Unaudited Unreviewed Condensed Consolidated Interim Results

For the six months ended 31 December 2019

Comair Limited

Incorporated in the Republic of South Africa | Registration number: 1967/006783/06 | Share code: COM | ISIN code: ZAE000029823

(“Comair” or the “Group”)

Introduction

Comair Limited is facing strong headwinds and will be reporting a headline loss of R564 million for H1 FY20. R450 million is attributable to the increase in the IFRS 9 loss allowance on the SAA damages claim.

Decisive steps have been taken to implement far reaching cost-cutting measures and to increase revenue through improved fleet availability and aircraft utilisation. In addition, processes are underway to claim compensation from Boeing for the grounding of the Boeing 737 MAX 8, pursue the full outstanding settlement amount owed by SAA, notwithstanding the provision made by Comair for the full amount, and divestment from non-performing investments.

Improving aircraft utilisation is a key success factor in restoring profitability as it positively influences revenue while simultaneously driving down unit costs. However, increased utilisation remains dependent on fleet availability and this area will remain an ongoing focus area.

Overall, revenue continued to perform well increasing by 3% to R3.8 billion (prior period: R3.7 billion), despite tough operating conditions.

The transition from South African Airways Technical (SAAT) to Lufthansa Technik Maintenance International (LTMI) for the fleet’s line maintenance has been accelerated as far as is feasible, while maintaining the flight schedule and on-time-performance targets. Seven of the 26-strong fleet are already being maintained by LTMI, with significant improvement in aircraft availability. The transition requires grounding the aircraft to extract historical maintenance records. This is timed to coincide with a major maintenance, minimising disruption to the flight schedule. The complete fleet transition is due by the second half of the 2020 calendar year. LTMI recovers initial set-up costs and scales up its facilities to coincide with the transition, so Comair will not see any meaningful cost benefits until FY22.

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

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

A new board is in place to support the executive team to successfully navigate the challenges that lie ahead. New frameworks and policies have been and continue to be implemented to reinforce governance and financial discipline.

Earnings Review

Earnings per share (“EPS”) declined by 543% to a loss per share (“LPS”) of 120.5 cents per share (prior period EPS: 27.2 cents per share). Similarly, headline earnings per share (“HEPS”) decreased by 546% to a headline loss per share (“HLPS”) of 121.2 cents per share (prior period HEPS: 27.2 cents per share).

Operating expenses (excluding lease expenses reclassified in accordance with IFRS 16) increased by 5% (R171 million) to R3.3 billion (prior period: R3.1 billion).

However, excluding the accounting impact of IFRS 16, operating expenses have increased by 13% to R3.6 billion (prior period: R3.1 billion) as a result of the following:

- Aircraft maintenance costs increased by R215 million arising from the replacement of five owned B737-400 aircraft with five leased B737-800 aircraft, as well as additional line maintenance costs arising from the transition of the fleet from South African Airways Technical (SAAT) to Lufthansa Technik Maintenance International (LTMI).
- Hard currency costs contributed to an increase of R51 million in to operating expenses and inflationary escalations added a further R70 million.
- Short-term wet-lease costs increased by R16 million to R48 million (prior period: R32 million).
- These cost escalations were offset by a R40 million fuel cost saving despite having increased flown sectors by 4%. The savings were largely due to the decrease in the dollar price of oil from an average of USD72/barrel to USD62/barrel despite the average Rand/Dollar exchange rate weakening from an average of R14.20 to R14.70/dollar.
- An incremental increase of R101 million in lease costs relating to five new long-term leases.

The following table sets out the effects of the above:

Reconciliation of movement in operating expenses	R'millions
Operating expenses as at 31 December 2018 including lease charges	3,170
Less: Lease costs under IAS 17	(141)
Incremental movements in current year	
Incremental aircraft maintenance expenses	215
Hard currency costs	51
Inflationary adjustments	70
Short-term wet-lease costs	16
Savings on fuel expense	(40)
Operating expenses as at 31 December 2019 excluding lease charges	3,341
Effective % movement	5%
Lease charges	242
- Existing	141
- Incremental	101
Operating expenses as at 31 December 2019 including lease charges	3,583
Effective % movement excluding the accounting impact of IFRS 16	13%

Comair continues to incur substantial losses, as a result of the grounding of the 737 MAX 8, without generating the commensurate revenue or contribution.

Depreciation and amortisation of property, plant and equipment and intangible assets increased by R55 million mainly from a change to the expected remaining useful life of engines following major maintenance events.

Cash generated from operations increased by R175 million, however, this is offset by the incremental increase in aircraft lease payments of R101 million, now disclosed as “financing activities” in the Statement of Cash Flows, for IFRS 16 purposes.

An amount of R265 million (2018: R314 million) which pertains to aircraft pre-delivery debt is classified in current liabilities but will be refinanced into long-term debt on delivery of the next two 737 MAX 8 aircraft (subject to regulatory approval by the SACAA).

SAA Damages Claim

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

In terms of the Settlement Agreement, SAA would pay Comair a settlement amount of R1 108 040 000 plus interest (“Settlement Amount”). The Settlement Amount would be made in accordance with a payment schedule commencing 28 February 2019 and terminating on 28 July 2022.

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

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

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

Regardless of the increase in the loss allowance provision as detailed above, Comair still intends to aggressively pursue the full outstanding Settlement Amount owed by SAA and will explore all options available in order to reclaim the amount owing.

Dividends

In view of the Group’s current financial status, the Board has determined that no dividend should be declared for the 2020 financial year. It is also envisaged that no dividends will be declared until such time as the fleet has transitioned from SAAT to LTMI, the 737 MAX 8 circumstances have been resolved and targeted aircraft utilisation has been achieved.

Directors’ Appointments and Resignations

Resignations

The following directors resigned during the period:

- Mr P van Hoven resigned as an Independent Non-Executive Director, member of the Audit Committee and Lead Independent Director of the Company on 9 January 2020.
- Mr DH Borer resigned as Company Secretary with effect from 15 February 2020.
- Mr MD Moritz resigned as a Non-Executive Director and as Deputy Chairman of the Company on 31 December 2019.
- Mr RC Sacks resigned as an Independent Non-Executive Director and a member of the Remuneration and Nomination Committees on 31 December 2019. As a consequence, Mr DH Borer, an alternate Non-Executive Director to Mr Sacks, resigned on 31 December 2019.
- Dr PJ Welgemoed resigned as an Independent Non-Executive Director and a member of the Audit Committee on 3 December 2019.
- Ms KE King resigned as Financial Director of the Company with effect from 28 February 2020.
- Mr P Van Hoven retired as Chairman of the Board of Directors on 29 October 2019.

Appointments

The following directors were appointed during the period:

- Mr LP Ralphs was appointed as a Non-Executive Director of the Company on 1 July 2019 and elected Chairman of the Board of Directors on 29 October 2019.
- Ms WD Stander was appointed as the Group Chief Executive Officer on 15 December 2019.
- Mr GW Orsmond was appointed as the Chief Executive Officer Airlines division on 15 December 2019.
- Captain C Jordaan was appointed as an Independent Non-Executive Director of the Company and a member of the Audit Committee, Investment Committee, Risk Committee and Chairperson of the Remunerations Committee on 21 January 2020.
- Ms F Mall was appointed as an Independent Non-Executive Director of the Company and a member of the Audit Committee, Remunerations Committee and Chairperson of the Social, Ethics and Transformation Committee on 21 January 2020.
- Mr T Mekgoe was appointed as an Independent Non-Executive Director of the Company and a member of the Risk Committee, Investment Committee and Nominations Committee on 21 January 2020.
- Ms M Madisa was appointed as a Non-Executive Director of the Company and a member of the Risk Committee and Investment Committee on 21 January 2020.
- Mr N Maharajh was appointed as the Lead Independent Non-Executive Director on 1 January 2020.
- Mr KV Gorringe was appointed as the Company Secretary of the Company with effect from 16 February 2020.
- Mr P van Hoven, an Independent Non-Executive Director, was appointed to the Company’s Audit and Risk Committee with effect from 3 December 2019.
- Dr PJ Welgemoed, an Independent Non-Executive Director, was appointed to the Company’s Audit and Risk Committee with effect from 1 July 2019.

Condensed Consolidated Statements of Profit or Loss

	Group		
	Unaudited 6 months ended 31 Dec 2019 R’000	Unaudited 6 months ended 31 Dec 2018 R’000	Audited Year ended 30 June 2019 R’000
Revenue	3,818,410	3,705,181	7,125,642
Operating expenses	(3,341,266)	(3,170,419)	(6,263,975)
Operating profit *	477,144	534,762	861,667
Depreciation and amortisation	(488,853)	(256,314)	(558,079)
- Property, plant and equipment and intangible assets	(312,074)	(256,314)	(558,079)
- Right-of-use assets	(176,779)	-	-
Property rental income	3,152	-	5,929
Unrealised translation gain/(loss) aircraft loan	19,497	(11,336)	(5,986)
- Dollar denominated aircraft loan	(540)	(11,336)	(5,986)
- Restatement of IFRS 16 lease liabilities	20,037	-	-
Impairment of goodwill	-	-	(28,989)
Profit on sale of assets	1,379	-	9,264
Profit from operations	12,319	267,112	283,806
Court awarded settlement	-	-	1,276,866
IFRS 9 loss allowance on court awarded settlement	(504,744)	-	(284,857)
Remeasurement of contingent consideration on business combination	-	-	17,434
Interest income	34,831	12,360	46,328
Interest expense	(200,872)	(121,370)	(256,774)
- Interest-bearing liabilities	(143,676)	(121,370)	(256,774)
- Lease liabilities	(57,196)	-	-
Impairment of subsidiary loan on disposal	(1,866)	-	-
Gain on disposal of subsidiaries	2,472	-	-
Income from equity accounted investments	12,852	11,328	20,449
(Loss)/profit before taxation	(645,008)	169,430	1,103,252
Taxation	89,416	(42,354)	(206,443)
- Current year	89,416	(48,809)	(225,044)
- Prior year overprovision	-	6,455	18,601
(Loss)/profit for the period	(555,592)	127,076	896,809
(Loss)/profit for the period attributable to:			
Owners of the parent	(560,176)	126,366	894,804
Non-controlling interest	4,584	710	2,005
	(555,592)	127,076	896,809

* Operating profit before depreciation, amortisation, unrealised translation gains and losses, profit on sale of assets and impairment of goodwill.

Condensed Consolidated Statements of Comprehensive Income

(Loss)/profit for the period	(555,592)	127,076	896,809
Other comprehensive income, net of tax	-	-	-
Total comprehensive (loss)/income for the period	(555,592)	127,706	896,809
Total comprehensive (loss)/income for the period attributable to:			
Owners of the parent	(560,176)	126,366	894,804
Non-controlling interest	4,584	710	2,005
	(555,592	127,076	896,809
(Loss)/earnings per share (cents)	(120.5)	27.2	192.4
Headline (loss)/earnings per share (cents)	(121.2)	27.2	197.2
Diluted (loss)/earnings per share (cents)	(120.5)	27.2	192.4
Diluted Headline (loss)/earnings per share (cents)	(121.2)	27.2	197.2
Dividends per share paid (cents)	18.5	17.0	22.0
Actual number of shares in issue ('000)	469,331	469,331	469,331
Weighted ordinary shares in issue ('000)	465,089	465,089	465,089
Diluted weighted ordinary shares in issue ('000)	465,089	465,089	465,089
Reconciliation between (loss)/earnings and headline (loss)/earnings			
(Loss)/earnings attributable to ordinary shareholders	(560,176)	126,366	894,804
Less: gain on disposal of subsidiaries	(2,472)	-	-
Add: IAS 36 impairment of goodwill	-	-	28,989
Less: IAS 16 profit on disposal of property, plant and equipment	(1,379)	-	(9,264)
Add: taxation effect of IAS 16 profit on disposal of property, plant and equipment	386	-	2,594
Headline (loss)/earnings attributable to ordinary shareholders	(563,641)	126,366	917,123

Condensed Consolidated Statements of Financial Position

Assets			
Non-current assets			
Property, plant and equipment	6,311,431	5,798,076	6,314,910
Intangible assets	32,687	13,917	29,667
Right-of-use assets	1,391,307	-	-
Investments in associates	66,007	61,374	67,649
Investment in joint venture	2,845	-	2,845
Court awarded settlement	-	-	360,203
Goodwill	13,169	42,236	13,169
Deferred tax	3,807	3,853	3,807
Total non-current assets	7,821,253	5,919,456	6,792,250
Current assets			
Inventories	24,540	25,601	21,731
Trade and other receivables	431,270	337,331	527,960
Court awarded settlement	-	-	267,977
Taxation	4,989	2,705	633
Cash and cash equivalents	416,174	331,015	536,204
Total current assets	876,973	696,652	1,354,505
Total assets	8,698,226	6,616,108	8,146,755

Condensed Consolidated Statements of Financial Position (continued)

	Group		
	Unaudited 6 months ended 31 Dec 2019 R’000	Unaudited 6 months ended 31 Dec 2018 R’000	Audited Year ended 30 June 2019 R’000
Equity and liabilities			
Equity			
Share capital	4,651	4,651	4,651
Accumulated profits	1,842,640	1,821,377	2,566,518
Equity attributable to equity holders of the parent	1,847,291	1,826,028	2,571,169
Non-controlling interest	7,518	1,639	2,934
Total equity	1,854,809	1,827,667	2,574,103
Non-current liabilities			
Interest-bearing liabilities	2,407,628	2,098,630	2,338,648
Lease liabilities	1,106,854	-	-
Deferred taxation	651,818	613,890	771,436
Contingent consideration	-	17,434	-
Share-based payments	672	1,851	1,027
Total non-current liabilities	4,166,972	2,731,805	3,111,111
Current liabilities			
Trade and other payables	938,278	863,087	1,028,943
Unutilised ticket liability	338,348	349,169	286,111
Provisions	64,194	66,710	98,396
Interest bearing liabilities	971,857	777,431	1,046,764
Lease liabilities	363,768	-	-
Taxation	-	239	1,327
Total current liabilities	2,676,445	2,056,636	2,461,541
Total liabilities	6,843,417	4,788,441	5,572,652
Total equity and liabilities	8,698,226	6,616,108	8,146,755
Net asset value per share (cents)	398.8	393.0	553.5

Condensed Consolidated Statements of Cash Flows

Cash generated from operating activities			
Cash generated from operations	611,226	436,280	1,112,982
Interest paid	(207,763)	(130,664)	(273,481)
Interest received	59,545	12,360	21,158
Taxation paid	(5,725)	(3,790)	(7,127)
Net cash from operating activities	457,283	314,186	853,532
Cash utilised in investing activities			
Additions to property, plant and equipment	(303,378)	(316,530)	(590,212)
Proceeds on disposal of property, plant and equipment	4,647	-	12,278
Additions to intangible assets	(6,576)	(4,368)	(25,584)
Pre-delivery payments	-	(89,482)	(89,485)
Disposal of subsidiaries	(257)	-	-
Business combinations, net of cash acquired	-	(10,832)	(10,832)
Dividends received from associates	14,494	2,600	2,600
Net cash utilised in investing activities	(291,070)	(418,612)	(701,235)
Cash utilised in financing activities			
Raising of interest-bearing liabilities	407,059	55,571	257,685
Repayment of interest-bearing liabilities	(422,013)	(226,358)	(456,709)
Payments of IFRS 16 lease liabilities	(185,141)	-	-
Dividends paid	(86,148)	(79,209)	(102,506)
Net cash utilised in financing activities	(286,243)	(249,996)	(301,530)
Total cash movement for the period	(120,030)	(354,422)	(149,233)
Cash and cash equivalents at the beginning of the period	536,204	685,437	685,437
Cash and cash equivalents at the end of the period	416,174	331,015	536,204

Condensed Consolidated Statements of Changes in Equity

Opening balance	2,574,103	1,779,800	1,779,800
Initial adoption of accounting standard – IFRS 16	(77,554)	-	-
Total comprehensive (loss)/income for the period	(555,592)	127,076	896,809
Dividend paid	(86,148)	(79,209)	(102,506)
	1,854,809	1,827,667	2,574,103

Condensed Consolidated Segmental Report

	Airline R’000	Tourism and Hospitality R’000	Other non-airline R’000	Head office and elimination entries R’000	Total R’000
Unaudited 6 months ended 31 December 2019					
Revenue	3,589,108	337,468	34,550	(142,716)	3,818,410
Operating expenses	(3,209,315)	(242,597)	(39,128)	149,774	(3,341,266)
Operating profit/(loss)	379,793	94,871	(4,578)	7,058	477,144
Depreciation and amortisation	(460,685)	(21,702)	(6,466)	-	(488,853)
- Property, plant and equipment and intangible assets	(290,561)	(15,047)	(6,466)	-	(312,074)
- Right-of-use assets	(170,124)	(6,655)	-	-	(176,779)
Property rental income	-	-	10,210	(7,058)	3,152
Unrealised translation gain/(loss)	19,497	-	-	-	19,497
- Dollar denominated aircraft loan	(540)	-	-	-	(540)
- Restatement of IFRS 16 lease liabilities	20,037	-	-	-	20,037
Profit on sale of assets	1,379	-	-	-	1,379
Profit/(loss) from operations	(60,016)	73,169	(834)	-	12,319
IFRS 9 loss allowance on court awarded settlement	(504,744)	-	-	-	(504,744)
Interest income	32,057	12,842	55	(10,123)	34,831
Interest expense	(208,056)	(1,608)	(1,331)	10,123	(200,872)
- Interest-bearing liabilities	(152,462)	(6)	(1,331)	10,123	(143,676)
- Lease liabilities	(55,594)	(1,602)	-	-	(57,196)
Impairment of subsidiary loan on disposal	(1,866)	-	-	-	(1,866)
Gain on disposal of subsidiaries	2,472	-	-	-	2,472
Income from equity accounted investments	-	3,313	9,539	-	12,852
(Loss)/profit before taxation	(740,153)	87,716	7,429	-	(645,008)
Segmental assets and liabilities					
Segmental assets	8,421,085	605,773	323,879	(652,511)	8,698,226
Segmental interest-bearing liabilities	(3,294,580)	-	(84,905)	-	(3,379,485)
Other segmental liabilities	(3,680,097)	(282,217)	(160,245)	658,627	(3,463,932)
Segmental net asset value	1,446,408	323,556	78,729	6,116	1,854,809
Segmental capital additions	309,629	271	54	-	309,954
Unaudited 6 months ended 31 December 2019 (Restated *)					
Revenue	3,516,873	181,706	39,061	(32,459)	3,705,181
Operating expenses	(3,051,496)	(123,601)	(27,781)	32,459	(3,170,419)
Operating profit	465,377	58,105	11,280	-	534,762
Depreciation and amortisation	(240,606)	(10,602)	(5,106)	-	(256,314)
Unrealised translation loss on dollar denominated loan	(11,336)	-	-	-	(11,336)
Profit from operations	213,435	47,503	6,174	-	267,112
Interest income	5,894	11,575	51	(5,160)	12,360
Interest expense	(125,888)	-	(642)	5,160	(121,370)
Income from equity accounted investments	-	2,813	8,515	-	11,328
Profit before taxation	93,441	61,891	14,098	-	169,430
Segmental assets and liabilities					
Segmental assets	6,264,389	485,502	328,752	(462,535)	6,616,108
Segmental interest-bearing liabilities	(2,876,061)	-	-	-	(2,876,061)
Other segmental liabilities	(2,031,766)	(171,805)	(169,872)	461,063	(1,912,380)
Segmental net asset value	1,356,562	313,697	158,880	(1,472)	1,827,667
Segmental capital additions	313,943	45,678	20,969	-	380,590

	Airline R'000	Tourism and Hospitality R'000	Other non-airline R'000	Head office and elimination entries R'000	Total R'000
Audited – year ended 30 June 2019					
Revenue	6,700,872	409,160	67,302	(51,692)	7,125,642
Operating expenses	(5,980,185)	(290,877)	(57,357)	64,444	(6,263,975)
Operating profit before depreciation	720,687	118,283	9,945	12,752	861,667
Depreciation and amortisation	(518,770)	(29,248)	(10,061)	-	(558,079)
Property rental income	-	-	18,681	(12,752)	5,929
Impairment of goodwill	(28,989)	-	-	-	(28,989)
Unrealised translation loss on dollar denominated loan	(5,986)	-	-	-	(5,986)
Profit on sale of assets	9,264	-	-	-	9,264
Profit from operations	176,206	89,035	18,565	-	283,806
Court awarded settlement	1,276,866	-	-	-	1,276,866
IFRS 9 loss allowance on court awarded settlement	(284,857)	-	-	-	(284,857)
Remeasurement of contingent consideration on business combination	17,434	-	-	-	17,434
Interest income	35,961	25,010	113	(14,756)	46,328
Interest expense	(264,507)	-	(7,021)	14,754	(256,774)
Income from equity accounted investments	-	5,695	14,754	-	20,449
Profit before taxation	957,103	119,740	26,411	(2)	1,103,252
Segmental assets and liabilities					
Segmental assets	7,777,017	549,071	328,774	(508,107)	8,146,755
Segmental interest-bearing liabilities	(3,295,726)	-	(89,686)	-	(3,385,412)
Other segmental liabilities	(2,304,082)	(224,747)	(167,891)	509,480	(2,187,240)
Segmental net asset value	2,177,209	324,324	71,197	1,373	2,574,103
Segmental capital additions	1,055,035	6,999	34,705	-	1,096,739

* In 2019 the Tourism and Hospitality segment was created as a stand-alone reportable segment. The comparative information has been restated to reflect this change.

Revenue

The Group disaggregates revenue from customers as follows:

	Unaudited 6 months ended 31 December 2019 R'000	Unaudited 6 months ended 31 December 2018 R'000	Audited Year ended 30 June 2019 R'000
Flight revenue	3,582,851	3,502,105	6,669,626
Rendering of services	194,660	165,207	384,470
- Lounges and catering	166,211	140,815	327,050
- Simulators and other training	28,449	24,392	57,420
Commissions received	35,709	33,451	62,108
- Travel agency commissions	35,550	33,362	61,942
- Airline commissions	159	89	166
Other	5,190	4,418	9,438
	3,818,410	3,705,181	7,125,642

Disposal of subsidiaries

During the period, the Group disinvested from its poor performing acquisition, Metaco Holdings Proprietary Limited and its subsidiary Metaco Coaching, Consulting and Training Proprietary Limited.

The gain arising on disposal of these subsidiaries is determined as follows:

	Unaudited 6 months ended 31 December 2019 R'000
Fair value of net assets disposed	(2,472)
Consideration received	-
Gain on disposal of subsidiaries	(2,472)
Cash and cash equivalents in subsidiaries disposed of	(257)

Adoption of IFRS 16 – Leases

On 1 July 2019, the Group adopted IFRS 16 – Leases which replaces IAS 17 – Leases.

This new standard introduces a single lessee accounting model. The main changes arising from IFRS 16 are as follows:

- Lessees are required to recognise a right-of-use asset and a lease liability for all leases, except short term leases or leases where the underlying asset has a low value, which are expensed on a straight line or other systematic basis.
- The cost of the right-of-use asset includes, where appropriate, the initial amount of the lease liability; lease payments made prior to commencement of the lease less incentives received; initial direct costs of the lessee; and an estimate for any provision for dismantling, restoration and removal related to the underlying asset.
- The right-of-use asset is subsequently measured on the cost model at cost less accumulated depreciation and impairment and adjusted for any re-measurement of the lease liability.
- The lease liability is subsequently increased by interest, reduced by lease payments and re-measured for reassessments or modifications.
- Re-measurements of lease liabilities are affected against right-of-use assets, unless the assets have been reduced to nil, in which case further adjustments are recognised in profit or loss.
- The lease liability is re-measured by discounting revised payments at a revised rate when there is a change in the lease term or a change in the assessment of an option to purchase the underlying asset.

Among the adoption methods provided for in the standard, the Group chose to adopt the modified retrospective approach. In accordance with this approach the Group has not restated the comparative information.

Within the modified retrospective approach, the Group chose to adopt the following transition practical expedients and exemptions:

- The Group used hindsight, in determining for example the lease term considering extensions and renegotiations throughout the agreement.
- The Group applied a single discount rate to its portfolio of leases with similar characteristics, considering the term of the agreements and any underlying security.

The Group assessed the impact of adopting of this standard and has recognised right-of-use assets relating to aircraft leases as well as certain property leases. The effects from the initial adoption of this standard are shown in the table below:

On 1 July 2019	Assets R'000	Liabilities R'000	Equity R'000
Right-of-use assets and liabilities – Aircraft	651,837	(756,164)	104,327
Right of use assets and liabilities – Lounges	31,923	(35,311)	3,388
Deferred tax	30,161	-	(30,161)
	713,921	(791,475)	77,554

Reconciliation of Lease Liabilities arising from adoption of IFRS16

	Weighted average rate (pa)	IFRS16 Adoption R'000	Additions R'000	Payments R'000	Interest paid R'000	Exchange rate variation R'000	Total R'000	Current R'000	Non-current R'000
Right-of-use leases without purchase option:									
Existing aircraft leases	7,50%	756,164	-	(155,767)	26,830	873	628,100	234,888	393,212
New aircraft leases	7,50%	-	884,325	(77,544)	28,764	(20,910)	814,635	122,301	692,334
Lounge leases	10,00%	35,311	-	(9,026)	1,602	-	27,887	6,579	21,308
		791,475	**884,325**	**(242,337)**	**57,196**	**(20,037)**	**1,470,622**	**363,768**	**1,106,854**

The following table reconciles the minimum lease commitments disclosed in the Group's 30 June 2019 annual financial statements to the amount of lease liabilities recognised on 1 July 2019:

	Unaudited 6 months ended 31 December 2019 R'000
Minimum operating lease commitment at 30 June 2019	2,148,374
Less: committed leases not delivered at 1 July 2019 *	(1,251,918)
Undiscounted lease payments	896,456
Less: effect of discounting using the incremental borrowing rate at the date of initial application	(104,981)
Right of use liability at 1 July 2019	791,475

* These leases had been committed at 30 June 2019 but were delivered after the effective date, and accordingly did not form part of the right of use liability at 1 July 2019.

Basis of preparation

In terms of the Listings Requirements of the JSE Limited, the Group has prepared its Unaudited Unreviewed Condensed Consolidated Interim Financial Statements in accordance with International Financial Reporting Standards, including IAS 34 – Interim Financial Reporting, the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee, Financial Reporting Pronouncements as issued by the Financial Reporting Standards Council and the requirements of the Companies Act, Act No. 71 of 2008. At the beginning of the period, the Group adopted IFRS 16 _– Leases. The impact of adopting of this new accounting standard is disclosed in the note above. Other than the new standard adopted above, the accounting policies used in the preparation of these results are consistent in all material respects with those applied in the previous annual financial statements.

These Unaudited Unreviewed Condensed Consolidated Interim Financial Statements were prepared under the supervision of Kirsten King CA(SA), the Financial Director.

These results have not been audited or reviewed by the Group's auditors, BDO South Africa Inc. (Ben Frey (Audit Partner, Registered Auditor, CA(SA)).

Subsequent Events

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

By order of the Board

LP Ralphs (Chairman)
25 February 2020

WD Stander (Group Chief Executive Officer)

Sponsor

PSG Capital
26 February 2020