

Comair Limited

Annual Report 2004





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Joint Chairman and

Managing Director's

Report

Earnings Review

2004 presented a year of unprecedented competition in the market for domestic air travel, characterised by over-capacity and aggressive pricing. Despite a significant decline in yields, Comair achieved an 8% turnover increase on substantial passenger gains of 31% and growth in market share. Capacity grew by 19% along with improved seat occupancy levels. Under the circumstances, the operating profit of R40.7 million and headline earnings per share of 12.1 cents (prior year operating profit of R11.9 million and headline earnings per share of 6.8 cents) are a creditable achievement.

The stronger rand reduced operating costs in the second half of the year. This benefit was partially offset by the increase in the dollar price of fuel over the same period and a reduction in rand yields from dollar based sales. Comair implemented a fuel surcharge on British Airways ticket sales to partially recover the effect of the abnormal fuel price, but the benefit of this recovery will only be reflected in the 2005 financial year.

Cash generated by operations remained strong at R63.3 million (prior year R66.7 million), resulting in a cash balance of R210 million at year end (prior year R168 million).

In view of the positive cash flow from operations, the Directors have resolved to declare a dividend of 2.0 cents per share (prior year 2.0 cents) to all shareholders.

Trading environment

Airline operators in the private sector have struggled for a considerable time to compete against the state owned South African Airways, leading to several airline failures since deregulation. However, Comair has consistently achieved a growing market share under its British Airways brand, and more recently under its kulula.com brand, despite the perceived predatory conduct on the part of South African Airways that has now led to complaints filed with the Competition Commission regarding abuse of dominance in terms of the Competitions Act.

The Competition Tribunal is currently hearing a referral from the Competition Commission regarding the abuse of dominance by South African Airways. A favourable ruling would provide for an improved trading environment and a possible claim for damages.

It is our view that the Government should review the effective compliance of its own policy which commits it to a reduction in its direct involvement in the provision of air services. This policy was documented by Government in a White Paper, but was only briefly pursued with the sale of a strategic equity stake in South African Airways, which was repurchased after a short period due to the failure of Swissair.

Both the state owned South African Airways and our company have been negatively impacted by a stronger rand in respect of aircraft values and exchange losses, as reflected in the results for this year. It is of concern, however, that the Government has found it necessary, on at least two occasions during the last eighteen months, to issue guarantees for the hedge commitments of South African Airways, whilst its policy commits it to the principle of equal treatment and the promotion of a level playing field.

Exceptional Items

The exceptional items below have arisen as a result of the continued depressed international aircraft values and the strength of the rand.

- As a result of the fleet replacement programme, one of the older aircraft was withdrawn from service during the year, and a further two were withdrawn at the start of the 2005 financial year. These aircraft, along with two that were withdrawn in the prior financial year, have been written down to nil value as an exceptional item at a cost of R15 million.
- Failure of aircraft values to adequately recover since September 2001 has resulted in a prudent decision to write down the value of Comair-owned stage 2 noise level Boeing 737-200 aircraft that remain in operation. The effect of this is an impairment write down of R100 million that will achieve a fair realisable book value on these aircraft at the end of their intended operation in the Comair fleet.
- A foreign currency translation loss of R5.1 million was incurred on the US\$4 million aircraft deposits held with British Airways. These deposits relate to options that were to be exercised subsequent to the balance sheet date. Comair has elected not to exercise these options as the underlying aircraft prices were negotiated prior to September 2001 and no longer support a positive investment value. The balance of these deposits has been expensed at year end as an exceptional item of R24.7 million.

- ▶ A forward cover exchange loss was incurred on the acquisition of three Boeing B737-300 aircraft that were acquired during the year. This has been reflected as an exceptional item of R16.7 million at year end.

Aircraft Fleet

The depressed international aircraft values, along with the stronger rand, have provided an ideal opportunity for Comair to further upgrade its fleet to more efficient and stage 3 noise compliant aircraft.

In September, October and November Comair took delivery of three Boeing B737-300 aircraft from Qantas. While this acquisition has increased the aircraft fixed costs on the Income Statement, the increase has been more than offset by the operating efficiency of these aircraft, which reduces Comair's exposure to the exchange rate and oil price variations. The Boeing B737-300s are stage 3 noise compliant and offer improved revenue earning potential by providing 30% more capacity than similar Boeing B737-200 aircraft. Comair is investigating opportunities to take further advantage of the current aircraft market and exchange rate by accelerating its fleet replacement programme.

At mid year Comair contracted with Safair to terminate the leases on three Boeing B737-200 aircraft and replace these with four MD82 aircraft. The MD82 aircraft became available to Comair on the favourable suspension of the commercial agreement between Comair and Safair, whereby Comair shared equally in the profits or losses on five MD82 aircraft that are owned by Safair and were leased to third parties. The MD82 aircraft have been configured with 150 seats, which, along with lower operating costs, result in an improved cost per seat compared to the Boeing 737-200 aircraft that they replaced.

At year end Comair's fleet comprised two Boeing B737-200 basic aircraft that were retired after the Balance Sheet date; eight 100 seater B737-200 aircraft, of which six are owned; three 140 seater leased B737-400 aircraft; three 130 seater owned B737-300 aircraft; and four 150 seater leased MD82 aircraft. The fleet comfortably exceeds the requirements of the anticipated noise abatement regulations.

kulula.com Brand

The introduction of the more efficient MD82 fleet assisted in further reducing kulula.com's cost per seat, thereby supporting its leading position in the low fare market. Extra frequencies were added on the Johannesburg-Cape Town and Johannesburg-Durban routes, and kulula.com commenced a successful service on the Johannesburg-George route.

In partnership with Protea Hotels, kulula.com added the sale of kulula.beds to its flights and cars, thereby providing the facility for a kulula.com client to compile a complete and cost effective travel package on-line.

British Airways Brand

The British Airways operation continued to excel as the leading premium brand airline in Southern Africa. The airline's commitment to service excellence was endorsed by its being voted the best domestic airline for the fourth time by the Association of South African Travel Agents (ASATA), and through the winning of the ACSA Feather Award for the best domestic airline out of Johannesburg and Cape Town.

British Airways continues to offer 40% more legroom than other domestic airlines, LOFO (last on first off) baggage and British Airways Executive Club frequent flyer programme as some of its leading market benefits. The introduction of e-ticketing has heralded the era of efficient and paperless travel arrangements for the brand.

During the year the airline grew capacity across the network through upgrading three of its fleet to Boeing B737-300 aircraft.

Flight Operations

Safety standards remain an imperative for the company, and Comair once again received an unconditional rating from the British Airways Plc safety audit team. Comair also successfully participated in an ACSA emergency simulation exercise to test its emergency procedures.

At year end Comair had secured the purchase of a second flight simulator at a cost of R21 million for the training of Boeing 737-300 and -400 flight crew.

Apart from achieving a significant saving on training costs and greater efficiency, the simulator will provide a source of revenue through the leasing of spare simulator capacity to other airlines, a number of which are already using our existing flight simulator facilities.

Black Economic Empowerment

Mindful of the imperative to redress the historical, social and economic inequalities of the past, as well as to achieve sustained presence and ownership in business by historically disadvantaged South Africans, Comair has actively participated in the development of the BEE charter for Transport. Comair has made progress towards the targets set in the Draft Aviation Scorecard, including employment equity, training, management, social responsibility and procurement.

Prospects

Comair expects to see continued reductions in its cost base through a more efficient fleet, reduced selling costs and improved productivity.

The fuel price, which comprises 25% of Comair's costs, remains of concern, and may require a further increase to the fuel surcharge collected on ticket sales in order to adequately address rampant dollar oil prices. However, increased ticket prices also have the potential to reduce passenger demand. While the fleet replacement programme will reduce exposure to the oil price and exchange rate, approximately 40% of costs are expected to remain hard currency based.

Profits will ultimately depend on the level of competition in the market, and on the extent to which revenue can be grown to cover potential cost increases as well as deliver an acceptable profit margin. On current trends the Board expects reasonable prospects for a further improvement in operating profit for the 2005 financial year.

Five-Year Review

for the year ended 30 June 2004

	2004 R'000	2003 R'000	2002 R'000	2001 R'000	2000 R'000
Group income statement					
Revenue	1,474,549	1,365,907	1,284,962	1,160,000	977,036
Operating expenses	1,433,804	1,354,003	1,273,104	1,086,157	825,229
Operating profit	40,745	11,904	11,858	73,843	151,807
Aircraft deposit translation loss	(5,120)	(11,604)	-	-	-
Aircraft deposit write-off	(24,752)	-	-	-	-
Aircraft impairment write-down	(115,106)	(35,000)	-	-	-
Aircraft forward cover exchange loss	(16,658)	-	-	-	-
Sun Air investment settlement	-	(3,600)	-	-	-
Profit on disposal of aircraft	-	-	-	25,483	1,970
(Loss)/profit from operations	(120,891)	(38,300)	11,858	99,326	153,777
Net investment income / (expense)	(15,257)	987	(1,085)	8,706	12,863
(Loss)/profit before taxation	(136,148)	(37,313)	10,773	108,032	166,640
Taxation	39,448	14,386	4,539	(15,070)	(46,735)
(Loss) / Profit for the year	(96,700)	(22,927)	15,312	92,962	119,905
Outside shareholders income	-	-	-	-	8
(Loss) / Earnings attributable to ordinary shareholders	(96,700)	(22,927)	15,312	92,962	119,913
Group balance sheet at 30 June					
Assets					
Property, plant and equipment	343,927	295,452	334,304	309,989	186,600
Loan to share incentive trust	-	-	14,040	14,000	15,120
Unlisted investments	-	115,035	96,226	80,493	67,331
Deferred taxation	31,435	(8,017)	(26,629)	(31,168)	(28,284)
Current assets	316,639	293,623	344,894	372,881	383,834
	692,001	696,093	762,835	746,195	624,601
Equity and liabilities					
Share capital and reserves	234,236	339,050	383,933	402,221	338,659
Interest-bearing liabilities	190,787	21,331	171,460	181,237	135,490
Current liabilities	266,978	335,712	207,442	162,737	150,452
	692,001	696,093	762,835	746,195	624,601
Salient features					
Operating margin	2.8%	0.9%	0.9%	6.4%	15.5%
Earnings margin	-6.6%	-1.7%	1.2%	8.0%	12.3%
Earnings per share (cents)	(24.2)	(5.7)	3.8	23.2	30.1
Headline earnings per share (cents)	12.1	6.8	3.8	23.2	30.1
Dividends per share (cents)	2.0	2.0	2.0	8.0	7.0
Weighted ordinary shares issued ('000)	399,431	399,434	399,407	399,395	399,250
Weighted ordinary shares in issue	420,000	420,000	420,000	420,000	420,000
Adjustment in respect of consolidation of share trust	-20,569	-20,566	-20,593	-20,605	-20,750

Group Value Added

Statement

for the year ended 30 June 2004

	2004 R'000	%	2003 R'000	%
Wealth Created				
Group Revenue	1,474,549	-	1,365,907	-
Cost of materials and services	1,237,891	-	1,164,464	-
Value added	236,658	-	201,443	-
Income from investments	29,223	-	30,685	-
Total value added	265,881	100%	232,128	100%
Wealth Distributed				
<i>Employees</i>				
Salaries, wages and related benefits	202,270	65%	176,336	76%
<i>Providers of capital</i>				
Interest on loans	44,480	14%	29,698	13%
Dividends to shareholders	7,989	3%	-	-
<i>Government</i>				
Taxation income	(39,448)	-13%	(14,386)	-6%
<i>Re-invest in the group</i>				
Depreciation including impairment of assets	147,290	31%	63,380	17%
Attributable loss	(96,700)		(22,900)	
	265,881	100%	232,128	100%

kulula.com has spent this last year improving their on board service, speeding up the check-in process and getting their flights away on time. Their focus hasn't shifted from when they launched three short years ago, from offering affordable and easy travel to all. Here's a snap shot of what they did during the year:



Their new fleet of McDonald Douglas aircraft take to the skies. Each aircraft has it's own unique paint scheme design.



kulula's new Boeing 737-200 joins the fleet, with a new paint scheme. The first of two new Boeings to be added to their growing fleet.



New route launch on 22 September 2003. kulula now flying to George. Their cabin crew and Captain posing for the photo in true kulula style.

The Mayor of George (with the green bowling hat) joins them for the day to welcome kulula to his beautiful city for the very first time. The Western Cape will never be the same again!



September 2003. The kulula staff were treated to a team building evening. "Drum Beat" showed the staff how team work will help everyone beat the same drum.... The staff were also treated to some stand up comedy from one of SA's funniest, John Vlismas.



Cancer-shave-a-thon, 2 april 2004 kulula joined in to raise money for the Cancer Association by spraying their hair green. On board their flights they also managed to persuade some of their fans to 'Go Green' for charity!



Get a room with kulula.com/beds and Protea Hotels. From as little as R300 a night, per room. This fantastic rate is enough to make their Commercial Director, Gidon Novick jump straight into bed!

Mynhard Claasen flew to Durbs on his first flight ever. He has muscular dystrophy and doesn't have many opportunities to get around. He was more than thrilled to jump on his first aeroplane trip and to 'see the world from the sky!'.



Shaun and Tebogo at the 702 Walk the Talk fun day, after they had just completed their 10 km walk for charity.

Our action cricket team are willing to take on anyone who's brave enough: Can you face an entire game of random ball throwing and wild batting?



Introduction

Corporate governance is the ethical framework of business philosophy. This is evidenced throughout Comair, where, integrity, professionalism and corporate citizenship are entrenched within the Company's values.

Under the stewardship of the Board, an open governance process is managed, through which stakeholders may derive assurance that the Company is being managed in an ethical and disciplined manner according to risk parameters based on the principles of transparency, accountability, responsibility and fairness.

Statement of Compliance

The Board is of the opinion that throughout the financial year under review, it has, other than as set out below, complied in all material aspects with the principles of King II and the provisions as set out in the Listing Requirements of the JSE. To the best of its knowledge and belief, areas of non-compliance are as follows:

- ▶ While the Chairman of the Board is a non-executive director, he is not considered to be independent.
- ▶ Executive Directors have no fixed-term contracts of employment. Notwithstanding same, one-third of the Directors are required to retire by rotation every year and if eligible are considered for re-appointment at the Company's Annual General Meeting.

Code of Ethics

The Company has a strong culture of entrenched values, which forms the cornerstone of the expected behaviour of the Company towards its stakeholders. These values are embodied in a written document known as the Company Code of Ethics. The Code is continually evaluated and updated and commits Directors and employees to the highest standards of behaviour when dealing with stakeholders, both internal and external.

Financial Reporting and Going Concern

The Directors are responsible for the preparation of the annual financial statements in a manner that fairly and accurately represents the state of affairs and results of the Company. The Directors are responsible for adopting sound accounting practices, maintaining adequate accounting records and ensuring an effective system of internal controls for the safeguarding of assets.

The financial statements of the Company have been prepared on the "Going Concern" basis and the Board is of the view that the Company has adequate resources to continue operating for the foreseeable future.

Board of Directors

The Company has a unitary board structure. The composition of the Board of Comair is set out on page 16. The roles of the Chairman and Managing Director are separate. The non-executive Directors, with a strong independent element, are of sufficient number to ensure that no single individual has unfettered power of decision-making and authority. As at 30 June 2004, the Board comprised of four independent non-executive directors, three non-executive directors and five executive directors, as defined in the listing requirements of the JSE Securities Exchange SA.

The Board is considered to be appropriately skilled with regard to its responsibilities and the activities of the Company. The skills and experience profiles of the Board members are regularly reviewed, to ensure an appropriate and relevant Board composition.

The Board retains full and effective control of the Company and is accountable and responsible for its performance and affairs. The Board is accountable to all stakeholders for exercising leadership, integrity and judgement in pursuit of the strategic goals and objectives of the Company. The Board's primary functions include, amongst others:

- ▶ Determining and providing strategic direction to the Company
- ▶ Adoption of strategic plans and ensuring that same, through the Executive Directors, are communicated to the applicable management levels
- ▶ Approving the annual business plan and budget compiled by management
- ▶ Approving the Company's financial statements and interim reports
- ▶ Appointing the Managing Director and ensuring that succession is planned
- ▶ Evaluating the viability of the Company on a "going concern" basis
- ▶ Identifying and continually reviewing key risks as well as the mitigation thereof by management
- ▶ Approving major capital expenditure and significant acquisitions and disposals, and
- ▶ Monitoring non-financial aspects pertaining to the business of the Company.

Corporate Governance

(continued)

The Managing Director, who reports to the Board, is responsible for the running of the day-to-day business of the Company and for the implementation of policies and strategies adopted by the Board. The Executive Directors and Executive Managers of the Company's various business units and subsidiaries assist him in this task.

The Company Secretary is responsible for providing the Board collectively, and each Director individually, with guidance on the discharge of their responsibilities in terms of the legislation and regulatory requirements of the Republic of South Africa. The Directors of the Company keep the Company Secretary advised of all their dealings in securities. The Company Secretary monitors that the Directors receive approval from the Chairman or a designated Director, for any dealings in securities and ensures adherence to closed periods for share trading. The Directors have unlimited access to the services of the Company Secretary.

The Board has created an Audit and Risk Management Committee, a Nominations Committee and a Remuneration Committee, as set out below, to enable the Board to properly discharge its duties and responsibilities and to effectively fulfil its decision making process. The Board and its Committees are supplied with relevant and timely information enabling them to discharge their responsibilities.

Board Committees

The Board Committees have specific terms of reference, appropriately skilled members, independent non-executive director membership, Executive Directors and Executive Management participation and access to specialist advice when considered necessary.

Audit and Risk Management Committee

The members of this committee are all Non-Executive Directors with the majority of the members being independent. All members are

financially literate and all possess substantial business and financial expertise. The Committee meets at least three (3) times per year. Both internal and external auditors have unrestricted access to the Committee.

The Chairman of the Board, Managing Director, Financial Director, internal auditor and external auditors attend the Audit and Risk Management Committee meetings by invitation. The Committee held three (3) meetings during the financial year under review.

Composition of Committee and Attendance

<i>Membership</i>	<i>Attendance</i>
Chairman:	
PJ Welgemoed	3/3
Members:	
RC Sacks	1/3
D Hyde ⁽¹⁾	2/3
L Cromwell Griffiths ⁽²⁾	2/3
KI Mampeule ⁽³⁾	2/3

Notes:

- (1) Resigned effective 16.02.2004
- (2) Appointed effective 16.02.2004
- (3) Appointed effective 01.11.2003

The Committee, amongst other things, identifies and evaluates exposure to financial risk, the adequacy of internal controls and provides effective communication between Directors, management and the internal and external auditors. The main responsibilities of the Audit and Risk Committee are, amongst others, to:

- ▶ Review and recommend to the Board for approval the Company's annual report, interim reports and results announcement
- ▶ Review and evaluate the effectiveness and performance of the external auditors as well as the scope, adequacy and costs of audits to be performed
- ▶ Evaluate and approve the external auditors' plans, findings and reports
- ▶ Review, evaluate and approve the activities, scope, adequacy and effectiveness of the Company risk management functions
- ▶ Evaluate the effectiveness of the internal auditing function, including its activities, scope and adequacy and receive and approve the internal audit plan, internal audit reports and material changes to same
- ▶ Evaluate procedures and systems including, but not limited to, internal controls, disclosure

controls and the internal audit function, and

- ▶ Monitor the ethical conduct of the Company and Group.

Nominations Committee

The members of this Committee, which members also serve on the Remuneration Committee, are all Non-Executive Directors with the majority of the members being independent.

This Committee, as well as the Remuneration Committee, considers the issue of succession planning at Executive Director and Executive Management level. The Managing Director, in consultation with the Board Chairperson, Remuneration Committee and Nominations Committee, is responsible for ensuring that an adequate succession plan is in place.

The Committee met twice (2 times) during the financial year under review. The composition of the Committee and attendance at meetings are set out below:

Composition of Committee and Attendance

<i>Membership</i>	<i>Attendance</i>
Chairman:	
RC Sacks	1/2
Members:	
JM Kahn	2/2
D Hyde ⁽¹⁾	1/1
L Cromwell Griffiths ⁽²⁾	2/2

Notes:

- (1) Resigned effective 16.02.2004
- (2) Appointed effective 16.02.2004

Amongst others, the main responsibilities of the Nomination Committee are to:

- ▶ Make recommendations on the appointment of new executive and non-executive directors
- ▶ Make recommendations on the composition of the Board generally and the balance between Executive and Non-Executive Directors
- ▶ Review plans for succession and ensure their adequacy, for the Chairperson, Managing Director and Executive Directors
- ▶ Review the Board structure, size and composition and make recommendations with regard to any adjustments deemed necessary, and
- ▶ Ensure that formal board appointment policies and procedures are followed and that such appointment policies and

procedures are reviewed and updated when necessary.

Remuneration Committee

The members of this Committee, which members also serve and act as the Nominations Committee, are all Non-Executive Directors with the majority being independent. The Managing Director attends meetings by invitation only and is not entitled to vote. The Managing Director does not participate in discussions regarding his own remuneration. The Committee met twice (2 times) during the financial year under review. The composition of the committee and attendance at meetings is set out below.

Composition of Committee and Attendance

Membership	Attendance
Chairman:	
RC Sacks	1/2
Members:	
JM Kahn	2/2
D Hyde ⁽¹⁾	1/1
L Cromwell Griffiths ⁽²⁾	2/2

Notes:

(1) Resigned effective 16.02.04

(2) Appointed effective 16.02.04

The remuneration policy and the execution thereof is the responsibility of the Remuneration Committee. Non-Executive Directors qualify for an annual director's fee. The fee is augmented for services as Chairperson on any of the Committees. These fees are reviewed annually. One of the Company's aims is to attract and retain competent and committed executive employees where performance needs to be recognised and encouraged. Remuneration is reviewed at appropriate intervals to motivate employees to perform to the required standards. Remuneration is reviewed at appropriate intervals and is linked to the Company's and individual's performance. The fees for Non-Executive Directors and the remuneration packages for Executive Directors for the past year are disclosed on page 17.

Amongst others, the main responsibilities of the Remuneration Committee are to:

- ▶ Determine the Company's general policy on remuneration as well as specific policies in respect of Executive Directors and Executive Management remuneration

- ▶ Review and determine remuneration packages for Executive Directors and Executive Management including but not limited to basic salary, annual bonuses, benefits, performance based incentives, share incentive scheme awards and pensions
- ▶ Review the Company's Code of Ethics
- ▶ Annually review the general level of remuneration for Directors of the Board as well as its committees and recommend proposals in this respect for approval by shareholders at general meetings
- ▶ Make recommendations in respect of awards from the Comair Share Incentive Scheme, and
- ▶ Review employment equity and skills development plans.

Discharge of Responsibilities

The Board is of the view that the Committees have discharged their responsibilities for the financial year under review in compliance with their terms of reference.

Risk Management

Effective risk management is critical to the Company's operations. The Company therefore follows a comprehensive Risk Management process, which involves identifying, understanding and managing the risks associated with its various businesses. As the Company, through its various business units, is exposed to a wide range of risks, some of which may have serious consequences, the identification of risk and its management forms part of Executive Management's business plan. The Audit and Risk Committee also reviews the risk management process.

Internal Control

The Board is responsible for ensuring that the Company implements and monitors the effectiveness of its systems of internal control. The identification of risk and the implementation and monitoring of adequate systems of internal control to manage both financial and operational risk are delegated to the Internal Auditor, who in turn makes recommendations to Executive Management as well as to the Audit and Risk Management Committee.

While all internal control systems do have inherent shortcomings, the Company's internal control system is designed to provide reasonable assurances as to the reliability of financial information and in particular the financial statements, as well as to safeguard, verify and maintain accountability of its assets and to detect fraud and potential liability, while complying with applicable laws and regulations.

The Company's External Auditors consider the internal control systems of the Company as part of their audit and advise of deficiencies where identified.

Internal Audit

The internal audit function is an independent appraisal mechanism which evaluates, amongst other things, the Company and Group's internal control procedures, disclosure procedures and information and information systems, so as to ensure that these function effectively.

External Audit

The Company's external auditors are Fisher Hoffman PKF Inc. The independence of the external auditors is recognised. The Audit and Risk Committee meets with external auditors to review the scope for the external audit, and any other audit matters that may arise. The external auditors attend Audit and Risk Committee Meetings and have unrestricted access to the Chairman of the Committee.

Relations with Shareholders

The Company uses its best endeavours to maintain dialogue with its shareholders and other interested parties. The Company also meets with its institutional shareholders, generally twice a year, after the release of its annual and interim results. The Company's website contains the latest, as well as historical, financial and other information about the Company, including the Company's financial reports. The Board encourages shareholders to attend its Annual General Meeting, notice of which is contained in the Annual Report, at which shareholders have the opportunity to put questions to the Board.

Corporate Governance

(continued)

Black Economic Empowerment

The Company recognises the importance of implementing a well-balanced Black Economic Empowerment (BEE) programme that addresses the inequality of the past through a dedicated and ongoing process. While the Company has made great progress in addressing some of the significant BEE imperatives, it is aware that the task of transformation is by no means complete.

From an ownership perspective, the Company is continuously looking to provide opportunities for previously disadvantaged individual (PDI) groups to acquire ownership in the Company. Evidence of this commitment is that in 1998, at the time of the Company's listing on the JSE Securities Exchange SA, 9.5% of the Company's issued share capital was sold to a Black Empowered company known as Coordinated Network Investments (Pty) Ltd (CNI). Unfortunately, CNI subsequently disposed of its shareholding in the Company.

Apart from the ownership perspective, the Company is of the view that, in order to sustain its business performance into the future, the profile of the Company's employees at all levels needs to reflect the demographics of the country more accurately. Employment equity and affirmative action are viewed as business imperatives which are merely guided by legislation. The Company is committed to redressing the inequities of the past, identifying and developing talented PDIs and ultimately ensuring that its management levels are more representative of the South African population at large.

From a Human Resource point of view, the Company is also committed to training and educating its employees so as to equip them with the necessary skills to perform the functions they have been employed to perform. Ongoing in-house training takes place throughout the Company to ensure that employees are adequately skilled to perform the functions they have been employed to perform.

Environment

The Company is committed to improving its environmental performance and reducing the adverse impact of its activities on the global and local environment. For the airline industry, two key issues are: the local environmental impact of aircraft noise and emissions around airports; and the global climate change effect of carbon dioxide and other aircraft emissions.

Airport impact: a balanced approach

In terms of noise management, the Company supports the International Civil Aviation Organisation's (ICAO's) recommended 'balanced approach'.

We believe that a similar 'balanced' approach, using a combination of instruments, can also be taken to managing local air quality.

Aircraft noise

Annoyance and sleep disturbance are the most commonly reported adverse effects of aircraft noise. The Company considers that the key policy objective should be to reduce or limit the total number of people exposed to high levels of aircraft noise, in order to maintain or improve overall quality of life.

Existing regulation and a long history of voluntary action have already had the impact of internalising external costs of current aircraft noise to a large extent. International standards pertaining to aircraft noise and agreements on the phasing out of older aircraft have played a major part in this, supported by operating restrictions including the use of airspace, night restrictions and airport ground operations.

The Company has, over the past two years, started with its fleet replacement strategy including the acquisition of three Boeing B737-400 and three Boeing B737-300 aircraft. The stage 3 noise compliant aircraft will replace its Boeing B737-200s as noise abatement regulations are imminent. The new aircraft are not only quieter, but also offer better performance and fuel economy, thus assisting the Company in reducing exposure to fuel price fluctuations.

Further environmental benefits include reduced noise on takeoff and landing, decreased engine emissions in flight and reduced engine maintenance requirements.

Social Performance

Our people

Personnel are the most important assets of the Company and focus is maintained on the attraction, retention and development of the best employees. Emphasis is placed on leadership training and development at all levels within the Company.

The Company's stability and its success to date can largely be ascribed to its people. The Company's management team is a group of experienced and highly skilled airline professionals who are dedicated to running a successful operation.

Skills Development

Continual development and learning is regarded as being a means of achieving competitive advantage.

Regular bimonthly seminars, to which guest speakers are invited, also contribute to keeping the management team up to date in terms of changes and new developments in the industry and business in general. It is the passion of the Company's people to deliver service excellence that has made both the organisation's brands, **British Airways** and **kulula.com**, household names. The company's service culture can be ascribed to rigorous recruitment and selection and a commitment to continuous training and development of all staff members. The Company spends well in excess of 5% of payroll on training and development of its staff, ensuring that the highest standards of safety and service are maintained.

In addition to recurrent pilot training, the Company runs extensive internal training programmes for cabin attendants, airport and call centre staff, the majority of whom are new in the job market.

The Department of Transport's (DoT's) target for this dimension is 5% of the total payroll. The DoT has further agreed that all training costs can be taken into consideration when calculating the contribution. In view of the amount and associated costs of mandatory training, Comair should have no difficulty in achieving and maintaining this target.

Our customers

In order to best understand our customers' needs the Company listens to their views at regular 'customer

listening forums'. Customer issues are reported at Board level, and the Company diligently addresses customer concerns in order to deliver to the highest standards of customer service.

Community

The DoT has set a target of 2,5% of turnover per annum for community upliftment. In view of operating conditions and profit margins, the private sector has responded with a proposal of 0,5% of profit after tax.

Notwithstanding, as a conscientious corporate citizen, the Company endeavours wherever possible to improve the lives of fellow South Africans.

The Company believes that social responsibility should not just be seen as a budgeted write-off but rather as a duty and an obligation to help those less fortunate and to make a positive impact on society in general.

It is exactly this attitude among its staff that has ensured that the Company has been able to provide assistance to the following organisations over the years:

He'atid

He'atid is an organisation dedicated to the development of South African leaders through international exposure. Its programmes are designed to address the shortage of skilled leaders in South Africa by exposing its participants to international case studies. The He'atid programmes have developed a core group of Black leaders who have made significant contributions to their communities.

MaAfrika Tikkun

MaAfrika Tikkun's mission is to make a meaningful difference to disadvantaged communities in the fields of inter alia Education by way of strategic partnerships for Crèches, Primary and Senior School tutoring, Agricultural and Leadership training etc., and Health and Welfare by way of health facilities and improvements, Senior Citizen feeding schemes, housing and other projects.

CIDA

An organisation with which British Airways is proud to be associated, is the CIDA City Campus, with whom the airline has been involved for close on three years. Through the involvement of the British Airways brand, CIDA is

able to offer accessible, quality, higher education at a low cost to South Africans.

CIDA was designed to develop thinkers and leaders in an effort to rejuvenate the economy of South Africa by leveraging the finest knowledge and skills that exist in the country. The carrier's assistance includes flights for lecturers from around the country to Johannesburg (and to Cape Town where the new campus has just opened) to ensure that students receive the highest level of education from experts. In addition, some of the management members at British Airways actively offer assistance as academic volunteer facilitators. They concentrate mainly on business and marketing studies.

Africa Book Connection (ABC)

In line with its focus on education, the British Airways brand has recently become involved with the Africa Book Connection (ABC). To address the shortage of textbooks in the country and the availability of books because of the costs involved, ABC launched a large-scale multi-media campaign aimed at sourcing relevant used textbooks from the general public. Furthermore, ABC has taken responsibility for distribution to libraries in every tertiary educational institution in South Africa. British Airways assists ABC in solving the textbook crisis by creating public awareness and sponsoring flights for ABC Board Members to attend meetings around the country to secure financing.

Project Starfish / Reach for a Dream

In the three short years of kulula.com's existence, it has sponsored various sporting and cultural events. These include assistance to numerous schools around the country with fundraising activities for school books, libraries, sporting and gym equipment and even computers.

kulula.com is also involved in a community project known as "Project Starfish", where it has assisted many children who were abandoned and orphaned because their parents had contracted HIV/AIDS. Children were flown to Durban to experience the sun and sea sand and realised their dream of flying in an aeroplane for the very first time. "Project Starfish" has been

running for more than a year, and the feedback from the children is extremely motivating.

The Reach for a Dream Foundation, Hospice and the HIV Paediatric Foundation have all been assisted by kulula.com with air tickets for their respective fundraising events.

Safety and security

A strong culture of safety and security exists within the Company, which is supported by well-defined reporting, and management processes that ensure any issues are dealt with thoroughly and effectively.

The safety and security of staff and customers remains a number one priority and safety standards remain paramount. The Company once again received extremely favourable audit ratings from both British Airways PLC and the South African Civil Aviation Authority.

Health and safety

Within the Company there is a strong culture of health and safety with well managed reporting, recording and notification systems.

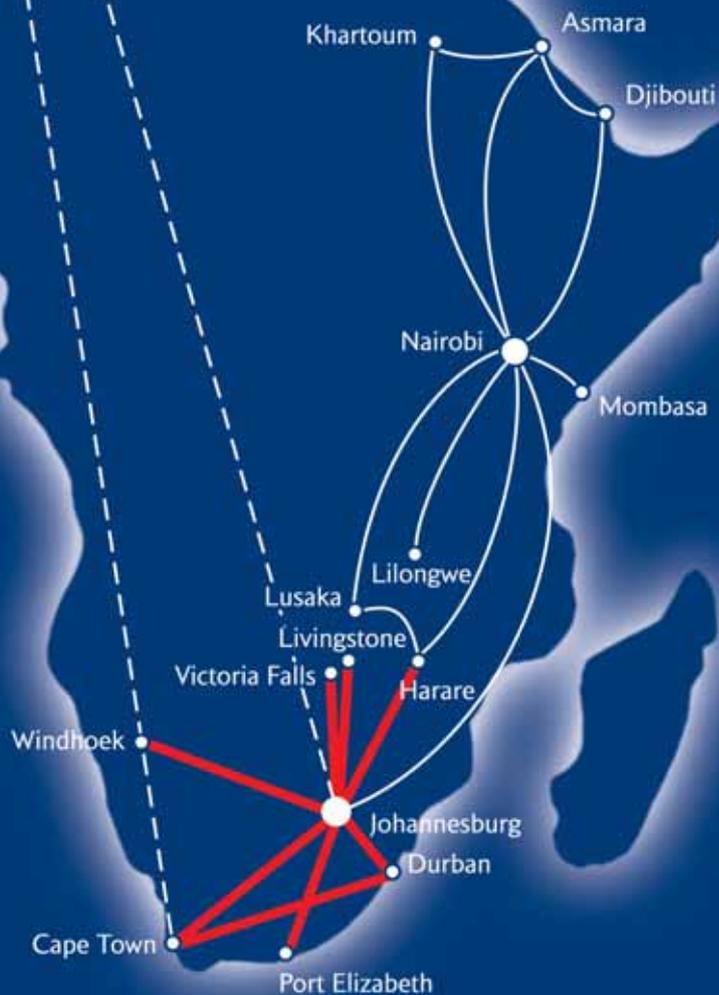
The Company strives to provide its Employees with a clean, safe working environment. The Company has appointed individuals who are responsible for ensuring that the Company complies with its obligations under the Occupational Health and Safety Act.

Safety incidents and damage are reported through the safety management system. A formal structure exists to allow safety issues to be addressed within each department. The Company has an open reporting culture and encourages the reporting of all incidents.

Plane sailing over Africa.

When it comes to covering Africa, both domestically and regionally, one airline is certainly flying high. British Airways covers Southern and Northern Africa and we always strive to do it with impeccable service and a friendly smile. Which is why it always has and will continue to be, plane sailing over Africa.

London and the world



BRITISH AIRWAYS



To the members of Comair Limited

We have audited the annual financial statements and group annual financial statements of Comair Limited set out on pages 15 to 30 for the year ended 30 June 2004. These financial statements are the responsibility of the Company's Directors. Our responsibility is to report on these financial statements based on our audit.

Scope

We conducted our audit in accordance with Statements of South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- ▶ Examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements;
- ▶ Assessing the accounting principles used and significant estimates made by management; and
- ▶ Evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

Audit Opinion

In our opinion, the financial statements fairly present, in all material respects, the financial position of the Company and the Group at 30 June 2004, and the results of their operations and cash flows for the year then ended, in accordance with South African Statements of Generally Accepted Accounting Practice and in the manner required by the Companies Act in South Africa.



Fisher Hoffman PKF (Jhb) Inc.
Chartered Accountants (SA)
Registration number 1994/001166/21
Registered Accountants and Auditors

*Johannesburg
6 September 2004*

Report of the

Independent Auditors

Statement of

Responsibility by the

Board of Directors

The Directors are responsible for the preparation, integrity and fair presentation of the financial statements and other financial information included in this report.

The financial statements, presented on pages 15 to 30, have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice, and include amounts based on judgements and estimates made by management.

The going-concern basis has been adopted in preparing the financial statements. The Directors have no reason to believe that the Company or the Group will not be going concerns in the foreseeable future based on forecasts and available cash resources. The financial statements support the viability of the Company and the Group.

The financial statements have been audited by the independent accounting firm, Fisher Hoffman PKF (Jhb) Inc., which was given unrestricted access to all financial records and related data, including minutes of all meetings of shareholders, the Board of Directors and committees of the Board. The Directors believe that all representations made to the independent Auditors during the audit were valid and appropriate.

The financial statements which appear on pages 15 to 30 were approved by the Board of Directors on 6 September 2004 and signed on its behalf.



Managing Director
6 September 2004



Chairman
6 September 2004

Statement of the

Company Secretary

I, Derek Henry Borer, the Company Secretary of Comair Limited, certify that all returns required of a public company have, in respect of the financial year under review, been lodged with the Registrar of Companies and that all such returns are true, correct and up to date.



DH Borer
Company Secretary
6 September 2004

The Directors have pleasure in presenting their report, which forms part of the audited financial statements of the Company and the Group for the year ended 30 June 2004.

included. The dividend payment will be made on Monday, 4 October 2004.

Nature of the business

Comair Ltd provides domestic and regional air services in the Southern African market, trading under the brand names of British Airways and kulula.com. The airline operates a fleet of nineteen jet aircraft.

Share Capital

There have been no changes in the authorised share capital, issued share capital or share premium account during the year under review. The unissued shares are under control of the directors until the next Annual General Meeting.

Financial Results

Full details of the financial results are set out on pages 15 to 30 of the Annual Financial Statements for the year ended 30 June 2004.

Subsidiaries

Details of the Company's sole subsidiary, Commuter Handling Services (Pty) Limited are recorded in the notes to the annual financial statements. The subsidiary provides airport ramp handling services for Comair at cost.

Dividends

The Directors of Comair have resolved to declare a dividend (Dividend number 6) of 2.0 cents per share (prior year: 2.0 cents per share) to all shareholders. The last day to trade (cum the dividend) in order to participate in the dividend will be Thursday, 23 September 2004. The shares will commence trading "ex" dividend from the commencement of business on Monday, 27 September 2004 and the record date is Friday 1 October 2004. Share certificates may not be de-materialised or re-materialised between Monday, 27 September 2004 and Friday, 1 October 2004, both days

Accounting Policies

During the year the company changed its accounting policy with respect to the employee share incentive trust. The change was effected in order to provide more appropriate presentation. The group now consolidates the share incentive trust and the shares owned by the trust are accounted for as treasury shares. The comparative amounts have been appropriately restated. This change has reduced the weighted number of shares in issue for the computation of earnings per share and headline earnings per share.

Directors' Interest in Share Capital

The Directors of the Company held the following direct and indirect interests in the issued share capital of the Company at 30 June 2004

	2004		2003		2004		2003		2004		2003	
	Beneficial		Beneficial		Non-Beneficial		Non-Beneficial		Total Shares	Per-centage	Total Shares	Per-centage
	Direct	Indirect	Direct	Indirect	Direct	Indirect	Direct	Indirect				
D Novick	-	81137408	-	73679123	-	-	-	-	81137408	19,318	73679123	17,543
MD Moritz	-	81137408	-	73679123	-	-	-	-	81137408	19,318	73679123	17,543
P van Hoven	3049097	6155550	3049097	6155550	-	-	-	-	9204647	2,192	9204647	2,192
GS Novick	307800	-	-	-	-	-	-	-	307800	0,073	-	-
ER Venter	19400	-	-	-	-	-	-	-	19400	0,0005	-	-
MN Louw	1000	-	-	-	-	-	-	-	1000	-	-	-
PJ Welgemoed	104200	-	104200	-	-	-	-	-	104200	0,025	104200	0,025
*DH Borer	327500	-	-	-	-	-	-	-	327500	0,078	-	-
TOTAL	3808997	168430366	3153297	153513796	-	-	-	-	172239363	41,010	156667093	37,303

*Alternate Director

There have been no changes in the Directors' interests in share capital from 30 June 2004 to the date of posting of this annual report.

Special Resolutions

Since the publishing of the last annual report, the Company passed 1 (one) special resolution at its Annual General Meeting, held on 27 October 2003, namely a special resolution as contemplated in terms of sections 85(2) and 85(3) of the Companies Act (Act 61 of 1973) as amended, i.e. a general approval to repurchase shares. Other than the foregoing, no other special resolutions were passed.

Report of the Directors

(continued)

Board of Directors

The names, ages, qualifications, nationality, business addresses, attendance at Board Meetings and occupations of the Directors of Comair who served during the financial year under review, is set out below.

<i>Name, Age, Qualification</i>	<i>Nationality</i>	<i>Business Address</i>	<i>Four (4) Board Meetings held during the year: Attendance</i>	<i>Occupation</i>
Donald Novick Age: 66 CA (SA)		1 Marignane Drive Corner Atlas Road Bonaero Park, Kempton Park, 1619	4	Non-Executive Chairman
Martin Darryl Moritz Age: 59 (B Com; LLB)		1 Marignane Drive Corner Atlas Road Bonaero Park, Kempton Park, 1619	4	Non-Executive Deputy Chairman
Pieter van Hoven Age: 60		1 Marignane Drive Corner Atlas Road Bonaero Park, Kempton Park, 1619	4	Managing Director
Bertrandus Johannes van der Linden Age: 56		1 Marignane Drive Corner Atlas Road Bonaero Park, Kempton Park, 1619	4	Service Delivery Director
Rodney Cyril Sacks Age: 54 H Dip Law, H Dip Tax		Suite 101, 1010 Railroad Street, Corona, California, USA	2 of 4	Independent Non- Executive Director
Dr Peter Johannes Welgemoed Age: 61 B. Com (Honours); M.Com; D. Com		3 Montagne Avenue High Cape Devil's Peak Cape Town, 8001	4	Independent Non- Executive Director
Jacob Meyer Kahn Age: 65 BA (Law), MBA (UP); DCom (hc), SOE		SABMiller Plc, 1st Floor, No 2 Jan Smuts Avenue, Braamfontein Johannesburg, 2001	4	Independent Non- Executive Director
Gidon Saul Novick Age: 34 BCom; CA (SA); MBA		1 Marignane Drive Corner Atlas Road Bonaero Park, Kempton Park, 1619	4	Commercial Director: Kulula, (Appointed 01/07/2003)
Martin Nicolaas Louw Age: 49 B.Mil		1 Marignane Drive Corner Atlas Road Bonaero Park, Kempton Park, 1619	4	Director Flight Operations, (Appointed 01/07/2003)
Erik Rudolph Venter Age: 34 BCom; CA (SA)		1 Marignane Drive Corner Atlas Road Bonaero Park, Kempton Park, 1619	4	Commercial Director British Airways Brand (Appointed 01/07/2003) Financial Director (Appointed 20/08/2003)
Khutso Ignatius Mampeule Age: 39 BA; MSc; MBA		C/O Lefa Group Holdings (Pty) Ltd, Unit 46, Themi Office Park, Calderwood Road, Lonehill 2062	3 of 3	Independent Non- Executive Director (Appointed 01/11/2003)
Lloyd Cromwell-Griffiths Age: 59 ATPL		British Airways Plc, The Compass Centre, Heathrow Airport Middlesex TW6 1JA, UK	2 of 2	Non-Executive Director (Appointed 16/02/2004)
Derek Henry Borer Age: 42 BCom; LLB		1 Marignane Drive, Corner Atlas Road Bonaero Park, Kempton Park, 1619	4	Alternate Director to Bertrandus Johannes van der Linden

The following Directors resigned during the financial year under review:

Dawn Nowceba Merle Mokhobo Age: 55 BA Social Science		MBM Change Agents (Pty) Ltd, 1st Floor, Bradenham Hall North Mellis Office Park, Autumn Street, Rivonia, 2128	0 of 0	Independent Non- Executive Director (Resigned 11/07/2003)
Glenn Wayne Orsmond Age: 42 BCom; CA (SA)		1 Marignane Drive, Corner Atlas Road Bonaero Park, Kempton Park, 1619	0 of 0	Financial Director (Resigned 20/08/2003)
David Hyde Age: 67 MSC (Eng); C. Eng; FRAes; DIC; ACGI		British Airways Plc, Waterside, Harmondworth, England, UB7 0GB	3 of 3	Non-Executive Director (Resigned 16/02/2004)

Share incentive scheme

Executive directors participate in a share incentive scheme with the following allocations to July 2003 and as at 30 June 2004

	Allocated to 1 July 2003		Allocated as at 30 June 2004	
	Number	Average Price	Number	Average Price
P van Hoven	1,092,498	0.88	3,092,498	0.80
BJ van der Linden	697,054	0.88	2,197,054	0.79
GW Orsmond	388,741	0.88	226,341	0.88
ER Venter	224,293	0.88	1,974,293	0.76
GS Novick	212,488	0.88	1,962,488	0.76
MN Louw	43,000	0.88	1,043,000	0.76
DH Borer	274,800	0.88	774,800	0.80
Total	2,615,074		9,452,674	

Note:

- The balance (226 341) of GW Orsmond's share options lapsed 30 September 2003, according to the rules of the option scheme.
- A total of 16,336,906 options have been issued to employees through the share incentive scheme, and 4,231,934 options remained available for issue at year end.

Directors' remuneration

	For services as directors and related committee work.	Package (1)	Performance related (2)	Pension and Medical (3)	Other (4)	Total 2004	Total 2003
	R'000	R'000	R'000	R'000	R'000	R'000	R'000
<i>Executive</i>							
P van Hoven	-	1,083	-	177	-	1,260	1,393
BJ van der Linden	-	840	-	139	-	979	1,078
GW Orsmond	-	184	-	22	139	345	993
ER Venter	-	721	-	96	-	817	-
GS Novick	-	728	-	91	-	819	-
MN Louw	-	773	-	91	-	864	-
DH Borer	-	486	-	79	-	565	-
	-		-				
	-	4,815	-	695	139	5,649	3,464
<i>Non-Executive</i>							
PJ Welgemoed	95	-	-	-	-	95	75
JM Kahn	85	-	-	-	-	85	65
KP Mampeule	80	-	-	-	-	80	-
RC Sacks	85	-	-	-	-	85	65
	345	-	-	-	-	345	205
	345	4,815	-	695	139	5,994	3,669

Notes:

- "Package" includes the following regular payments made in respect of the financial year while actively employed: cash salary, entertainment and vehicle allowances, and the deemed tax value of company-owned vehicles provided as prerequisites.
- "Performance related" refers to incentive rewards in respect of the financial year ended 30 June 2004 and paid in August 2005.
- "Pension and Medical" includes the regular payments made for pension fund, medical aid contributions and risk benefits.
- "Other" refers to termination payments.
- Remuneration receivable by the directors of Comair will not vary as a result of any proposed issue for cash or repurchase of shares.

Balance Sheet

at 30 June 2004

	Note	Group		Company	
		2004 R'000	2003 R'000	2004 R'000	2003 R'000
Assets					
<i>Non current assets</i>					
Property, plant and equipment	1	343,927	295,452	357,366	308,620
Loan to share incentive trust	2	-	-	13,320	13,583
Investment in subsidiary	3	-	-	7,919	7,816
<i>Current assets</i>					
Inventory	5	12,480	12,963	12,480	12,963
Trade and other receivables		93,939	64,544	93,149	64,246
Aircraft deposits		-	47,596	-	47,596
Unlisted Investments		-	115,035	-	115,035
Deferred taxation	9	31,435	(8,017)	31,435	(8,017)
Taxation		19	22	22	22
Cash		210,201	168,498	207,476	166,436
		692,001	696,093	701,927	706,901
Equity and Liabilities					
<i>Capital and reserves</i>					
Share capital	7	3,994	3,994	4,200	4,200
Share Premium		8,042	8,042	8,456	8,456
Accumulated profits		222,200	327,014	234,888	339,977
<i>Non-current liabilities</i>					
Interest-bearing liabilities	8	190,787	21,331	190,787	21,331
<i>Current liabilities</i>					
Trade payables		222,514	181,408	220,347	179,874
Provisions	10	16,166	18,814	14,951	17,573
Interest-bearing liabilities	8	28,298	135,490	28,298	135,490
		692,001	696,093	701,927	706,901

Income Statement

for the year ended 30 June 2004

	Note	Group		Company	
		2004 R'000	2003 R'000	2004 R'000	2003 R'000
Revenue		1,474,549	1,365,907	1,472,896	1,366,001
Operating Expenses	11	(1,433,804)	(1,354,003)	(1,432,010)	(1,353,983)
Operating profit before exceptional items		40,745	11,904	40,886	12,018
Aircraft deposit translation loss		(5,120)	(11,604)	(5,120)	(11,604)
Aircraft deposit write-off		(24,752)	-	(24,752)	-
Aircraft impairment write-down		(115,106)	(35,000)	(115,106)	(35,000)
Aircraft forward cover exchange loss		(16,658)	-	(16,658)	-
Sun Air investment settlement		-	(3,600)	-	(3,600)
Loss before taxation		(120,891)	(38,300)	(120,750)	(38,186)
Net investment income / (expense)	12	(15,257)	987	(15,391)	914
Loss before taxation		(136,148)	(37,313)	(136,141)	(37,272)
Taxation	13	39,448	14,386	39,452	14,386
Loss for the year		(96,700)	(22,927)	(96,689)	(22,886)
Earnings per share (cents)	14	(24.2)	(5.7)		
Headline earnings per share (cents)	14	12.1	6.8		

Statement of changes

in Equity

for the year ended 30 June 2004

	Share Capital	Share Premium	Accumulated Profit	Total
	R'000	R'000	R'000	R'000
<i>Group</i>				
Balance at 1 July 2002 as previously reported	4,200	8,456	371,277	383,933
Change in accounting policy - consolidation of share trust	(206)	(415)	(13,263)	(13,884)
Balance at 1 July 2002 restated	3,994	8,041	358,014	370,049
Loss for the year			(22,927)	(22,927)
- as previously reported			(22,900)	(22,900)
- adjustments in respect of consolidation of share trust			(27)	(27)
Dividend Paid	-	-	(7,989)	(7,989)
- as previously reported			(8,400)	(8,400)
- adjustments in respect of consolidation of share trust			411	411
Shares purchased by share trust	(2)	(3)	(220)	(225)
Shares sold by share trust	2	4	136	142
Balance at 30 June 2003 restated	3,994	8,042	327,014	339,050
Loss for the year	-	-	(96,700)	(96,700)
Dividend Paid	-	-	(7,989)	(7,989)
Shares purchased by share trust	(5)	(11)	(504)	(520)
Shares sold by share trust	5	11	379	395
Balance at 30 June 2004	3,994	8,042	222,200	234,236
<i>Company</i>				
Balance at 30 June 2003	4,200	8,456	339,977	352,633
Loss for the year	-	-	(96,689)	(96,689)
Dividend Paid	-	-	(8,400)	(8,400)
Balance at 30 June 2004	4,200	8,456	234,888	247,544

Cash Flow Statement

for the year ended 30 June 2004

	Note	Group		Company	
		2004 R'000	2003 R'000	2004 R'000	2003 R'000
Cash from operating activities		22,076	48,628	19,992	46,837
Cash receipts from customers		1,445,155	1,413,309	1,443,993	1,413,713
Cash paid to suppliers		(1,381,875)	(1,346,628)	(1,382,255)	(1,348,337)
Cash generated by operations	15	63,279	66,681	61,738	65,376
Net investment expense paid	16	(33,212)	(19,306)	(33,346)	(19,381)
Taxation (paid)/refunded		(2)	9,242	-	9,242
Cash available from operating activities		30,065	56,617	28,392	55,237
Dividends paid		(7,989)	(7,989)	(8,400)	(8,400)
Cash utilised in investing activities		(42,637)	(41,309)	(41,478)	(40,314)
Addition to property, plant and equipment		(195,992)	(24,710)	(194,847)	(21,567)
Proceeds on disposal of property, plant and equipment		266	181	258	-
Net cost of share trust purchases		(125)	(84)	-	-
Aircraft deposits utilised / (paid)		17,724	(16,696)	17,724	(16,696)
Proceeds on disposal of unlisted investments		135,490	-	135,490	-
Investment in subsidiary		-	-	(103)	(2,051)
Cash generated / (utilised) by financing activities		62,264	(14,638)	62,527	(14,181)
Decrease in loan to share incentive trust		-	-	263	457
(Decrease) / increase in interest bearing liabilities		62,264	(14,638)	62,264	(14,638)
Net (decrease) / increase in cash		41,703	(7,319)	41,041	(7,658)
Cash at the beginning of the year		168,498	175,817	166,435	174,093
Cash at the end of the year		210,201	168,498	207,476	166,435

Accounting Policies

Principal Accounting Policies

The annual financial statements are prepared in accordance with South African Statements of Generally Accepted Accounting Practice, the going-concern principle, and using the historical cost basis except where otherwise stated.

The accounting policies adopted and applied are set out below and are, in all material respects, consistent with those of the prior year, except as indicated in changes in accounting policies.

Revenue Recognition

Revenue comprises all airline-related revenue earned.

Revenue arising from the provision of transportation services to passengers is recognised on an accrual basis in the period in which the services are rendered.

Dividends are recognised in the period in which the receipt is established.

Basis of Consolidation

The Group annual financial statements present the consolidated financial position and changes therein, operating results and cash flow information of the Company and its subsidiaries. The results of the subsidiaries are included from their effective dates of acquisition to their effective dates of disposal. All inter-company transactions and balances are eliminated on consolidation.

Foreign Currency

Foreign currency transactions are recorded at the exchange rate ruling on the transaction dates.

Assets and liabilities designated in foreign currencies are translated at rates of exchange ruling at the balance sheet date. Profits or losses arising are included in the income statement.

Deferred Taxation

Deferred taxation is provided on the comprehensive basis and is calculated at current rates using the balance sheet liability method. The deferred taxation liability represents the amount of income tax and capital gains tax payable in future periods in respect of items of income and expenditure and capital gains which are recognised for income tax purposes in periods different from those in which they are brought to account in the financial

statements, allowing for the effect of tax losses carried forward. A deferred tax asset is recognised when it is probable that the related tax benefit will be realised.

Property, Plant and Equipment

Freehold property, aircraft and related equipment, vehicles, furniture, computers and flight simulator equipment are depreciated on a systematic basis, which is estimated to amortise the assets to their anticipated residual values over their planned useful lives.

Property, plant and equipment are stated at cost less accumulated depreciation. The carrying values are assessed on an annual basis and only written down if there are impairments in value.

Aircraft modifications are capitalised only to the extent that they materially improve the value of the aircraft from which further future economic benefits are expected to flow. Maintenance and repairs which neither materially add to the value of assets or appreciably prolong their useful lives are charged against income.

Depreciation rates

Freehold Property	2%
Aircraft and related equipment	4%
Motor Vehicles	20%
Furniture and equipment	10%
Computer equipment	20%
Flight Simulator equipment	20%

Leased Assets

Leases, whereby the lessor provides finance to the Group with the asset as security and where the Group assumes substantially all the benefits and risks of ownership, are classified as finance leases. Assets acquired in terms of finance leases are capitalised and depreciated over the useful life of the asset. The capital element of future obligations under leases is included as a liability in the balance sheet. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the instalments is charged against income over the lease period.

Leases of assets to the Group under which all risks and rewards of ownership are effectively retained by the lessor, are classified as operating leases. Payments made under operating leases are charged against income on a straight line basis over the period of the lease.

Investments

Investments (which are not subsidiaries or associates) are initially measured at cost including transaction costs. They are subsequently stated at fair value. Fair value of unlisted investments is determined by the directors.

Unrealised changes in the fair values of investments are taken directly to equity.

Inventory

Inventory is stated at the lower of cost and net realisable values. Cost is determined on the first-in-first-out basis.

Financial Instruments

In terms of the Company's risk management policy, the Company may utilise forward exchange contracts to manage exposure to foreign currency fluctuations.

Financial Instruments are initially measured at cost, which includes transaction costs. Trade and other receivables are stated at cost less provision for doubtful debts. Cash and cash equivalents are recognised at fair value. Interest bearing borrowings are recognised at cost.

Retirement and Medical Funds

Current contributions to the Group's defined contribution retirement funds are based on current service and current salary and are recognised in the results for the year. Post-retirement medical aid contributions are charged against income in the year they become payable.

Share Incentive Trust

The group consolidates the share incentive trust and the shares owned by the trust are accounted for as treasury shares.

Notes to the Annual

Financial Statements

for the year ended 30 June 2004

	Group		Company	
	2004 R'000	2003 R'000	2004 R'000	2003 R'000
1. Property, Plant and Equipment				
<i>Property and Buildings</i>				
Cost	9,915	9,910	9,915	9,910
Accumulated depreciation	(1,700)	(1,218)	(1,700)	(1,218)
Book Value	8,215	8,692	8,215	8,692
<i>Aircraft and Flight Simulator Equipment</i>				
Cost	516,988	395,532	505,686	385,096
Accumulated depreciation	(191,767)	(119,404)	(188,076)	(116,881)
Book Value	325,221	276,128	317,610	268,215
<i>Vehicles and Equipment</i>				
Cost	31,558	28,896	26,487	23,843
Accumulated depreciation	(21,067)	(18,264)	(16,185)	(13,529)
Book Value	10,491	10,632	10,302	10,314
Total Property, Plant and Equipment	343,927	295,452	336,127	287,221
<i>Property, Plant and Equipment</i> <i>- Reconciliation of carrying value</i>				
<i>Property and Buildings</i>				
Carrying value at the beginning of the year	8,692	7,789	8,692	7,783
Additions	5	1,366	5	1,368
Depreciation	(482)	(463)	(482)	(459)
Carrying value at the end of the year	8,215	8,692	8,215	8,692
<i>Aircraft and Flight Simulator Equipment</i>				
Carrying value at the beginning of the year	276,128	317,430	268,215	311,401
Additions	192,892	18,445	191,787	15,345
Disposals	(20)	(181)	-	-
Depreciation	(28,673)	(24,566)	(27,286)	(23,531)
Impairments	(115,106)	(35,000)	(115,106)	(35,000)
Carrying value at the end of the year	325,221	276,128	317,610	268,215
<i>Vehicles and Equipment</i>				
Carrying value at the beginning of the year	10,632	9,085	10,314	8,495
Additions	3,095	4,898	3,055	4,854
Disposals	(207)	-	(206)	-
Depreciation	(3,029)	(3,351)	(2,861)	(3,035)
Carrying value at the end of the year	10,491	10,632	10,302	10,314
Total Property, Plant and Equipment	343,927	295,452	336,127	287,221

Property and buildings owned consist of Erf 1092, 1096 Bonaero Park extension 2 and Erf 931, Bonaero Park extension 1, acquired on 21 June 1994 for R 230,000 and subsequently improved to the value of R 6,796,807.

	<i>Group</i>		<i>Company</i>	
	2004 R'000	2003 R'000	2004 R'000	2003 R'000
2. Loan to Share Incentive Trust				
This loan relates to Comair Share Incentive Trust acquisition of 21 million ordinary shares at 72 cents per share on 30 June 1998. The term of the loan is unspecified and it bears no interest.	-	-	13,320	13,583
3. Investment in Subsidiary				
Subsidiary - Commuter Handling Services (Pty)Ltd 102 shares at cost (100% shareholding)			1	1
Loan			9,158	9,055
Provision for diminution			(1,240)	(1,240)
Interest is charged at 15% per annum and there are no fixed repayment terms.				
			7,919	7,816
4. Unlisted Investments				
Amber (Pty) Ltd preference shares 5 549 shares at R10 000 per share at cost Preference shares were redeemed on 31 May 2004	55,490	55,490	55,490	55,490
Add dividend accrued	80,000	59,545	80,000	59,545
Investments redeemed	(135,490)		(135,490)	
Current portion	-	(115,035)	-	(115,035)
Total book value	-	-	-	-
		115,035		115,035
5. Inventory				
Aircraft spares	8,780	8,781	8,780	8,781
Catering equipment and consumables	3,700	4,182	3,700	4,182
	12,480	12,963	12,480	12,963
6. Aircraft Deposits				
Opening balance	47,596	30,900	47,596	30,900
Deposits made	-	28,300	-	28,300
Deposits utilised	(17,724)		(17,724)	
Aircraft deposit write-off	(24,752)		(24,752)	
Foreign exchange translation adjustment	(5,120)	(11,604)	(5,120)	(11,604)
	-	47,596	-	47,596
7. Share Capital				
Authorised:				
1000 000 000 ordinary shares of 1 cent each	10,000	10,000	10,000	10,000
1000 000 000 "N" ordinary shares of 0.01 cent each	100	100	100	100
1000 000 preference shares of 1 cent each	10	10	10	10
	10,110	10,110	10,110	10,110
Issued:				
420 000 000 ordinary shares of 1 cent each	4,200	4,200	4,200	4,200
Adjustment in respect of consolidation of share trust	(206)	(206)	-	-
	3,994	3,994	4,200	4,200

Notes to the Annual Financial

Statements (continued)

for the year ended 30 June 2004

	Group		Company	
	2004 R'000	2003 R'000	2004 R'000	2003 R'000
8. Interest Bearing Liabilities				
<i>Churchill Finance Services 23 Limited</i>				
Aircraft finance lease agreement which is payable in equal quarterly payments of R10 852 239. The last payment is due on 30 September 2010. Interest is calculated at 13% per annum. Three aircraft mortgages serve as collateral covering security (net book value R169 million).	192,980	-	192,980	-
<i>Laroc Aviation Limited</i>				
Aircraft finance lease agreement which is payable in equal quarterly payments of R4 665 959. The last payment is due on 31 August 2004. Interest is calculated at 13% per annum. An aircraft mortgage serves as collateral covering security (Net Book value R19 million).	4,561	21,331	4,561	21,331
<i>African Merchant Bank (AMB) loan</i>				
Aircraft financing and working capital loan from AMB of which interest, charged at 19% per annum, was repayable in six monthly instalments of R13 720 640. The capital balance was repaid in full on 31 May 2004. Two aircraft mortgages served as collateral covering security.	-	135,490	-	135,490
<i>Nedbank instalment sale agreement</i>				
Flight simulator instalment sale agreement from Nedbank, payable by 20 quarterly instalments, with the last payment due on 1 July 2009. Interest is charged at prime -2%. The agreement provides flexible settlement terms.	21,544	-	21,544	-
Sub-total	219,085	156,821	219,085	156,821
Less short-term portion	(28,298)	(135,490)	(28,298)	(135,490)
	-	-	-	-
	190,787	21,331	190,787	21,331
9. Deferred Taxation				
On temporary differences arising from:				
Property, Plant and Equipment	(23,931)	(53,355)	(23,931)	(53,355)
Provisions	20,768	12,929	20,768	12,929
Prepayments	(1,845)	(2,879)	(1,845)	(2,879)
Losses	36,443	35,288	36,443	35,288
	31,435	(8,017)	31,435	(8,017)
10. Provisions				
Leave pay	13,646	11,963	12,431	10,722
Bonuses	2,520	6,851	2,520	6,851
	16,166	18,814	14,951	17,573

11. Operating Expenses

Operating expenses are stated after incorporating the following items

	<i>Group</i>		<i>Company</i>	
	2004 R'000	2003 R'000	2004 R'000	2003 R'000
Audit fees	282	217	258	217
Depreciation - aircraft assets	28,673	24,566	27,286	23,531
Depreciation - other fixed assets	3,511	3,814	3,343	3,494
Impairment of Aircraft assets	115,106	35,000	115,106	35,000
Deposit Write-off	24,752	-	24,752	-
Directors emoluments	5,994	6,319	5,994	6,319
- for services as Directors	345	245	345	245
- for managerial and other services	4,954	5,581	4,954	5,581
- retirement and medical benefits	695	493	695	493
Rentals under operating leases	151,086	133,762	149,750	132,449
- property rentals	7,135	5,115	6,037	4,088
- aircraft rentals	143,457	126,680	143,457	126,680
- equipment and vehicle rentals	494	1,967	256	1,681
Staff costs	202,270	176,337	183,952	159,071
(Profit) on disposal of property, plant and equipment	(64)	-	(52)	-
Exchange differences	18,499	5,476	18,499	5,476
12. Net Investment Income/(Expense)				
Interest expense	(44,480)	(29,698)	(45,410)	(29,664)
Interest income	8,768	11,876	9,564	11,769
Preference dividend income	20,455	18,809	20,455	18,809
	(15,257)	987	(15,391)	914
13. Taxation				
Normal tax - current	4	-	-	-
Normal tax - prior year	-	(2,792)	-	(2,792)
Deferred tax - current	(39,452)	(14,386)	(39,452)	(14,386)
Deferred tax - prior year		3,196		3,196
STC - prior year overprovision		(404)		(404)
	(39,448)	(14,386)	(39,452)	(14,386)
Reconciliation of taxation rate	%	%	%	%
South African normal tax rate	(30.0)	(30.0)	(30.0)	(30.0)
Taxation effect of:				
Exempt income	(15.0)	(15.1)	(15.1)	(15.1)
Disallowable expenditure	16.0	0.0	16.1	0.0
Prior year adjustments		6.5		6.5
	(29.0)	(38.6)	(29.0)	(38.6)

Notes to the Annual Financial

Statements (continued)

for the year ended 30 June 2004

	Group		Company	
	2004 R'000	2003 R'000	2004 R'000	2003 R'000
14. Headline Earnings				
Earnings attributable to ordinary shareholders	(96,700)	(22,927)	(96,689)	(22,887)
Add back Aircraft impairment write down	115,106	35,000	115,106	35,000
Add back Sun Air Investment Settlement	-	3,600	-	3,600
Add back Aircraft deposit translation loss	5,120	11,604	5,120	11,604
Add back Aircraft deposit write-off	24,752	-	24,752	-
Headline earnings attributable to ordinary shareholders	48,278	27,277	48,289	27,317
Weighted ordinary shares in issue ('000)	399,431	399,434		
Weighted ordinary shares in issue	420,000	420,000		
Adjustment in respect of consolidation of share trust	(20,569)	(20,566)		
Earnings per share (cents)	(24.2)	(5.7)		
Headline earnings per share (cents)	12.1	6.8		
15. Cash Generated by Operations				
(Loss) / Profit from operations	(120,891)	(38,300)	(120,750)	(38,186)
Depreciation	32,182	28,380	30,629	27,025
Aircraft impairment write-down	115,106	35,000	115,106	35,000
Aircraft deposit write-off	24,752	-	24,752	-
Profit on disposal of assets	(64)	-	(52)	-
Cash from operations before working capital changes	51,085	25,080	49,685	23,839
Decrease (increase) in working capital	12,195	41,601	12,053	41,537
- Inventory	483	1,772	483	1,772
- Accounts receivable	(29,395)	48,885	(28,903)	49,196
- Accounts payable	41,106	(9,056)	40,473	(9,431)
	63,279	66,681	61,738	65,376
16. Net Investment Income (Paid) / Received				
Interest paid	(40,779)	(31,182)	(41,709)	(31,150)
Interest received	7,567	11,876	8,363	11,769
Preference dividend received	-	-	-	-
	(33,212)	(19,306)	(33,346)	(19,381)

17. Retirement Benefits

Post-retirement benefits

The Group contributed to several retirement funds, all of which are governed by the Pension Funds Act, 1956. The funds cover the majority of its employees and are all defined contribution schemes. Contributions paid by Group companies are charged against income as incurred.

An actuarial valuation was performed on the Comair Pension Fund in July 2003, for the year ended June 2003. The fund was reported to be actuarially sound.

Post-retirement medical aid benefits

The Group companies subsidise the post-retirement medical aid contributions of certain pensioners. These subsidies, which are not significant, are charged to income in the year they become payable.

18. Operating Lease Commitments

Commitments for year one

Property and buildings	6,612	4,103	6,612	4,103
Aircraft	143,776	134,711	143,776	134,711
	150,388	138,814	150,388	138,814

Commitments for year two to five

Property and buildings	27,821	21,450	27,821	21,450
Aircraft	497,330	439,146	497,330	439,146
	525,151	460,596	525,151	460,596

Commitments after year five

Property and buildings	15,971	21,559	15,971	21,559
Aircraft	93,108	189,864	93,108	189,864
	109,079	211,423	109,079	211,423

Total operating lease commitments	784,619	810,833	784,619	810,833
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19. Cash Encumbered

The Company has pledged cash investments totalling R20 million (2003 - R30 million) in respect of aircraft lease obligations.

20. Borrowing Powers

There are no restrictions on the Group's borrowing power.

21. Capital Commitments

The company has committed to capital expenditure of R900 000 relating to the installation of a flight simulator.

Notes to the Annual Financial

Statements (continued)

for the year ended 30 June 2004

22. Financial Risk Management

Interest rate risk

The company is exposed to interest rate risk as it borrows and places funds. This risk is managed by placing funds on short term deposit.

Credit risk

Credit risk relates to potential exposure on bank and call deposits and loans and trade receivables. At the balance sheet date, the company did not consider there to be any significant concentration of credit risk which has not been adequately provided for.

Liquidity risk

The company manages liquidity risk by monitoring forecast cash flows and ensuring that adequate cash resources and unutilised borrowing facilities are maintained.

Foreign currency risk

The company undertakes certain transactions denominated in foreign currency which therefore have exposure to exchange rate variations. The Company manages exchange rate exposure using forward exchange contracts. Where appropriate, open positions are maintained. The following uncovered foreign currency amounts are included in the financial statements at the closing rate at year end : net liabilities of US\$900,472 and net receivables of GBP5,542,160.

23. Related Party Transactions

British Airways Plc holds indirectly 18.3% of the issued shares of the company, and provides various services to the company on an arms length basis.

This document is important and requires your immediate attention.

Comair Limited

Registration number 1967/006783/06
Incorporated in the Republic of South Africa

(*Comair* or *the Company*)

ISIN Code: ZAE000029823

Share Code: COM

Notice of Annual General Meeting

If you are in any doubt as to what action you should take arising from the following resolutions, please consult your stockbroker, banker, attorney, accountant or other professional adviser immediately.

Notice is hereby given that the Annual General Meeting of shareholders of Comair will be held at the Premier Conference Centre, Retail Level, Domestic Terminal, Johannesburg International Airport on Friday, 29 October 2004 at 12h00 for the following business:

1. To consider and adopt the Annual Financial Statements of the Company for the year ended 30 June 2004 together with the reports of the directors and auditors contained therein.
2. That the directors' remuneration policy as set out in the remuneration report contained in the reports and accounts for the year ended 30 June 2004 be and is hereby approved.
- 3.1 To re-elect the following directors of the Company:
 - 3.1.1 B.J. van der Linden
 - 3.1.2 Dr. P.J. Welgemoed who retire by rotation at the Annual General Meeting, but, being eligible, offer themselves for re-election.
- 3.2 To re-elect the following directors of the Company:
 - 3.2.1 K.I. Mamepele
 - 3.2.2 L. Cromwell Griffiths who were appointed as directors of the Company on 1 November 2003 and 6 February 2004 respectively and who retire at the Annual General Meeting, but, being eligible, offer themselves for re-election.

A brief curriculum vitae in respect of each director referred to in 3.1 and 3.2 appears on page 35 of this annual report.

4. To authorise the directors to re-appoint Fisher Hoffman PKF (JHB) Inc as the independent auditors of the Company for the ensuing year and to determine the remuneration of the auditors.

As special business, to consider and, if deemed fit, pass with or without modification, the following resolutions, those numbered 5, 6, 7, and 9 as Ordinary Resolutions, and number 8 as a Special Resolution.

Ordinary Resolutions

Control of authorised but unissued shares

5. "RESOLVED THAT the authorised but unissued shares in the capital of the Company be and are hereby placed under the control and authority of the directors of the Company and that the directors of the Company be and are hereby authorised and empowered to allot, issue and otherwise dispose of such shares to such person or persons on such terms and conditions and at such times as the directors of the Company may from time to time and in their discretion deem fit, subject to the provisions of the Companies Act (Act 61 of 1973) as amended ("the Act"), the Articles of Association of the Company and the JSE Securities Exchange South Africa ("JSE") Listings Requirements, when applicable."

Approval to issue shares for cash

6. "RESOLVED THAT the directors of the Company be and they are hereby authorised by way of a general authority, to issue all or any of the authorised but unissued shares in the capital of the Company for cash, as and when they in their discretion deem fit, subject to the Act, the Articles of Association of the Company, the JSE Listings Requirements, when applicable, and the following limitations, namely that
 - 6.1 the equity securities which are the subject of the issue for cash must be of a class already in issue, or where this is not the case, must be limited to such securities or rights that are convertible into a class already in issue;
 - 6.2 any such issue will only be made to "public shareholders" as defined in the JSE Listings Requirements and

Notice of Annual General

Meeting

Notice of Annual General

Meeting (continued)

not related parties, unless the JSE otherwise agrees;

- 6.3 the number of shares issued for cash shall not in the aggregate in any one financial year exceed 15% (fifteen per cent) of the Company's issued share capital of ordinary shares. The number of ordinary shares which may be issued shall be based on the number of ordinary shares in issue at the date of such application less any ordinary shares issued during the current financial year, provided that any ordinary shares to be issued pursuant to a rights issue (announced and irrevocable and underwritten) or acquisition (concluded up to date of application) may be included as though they were shares in issue at the date of application;
- 6.4 this authority is valid until the Company's next annual general meeting, provided that it shall not extend beyond 15 (fifteen) months from the date that this authority is given;
- 6.5 a paid press announcement giving full details, including the impact on the net asset value and earnings per share, will be published at the time of any issue representing, on a cumulative basis within 1 (one) financial year, 5% (five per cent) or more of the number of shares in issue prior to the issue; and
- 6.6 in determining the price at which an issue of shares may be made in terms of this authority post the listing of the Company, the maximum discount permitted will be 10% (ten per cent) of the weighted average traded price on the JSE of those shares over the 30 (thirty) business days prior to the date that the price of the issue is determined or agreed by the directors of the Company.

This Ordinary Resolution is required, under the JSE Listings Requirements, to be passed by achieving a 75% majority of the votes cast in favour of such resolution by all members present or represented by proxy and entitled to vote, at the annual general meeting."

Amendments to the Comair Share Incentive Trust

7. "RESOLVED THAT with effect from the date of passing of this resolution the provisions of the deed constituting the Comair Share Incentive Trust adopted by the Company on 18 June 1998 shall be amended as follows:

7.1 Clause 1.2.20 is amended by deleting the words "...which, irrespective of the actual date upon which the offer is made, will be on 1 March or 1 September in each year."

7.2 Clause 1.2.23 is amended by deleting the words "...which, irrespective of the actual date upon which the option is granted, will be on 1 March or 1 September in each year."

7.3 Clause 16.2.7(b) shall be amended by deleting the words "...whether such option falls on 1 January or July."

7.4 Clause 16 is amended by inserting the following new clauses, namely clauses 16.8 and 16.9 at the end thereof, as follows:

"16.8 Notwithstanding anything to the contrary contained in this clause 16, all and any options granted and offers made to employees at any time on or after 29 October 2004 shall -

16.8.1 in respect of an option, be exercisable as follows, namely as to:

16.8.1.1 25% (twenty five per cent) thereof on or after the 3rd (third) anniversary calculated as from the option date;

16.8.1.2 25% (twenty five per cent) thereof on or after the 4th (fourth) anniversary calculated as from the option date;

16.8.1.3 50% (fifty percent) thereof on or after the 5th (fifth) anniversary calculated as from the option date.

it being recorded that no beneficiary shall be entitled to exercise an option in respect of any number of shares which comprise less than 25% (twenty five per cent) of the percentage in question [as contemplated in clause 16.8.1.1 to 16.8.1.3 (both inclusive)]

16.8.2 in respect of an offer, be released to the beneficiary by the secretary or the trustees in the following tranches:

16.8.2.1 as to 25% (twenty five per cent) thereof on or after the 3rd (third) anniversary of the offer date;

16.8.2.2 as to 25% (twenty five per cent) thereof on or after the 4th (fourth) anniversary of the offer date;

16.8.2.3 as to 50% (fifty per cent) thereof on or after the 5th (fifth) anniversary of the offer date;

16.8.3 save as contained in clause 16.8, be governed in all respects by the remaining provisions of clause 16 mutatis mutandis and, in the case of any conflict or inconsistency between the remaining provisions of this clause 16 and the provisions of clause 16.8 in relation to such offer or option, the provisions of this clause 16.8 shall prevail.

16.9 Except to the extent that the context requires otherwise, any reference in this trust deed to clause 16.2.7 and/or clause 16.2.8 shall be read as including a corresponding reference to clause 16.8 in relation to options granted or offers made on or after 29 October 2004."

7.5 Clause 17.2 is amended by adding the following words at the end thereof, namely:

"... or within such further period (not exceeding 12 (twelve) months) as the trustees may in consultation with the directors determine."

7.6 Clause 17.3 of the trust deed is amended by adding the following words at the end thereof, namely:

"... or within such further period (not exceeding 12 (twelve) months) as the trustees may in consultation with the directors determine."

ordinary share capital from the date of the grant of this general authority."

The reason and effect for special resolution 1 is to authorise the Company by way of a general authority to acquire its own issued shares and/or its holding company on such terms, conditions and such amounts determined from time to time by the directors of the Company by the limitations set out above.

that class acquired thereafter, an announcement will be made; and

- ▶ the Company may only appoint one agent to effect any repurchase(s) on its behalf.

Other disclosure in terms of the JSE Listings Requirements Section 11.26

The JSE Listings Requirements require the following disclosure, some of which is elsewhere in the annual report of which this notice forms part:

- Directors and management - page 16;
- Major shareholders of Comair - page 37;
- Director's interests in securities - page 15;
- Share capital of the company - page 25;

Litigation statement

In terms of section 11.26 of the JSE Listings Requirements, the directors, whose names are given on page 16 of the annual report of which this notice forms part ("the annual report"), are not aware of any legal or arbitration proceedings, including proceedings that are pending or threatened, that may have or have had in the recent past, being at least the previous 12 months, a material effect on the group's financial position.

Directors' responsibility statement

The directors, whose names are given on page 16 of the annual report, collectively and individually accept full responsibility for the accuracy of the information pertaining to this resolution and certify that to the best of their knowledge and belief there are no facts that have been omitted which would make any statement false or misleading, and that all reasonable enquiries to ascertain such facts have been made and that this resolution contains all information required by law and the JSE Listings Requirements.

Material change

Other than the facts and developments reported on in the annual report, there have been no material changes in the affairs or financial position of Comair and its subsidiaries since the auditors signed off on the financials.

Special Resolution Number 1
Approval to repurchase shares

8. "RESOLVED THAT, as a general approval contemplated in sections 85(2) and 85(3) of the Act, the acquisitions by the Company, and/or any subsidiary of the Company, from time to time of the issued ordinary shares of the Company, upon such terms and conditions and in such amounts as the directors of the Company may from time to time determine, but subject to the Articles of Association of the Company, the provisions of the Act and the JSE Listings Requirements from time to time, when applicable, and -

The directors, after considering the effect of a repurchase of up to 20% of the Company's issued ordinary shares, are of the opinion that if such repurchase is implemented:

- 8.1 the repurchase of securities being effected through the order book operated by the JSE trading system and done without any prior understanding or arrangement between the Company and the counter party;
- 8.2 this general authority shall only be valid until the Company's next annual general meeting, provided that it shall not extend beyond 15 (fifteen) months from the date of passing of this special resolution;
- 8.3 in determining the price at which the Company's ordinary shares are acquired by the Company in terms of this general authority, the maximum premium at which such ordinary shares may be acquired will be 10% (ten per cent) of the weighted average of the market price at which such ordinary shares are traded on the JSE, as determined over the 5 (five) trading days immediately preceding the date of the repurchase of such ordinary shares by the Company; and
- 8.4 acquisitions of ordinary shares in the aggregate in any one financial year may not exceed 20% (twenty per cent) of the Company's issued

- ▶ the Company and the Group will be in a position to repay its debt in the ordinary course of business for the next 12 months;
- ▶ the consolidated assets of the Company, fairly valued in accordance with Generally Accepted Accounting Practice, will be in excess of the consolidated liabilities of the company for the next 12 months;
- ▶ the ordinary capital and reserves of the Company and the Group will be adequate for the next twelve months;
- ▶ available working capital will be adequate to continue the operations of the Company and the Group for the next 12 months;
- ▶ the Company may not enter the market to proceed with the repurchase until the Company's sponsor, Nedbank Capital, a division of Nedbank Limited, has confirmed the adequacy of the Company's working capital for the purposes of undertaking a repurchase of shares in writing to the JSE;
- ▶ the Company may only undertake a repurchase of securities if, after such repurchase, it still complies with paragraphs 3.37 to 3.41 of the JSE Listings Requirements concerning shareholder spread;
- ▶ the Company or its subsidiary may not repurchase securities during a prohibited period as defined in paragraph 3.67 of the JSE Listings Requirements;
- ▶ when the Company has cumulatively repurchased 3% of the initial number of the relevant class of securities, and for each 3% in aggregate of the initial number of

Notice of Annual General

Meeting (continued)

The directors of the Company have no specific intention to effect the provisions of Special Resolution number 1 but will, however, continually review this position having regard to prevailing circumstances.

Ordinary Resolution

Authorisation for DH Borer to sign necessary documents to give effect to resolutions

9. "RESOLVED THAT Derek Henry Borer be and is hereby authorised on behalf of the Company to sign all documents as may be necessary in order to give effect to the Special and Ordinary Resolutions."

Other Business

10. To transact such other business as may be transacted at an Annual General Meeting.

Voting and Proxies

A shareholder entitled to attend and vote at the annual general meeting is entitled to appoint a proxy or proxies to attend, speak and vote in his/her stead. A proxy need not be a shareholder of the Company. For the convenience of registered shareholders of the Company, a form of proxy is enclosed herewith.

The attached form of proxy is only to be completed by those shareholders who are:

- ▶ holding Comair ordinary shares in certificated form; or
- ▶ are recorded on the electronic sub-register in "own name" dematerialised form.

Shareholders who have dematerialised their shares through a Central Securities Depository Participant ("CSDP") or broker and wish to attend the annual general meeting, must instruct their CSDP or broker to provide them with a Letter of Representation, or they must provide the CSDP or broker with their voting instructions in terms of the relevant custody agreement/mandate entered into between them and the CSDP or broker.

Forms of proxy must be lodged with or posted to the Company's principle place of business, 1 Marignane Drive, Corner Atlas Road, Bonaero Park, Kempton Park, 1619 (PO Box 8050, Bonaero Park, 1622) or the transfer secretaries to be received not later than 48 hours (excluding Saturdays, Sundays and public holidays) before the time appointed for the holding of the Annual General Meeting, being Friday, 29 October 2004, at 12h00. Any shareholder who completes and lodges a form of proxy will nevertheless be entitled to attend and vote in person at the annual general meeting.

By order of the Board



Derek H. Borer
Company Secretary

8 September 2004
Bonaero Park

Directors Standing for Election or Re-Election

1. Bertrandus Johannes van der Linden (Age : 56)

Bert joined Comair in 1968 at Rand Airport. In 1973, he was promoted to Traffic Manager and was responsible for Sales, Marketing and Operational duties. In 1979, he became the Commercial Manager of Comair and was made the Chairman of the South African Tourism and Safari Association and Tourism Liaison Council. In 1981, he was appointed to the Board of Comair where he was actively involved in changing the Company from operating in a regulated environment into a deregulated environment. He was also responsible for Sales and Marketing and is currently Service Delivery Director, responsible for all passenger operations including Catering and all ground operation activities. He was elected Chairman for the Airlines Association of Southern Africa for the year 2003/4.

2. Dr Peter J Welgemoed (Age : 61) (B.Com, B.Com-Hons, M.Com, D.Com).

In 1971 Dr Welgemoed obtained a Doctorate in Transport Economics at the Rand Afrikaans University. In 1974, he was appointed Professor and Chairman of the Department of Transportation Economics, and as Director of the Research Centre for Physical Distribution and Transportation Studies at Rand Afrikaans University. Thereafter he served on various boards of directors of companies involved in transportation and banking. In September 1989 he was appointed Deputy Minister of Mineral and Energy Affairs and Public Enterprises. In 1991 he was appointed as a Member of the Cabinet, with the portfolio of Minister of Transport and in 1992 as Minister of Transport and of Post and Telecommunication. In 1998 he was appointed as the Executive Chairman of the Board of Market Power (S.A.) in South America. He controlled the daily operations of the Group in Chile, Argentina and Uruguay from the Head Office in Santiago. At present is involved in private business through Directorships and Consultancy.

3. Khutso Ignatius Mampeule (Age : 39) (BA, MSc, MBA)

Khutso matriculated from Pax High School (Polokwane) in 1982. He holds three degrees from U.S. tertiary institutions, namely, a BA from Lawrence University, an MSc from Carnegie-Mellon University, and an MBA from the University of Phoenix.

In September 1995, he joined Transnet/Spoornet as an Assistant Regional Manager and was appointed as an Executive Manager in November 1996. From May 1999 he served as the CEO of Transnet subsidiary, SA Express Airways. In 2001 he was appointed as Chief Executive of Old Mutual Employee Benefits, a position he held until October 2003. He is currently the Executive Chairman of Lefa Group Holdings, a BEE Investment and Consulting Company. He serves on the boards of South African Civil Aviation Authority, Mission Aviation Fellowship and Mine Waste Solutions. He is a member of World Wide Fund for Nature (WWF) SA and Young Presidents' Organisation.

4. Lloyd Cromwell Griffiths (Age : 59) (ATPL)

After flying training in Canada, Lloyd operated in the Canadian Arctic, becoming Chief Pilot of Lambair Churchill. In 1973 he joined British Airways and 9 years later formed the team which created the Highland (Scottish) Division of British Airways introducing new working, cost effective practices to ground and air staff. Following the setting up of a similar operation in Berlin in 1986 Lloyd moved on to London in 1991 to become Commercial Manager of British Airways Boeing 757/767 and finally, General Manager Flight Operations before becoming an Executive Director of British Airways in 2001. He also serves on the Board of MAF Europe.

Share Price Performance

	2004	2003
Market Price (cents per share)		
Closing (30 June)	76c	90c
High	120c	100c
Low	67c	56c
Closing Price / Earning Ratio	6.3	13.2
Number of Shares in Issue		
At year end (millions)	420	420
Weighted Average (millions)	420	420
Volume of Shares traded (millions)	67,9	21.5
Volume of Shares traded to number in issue	16,20%	5,12%

Shareholder Analysis

1. Distribution

Type of Shareholder

Type of Shareholder	Number of Shareholders	Numbers of Shares owned	% of Total
Individuals	2931	13 400 524	3,191
Limited Companies	7	102 296 595	24,356
(Pty) Ltd Companies	69	166 919 522	39,743
Close Corporations	32	584 000	0,139
Trusts	83	27 195 860	6,475
Investment Companies	47	88 710 589	21,121
Pension /Provident Funds	7	19 651 337	4,679
Other	36	1 241 573	0,296
TOTAL	3212	420 000 000	100,000

2. Holdings of 5% or more

Shareholder	Number of Shares	% of Shareholding
Diamar Investments (Pty) Ltd	81 137 408	19,318
Telmore Investments (Pty) Ltd	81 137 408	19,318
Britair Holdings Limited	77 000 000	18,333
Alan Gray Group (through various funds and investment companies with no fund or investment company holding more than 4,933% of the total issued share capital of the Company)	66 094 809	15,257

3. Public Shareholders' Spread (including geographical area)

Type of Shareholder	Number of Shareholders in South Africa		Number of Shareholders other than in South Africa		Total Shareholders	
	Nominal Number	%	Nominal Number	%	Nominal Number	%
Directors	172 239 363	41,010			172 239 363	41,010
Non-Public						
Britair Holdings Limited			77 000 000	18,333	77 000 000	18,333
Comair Share Incentive Trust	20 579 562	4,900			20 579 562	4,900
Public						
Resident	134 480 890	32,019			134 480 890	32,019
Non-Resident			15 700 185	3,738	15 700 185	3,738
TOTAL	327 299 815	77,929	92 700 185	22,071	420 000 000	100,000

The spread of public shareholders in terms of paragraphs 4.25, 4.26 and 4.27 of the Listing Requirements of The JSE Securities Exchange South Africa at 30 June 2004 was 35,757% represented by 3 202 shareholders holding 150 181 075 Ordinary Shares in the Company.

Form of Proxy for Annual General Meeting

Comair Limited

Registration number 1967/006783/06 | Incorporated in the Republic of South Africa | ("Comair" or "the Company")
 ISIN Code: ZAE000029823 | Share Code: COM

The form of proxy is only to be completed by those shareholders who are:

- ▶ holding Comair ordinary shares in certificated form; or
- ▶ are recorded on the electronic sub-register in "own name" dematerialised form.

Shareholders who have dematerialised their shares through a Central Securities Depository Participant ("CSDP") or broker and wish to attend the annual general meeting, must instruct their CSDP or broker to provide them with a Letter of Representation, or they must provide the CSDP or broker with their voting instructions in terms of the relevant custody agreement/mandate entered into between them and the CSDP or broker.

Forms of proxy must be lodged with or posted to the Company's principle place of business, 1 Marignane Drive, Corner Atlas Road, Bonaero Park, Kempton Park, 1619 (PO Box 8050, Bonaero Park, 1622) or the transfer secretaries to be received not later than 48 hours (excluding Saturdays, Sundays and public holidays) before the time appointed for the holding of the Annual General Meeting, being Friday, 29 October 2004, at 12h00. Any shareholder who completes and lodges a form of proxy will nevertheless be entitled to attend and vote in person at the annual general meeting.

I/We (Block Letters) _____

of (address) _____

Telephone: (Work) (area code) _____ Telephone: (Home) (area code) _____

being a holder of [_____] certificated shares and "own-name" dematerialised shares of the Company and entitled to [_____] votes hereby appoint (*see Note 1*):
 (*Please print*)

1. _____ or failing him/her _____
2. _____ or failing him/her _____
3. the Chairman of the Annual General Meeting

as my/our proxy to vote for me/us at the Annual General Meeting which will be held for the purpose of considering, and, if deemed fit, passing, with or without modifications, the resolutions to be proposed thereat and at each adjournment or postponement thereof, and to vote for/or against the resolutions and/or abstain from voting in respect of the shares in the issued share capital of the Company registered in my/our name/s (*see note 2*) as follows:

	Number of votes		
	For	Against	Abstain
1 To consider and adopt the Annual Financial Statements			
2 To approve the director's remuneration policy			
3 To re-elect the following directors:			
B.J. van der Linden			
P.J. Welgemoed			
K.I. Mampeule			
L. Cromwell Giffiths			
4 To re-appoint and determine the auditor's remuneration			
5 Ordinary Resolution to grant authority to the directors to issue the unissued shares of the Company			
6 Ordinary Resolution authorising the general issue of shares for cash other than by way of a rights issue			
7 Ordinary Resolution to amend the provisions of the Comair Share Incentive Trust			
8 Special Resolution Number 1: General Repurchase by Comair of its issued shares			
9 Ordinary Resolution authorising Derek Henry Borer to give effect to Special and Ordinary Resolutions			

and generally to act as my/our proxy at the said Annual General Meeting.
 (*Please indicate with an "X" whichever is applicable. If no instruction is given, the proxy holder will be entitled to vote or abstain from voting as the proxy holder deems fit.*)

Signed at _____ on this _____ day _____ of _____ 2004

Signature/s _____

assisted by me (where applicable) _____

Each shareholder is entitled to appoint one or more proxies (who need not be a shareholder/s of the Company) to attend, speak and vote in place of that shareholder at the Annual General Meeting.

Please read the notes on the reverse side hereof

Notes to the Form of Proxy

1. A certificated shareholder or "own-name" dematerialised shareholder may insert the names of two alternative proxies of the shareholder's choice in the space provided, with or without deleting "the Chairman of the Annual General Meeting". The person whose name appears first on the form of proxy and whose name has not been deleted will be entitled and authorised to act as proxy to the exclusion of those whose names follow.
2. A shareholder's instructions to the proxy must be indicated by the insertion of an "X" in the appropriate box provided. Failure to comply herewith will be deemed to authorise the proxy to vote or to abstain from voting at the Annual General Meeting as he/she deems fit in respect of all the shareholder's votes exercisable thereat. Where the proxy is the Chairman, such failure shall be deemed to authorise the Chairman to vote in favour of the resolutions to be considered at the Annual General Meeting in respect of all the shareholder's votes exercisable thereat.
3. The completion and lodging of this form will not preclude the relevant shareholders from attending the Annual General Meeting and speaking and voting in person thereat to the exclusion of any proxy appointed in terms hereof, should such shareholder wish to do so. Forms of proxy must be lodged with or posted to the Company's principal place of business, 1 Marignane Drive, corner Atlas Road, Bonaero Park, Kempton Park, 1619 (PO Box 8050, Bonaero Park, 1622) or the transfer secretaries to be received not later than 48 hours before the annual general meeting, being Friday, 29 October 2004 at 12h00.
4. The Chairman of the Annual General Meeting may accept or reject any form of proxy which is completed and/or received other than in accordance with these notes and instructions, provided that the Chairman is satisfied as to the manner in which the shareholder wishes to vote.
5. Documentary evidence establishing the authority of a person signing this form of proxy in a representative or other legal capacity such as a power of attorney or other written authority must be attached to this form unless previously recorded by the transfer secretaries of the Company or waived by the Chairman of the Annual General Meeting.
6. The Chairman shall be entitled to decline to accept the authority of a person signing the proxy form:
 - (a) under a power of attorney
 - (b) on behalf of a companyunless that person's power of attorney or authority is deposited at the principal place of business of the Company as set out in Note 3 not less than 48 hours before the holding of the Annual General Meeting.
7. An instrument of proxy shall be valid for any adjournment or postponement of the Annual General Meeting, unless the contrary is stated therein, but shall not be used at the resumption of an adjourned Annual General Meeting if it could not have been used at the Annual General Meeting from which it was adjourned for any reason other than that it was not lodged timeously for the meeting from which the adjournment took place.
8. A vote cast or act done in accordance with the terms of a form of proxy shall be deemed to be valid notwithstanding
 - (a) the death, insanity or any other legal disability of the person appointing the proxy; or
 - (b) the revocation of the proxy; or
 - (c) the transfer of a share in respect of which the proxy was given,unless notice as to any of the above-mentioned matters shall have been received by the Company at its principal place of business as set out in Note 3 or by the Chairman of the Annual General Meeting if not held at the principal place of business of the Company, before the commencement or resumption (if adjourned) of the Annual General Meeting at which the vote was cast or the act was done or before the poll on which the vote was cast.
9. A minor must be assisted by his/her parent or guardian unless the relevant documents establishing her/her legal capacity are produced or have been registered by the Company's transfer secretaries.
10. Where shares are held jointly, all joint holders are required to sign the form of proxy.
11. Any alteration or correction made to this form of proxy must be initialled by the signatory/ies.

Administration

Registered office

2nd Floor
FHS HOUSE
15 Girton Road
Parktown
2193

Transfer secretaries

Computershare Investor Services 2004 (Pty) Ltd
70 Marshall Street
Johannesburg
2001

Comair Limited