlement Amount of R790 million.

Regardless of the increase in the loss allowance provision as detailed above, Comair still intends to aggressively pursue the full outstanding Settlement Amount owed by SAA and will

explore all options available in order to reclaim the amount owing.

...Coronavirus...

The Coronavirus has been detected in South Africa last week Thursday. So far, we have 13 confirmed cases. We are working closely with all the industry stakeholders to put in place all the relevant plans and preventive actions.

We have started seeing a slowdown of bookings in our Travel business. Despite a slowdown in our forward sales in the Airline businesses, it is still ahead of last year. International traffic slowing down, however, we are benefiting from the opportunity provided by SAA.

...lots underway to turn the business around and towards becoming Southern Africa's most efficient and smart airline, delivering on our brand promises...

- Systematically driving down **COSTS**
- Taking **FLEET** decisions, to limit more expensive short-term solutions
- Improving **MAINTENANCE** reliability
- **FLYING** smartly, reduce unit costs by flying more
- Leveraging the opportunity that SAA is providing in the market
- Matching our **OFFERING** to our customer expectations
- Refreshing both **BRANDS**
- **DIVESTING** from non-performing assets
- Shifting to a More **INSIGHT DRIVEN** approach to running the business

Our turnaround is in full swing. I will be very happy to answer any questions you may have.