








# Assessment of Professional Competence December 2023 Pre-released information On-Time Airline (Pty) Ltd


| December 2023 |     |     |     |     |     |     |
|---------------|-----|-----|-----|-----|-----|-----|
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| Inbox <b>Financial Analyst</b>  |  |                  |                            |   |                 |
|---|--|------------------|----------------------------|---|-----------------|
| <br><b>Mail</b><br><br><b>Calendar</b><br><br><b>Contacts</b><br><br><b>Tasks</b> |  <b>INBOX</b> |                  |                            |   |                 |
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On-Time Airline (Pty) Ltd is a fictitious company, and all events as well as the names of all persons associated with this company, as mentioned in this Assessment of Professional Competence, are purely fictitious in nature and any resemblance to real persons, living or dead, or to an actual business entity, is purely coincidental.

## DOCUMENT 1

### EMAIL FROM CHIEF EXECUTIVE OFFICER TO FINANCIAL ANALYST

**From:** Bridget Klaasens  
**Sent:** Friday 1 December 2023, 7:59 AM  
**To:** Financial Analyst  
**CC:** Sergal Anthony  
**Subject:** Welcome  
**Attachment:**  On-Time Airline (Pty) Ltd Background information.docx 34 KB

Hi there

Welcome on your first day at On-Time Airline. I hope it is the start of a beautiful journey for you with On-Time. In your position as a financial analyst you will be reporting directly to me. In addition, your role will include assisting the Finance Division with any technical accounting and taxation matters as well as with preparation for annual audits.

However, your role is going to extend beyond mere assistance. I plan to involve you in strategic projects, for example identifying areas for cost savings, for improved efficiencies and for new business opportunities.

I attach a document that provides background on On-Time's operations. We use this document to orientate new employees and directors as well as to provide a record of our scope, vision and risks. Enjoy the read.

Kind regards  
Bridget

**CEO: On-Time Airline (Pty) Ltd**

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## ATTACHMENT TO EMAIL

### On-Time Airline (Pty) Ltd Background information

#### 1. Airline offering

On-Time Airline was established during the 2020 Covid-19 lockdowns by Bridget Klaasens, who wanted to start her own business. Bridget had previously worked as chief operating officer for a major local airline for over ten years. Starting On-Time presented an opportunity to innovate by tweaking existing airline operating models. There were no legacy issues with systems, aircraft and staff, so it was a unique opportunity to start from scratch and do things slightly differently.

On-Time operates exclusively in South Africa, currently operating daily scheduled flights between OR Tambo International Airport (OR Tambo) and Cape Town International Airport (Cape Town), and flights between OR Tambo and King Shaka International Airport (King Shaka). On-Time leases four pre-owned Airbus 320 aircraft. The first ten-year leases were entered into with effect from 1 January 2021, the day On-Time commenced operations.

Aircraft are leased by On-Time on the basis that it is responsible for the insurance of aircraft, maintenance costs, and supplying the pilots, cabin crew and ground staff required to operate the aircraft. These are commonly referred to as 'dry leases' in the aviation industry. The lessors provide only the aircraft (which includes the seats, branding, and all fittings), while the lessee is responsible for everything else. The lessor requires On-Time to put the aircraft on its own air operators' certificate and register the aircraft with the South African Civil Aviation Authority (SACAA).

Regular maintenance of aircraft is very important to ensure safety and correct functioning during flights. In South Africa, maintenance of aircraft is regulated by SACAA. On-Time (and not the lessor) is responsible for all maintenance and outsources maintenance activities to a reputable Johannesburg-based aircraft maintenance operator. On-Time classifies maintenance activities into three categories for accounting purposes:

1. Routine inspections and minor maintenance, such as the standard checks that are performed before every flight.
2. Major inspections without replacements, which are typically performed every two to three years depending on aircraft usage (i.e., flying hours). Such checks are much more comprehensive than routine checks.
3. Major overhauls and replacements, which include the complete disassembly of the engines and are typically performed every five years depending on flying hours.

Each of On-Time's four aircraft is configured to have 174 economy-class seats. There are no business-class or first-class sections.

Operating a commercial airline is a challenging task due to the high fixed costs (lease payments, employee costs, etc.) incurred by airlines and significant competition in the industry. Air travellers are notoriously fickle when it comes to ticket prices. They tend to shop around for the lowest cost airfare and are not particularly brand loyal.

On-Time embraced various core values when it started operations and continues to do so:

- Treat customers with the utmost respect. Greet them by name wherever possible. For example, if they order a second cup of tea, look up their names on the manifest (list of passenger names by seat) and address them by name when you deliver the beverage.
- Attempt to depart on time wherever possible.
- Allow customers a full refund of ticket prices if they cancel flights within a reasonable period (no later than 24 hours before departure).
- Put safety first – the safety of our customers is of critical importance.
- Embrace the Fourth Industrial Revolution and use technology wherever possible to make On-Time more efficient and effective.

## 2. Aviation industry

SACAA is a statutory entity established in terms of the Civil Aviation Authority Act to administer civil aviation safety and provide security oversight. SACAA complies with the standards and recommended practices of the International Civil Aviation Organization, a United Nations agency that promotes global best practices in civil aviation.

SACAA's main focus areas are –

- providing specific operating regulations;
- technical training and certification of various licence holders (pilots, air traffic controllers, maintenance organisations, etc.);
- investigation of and reporting on any aviation accidents;
- regular inspections to ensure compliance with safety protocols;
- hosting workshops for stakeholders about aviation safety and security; and
- surveillance inspections and audits of licensed aviation operations, including airports.

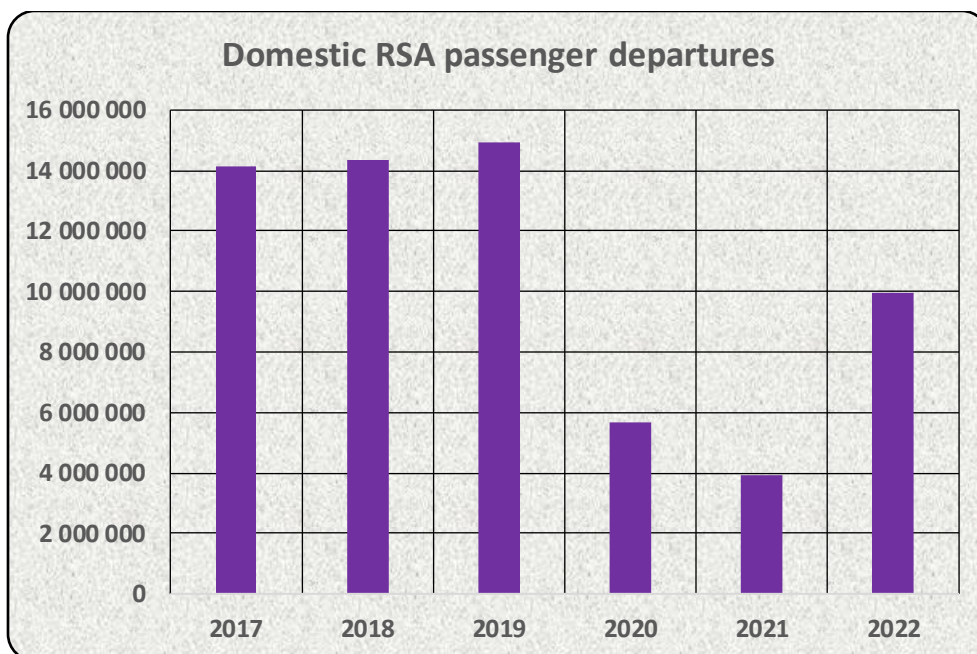
## 3. Competitors

On-Time's competitors in the South African airline market include Airlink, FlySafair, LIFT Airlines, South African Airways (SAA) and CemAir. A brief summary of each is provided in the table below:

|               |   |
|---------------|---|
| Airlink       | Privately-owned airline that started operations in 1992 and today has over 50 commercial jets flying to 45 destinations in 14 African countries.                              |
| FlySafair     | Privately-owned, low-cost airline currently operating a fleet of 22 Boeing aircraft. FlySafair is renowned for its high percentage of flights departing on time.              |
| LIFT Airlines | A newcomer to the South African skies, having started in December 2020. LIFT offers daily scheduled flights between OR Tambo, Cape Town and King Shaka airports.              |
| SAA           | SAA is owned by the South African government, and came out of business rescue in April 2021. The scale of its operations has been significantly reduced.                      |
| CemAir        | Privately owned and operates smaller aircraft flying to destinations such as Bloemfontein, George, Hoedspruit, Margate, Plettenberg Bay, Sishen, Kimberley and Richard's Bay. |

The South African airline industry has experienced turbulent times in recent years with Covid-19 lockdowns that devastated the industry in 2020 and 2021. Comair, a major airline, went into liquidation in 2021 and SAA's scale of operations was drastically reduced. These factors have provided opportunities for other operators such as Airlink, FlySafair, LIFT, CemAir and On-Time

to gain market share. Passenger volumes (as obtained from the Airports Company South Africa (ACSA)) are still well below pre-Covid times, as can be seen in the chart below:



#### 4. Governance and shareholders

On-Time shareholders:

|  |       |
|--|-------|
| Ms Bridget Klaasens                              | 31,0% |
| Mr Sergal Anthony                                | 20,0% |
| Real Equity Impact Fund of South Africa (REIFSA) | 30,0% |
| First Regional Bank                              | 19,0% |

REIFSA is a South African-based private equity fund that seeks investments in projects related to infrastructure, sustainable energy and tourism. It acquired its 30% shareholding interest at inception. First Regional Bank is a South African registered bank that has structured, arranged and funded all of On-Time's aircraft leases as the lessor.

On-Time directors:

|                          |                                       |
|--------------------------|---------------------------------------|
| Ms Bridget Klaasens      | Chief executive officer (CEO)         |
| Mr Sergal Anthony CA(SA) | Chief financial officer (CFO)         |
| Ms Gugulethu Dlamini     | Independent non-executive chairperson |
| Mr Basil Oliphant        | Non-executive director                |
| Mr Clive Zimmerman       | Independent non-executive director    |
| Mr Simon Bungane         | Non-executive director                |

Mr Oliphant is employed by REIFSA as a senior executive. Mr Bungane works in the Aviation Finance Division of First Regional Bank. Mr Bungane is married to Ms Sharon Bungane, a well-known personality in the South African travel industry. Ms Bungane is the CEO of RSA Travel, a leading online travel agency.

On-Time is committed to good corporate governance, which is also evident from the fact that the governing body decided that the company will strive to adhere to the recommended practices of the King IV Report on Corporate Governance.

## 5. Salient financial and other information

On-Time has a December financial year end.

| On-Time Airline<br>Operational data | FY2021  | FY2022    | FY2023    |
|-------------------------------------|---------|-----------|-----------|
|                                     | Actual  | Actual    | Forecast  |
| Number of leased Airbus 320s        | 2       | 4         | 4         |
| Average annual flights per aircraft | 1 440   | 1 440     | 1 440     |
| Total number of available seats     | 501 120 | 1 002 240 | 1 002 240 |
| Actual number of passengers         | 300 672 | 651 456   | 701 568   |
| Load factor                         | 60%     | 65%       | 70%       |
| Average price per ticket sold       | R965    | R1 310    | R1 574    |
| Number of tickets sold              | 315 706 | 701 569   | 731 331   |

The load factor ratio is calculated as the number of passengers who travelled with On-Time divided by the number of available seats. The number of tickets sold differs from the actual number of passengers for various reasons:

- Customers who purchased tickets but then failed to arrive for check-in;
- Customers who purchased tickets and then subsequently requested refunds; and
- Customers who purchased tickets for future-dated travel.

| On-Time Airline<br>Selected financial information* | Notes | FY2021           | FY2022           | FY2023           |
|--|-------|------------------|------------------|------------------|
|  |       | Actual           | Actual           | Forecast         |
|  |       | R'000            | R'000            | R'000            |
| Ticket revenue                                     | a     | 290 148          | 848 684          | 1 096 761        |
| Other revenue                                      | b     | 15 271           | 50 346           | 60 160           |
| <b>Total revenue</b>                               |       | <b>305 419</b>   | <b>899 030</b>   | <b>1 156 921</b> |
| Fuel costs   |       | (102 960)        | (411 840)        | (449 280)        |
| Employee costs                                     |       | (95 784)         | (107 757)        | (115 839)        |
| Landing and parking fees                           | a     | (19 440)         | (57 711)         | (75 677)         |
| Maintenance costs                                  | c     | (58 741)         | (125 118)        | (134 127)        |
| Commissions paid                                   |       | (5 223)          | (16 125)         | (24 129)         |
| Customer reservation charges                       | d     | (13 347)         | (39 124)         | (49 354)         |
| Other operating costs                              |       | (64 775)         | (68 726)         | (74 293)         |
| <b>Total operating expenses</b>                    |       | <b>(360 270)</b> | <b>(826 401)</b> | <b>(922 699)</b> |
| <b>EBITDA</b>                                      |       | <b>(54 851)</b>  | <b>72 629</b>    | <b>234 222</b>   |
| Depreciation: Right-of-use assets                  |       | (36 149)         | (64 468)         | (64 468)         |
| Other depreciation                                 |       | (6 917)          | (6 561)          | (7 120)          |
| <b>EBIT</b>  |       | <b>(97 917)</b>  | <b>1 600</b>     | <b>162 634</b>   |
| Interest income                                    |       | 84               | 1 091            | 5 958            |
| Interest expense: Lease liabilities                |       | (33 231)         | (57 685)         | (53 176)         |
| <b>(Loss)/Profit before taxation</b>               |       | <b>(131 064)</b> | <b>(54 994)</b>  | <b>115 416</b>   |
| Current taxation                                   |       | –                | –                | (8 695)          |
| Deferred taxation                                  |       | 36 698           | 14 849           | (22 468)         |
| <b>(Loss)/profit for the year</b>                  |       | <b>(94 366)</b>  | <b>(40 145)</b>  | <b>84 253</b>    |

\* Numbers have been rounded.

## Notes

- a. ACSA charges airlines such as On-Time passenger service charges, aircraft landing fees and aircraft parking fees for the use of its facilities. Landing and parking fees are dependent on the weight and origin of aircraft landing at ACSA-operated airports and are recovered directly from airlines. Passenger service charges are recovered by ACSA based on air tickets purchased by travellers. On-Time recognises landing and parking fees as an expense. Passenger service charges collected from passengers by On-Time are not recognised as revenue but rather as a liability and paid over to ACSA.
- b. Other revenue represents mainly food and beverages sold to passengers on flights.
- c. On-Time outsources maintenance operations to a reputable local company. Maintenance is scheduled after a certain number of flying hours and in terms of strict programmes and protocols.
- d. On-Time procured a software as a service (SaaS) solution, called PASSYS, for its passenger service system from an international software group. This cloud-based system incorporates a reservation system, customer relationship management, travel agent management system, a full e-commerce website, fares management software, and check-in and gate-control systems. On-Time decided that instead of purchasing the software and systems, it would pay the software vendor a fixed price per customer who purchases tickets.

Selected information from the statements of financial position and forecast for FY2023 are set out in the table below:

| <b>On-Time Airline<br/>Selected financial information</b> | <b>FY2021</b> | <b>FY2022</b> | <b>FY2023</b>   |
|---|---------------|---------------|-----------------|
|   | <b>Actual</b> | <b>Actual</b> | <b>Forecast</b> |
|   | <b>R'000</b>  | <b>R'000</b>  | <b>R'000</b>    |
| <b>Non-current assets</b>                                 | 400 620       | 634 132       | 544 577         |
| Right-of-use assets                                       | 325 339       | 544 064       | 479 596         |
| Vehicles, furniture and equipment                         | 17 333        | 21 522        | 23 153          |
| Leasehold improvements                                    | 21 250        | 17 000        | 12 750          |
| Deferred taxation   | 36 698        | 51 546        | 29 078          |
|   |               |               |                 |
| <b>Current assets</b>                                     | 11 723        | 69 972        | 213 698         |
| Trade and other receivables                               | 8 368         | 36 946        | 63 393          |
| Cash and cash equivalents                                 | 3 355         | 33 026        | 150 305         |
|   |               |               |                 |
| Share capital   | 100 000       | 100 000       | 100 000         |
| Accumulated losses  | (94 366)      | (134 511)     | (50 258)        |
| <b>Total equity</b>                                       | 5 634         | (34 511)      | 49 742          |
|   |               |               |                 |
| <b>Non-current lease liabilities</b>                      | 302 470       | 496 358       | 445 076         |
|   |               |               |                 |
| <b>Current liabilities</b>                                | 104 239       | 242 257       | 263 457         |
| Trade payables and accruals                               | 32 608        | 94 507        | 114 950         |
| Deferred revenue on ticket sales                          | 14 507        | 38 191        | 32 903          |
| Provisions  | 9 874         | 10 071        | 10 273          |
| Taxation  | –             | –             | 869             |
| Lease liabilities   | 47 250        | 99 488        | 104 462         |
|   |               |               |                 |

#### **Accounting policies (extract)**

- On-Time accounts for all items of property, plant and equipment (including right-of-use assets) on the cost model in accordance with IAS 16.
- Depreciation is recognised on a straight-line basis over the respective useful lives of the assets.
- On-Time has elected not to apply hedge accounting per chapter 6 of IFRS 9.



## 6. Key risks

According to ChatGPT, the following are the major risks facing South African airlines:




The South African airline industry faces several major risks that can impact its operations and financial stability. Here are five significant risks:

1. **Economic Volatility:** The South African airline industry is vulnerable to economic fluctuations and market conditions. Economic downturns, currency devaluation, inflation, and political instability can affect passenger demand, purchasing power, and business travel, leading to reduced revenues for airlines.
2. **Fuel Price Volatility:** Fuel costs represent a significant portion of airlines' operating expenses. Fluctuations in global oil prices can significantly impact profitability, as airlines may struggle to pass on increased costs to passengers in highly competitive markets. Sharp increases in fuel prices can strain the financial health of South African airlines.
3. **Regulatory and Policy Changes:** Changes in regulations, government policies, and aviation agreements can have a direct impact on airlines' operations and profitability. Regulatory changes related to safety requirements, security protocols, landing rights, or ownership restrictions can create challenges for South African airlines in terms of compliance and operational adjustments.
4. **Intense Competition:** South African airlines face intense competition, both domestically and internationally. Low-cost carriers, regional airlines, and global airlines operating in the country create a highly competitive landscape. Price wars, aggressive marketing, and capacity expansion by competitors can squeeze profit margins and market share for established carriers.
5. **Security and Safety Concerns:** The airline industry is sensitive to security and safety risks. Acts of terrorism, geopolitical tensions, natural disasters, and global health emergencies (such as the COVID-19 pandemic) can lead to reduced travel demand, travel restrictions, increased operating costs (such as enhanced security measures), and disruptions to flight schedules.

## DOCUMENT 2

### EMAIL FROM CHIEF FINANCIAL OFFICER TO FINANCIAL ANALYST

**From:** Sergal Anthony  
**Sent:** Friday 1 December 2023, 8.06 AM  
**To:** Financial Analyst  
**Subject:** Wet leasing  
**Attachment:**  Salient terms and conditions of proposed agreement.docx 26 KB

Hi

In the background information that Bridget sent, you would have seen that On-Time currently makes use of 'dry leasing' arrangements for its aircraft. That is, we are responsible for the insurance of the aircraft, maintenance, pilots, cabin crew, ground staff and supporting equipment.

The board is looking to expand our operations by acquiring a fifth aircraft and is currently exploring the option of entering into a 'wet leasing' arrangement early in the next financial year. Good old Wikipedia defines a wet lease as follows:

'A wet lease is a leasing arrangement whereby the lessor provides an aircraft, complete crew, maintenance, and insurance (ACMI) to another airline (the lessee).'

We do not necessarily want to appoint additional staff to increase our operational capacity, so at this stage a wet leasing arrangement looks like an attractive alternative.

I have attached a summary of the salient terms and conditions of the proposed wet leasing agreement. Please give this some thought – the board requested that I investigate the financial reporting implications of the proposed agreement and I would like to get your input.

Kind regards  
Serg

**CFO:** On-Time Airline (Pty) Ltd

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## **ATTACHMENT TO EMAIL**

### **SALIENT TERMS AND CONDITIONS OF PROPOSED AGREEMENT**

#### **Commencement date**

The effective date of the agreement is 1 January 2024.

#### **Rights and obligations of lessee**

The lessee obtains the use of one (1) Airbus 320 aircraft, as well as all related goods and services to operate the envisaged flight route, including –

- pilots
- cabin crew and ground staff
- supporting equipment
- meals
- maintenance of aircraft in accordance with industry and legal standards
- insurance of aircraft.

The lessee only provides fuel and covers airport fees (landing and parking fees, etc.). The aircraft is on the lessor's operators' certificate and the lessor registers the aircraft with the South African Civil Aviation Authority.

#### **Rights of lessor**

In exchange for all the above assets, goods and services provided to the lessee, the lessor is entitled to monthly payments in arrears.

#### **Term of agreement**

The term of the agreement is exactly eighteen (18) months, subject to renewal.

## DOCUMENT 3

### EMAIL FROM CHIEF FINANCIAL OFFICER TO FINANCIAL ANALYST

**From:** Sergal Anthony  
**Sent:** Friday 1 December 2023, 8.26 AM  
**To:** Financial Analyst  
**Subject:** Accounting calculations

Hi

The external audit of our financial statements for the financial year ending 31 December 2023 is commencing soon. I would like to include you in the team focused on preparing for this upcoming external audit. We have new external auditors this year, and I want to create a good impression, and this starts with us working proactively to get our financial statements right. Not only will this save audit fees in the current year, but it will ensure that we obtain an unmodified auditor's report.

I don't know if you are aware of this, but we lost Tania Thompson, our senior accountant, to another company earlier this year. She was the backbone of our accounting function. We have not been able to find a suitable replacement to date, and hence we contracted with accountancy consultants, Greg & Rashid Consulting (GRC), to perform certain calculations required for our FY2023 financial statements.

The calculations broadly relate to –

- our capitalised aircraft assets and the possible impairment thereof; and
- aircraft maintenance.

To make doubly sure that these amounts are accurate, I would like you to review the calculations that GRC prepared. Unfortunately I accidentally deleted the email from them. I requested Julio Oliviera, our junior accountant, to resend it to me. I will forward it to you as soon as he sends it.

Any adjustments arising from these calculations will need to be included in the FY2023 numbers.

You need not bother with the tax implications at this stage.

Kind regards  
Serg

**CFO: On-Time Airline (Pty) Ltd**

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## DOCUMENT 4

### EMAIL FROM CHIEF EXECUTIVE OFFICER TO FINANCIAL ANALYST

**From:** Bridget Klaasens  
**Sent:** Friday 1 December 2023, 8:35 AM  
**To:** Financial Analyst  
**Subject:** Proposed dividend

Hi there

As you probably noticed in the background information document that I emailed you earlier today, On-Time is set to record a profit before taxation of ±R115 million in FY2023. It is still a couple of weeks to the year end, but we are confident that we will achieve the forecast profitability.

Some of the directors of On-Time have been discussing the possibility of the company declaring a dividend to shareholders to reward them for their investment and faith in the business. Sergal mentioned that this may not be possible since On-Time does not have any distributable reserves due to historic losses in FY2021 and FY2022. While On-Time is set to declare a handsome profit in FY2023, losses incurred in FY2021 and FY2022 totaled nearly R135 million.

I am loath to obtain legal advice about whether On-Time can declare dividends at this stage – attorneys charge so much money for advice that we can find on the internet. Perhaps apply your mind as to how we can distribute some cash to the On-Time shareholders. Thanks in advance.

Kind regards  
Bridget

**CEO: On-Time Airline (Pty) Ltd**

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## DOCUMENT 5

### EMAIL FROM CHIEF FINANCIAL OFFICER TO FINANCIAL ANALYST

**From:** Sergal Anthony  
**Sent:** Friday 1 December 2023, 8:45 AM  
**To:** Financial Analyst  
**Subject:** Ticket revenues for FY2023

Hi again!

One of the areas that the external auditors will undoubtedly focus on is 'ticket revenue', as this line item is by far the largest amount in our financial statements. I have asked our data analyst to extract the total rand amount of flight bookings and cancellations from PASSYS so that I can compute a 'theoretical' revenue figure for the 11-month period ended 30 November 2023. That can then be compared with the 'actual' revenue figure reflected in our trial balance at 30 November 2023. I have now undertaken this exercise, and this is what I found:

|  | <b>R'000</b> |
|--|--------------|
| Rand amount of total flight bookings made from 1 January 2023 to 30 November 2023 (according to PASSYS)    | 978 290      |
| Add: Unflown ticket liability (deferred revenue on ticket sales) at 31 December 2022 (from AFS)            | 38 191       |
|  | 1 016 481    |
| Less: Rand amount of ticket cancellations / refunds (from PASSYS)  | (50 538)     |
| Less: Unflown ticket liability (deferred revenue on ticket sales) at 30 November 2023 (from trial balance) | (30 616)     |
| 'Theoretical' flight ticket revenue  | 935 327      |
| 'Actual' flight ticket revenue per the trial balance at 30 November 2023                                   | 936 882      |
| <b>Difference</b>  | <b>1 555</b> |

For some unknown reason, there is a difference of R1,555 million between the theoretical and actual ticket revenue figures. Even though this may not be that material from an external audit perspective (given the magnitude of the revenue figures), I would appreciate you applying your auditing skills to find the cause(s).

On-Time Airlines is barely three years old and has experienced exceptional growth since its incorporation. However, just between us I must confess that our systems of internal control and our business practices may not have kept pace with this growth.

I would also really appreciate your assistance with evaluating our systems of internal control, particularly that relating to revenue. Hopefully that will help to avoid any recurrence of 'unaccounted for' differences going forward. The head of sales and marketing, Jim Jackson, may help you to understand our revenue system. As one of five operating divisional managers he reports to the CEO, so I would suggest that you set up a meeting with him.

Kind regards  
Serg

**CFO:** On-Time Airline (Pty) Ltd

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## DOCUMENT 6

### EMAIL FROM CHIEF FINANCIAL OFFICER TO FINANCIAL ANALYST

**From:** Sergal Anthony  
**Sent:** Friday 1 December 2023, 8.59 AM  
**To:** Financial Analyst  
**Subject:** Tax return for FY2022

Hi there

I almost forgot to fill you in on our tax matters.

The deadline for submission of our tax return for FY2022 is the end of this month!

Apart from handling the accounting function, Tania also assisted with all tax matters. This included the filing of returns on time and the reporting on our tax numbers in the financial statements. Unfortunately, she left before we could submit the income tax return.

With the deadline looming, I have asked Julio to step in and handle this matter. He has promised to send me his calculation of our income tax liability as soon as possible. Can I ask you to also step up and assist as your tax knowledge is probably more up to date than mine? I will forward his calculations to you as soon as I receive them.

Kind regards  
Serg

**CFO:** On-Time Airline (Pty) Ltd

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## DOCUMENT 7

### EMAIL FROM CHIEF EXECUTIVE OFFICER TO FINANCIAL ANALYST

**From:** Bridget Klaasens  
**Sent:** Friday 1 December 2023, 9.00 AM  
**To:** Financial Analyst  
**CC:** Sergal Anthony  
**Subject:** Expansion opportunities

Hi again

As I indicated to you in my welcome email, your role at On-Time will include participation in strategic projects, one of which relates to new business opportunities.

As a fledgling airline participating in a highly competitive landscape, On-Time needs to ensure that its market position, brand, and reputation are grown and enhanced.

Over the past year, several customers have requested that On-Time explore the possibility of offering additional flight routes. An interesting prospect, particularly given our ability to operate additional routes if underpinned by wet leases.

As much as 85% of the requests received by customers were for the introduction of a George|OR Tambo flight route. I surmise this is based on the recent resurgence of the Southern Cape as a tourist destination, coupled with semigration activity. In my opinion this is the most appropriate route to consider at this stage.

We have undertaken preliminary research in respect of flight demand, potential passengers, potential flight numbers and ticket prices, a summary of which is as follows:

| Details                          | George OR Tambo route |
|----------------------------------|-----------------------|
| Forecast flight demand           | High                  |
| Potential passengers (per annum) | 150 000               |
| Average price per ticket         | R1 800                |
| Proposed aircraft                | Airbus A320           |

Please could I ask that you apply yourself to the potential introduction of the George|OR Tambo flight route? Given the passenger demand, I imagine that we would be able to successfully operate two return flights between George and OR Tambo per day.

Kind regards  
Bridget

**CEO: On-Time Airline (Pty) Ltd**

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NOTICE: Please note that this email and the contents thereof are subject to the standard On-Time Airline email disclaimer. See <http://www.on-time.co.za/disclaimer/email.htm> for more details.



## DOCUMENT 8

### EMAIL FROM CHIEF FINANCIAL OFFICER TO FINANCIAL ANALYST

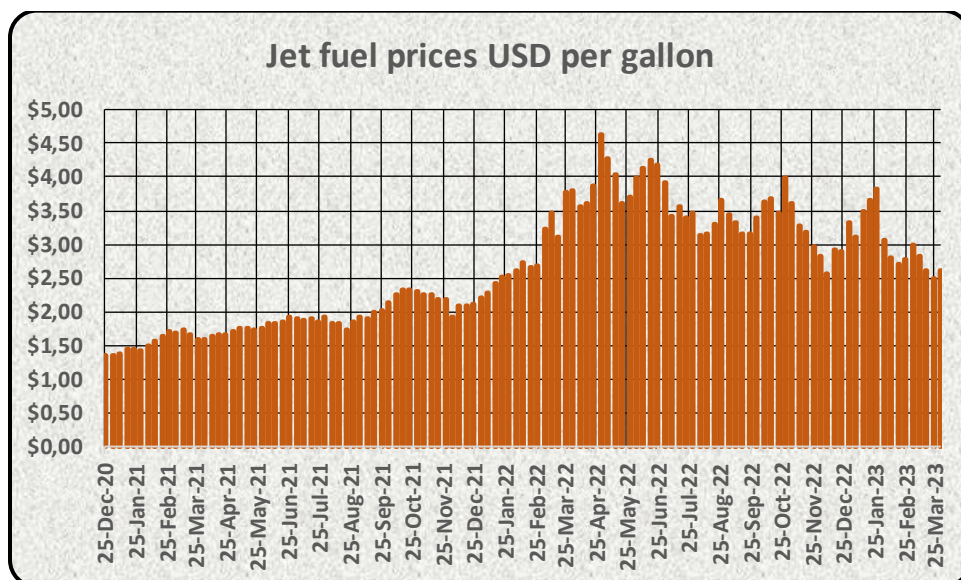
**From:** Sergal Anthony  
**Sent:** Friday 1 December 2023, 9.06 AM  
**To:** Financial Analyst  
**Subject:** Hedging

Hi

Apologies for bombarding you with all these emails on your first day at On-Time. Last one for the day!

Jet fuel costs are the largest single expense item for On-Time and were equivalent to approximately 46% of total revenue in FY2022. This is not unique to On-Time, for fuel costs represent the largest operating expense for most airlines globally. Jet fuel prices are priced in USD and fluctuate daily depending on global demand and supply. Geopolitical events, natural disasters and economic conditions also have profound impacts on global jet fuel prices.

Jet fuel prices are quoted in USD per gallon (a unit of volume commonly used in the USA, with a gallon being equivalent to approximately 3,785 litres). As you can see in the chart below, jet fuel prices have been particularly volatile in recent years.



The perpetual debate in the airline industry is whether to hedge against potential future rising jet fuel costs. Some airlines have elected not to hedge while others, such as Southwest Airlines, have a longstanding hedging strategy. Southwest Airlines uses various financial derivative instruments for hedging purposes but seems to favour call options. The following was reported in the *Financial Times* on 27 June 2022:

‘...Call options give holders the right to buy a commodity at a set price by a given date, costing hedgers such as Southwest the equivalent of an insurance premium...’

On-Time has never used call options or any other derivative instrument to hedge jet fuel prices, as the board of directors has always felt that these prices are out of its control. Hedging could benefit On-Time if jet fuel prices surge (April 2022 was a prime example) or On-Time could waste money by buying call options when the jet fuel prices decline.

I decided to track call option prices over the period June 2022 to June 2023 to better inform myself about possible hedging strategies. I obtained the three-month call option prices in the table below from a friend who is employed at a major investment bank. The call option prices were obtained at the start of the three-month period for settlement should the call option holder elect to do so, at quarter end. For example, the call option quoted on 1 July 2022 to buy a gallon of jet fuel on 30 September 2022 was USD4,30 per gallon, subject to an option premium of USD0,1075 per gallon being paid.

| Option grant date | Call option premium per gallon | Call option price per gallon | Option settlement date |
|-------------------|--------------------------------|------------------------------|------------------------|
| 1 July 2022       | USD0,1075                      | USD4,30                      | 30 September 2022      |
| 1 October 2022    | USD0,0875                      | USD3,50                      | 31 December 2022       |
| 1 January 2023    | USD0,0750                      | USD3,00                      | 31 March 2023          |
| 1 April 2023      | USD0,0625                      | USD2,50                      | 30 June 2023           |

As a matter of interest, the spot jet fuel prices at these selected dates were as follows:

|                   | Jet fuel price per gallon |
|-------------------|---------------------------|
| 1 July 2022       | USD3,80                   |
| 30 September 2022 | USD4,10                   |
| 31 December 2022  | USD3,40                   |
| 31 March 2023     | USD3,30                   |
| 30 June 2023      | USD2,28                   |

Some homework for you: would it have been better for On-Time to have hedged its jet fuel purchases over the period 1 July 2022 to 30 June 2023 or not? You only need to consider the economic impact, I don't need you to consider the accounting or tax treatment.

Kind regards

Serg

**CFO:** On-Time Airline (Pty) Ltd

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