Comair Limited
(Incorporated in the Republic of South Africa)
Reg. No. 1967/006783/06
ISIN Code: ZAE000029823 Share Code: COM
("Comair" or the "Group")

CONDENSED CONSOLIDATED PROVISIONAL AUDITED RESULTS FOR THE YEAR ENDED 30 JUNE 2018, CHANGES TO THE BOARD AND CASH DIVIDEND DECLARATION

Earnings review

The 2018 financial year delivered a record earnings performance despite an environment of latterly negative GDP growth, volatile exchange rates, elevated fuel prices and a domestic airline market that continues to be characterised by overcapacity.

The Airline Business

Airline Passenger Revenue increased by seven percent (7%) on the back of a combined increase of four percent (4%) in passenger volumes and a three percent (3%) increase in the average fare per passenger. Seat occupancy remained constant at 76%, notwithstanding an increase of approximately three percent in Comair's available seat capacity. This remains below the average global industry seat occupancy of approximately 80.6%.

Airline operating costs increased by seven percent with the most significant cost driver being a 14.2% percent increase in the price of fuel as a result of the recovery in the dollar price of oil.

The translation profit of the comparative period that arose from the effect of the exchange rate on a dollar-based aircraft loan, was partly reversed as the currency deteriorated to R13.71 against the dollar as at 30 June 2018, from R13.04 against the dollar a year earlier. This resulted in a reported loss of R12 million in the current period on the loan value of US$17.6 million, compared to a profit of R41 million on the revaluation of the loan at 30 June 2017.

The Non-Airline Businesses

The non-airline businesses performed well, maintaining an overall contribution to Net Profit before Taxation of 25% with sustained prospects for further growth.

Combined Business

Earnings per share ("EPS") and headline earnings per share ("HEPS") increased by 10% and 4% to 69.8 cents per share and 69.5 cents per share respectively (prior year: EPS 63.7 cents per share and HEPS 67.0 cents per share).

Cash generated from operating activities remained relatively stable at R946 million versus R973 million in the comparative year, resulting in a closing cash balance of R685 million (prior year: R934 million). During the year, significant investments in the fleet, in the form of a preowned Boeing 737-800 acquisition, and predelivery payments towards the Boeing 737-8 Max aircraft order, as well as investments in the expansion of the training and lounge businesses.

Highlights

Aircraft Fleet

During the year we took delivery of one preowned 737-800 at a cost of R286 million and a net cash investment (after raising financing of R201 million) of R85 million. Pre-delivery payments of R368 million (or a net cash investment of R220 million, after raising financing of R148 million) were made towards two Boeing 737-8 Max deliveries due in January and February 2019 respectively. Furthermore, R426 million was invested in routine aircraft maintenance events. The ongoing upgrades to our fleet provide mitigation to the rise in the fuel price, while enhancing the potential revenue per flight and providing an improved customer proposition.

Training

The construction of a third simulator training facility was substantially completed by financial year end, amounting to an investment of R46 million and doubling capacity with four additional simulator bays to accommodate the demand for external pilot training. To this end, the Group has invested in an Airbus A320 fixed base trainer, costing R21 million, which was installed shortly after financial year end, and is negotiating for the acquisition of a further two full motion simulators.

In December 2017 the Group acquired two training academies, EPT Aviation Training Proprietary Limited and Global Training College South Africa Proprietary Limited which provide cabin crew training services as well as passenger handling and other travel related training, thereby expanding the range of training services provided by the Comair Training Centre.

Subsequent to financial year end 30 June 2018, the Group acquired a leadership development consultancy firm, Metaco Holdings Proprietary Limited which focusses on strategic development, organisational design and change management with a client base that encompasses boards, leadership teams and individuals across a range of industries in the private and public sector.

These acquisitions align with the Group’s view to establish an extensive aviation training academy with a global customer base.

The Lounge Business

The SLOW Lounges have set a global standard for airport lounges, providing a perfect sanctuary from the fast pace of travel and modern life, and have won numerous awards for their design and service excellence. Demand for the lounges continues to increase and the Group has extended and refurbished its domestic SLOW Lounge at O.R. Tambo International Airport. Comair’s SLOW Lounge at the O.R. Tambo International terminal now hosts Air France, KLM and Delta passengers, with further interest from other carriers for this premium lounge offering.

In addition, the Group has opened a new concept SLOW XS Lounge at Lanseria International Airport. The SLOW XS Lounge offers a slightly different proposition geared towards a smaller airport footprint but similar in quality and service to the other SLOW Lounges.

The Group recently expanded the SLOW in the City offering by adding a feature restaurant, 'The Course', at the Lounge's entrance that provides an informal dining and meeting environment in the centre of Sandton. The restaurant offers an assortment of signature dishes and is open six days a week.

Investment in the lounge businesses during the reporting period amounted to R41 million.

The Catering Business

The Group's catering unit, Foodirections, currently leases the premises from the Group's property-owning company, Alooca Properties Proprietary Limited, which premises are situated in Anchor Industrial Park. This site allows for the ongoing expansion of Foodirections.

Foodirections has recently been granted a licence to provide third party catering services at Airports Company South Africa airports, which will allow it to provide catering to third-party airlines.

Foodirections has additionally won the tender to cater for the lounge food and beverage service requirements for British Airways International at both OR Tambo International and Cape Town International airports.

Finally, the Group has also moved the catering and procurement needs of the SLOW Lounge network to Foodirections. The combined procurement volumes have allowed for improved buying discounts and numerous cost saving benefits to the Group.

The Travel Business

The Group has invested in the development of a 'next generation' distribution platform for luxury inbound tourism into Africa amounting to approximately R26 million over 3 years. Studies show that luxury travel has emerged as the fastest growing segment in global travel, with growth in tourism arrivals in Sub-Saharan Africa exceeding that of the rest of the world. However, the technology used in South Africa to compete for global tourism is outdated and the Group has taken the opportunity to establish effective global distribution channels. The new platform will commence selling in mid-2019.

The existing travel businesses, including kulula.work, kulula.holidays and mtbeds continue to deliver good margins and steady growth despite the depressed local travel market.

Technology Solutions

Consistent focus on implementing technology solutions has enhanced the Group's operating performance, customer service and revenue generation. The pace of development in technology is relentless, and to this end, the Group has acquired a data integration platform from Tibco, at a total cost of R34 million over two years. This technology seamlessly connects all applications and data sources and will eliminate the duplication of development efforts across the Group's various distribution channels while facilitating the extraction of the maximum benefit from its customer data in order to improve on its service offering and on the marketing of relevant products to its various customer segments.

The Group has further invested in the renewal of its Sabre suite of software licences, amounting to R20 million over two years.

Furthermore, new software applications have been developed internally for use on board the aircraft and on the ground to facilitate more efficient operating procedures.

Post financial year end 30 June 2018, the Group entered into a joint venture with an IT Technology company, Infinea SA Holdings Proprietary Limited, thereby establishing a jointly held company called Nacelle Proprietary Limited. Nacelle will be positioned as a service provider to the aviation and related sectors to deliver services such as IT operations support, project deployment and software development. The joint venture creates the opportunity to commercialise decades of Comair's operational discipline and expertise in commercial aviation through utilising Infinea's expertise in software development, software marketing, operations support and payment solutions.

People

The management of talent is considered to be a key differentiator of the Group and remains a core focus. The Group values its talent and continues to make a significant investment to support the management of its skills base. Talent Management practices support decisions on building capacity now and into the future, with the dual benefit to employees of building career paths.

Variable Voting Structure

In November 2017, Comair successfully implemented a variable voting structure applicable to Foreign Shareholders in order to ensure that it cannot exceed the foreign control restrictions applicable to licensed air service operators in South Africa.

Damages Claim

Comair's claim against SAA for damages arising from anti-competitive conduct was heard in the Gauteng South High Court between 18 April and 24 August 2016. Judgement in this matter was handed down on 15 February 2017. In terms of the judgement, Comair was awarded damages in the sum of approximately R1.16 billion, inclusive of costs and interest to that date. SAA lodged an appeal against this judgement. Comair lodged a cross appeal to recover the full amount of the damages sustained plus interest on the total amount, which if successful, will increase the damages awarded to approximately R2 billion. The Supreme Court of Appeals required the High Court papers to be summarised, which process has been completed and it is anticipated that the appeal will be heard in early 2019. Interest continues to accrue until the date of payment.

Prospects

While profits for the year were good, we are still not achieving the margins that will allow for the optimum pace of upgrading the fleet. The current weak economy is expected to maintain pressure on consumer spending while the oversupply of seats in the domestic market continues to place downward pressure on pricing across most routes. The ongoing investment in new aircraft remains a key competitive differentiator for Comair, particularly in an environment of higher oil prices and a poor exchange rate.

Comair is well placed to operate in these conditions, with strong brands, committed staff, effective equipment, an efficient cost base, strong cash reserves and investment into the diversified, non-airline segment of the business, which is progressing well and will receive ongoing focus.

Dividends

Notice is hereby given that a final gross cash dividend of 17.00000 cents per ordinary share has been approved and declared by the board which is payable to shareholders for the financial year ended 30 June 2018. The dividend has been declared out of income reserves.

The dividend will be subject to a local dividend tax rate of 20% or 3.40000 cents per ordinary share, resulting in a net dividend of 13.60000 cents per ordinary share, unless the shareholder is exempt from paying dividend tax or is entitled to a reduced rate in terms of the applicable double taxation agreement. The Company's tax reference number is 9281/874/7/1/0 and the number of ordinary shares in issue at the date of this declaration is 469,330,865.

In accordance with the provisions of Strate, the electronic settlement and custody system used by the JSE Limited, the relevant dates for the dividend are as follows:

Event	Date
Last day to trade (cum dividend)	Tuesday, 23 October 2018
Shares commence trading (ex dividend)	Wednesday, 24 October 2018
Record date (date shareholders recorded in books)	Friday, 26 October 2018
Payment Date	Monday 29 October 2018

Share certificates may not be dematerialised or rematerialised between, Wednesday, 24 October 2018 and Friday, 26th October 2018, both days inclusive.

Directors' Appointments and Resignations

Resignations

The following directors resigned:

. Mr N Li resigned as a Non-executive Director on 31 August 2018

. Mr C Luo resigned as a Non-executive Director on 31 August 2018

. Mr JM Kahn retired as an Independent Non-executive Director (and his associated positions on the Remunerations Committee and Nominations Committee) on 17 September 2018 with immediate effect

. Dr PJ Welgemoed, an Independent Non-executive Director, retired as a member of the Audit Committee on 17 September 2018 with immediate effect

Appointments

. Ms NB Sithole, was appointed as an Independent Non-executive Director of the company, on 1 October 2017 and as a member of the Audit Committee on 17 September 2018

. Ms P Mahanyele, an Independent Non-executive Director, was appointed as a member of the Audit Committee on 1 October 2017

. Mr SL Doyle, was appointed as an Independent Non-executive Director of the company, on 1 December 2017 and as a member of the Audit Committee on 17 September 2018

Appreciation

Our sincere appreciation goes to every person within the Comair Group who contributed to our success during the year under review, including our directors, management and employees, and a special thanks to our customers and stakeholders who have chosen to use our services or provide services to us. We also thank all the public-sector departments and agencies that we have worked with, for their shared commitment to our objectives.

Condensed Consolidated Audited Results
Comair Limited

	Audited Year 30 June 2018 R'000	Audited Year 30 June 2017 R'000
Condensed Consolidated Statement of Profit or loss		
Revenue	**6,536,540**	6,063 ,737
Operating Expenses	**(5,412,752)**	(4,999,789)
Operating profit before depreciation, amortisation, unrealised (loss)/gain on translation on dollar denominated loan and (profit)/loss on sale of assets	**1,123,788**	1,063,948
Depreciation and amortisation	**(443,237)**	(456,281)
Unrealised translation (loss)/gain on dollar denominated loan	**(12,056)**	40,697
Profit/(loss) on sale of assets	**2,085**	(10,574)
Profit from operations	**670,580**	637,790
Interest income	**36,611**	49,670
Interest expense	**(248,938)**	(250,377)
Impairment reversal (loss) on remeasurement of non-current assets held for sale	**12**	(11,270)
Income from equity accounted investments	**12,979**	8,874
Profit before taxation	**471,244**	434,687
Taxation	**(145,633)**	(137,717)
Profit for the year	**325,611**	296,970
Total profit for the year attributable to:-		
Owners of the parent	**324,537**	296,023

Non-controlling interest	**1,074**	947
	325,611	296,970

Condensed Consolidated Statement of Comprehensive Income

Profit for the year	**325,611**	296,970
Other comprehensive income, net of tax	**-**	-
Total comprehensive income for the year	**325,611**	296,970
Total comprehensive income for the year attributable to:-		
Owners of the parent	**324,537**	296,023
Non-controlling interest	**1,074**	947
	325,611	296,970
Earnings per share (cents)	**69.8**	63.7
Headline earnings per share (cents)	**69.5**	67.0
Diluted Earnings per share (cents)	**69.8**	63.7
Diluted Headline earnings per share (cents)	**69.5**	67.0
Actual number of shares in issue ('000)	**469,331**	469,331
Weighted ordinary shares in issue ('000)	**465,089**	465,089
Diluted weighted ordinary shares in issue ('000)	**465,089**	465,089

Reconciliation between earnings and headline earnings

Profit after tax attributable to the equity holders of the parent	**324,537**	296,023
Less: IFRS 5 impairment reversal/(loss) on remeasurement of non-current assets held for sale	**(12)**	11,270
Add: taxation effect of IFRS 5 impairment reversal/(loss) on remeasurement of non-current assets held for sale	**3**	(3,156)
Less: IAS 16 (profit)/loss on disposal of property, plant and equipment	**(2,085)**	10,574
Add: taxation effect of IAS 16 profit/(loss) on disposal of property, plant and equipment	**584**	(2,961)
Headline earnings attributable to ordinary shareholders	**323,027**	311,751

	Audited Year 30 June 2018 R'000	Audited Year 30 June 2017 R'000

Condensed Consolidated Statement of Financial Position

ASSETS

Property, plant and equipment	**5,509,614**	4,631,326
Intangible assets	**14,970**	15,892
Investments in associates	**52,645**	45,296
Goodwill	**13,169**	6,615
Deferred tax	**3,853**	3,902
Current assets	**1,029,399**	1,208,365
Non-current assets held for sale	**-**	7,044
	6,623,650	5,918,440

EQUITY AND LIABILITIES

Share capital and reserves	**1,779,800**	1,542,717
Non-current portion of interest bearing liabilities	**2,176,595**	2,344,926
Deferred taxation	**571,726**	435,043
Share-based payments	**-**	5,032
Current liabilities	**2,095,529**	1,590,722
	6,623,650	5,918,440
Net asset value per share (cents)	**382.7**	331.7

Condensed Consolidated Statement of Cash Flows

Cash generated from operating activities		
Cash generated from operations	**1,172,829**	1,149,088
Interest paid	**(255,847)**	(250,377)
Interest received	**36,611**	49,670
Taxation (paid)/refunded	**(7,308)**	25,034
Net cash from operating activities	**946,285**	973,415
Cash utilised in investing activities		
Additions to property, plant and equipment	**(706,364)**	(323,248)
Proceeds on disposal of property, plant and equipment	**8,836**	3,594
Additions to intangible assets	**(8,795)**	(9,652)
Pre-delivery payments	**(219,714)**	(132,217)
Business combinations, net of cash acquired	**(1,300)**	-
Movement in Investment in Associate	**5,630**	-
Repayment of loan by associate	**-**	7,852

Net cash from investing activities	**(921,707)**	(453,671)
Cash utilised in financing activities		
Raising of interest-bearing liabilities	**240,989**	-
Repayment of interest-bearing liabilities	**(426,515)**	(717,921)
Refund on aircraft purchase price for pre-delivery payment finance	**-**	96,738
Dividends paid	**(88,528)**	(83,776)
Net cash from financing activities	**(274,054)**	(704,959)
Total cash movement for the year	**(249,476)**	(185,215)
Cash and cash equivalents at the beginning of the year	**934,913**	1,120,128
Cash and cash equivalents at the end of the year	**685,437**	934,913

	Audited Year 30 June 2018 R'000	Audited Year 30 June 2017 R'000
Condensed Consolidated Segmental Report		
Segmental Revenue		
Airline	**6,207,526**	5,796,443
Non-airline	**329,014**	267,294
	6,536,540	6,063,737
Segmental results		
Airline	**1,011,557**	964,559
Non-airline	**112,231**	99,389
Operating profit before depreciation, amortisation, unrealised (loss)/gain on translation on dollar denominated loan and profit/(loss) on sale of assets	**1,123,788**	1,063,948
Depreciation and amortisation - Airline	**(416,439)**	(438,115)

Depreciation and amortisation - Non-airline	**(26,798)**	(18,166)
Unrealised translation (loss)/gain on dollar denominated loan - Airline	**(12,056)**	40,697
Profit/(loss) on sale of assets - Airline	**1,656**	(10,574)
Profit/(loss) on sale of assets – Non-airline	**429**	-
Profit from operations	**670,580**	637,790
Interest income - Airline	**18,329**	32,225
Interest income - Non-airline	**18,282**	17,445
Interest expense - Airline	**(248,741)**	(250,368)
Interest expense - Non-airline	**(197)**	(9)
Impairment reversal/(loss) on remeasurement of non-current assets held for sale - Airline	**12**	(11,270)
Income from equity accounted investments - Non-airline	**12,979**	8,874
Profit before tax	**471,244**	434,687
Segmental assets - Airline	**5,953,352**	5,398,905
Segmental assets - Non-airline	**670,298**	519,535
Segmental liabilities - Airline	**(4,716,041)**	(4,261,165)
Segmental liabilities - Non-airline	**(127,809)**	(114,558)
Segmental capital additions - Airline (excluding borrowing costs capitalised)	**789,737**	886,615
Segmental capital additions- Non-airline	**118,135**	79,206

Condensed Consolidated Statement of Changes in Equity

Opening Balance	**1,542,717**	1,329,515
Total comprehensive income for the year	**325,611**	296,970
Repurchase of Comair Shares	**-**	8
Dividend paid	**(88,528)**	(83,776)
	1,779,800	1,542,717

Business Combinations

On 11 December 2017, the Group acquired 100% of the share capital in EPT Aviation Training Proprietary Limited and 100% of the share capital in Global Training College South Africa Proprietary Limited (previously EPT Global Training Proprietary Limited). These acquisitions were acquired for an aggregate consideration of R8.5 million, which was settled with cash and an amount payable.

The acquired businesses contributed revenues of R12.8 million and net profit after tax of R4.6 million to the Group since acquisition.

These provisional amounts have been calculated using the Group's accounting policies.

If the businesses had been acquired on 1 July 2017, revenues and net profits after tax from the businesses would have been R17.6 million and R5.1 million respectively.

The below table summarises the provisional amount of assets acquired and liabilities assumed at the acquisition date:

	Audited Year 30 June 2018 R'000r
Purchase consideration	**8,480**
The provisional assets and liabilities arising from the acquisition are as follows:	
Property, plant and equipment	**2,012**
Trade and other receivables	**1,038**
Cash and cash equivalents	**5,076**
Current tax	**132**
Financial liabilities	**(74)**
Trade and other payables	**(3,680)**
Shareholder loans	**(2,578)**
Fair value of net assets	**1,926**
Goodwill	**6,554**
Total purchase consideration	**8,480**
Purchase consideration	**(8,480)**
-Settled in cash	**(6,376)**
-Settled in amount payable	**(2,104)**
Cash and cash equivalents in subsidiaries acquired	**5,076**
Cash outflow on acquisition	**(1,300)**

Significant Commitments

Comair made pre-delivery payments of R368 million in the current year (prior year: R132 million), in addition to R102 million in preceding years, towards the delivery of eight Boeing 737-8 Max aircraft due for delivery between 2019 and 2022. The Group has a remaining commitment to Boeing for R5.5 billion at year end (prior year R5.7 billion) in respect of the Boeing 737-8 Max order, the funding options of which will be finalised closer to the time of delivery. Pre-delivery payment finance has been mandated to Investec Bank.

Basis of Preparation

The accounting policies and method of measurement and recognition applied in the preparation of these condensed consolidated financial results are in terms of International Financial Reporting Standards ("IFRS"). The group adopted the amendments to IAS 7 Statement of Cash Flows during the year. The adoption of this amendment did not result in any change in the accounting policies and had no effect on the results of the Group. Other than the adopted amendment above, the accounting policies and method of measurement and recognition are consistent with those applied in the audited annual financial statements for the previous year ended 30 June 2017. The condensed consolidated financial statements are prepared in accordance with the requirements of the JSE Listings Requirements and the requirements of the Companies Act of South Africa. The condensed consolidated financial results are presented in terms of the minimum disclosure requirements set out in International Accounting Standards ("IAS") 34 – Interim Financial Reporting, as well as the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and the Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council. These condensed consolidated financial results have been prepared by Ryan de Miranda CA (SA), under the supervision of Kirsten King CA (SA), the Financial Director. Any reference to future financial performance included in this announcement has not been reviewed or reported on by the group's external auditors.

Subsequent Events

Comair acquired 100% of the issued share capital; of the leadership development consultancy company, Metaco Holdings Proprietary Limited. Metaco's focus is on strategic development, organisational design and change management. Its client base includes boards, leadership teams and individuals across a range of industries, in the public and private sector. Metaco offers a range of coaching and training modules for individuals and groups, developed in line with international best practice. The transaction is effective 1 July 2018, with an initial purchase price consideration of R12.8 million being settled in cash with the remainder being earned based on cumulative Net Profit after Taxation for the period from the effective date until the sixth anniversary of the effective date, less 25%, being the deemed portion of the Net Profit After Taxation that the sellers agree will be attributable to the Purchaser becoming a shareholder of Metaco Holdings Proprietary Limited.

The below table summarises the provisional amount of assets acquired and liabilities assumed at the effective date:

	R'000

Purchase consideration	**12,860**
The summarised assets and liabilities arising from the acquisition are as follows:	
Total assets	**3,287**
Total liabilities	**(1,940)**
Fair value of net assets	**1,347**
Goodwill	**11,513**
Total purchase consideration	**12,860**
Purchase consideration	**(12,860)**
-Settled in cash	**(12,860)**
Cash and cash equivalents in subsidiaries acquired	**2,010**
Cash outflow on acquisition	**(10,850)**

The above information is based on preliminary provisional information and is subject to change pending the finalisation of the purchase price accounting, which will be completed within 12 months of the acquisition as defined in the applicable accounting standard.

Comair also entered into a joint arrangement with an Information Technology company named Infinea SA Holdings Proprietary Limited to launch a new company, resulting in a joint venture, named Nacelle Proprietary Limited. The joint venture is a continuation of the Group's diversification strategy and has resulted in Comair moving its IT Department into a separate entity, namely Nacelle Proprietary Limited, that will provide a variety of IT related services. The vision of the joint venture is to develop and build the next generation of operationally tested solutions for the Group, as well as for other industries that benefit from similar technology driven solutions. The transaction is effective 1 August 2018.

No other matters have occurred between the reporting date and the date of approval of the Financial Statements which would have a material effect on these financial statements.

Audit Opinion

The auditors, Grant Thornton, (Ben Frey (Audit Partner, Registered Auditor, Chartered Accountant (SA)), have issued their unmodified opinion on the Group’s financial statements for the year ended 30 June 2018. The audit was conducted in accordance with International Standards on Auditing. A copy of the auditor’s report together with a copy of the audited financial statements are available for inspection at the Company’s registered office. These condensed consolidated provisional audited financial statements have been derived from the Group’s annual financial statements. The contents of this announcement are extracted from audited information, although the announcement itself is not audited. The directors of Comair take full responsibility for the preparation of this announcement and confirm that the financial information has been correctly extracted from the underlying audited annual financial statements.

The auditor’s report does not necessarily report on all of the information contained in this announcement. Shareholders are therefore advised that in order to obtain a full understanding of the nature of the auditor’s engagement they should obtain a copy of the auditor’s report together with the accompanying financial information from the issuer’s registered office.

By order of the Board

P van Hoven (Chairman) ER Venter (CEO)

17 September 2018

Sponsor:

PSG Capital

Bonaero Park

18 September 2018