

## Independent Auditor's Report To the shareholders of Comair Limited

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### Report on the financial statements

#### Opinion

We have audited the consolidated and separate financial statements of Comair Limited (the group and company) which comprise the consolidated and separate statements of financial position as at 30 June 2018, and the consolidated and separate statements of profit or loss and other comprehensive income, the consolidated and separate statements of changes in equity and the consolidated and separate statements of cash flows for the year then ended, and notes to the consolidated and separate financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of Comair Limited as at 30 June 2018, and its consolidated and separate financial performance and consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements* section of our report. We are independent of the group in accordance with the Independent Regulatory Board for Auditors' *Code of Professional Conduct for Registered Auditors (IRBA Code)* and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated and separate financial statements of the current period. These matters were addressed in the context of our audit of the consolidated and separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The following key audit matters relate to the consolidated and separate financial statements.

Key audit matter	How our audit addressed the key audit matter
<p><b>Aircraft – componentisation, useful lives, residual values and impairment</b></p> <p>As set out in note 1.3 aircraft are componentised into their major parts, and useful lives and residual values are assigned by the directors to each identified part. Major inspections (referred to as C and D checks) are capitalised to the cost of aircraft and depreciated over the directors' best estimate of their useful life.</p> <p>The fleet is tested annually for impairment with reference to market values.</p> <p>We identified this area as a key audit matter as significant judgment is required by the directors in making these determinations which has a significant impact on the financial results.</p> <p>The carrying value of aircraft is R 4.5 billion as set out in note 3 of the financial statements.</p>	<p>We performed the following procedures amongst others:</p> <ul style="list-style-type: none"> <li>• We reviewed the processes adopted by the directors to componentise the various parts of an aircraft and assign useful lives. This includes an assessment of the depreciation period applied to C and D checks;</li> <li>• For C and D checks we tested that new inspections were capitalised in line with the approved maintenance plan and that previously capitalised inspection checks were derecognised accordingly. For maintenance that does not meet the capitalisation criteria we inspected that these costs have been appropriately expensed;</li> <li>• We have reviewed the directors' assessment of asset residual values and performed reasonability checks by comparing this to historic profits and losses made on retirement or sale of aircraft at the end of their useful lives and current market conditions;</li> </ul>

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- We recalculated the depreciation charge per component of aircraft and compared this to the amount recorded in the accounting records;
  - We reviewed the impairment test performed by management. This has been done with reference to externally obtained market values for the fleet.

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#### **Airline revenue**

As set out in note 1.14 airline revenue is recognised on the accrual basis in the period in which the services are rendered and the passenger has flown. Unutilised ticket revenue is recognised as a liability until such time as the passenger has flown.

Airline revenue comprises the major stream of income for the Group and Company, comprising approximately 94% of total revenue. The main components of an individual transaction are: booking; receipt of cash; and the recognition of revenue at the date of the flight.

We identified this area as a key audit matter due to the significant volume of transactions in revenue recognition.

We performed the following procedures among others:

- Re-performed the reconciliation of the unutilised ticket liability pertaining to the kulula ticket stock. During this re-performance we tested key movements on a total basis such as bookings, total cash received and total tickets flown during the year under review;
- For British Airways (operated by Comair Limited) revenue, we reconciled the various amounts recorded as both earned and unearned revenue to statements obtained from British Airways International.

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#### **Other information**

The directors are responsible for the other information. The other information comprises the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate as required by the Companies Act of South Africa, which we obtained prior to the date of this report, and the Annual Report, which is expected to be made available to us after that date. Other information does not include the consolidated and separate financial statements and our auditor's report thereon.

Our opinion on the consolidated and separate financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated and separate financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### **Responsibilities of the directors for the consolidated and separate financial statements**

The directors are responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated and separate financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group and / or the company or to cease operations, or have no realistic alternative but to do so.

#### **Auditor's responsibilities for the audit of the consolidated and separate financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and the company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group and / or the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated and separate financial statements, including the disclosures, and whether the consolidated and separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the consolidated and separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

#### **Report on other legal and regulatory requirements**

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that Grant Thornton has been the auditor of Comair Limited for 51 years.

*Grant Thornton*

#### **GRANT THORNTON**

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#### **B Frey**

Partner  
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