# DRIVING NEW FRONTIERS FOR SUSTAINABLE GROWTH

INTEGRATED REPORT 2016

AIRPORTS COMPANY
SOUTH AFRICA

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## NAVIGATION ICONS

GENERAL:

- **Online** information
- **Page** reference
- **Consolidated** annual financial statements

We report our performance according to our strategy that has six strategic pillars. Whenever each is referenced within this integrated report, it represents that area of our strategy.

Refer to page 46 for further detail

- Deliver shareholder value
- Acceleration of sustainability and transformation programmes
- Build win-win partnerships with all stakeholders
- Strengthen business excellence
- Identify and secure new business opportunities
- Manage and develop a high-performance team

## OUR COMPANY AT A GLANCE

Airports Company South Africa SOC Ltd owns and manages nine airports in South Africa, equity investments abroad and provides airport advisory services to other airports both locally and internationally. The South African Government is a 74.6% majority shareholder in our company and we align ourselves to the nation's aspirations of transformation, sustainable growth and value creation. Refer to page 16 for further details on our shareholding.

To us, value means return on investment, not simply in an economic or business sense, but also from a people and social as well as an environmental perspective. Together with our stakeholders, Airports Company South Africa strives to ensure that all of our activities remain in line with our strategic focus.

Our overall success and that of our stakeholders relies on teamwork, coordination and application to a shared vision. To this effect, the company adapted its strategy in line with its Vision 2025 to be the most sought-after partner in the world for sustainable technical advisory and consultancy services. Refer to page 90 for further details.

2 — AN OUTLINE OF OUR GUIDING PRINCIPLES IN CREATING THIS INTEGRATED REPORT AND WHAT YOU CAN EXPECT FROM THE 2016 EDITION.

6 — OUR CHAIRMAN, SKHUMBUZO MACOZOMA, GIVES AN OVERVIEW OF OUR EXTERNAL ENVIRONMENT, STRATEGY AND MATERIAL ITEMS, PROVIDING A BASE FOR FURTHER DISCUSSION THROUGHOUT THE REPORT.

20 — HOW WE ARE STRUCTURED AND HOW OUR BUSINESS IS POSITIONED TO CREATE SUSTAINABLE LONG-TERM VALUE.

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46 — DETAILED PERFORMANCE INFORMATION OF THE YEAR REPORTED ACCORDING TO OUR SIX STRATEGIC PILLARS.

90 — AN OUTLINE OF OUR TARGETS AND INTENDED PATH TOWARDS OUR VISION 2025.

## FORWARD-LOOKING STATEMENTS

The forward-looking statements contained in this report, as well as oral statements that may be made by us or by officers, directors, prescribed officers or employees acting on our behalf, constitute, or are based on, various or certain assumptions which might change or be subject to revision. These statements involve risk and uncertainty, as they relate to events and circumstances that may or may not occur in the future. Factors that could cause actual future results to differ materially from those in the forward-looking statements include, but are not limited to, global and domestic economic conditions; the nature of the aviation sector and specifically the performance of airline operators; changes in passenger profiles and choices; retail offerings; interest rates; credit and the associated risks of borrowing and funding; gross and operating margins; capital management; and competitive and economic regulatory factors. Airports Company South Africa does not undertake to update or revise any of these forward-looking statements publicly, whether to reflect new information or future events or otherwise. The forward-looking statements have not been reviewed or reported on by the company's external auditor.

# ABOUT OUR INTEGRATED REPORT

## REPORTING PHILOSOPHY

This is Airports Company South Africa's third integrated report, another step on an integrated reporting journey to align our reporting to the International Integrated Reporting Council's (IIRC) International <IR> Framework as well as best practice, which has earned us accolades along the way.

We sought to further streamline the report while enhancing disclosure in certain areas, most notably:

- Increased focus on strategy and value creation in the long term while observing development of capitals in line with our latest strategic reviews and outlook.
- We included a full business model supported by our newly developed governance framework and operating model.
- We provided more detail on the processes we follow to determine material matters and maintained transparency while observing materiality and conciseness throughout the report.
- Our geographic spread and organisational overview provides improved detail.
- Improved referencing and navigation allows for better flow and linkage throughout the report.

## REPORTING STRUCTURE AND ITS LINK TO THE STRATEGY

This report has been developed using our strategic pillars as guiding themes for providing context and feedback on performance.

1. Deliver shareholder value
2. Build win-win partnerships with all stakeholders
3. Identify and secure new business opportunities
4. Acceleration of sustainability and transformation programmes
5. Strengthen business excellence
6. Manage and develop a high-performance team

The current six-pillar strategy has been streamlined to a three-pillar model effective from 2017, the current strategy still provides an ideal reporting template for performance, with each pillar directly correlating to our Pre-determined Objectives.

## SCOPE AND BOUNDARY

This report covers the financial period 1 April 2015 to 31 March 2016, unless otherwise specified, and includes the performance of all the company's activities across all the geographies in which we operate. The financial reporting boundary has been determined in accordance with International Financial Reporting Standards (IFRS). Beyond the financial reporting boundary for our activities, internal and external factors which substantially influence our business have been considered and where material, their real and potential impacts are covered.

The report focuses on matters which are material to the company within the boundary discussed above. We define the materiality of matters for reporting purposes as matters that have the potential to substantially affect our ability to create and sustain value in the short, medium and long term and to support our strategic goals as a State Owned Company (SOC). For more information on the material matters determination process, refer to page 30.

There have been no significant changes to the scope, boundary or measurement methods applied in this report. There have been no restatements to comparatives unless otherwise stated in the relevant section.

## ASSURANCE

The summarised audited consolidated financial statements contained in this report were extracted from the audited consolidated financial statements, prepared in accordance with IFRS, the requirements of the South African Companies Act, No. 71 of 2008, (Companies Act), and the Public Finance Management

Act (PFMA), and independently audited by our external auditors. The audit opinion on these and the full annual financial statements can be obtained at www.airports.co.za.

Performance information should be useful and reliable for monitoring and evaluation by the users of this report. The information relating to the performance against Pre-determined Objectives was subjected to an audit as an integral part of the regularity audit process, which is performed per the Public Audit Act by the Auditor-General of South Africa. In terms of National Treasury's Framework for Managing Programme Performance Information (FMPPI), usefulness of performance information is tested in terms of whether indicators and targets were well defined, verifiable, attainable specific, measurable, time bound and relevant. We have used the audit findings, ongoing engagements with our external auditors and other relevant stakeholders to enhance the veracity of our KPIs. Included in the audit opinion in the consolidated annual financial statements 2016 is a summary of the work performed against our Pre-determined Objectives.

## REPORTING FRAMEWORKS

This integrated report was created with the active application of local and international requirements and frameworks. These include the:

- International Integrated Reporting Council's (IIRC) International <IR> Framework;
- King Report on Governance for South Africa 2009 (King III);
- International Financial Reporting Standards (IFRS);
- The Companies Act of South Africa, No. 71 of 2008 (Companies Act);
- The Public Finance Management Act, No. 1 of 1999 (PFMA);
- Airports Company Act, No. 44 of 1993; and
- ISO/SANS 31000 as a best practice to guide risk management implementation.

## BOARD APPROVAL

Through its sub-committees, the board acknowledges its responsibility for overseeing the integrity and completeness of this integrated report. The board confirms that it has reviewed the contents of the report and applied its collective mind to the preparation and presentation of this report. Furthermore, it believes that it has appropriately considered the accuracy and completeness of the material matters as well as the reliability of all data and information presented herein.

The board concludes that this report is presented according to the IIRC's International <IR> Framework and approved the 2016 integrated report on 31 August 2016.

**SKHUMBUZO MACOZOMA**
Chairman

**BONGANI MASEKO**
Chief Executive Officer

**MAUREEN MANYAMA CA (SA)**
Chief Financial Officer

## FEEDBACK

Airports Company South Africa is fully committed to enhancing its reporting on an ongoing basis. As a valued stakeholder, we welcome your comments on our integrated report to aid us in ensuring that we continue to provide information that is pertinent and of value. Send your comments or queries to Refentse Shinners, our Group Executive: Corporate Affairs via Refentse.Shinners@airports.co.za

# About our integrated report continued

## REPORTING SUITE

In addition to this report, there are a number of supplementary reports and additional information available online, as well as prior year reports. The following supplementary information is available via the following links:

| Report or information source | Frameworks/ standards | Purpose | Assurance | Location |
|---|---|---|---|---|
| **Results presentation** | Not applicable | Our executive leadership team embarks on an annual roadshow following the company's financial results announcement. | • Internal controls<br>• Management and governance oversight | www.airports.co.za |
| **Consolidated annual financial statements** | • International Financial Reporting Standards (IFRS).<br>• The Companies Act of South Africa, No. 71 of 2008 (Companies Act).<br>• The Public Finance Management Act, No. 1 of 1999 (PFMA). | Reports and statements presented to the shareholders containing:<br>• Report of the Audit and Risk Committee<br>• Directors' responsibilities and approval<br>• Company Secretary's certification<br>• Report of the Auditor-General to Parliament on our business<br>• Directors' report<br>• Annual financial statements | • Internal controls<br>• Management and governance oversight<br>• Internal audit<br>• External audit opinion | www.airports.co.za |

For an online version of this report, visit www.airports.co.za or scan this QR Code:

# MESSAGE FROM THE CHAIRMAN

"We acknowledge that business landscapes are constantly changing to the extent that organisations are expected to embed and embrace transformation and sustainability."

**SKHUMBUZO MACOZOMA**
**CHAIRMAN**

## INTRODUCTION

In my capacity as Chairman and leader of the board, I am privileged to present this report for the second time subsequent to my appointment in March 2015. During the year, we focused on the finalisation of our new 10-year strategy (2025 Business Strategy) and the completion of our new governance framework and operating model. These changes are based on our understanding that long-term value creation is fundamental to our sustainability as a company. I am proud to declare 2016 successful in the eyes of the board and the company. We recorded a 96% (2015: 89%) success rate for our 2016 Pre-determined Objectives as stipulated in the Shareholders' Compact.

## TRANSFORMATION

The company actively applies business evolution principles in addition to the constitutional, legislative and aviation policy framework requirements within its environment. At the heart of our operations is the desire to contribute towards a strong and diverse economy reflective of South Africa's economically active population. This desire is our drive to go beyond support and alignment to government's long-term vision such as the National Development Plan 2030 (NDP) and effect sustainable change.

We acknowledge that business landscapes are constantly changing, requiring organisations to further embed and embrace transformation and sustainability imperatives. Our 2025 Business Strategy, acts as a basis for our continued development, which focuses on three core pillars – Run Airports, Develop Airports and Grow our Footprint (refer to page 90 for more details). Coupled with specific business transformation initiatives, such as our upgraded operating model, aerotropli[1] initiatives and traffic development plans, we are well positioned to meet our goals and better serve our business, our people and society, and our environment.

[1] *A metropolitan sub-region where the city layout and economic activity are centred on around an airport which acts as a multimodal core for activities.*

# Message from the chairman continued

Our commitment to transformation is further reflected in our new Transformation Policy and B-BBEE focus. The application of related sector strategies, continue to bear fruit and provide tangible change to the people of our country (refer to page 69 for further information). Transformation of this nature is a product of our business evolution process and persistent focus on value creation.

## EXTERNAL ENVIRONMENT

The challenging economic environment persisted during the period under review. The international economy is expected to grow by 3.4% in 2016 and 3.7% in 2017, according to the International Monetary Fund (IMF). The ample supply of oil globally has led to a fairly persistent decline in the international oil price, which, overall, provides some respite to the airline industry from an input cost perspective.

Locally, our country experienced the slowest GDP growth of all the major economies in the region. Real GDP growth levels were down from previous estimates to 0.1% with optimistic expectations of a 1.1% level growth in 2017 according to the IMF.

The net effect on household consumption and expenditure, particularly for our passengers, did not affect domestic traffic volumes negatively, despite a climate where high interest rates and low employment levels persist. On the contrary, the global airline sector continues to defy expectations of decline, almost doubling in size over the last decade. Locally, the increase in low cost airline services and increased flight frequencies have been a major driver of growth, with passengers continuing to expect reduced costs and improved operational efficiency.

## REFINING OUR MATERIAL MATTERS

It is important that we continue to forge and strengthen our stakeholder relationships to deliver efficient customer-focused services, to our passengers and customers, for mutually beneficial growth. It is for this reason that the company had to identify the most important risks and opportunities to inform our strategy and related plans.

To this end, an externally facilitated risk assessment session was conducted, through which the company determined the material matters that are most likely to influence our operations substantively. The resulting focus areas and risks that were highlighted, informed the company's strategic and operational responses. Details of this assessment process and the matters can be found on page 30.

### High-level emerging risks:

- The continued uncertainty in regulatory permission outcomes affects our ability to set accurate medium-term plans for the improvement of our airport operations, the upgrade and expansion of airport infrastructure, the creation of jobs and adequate provision for air cargo operations. All of which help create a base of certainty for people, customers and airlines, as well as the achievement of medium-term objectives identified by airport cities and locally integrated aerotropoli. Refer to page 34 for further details on the economic regulations and permission decisions, and page 64 for details of our aerotropoli initiatives.
- Our business has a strong correlation to South Africa's GDP performance, which is one of our key risks, along with GDP growth. The company monitors this closely and mitigate the risk by early identification of prospects and securing viable opportunities to enable continued delivery of integrated value.
- Airports Company South Africa still faces the challenge of resolving the buyout proposal of minority shareholders. To effectively address this matter, the company is engaging with government for policy guidance on SOC equity ownership. Furthermore, we continue to benchmark the minority share value and seek a solution that is in the best interest of the company.

### High-level opportunities:

- Our advancements in digitisation improve our operational infrastructure to align with our strategic objectives. Refer to page 83 for details on our systems integration and disaster management progress.
- Growth prospects such as our aerotropoli advancements at our top three airports (O.R. Tambo International Airport, Cape Town International Airport and King Shaka International Airport). Our interaction with local governments and stakeholders provided a foothold to grow these airports into commercial and social hubs that positively contribute to the country's economic growth. Refer to page 64 for more information.
- We continue to diversify our business through the provision of technical advisory and consultancy services advisory services to various airports locally and abroad. The year under review saw an increase of the company's equity stake in Aeroporto de Guarulhos Participações S.A. GRUPAR (GruPar) – i.e. Guarulhos International Airport in Brazil – increase from 5.1 % to 10.2%. Further technical advisory and consultancy services continue in Ghana, India and locally at Mthatha and Wonderboom airports, with newly formed knowledge sharing relationships being developed with counterparts in Germany to improve our service offerings and customer experience.

## PERFORMANCE ON PRE-DETERMINED OBJECTIVES AND ACHIEVEMENTS

Our performance is measured against, the Pre-determined Objectives set out in the shareholders' compact and approved by the Minister of Transport. We are proud to say that the company met the targets for each KPI, except for on-time performance. The main reason for missing this performance target by 0.03% was due to unpredictable weather conditions and our consistent choice to place the safety of our customers first. For a synopsis of our performance against each Pre-determined Objectives, refer to page 46. Further details are contained in our strategic pillar reports.

Furthermore our Chief Executive Officer, Bongani Maseko, was appointed to the Airports Council International (ACI) during the year, providing additional expertise and proudly representing Airports Company South Africa on the only truly global trade representative of the world's airports. The objectives of ACI are to advance the collective interests of, and to act as the voice for, the world's airports and the communities they serve, while promoting professional excellence in airport management and operations. We look forward to leveraging knowledge, assistance and access to ACI's global resources as our relationship matures.

# Message from the chairman continued

**96%** OF OUR PRE-DETERMINED OBJECTIVES MET.

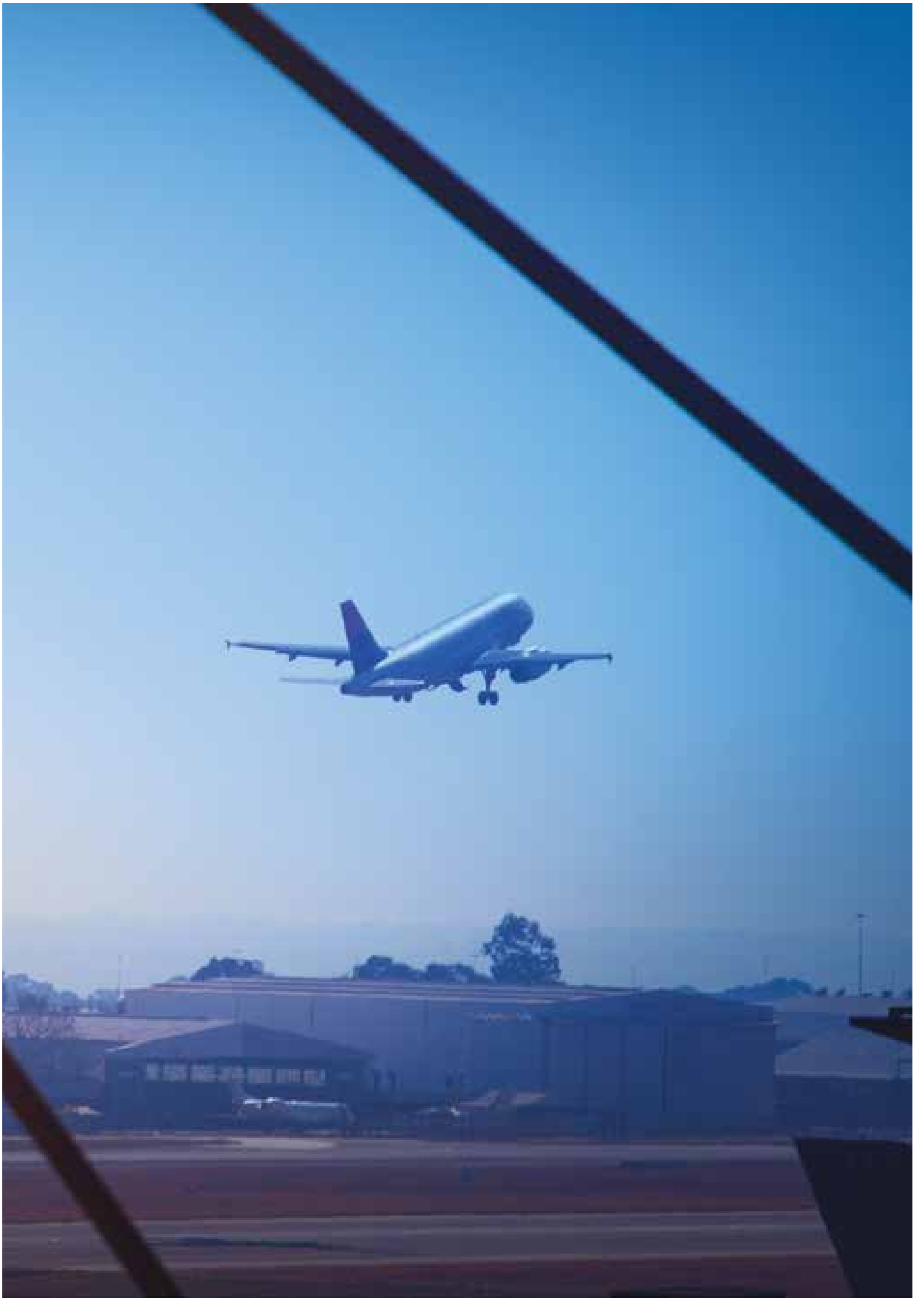
## OUR BOARD AND OUR DIRECTION

Our revitalised board was appointed on 1 March 2015 and has been instrumental in driving our success, primarily in the formation of direction and focus for our 2025 Business Strategy and the operationalisation of our governance framework and operating model. In addition to this, unified effort in key areas – such as the promotion of our Transformation Policy – has been integral to building positive momentum in our operations, in line with our strategy. Our growth both internally and throughout the world is spearheaded through leadership. The strides made in consolidating our global ventures, growing our stake in Brazil and providing services in Ghana are examples of this. Refer to page 66 for further details on our technical advisory and consultancy services work.

## APPRECIATION

Firstly, my sincere thanks to the Minister of Transport and her office for their continued input and support. My appreciation also extends to our committed and influential board whose shared vision and focus kept our efforts in line with governance tenets and strategic aspirations for yet another year. I also thank our dynamic management team, our hard-working employees and our committed business partners. Without you, our continued successes would not be possible. Your efforts are the very engine that powers our momentum towards greater achievements. To our passengers, our shareholders and stakeholders, thank you for your continued partnership and support.

**SKHUMBUZO MACOZOMA**
Chairman



# HIGHLIGHTS

**DELIVER SHAREHOLDER VALUE**

**10.4%** ROCE COMPARED TO A TARGET OF **8.4%** FOR THE CURRENT FINANCIAL YEAR

**BUILD WIN-WIN PARTNERSHIPS WITH ALL STAKEHOLDERS**

**4.0** OUT OF **5** SCORED FOR AIRPORT SERVICE QUALITY

**IDENTIFY AND SECURE NEW BUSINESS OPPORTUNITIES**

INCREASED EQUITY STAKE IN GUARULHOS INTERNATIONAL AIRPORT IN BRAZIL FROM **10%** IN 2014/15 TO **20%** IN 2015/16

**ACCELERATION OF SUSTAINABILITY AND TRANSFORMATION PROGRAMMES**

**52%** OF TENDERS AWARDED TO BLACK WOMEN, YOUTH AND PEOPLE LIVING WITH DISABILITY, COMPARED TO A TARGET OF **50%**

WE EXCEEDED OUR JOB CREATION TARGET FOR THE YEAR BY 1 139 WITH A TOTAL OF **23 505** OPPORTUNITIES CREATED.

**STRENGTHEN BUSINESS EXCELLENCE**

GOVERNANCE FRAMEWORK AND OPERATING MODEL AT **80%** IMPLEMENTATION COMPARED TO **50%** PLANNED IMPLEMENTATION

**MANAGING AND DEVELOPING A HIGH PERFORMANCE TEAM**

**3.5** OUT OF **5** FOR ANNUAL EMPLOYEE SATISFACTION SURVEY

# 5 FIVE AWARDS AND THREE AIRPORTS RANKED AMONG THE WORLD'S TOP 35 AIRPORTS.

## RECOGNITION AND AWARDS

### SKYTRAX 2016 WORLD AIRPORT AWARDS

The **Skytrax World Airport Awards** are a measurement of customer satisfaction across airports globally. The results are based on the survey feedback of 13 million customer nominations across 112 countries, taking into account 550 airports worldwide.

We received a total of five awards and had three airports ranked among the world's top 35 airports.

- Cape Town International Airport won the award for **Best Airport in Africa for 2016**, **Best Airport Staff in Africa** and **Best Airport for 5 – 10 million passengers**. O.R. Tambo and King Shaka International Airports took second and third place respectively in the Best Airport in Africa 2016 category.
- King Shaka International won **Best Regional Airport in Africa** and **Best Airport for under 5 million passengers**. East London, Port Elizabeth and Bloemfontein Airports followed.

### WORLD TRAVEL AWARDS

O.R Tambo International airport was crowned **Africa's Leading Airport** at the 2016 World Travel Awards.

### AIRPORTS COUNCIL INTERNATIONAL (ACI) ANNUAL AWARDS – 2015

**Best Airport by Region – Africa category**: The company obtained a tied second place award for King Shaka and Cape Town International Airports, as well as third place for O.R. Tambo International Airport.

**The Best Airport by Region** (airports that handled fewer than 2 million passengers per year) was won by Upington International Airport.

### OTHER ACCOLADES AND ACHIEVEMENTS

Airports Company South Africa was the recipient of the **Organisational Risk Management Initiatives Award** in the Transport and Logistics Sector.

**Annual Report Awards** (hosted by the Chartered Secretaries Southern Africa in partnership with the JSE Limited): The company received a Merit Certificate under the **Large State Owned Company** category. The primary objective of the awards is to encourage accurate and transparent financial reporting and full disclosure of all relevant information to stakeholders.

**Sister agreement Munich:** The company has engaged with Munich airport in Germany to share knowledge and develop growth opportunities mutually, where each entity sends a delegation to visit the airport(s) of the other annually. Munich Airport is one of Europe's most efficient and best performing airports.

As part of the company's environmental sustainability focus, a photo-voltaic (solar power) plant was installed at **George airport** which now provides 750kW to support operations through solar power.

# COMPANY OVERVIEW

## OUR FOOTPRINT

**GHANA:**
KOTOKA INTERNATIONAL AIRPORT IN ACCRA
(Technical advisory and consulting services)

**BRAZIL:**
GUARULHOS INTERNATIONAL AIRPORT IN SÃO PAULO
(Equity investment)

**SOUTH AFRICA:**
TOTAL ANNUAL DEPARTING PASSENGERS

**19 374 329**

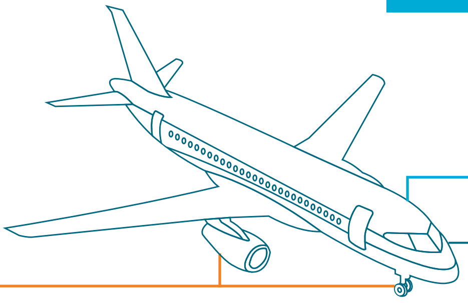
AIRCRAFT LANDINGS

**284 285**

TOTAL PERMANENT EMPLOYEES

**2 841**

**INDIA:**
CHHATRAPATI SHIVAJI INTERNATIONAL AIRPORT IN MUMBAI
(Equity investment)



## AIRCRAFT LANDINGS

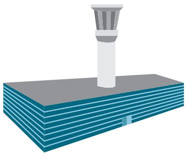
**2014: 261 294**  **2015: 273 342**  **2016: 284 285**

## TOTAL ANNUAL DEPARTING PASSENGERS

**2014: 17 419 183**

**2015: 17 844 550**

**2016: 19 374 329**



| | Total annual departing passengers | Annual departing and arrival throughput passenger capacity | Aircraft landings | Permanent employees | On-time performance[1] % | ASQ[2] | Total asset value R'000 |
|---|---|---|---|---|---|---|---|
| O.R. Tambo International Airport | 10 204 939 | 28 000 000 | 112 177 | 1 200 | 85.67 | 3.8 | 33 186 |
| Cape Town International Airport | 4 849 661 | 14 000 000 | 50 127 | 535 | 89.63 | 4.2 | 10 315 |
| King Shaka International Airport | 2 474 863 | 7 500 000 | 26 190 | 382 | 87.86 | 4.3 | 7 110 |
| Port Elizabeth International Airport | 804 215 | 2 000 000 | 32 516 | 118 | 85.63 | 4.0 | 1 498 |
| East London Airport | 363 927 | 1 200 000 | 14 998 | 69 | 85.97 | 4.0 | 734 |
| George Airport | 361 301 | 900 000 | 29 161 | 68 | 84.44 | 4.3 | 683 |
| Bram Fischer International Airport | 197 106 | 600 000 | 8 780 | 71 | 86.11 | 3.8 | 532 |
| Kimberley Airport | 84 105 | 200 000 | 5 044 | 38 | 88.45 | 3.7 | 257 |
| Upington International Airport | 34 212 | 100 000 | 5 292 | 27 | 90.10 | 4.2 | 211 |
| **Total** | 19 374 329 | 54 500 000 | 284 285 | 2 508* | 86.97 | 4.0[3] | 54 526** |

* WE HAVE **333** EMPLOYEES AT OUR CORPORATE AND REGIONAL OFFICES IN JOHANNESBURG.

**** CORPORATE AND OTHER ASSETS (R26 million)**

Tax, derivative financial instruments and interest-bearing liabilities have not been allocated to operating segments as these are managed centrally. Similarly, interest income and expenditure are not allocated to operating segments, as they are driven largely by the corporate division, which manages the cash requirements of the company. Corporate overhead expenses are not allocated to the reportable segments.

**Legend:**

International airport  Regional airport  Equity investment or technical advisory and consultancy services activity

[1] *On-time performance is the percentage of aircraft departures that occur within 15 minutes of their slot time.*
[2] *ASQ (Airport Service Quality) is a programme operated by the Airport Council International (ACI). It is a globally established benchmarking programme measuring passengers' satisfaction while they are travelling through an airport on a scale of 1 (poor) to 5 (excellent).*
[3] *Weighted Average (ASQ).*

# Company overview continued

## OUR ORGANISATION

### OUR MANDATE

Airports Company South Africa is mandated to undertake the acquisition, establishment, development, provision, maintenance, management and control or operation of any airport, any part of any airport, or any facility or service at any airport normally related to the functioning of an airport in terms of the Airports Company Act, No. 44 of 1993.

**OUR MISSION**
To develop and manage world-class airport businesses for the benefit of all stakeholders.

**OUR VISION**
To be a world-leading airport business.

**OUR VISION 2025 STATEMENT**
To be the most sought-after partner in the world for the provision of sustainable technical advisory and consultancy services by 2025.

**OUR STRATEGIC PROPOSITION**
To build an efficient customer-focused business.

**We provide these services based on a clear platform of values through the acronym PRIDE:**

- **P** PASSION
- **R** RESULTS
- **I** INTEGRITY
- **D** DIVERSITY
- **E** EXCELLENCE

### OUR COMMITMENT TO STAKEHOLDERS

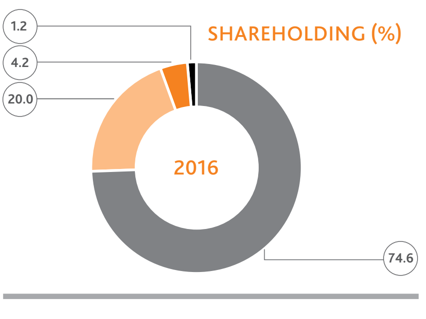
To have purposeful engagements with all our stakeholders towards an agreed scope of engagements and the delivery of expected outcomes.

### OUR PLEDGE TO CUSTOMERS

To drive a culture of excellence in customer service and communication.

## SHAREHOLDING

Airports Company South Africa has diverse shareholders with the South African Government, through the Department of Transport (DoT), being the major shareholder in the company. This makes us a state-owned company, and schedule 2 public entity in terms of the PFMA. The company is legally and financially autonomous and operates within the ambit of the Companies Act.




*[1] The Public Investment Corporation (PIC) shareholding is held through ADR International Airports SA (Pty) Ltd, a wholly owned subsidiary of the PIC.*

*[2] The 4.21% empowerment investors comprises:*
- *1.21% G10 Investments (Pty) Ltd*
- *1.40% African Harvest Strategic Investments*
- *0.40% Pybus Thirty Four Investment (Pty) Ltd*
- *0.80% Telle Investments (Pty) Ltd*
- *0.40% Upfront Investments 64 (Pty) Ltd*

*[3] Dormant (the scheme is in the process of being dissolved).*

## OUR GOVERNANCE FRAMEWORK AND OPERATING MODEL

Our new governance framework and operating model enhances our operational focus.

The model was largely based on the following high level principles:

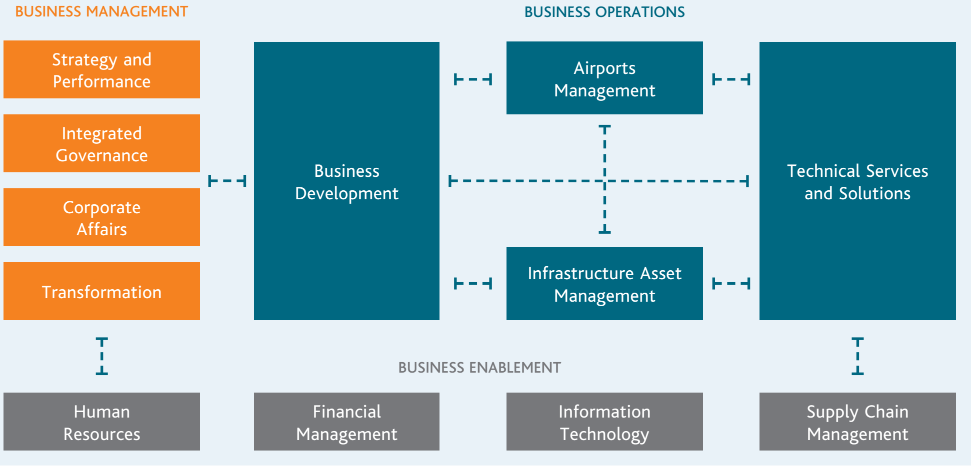
- Run airports as integrated businesses
- Strategic investments pursued as separate businesses
- Focus on commercial activities
- Operate as a customer-centric business
- Drive internal efficiencies
- Utilise IT as a strategic enabler in a digital world
- Maintain regulatory safety, security and good governance
- Improve stakeholder management and engagement processes

The model is a result of extensive collaboration between the board, executives and the business to improve processes and leverage strengths.

The governance initiatives related predominantly to prioritising matters brought to board level and improving our committee structures to perform better, being more fit for purpose. The governance component of the model relates to overall accountability in managing the business affairs of the company. This entails awareness and compliance to various rules, regulations and guidelines, implementation of our strategy, monitoring our progress against both objectives and risks, and planning and reporting effectively. Alignment and integration between our overarching corporate governance and operational governance elements exists. Refer to page 100 for details on the governance aspect of the model.

Our operating model changes entailed adapting our existing business units, to creating new ones and aligning our engine to deliver on our 2025 Business Strategy.

### THE OPERATING MODEL




Leadership engagement sessions, employee roadshows and other consultative sessions allowed for the development of a detailed governance framework and operating model transition plan for change management activities. The level of implementation reached has surpassed our target for the year (refer to our Pre-determined Objectives from page 46 for details).

Refer to www.airports.co.za for details of our principles. Refer to our business model from page 20 to see how our operating model is positioned to help us create value and deliver on our strategic objectives.

# Company overview continued

## OUR LEGAL STRUCTURE

The company derives its value from aeronautical business and non-aeronautical business which include international investments.

| | 100% OWNED SUBSIDIARIES[1,2] | | | SPECIAL PURPOSE ENTITIES | | |
|---|---|---|---|---|---|---|
| Name | ACSA Global Ltd | JIA Piazza Park (Pty) Ltd | Precinct 2a (Pty) Ltd | Lexshell 342 Investment Holdings (Pty) Ltd | Airport Management Share Incentive Scheme (Pty) Ltd | Sakhisizwe Community Programme |
| Purpose of existence | The investment holding company through which Airports Company South Africa holds its 10% interest in the Mumbai International Airport Ltd. (Refer to investments and associates on opposite page) | The holding company through which we operate the Inter-Continental Hotel at O.R. Tambo International Airport. | A company through which we own approximately 250 hectares of land adjacent to O.R. Tambo International. The strategy is to redevelop property for aeronautical and non-aero-nautical use to grow rental property income. | An Employee Share Option Entity | Employee Share Incentive Scheme | Non-profit company (Education) |
| Year of inception | 2005 | 1998 | 1998 | 1999 | 1999 | 1996 |
| Airports Company South Africa shareholding | 100% | 100% | 100% | SPE | SPE | SPE |
| Other shareholders and their respective shareholding | N/A | N/A | N/A | Airports Company South Africa Kagano Trust | Airports Company Management Share Incentive Scheme Trust | N/A |
| Equity injections | R100 | R100 | R100 | 0 | 0 | 0 |
| Net asset value of entity at 31 March 2016 | R696 MILLION | R30 MILLION | R105 MILLION | R38 MILLION | R10 MILLION | R3 MILLION |

[1] *Subsidiaries are all entities (including special-purpose entities) over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than half of the voting rights.*
[2] *Dormant subsidiaries have not been presented.*

| | INVESTMENTS IN JOINT VENTURE[3] | INVESTMENTS IN ASSOCIATES[4] | | |
|---|---|---|---|---|
| Name | Airport Logistics Property Holdings (Pty) Ltd | La Mercy JV Property Investments | Mumbai International Airport Private Limited | Guarulhos International Airport Private Limited |
| Purpose of existence | A property holding company co-owned with the Bidvest group that owns three distribution warehouses at OR Tambo International Airport and Cape Town International Airport. The current strategic objective is to ensure consistent rental income generation. | A land development and property investment company in collaboration with Dube Trade Port Corporation (DTPC). The strategy is to build an investment property portfolio at King Shaka International Airport - Dube Trade Port through land-lease agreements. | A company through which we hold a 30-year concession (with option to renew for another 30 years) in order to develop, operate and maintain the Mumbai Airport. | A company through which we hold a 20-year concession to develop, operate and maintain the Guarulhos International Airport in São Paulo. Technical advisory and consultancy services are also provided. |
| Year of inception | 2003 | 2009 | 2006 | 2012 |
| Airports Company South Africa shareholding | 50% | 40% | 10% | 10.2% |
| Other shareholders and their respective shareholding | Bidvest Holdings Limited (50%) | Dube Trade Port Corporation (60%) (DTPC) | GVK (50.5%) Bidvest (13.5%) Airports Authority of India (26%) | A joint venture between Investments e Participações em Infrastructura S.A (Invepar) (80%) and Airports Company South Africa (20%) holds 51% of Guarulhos Participações S.A (GruPar). |
| Equity injections | 0 | 0 | R347 MILLION | R620 MILLION |
| Net asset value of entity at 31 March 2016 | R32 MILLION | R182 MILLION | R942 MILLION | R(316) MILLION |

[3] *Joint venture – the group has an interest in a jointly controlled entity, whereby the venture has a contractual arrangement that establishes joint control over the economic activity of the entity. The group recognises its interests in the joint venture using equity accounting.*

[4] *Associates are all the entities over which Airports Company South Africa has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost.*

# BUSINESS MODEL

"To achieve your goals, you need to begin with the end in mind. The same is true for Airports Company South Africa."

**SKHUMBUZO MACOZOMA**
**CHAIRMAN**

"We are going on an incredible journey and we want to take you, our valued stakeholders, with us."

**BONGANI MASEKO**
**CHIEF EXECUTIVE OFFICER**

## OUR STAKEHOLDERS:

We commit to having purposeful engagements with all our stakeholders towards an agreed scope of engagements and the delivery of expected outcomes.

REGULATORY | ECONOMIC | RISKS AND | SOCIAL | OPPORTUNITIES | TECHNOLOGY | ENVIRONMENT | COMMUNITIES

## GOVERNANCE AND ASSURANCE

# INPUTS → ACTIVITIES → OUTPUTS → OUTCOMES

## INPUTS

### SALIENT CAPITAL CAPABILITIES

**Our business**

**Financial capital**
- Capital-intensive infrastructure (investments)
- Credit rating and cost of funding
- Return on capital employed/(ROCE)

**Manufactured capital**
- Nine airports with modern infrastructure of world-class standard
- Capacity for 55 million passengers through our facilities

**Intellectual capital**
- Updated IT infrastructure and disaster recovery systems
- Bouquet of technical advisory and consultancy services
- Evolved governance framework and operating model

**Our people and society**

**Human capital**
- 2 841 employees
- R45 million spent on training staff
- Increased recruitment of women

**Social and Relationship capital**
- 187 combined years of Airports Company South Africa specific in our board and executive team
- Employee engagement and support via programmes
- Approved transformation strategy

**Our environment**

**Natural capital**
- Solar power (photovoltaic plants) used to augment electricity requirements at three of our six regional airports
- Five airports are ISO 14001 certified
- Fuel, water and other renewable and non-renewable sources utilised

## ACTIVITIES

We operate **9 airports** across South Africa and have equity investments in Brazil and India, as well as technical advisory and consultancy services in Ghana, and locally in Umthatha and Wonderboom


| | | | |
|---|---|---|---|
| OUR CORE BUSINESS PILLARS: | Run Airports | Develop Airports | Grow Footprint |
| BUSINESS OPERATIONS: | • Airport management • Technical services solutions • Infrastructure asset management | | • Business development |
| BUSINESS MANAGEMENT: | • Strategy and performance • Integrated governance | | • Corporate affairs • Transformation |
| BUSINESS ENABLEMENT FUNCTIONS: | • Financial management • Human resources • Information technology | | • Supply chain management |
| OUR BUILDING BLOCKS OF SUCCESS: | • Environmental sustainability framework • Governance framework and operating model • Business digitisation | | • Supply chain management evolution • Economic transformation framework |

**OUR GOVERNANCE FRAMEWORK AND OPERATING MODEL:**

**All of our activities are underpinned by our governance framework operating model. The model integrates and directs our efforts by applying the following principles:**
- Run airports as integrated businesses
- Strategic investments pursued as separate businesses
- Focus on commercial activities
- Operate as a customer-centric business
- Drive internal efficiencies
- Utilise IT as a strategic enabler in a digital world
- Maintain regulatory safety, security and good governance
- Improve stakeholder management and engagement processes

Refer to page 40 for further details

## OUTPUTS

**Aeronautical outputs**
- Aircraft landing, parking and passenger services
- Cargo handling
- Passenger movement

**Non-aeronautical outputs**
- Retail, car rentals, parking and advertising
- Property management and rentals – hotels, ground handling, tenants, airline lounges, technical hangers
- Technical advisory and consultancy services – Aeronautical consultancy, advisory concessions, strategic investment, research, security, project management, IT, Human capital and training, Airport planning, commercial management, quality management, Environment consulting etc.

**Environmental impacts and advancements**

**Societal outputs**

## OUTCOMES

**Deliver shareholder value**
Solid financial performance and return on investment.
Refer to page 51 for further details

**Build win-win partnership with all stakeholders**
Develop a mutually beneficial relationship with all our stakeholders from the beginning to the end of our value chain.
Refer to page 61 for further details

**Identify and secure new business opportunities**
Grow our footprint by providing services and expertise to airports within our country and beyond our borders.
Refer to page 63 for further details

**Acceleration of sustainability and transformation programmes**
Continue to be a responsible corporate citizen and deliver true transformation in all areas of our business.
Refer to page 69 for further details

**Strengthen business excellence**
Improve all aspects of our operations through technology and our human capital.
Refer to page 78 for further details

**Manage and develop a high-performance team**
Obtain, train and retain a high calibre of committed and effective people.
Refer to page 84 for further details

Towards the future

## Vision 2025

To be the most sought-after partner in the world for sustainable technical advisory and consultancy services by **2025**

## WE WILL DO THIS BY ACHIEVING THE FOLLOWING OUTCOMES:

- Reputation Score **>70** (Top 10 SA Company)
- Getting all airports into the **Top 15** of their size category
- Obtaining a stakeholder satisfaction survey score of **> 4.0**
- Return on equity of **10%**
- Connectivity index of **70** for O.R. Tambo International Airport
- Obtaining a **R200 million** contribution of non-core business to total revenue
- B-BBEE **Level 1**
- **65%** black business share of operational and developmental spend
- Creating **50 000** job opportunities
- Providing support services to airports in **all provinces** in South Africa
- Domestic connectivity improvement of **10%**
- Achieve a **demographically representative** company workforce (against EAP) per level
- Employee satisfaction survey score of **4.2**
- ACI **Level 3** Optimisation certification for at least one airport

Refer to page 52 to see how Airports Company South Africa creates value.

## CUSTOMER VALUE PROPOSITION:

We pledge to drive a culture of excellence in customer service and communication.

# Business model continued

| | | Introduction, position and profile | Inputs | Activities: Linked to operating model |
|---|---|---|---|---|
| Our business | Financial capital | Our vision is to be a world leading airport business. This can only be achieved by continuing to raise funding with a fair rate of return for our capital intensive infrastructure investments, and growing our capacity while delivering positive financial results. Maintaining an attractive credit rating is affected by our sovereign rating and the economic regulations. | • Funding (equity and debt)<br>• Cash flow generated by operations<br>• Operating assets | • Capital allocation model<br>• Capital expenditure and project management<br>• Budgeting and forecasting<br>• Cost and management accounting<br>• Treasury |
| Our business | Manufactured capital | We have developed and maintained a world-class network of airports and related infrastructure to run our operations. We continue to invest capital expenditure in ensuring that our airport infrastructure is properly maintained and upgraded to deliver exceptional service to our customers and passengers. | • Passengers, goods and cargo<br>• Airlines and airport infrastructure<br>• Equipment, utilities and fuel<br>• Concessions | • Airport operation, maintenance, upgrades and construction<br>• Infrastructure asset management<br>• Innovation |
| Our business | Intellectual capital | Our experience, advisory capabilities and reputation have led to us being approached by airport companies locally and internationally to aid their development and management. We continue to invest in research and development and have approved an IT strategy that will allow us to digitally enable the business to compete equally and effectively with the best in the world. | • Innovation<br>• Information and technology<br>• Stakeholder relationships<br>• Employee skills | • Specialist advisory services<br>• Benchmarking<br>• Operating model review<br>• Business intelligence and data analytics<br>• Managing and furthering stakeholder relations<br>• Technical research and development |
| Our people and society | Social and Relationship capital | Quality relationships and a positive reputation with our key stakeholders underpin our value mandate. The government is a major shareholder and we support its mandate through social and transformation imperatives, including job creation, employment equity, gender equality, support for people with disabilities, enterprise development, preferential procurement and investment in socio-economic development programmes. | • Stakeholders<br>• Transformation policy | • Stakeholder engagement<br>• Implementation of the socio-economic development strategy<br>• Managing and furthering stakeholder relations |
| Our people and society | Human capital | We develop a high-performance team by focusing on succession planning, leadership development, securing meaningful employee relations and engagement while enhancing of employee benefits. We embarked on a total remuneration equality journey which has aided us in ensuring fair and transparent interaction with our people and we continue to engage with our representative trade union. | • Employee skills, ability and passion<br>• Union and organised labour<br>• Human resources | • Workforce planning and sourcing<br>• Succession planning and talent management<br>• Training and leadership development<br>• Workforce aligned to strategy and strategic objectives |
| Our environment | Natural capital | We manage our environmental impact through an Environmental Management System (EMS) which ensures compliance with legislation. Our environmental activities focus on energy conservation, climate change, water, waste, air quality, noise management and biodiversity. Access to electricity is critical to maintaining effective and efficient operations and we implemented energy saving initiatives at certain airports. | • Environmental policy and strategy<br>• Electricity and water<br>• Fuel, diesel and carbon footprint<br>• Biodiversity | • Environmental management<br>• ISO 14001 certification activities for all airports<br>• Compliance with laws and regulations<br>• Environment impact assessments<br>• Measurements and control<br>• Smarter environmental plan and build infrastructure solutions |

| Outputs | Outcomes | KPIs | Performance report back: Our capitals in strategy execution and outcomes |
|---|---|---|---|
| • Managed or improved agency ratings<br>• Improved capital expenditure management<br>• Return on capital employed<br>• Net debt/EBITDA | • Business sustainability<br>• Financial sustainability<br>• Optimised gearing levels<br>• Strong balance sheet<br>• Ability to fund business | • Net debt/EBITDA<br>• Return on capital employed | • Deliver shareholder value (discussed in the CFO's report on page 52) |
| • Airports that operate efficiently | • Safe and secure operations<br>• High levels of ASQ<br>• Win-win partnerships with stakeholders<br>• Infrastructure capacity sustainably managed<br>• Organic and new business growth | • % ASQ<br>• On-time departures<br>• Aviation safety and security incidents | • Strengthen business excellence (refer to page 78) |
| • Risk mitigated and opportunities seized<br>• Improved processes and services<br>• Financially yielding products and services<br>• Effective decision-making | • World-class services<br>• Improved decision-making<br>• Sustainable efficient outcomes<br>• Knowledge management<br>• Agile governance framework and operating model | • Technical advisory and consultancy services revenues<br>• Propco property investments | • Identify and secure new business opportunities (refer to page 63) |
| | | • Availability of critical IT systems | • Strengthen business excellence (refer to page 78) |
| • Job creation opportunities<br>• Enterprise development<br>• Better relationships with communities<br>• National development plan deliverables<br>• Tangible contributions to society | • Win-win partnerships with stakeholders<br>• Improving the lives of people with disabilities<br>• Supporting employees and communities sustainably<br>• Realised retail opportunities for black women, people with disabilities and youth | • Stakeholder assessments | • Build win-win partnerships with all stakeholders (refer to page 61) |
| | | • Number of jobs created<br>• Socio-economic development spend<br>• Status of compliance<br>• B-BBEE rating | • Accelerate sustainability and transformation (refer to page 69) |
| • Skilled employees<br>• Engaged employees<br>• Succession planning supported by development plans<br>• Stable employee relationships | • Low employee turnover<br>• Visionary leadership<br>• Successors for approved critical jobs<br>• Committed and engaged employees<br>• Employees' health and wellness<br>• Employees delivering against strategy | • % successors with developments plans<br>• % successors for critical positions<br>• Employee satisfaction survey ratings | • Manage and develop a high-performance team (refer to page 84) |
| | | • Training spend | • Accelerate sustainability and transformation (refer to page 69) |
| • Improved electricity and water consumption<br>• Improved management of waste, air quality and noise<br>• Alternative sources of energy<br>• Water withdrawal and re-use | • Lower operational cost<br>• Improved recycling<br>• Enhanced re-use<br>• Increased alternative sources of energy supply | • ISO14001 certificate for our four remaining airports | • Accelerate sustainability and transformation (refer to page 69) |

# MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

"Our future outlook will entail a clear and consistent focus on the strategy that we have outlined towards achieving **Vision 2025**."

**BONGANI MASEKO**
**CHIEF EXECUTIVE OFFICER**

## OVERVIEW

Airports Company South Africa continues in its quest to be at the forefront of innovation. Despite a difficult economic climate, we remain focused on running operations successfully in an effective manner. The results attained in the financial reporting year are testament to this, with only a single KPI not being met.

Without empowering people both within and outside the company, and transforming the business to best leverage strengths and opportunities, the company's success will be limited. Understanding this is half the battle won.

Aviation Security continues to receive ongoing attention. The recent terror attacks in Turkey and Belgium have necessitated stronger co-operation between ourselves and the state security organs to ensure that our airports are kept safe for the travelling public and our stakeholders. With the evolution of the new operating model, the security division has been redesigned to have even more visibility and more departments have been created to respond to ever-changing threats.

During the financial year, the company reviewed its governance framework and operating model. The purpose of this review was to align the organisation to strengthen stakeholder engagement and management processes, run airports as an integrated business, pursue strategic investments as a separate business, focus on commercial activities, driving internal efficiencies, maintain regulatory safety, security and good governance, enhance the customer experience and utilise information technology as a strategic enabler.

The company has also developed a strategic road map dubbed "Vision 2025" This is to ensure that company remains profitable, sustainable and relevant up to 2025 and beyond. This road map has clear strategic objectives, focus areas and strategic outcomes underpinned by enabling building blocks.

### OVERALL

The company has a robust key performance indicator framework designed for delivering stakeholder outcomes. It gives me great pleasure to report we met 22 of our 23 Pre-determined Objectives (refer to page 46 for detailed information on performance).

## STRATEGIC PERFORMANCE OVERVIEW

### DELIVER SHAREHOLDER VALUE

The company recorded an increase in revenue to R8.3 billion (2015: R7.8 billion). The improvement is built on R5.2 billion (2015: R4.9 billion) in aeronautical revenue as a result of increased airline routes throughout our country, increased passenger throughput and a non-aeronautical revenue contribution of R3.1 billion (2015: R2.8 billion), primarily as a result of seizing new opportunities in the retail segment.

### BUILD WIN-WIN PARTNERSHIPS WITH ALL STAKEHOLDERS

The company has two key performance indicators ratings that measure the perceptions of our passengers and stakeholders (operational and commercial partners) as it relates to service.

We performed well against our strategic targets in the build win-win partnerships pillar. Annual feedback from all our stakeholders (operational and commercial partners) has marginally improved and the positive rating of our airports via the ACI's ASQ at 4.0 out of 5, has revealed that we certainly are engaging with and responding to stakeholders in the right way. We can attribute this success to a focus on truly win-win interactions prescribed by our relationship management strategy in line with developing a better business.

# Message from the chief executive officer continued

## IDENTIFY AND SECURE NEW BUSINESS OPPORTUNITIES

The company embraced the airport development concept known as the Aerotropolis concept that is defined as a metropolitan sub-region where the layout, infrastructure, and economy are centered on an airport which serves as a multimodal 'airport city' urban core.

At the forefront of new development opportunities is our aerotropolis concept for our three main international airports, namely O.R. Tambo, Cape Town and King Shaka International Airports. These are at a more advanced stage in working with their city and provincial authorities to co-create value. Development plans are ongoing at some of the other airports while others are securing a framework and committee structures to better leverage stakeholder input. Our business development division continues to provide diversified revenue streams; and traffic development continues to show improvement with 19 new routes. Further to that, four domestic, one regional and seven new international airline relationships were developed in the year. The company continues to provide technical and advisory services in Ghana and Brazil. Locally, technical services were provided to both Mthatha and Wonderboom, utilising our experience to propel more airports towards growth and greater air connectivity (refer to page 66 for details) The company will continue seeking new opportunities on the continent and in emerging markets.

## ACCELERATION OF SUSTAINABILITY AND TRANSFORMATION PROGRAMMES

The company created a formula that calculates the number of jobs created based on the operational and capital expenditure for any given period. We created 23 505 (2015: 22 063) actual job opportunities in the financial year, both directly and indirectly. Transformation remains a key focus area for Airports Company South Africa. We maintained our B-BBEE rating for the year (Level 2) and have improved opportunities for black women, people living with disability and black youth with regards to retail opportunities and using new entrants from previously disadvantaged backgrounds (30% in 2016 against a target of 25%).

In response to the Presidents' Nine Point Plan, specifically resolving the energy challenge, and as part of the company's environmental sustainability focus, we installed photo-voltaic (solar power) plants at three airports. The company plans to introduce alternative energy at all airports in the near future. In addition, some key initiatives have resulted in increased recycling figures and novel water saving measures to improve our overall performance year-on-year. Refer to our Environmental Sustainability information from page 73 for further details.

## STRENGTHEN BUSINESS EXCELLENCE

Our governance framework and operating model project reached 80% readiness for implementation this year. A key driver of this success was leadership's regular engagement with our people to ensure smooth activation and application. Aviation safety figures remained impressive at 0.66 accidents per 1 000 aircraft movements (against a target of 0.7). The integration of our enterprise resource planning (ERP) systems gained further ground with the finalisation and testing of a new disaster recovery system to safeguard information.

## MANAGING AND DEVELOPING A HIGH-PERFORMANCE TEAM

During the year, we increased focus on training the youth in and around our business, and empowering our people through numerous training initiatives. Our training spend for the year was R45 million (2015: R32 million), and during the year, increased attention was paid to providing opportunities for people with disabilities within the organisation. Positive employee feedback scores from the annual survey reveal that consistent engagements and providing assistance through our housing support programme, our soon to be introduced transport support programme and our RemParity[1] exercises are almost as vital as our approach to training in keeping our people motivated. For details of our employee engagement and assistance programmes, refer to page 86.

*1 This is a project to introduce formalised pay scales and ranges to employee remuneration in an effort to ensure fair, equitable and market-related remuneration*

## SUCCESSES AND AREAS IN NEED OF IMPROVEMENT

### PERMISSION DECISION UPDATE

The final permission decision from the Economic Regulator is still outstanding at the time of printing this report. The delay to the permission decision introduces uncertainty, specifically in terms of the ability to make investment decisions. These decisions are required to provide new capacity infrastructure investments to enable economic growth. With the exception of certain planning activities, the company has postponed new capacity investments.

Engagements with industry stakeholders on the impact of the delay are continuous to discuss operational challenges.

For more information on the economic regulations and the related impact on our operations, refer to page 34.

### AWARDS

We received numerous awards as a testament to our dedication to excellence, embodied across the provision of world-class facilities, systems and service by Airports Company South Africa and its partners. Accolades included as the five awards received from the Skytrax World Airport Awards and O.R Tambo International Airport being crowned as Africa's Leading Airport at the World Travel Awards 2016. These recognitions clearly indicate our ongoing commitment to building a world-leading airports business has been recognised. Refer to page 13 for detailed information.

### ETHICS

I would also like to reiterate our commitment to our values, "PRIDE", which remain our continuous focus in conducting our business in an honest and ethical manner. In the year under review, we contracted the Ethics Institute of South Africa to conduct an ethics assessment coupled with a technical gap analysis, across the entire organisation. The outcomes of these assessments will assist us in enhancing the governance of ethics within our company.

## FUTURE FOCUS

Our future outlook will entail a clear and consistent focus on the strategy that we have outlined towards achieving Vision 2025. This process will include the incorporation of the governance framework and operating model and will rely on the continued support of our people and stakeholders as we transition to our new strategy to guide us to 2025 and beyond. Refer to page 90 for further details.

## APPRECIATION

It is clear that despite the difficulties of our economic environment and the challenges we face in our industry, the tireless work by our employees, board, shareholders and stakeholders has been instrumental in our activities and achievements. I would like to take this opportunity to thank each of you for your contributions to our successes and for ensuring that another year can be reflected upon with pride.

**BONGANI MASEKO**
Chief Executive Officer

# MATERIAL MATTERS

## HOW WE VIEW MATERIALITY

Airports Company South Africa has derived its own material matters definition from the International <IR> Framework's definition, and has linked this to its current operational context as a SOC and to its intent (strategy).

**DEFINITION: We define material matters as matters that have the potential to substantially affect our ability to create and sustain value for our stakeholders in the short, medium and long term and to support our strategic goals as a SOC.**

## HOW WE CREATE VALUE FOR OUR BUSINESS, OUR PEOPLE, SOCIETY AND OUR ENVIRONMENT

In essence, we are in business to create value for our stakeholders and to support our major shareholder, the government, in its service delivery mandate and social imperative of creating jobs and transforming the economy.

Ultimately the value we create for our shareholders is underpinned by the value we create for our stakeholders including service delivery excellence, job and supplier opportunity creation, economic development and transformation of South Africa. Our value is underpinned by our economic, social and environmental sustainability that is linked to our reputation and the trust we build with our stakeholders.

Our strategic objectives drive our value proposition in the form of our mission to develop and manage world-class airport businesses for the benefit of all stakeholders.

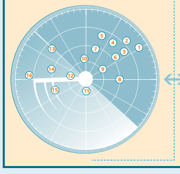
## DETERMINATION PROCESS

In determining which matters are material for disclosure in our report, we considered whether the matter substantively affects, or has the potential to substantively affect, our strategy, our business model and ultimately our ability to create value for our stakeholders.

Our approach to materiality is integrated because we view materiality as an ecosystem. Each area assessed in our process co-exists, and is inextricably linked to the others. For the purpose of aiding navigation through this section, review the detail of the material matters icon below.


Our materiality determination process means reviewing our value-creation process in relation to each of the following elements:

| External environment | Stakeholders | Risks and opportunities | Strategic objectives |
|---|---|---|---|
| Our business operates within an environment over which we have little to no control, yet we need to remain aware of events and actions that have a material impact on our company. | Acknowledging our stakeholder concerns and addressing them as far as possible is essential to our successful and sustainable operation. People are at the heart of our operations. Their alignment to and acceptance of our operations are vital for our existence and success. | Annually, the company reviews risks identified through our risk management processes that take into account the environment, material matters and our stakeholder concerns. The validity of these risks for strategic planning and mitigation require a process of material refinement. Opportunity identification requires the same rigorous process and also informs our actions. | Our strategic objectives align with our Pre-determined objectives and their related KPIs. The essence of these KPIs is to ensure sustainable operations and create value for our business, our people and society. This can only be achieved with an awareness of matters that can substantively affect our ability to deliver shareholder value. |



Through a filter of materiality, our material matters are distilled from the various components mentioned above, providing clear guidance on concepts, entities and influencing factors that have the ability to influence our operations substantively. Refer to the material matters contextualisation for a list and details of each of our material matters.

## MATERIAL MATTERS:

The result of which is the integrated materiality icon at the top of this page which incorporates all the areas of review and assessment during our materiality determination process. Each sphere in the icon represents an area which will serve as a guide as you progress through this section.

# Material matters continued

## MATERIAL MATTERS CLASSIFICATION

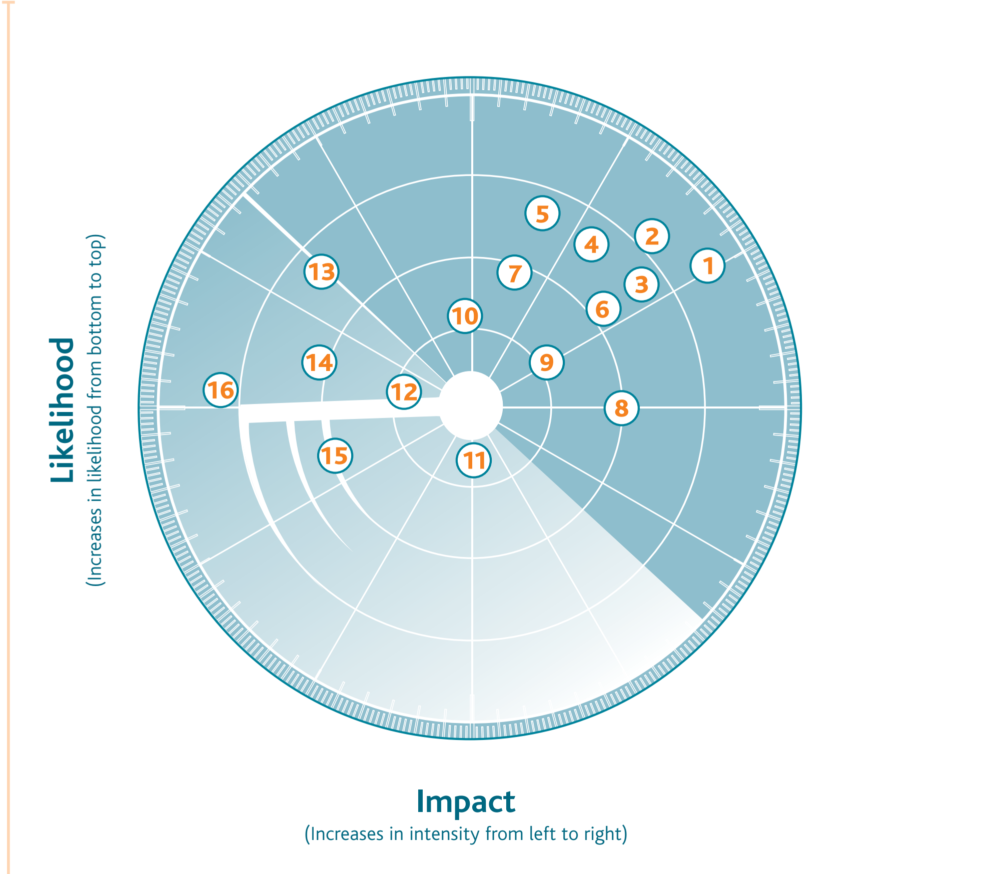
### CORRELATION OF MATERIAL MATTERS

We assessed matters identified from the following four elements – external environment, stakeholder engagement, enterprise risk management and impact on strategic objectives based on the likelihood that they would occur and the potential impact they will have on the value creation process of Airports Company South Africa. We then conducted a correlation exercise to assess the degree of correlation and completeness of these material matters against a peer analysis industry outlook, global trends and media searches.

### EVALUATION AND PRIORITISATION OF MATERIAL MATTERS

The material matters that correlated and are common to these four elements and the other sources were evaluated in terms of the qualitative and quantitative factors determined by the company. These matters were prioritised in terms of the likelihood of occurrence and potential impact, then plotted on the following heat map with further context provided for each matter:

## HEAT-MAP




1 - Economic regulations
2 - Airline sector
3 - Safety and security
4 - Customer experience and innovation
5 - Brand and reputation
6 - Inbound bulk services infrastructure
7 - Transformation
8 - Access to and cost of funding
9 - Societal trends
10 - Digitisation
11 - Value chain trends
12 - People
13 - Competing countries
14 - Environmental
15 - SA Inc (SA Economy) and global economy
16 - Government policies and regulations

# Material matters continued

## MATERIAL MATTERS CONTEXTUALISATION

### Our top 10 material matters

### 1 Economic regulations

- The Economic Regulation Regime has significant influence on our decision-making ability by affecting the lead time of our investment activities that require regulatory approval. This includes capital funding for new infrastructure projects and corresponding approval of tariffs with a fair rate of return on capital.
- Airports Company South Africa performs an application process to the Economic Regulator known as the permission application. This is considered and responded to by the regulator who dictates the allowed rate adjustment to airport tariffs that the company can apply. We are awaiting a decision on permission application 2016 - 2020; however, the delay in the permission decision has created uncertainty and restricted capital expenditure going forward, with an adverse knock-on effect for parts of the company. This is further exacerbated by an ambiguous funding model.
- We have engaged extensively and proactively with the airline industry to create joint submissions and engagements to the Economic Regulator that represent combined views of required infrastructure. Through continuous engagement and responsiveness to concerns raised by the Economic Regulator, interactions between parties are improving.

### 2 Airline sector

- Operations and sustainability of various airlines directly affect our activities as they are the carriers of passengers and cargo. Thus, positive and efficient interaction between airlines and our company is vital to ensure mutually beneficial growth.
- Over-reliance on domestic airlines presents concentration risks. Conversely, this domestic concentration also enables economies of scale in interactions with each airline. The failure of airlines which are integral to our value chain poses significant operational and strategic risks. Continued competition in the airline industry provides continuity and diversification of risk.
- The opportunity exists for us to further support new airlines (including low-cost and new international entrants) through further infrastructure development.

### 3 Safety and security

- Passenger safety and security, as well as aircraft that are at risk of crashing, being hijacked or bombed, and our airports are at risk of terror attacks and crime. Diseases, accidents, cyber-attacks, infrastructure failure and various passenger security threats have the potential to significantly affect operations. The likelihood of such events remain low, and thorough security and threat response procedures are in place to deal with an emergent crisis to ensure continuity of operations.

### 4 Customer experience and innovation

- This relates to improving overall passenger experience and takes multiple forms. First and foremost is the secure, safe and timely use of airlines via our facilities (e.g. on-time departures and access to modern facilities). Secondly, through various other value-adding innovations, such as mobile applications that promote ease and efficiency (refer to page 79 for examples). Customers with a positive company experience will continue to use our facilities and airline services; the inherent risk is that unsatisfied passengers may stop using our services, which in itself carries reputational risks and possible loss of revenue.
- We are increasing our focus on non-flying customers. Research is being conducted to further attract and advance the opportunity presented with non-flying persons spending more time and propensity to spend at our airports.

### 5 Brand and reputation

- The Airports Company South Africa brand is a representation of its image and identity as the pre-eminent airport operator in the developing world. Reputation refers to the perceptions and experiences of all stakeholders who engage with us and our brand. An example of the opportunities provided by a positive reputation is the trusted advisor status that has allowed the company to provide advisory services to Brazilian, Ghanaian and Indian airports.
- As a point of entry/exit to the country, our brand and reputation are closely linked to the South African brand. This can be both positive or negative depending on events and or context.

## 6 Inbound bulk services infrastructure

- All utilities that impact our ability to provide services and profitable operations are grouped as inbound bulk services infrastructure. This includes, but is not limited to, electricity supply, water supply, fuel supply (fuel and lubricants are required for servicing airlines and the operation of machinery and our vehicle fleets) and vital transport infrastructure such as road and rail.

## 7 Transformation

- Transformation is viewed as a national, social and business imperative for the company, which calls for an alignment to the national transformation agenda (National Development Plan 2030).
- Airports Company South Africa strives to go beyond the legislative elements of B-BBEE and other legislation with intent to affect meaningful transformation internally (e.g. diversification of staff to mirror our country's demographics) and nationally (empowering black suppliers, youth, people with disabilities and women through our procurement processes).

## 8 Access to and cost of funding

- The Group is reliant on funding to develop facilities and expand operations in line with our strategy. An inability to obtain required funding would lead to an inability to execute this portion of our strategy and possibly cause business interruption.
- Any downgrade of the government's credit rating might result in a similar downgrade of our ratings and impact our access to affordable debt.

## 9 Societal trends

- The flying and previously non-flying public is continuously developing. This potentially means increased airline usage, foot traffic and utilisation of our infrastructure and partner services (due to business travel, urbanisation and so forth).
- Globalisation also lends itself to more frequent travel, despite the risk of technology developments that reduce the need for travel (e.g. video calling).

## 10 Digitisation

- This includes, but is not limited to, the IT system internally – it encompasses continuity of interaction afforded by technology and the internet, continuous technological advancements, automations, connectivity, data enablement, analytics, cyber risks and digital integration concepts.
- Companies have had to place increased focus on monitoring data and analytics to provide relevant and timely responses to users of their services/products and for effective business planning. The level of connectivity and information provided by technology has necessitated effective data management and security as increased digitisation presents additional security threats.

**Additional material matters:**

**11 Value chain trends:** Transport and logistics companies are requiring ever-increasing efficacy and effectiveness in moving cargo and goods.

**12 People:** Employing the right people with critical skills to execute our strategy while embracing transformation.

**13 Competing countries:** Increasing competition from alternative transportation hubs (specifically West and East Africa).

**14 Environmental:** Environmental practices and resource usage, including initiatives to improve performance.

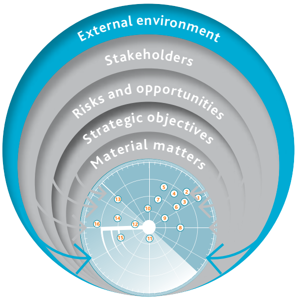
**15 SA Inc (SA Economy) and global economy:** The global economy continues to slow and the local economy is experiencing persistently low growth levels.

**16 Government policies and regulations:** Our operations are inextricably linked to the political, social and economic environment in South Africa as well as necessary regulations.

For more detail on each of these remaining material matters, go to www.airports.co.za.

# Material matters continued

## EXTERNAL ENVIRONMENT




The scanning of our external environment included:

- The possible macro and economic influence on our business.
- The extent to which it could affect our stakeholders and ourselves.
- The probability to which it is likely to grow in significance and impact on our business in the future.
- The potential business development opportunities it presents.
- The level of risk it presents.

### Challenging South African and global economic environment

South Africa is expected to experience slow growth in 2016 and 2017, with forecast GDP growth of 0.1% in 2016 increasing to 1.1% in 2017 according to the IMF. The rand reached an all-time low against major currencies. Low commodity prices, rising inflation and interest rates impacted on national growth with inconsistent manufacturing sector performance set to influence future growth adversely. South Africa's sovereign credit rating also faces a risk of being downgraded and this could have a negative impact on the country's credit profile impacting our ability to raise funding. The outlook for global economic growth also remains subdued for the short to medium term. The slowdown in growth of China's economy and consequent depressed commodity prices has placed pressure on emerging economies.

### Impact on our operations

The expected consumer price inflation rate of 6.8% in 2016 will put pressure on the company's operational costs. We expect domestic passenger numbers to increase at a moderate pace in light of tentative GDP growth, coupled with restrained household consumption; ironically, over the December 2015 period, Airports Company South Africa experienced its highest growth period as compared to other years. Should this trend continue, it will put strain on our operations and, more importantly, it will put pressure on existing airport capacity. The relaxation of Visa regulations and persisting weaker exchange rate is expected to support international traffic volumes and the subdued rand also makes South Africa an attractive destination for tourism.

In addition, the following business externalities were considered as relevant matters that may have an impact on our value creation:

***Regulatory***

The most impactful and inhibiting factor is the economic regulatory uncertainty and delayed permission outcome which could have far-reaching consequences for the company in terms of future planning and timeous delivery of new capacity, limiting growth opportunities. The adverse impact of consequential rating agency ratings could have an adverse effect on cost of capital and ultimately our ability to meet capacity demands. From a societal perspective this will have an impact on job creation opportunities. Refer to the profile on page 69 for further details.

***Economic***

In his budget speech, the Minister of Finance proposed a possible merger between South African Airways and SA Express, trying to address the financial stability of these airlines. Airports Company South Africa will assess the impact on its business in the event of a potential merger between the two airlines.

Together with relevant municipalities, we are working to accelerate the aerotropolis developments to stimulating economic activity, leading to socio-economic development and creation of job opportunities. We are also seeking opportunities to grow our footprint into Africa and other emerging markets.

***Social***

Passengers are the core of our business and that of our partners. Economic strain for the last few years has compounded multiple societal issues, including affordability, job creation and access to products and services. Airports Company South Africa must remain in tune with the needs and status of our partners and customers, adapting offerings and processes to ensure continuous acceptance and use of our facilities and services, creating sustainable commercial revenue. Thus, the company maintains its focus on business evolution in addition to transformation to ensure a contribution (both financial and socio-economic) that materially impacts the previously disadvantaged portion of our society. Other factors that affect society and their interactions with us (including safety, communicable diseases, sentiment and relationships) are routinely considered as elements that could impact our operations.

***Technology***

Our current global business environment relies heavily on technology. As more people gain access to technology and use the functionality it provides, the company strives to remain innovative, adopting new technology (integration of systems and processes), utilising smart technology (smartphone applications, for example) and harnessing information and data to improve its operations. The business case to improve operations and costs through capital outlays for technological improvements has clear benefits, which is why the management and implementation of the current and future Oracle ERP was given priority in our development.

***Environment***

Environmental factors could potentially have a severe impact on business operations. As a responsible corporate citizen, Airports Company South Africa strives to reduce any negative impact of its operations on the environment. Thus water, electricity consumption, waste management, air quality and noise management at our airports continue to be measured and acted upon where necessary to drive our sustainability imperative.

***Communities***

The company's support for local communities continues to grow in importance at each of the company's nine airports and we take corporate social responsibility seriously, focusing on impactful enterprise development and other factors that affect society.

## FEEDBACK ON DECISIONS AND IMPACTS OF THE ECONOMIC REGULATOR

The Regulating Committee (Economic Regulator) is responsible for the promulgation of a permission that sets out limits to airport charges and service standard requirements based on a business plan. The resultant instruction from the Economic Regulator is referred to as a permission decision. These permission decisions have a direct impact on tariffs (airport charges) and capital expenditure plans.

On 8 May 2015, the Economic Regulator published its draft permission 2016 - 2020 for comments, which provided for a reduction in airport charges of 42.5% in 2015/16 and increases for the subsequent four years of 4.1%, 15.8%, 15.9% and 4.0%. These outcomes were achieved by front-loading[1] the capital expenditure claw-back[2] and 100% claw-back on the Durban land sale proceeds and further reducing the capital expenditure programme by R4.7 billion to R15.5 billion over a five year time frame. The original industry-agreed capital expenditure programme amounted to R20.2 billion.

A comprehensive response regarding the proposed decisions of the permission was submitted to the Economic Regulator on 5 June 2015, and included proposals to assist in smoothing the approaches taken to avoid breaching of debt covenants and enhance returns. The Economic Regulator provided feedback and announced that the entire new capacity infrastructure development programme and some refurbishment programmes to the amount of R12.0 billion would be disallowed.

The final permission decision was expected by the end of June 2015, however, as at the printing of this report, it was yet to be received. This delay has introduced considerable uncertainty for the industry in terms of decision-making, relating to the Capital Expenditure Programme roll-out.

Airports Company South Africa is currently in possession of a zero percent increase permission which provides for no changes to airport charges over the 2016 to 2020 permission period. This permission was promulgated by the Economic Regulator due to delays in the permission process that would have resulted in Airports Company South Africa not being in possession of a valid permission on 1 April 2015 to levy airport charges. The final permission will therefore be an amendment to the zero percent increase permission and will require Ministerial approval.

A new Economic Regulator was appointed subsequent to 2016 year end.

*[1] Front-loading refers to uneven distribution of funds with the greater portion applied at the beginning of the enterprise/project.*
*[2] Claw-backs are an act of retrieving money already paid out.*

# Material matters continued

## STAKEHOLDERS


### Our stakeholder universe and engagement

| Our stakeholder categories | Social responsiveness | | Industry | Enabling | | Value creation | |
|---|---|---|---|---|---|---|---|
| Our stakeholder clusters | Dependent | Independent | Partners | Capital and funding providers | Policy economic regulation and licence to operate | Input | Output |
| Our stakeholders | Community, NGOs and environmentalists | Media, academia, activists and special-interest groups | Associations, partners, professional bodies, JV partners, competitors, tourism bodies | Shareholders investors and lenders, rating agencies | Government, Economic Regulator, various regulators | Employees, unions and suppliers | Passengers, airlines, tenants and suppliers |
| Examples of nature of engagement | Investment in SED programmes.<br>Website and events.<br>Stakeholder meetings and task team forums. | Brand awareness, networking and stakeholder hospitality. | Providing input for ICAO regional bodies, African Civil Aviation Commission.<br>Meeting with airline associations. | Roadshows, results presentations and AGMs.<br>Rating reviews.<br>Meetings with institutional bond holders, funders, investors. | Quarterly reviews with Economic Regulator.<br>Reports and engagements with the Department of Labour (DoL). | Employee roadshows and collective bargaining structures.<br>Preferential procurement programmes and tender processes for suppliers. | Flight information display system (FIDS) and Airline operating committees (AOC).<br>Social media, and ASQ programmes for passengers. |
| Examples of expectations and concerns | Job creation and community development. | Airline liquidations.<br>Sustainability.<br>Safety and security incidents, business performance and customer satisfaction. | Long-term industry sustainability, compliance with regulator licensing requirements.<br>Industry safety and security. | Financial performance, strength and dividends.<br>Competitive risk profile and compliance with terms and governance. | Long-term industry sustainability and licence to operate.<br>Alignment to government mandates and programmes (e.g. NDP).<br>Compliance for regulators. | Fair and transparent remuneration with job security and career progression for employees.<br>Transformation, fair price and ease of doing business for suppliers. | Negotiated low airport charges for airlines.<br>Access to infrastructure, support and information for tenants.<br>Understand passenger market needs, safety and security for passengers. |
| Link to material matters | 7,9,12,14 | 5 | 3,6,7,11,16 | 1,2,7,8,9,15,16 | 1,2,3,7,15,16 | 6,7,9,11,12 | 2,3,4,5,6,7, 8,10,15,16 |

*1. Economic regulations*
*2. Airline sector*
*3. Safety and security*
*4. Customer experience and innovation*
*5. Brand and reputation*
*6. Inbound bulk services infrastructure*
*7. Transformation*
*8. Access to and cost of funding*
*9. Societal trends*
*10. Digitisation*
*11. Value chain trends*
*12. People*
*13. Competing countries*
*14. Environmental*
*15. SA Inc. (SA Economy) and global economy*
*16. Government policies and regulations*

### Stakeholder identification process

To identify our stakeholder engagements, we use a filter process composed of five main criteria: responsibility; influence; proximity; dependency and representation. We categorise our stakeholders into:

- stakeholders to whom the organisation has or in the future may have legal, financial and operational responsibilities;
- stakeholders with influence or decision-making power;
- stakeholders the organisation interacts with most, including those the organisation depends on in its day-to-day operations;
- people or organisations who are most dependent on our organisation; and
- people that are, through regulation or culture, entrusted to represent a group of individuals.

**Our key stakeholders**

- National Government
- Shareholders
- Rating agencies
- Funding institutions
- Economic regulatory committee
- Regulatory and licensing bodies
- Airlines
- Tenants and concessionaires
- Communities
- Passengers
- Employees
- Media
- Suppliers and partners

For a detailed list of our individual key stakeholders, engagements and mapping according to identified concerns and material matter links, refer to www.airports.co.za.

### Stakeholder objectives

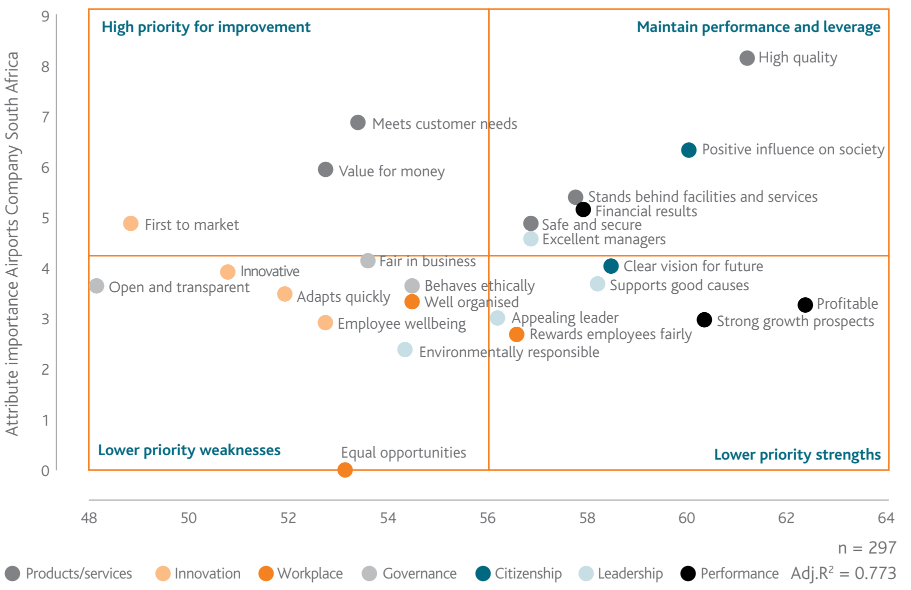
Following a study with the Reputation Institute on stakeholder perception, we further enhanced our stakeholder engagement plan towards achieving the following objectives:

- leveraging our corporate reputation to gain a competitive advantage;
- minimising our reputational risks and protecting our reputation capital;
- influencing stakeholders to desired action; and
- creating and integrating a reputation management and measurement system.

The reputation results are captured in the following graph on a pulse score from 0-100 with 100 being the best. We have made extensive progress in addressing the performance areas and concerns raised throughout this report. A new study, will be completed in the next financial year as per the two-year cycle of the assessment.

### Reputation attributable score

**Stakeholder perception**



# Material matters continued

### Stakeholder engagement process

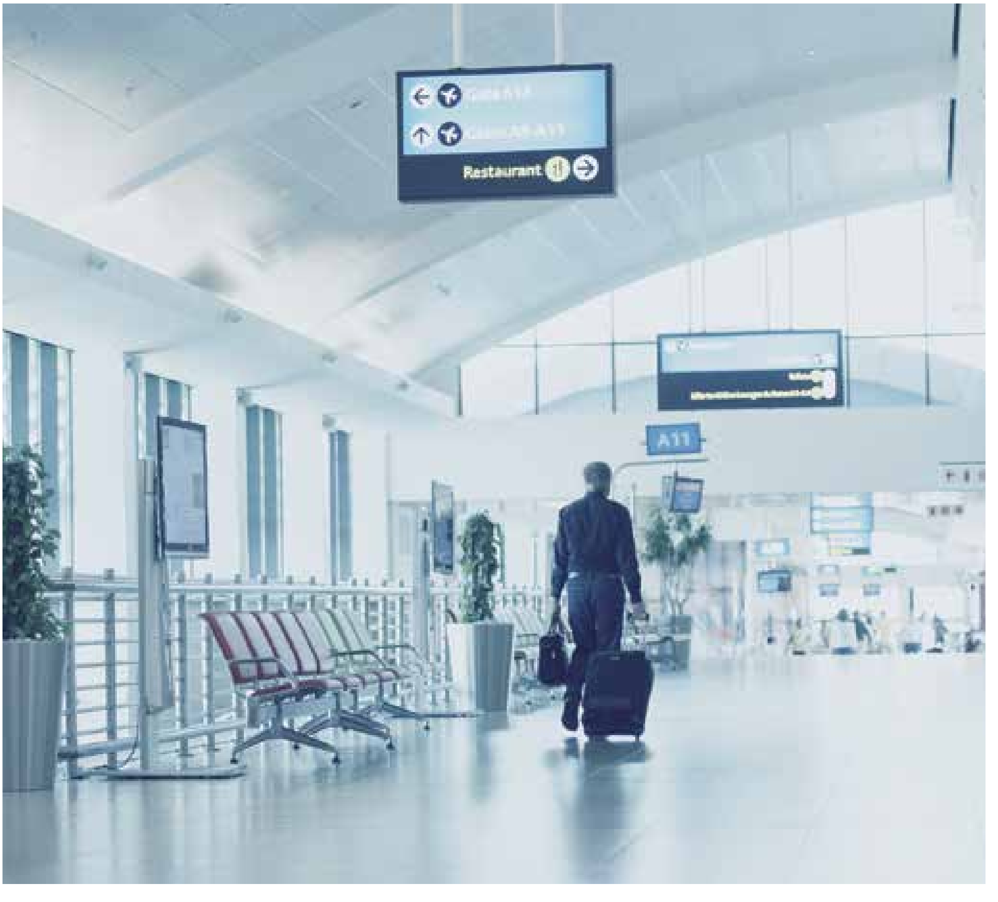
As a global organisation with local roots, Airports Company South Africa maintains and develops stakeholder relationships within South Africa and internationally through a clearly defined stakeholder relationship management strategy informed by King III. The key objective of this strategy is to build coherent partnerships with our valued stakeholders to ensure that we remain relevant to one another, positively impact each other and create sustainable growth.

The strategy is enabled by the following processes:

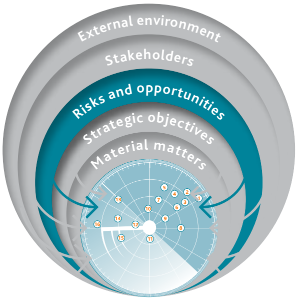
- **Identify:** Define mission critical stakeholders.
- **Engage:** Build and maintain relationships at appropriate levels of the organisation.
- **Measure:** Monitor and evaluate delivery against stakeholder expectations.

We understand the importance of fortifying the support of key industry partners to enhance our business objectives on different platforms, within and outside the aviation industry. We further realise that ideal responsive behaviour will only correctly align to the required needs of the business by way of a robust stakeholder relationship management strategy. In order to obtain these required behaviours, the company requires a specific set of behaviours of itself, as per our ethics and values.

Assurance of our stakeholder relationship management policy is primarily internal. Governance oversight rests with the social and ethics committee.



## RISKS AND OPPORTUNITIES




The company has adopted the ISO/SANS 31000 as a best practice to guide risk management implementation. The integrated risk management process aims to achieve an appropriate balance between realising opportunities for gains while minimising adverse impacts through prevention strategies.

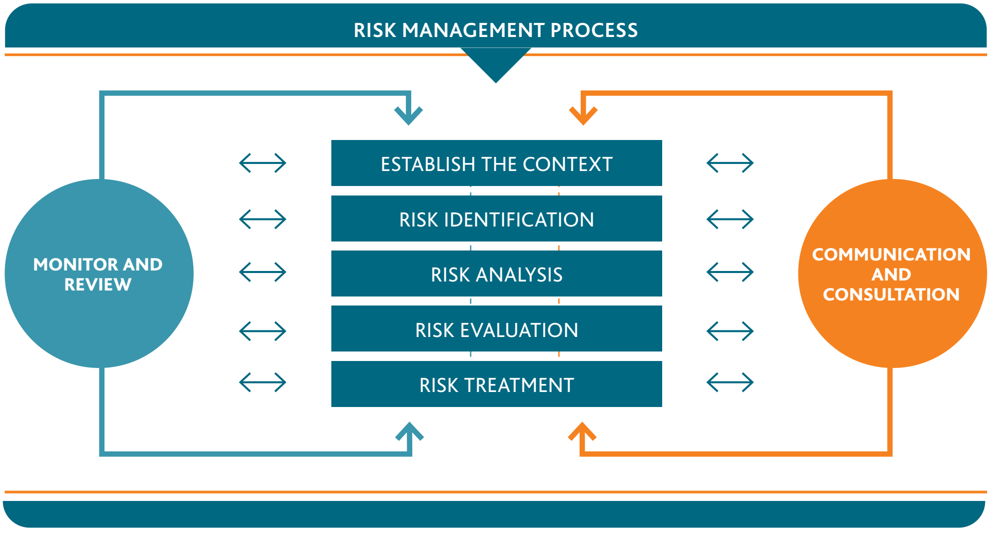
### Opportunities

Each risk carries an inherent opportunity, and the company continuously assesses these in order to create value. Examples include traffic development to improve airline landings and passenger throughput; transformation policies to create additional jobs and develop the country; aerotropolis development to build socio-economic activity; business digitisation; and the knowledge-sharing agreement with Munich airport to develop our operations according to a world class standard. These opportunities are referred to in various areas of the report.

### Risks

The risks identified were developed through risk assessment sessions held with both the executive committee (Exco) and the board to identify which risks impact our strategic risk objectives. These strategic risks and mitigating strategies are closely monitored and reported to the board audit and risk committee quarterly. Management reviews progress on the implementation of the risk prevention strategies monthly and conducts a formal risk review on a quarterly basis.

As part of its risk management process framework, the company adopted an ISO/SANS 31000 aligned methodology indicated below. The methodology outlines the various steps involved in identifying critical risks for the company and ensuring effective management of those risks on a regular basis.



## Material matters continued

The top eight strategic risks that came from this process included the following that have been linked to concomitant material matters.

| Risk title | Risk description | Rating | Related material matter |
|---|---|---|---|
| Failure to approve proposed tariff increase | Airports Company South Africa may not be able to realise budgeted returns due to proposed/assumed tariffs not being approved, leading to an inability to fund future growth/capacity demand | I | Economic regulations |
| Failure to provide a digitised technology platform | IT may implement solutions that do not support business objectives, leading to waste of company resources caused by the lack of IT strategic direction | I | Digitisation |
| Increase in alternative modes of transport | Negative impact of competition from other modes of transport and other airports, as well as the impact arising from the potential loss of or hub status | II | Competing countries<br>Societal trends |
| Economic conditions | The company may not be able to respond timeously to the changing external environment (including GDP, interest rates and currency fluctuations) | II | SA Inc. (SA Economy) and global economy |
| Inability to manage crises | Inability to manage a major crisis impacting on operations | II | Safety and security |
| Lack of succession planning and retention of critical skills | Lack of robust succession planning process leading to loss of critical skills | II | People |
| Inability to raise or access funding | Airports Company South Africa may not be able to raise funding capacity growth, thereby negatively impacting the ability to sustain future growth/ profitability | II | Access to and cost of funding |
| Non-alignment of workforce to the strategy | Non-alignment of the workforce to our vision and values, resulting in an unengaged workforce that does not support the strategy | II | People |

*Priority I* – **Critical** *Priority II* – **Significant**


## LINK TO STRATEGIC OBJECTIVES

As our external environment changes, we review our strategy regularly to ensure that we remain relevant and focused in achieving our vision of being a world-leading airport business. The diagram below demonstrates the extent of how our strategy responds directly and indirectly to our most material matters.

| | Material matters | | | | | | | | | | Additional material matters | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 |
| Delivering shareholder value | ✓ | | ✓ | | ✓ | | | | ✓ | | | | | | | |
| Build win-win partnerships with our stakeholders | | ✓ | | ✓ | ✓ | ✓ | | ✓ | | ✓ | | | | ✓ | | ✓ |
| Identify and secure new business opportunities | ✓ | | ✓ | | | | | ✓ | | ✓ | ✓ | | ✓ | | | |
| Accelerate our sustainability and transformation programme | | | | | ✓ | | ✓ | ✓ | | | | ✓ | | ✓ | | |
| Business excellence | | ✓ | ✓ | ✓ | | ✓ | | | ✓ | ✓ | ✓ | | | | ✓ | |
| Manage and develop a high performance team | | | | | | | ✓ | | | | | ✓ | | | | |

*1. Economic regulations*
*2. Airline sector*
*3. Safety and security*
*4. Customer experience and innovation*
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*11. Value chain trends*
*12. People*
*13. Competing countries*
*14. Environmental*
*15. SA Inc. (SA Economy) and global economy*
*16. Government policies and regulations*

## LOOKING FORWARD

Although it has served us well, our strategy has been renewed and approved in 2016, to guide us towards our Vision 2025. This strategy has taken into account our business, people and society, and our environment as our landscape, risks and opportunities change. Business evolution is already underway with full implementation of the governance framework and operating model set to take place on 1 April 2016. More detail on our strategic transition can be obtained in our strategic outlook section on page 90.

STRATEGY AND PERFORMANCE REVIEW

# Airports Company South Africa is focused on creating value for our business, our people and society, and the environment through effective performance against our Pre-determined Objectives. We report this through our strategic pillars.

# STRATEGY AND PERFORMANCE REVIEW

## PRE-DETERMINED OBJECTIVES

Our present strategy is driven through six strategic pillars that are informed by the Pre-determined Objectives prescribed by the Minister of Transport. These mandated areas of performance drive our focus and prescribe our focus

## OUR PERFORMANCE REPORT BACK

| Strategic pillar | Objective | KPI |
|---|---|---|
| **Deliver shareholder value** Refer to page 51 for pillar report back. | Deliver long-term profitability | Deliver return on capital employed (ROCE) (Group) |
| | Control funding and cost of borrowing | Manage net debt/earnings before interest, tax depreciation and amortization (EBITDA) |
| **Build win-win partnerships with all stakeholders** Refer to page 61 for pillar report back. | Entrench and deepen partner relationship | Assessment of our airport operations service and interactions rendered by our airport operations and commercial stakeholders |
| | Deliver exceptional passenger services | Assess passenger customer service (ASQ) |
| **Identity and secure new business** Refer to page 63 for pillar report back. | Enhance returns (identity and secure new business) | Record the improvement value achieved on company land set aside for non-aviation commercial use each fiscal year |
| | | Earn income through technical advisory, consultancy and management services provided to non-company airports |
| **Acceleration of sustainability and transformation programmes** Refer to page 69 for pillar report back. | Social Responsibility | Achieve B-BBEE Rating Recognition Level |
| | Social Economic Development | Contribution to community upliftment and social cohesion and inclusion (corporate office) |
| | Transformation Commercial | Drive wider participation by attracting new retail entrants |
| | | Increase percentage of Retail, Advertising and Property Development tenders for +25% equity ownership by black women, black youth and people living with disability) |
| | Environmental Responsibility | Achieve, over the next three years, ISO 14001 Certificate, for the last four airports: Kimberley, Bram Fischer, King Shaka and O.R. Tambo International |
| | Economic viability | Create job opportunities |

points for achieving success. The focus for the past five years has been on developing the company into a transformed, profitable, value-creating operation that serves its stakeholders as effectively as possible.

| Metric | 2016 target | Target met | 2016 actual | 2015 actual | 2014 actual |
|---|---|---|---|---|---|
| Percentage | 8.4% | ● | 10.4% | 9.8% | 11.6% |
| Rate | 2.2X | ● | 1.48X | 1.95X | 2.3X |
| Rating from 1 (poor) to 5 (excellent) | 3.7 | ● | 3.7 | 3.6 | 3.6 |
| Rating from 1 (poor) to 5 (excellent) | 4.0 | ● | 4.0 | 4.1 | 4.0 |
| Rand value | R300 MILLION | ● | R385 MILLION | R289 MILLION | R164 MILLION |
| Rand value | R20.0 MILLION | ● | R27.9 MILLION | R23.0 MILLION | R15.0 MILLION |
| B-BBEE Level as per code | Level 3 | ● | Level 2 | Level 2 | Level 2 |
| Rand value | R25.8 MILLION | ● | R25.8 MILLION | R23.0 MILLION | R30.8 MILLION |
| Percentage of new entrants for all tenders awarded | 25% | ● | 30% | – | – |
| Percentage of tenders awarded | 50% of tenders awarded | ● | 52% of tenders awarded | – | – |
| Milestone | Prepare a gap analysis and implementation plan for ISO certification | ● | 100% Prepared a gap analysis and implementation plan for ISO certification | – | – |
| Number of opportunities | 22 366 | ● | 23 505 | 22 063 | 20 977 |

● - Met
● - Not met

# Strategy and performance review continued

| Strategic pillar | Objective | KPI |
|---|---|---|
| **Strengthen business excellence**<br>Refer to page 78 for pillar report back. | Continually re-engineer and align business operations processes | Implement a governance framework and operating model as per approved project plan |
| | | Measure the percentage of aircraft departing within 15 minutes of scheduled time |
| | | Manage apron safety as relates to airside safety incidents and accidents. |
| | | No major aviation security breaches as defined in International Civil Aviation Organization (ICAO) Annexure 17 |
| | Leverage IT for competitive advantage – through the execution of an approved IT strategy | Ensure uptime availability of six (6) critical airport operational IT systems |
| | | Oracle ERP System Component Project: Implementation of six (6) Oracle ERP System components:<br>Finance (iExpense, Business Intelligence and Treasury); SCM – Business Intelligence, Asset management optimisation; SCM iSupplier (Supplier Self Service) |
| | | Disaster recovery and infrastructure project Implementation of disaster recovery and infrastructure for:<br>Oracle (ERP); airport management suite (AMS); flight information display service (FIDS); airports operations database (AODB); resource management system (RMS); airport management centre (AMC); enterprise server bus (ESB); MDA – property management system; active directory; Microsoft exchange |
| **Managing and developing a high performance and engaging team**<br>Refer to page 84 for pillar report back. | Leadership pipeline | Ensure succession management – number of successors ready within one year based on the critical workforce segment |
| | Strengthen culture | Build employee satisfaction |
| | Skills development | Improve skills development (rating as per B-BBEE code) |
| | Employment equity | Drive employment equity (rating as per B-BBEE code) |

| Metric | 2016 target | Target met | 2016 actual | 2015 actual | 2014 actual |
|---|---|---|---|---|---|
| Milestone | 50% Complete Implemen-tation phase | Met | 80% Completed Implemen-tation phase | – | – |
| Percentage total movement of aircraft in a year within 15 minutes of scheduled departure time | 87.00% | Not met | 86.97% | 88.70% | 88.00% |
| Number of accidents per thousand aircraft movements | 0.700 | Met | 0.662 | 0.400 | 0.524 |
| Number of major security breaches | 0 | Met | 0 | 0 | 0 |
| Uptime percentage | 98.50% | Met | 99.32% | 99.41% | 99.67% |
| Percentage of total implementation | 100% | Met | 100% | – | – |
| Percentage of total implementation | 100% | Met | 100% | – | – |
| Number of qualified successors for approved critical roles | 54 Headcount (50%) | Met | 73 Headcount (68%) | 57 Headcount (67%) | 41 Headcount (65%) |
| Annual ESAT survey based on 1 (poor) to 5 (excellent) | 3.30 | Met | 3.51 | 3.70 | 3.60 |
| Points based on parameters of B-BBEE code | 17.00 | Met | 21.05 | 22.50 | 22.20 |
| Points based on parameters of B-BBEE code | 13.27 | Met | 14.28 | 14.00 | 13.77 |

- Met
- Not met

# MESSAGE FROM THE CHIEF FINANCIAL OFFICER

**Deliver shareholder value**

"The company recorded an increase in revenue to **R8.3 billion (2015: R7.8 billion)** in a year filled with economic uncertainty and volatile credit rating outlooks."

**MAUREEN MANYAMA CA (SA)**
**CHIEF FINANCIAL OFFICER**

## FINANCIAL RESULTS OVERVIEW

This section serves to report on the financial performance of Airports Company South Africa for the 2016 financial year, as well as representing our Deliver shareholder value strategic pillar. This chapter should be read in conjunction with our Summarised Annual Financial Statements from page 118 of this report.

### PERFORMANCE AT A GLANCE

| | |
|---|---|
| 10.4% ROCE ↑ (2014/15: 9.8%) | EBITDA OF R5.2 BILLION ↑ (2014/15: R4.8 BILLION) |
| 1.48x NET DEBT/EBITDA ↓ (2014/15: 1.95x) | R1.3 BILLION CAPITAL EXPENDITURE ↑ (2014/15: R830 MILLION) |
| R8.3 BILLION REVENUE ↑ (2014/15: R7.8 BILLION) | 38% COST TO INCOME → (2014/15: 38%) |
| AERONAUTICAL REVENUE OF R5.2 BILLION ↑ (2014/15: R4.9 BILLION) | |
| NON-AERONAUTICAL REVENUE OF R3.1 BILLION ↑ (2014/15: R2.8 BILLION) | |

Key:
↑ Performance above target
↓ Performance below target
→ Performance unchanged

The company remained profitable despite a challenging and dynamic economic environment that is expected to persist in the foreseeable future. The company reported a 7% increase in revenue to R8.3 billion (2015: R7.8 billion). This was driven primarily by an increase in traffic volumes of 9% which exceeded expectations as regulated aeronautical charges remained unchanged at zero per cent tariff increase. The delay in the Permission 2016 – 2020 decision has resulted in the company over recovering on the aeronautical revenue as it expected a tariff reduction, and this has resulted in the R658 million ring fenced and invested separately.

The company has been profitable for the last five years and continues to adapt efficiently in an ever-changing global and local economic environments while maintaining clear focus on its Vision 2025 (refer to strategic outlook on page 90 for more information). That said, challenges exist in the form of regulatory regime as approved tariffs remained below the regulated weighted average cost of capital. The company has continued its cost containment drive to reduce its operational costs on a sustainable basis achieving 89% of its targeted R100 million two-year cost saving initiative (FYs 2016 to 2017).

The company reported profit for the year of R1.9 billion which showed a 20% year-on-year growth as compared to the 2015 financial year (R1.6 billion), this is despite the higher losses incurred from the equity accounted investments.

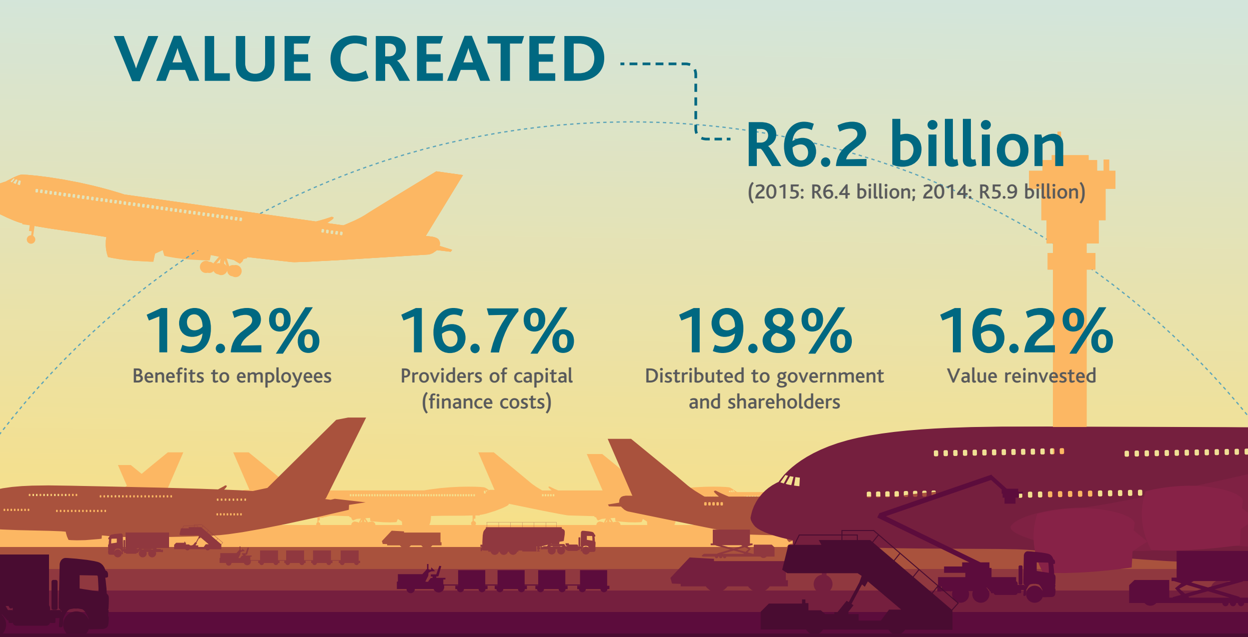
The company continued with its deleveraging strategy and R1.5 billion of the debt was repaid during the period under review, which brings the total repaid over the past five years to R7 billion.

# Message from the chief financial officer continued

## WHAT SHAREHOLDER VALUE CREATION MEANS TO US

We understand that long-term shareholder value creation is fundamental to our ability to be self-sufficient, provide returns on investments and enable the continuous delivery of major infrastructure requirements against the demand of the aviation industry, allowing us to make progress towards our vision of being a world-leading airport business. Shareholder value is not merely a state when ROCE exceeds the weighted average cost of capital (or the returns expected from investors).

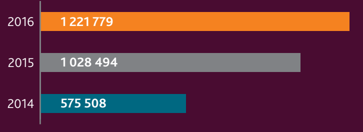
We continuously develop strategies to enhance ROCE to be in excess of the weighted average cost of capital (i.e. above 10.9% and return on equity in excess of 13.4% in the foreseeable future), the company believes that value is also created through effective and constructive engagement with stakeholders.




BENEFITS TO EMPLOYEES (R'000)


PROVIDERS OF CAPITAL (FINANCE COSTS) (R'000)


DISTRIBUTED TO GOVERNMENT AND SHAREHOLDERS (R'000)




VALUE REINVESTED (R'000)

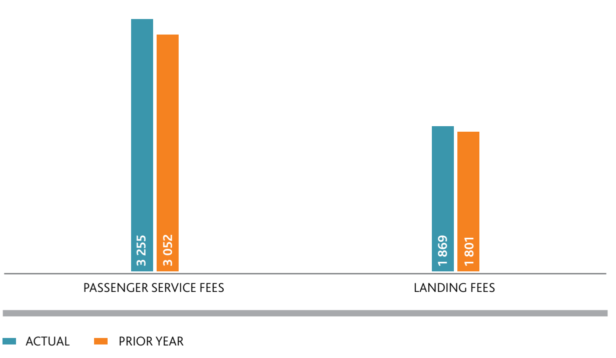
# PERFORMANCE COMMENTARY

## REVENUE, COST, PROFIT AND LOSS

### Aeronautical

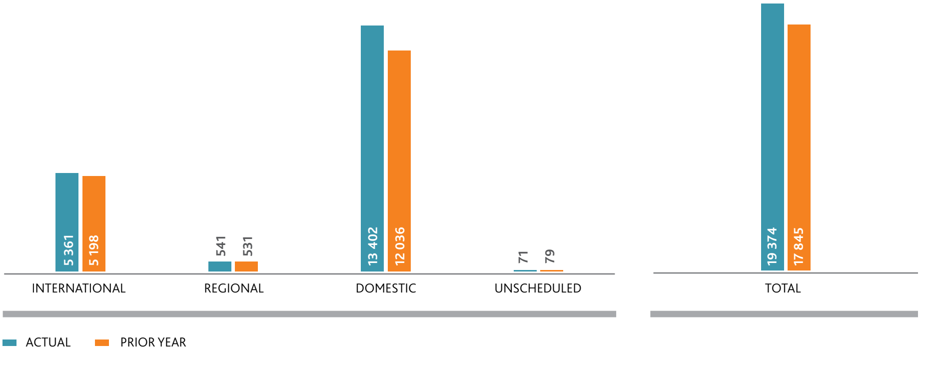
Passenger service fees, parking fees and landing fees are the components of aeronautical revenue.

AERONAUTICAL REVENUE (R'MILLION)



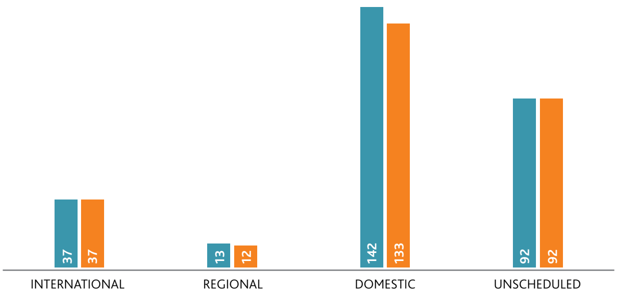

The company earned R70.4 million revenue from the aircraft parking fees which has declined as compared to the R72.2 million (2014/15).

DEPARTING PASSENGERS VOLUMES ('000)

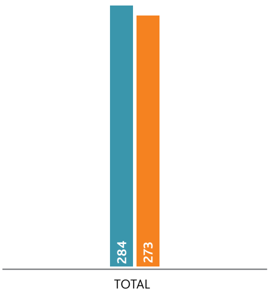


# Message from the chief financial officer continued

AIRCRAFT LANDINGS ('000)




AIRCRAFT LANDINGS




ACTUAL PRIOR YEAR

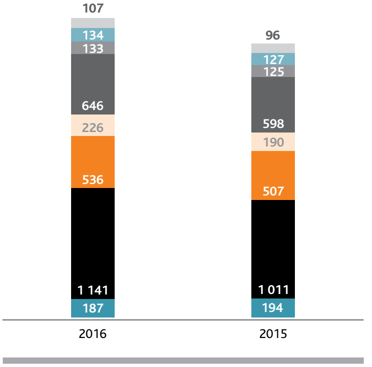
This year has a cumulative annual growth rate in departing passengers and aircraft landings of 3.6% and 2.6% respectively, leading to R5.2 billion (2015: R4.9 billion) in revenue. Aeronautical revenue was largely influenced by the growth in departing international and domestic passengers as well as the increase in arrival and departing frequencies airlines.

***Non-aeronautical***

The non-aeronautical revenue stream is composed of concessions agreements relating to core retail, car parking, advertising, car rental, property rental and costs recovered from tenants (including water, electricity and various other utility charges). This is also referred to as commercial revenue.

The total non-aeronautical revenue for the year is R3.1 billion (2015: R2.8 billion). The different activities contributing to this value is set out in the chart below.

9.2% YEAR-ON-YEAR GROWTH (R'MILLION)

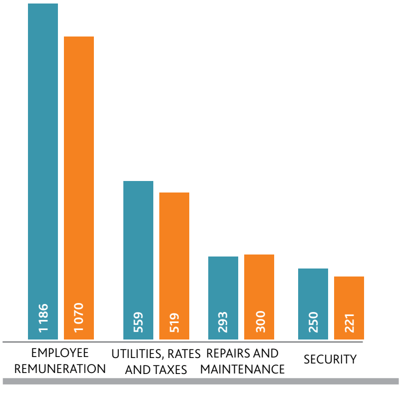



The company has contracted with tenants and at the year-end had R8 billion (2014/15: R5.5 billion) future minimum lease payments contracted in respect of advertising, retail and property leases.

Total non-aeronautical revenue achieved a 9.2% year-on-year growth (on par with prior year's growth) and its contribution to total company revenue was in line with the prior year at 37%.

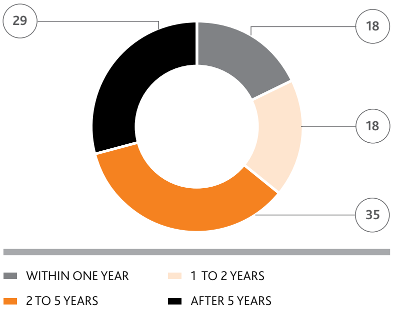
## Operating expenditure

TOP 4 OPERATING EXPENSES (R'MILLION)




ACTUAL PRIOR YEAR

## OUTSTANDING COMMITMENTS (%)



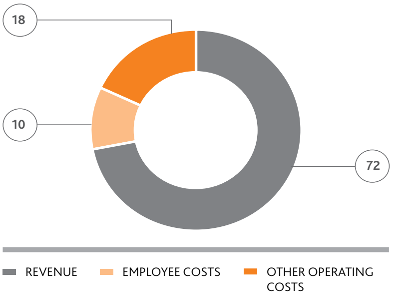

The company had R65.5 million (2014/15: R78.9 million) outstanding commitments under non-cancellable operating leases for future minimum lease payments.

The R2 billion operating expenses incurred have shown a 7.3% unfavourable variance against 2015, and the main drivers were regulated charges; managerial technical and other fees; insurance and legal expenses. A portion of expenditure was re-prioritised using austerity measures implemented during the year, which provided additional funds set aside for key human resource interventions such as the housing scheme, transport scheme and the remuneration parity projects. Refer to page 86 for further information on some of our flagship employee projects.

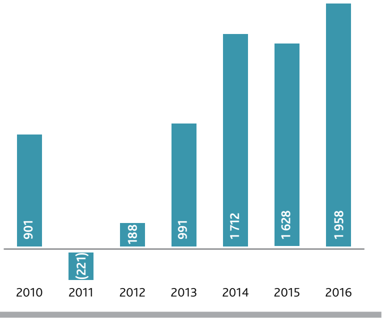
***Income/Losses from associates and joint venture***

The company recorded total losses of R690 million (2015: R155 million). Included in the amount are losses of R622 million, being the company's share (20%) of losses incurred by the Brazilian concessionaire, Aeroporto de Guarulhos Participações S.A. A significant portion of this loss is attributable to finance costs on borrowings and depreciation following commissioning of new infrastructure, which has been further exacerbated by the adverse economic climate within Brazil. The company's share of losses in Mumbai International Airport amounted to R85 million, mainly due to finance costs on borrowings and higher depreciation on the new terminal building (Terminal 2).

## COST TO INCOME RATIO (%)



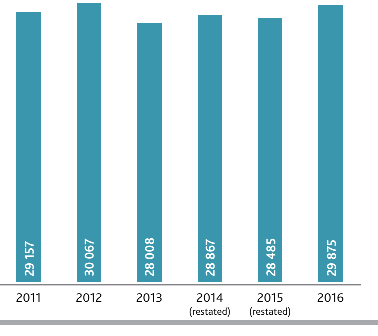

## PROFIT/(LOSS) AFTER TAX (R'MILLION)




## STATEMENT OF FINANCIAL POSITION

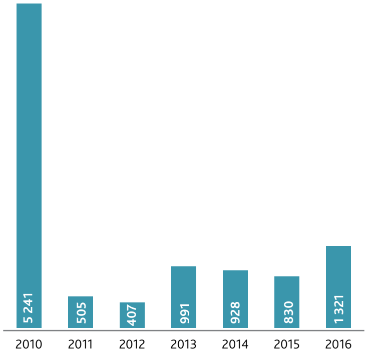
### Value of total assets and capital expenditure

## TOTAL ASSETS (R'MILLION)



# Message from the chief financial officer continued

CAPITAL EXPENDITURE (R'MILLION)

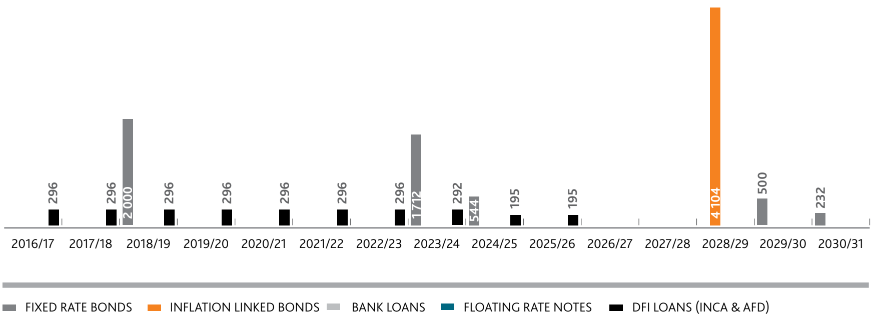



Capital expenditure amounted to R1.3 billion (2015: R830 million) in line with the company's programme. The company had to temporarily halt on new expansion plans amidst the pending Permission Decision; due to projects that were disallowed during the Draft Permission decision (Refer to page 37).

Outlook as set out in the 2017 – 2019 FYs corporate plan: The capital expenditure programme provides for investments of approximately R4.5 billion over the period outlined and the lower investment level is due to the suspension of new major infrastructure projects in anticipation of the adverse permission decision. No major infrastructure activities or programmes are forecast until the 2017 financial year, owing to adequate capacity.

## Liquidity and funding

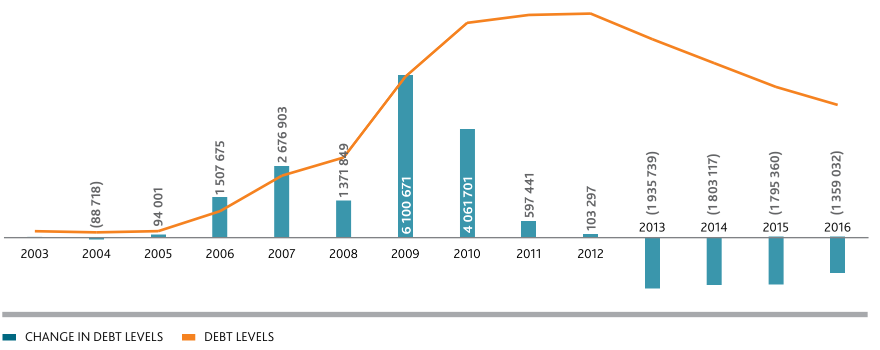
DEBT MATURITY PROFILE (R'MILLION)
as at 31 March 2016




The debt maturity profile has been spread in a manner that allows all maturities to have redemption amounts below the short to medium-term guideline of R2.5 billion, with the exception of the 2028/29 AIRL01 inflation linked bond. The redemption amount on the AIRL01 bond is expected to increase to approximately R4 billion by 2028/29 as a result of inflation accretion and is partly hedged in order to mitigate such accretion. The redemption amount in 2020/21 has been reduced by R750 million during the 2015/16 financial year to approximately R300 million as result of the early repayment of the bank loan.

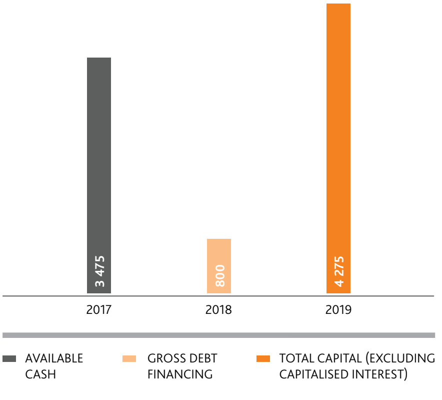
The debt level reduced to R9.8 billion, mainly as a result of repayments of R1.5 billion in line with our early redemption strategy (R750 bank loan) and agreements signed with investors (R606 million on the AIR03 fixed rate bond and R101 million of amortising loans).

DEBT LEVEL (R'MILLION)




Repayment of borrowings for the year totalled R1.5 billion (2015: R1.9 billion). Further information on gearing optimisation and credit rating reviews can be obtained on page 58.

FUNDING REQUIREMENTS AND COMPOSITION: (2017 – 2019 CAPEX PROGRAMME) (R' MILLION)




A total of R2.9 billion will be redeemed over the next three-year funding plan period (2017E to 2019E). The cash carried over, plus cash generated from operations expected over the three years will be able to fund 84% of the capital expenditure programme, while debt will be required to fund 16% during the third year of the aforementioned corporate plan.

**Funding sources**

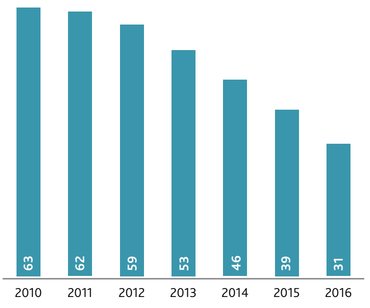
The company expects to meet funding for future infrastructure expansion plans using various funding sources, given our current favourable financial profile. The current credit ratings factors and uncertainty related to the finalisation of the permission have a negative impact on the affordability and cost associated with future infrastructure expansion plans considering that the current Baa2 rating. Refer to the Credit rating reviews section that follows on page 58 for more information.

The bond yields on the company's listed fixed rate bonds have been increasing following trends on government bonds, as the risk of interest rate hikes and possible downgrade of the sovereign rating continue to rise. This would negatively impact the affordability and cost associated with future infrastructure expansion plans, leading to an increment on the current cost of capital.

# Message from the chief financial officer continued

### *Gearing optimisation*

GEARING RATIO (%)




An optimal gearing level is set at 60% debt to equity. We adopted an early debt redemption strategy in 2013, based on our favourable cash position and against the backdrop of our modest investment plan. The company has since repaid approximately R7 billion, which included a R4 billion debt that was redeemed early. This resulted in the reduction of the gearing ratio to below 40% debt to equity level.

### *Credit rating reviews*

As per our stakeholder relations table, available online, the company has subsequent to year-end only remains with one credit rating agency, Moody's. Fitch Ratings has maintained the company's ratings as outlined on the table below. *"Fitch has simultaneously withdrawn the ratings as ACSA has chosen to stop participating in the rating process due to the change in Fitch's regulatory status in South Africa"* (source: Fitch Ratings Press Release 20/5/2016).

In June 2015, Moody's affirmed the Baa2 issuer rating and A2.za national scale rating assigned to us, but changed their outlook from stable to negative. This was primarily due to the increased risks to the financial profile of the company as a result of a draft regulatory proposal published in May 2015. If implemented in its current form, the draft would weaken our credit profile and require the company to radically revise its capital expenditure programme to maintain a financial profile in line with Moody's guidance for the current Baa2 rating. In May 2016, Moody's placed Airports Company South Africa's credit rating under review for possible downgrade following South Africa's deteriorating credit profile. Our government's credit rating was also placed under review for a possible downgrade. The company's Moody's ratings include a one notch rating uplift for the likelihood of extraordinary support being provided by the South African government.

Refer to the table below for further information on their ratings and outlook for South Africa and the company.

| Agency | | Ratings | | Outlook |
|---|---|---|---|---|
| **Company ratings** | **Rating action** | **Long-term local currency** | **Long-term national scale** | |
| Fitch | Affirmed (Unsolicited) | BBB | AA-(zaf) | Negative |
| Moody's | Review for Downgrade | Baa2 | A2.za | Negative |
| **RSA sovereign ratings** | **Rating action** | **Long-term issuer rating (Foreign)** | **Long-term issuer rating (Domestic)** | |
| Fitch | Affirmed | BBB- | BBB | Stable |
| Moody's | Review for downgrade | Baa2 | Baa2 | Negative |

The current ratings were influenced by the following prevailing factors or pros to Airports Company South Africa:

- ownership of a network of key infrastructure assets;
- strong and diverse service area, which includes all major conurbations in South Africa;
- well-invested and appropriately dimensioned asset base; and
- moderately levered financial profile and reasonably conservative financial policy.

The rating agencies informed the company that its ratings are constrained by the following factors:

- a system of economic regulation that deliberately avoids prefunding of capital expenditure, therefore exacerbating fluctuations in the company's leverage whenever a large capital expenditure programme is implemented;
- our exposure to SAA, which currently relies on continued financial support from the South African Government; and
- exposure to the somewhat volatile economic conditions of South Africa, including expected below-trend economic growth and relatively high financing costs.

| Covenants | Requirements | 2016 | 2015 |
|---|---|---|---|
| Credit ratings | Above investment grade (BBB) | **AA-/A2** | AA-/A2 |
| Net debt/capitalisation | Shall not exceed 65% | **31%** | 39% |
| Net debt/EBITDA | Shall not exceed 4x | **1.48x** | 1.95x |
| Government shareholding | At least 50% plus one share | **74.6%** | 74.6% |
| Debt service cover ratio by available cash | On average not less than 1.5x | **3.23x** | 2.08x |

The company is required to comply with the financial covenants agreed upon as part of the loan agreement. Failure to do so could trigger event of default and result in the downgrade of the credit rating of the company. This will consequently threaten our financial sustainability, since the company could be required to settle the entire debt outstanding of R9.8 billion. The monitoring of loan covenants is conducted on a monthly basis to ensure that there are no breaches.

## FINANCIAL FOCUS AREAS GOING FORWARD

Returns are expected to be negatively impacted due to the delays to the permission process, combined with the regulatory decisions in respect of future capital expenditure disallowance. We expect the impact of the substantially lower revenues to be mitigated by the value enhancing initiatives that the company has embarked on to improve the profitability. ROCE is forecast to reduce to 4.7% due to the anticipated 35% tariff decrease which has been assumed for year one of the 2017 – 2019 Corporate Plan. Thus, allocations of capital expenditure relative to our strategy and the permission granted will be key for the next financial year.

Cost optimisation will require rigorous discipline, as will cash flow management including the use of alternative funding for certain key/strategic projects, given the less favourable outlook applied by rating agencies. Streamlining of operating expenses will be aided by our integration of the governance framework and operating model in conjunction with further digitisation of internal processes. Relative to our strategy, continued focus on expanding non-aeronautical revenue will assist in diversification and enhance profitability in line with our Vision 2025.

**MAUREEN MANYAMA CA (SA)**
Chief Financial Officer

# BUILD WIN-WIN PARTNERSHIPS WITH ALL STAKEHOLDERS

## INTRODUCTION

This strategic pillar encapsulates how well we deliver the value our shareholders, customers and stakeholders expect, and how we approach all forms of engagement with them. Airports Company South Africa continuously seeks to develop and entrench stakeholder relationships that are sustainable and mutually beneficial. Highlights of the financial year include the evolution of our stakeholder engagement strategy that further focuses on nurturing the win-win culture we seek and the delivery of exceptional passenger services.

## PERFORMANCE COMMENTARY

Effective stakeholder responsiveness is fully integrated into our business. For this reason, our responses to the significant concerns raised by stakeholders are not discussed in a single chapter, but rather addressed with each of our activities corresponding to the six strategic pillars. For details of our stakeholder identification, classification, engagement and positioning, refer to page 39. Refer to page 46 for our performance against our Pre-determined Objectives.

## ENTRENCH AND DEEPEN PARTNER RELATIONSHIPS

The company focuses on the quality of our relationships, and our interactions with airport operating stakeholders are measured through an annual, externally facilitated stakeholder survey, allowing them to rate their relationship with us on a scale of 1 (poor) to 5 (excellent).

Our airport operating stakeholders are made up of two groups. The first are operational (airlines, security providers, ground handlers and government services providers such as SARS, South African Police Services (SAPS), Immigration, Customs and Port Health). The second group are commercial stakeholders such as retail service providers, car rental companies, financial service providers as well as food and beverage service providers. The airports operation elements assessed are the environment, facilities, people and productivity as well as technology and equipment

The latest feedback from the survey revealed a 0.1 point improvement in ratings compared to the previous year (2016: 3.7 and 2015: 3.6). Upington Airport was our top performer (4.0), followed by King Shaka International Airport, George Airport and Bloemfontein Airport each with a 3.7 rating. The rest of our airports achieved a rating of 3.5 or less, performing below target of 3.7. The results gained are used to inform improvement concepts and develop our win-win approach to all forms of stakeholder engagement.

## SURVEYS

### Airport service quality

Airports Council International (ACI) operates a survey that is globally benchmarked and allows passengers to rate their level of satisfaction while using an airport on a scale of 1 (poor) to 5 (excellent). Overall, our airports maintained satisfactory levels of passenger satisfaction over the last few years, with excellent results at our top three airports (refer to page 13 for more details). Airports Company South Africa's research and quality department engages with our airports monthly, using qualitative analysis and statistics to identify areas for development.

Consistent application of our relationship management strategy is enabling us to show an improvement over last year as well as exceeding the 2016 financial year target.

### RepTrak®

Our brand and how stakeholders perceive our business has the potential to affect our value creation abilities. The company continues to use the reputation research results provided by the Reputation Institute's RepTrak® Survey to identify areas of success or necessary

# Build win-win partnerships with all stakeholders continued

improvement. The system uses a pulse score rating from 0 (poor) to 100 (excellent) for criteria such as products, services, governance, citizenship, leadership performance, innovation and the workplace. Scores are benchmarked against industry peers to enable comparison between similar entities, while industry comparison is made possible through industry benchmarking.

All of our stakeholders are included in the survey, which is performed every second year. The next review will take place in 2017. The company will continue to apply lessons learnt from the previous survey in informing its brand positioning and strategy until we receive the new results.

## INVESTOR ROADSHOWS

Airports Company South Africa conducted a Non-Deal Investor Roadshow that took place from 20 to 24 August 2015 in Cape Town and Johannesburg. Specific matters raised by investors were discussed during one-on-one meetings to gain a deeper understanding of the issues. The common themes discussed in all meetings were mainly focused on economic regulations and visa regulations.

## FUTURE FOCUS AREAS

For the next financial year, we will continue to work on improving our relationship with all our stakeholders. In line with our vision to operate three core business activities, namely Run Airports, Develop Airports and Grow Our Footprint locally and abroad, the company will require constant collaboration and alignment of activities against our three main sustainability filters – our business, people and society, and the environment.

# IDENTIFY AND SECURE NEW BUSINESS OPPORTUNITIES

## INTRODUCTION

Growth and innovation are fundamental to expansion and business evolution. The company places focus on not only building its own operations, but also that of its partners and surrounding communities. Our modified operational structure features a Business Development Division whose mandate involves developing areas around our airports, identifying opportunities for technical advisory and consultancy services, strategic investments and identifying new offerings for our clients.

Highlights during the year include steps to facilitate aerotropolis development at our three main local airports and the implementation of some of the initiatives mentioned in the mandate of the division as per above. Airports Company South Africa also expanded its shareholding in Guarulhos International Airport in Brazil by 5.1% to have a total equity stake of 10.2%. For comparative KPI details, refer to page 46 for our KPI dashboard.

## PERFORMANCE COMMENTARY

Airports Company South Africa spent R385 million (2015: 289 million) on land set aside for non-aviation commercial use. The company aims to consistently realise and grow shareholder value by unlocking and beneficiating its non-aeronautical property assets, which include:

- enabling the identified 1 000 ha at the airports into a R3 billion serviced and zoned land portfolio;
- facilitating top structure (above ground) improvements to create a total investment property portfolio of R30 billion by 2036, subject to land lease terms, and
- within a 50 year period from 2014, generating an estimated future perpetual annuity income of approximately R3 billion per year.

Land to the value of approximately R600 million has been enabled and is ready for top structure developments and the portfolio of locations will be offered to the open market through an open tender process during the 2016/17 financial year. We formed business relationships with target groups, including South African Institute of Black Property Practitioners (SAIBPP), Women in Property and various Chambers of Commerce to engage with their members, offering property development opportunities and to further transformation. Refer to page 69 for more information.

Furthermore, the company is developing a commercial procurement policy to improve transformation effectiveness for the long-term nature of property agreements.

### Land set aside for non-aeronautical commercial use

The company applies increasing focus on development opportunities around its airports, and through partnerships with local government. Our continued hope is to develop aerotropoli at our major operational hubs, namely O.R. Tambo International Airport, Cape Town International Airport and King Shaka International Airport.

Non-aviation assets increased to R385 million (2015: R289 million) and exceeded the prior year's total by R96 million. This is mainly as a result of the purchase of the Denel site in Cape Town International Airport for R155 million and the Airports Company South Africa Office Oval construction. The Jewellery Manufacturing Precinct at O.R Tambo International Airport and hospital near the Bloemfontein Airport are being undertaken by third parties, which have contributed to the total.

# Identify and secure new business opportunities continued

Despite globally challenging economic conditions that led to decreased industrial activity, demand for industrial warehouse space increased and with it, demand for large, custom designed distribution and storage centres. We leverage our location and land sizes at all airports, but in particular at O.R. Tambo International Airport, Cape Town International Airport and King Shaka International Airport.

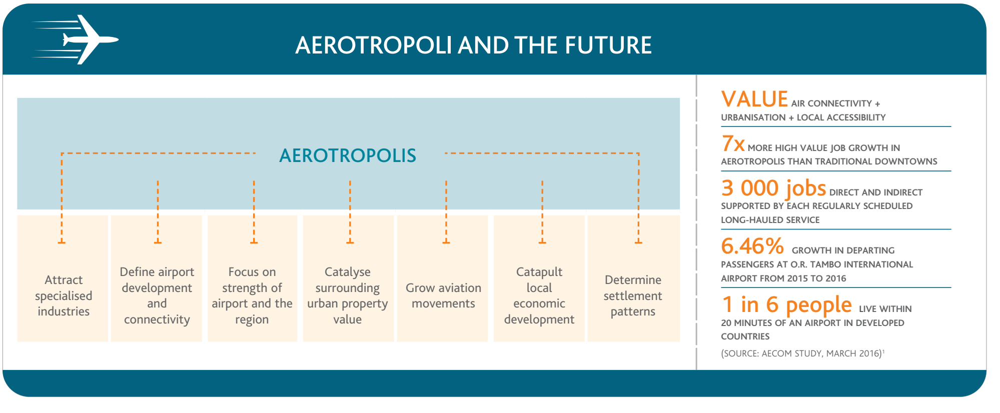
## AEROTROPOLI

The key concept behind an aerotropolis is not merely having an airport at the centre of economic activity, boosting aeronautical and non-aeronautical revenue streams, but rather to create value and increased sustainable long-term growth for the company and our stakeholders within a 20 km radius around our airports. We believe that by 2025, our airports will play a key role in shaping the cities and regions they serve, developing and integrating places where people will live, learn, work and play.

Central and West African airports offer less distance for global transport and cargo travel for logistics businesses and passengers. Although positioned far lower on the continent, the company believes that focused application of the aerotropolis concept in South Africa will attract business and make our airports preferable (due to facilities such as cargo storage and multi-modal transport options) providing the best value in line with global value chain trends. Particularly for cargo movements, which have intensified in the last few years.

## Our local passenger profile

According to the classifications set by the South African Advertising Research Foundation (SAARF) Living Standards Measure (LSM), the company established that a significant portion of its passengers fall into the high LSM categories, meaning that most of our passengers have high levels of disposable income to spend on flights, duty-free items and other products or services. The South African middle class is expanding and international and local flight trends continue to show an upward trajectory. We are ensuring that we are well positioned to provide offerings and facilities that will cater to the needs of current and prospective passengers.




### O.R. Tambo International Airport

The Ekurhuleni Metropolitan Municipality (EMM) took a strategic decision that the aerotropolis concept be pursued to leverage the economic benefits of having the busiest airport on the African continent, the O.R. Tambo International Airport, located within its jurisdiction. The value proposition of this being enhanced economic growth, reducing the cost of business, skills development, further integrating the public transport network, integrated spatial planning, improved logistics networks and handling. Key opportunities such as improving the brand of the region, investing in strategic skills development, transport networks also exist for capitalisation.

[1] *AECOM: Study to determine the feasibility of following an aerotropolis strategy in Cape Town. March 2016: Pages 32 and 236.*

The City of Ekurhuleni presented the approved Aerotropolis Master Plan in November 2015 at an Investor Forum held in partnership with Airports Company South Africa as a strategic partner. The plan details 21 catalytic projects to be delivered within the next 25 years, driving economic growth and expansion. Of these projects, five are closely related to the airport and/or its operations.

The Master Plan details key economic clusters that have been targeted including advanced manufacturing, cargo logistics and e-commerce hubs, retail, aviation, cold storage, training colleges, research and development hubs, ICT, a medical city and tourism.

A governance structure incorporating the Gauteng Province, the City of Ekurhuleni, Airports Company South Africa and various other key strategic partners is in place to monitor and track the implementable of the catalytic projects.

### Cape Town International Airport

Cape Town International Airport has further aligned its future aerotropolis conceptualisations and established an aerotropolis steering committee that includes the City of Cape Town leadership, provincial government leadership and various organised business institutions. The committee's mandate is to provide visionary support, leadership, strategic direction and to perform an enabling role for projects.

Two key catalytic projects were identified – the Symphony Way Development Corridor (SWDC) Project and the Swartklip Development. Both consist of housing, industrial, commercial and public facilities with designated conservation areas.

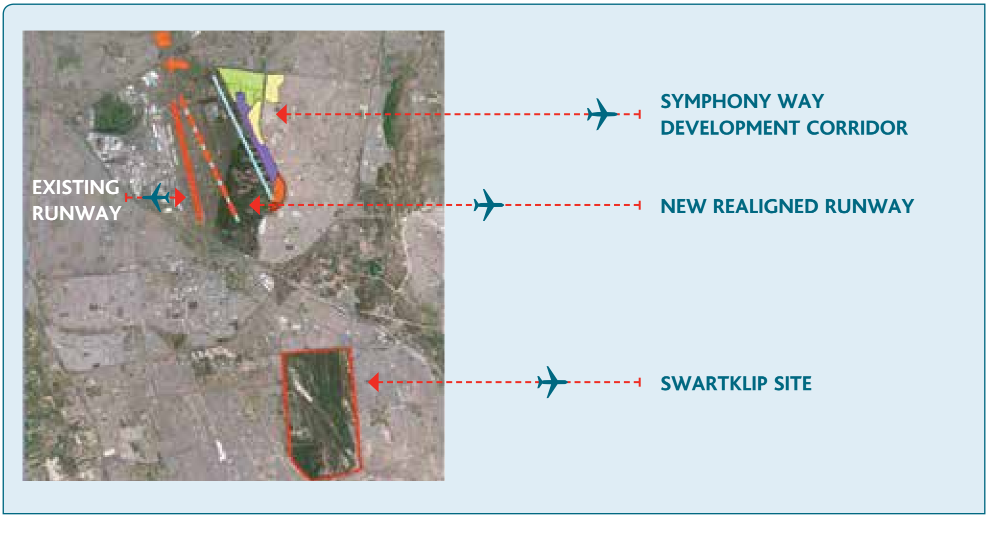
***Symphony Way Development Corridor (SWDC)***

The proposed development is situated to the east of the airport on land adjacent to Symphony Way Road. In February 2015, the company concluded an MoU with the City of Cape Town consisting of the following:

- the relocation of three informal settlements currently situated on and around the airport precinct to SWDC and the development of approximately 2 740 residential units by the City of Cape Town;
- the acquisition and commercial/industrial development of approximately 50 ha of land by Airports Company South Africa; and
- the consolidation and preservation of an ecological area of approximately 79 ha of land by the City of Cape Town.

***The Swartklip Development***

The company recently concluded a strategic acquisition of approximately 500 ha of land situated in the Metro South East area. This Swartklip site, is strategically located in the departure corridor of the new realigned runway planned for completion in 2020 pending various regulatory approvals and ownership secures land use in line with our development plans.



# Identify and secure new business opportunities continued

### King Shaka International Airport

In 2015, the KwaZulu-Natal (KZN) Provincial Government approved the joint aerotropolis strategy developed for King Shaka International Airport and Dube Trade Port Corporation, a purpose built business and logistics company with whom Airports Company South Africa signed a significant public-private partnership agreement in 2006. This year, governance structures were finalised resulting in the formation of working groups to address key areas for further strategic development.

While the platform exists for wide stakeholder input and dialogue, there are still challenges involved in achieving alignment among some of the key stakeholders:

- The delay in the provision of bulk services to the KZN aerotropolis, particularly for sewerage services to the area.
- Large areas of commercially valuable land in close proximity to the airport being designated conservation where development cannot occur. We are fully committed to environmentally sensitive operations and our challenge is to achieve a mutually beneficial balance of conservation and development.

Refer to page 73 for information on our environmental impact and environmentally friendly activities.

## AIRPORT DEVELOPMENTS

### O.R. Tambo International Airport

A focus area for O.R. Tambo International Airport is cargo and logistics development in order to secure further courier and logistics-based business. In close cooperation with the City of Ekurhuleni and the Gauteng Province, we plan to further develop the Midfield Cargo facilities.

The construction of the Unit Load Device (ULD) storage facility will be completed by September 2016, accommodating around 600 empty ULD containers. The use of a stack and rack system will benefit our airline and ground handling partners from a cost and efficiency perspective.

In addition to this, the enablement of two major landholdings is under way:

- The viability of approximately 187 000m² of additional development rights was established. This application is for the Western Precinct of the airport and includes office, retail and hotel rights with a potential total aggregate investment value exceeding R4 billion. The application results will be available late, 2016 calendar year.
- The proclamation of the first phase of 43 ha of industrial zoned land will be completed in the 2017 financial year.

### Cape Town International Airport

Cape Town International Airport is planning to realign its existing runway, moving 220 m to the east with a rotation of 11.5 degrees at a cost of R3.2 billion. We are in the process of completing an Environmental Impact Assessment (EIA). The project will increase the runway capacity by 50%, moving from the current declared capacity of 30 air traffic movements (ATMs) per hour to 45 ATMs per hour. Enabling the facilitation of Code F aircraft such as the Airbus A380 with a capacity of 853 passengers.

An outcome of the EIA process is expected in April 2017. Should a favourable environmental authorisation be received with all other regulatory approvals, we estimate that the new runway will to be operational by 2020.

## INTERNATIONAL AIRPORT MANAGEMENT CONTRACTS

The company continues to obtain income through airport-related technical advisory, management services and training provided to non-company airports in Brazil, India and Ghana. These opportunities provide low-risk income with high networking and relationship building potential. In Brazil, we doubled our interest in the Special Purpose Entity (SPE) from 10% to 20%. This advancement increased our equity in Guarulhos International Airport from 5.1% to 10.2% and demonstrates our confidence in the viability of this airport concession.

## LOCAL AIRPORT MANAGEMENT CONTRACTS

The company is committed to strengthening the South African aviation industry through technical advisory and management contracts. Two new relationships are in place with more being cultivated.

### Wonderboom

In February 2016, the City of Tshwane appointed Airports Company South Africa to assist with the compilation of an airport security plan and manual for the airport. This contract is expected to start in the new financial year. The company and the City of Tshwane are investigating further opportunities to grow this relationship.

### Mthatha

Through a public and competitive tender process, the Eastern Cape Department of Transport awarded the company with a management contract for the operation and maintenance of Mthatha Airport to commence in the next financial year. The period of the contract is five years. We have also been contracted to provide technical design and project management services for the upgrade of the airfield and ground lighting system for the airport.

We continue to explore and negotiate a number of local opportunities with national and city airports not owned by Airports Company South Africa. The board believes that the development of other South African airports is essential to making air travel easily accessible to the broader South African community.

## KNOWLEDGE-SHARING PARTNERSHIPS

In order to spur collaborative innovation and further entrench win-win partnerships internationally, the company has begun to engage with Flughafen München GMBH (Munich Airport) on a knowledge-sharing basis, where each entity sends a delegation to visit the airport(s) of the other annually, exchanging knowledge and sharing business/operations practices. Munich Airport is one of Europe's busiest, most efficient and best performing airports, and was hosted by Airports Company South Africa during February 2016. We will send our own delegation to Germany in the course of the year.

The delegations for these in-country (Germany and South Africa) visits are composed of teams with the expertise and knowledge required to reap the greatest benefits from the exchange, based on the phase of operation in process. Presently, the two companies has three agreed phases of collaboration, which represent improvement focus areas for both parties:

| PHASE 1 | PHASE 2 | PHASE 3 |
|---|---|---|
| Has already experienced significant traction, and relates to airport operations and security, IT, quality management systems, customer care, corporate affairs, retail and parking. | Following phase 1, most likely within the new financial year, this phase relates to matters of aviation infrastructure development and real estate development. | Further security elements, digitisation and multi-media, green airport concepts and infrastructure asset management activities. |

# Identify and secure new business opportunities continued

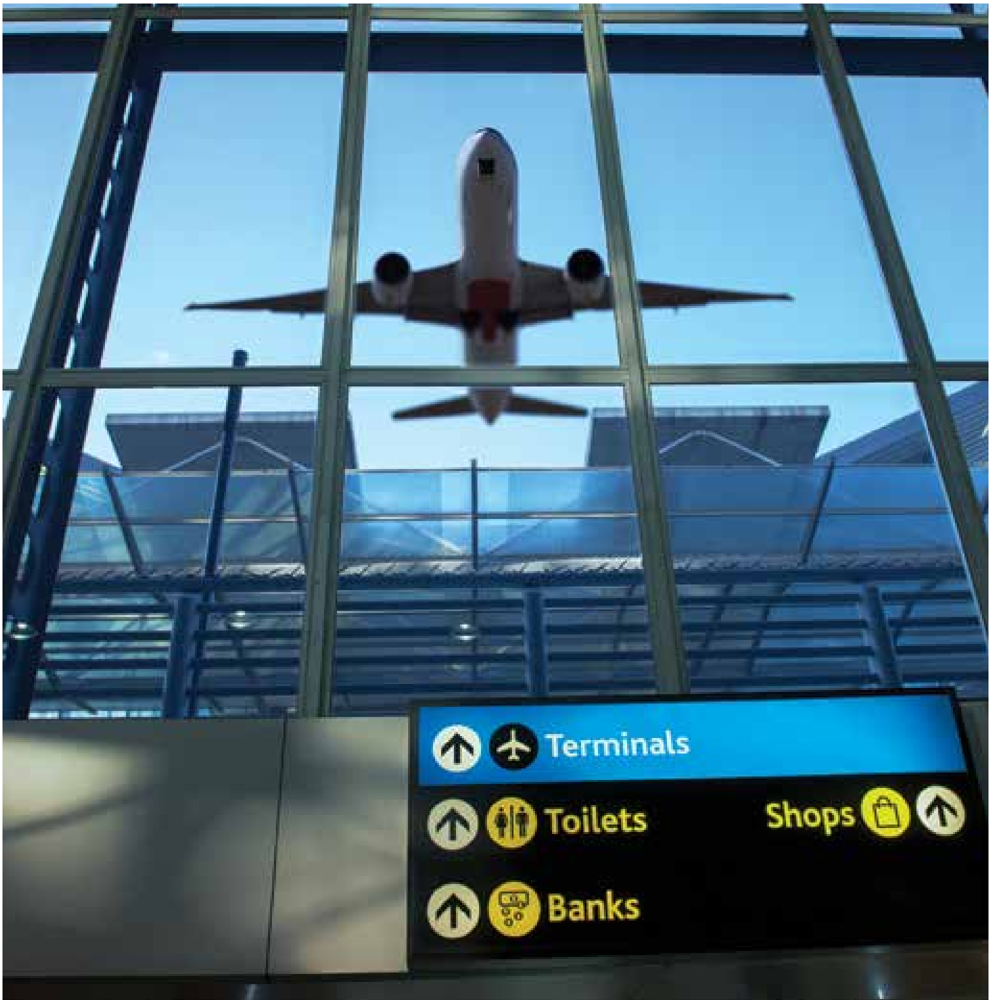
## TRAFFIC DEVELOPMENT

Traffic development is a responsibility of the newly formed Business Development Division and will provide the organisation with focus on growing the aeronautical sector (passengers and cargo) of the business. Refer to the operating model on page 17 for operational positioning in our business. Our business has a strong partnership with key stakeholders within the aerotropolis steering committee, enabling robust consultation and discussion for planning and infrastructural issues.

We presented our offerings to 35 airlines at the World Routes Conference in September of 2015, held in Durban. As a direct result of these engagements, Air China and Fastjet commenced operations at our airports in October 2015. Another outcome was the development of four new international routes into King Shaka International Airport – Doha, Istanbul, Addis Ababa and Lusaka. At Cape Town International Airport, Kenya Airways, KLM Royal Dutch Airlines and Lufthansa have expressed interest in increasing their flight frequencies in the next financial year.

## FUTURE FOCUS AREAS

Securing further technical advisory and consultancy services contracts, investigating business development options via our newly established Business Development Division and leveraging our relationships to develop our aerotropoli will be the areas of focus in the next year.



# ACCELERATION OF SUSTAINABILITY AND TRANSFORMATION PROGRAMMES

## INTRODUCTION

In creating value and operating sustainably, the company remains committed to transformation, sustainable social and economic development as well as achieving a workforce diversity representative of our country. Further to this, we strive to operate our business in an environmentally sensitive and responsible manner.

## PERFORMANCE COMMENTARY

### CREATING JOB OPPORTUNITIES

The company's ability to create job opportunities is directly related to our capital expenditure, discretionary operational expenditure and cost of debt. These elements are key drivers of estimated job opportunities created. Direct, indirect and induced job opportunities are estimated.

We exceeded our job creation target for the year by 1 139 with a total of 23 505 (2015: 22 063) opportunities.

### B-BBEE LEVEL

The company was assessed according to the 2009 Transport Sector Codes and maintained its B-BBEE Level 2 rating as the new codes are yet to affect the company. Our targets for retail involvement from black people were met through calculated initiatives to attract new business (refer to page 71 for more information).

We further focused on employees in an effort to boost education levels for computer literacy and technical skills. More active attention will need to be applied to improving our performance in the achievement of the people with disabilities target which was not attained this year. We continued to integrate enterprise development beneficiaries into the supply chain while further embedding transformation imperatives into the procurement process and received a total score of 94.17 (2015: 90.36) out of a target score of 100 for our B-BBEE scorecard (with a Preferential Procurement recognition level of 125%), an improvement that reflects our efforts in this area.

### COMMUNITY DEVELOPMENT AND SOCIAL UPLIFTMENT

#### Property transformation engagement

Airports Company South Africa intends to make property development opportunities available to all members of the market through open, transparent, fair and equitable processes. Interactions take place through the following mediums and with the following entities:

- Property developers, end users, brokers, public and private sectors as well as stakeholder associations' members.
- Previously Disadvantaged Individuals (PDIs) and Previously Disadvantaged Enterprises (PDEs).
- We successfully engaged with key target market associations such as the South African Institute of Black Property Practitioners (SAIBPP), Women in Property and Chambers of Commerce.

#### Construction transformation

Partnering with construction industry stakeholders, the company continuously seeks to build enterprise development programmes aimed at empowerment. During 2016, we identified the following major projects for pilot initiatives:

- O.R. Tambo International Airport: Short-term rehabilitation of R250 million over five years with a contract participation goal target at 5% per year;
- Cape Town International Airport: Oval office park for R53 million over two years with a contract participation goal target of 60%; and
- Cape Town International Airport: New domestic arrivals terminal for R360 million over two years with a contract participation goal target set at 40%.

# Acceleration of sustainability and transformation programmes
continued

We further committed a minimum of 5% of our overall refurbishment and capacity investments to be targeted at enterprise development. Over the next five years, we will be focusing on designing robust policies and procedures aimed at aligning our strategy to better position ourselves in the construction industry to further sustainable change.

### Socio-economic development

Our socio-economic development strategy places emphasis on programmes that:

- promote sustainable community development in areas where the Group does business;
- improve the lives of the previously disadvantaged and assist youth development; and
- promote the sustainability of the environment.

Our support is geared towards improving the quality of life of South Africa's most vulnerable segments of society focusing on women, youth, and people with disabilities. During 2016, we spent R54.9 million (2015: R56.4 million) on socio-economic development programmes.

## SELECTED 2016 SOCIO-ECONOMIC DEVELOPMENT PROGRAMMES

**Tshimologong Precinct Digital Innovation Programme.**
Tshimologong is a Setswana word meaning 'new beginning' and is set to be synonymous with urban regeneration. This Information and Communications Technology (ICT) innovation training programme is being operated through the University of Witwatersrand and encourages job creation through skills and enterprise development programmes in central Johannesburg. The company donated R5 million towards this programme for the benefit of school children, unemployed youth and students.

**Wheelchair Tennis South Africa (WTSA) Donations Programme**
The company has supported WTSA for 11 years, assisting players to reach for world rankings and compete in international tournaments such as the US Open, British Open and the Australian Open. This was our flagship project and benefited over 600 participants in 50 centres across the country. This year, we increased our spend to R9.1 million to support WTSA preparations for the Paralympic Games in 2016.

**Ludeke Primary School's Renovation Programme**
The company supports the rehabilitation and rebuilding of Ludeke Primary School in the Eastern Cape Province and recently, learners moved out of prefabricated classrooms this year into seven new and modern classrooms constructed at a cost of R11.3 million. This follows the construction of ablution facilities for the school in 2014.

**CEO's Priority Projects Ad-hoc Philanthropic Interventions**
This R1.7 million budget is allocated at the Chief Executive Officer's discretion, and this year included a variety of projects such as software donations for 40 computers at ML Mandela Primary School in Mvezo in the Eastern Cape and the Mpumalanga Schools Shoes Donation as part of a back to school project led by the Deputy Minister of Transport.

## ATTRACTING NEW RETAIL ENTRANTS AND INCREASING EQUITY OWNERSHIP

We increased our enterprise development spend by 16% to R83.7 million (2015: R70.2 million) and the company will pursue black business entrepreneurship where appropriate through increasing the share of operational and developmental opportunities as well as commercial revenue opportunities. People with disabilities are included in this strategic mandate set out in our 2017 – 2019 corporate plan.

While there are other categories for enterprise development within our value chain, most progress to date was made in our non-aeronautical revenue industries such as retail, car rental and advertising via engagements that allow smaller businesses to compete at the same levels as larger opposition, focusing on quality results and development. In the retail environment for example, a board-approved retail transformation strategy is in place which encourages wider participation from micro enterprises, women, people with disabilities and youth.

### OUR APPROACHES TO ENTERPRISE DEVELOPMENT

To further ensure that an environment exists for small/new enterprises to flourish, we are committed to the following initiatives in our 2016 – 2018 corporate plan:

- Going forward, 15% of all opportunities will be set aside for micro enterprises, black women, people with disabilities and South African youth.
- In addition, 50% of those opportunities will be reserved for black women, youth and people with disabilities.
- The company will restructure elements of credit terms within the contracts of micro enterprises, black women, people with disabilities and South African youth to provide reasonable relief within the realm of the company's risk appetite.
- Banks providing favourable funding will be encouraged to partner with us during roadshows aimed at campaigning the awareness of potential opportunities.
- Major franchisors will be engaged to ensure that they make opportunities available for new entrants.

# Acceleration of sustainability and transformation programmes
continued

### Preferential procurement

| Preferential procurement analysis[1] | 2016 % | 2015 % | 2014 % | Commentary |
|---|---|---|---|---|
| B-BBEE procurement spend from all empowering suppliers based on the B-BBEE procurement recognition levels as a percentage of total measurable procurement spend (TMPS). | **110** | 104 | 108 | The drive to ensure that our suppliers are B-BBEE compliant led to an increased spend of 6%. |
| B-BBEE procurement spend from all empowering suppliers that are qualifying small enterprises based on applicable B-BBEE recognition levels as a percentage of TMPS. | **23** | 27 | 31 | Initiatives devised to incorporate transformation initiatives in procurement processes experienced minor challenges which affected the inclusion of some small enterprises during the year. |
| B-BBEE procurement spend from all exempted enterprises based on applicable B-BBEE recognition levels as a percentage of TMPS. | **8** | 11 | 10 | Integrating small enterprises into our procurement process continues and with development programmes to improve future results. |
| B-BBEE procurement spend from all empowering suppliers that are at least 51% black-owned based on applicable B-BBEE recognition levels as a percentage of TMPS. | **47** | 35 | 46 | The achievement is a result of our emphasis on doing business with enterprises that embrace our transformation objectives and including includes those willing to sub-contract to enterprise development suppliers during major projects. |
| B-BBEE procurement spend from all empowering suppliers that are at least 30% black women-owned based on applicable B-BBEE recognition levels as a percentage of TMPS. | **30** | 20 | 21 | There has been a marked improvement in procurement spend from black women-owned suppliers which resulted in the set target of 30% percent being met. |

### FUTURE FOCUS AREAS

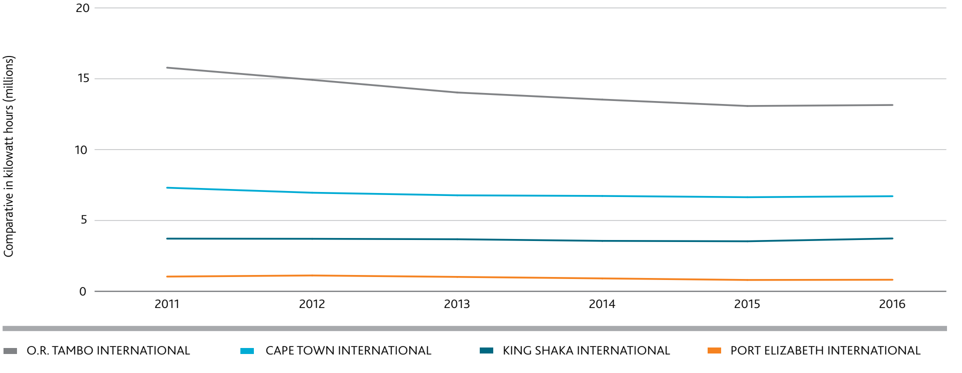
The future focus areas are to support education, the youth, women, people with disabilities, our environment, and employee volunteer initiatives. Our expansion and development initiatives will continue to carry a strong sustainability and empowerment theme as part of our transformation and business evolution ambitions. The creation of job opportunities and the acceleration thereof will remain paramount for improvement going forward.

[1] *Although some metrics are outlined in percentage, the company applies an equivalent rand value for reporting purposes.*

## ENVIRONMENTAL SUSTAINABILITY

Airports Company South Africa manages its environmental initiatives through an Environmental Management System (EMS), which ensures compliance with the relevant legislation and assists with ensuring continuous improvement of environmental performance. In the interests of materiality and conciseness, the top four company managed airports (by revenue) are profiled statistically in this section with other airports featuring when relevant. For details of some environmental projects that we are involved in, such as our photovoltaic plants and water saving initiatives at our facilities, go to www.airports.co.za.

### ELECTRICITY CONSUMPTION AT TOP FOUR AIRPORTS



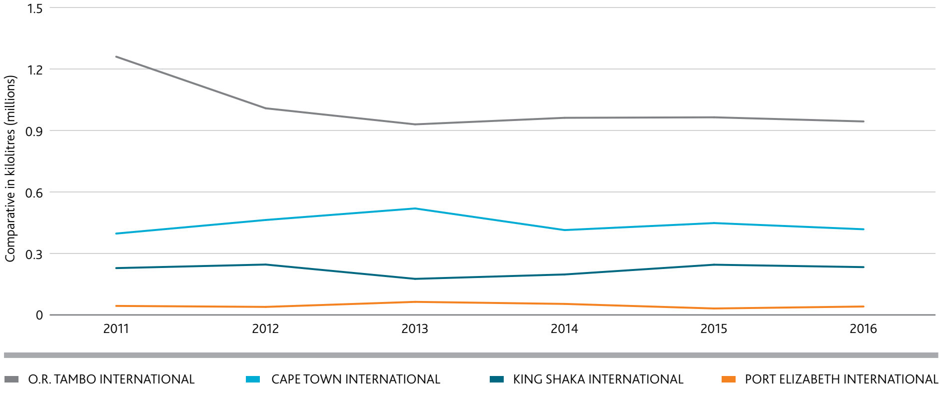

### ELECTRICITY CONSUMPTION

- Until the 2015 financial year, O.R. Tambo International Airport reflected a decline in electricity use year-on-year. The 698 827 kWh increase in consumption in 2016 is attributed to infrastructure development, increased flight numbers and as a result, increased electricity demands. This applies to all four of our major airports.
- Cape Town International and Port Elizabeth International airports also experienced marginal increases of 1.05% and 1.86 % respectively. The decreased electricity consumption can be ascribed to the implementation of energy-saving initiatives, particularly in the airport buildings. Port Elizabeth International Airport is introducing a building management system (This will allow more accurate monitoring and reporting of consumption while generating more precise meter readings) and a photovoltaic plant is to be completed 2016/17 year, providing 1.5 MWh of electricity.
- Although King Shaka International Airport increased its electricity consumption by 1 974 990 kWh since last year, we foresee an improvement once the Energy Management System (ISO 50001: 2011) is implemented. Increases were a result of an increase in the number of users, following a higher number of flights as three airlines started operating at King Shaka International Airport towards the end of 2015.

# Acceleration of sustainability and transformation programmes
continued

## WATER RESOURCE MANAGEMENT

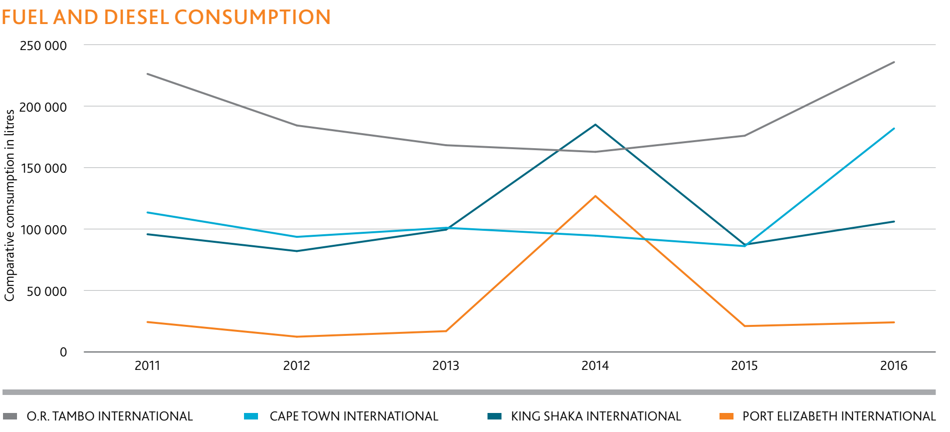
### WATER CONSUMPTION AT TOP FOUR AIRPORTS




Water consumption continues to decrease below the annual peak consumption experienced in the preceding years, because of water savings initiatives such as:

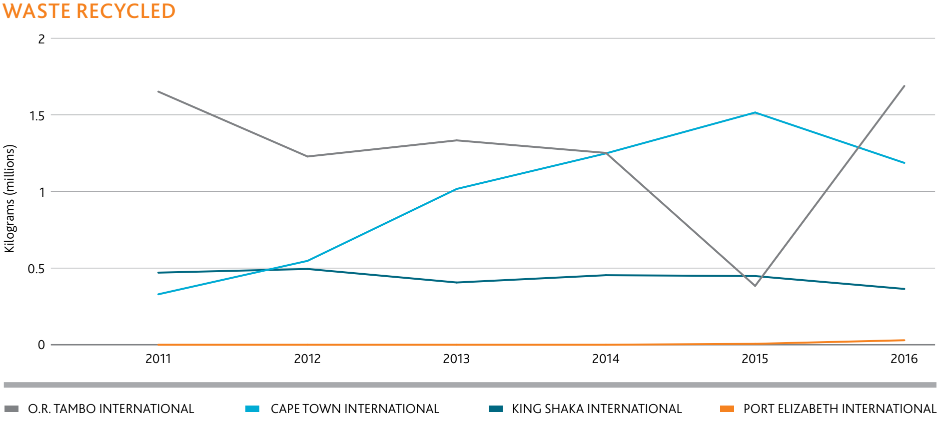
- the use of borehole water for irrigation purposes at O.R. Tambo International Airport and King Shaka International Airport;
- the ground filtration system installed at Cape Town International Airport, which will assist with irrigation as well as upgrades to the fuel depot water drainage system, with the aim of improving the quality of the storm water run-off leaving the airport depot;
- King Shaka International Airport's continued treatment and reuse of water from its two waste water treatment plants (the treated water from the sewage plants is reused for hydroponics and to irrigate the sugar cane fields adjacent to the airport); and
- upgrading of water reticulation networks to eliminate water leakages to the ground and water harvesting activities at Port Elizabeth International Airport.

## FUEL AND DIESEL CONSUMPTION




Comparative fuel consumption for O.R. Tambo International Airport increased by 59 889 litres of year-on-year. Cape Town International Airport experienced a 95 720 litre increase, predominantly as a result of increased generator usage as a result of electrical faults in the year. King Shaka International Airport and Port Elizabeth International Airport experienced increases of 18 764 and 3 022 litres respectively as a result of an expanded vehicle fleet and an increase in the number of bird patrols taken by bird and wildlife officers. The replacement of vehicles with smaller engines and diesel propelled engines continues at some airports and we continue to investigate means to further decrease fuel and diesel consumption across the Group.

## WASTE RECYCLED



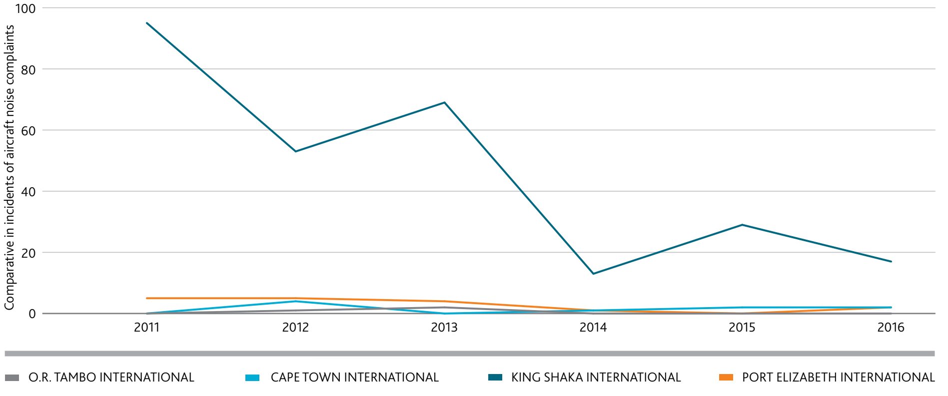

Waste recycling is a requirement of the National Environmental Management: Waste Act, No. 59 of 2008. There was a significant increase in the amount of recycled waste at O.R. Tambo International Airport (1 304 607 kg increase) and Port Elizabeth International Airports (23 368 kg increase), primarily due to the implementation of new integrated waste management plans. In addition, O.R. Tambo International Airport appointed a new service provider for managing waste collection and recycling, which assisted effectiveness.

Cape Town International Airport and King Shaka International Airport continued with their waste management awareness campaigns while seeking alternative opportunities of diverting waste away from landfills. Bram Fischer International and Kimberley airports constructed on-site waste management facilities where recycled waste is sorted, measured and recorded.

# Acceleration of sustainability and transformation programmes
continued

## NOISE MANAGEMENT

### INCIDENTS OF AIRCRAFT NOISE COMPLAINTS FOR FOUR AIRPORTS

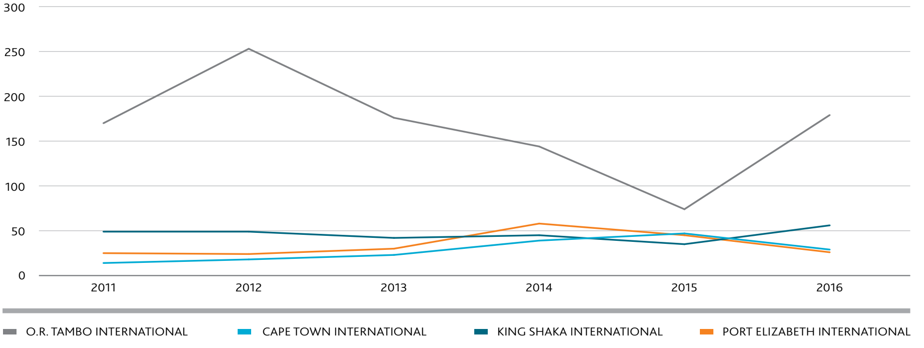



The SACAA promulgated Civil Aviation Regulations and Technical Standards on aircraft noise monitoring equipment including the calculation and prediction procedure for aircraft noise contours around airports. The aircraft noise monitoring equipment installed at O.R. Tambo International Airport, Cape Town International Airport and King Shaka International Airport comply with these requirements. The calculated and predicted aircraft noise contours at our airports comply with the newly published regulations and standards, and a review will be carried out in 2016/17.

Overall, aircraft noise complaints continue to reduce, primarily due to compliance and interaction with affected parties through noise consultative committees at various airports. A reduction in cargo flights in the early morning and evening at King Shaka International airport is the cause of the reduction in noise complaints between 2016 and 2015.

## BIRD STRIKES AND BIODIVERSITY

### BIRD STRIKES FOR TOP FOUR AIRPORTS




The overall upward trend in the amount of bird strikes at our airports is a result of increased air traffic movements. Three new airlines began operating at King Shaka International during the year. O.R. Tambo International's 105 increase in bird strikes is attributable to an increase in air traffic movements.

In order to protect wildlife and birds and ensure the best possible levels of operational safety, the company has bird and wildlife management programmes in place at all of our airports. We also support BirdLife South Africa, an organisation for the rehabilitation of birds, particularly those that are endangered.

## AIR QUALITY, EMISSIONS

Aviation contributes approximately 2% of total global carbon dioxide emissions.

O.R. Tambo International Airport, Cape Town International Airport and King Shaka International Airport continue to measure and report on air quality monitoring. No transgressions to the National Ambient Air Quality Standards and SANS 1929 Ambient Air Quality Standard were reported at these airports for the past financial year, and all parameters measured were below the legislated limit.

## FUEL SPILLS

No significant fuel spills were reported. However, three significant effluent spillages occurred at King Shaka International Airport and all were reported to the Department of Environmental Affairs in terms of Section 30 of the National Environmental Management Act. No fines were levied for non-compliance.

## COMPLIANCE WITH LAWS AND REGULATIONS

To pursue continuous environmental improvement and performance, the objective for environmental management over the next three years is to achieve the International Organisation for Standardization (ISO) 14001 Environmental Management System Certification (ISO 14001) at all our airports.

ISO 14001 certification of our airports takes place in a phased approach. Five of our local airports are ISO 14001 accredited and a gap analysis was undertaken in preparation to certify the remaining four airports over the next two years, namely O.R. Tambo International Airport, King Shaka International Airport, Bram Fischer International Airport and Kimberley Airport. Performance in this area met the KPI target of the preparation of a gap analysis and implementation plan for certification.

## FUTURE FOCUS AREAS

Our activities for the next year will centre on optimisation to deliver long-term benefits for our operations while reducing our environmental footprint. Examples include our photovoltaic activities (see our online report for further details: www.airports.co.za). In line with our transformation guidelines and business evolution principles, providing opportunities for empowerment and small business development will remain paramount to our concept of successful sustainable operations.

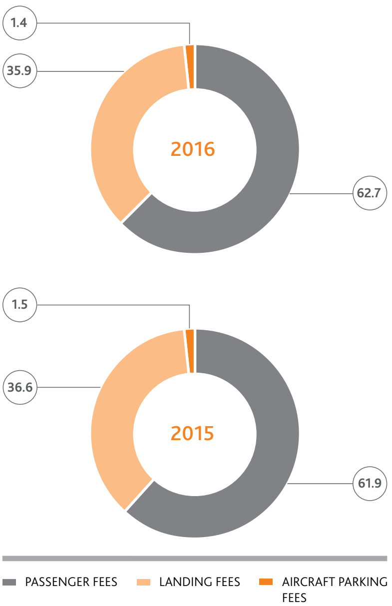
# STRENGTHEN BUSINESS EXCELLENCE

## INTRODUCTION

At Airports Company South Africa, the way we do business is evolving. We believe that enhancing our operational effectiveness relies on utilising the strengths of our people, processes, technology and strategy. The new operating model considered our future challenges and opportunities and help position our business of tomorrow, today. Highlights include the continued implementation of our governance framework and operating model, meeting safety, security and customer service KPIs for the year and continued integration and upgrades to our IT framework in line with our operational evolution.

## PERFORMANCE COMMENTARY

### AERONAUTICAL REVENUE (%)




## AERONAUTICAL PERFORMANCE

The key focus of our aeronautical activities is the facilitation of safe, secure and efficient movement of passengers, aircraft and cargo through our airports. In addition, we engage in activities such as airport planning, infrastructure development management, safety, compliance, environmental care and service standard monitoring.

The Permission Decision delay will have an adverse impact on inbound bulk services infrastructure, reflected in the reduced number of airline parking bays developed at O.R. Tambo International and Cape Town International airports. For detail on the fluctuations in the tariff as a result of the Permission Decision, refer to page 37.

The 11.3% change in domestic departing passenger numbers is largely a result of increased local airline frequencies, leading to competitive air fare rates. Domestic aircraft movements increased by 6.9%, driven primarily by the decline in fuel prices that enabled increased flight frequencies. International passenger movements are all operations outside our borders with the exception of Namibia, Swaziland, Botswana and Lesotho, which we classify as regional. International departing passengers increased by 3.1% and aircraft traffic movements are up 1%. Although the frequencies are lower, some carriers increased their airline model sizes, allowing for the international passenger increase stated. In addition, the favourable exchange rate, tourist attraction and relaxation of visa regulations assisted in boosting movements.

### Passenger and airline numbers

International passenger numbers grew despite an expected negative impact due to disease (for example, the Ebola epidemic in West Africa), global terrorism and the implementation of the unabridged birth certificate requirement by South Africa for children.

**Group aeronautical performance at a glance**

| | Measure | 2016 target | 2015 target | 2014 target |
|---|---|---|---|---|
| Domestic | Domestic departing passenger number | 13 401 955 | 12 036 466 | 11 701 577 |
| | Percentage growth in domestic departing passengers | 11.3% | 2.9% | (2.2%) |
| | Domestic arrival movements[1] | 142 039 | 132 922 | 125 956 |
| | Percentage growth in domestic arrival movements | 6.9% | 5.5% | (0.3%) |
| International | International departing passenger numbers | 5 361 189 | 5 198 070 | 5 116 779 |
| | Percentage growth in international departing passengers | 3.1% | 1.6% | 4.1% |
| | International arriving movements[1] | 36 803 | 36 569 | 38 315 |
| | Percentage growth in international arrival movements | 0.6% | (4.6%) | 6.0% |
| Regional | Regional departing passenger number | 540 588 | 531 211 | 518 989 |
| | Percentage growth in regional departing passengers | 1.8% | 2.4% | 6.4% |
| | Regional arriving movements[1] | 13 073 | 12 157 | 11 131 |
| | Percentage growth in regional arrival movements | 7.5% | 9.2% | (1.1%) |

### Customer care

Self-drop baggage counters with online check-in options are being evaluated at four counters at O.R. Tambo International Airport, to provide increased speed and convenience for passengers. Cape Town International Airport is exploring the implementation of a self-boarding gate that will provide automation and increased accuracy, allowing the repurposing of some boarding gate employees. We developed and other innovations to enhance our passenger experience (e.g. Free wifi at our airports will be increased from 30 minutes/50 MB to 4 hours/1GB from June 2016) and smartphone application. The awards and accolades we received (refer to page 13 for detail) are a further reflection of the importance we place on customer care.

### On-time departures

Despite not meeting the target of 87%, by 0.03%, for this KPI, our airports performed well against a backdrop of extra-ordinary growth and capacity constrain in peak hours (refer to page 46 for our KPI dashboard). The pockets of improvement experienced this year are a result of consolidated efforts between the company and its partners to improve performance and reduce operational costs.

The new slot regulation was fully enforced this year, focusing primarily on the airport planning and execution requirements for slots, and not on the airline's commercial schedule as was the case in the past. This change led to some misuse and negatively influenced on-time performance. O.R. Tambo International Airport was severely affected by adverse weather conditions

[1] *All mention of arrival movements relate to the number of flights which is different to departing movements which relate to the number of passengers.*

# Strengthen business excellence continued

in 2016, particularly in terms of lightning activity – ramp resources were withdrawn on a number of occasions to ensure safe operations for both airport staff and passengers. This coupled with the pressure of positive growth in passenger numbers and aircraft movements resulted in an increase in rotational delays and therefore further impacted the network's performance negatively.

Through strong collaboration with airlines, airside service providers, airport authorities and air traffic control have decreased their contribution towards total delays, assisting airlines to minimise the impact of factors that affect overall performance. In 2016/17 we will focus strongly on areas that cause delays and initiatives around constrained resources, particularly aircraft parking stands and boarding gates. This will ensure that inefficiencies are eliminated and resources are managed optimally.

### Cargo

Value chain trends internationally continue to show an increased demand for cargo movement and storage. As part of its aerotropolis development plans, we are establishing cargo facilities to link with multi-modal transport options for ease of service for logistics and use by freight companies (refer to 64 for further information).

O.R. Tambo International Airport in particular is developing its offering to better serve the 14 different cargo carriers who currently fly into the airport through projects such as the Midfield Cargo development, this will relieve pressure from current operations in the Western Precinct. International cargo movements are expected to increase by 5% for O.R. Tambo International Airport, which is above the world average of 2.1% (according to World Air Cargo Market Data). This airport supports the movement of 391 647 tons of cargo per year and company-wide, and our airports support the movement of 475 695 tons of cargo per year according to the airlines cargo operators committee (ACOC).

### Safety

The company achieved a 0.662 ratio against a target of 0.700 for aviation safety incidents and accidents (calculated by number of incidents per 1 000 movements). The performance can be attributed to many initiatives that include regular airside safety committee meetings, safety campaigns and monthly stakeholder engagements.

A safety management system (SMS) was implemented during the course of the year to license partners and our company to operate in a safe manner. Despite the prevalent challenge of aligning multiple stakeholders and safety cultures to our standards and requirements, we strive to ensure that passengers and stakeholders can interact at our facilities with the knowledge that safety and security are top of mind.

### Security

The company is aware of the numerous international security threats affecting the aviation industry and remains vigilant with the aim of being adequately prepared for threats and security events. Our airports are national key points that require exemplary levels of security and together with our partners, stakeholders and employees, we can maintain and improve security at our facilities.

Our security teams are compliant with all training requirements as prescribed by the South African Civil Aviation Authority (SACAA) regulations and our Airport Security Programme received approval from the SACAA.

We are in the process of exploring a concept known as Smart Security.

This risk-based security concept envisions a continuous journey where passengers proceed from curb to airside with minimal inconvenience. Security resources are allocated according to expected risk areas and where airport facilities can be optimised. An international organisation will assist the airport with a trial on Smart Security in October 2016.

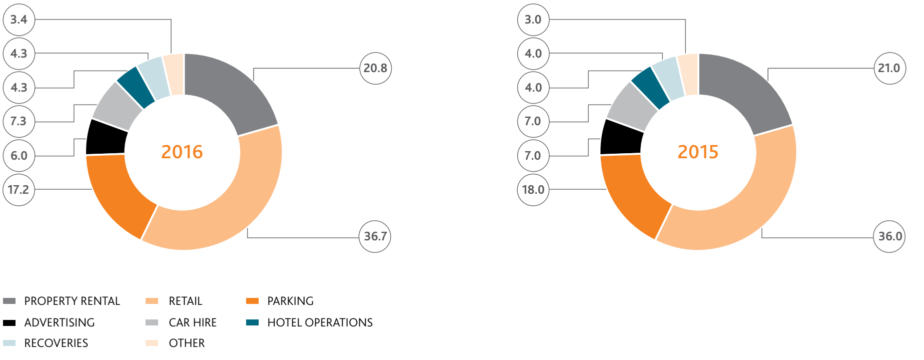
In June 2015, a British Airways flight from Johannesburg to Heathrow airport in London carried two stowaways. The first was found unconscious, where he had hidden in the airplane's undercarriage. The UK Police found the second man, deceased, on an office roof on the flight path to the airport, and confirmed that he had fallen from the same plane. Airports Company South Africa found, through a full investigation, that the stowaways gained access by scaling the perimeter fence; while it is unclear exactly where the breach happened, the company has implemented measures to prevent future incidents.

### Airport parking bays and storage

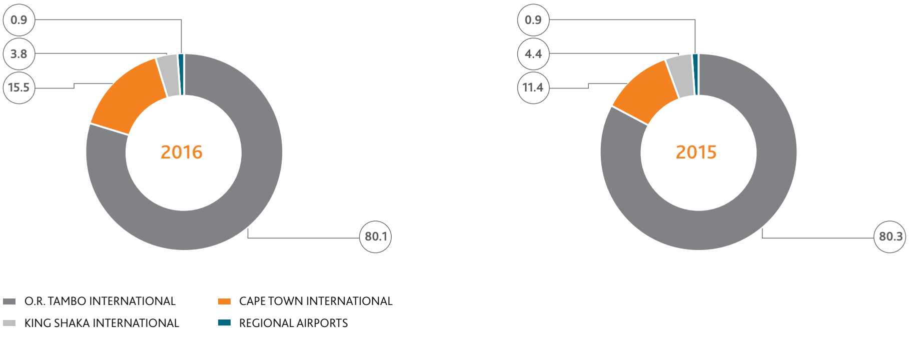
O.R. Tambo International Airport intends to achieve an additional Code F parking bay for wide-body aircraft through the Delta 1-13 project allowing for more versatile use of the current aircraft parking bays. The project was completed in May 2016, as per schedule.

Our Alpha apron passenger boarding bridges were replaced with more modern automated JBT Jetway bridges to improve our passenger experience while providing improved availability, ease of operation and ease of our business.

## NON-AERONAUTICAL REVENUE (%)




## RETAIL REVENUE BY AIRPORT (%)




## NON-AERONAUTICAL ACTIVITIES

Our non-aeronautical activities include retail, car parking, property management and development, advertising and car hire. In addition, we provide technical advisory and consultancy services for concessions and consultancy services within and beyond South Africa. Total revenue from non-aeronautical activities amounted to R3.1 billion (2015: R2.8 billion).

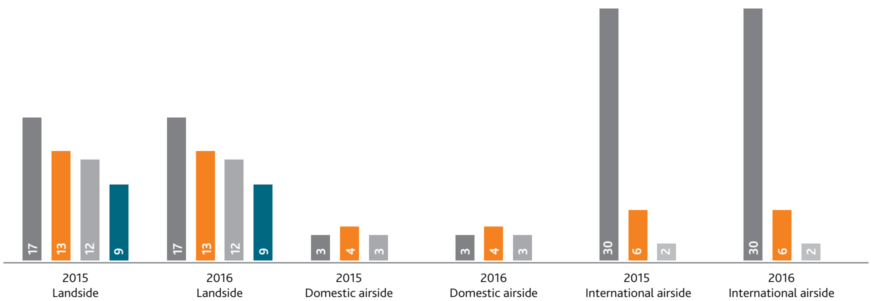
### Retail activities

| Total retail revenue | 2016 actual | 2015 actual | 2014 actual |
|---|---|---|---|
| Average retail area | 36 409 | 36 409 | 36 409 |
| Euro exchange rate | 15.38 | 14.00 | 13.62 |
| Dollar exchange rate | 13.89 | 11.07 | 10.14 |
| Retail income (R'm) | 1 141 | 1 011 | 909 |
| Passengers | 19 374 | 17 845 | 17 438 |

O.R. Tambo International Airport continues to be our leading retail revenue airport at R915 million, primarily due to flight frequencies and organic growth. Cape Town International Airport increased revenue by R29 million to R174 million (2015: R145 million) resulting from annual contract escalations and higher turnover rentals arising from passenger growth and retail spend influenced by the strengthening of major foreign currencies compared to goods priced locally. King Shaka International Airport experienced a decline of R2 million to R43 million (2015: R45 million) due to lowering rentals on expired leases where rentals became unsustainable to the retailer. Regional airports increased by R1 million to R10 million. We managed to obtain total retail revenue growth of 13% in strained economic conditions, reaching R1.1 billion (2015: R1.0 billion).

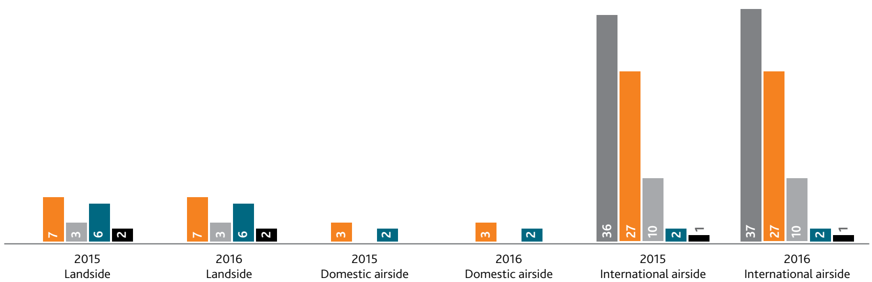
# Strengthen business excellence continued

## RETAIL LETTABLE AREA BY AIRPORT AND TRADING AREA (%)




O.R. TAMBO INTERNATIONAL | CAPE TOWN INTERNATIONAL | KING SHAKA INTERNATIONAL | REGIONAL AIRPORTS

## RETAIL LETTABLE AREA BY CATEGORY AND TRADING AREA (%)




CORE DUTY-FREE | SPECIALITY, RETAIL AND BOOKS | FOREX BUREAU AND BANKS | FOOD AND BEVERAGE | OTHER RETAIL FACILITIES

Retail revenue per passenger on the whole increased to R58.9 (2015: R56.65)and boosted the revenue growth experienced during the financial year.

We intend to provide better opportunities for smaller entities to offer retail services at airports in order to aid transformation and business evolution (refer to page 69 for details). Airports Company South Africa earned R180 million on advertising and will amend its advertising segmentation from the current airport-based structure to an outdoor and indoor-based structure to cater to O.R. Tambo International Airport, Cape Town International Airport and King Shaka International Airport. Regional airports advertising will be managed as a single segment in order to provide value proposition to concessionaires.

### Parking and car rental

Our parking structures are managed as part of the non-aeronautical business. Average car parking tariff increases remained below consumer price index (CPI) inflation for the last five years. Car rental operators continue to grow and diversify at our airport and as with retail opportunities, we intend to spur business transformation by allowing smaller entrants to the market to compete with more established businesses.

### Property

Property income grew to R 646 million, an improvement of 8%. The major contributor to this performance is O.R. Tambo International Airport and include the fuel tanks, hotel operators and retailers. Increased recoveries of operational costs at the domestic airports also contributed to the increased revenue.

With the slow economic growth affecting demand for space, the company is placing increased emphasis on retaining existing tenants through retention strategies, including allowances to upgrade installations, improving the quality of existing buildings and improving customer relationships. We retained approximately 98% of leases expiring as a result of these activities and Cape Town International Airport office vacancy rates reduced to 7.2% with improved demand for office space. A major refurbishment of the 6 746 m² East and West Wing offices at O.R. Tambo International Airport was conducted at a cost R55 million. Existing vacancies for hangars, workshops and warehouses are being marketed by the airports through broker networks and our website.

Lounge space remains in high demand and new installations in O.R. Tambo International, Cape Town International and Bram Fischer International airports are under way to capitalise on the opportunities presented in this market.

## INFORMATION TECHNOLOGY

The board applied increased focus to improving our IT infrastructure this year, developing adequate disaster recovery systems and aligned IT with the requirements of the new governance framework and operating model. The board retains responsibility for IT governance and IT received a 60% increase in funding (R220 million) to improve and further integrate IT systems as a business enabler.

IT systems are categorised and aligned to board-approved mandates according to critical, priority and operational classifications. Critical systems (i.e. AMS, FIDS, BRS, ZEUS, CUTE and CUSS) have a direct impact on the movement of passengers, baggage and aircraft, and continue to operate at levels that exceed 98% availability for the last five years.

### Enterprise resource planning

IT operations for the year focused on the ERP Optimisation Programme to ensure stabilisation and adequate support of the currently installed infrastructure, and realignment of systems to support the new governance framework and operating model. All ERP projects identified in the 2016 – 2018 corporate plan were completed successfully with user acceptance testing concluded and signed off by March 2016. An ERP Roadmap was crafted with priorities identified for yearly implementation. In terms of governance, the ERP board is chaired by the Chief Financial Officer and allows for monthly progress reports to monitor performance.

### Information security

In line with King Code principles, the Information Security Management Office was tasked with the development of an information security strategy and roadmap. The blueprint was reviewed to ensure alignment with the approved IT strategy. Key security projects, namely security incident and event management, security vulnerability management and enterprise endpoint data protection were initiated. The first two projects improve the ability to understand the IT infrastructure, applications and systems environment by introducing information security intelligence, to address these proactively. The third project addresses endpoint data protection and includes endpoint encryption, data backup and restoration among others. The pilot implementation for this solution is in process.

Two additional projects identified for 2016/17 are related to improving authentication and access management as well as mobile device management for smartphones, tablets, and other handheld devices.

### Disaster recovery

One of the key strategic projects for the year was the launch of the disaster recovery system which now safeguards Airports Company South Africa's relevant data in the event of a disaster and complies with the KPI requirement on disaster recovery (refer to page 46 for our KPI dashboard). All our systems identified for disaster recovery system implementation were successfully completed.

The company's physical IT infrastructure remains under strain and replacement of key components are ongoing. To further mitigate risk, a five-year revitalisation strategy was developed and submitted to the audit and risk committee and board for approval.

### Business evolution and digitisation

The company's digitisation journey will begin 2016/17. Our focus will be on improving passenger experiences (assisted and self-services technologies), social and mobile, business intelligence and digital infrastructure. For example, collaborations with Munich Airport provide insights into developing more effective solutions (refer to page 67 for further details).

## FUTURE FOCUS AREAS

We will focus on improving non-aeronautical revenue streams using available resources while focusing on automation, security and disaster recovery system. The company will continue to leverage aeronautical capabilities such as slot management and pass these efficiencies on to our passengers and stakeholders as part of a focused drive on value-based development.

# MANAGE AND DEVELOP A HIGH-PERFORMANCE TEAM

## INTRODUCTION

Our people are at the centre of our success and we deliberately seek to co-create an environment within which our employees can realise their full potential, creating individual and company prosperity sustainably. This strategic pillar discusses the developments achieved in transformation and a diverse workforce, with a particular focus on women empowerment, young talent development and disability management.

## PERFORMANCE COMMENTARY

The provision of the right capabilities and skills within the business were based on the critical business needs during the year. Focus on efficiencies, cost savings and resourcing remained high on our priorities for the management of our headcount. Our recruitment approach is informed by the priorities resulting from the Workforce Plan. In this regard, the company continuously maintained high staffing levels at 91.5%, the vacancy rate was 8.5% (2015: 9.1%).

The company's commitment to skills development is reflected in the R45 million (2015: R32 million) invested in training and developing employees. The Training Academy increased its revenue to R12 million (2015: R7.4 million) against a budget of R10 million.

Employee satisfaction levels were at a 3.51, against a target of 3.30. The skills development rating[1] also surpassed its target of 17.00, recording 21.05 for the year – a reflection of our values of work and commitment to the Skills Development Act 97 of 1998. Effective transformation activities are reflected in the employment equity rating score which increased by 0.28 points, primarily as a result of workforce appointments and promotions. Airports Company South Africa views skills development as central to achieving transformation. The company not only focuses on the development of its employees but also on improving skills and creating meaningful opportunities within our country.

### EMPLOYEE MOVEMENTS

The workforce movement relates to appointments and terminations which are closely monitored to determine trends and ensure that the transformation goals as per the Employment Equity Plan, are monitored. Career progression of employees continued with 147 promotions (2015: 193) noting 152 terminations (2015: 149). Terminations are within acceptable parameters noting a turnover rate of 5.3%. Appointments increased to 217 (2015: 209).

### EMPLOYMENT EQUITY

It is a key strategic imperative for Airports Company South Africa to have a well-defined transformation framework underpinned by an Employment Equity Plan which not only focuses on the staff demographics, but also align with the manner in which the company conducts its business. Transformation and the representation of a diverse workforce further provide a competitive advantage that enable us to operate a stronger, more cohesive and more productive organisation.

We have made significant progress since the inception of the current Employment Equity Plan in 2011, particularly noting in the transformational categories which now align closer to the National Economically Active Population (EAP).

*[1] Measures the company's skills development rating as measured within the B-BBEE Code. Scoring scale: 1-25 with 1 being poor and 25 being excellent.*

### Year-on-year workforce profile representation

| | Male | | | | Female | | | | Foreign | | Black employees representation |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Year | A | C | I | W | A | C | I | W | Male | Female | (A,C,I) |
| EEA2 2011 | 929 | 239 | 135 | 197 | 655 | 174 | 59 | 138 | 7 | 0 | 2 191 |
| | 36.7% | 9.4% | 5.3% | 7.8% | 25.9% | 6.9% | 2.3% | 5.4% | 0.3% | 0.0% | 86.5% |
| EEA2 2012 | 944 | 247 | 122 | 177 | 730 | 174 | 53 | 130 | 4 | 1 | 2 270 |
| | 36.6% | 9.6% | 4.7% | 6.9% | 28.3% | 6.7% | 2.1% | 5.0% | 0.2% | 0.0% | 87.9% |
| EEA2 2013 | 996 | 229 | 114 | 159 | 814 | 161 | 50 | 114 | 4 | 1 | 2 364 |
| | 37.7% | 8.7% | 4.3% | 6.0% | 30.8% | 6.1% | 1.9% | 4.3% | 0.2% | 0.0% | 89.5% |
| EEA2 2014 | 1 080 | 224 | 111 | 153 | 939 | 159 | 50 | 111 | 3 | 2 | 2 563 |
| | 38.1% | 7.9% | 3.9% | 5.4% | 33.2% | 5.6% | 1.8% | 3.9% | 0.1% | 0.1% | 90.5% |
| EEA2 2015 | 1 138 | 209 | 103 | 141 | 1 032 | 146 | 46 | 104 | 1 | 2 | 2 674 |
| | 38.9% | 7.2% | 3.5% | 4.8% | 35.3% | 5.0% | 1.6% | 3.6% | 0.0% | 0.1% | 91.5% |
| EEA2 2016 | 1 183 | 204 | 103 | 133 | 1 065 | 144 | 46 | 97 | 1 | 2 | 2 745 |
| | 39.7% | 6.9% | 3.5% | 4.5% | 35.8% | 4.8% | 1.5% | 3.3% | 0.0% | 0.1% | 92.2% |
| Goal 2016 | **1 014** | **157** | **93** | **118** | **877** | **129** | **45** | **92** | **4** | **0** | **2 315** |
| | **40.1%** | **6.2%** | **3.7%** | **4.7%** | **34.7%** | **5.1%** | **1.8%** | **3.6%** | **0.2%** | **0.0%** | **91.5%** |
| EAP | **40.7%** | **5.8%** | **1.9%** | **6.4%** | **34.3%** | **5.0%** | **1.1%** | **4.9%** | **0.0%** | **0.0%** | **88.8%** |

*Key for information: A = African, C = Coloured, I = Indian, W = white*

Females represent 45.5% (2015: 44.9%) of the total workforce, which achieves the representation the company envisaged, also noting a 0.3% above the Economically Active Population (EAP) for females. Similarly, males represent 54.5% (2015: 55.1%) of the total workforce. Further opportunities will be utilised to align towards the EAP on gender representation.

Significant progress was made for black representation which increased from 86.50% in 2011 to 92.2% in 2016. African male figures increased from 36.7% (929) in 2011 to 39.7% (1 183) in 2016 while African female representation increased from 25.9% (655) in 2011 to 35.8% (1 065) during the same period.

## PEOPLE WITH DISABILITIES

Airports Company South Africa is committed to transformation and the integration of people with disabilities in the workplace. Continued emphasis in the recruitment, integration and reasonable accommodation of people with disabilities is supported by a dedicated budget and a non-discriminatory approach as per our transformational strategy and Employment Equity Plan. The dedicated budget allows for training, reasonable accommodation and integration of People with Disabilities into the workplace. Representation of People with Disabilities increased from 0.7% (16) in 2011 with the inception of the current Employment Equity plan, to 1.8% (50).

# Manage and develop a high-performance team continued

## EMPLOYEE ENGAGEMENT

The results of the 2016 E-SAT (Employee Satisfaction) survey reflect an overall score of 3.51 which is exceeding the target of 3.30, as committed in the Corporate Plan for the 2015/16 year. The positive responses reflect employee perceptions towards the organisation and how employees associate with the company values.

### Key employee initiatives

As an employer committed to developing its people and their livelihoods, the company intends to begin operating a transport support programme in the latter part of the year. A shuttle services operational strategy for all airports is in progress to transport employees from nearby communities to the airports they work at. We also started the housing support programme as an added benefit for employees battling housing affordability and the company is introducing a much improved employee housing scheme, which is focused on increasing home ownership.

Internally, we ensured that employees feel part of the socio-economic development value chain by involving them in activities such as corporate social investment (CSI) projects. Each airport has a dedicated committee that decides on project involvement. The majority of these projects are located in the immediate vicinity of the airport, enhancing the very communities from which we source our skilled people.

### Employee disciplinary management

The management of employee behaviour in the workplace is focused on productivity and performance improvement, including effective engagement and the rectification of transgressions, through sound disciplinary and grievance policies and processes. In this regard, dismissals amounted to 28 (2015: 26), whilst written warnings reduced to 148 (2015: 182). When disciplinary action does not obtain the desired results or incompatibility occurs between the company and employees, it may lead to CCMA and Labour Court cases. CCMA cases remained fairly stable at 59 (2015: 67), whilst Labour Court cases increased marginally to 4 (2015: 3)[1].

[1] *Restatement: 2015 Integrated Report incorrectly provided a figure of 23.*

## TRAINING

With the evolution of the company's operating model and the revised strategic direction, learning and development has been positioned as a critical driver for the organisation in achieving its objectives. The company's skills requirements are identified through a thorough needs analysis and are captured and managed through the organisation's Workplace Skills Plan (WSP). In line with the Transport Education and Training Authority (TETA) requirements, the company is required to implement at least 70% of its WSP. A total of 7 088 training interventions have been delivered, which is 101% of the WSP. Since more than 70% of the plan was achieved, the company qualifies to receive the maximum recovery grant against the Skills Development Levy.

Our Training Academy met all compliance training requirements as well as hosting internationally accredited aviation courses benefiting 308 of our employees. The company also awarded 300 bursaries to the value of R6.2 million to employees and children of employees. The bursary scheme contributes to transformation as well as boosting critical and scarce skills desired by the company and country.

The company has a number of initiatives to promote the empowerment of young talent in the industry. The focus remains on raising awareness to possible career opportunities in aviation, providing bursary support to those studying towards qualifications that feed into national critical and scarce skills requirements while ensuring we provide meaningful work experience for first time job seekers. The intensity of the focus on growing young talent is reflected in the 16 209 youth that participated in the young talent programme initiatives.

## EMPLOYEE RELATIONS

Employee Relations in the company is approached from an engagement and consultation perspective and regular meetings with the representative NEHAWU are held. The relationship is further institutionalised through sound negotiated agreements, such as the recognition agreement.

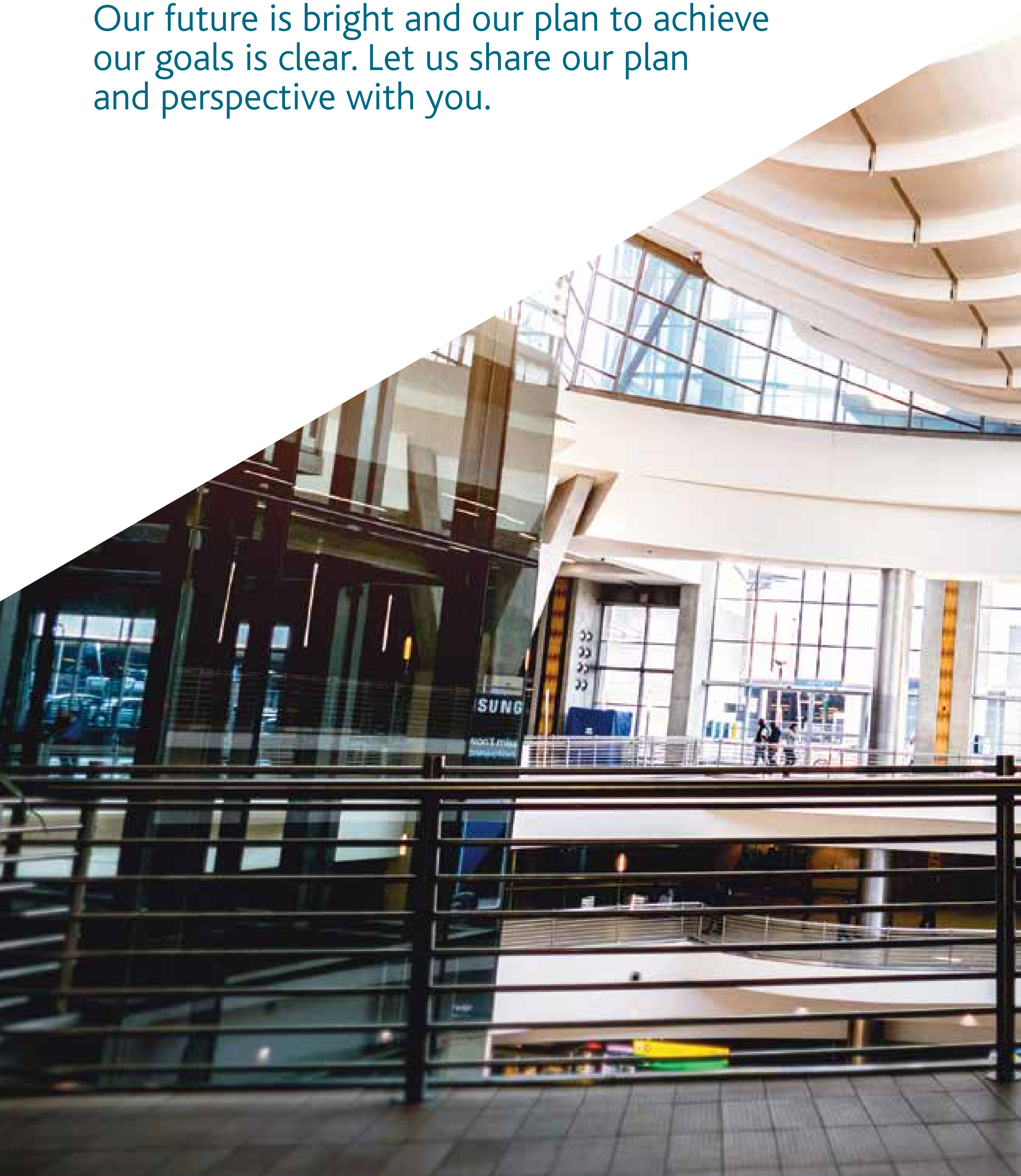
Airports Company South Africa has been designated as essential services since 2005 and this has strengthened the resolve of our partnership with NEHAWU, the representative Trade Union, to successfully consult and negotiate complex employee relation issues.

## FUTURE FOCUS AREAS

The company will focus on the adequate resourcing of right skills and people using improved recruitment, attraction and selection tools. Airports Company South Africa will strive to ensure a diverse workforce reflecting transformation at all levels. Our new governance framework and operating model assisted in creating a simpler platform for engagement and measurement and will support our future focus and facilitate the achievement of our people and development goals. We will use the lessons learned through engagements and employee assessments to continue providing an environment that enables our employees.

STRATEGIC OUTLOOK

# Our future is bright and our plan to achieve our goals is clear. Let us share our plan and perspective with you.




Take your
with you.

# STRATEGIC OUTLOOK

Our journey towards 2025 is mapped out in the diagram below. This roadmap has been developed to steer our activities and focus to create long-term value.

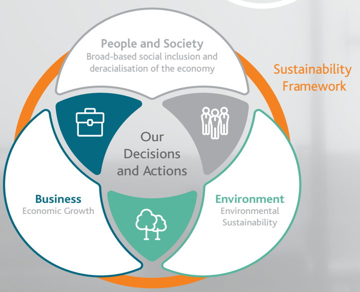
## 1. OUR DESTINATION

To be the most sought-after partner in the world for sustainable technical advisory and consultancy services by 2025.

**We will do this by achieving:**

- Reputation Score >70 (Top 10 SA Company)
- Getting all airports into the Top 15 of their size category
- Obtaining a Stakeholder Satisfaction Survey score of > 4.0
- Return on equity of 10%
- Connectivity index of 70 for O.R. Tambo International Airport
- Obtaining a R200 million contribution of non-core business to total revenue
- B-BBEE Level 1
- 65% black business share of operational and developmental spend
- Creating 50 000 job opportunities
- Providing support services to airports in all provinces in South Africa
- Domestic connectivity improvement by 10%
- Achieve a demographically representative company workforce (against EAP) per level
- Employee satisfaction survey score of 4.2
- ACI Level 3 Optimisation certification for at least one airport

## 5. HOW DO WE STAY ON TRACK?




By checking each decision against how it would affect and impact the business, our people and society and our environment.

- **The business:** Increase our reputation, improve our passenger experience, increase stakeholder satisfaction, contribute to increased airport traffic and diversify our business.
- **Our people and society:** Improve our contribution to black economic empowerment, support black business growth, provide access to airports, improve connectivity to the areas we serve, diversify our workforce and create a positive environment for our employees.
- **Our environment:** Minimise our environmental impact and strive to be carbon neutral.

SUPPORTING OUR STRATEGY

### OUR VALUES

**PRIDE** P: Passion R: Results

2

## 2. WHY ARE WE MAKING THIS JOURNEY?

We understand that value creation is core to our success.

For the growth of our company, stakeholders and employees. We want to offer our customers excellent service, deliver on what we have promised our stakeholders and create an environment where all of our employees can grow and serve with pride.

3

## 3. HOW WILL WE GET THERE?

By executing our three strategic pillars really well:

• Run Airports • Develop Airports • Grow Our Footprint

**Five building blocks will guide us toward success:**

- Our governance framework and operating model
- Business digitisation
- Supply chain management evolution
- Economic transformation framework
- Environmental sustainability framework

4

## 4. THE WEATHER OUTSIDE

External factors beyond our control will consistently be considered.

**These include, but are not limited to:**

- Poverty
- Inequality
- Unemployment
- Economic regulation and uncertainty
- Competing airports
- Fuel and electricity constraints
- Communicable diseases
- Customer needs and expectations

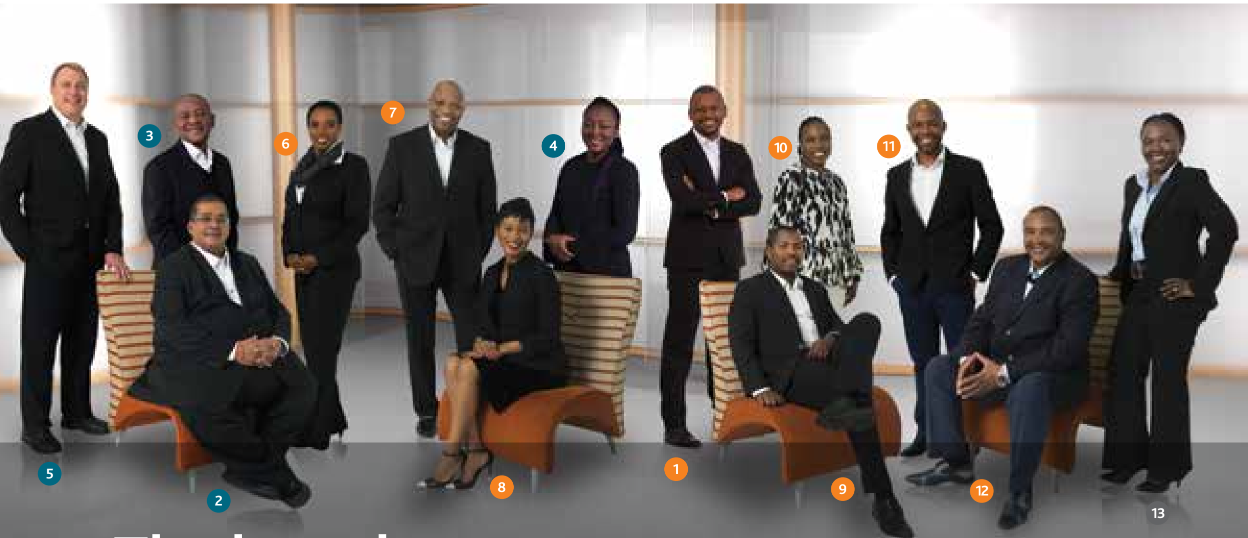
**I:** Integrity **D:** Diversity **E:** Excellence

GOVERNANCE AND REMUNERATION

# Our leadership guides the business in line with best practice, using their unique skills and abilities to steer us to success with the help of our focused, high-performing employees.

# GOVERNANCE

## OUR LEADERSHIP




## The board

1
**Skhumbuzo Macozoma (40)**
Chairman
Appointed: 1 March 2015

2
**Roshan Morar (50)**
Deputy Chairman
Appointed: 1 January 2012

3
**Bongani Maseko (48)**
Chief Executive Officer
Appointed: 15 May 2013

4
**Maureen Manyama (39)**
Chief Financial Officer
Appointed: 1 April 2013

5
**Deon Botha (47)**
Appointed: 31 July 2013

6
**Chwayita Mabude (47)**
Appointed: 1 December 2012

7
**Dr John Lamola (54)**
Appointed: 1 December 2012

8
**Bajabulile Luthuli (43)**
Appointed: 1 December 2012

9
**Siyakhula Simelane (34)**
Appointed: 1 March 2015

10
**Kate Matlou (45)**
Appointed: 1 March 2015

11
**Dr Matlodi Mabela (46)**
Appointed: 1 March 2015

12
**Kenosi Moroka (54)**
Appointed: 1 December 2012

13
**Nosisa Kekana (44)**
Appointed: 1 November 2013

- – NON-EXECUTIVE DIRECTORS
- – INDEPENDENT NON-EXECUTIVE DIRECTORS
- – EXECUTIVE DIRECTORS
- – COMPANY SECRETARY

*Refer to page 102 of our governance report for more detailed information about our board and executive committees.*

*Board and executive capabilities and qualifications are available online.*

In every team, everyone has their position to play, and success happens when all of the players are playing their roles effectively.


# Executive committee

1 **Bongani Maseko (48)**
Chief Executive Officer

2 **Maureen Manyama (39)**
Chief Financial Officer

3 **Tebogo Mekgoe (41)**
Chief Operating Officer

4 **Bongiwe Mbomvu (48)**
Group Executive: Governance and Assurance

5 **Refentse Shinners (40)**
Group Executive: Corporate Affairs

6 **Charles Shilowa (44)**
Group Executive: Business Development

7 **Pieter Du Plessis (54)**
Group Executive: Human Resources

8 **Sello Mmakau (41)**
Chief Information Officer

9 **Girish Gopal (52)**
Group Executive: Technical Services and Solutions

10 **Badisa Matshego (39)**
Group Executive: Infrastructure Asset Management

11 **Haroon Jeena (52)**
Group Executive: Commercial Services

12 **Andre Vermeulen (46)**
Group Executive: Airports Management

13 **Bongiwe Pityi (45)**
General Manager: O.R. Tambo International Airport

14 **Deon Cloete (49)**
General Manager: Cape Town International Airport

15 **Terence Delomoney (47)**
General Manager: King Shaka International Airport

16 **Jabulani Khambule (43)**
General Manager: Regional Airports

# Governance continued

## EXECUTIVE SUMMARY

### INTRODUCTION

Sound corporate governance is at the heart of our operations. We are committed to applying and executing the principles of good governance enshrined in King III along with relevant legislation applicable to our business.

The board of directors is appointed by the Minister of Transport and the PIC, and is responsible for strategic direction and ultimate control of Airports Company South Africa. The executive committee, under the leadership of the Chief Executive Officer, is responsible for the day-to-day management and operations of the company. We believe that our team has the right combination of skills and abilities to drive our Vision 2025, with the ability to interrogate issues, have robust discussions and offer insights in all areas of our operations, including transformation and business evolution.

Our status as a state-owned company requires a high level of accountability and leadership in the execution of our mandate. It is therefore imperative that the board is well vested with the knowledge of and access to applicable laws, prevailing norms and better practices to ensure good governance.

The delegated levels of authority were reviewed to align with National Treasury Practice notes and its application of the provisions of PFMA. Furthermore, the board approved the 2025 Business Strategy, and adopted a new governance framework and operating model from 1 April 2016, a model that had intensive input and ratification from our executive team and board. In addition, governance changes included, amongst others, streamlined and functional committees as a result of the rationalisation process that was finalised in FY2016.

The overall governance of Airports Company South Africa is broadly determined by various pieces of legislation and relevant codes of best practice, including:

- Airports Company Act, No. 44 of 1993
- Civil Aviation Act, 2009 (No. 13 of 2009)
- King Report on Corporate Governance for South Africa, 2010 (King III)
- Protocol on Corporate Governance for the Public Sector 2002
- Public Finance Management Act, No. 1 of 1999
- Treasury Regulations
- Companies Act, 2008 (No. 71 of 2008)
- Income Tax Act, 1962 (No. 58 of 1962)
- Value Added Tax Act, 1991 (No. 89 of 1991)

## KEY GOVERNANCE INITIATIVES FOR THE YEAR

### Key matters discussed by the board

The following key matters were discussed by the board this year:

**December 2014**
Approval of the governance framework and operating model

**August 2015**
Formulation of 2025 Business Strategy by board and Management

**September 2015**
Receipt of Board Evaluation Report and proposed work plan going forward

**September 2015**
Adoption of a board training plan by the board pursuant to receipt of the board Evaluation Report

**November 2015**
Board risk workshop identifying risks incidental to the strategy

**December 2015**
Competition Commission Act presentation/ training to board

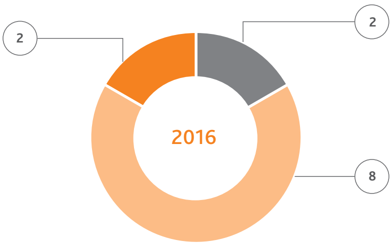
**February 2016**
Approval of Corporate Plan 2017 – 2019

## KEY CHALLENGES AND CONTINUING FOCUS AREAS

- Strategy implementation and monitoring – The company's business model needs to constantly be tested against the regulatory regime. Scenario planning needs to be strengthened and monitored.
- Organisational capabilities – Over and above the Corporate Plan, the board must review other relevant KPIs and assess whether the company's capabilities are aligned with the long-term strategy, expected outputs and demands both for the present and the future.
- Corporate climate and culture – The board and management must clearly articulate its culture (not only values), create measures and regularly monitor progress. The board must ensure that corporate conduct aligns with the corporate culture as articulated.
- Board tenure and succession planning – The board must engage with the Executive Authority on the tenure of non-executive directors and the extension thereof to a reasonable period to allow for continuity, stability and proper implementation of key strategic imperatives. As a dynamic institution, the board must also look at effective ways of engaging the Minister of Transport to ensure that its succession planning is aligned with shareholder expectations on an ongoing basis.
- Board committees – The board must assign the audit and risk committee to review contingency plans associated with finance crisis and risks associated with information in system failure and security failure.
- Board education – A structured induction or education programme is in place for the board to address the regulatory model, its key risks and impact on the funding strategy of the company and the international regulation market.

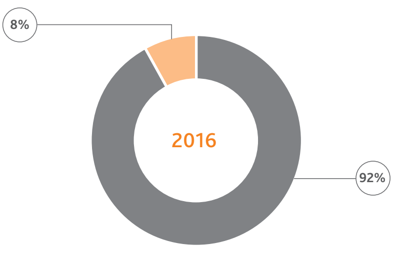
# Governance continued

## BOARD BALANCE



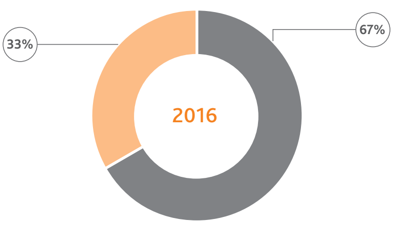

EXECUTIVE DIRECTORS
INDEPENDENT NON-EXECUTIVE DIRECTORS
NON-EXECUTIVE DIRECTORS

## BOARD DEMOGRAPHICS




AFRICAN WHITE

## BOARD GENDER DIVERSIFICATION




MALE FEMALE

The determination of independence at Airports Company South Africa is slightly different to that outlined in King III – Principle 2.18. Independence is determined as per Clause 13.1.3 of the Memorandum of Incorporation, as some of these members are not officers as defined in Section 1 of the Public Service Act of 1994. Thus, members are appointed by the Minister of Transport through a transparent process that calls for nominations from the public.

## BOARD CHARTER

The board charter was considered for an annual review on 4 June 2015. No major changes were made to the charter, which is available for review on our website at www.airports.co.za.

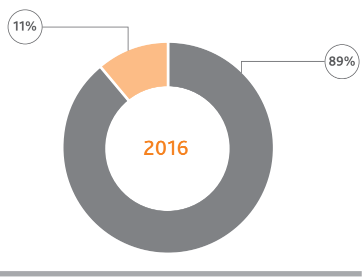
## BOARD EVALUATION

The feedback on the board evaluation that was conducted for the 2014/15 financial year was received during the year under review and the delay was due to changes in board, and considered by the board at its 15 September 2015 meeting. Overall, the board has a significant amount of areas where it was considered to be performing very well, however key findings raised a number of areas to address. Our 2015 integrated report set out the key findings of the evaluation and the table adjacent provides an update on activities related to each area.

### Company Secretary Evaluation

The Company Secretary was evaluated by the board. Overall scores demonstrated satisfaction, with room to improve the effectiveness of her office. It was noted that the reporting line of the Company Secretary could be limiting to overall effectiveness. To this end, the reporting line of the Company Secretary was reviewed and amended to allow direct reporting to the board through the Chairman, and administratively to the Chief Executive Officer.

## BOARD ATTENDANCE




MEETINGS ATTENDED MEETINGS NOT ATTENDED

Key findings raised in the 2015 board evaluation, and the extent to which they were dealt with:

| Area of finding | Action points | Status |
|---|---|---|
| Company strategy | The board must debate and provide input on the company's long-term strategy. In this regard, the business model must be tested against regulatory regime. Scenario planning must be strengthened. | The board was extensively involved in crafting the new strategy and the identification of risks inherent thereto, which culminated in the approval of the company's risk register thereafter. |
| Corporate climate and culture | Management and the board must clearly articulate its desired corporate culture, create measures to ensure this and regularly monitor progress. The board must ensure that corporate conduct aligns with the corporate culture as articulated. | The board is in the process of addressing the culture of the organisation. This will begin with the consideration of the report on the ethics survey, conducted by an independent party. |
| Organisational capabilities | Over and above the corporate plan, the board must review other relevant KPIs and assess whether the company's capabilities are aligned with the long-term strategy, expected outputs and present and future demands. | The board intends to focus more on IT governance and is committed to closely monitoring the execution of the strategy as approved.<br>The board considered and continues to consider the company's Pre-determined Objectives and performance measurement approach. |
| Board tenure | The board must review the appropriateness of the tenure of directors and make recommendations to the Minister of Transport for its extension to a period of up to nine (9) years to ensure stability when board rotation is effected. | Through the Chairman and the Company Secretary, the board engaged with the Minister of Transport and motivated the extension of tenure for board members to ensure continuity and stability, particularly for the successful realisation of company strategy. As a result, the Minister of Transport extended the tenure of the board for a second term as provided for in the company's memorandum of incorporation. |

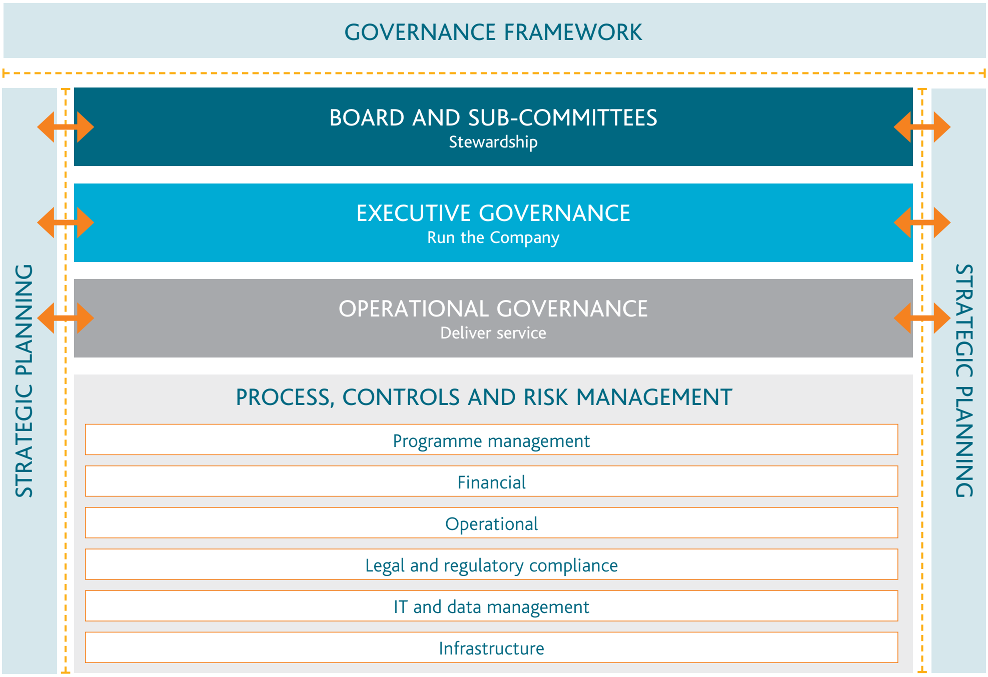
Another evaluation will be conducted in the latter part of the 2016/17 financial year. In the interim, the board will be focusing its attention on the suggested work plan to move to the next level of performance. One such focus point was the review of our strategy. Refer to page 90 for further details.

# Governance continued

## GOVERNANCE FRAMEWORK

As part of our board-approved business evolution to change gears in our strategic focus, the governance framework and operating model was implemented from 1 April 2016. The project involved the executive team, which proved to be an effective approach to implementation of this imperative organisational initiative. For further details of the operating model changes, refer to page 17. For governance framework changes, see below.

### Governance framework




### Our focus areas

- Transparency of decision-making and the rationale for particular actions being taken – clarity of where decisions get made.
- Clear accountability for both individuals and teams who make decisions and take actions on specific issues (KPIs aligned to roles and teams).
- Trust and empowerment – where we have a governance forum, attendees will be appropriately empowered and have authority to make a decision with accountability to deliver.
- Decisions made once only – no shadow forums or unilateral decision-making; decisions are made in the right forum, with approved and consistent information once.
- Simplicity in our approach to governance and devolution in governance as low as practically possible.
- Terms of reference: All governance forums will have a clear standing agenda, chair, list of attendees, defined inputs and outputs, and minute taker.

### Benefits of the new governance framework

It is envisaged that Airports Company South Africa will achieve improved customer and stakeholder relationship management, increased revenue opportunities, cost and asset efficiencies, traffic development, improved delivery on capital expenditure commitments, and more effective organisational control along with developing new ways to work.

As an outcome of the project, the company will also assess and undertake skills development programmes in line with our governance framework and operating model as, ultimately, we want to optimise our services for the benefit of all our employees, customers and stakeholders. We are confident that the model will be at the epicentre of our pledge to be the most sought-after partner in the world for the provision of sustainable technical advisory and consultancy services by 2025.

Refer to page 90 for further information.

# Governance continued

## GOVERNANCE STRUCTURE

### Shareholders

South African Government, Public Investment Corporation, Minority shareholders

### Board of directors

The board of directors is appointed by the DoT and the applicable minority shareholders, and is responsible for strategic direction and oversight of Airports Company South Africa

**Non-executive**

- Skhumbuzo Macozoma (Chairman)
- Roshan Morar (Deputy Chairman)
- Matlodi Mabela
- Kate Matlou
- Siyakhula Simelane
- Deon Botha

### Board committees

Six committees, which report directly to the board, were established to focus on key functional areas where specialist expertise is required.

| Audit and risk committee | Board investment committee | Board regulation committee |
|---|---|---|
| • Bajabulile Luthuli – Chairman<br>• Roshan Morar<br>• Matlodi Mabela<br>• Siyakhula Simelane<br>• Chwayita Mabude | • Roshan Morar – Chairman<br>• Skhumbuzo Macozoma<br>• Matlodi Mabela<br>• Kate Matlou<br>• Chwayita Mabude<br>• Kenosi Moroka<br>• Bongani Maseko (effective 17 July 2015) | • John Lamola – Chairman<br>• Skhumbuzo Macozoma<br>• Roshan Morar<br>• Matlodi Mabela<br>• Deon Botha<br>• Bajabulile Luthuli<br>• Kenosi Moroka |
| Accountable to the shareholders as set out in section 76 of the Companies Act in respect of its audit committee functions and to the board in respect of its other functions. | Assists the board in discharging its duties in relation to capital projects, commercial activities, regulated and unregulated investments, procurement and supply chain management, and treasury activities including funding and borrowing plans. | Oversees the development and implementation of the economic regulatory strategy and ensures compliance with all regulatory legislation and/or requirements.<br><br>At the core of its function is the deliberation of the approach leading to the Permission Application for submission to the regulating committee which sets the tariffs for the company. |

### Management committees

| | | |
|---|---|---|
| Capital expenditure committee | National bid adjudication committee | Transformation and sustainability committee |

| | | Executive | |
|---|---|---|---|
| • Chwayita Mabude<br>• John Lamola | • Bajabulile Luthuli<br>• Kenosi Moroka | • Bongani Maseko<br>• Maureen Manyama | |

| Remuneration and nominations committee | Social and ethics committee | Executive committee | |
|---|---|---|---|
| • Deon Botha – Chairman<br>• Skhumbuzo Macozoma<br>• Siyakhula Simelane<br>• John Lamola<br>• Bajabulile Luthuli | • Kenosi Moroka – Chairman<br>• Kate Matlou<br>• Deon Botha<br>• John Lamola<br>• Bongani Maseko | • Bongani Maseko – Chairman<br>• Maureen Manyama<br>• Tebogo Mekgoe<br>• Bongiwe Mbomvu<br>• Andre Vermeulen<br>• Haroon Jeena<br>• Pieter du Plessis<br>• Sello Mmakau<br>• Bongiwe Pityi | • Deon Cloete<br>• Terence Delomoney<br>• Thabo Phateng<br>• Refentse Shinners<br>• Charles Shilowa<br>• Badisa Matshego<br>• Yvette Schoeman (resigned 30 September 2015)<br>• Girish Gopal |
| Assists the board on matters of strategic remuneration by ensuring decision are aligned to the company's strategic objectives.<br><br>The committee directs and oversees the human resources planning and development strategies aimed at creating and sustaining technical and managerial excellence required in order for the Airports Company South Africa to achieve its objectives. | Monitors the Airports Company South Africa's activities, having regard to any relevant legislation, other legal requirements or prevailing codes of best practice relating to:<br>• Social and economic development<br>• Good corporate citizenship<br>• The environment, health and public safety<br>• Consumer relationships<br>• Labour and employment<br>• Ethics framework<br>• Engagement and interaction with stakeholders | Deals with the general management activities that form part of leading and managing Airports Company South Africa towards achieving our core outcomes while upholding applicable legislation and regulation that pertains to the operation of the company. | |

| | | | |
|---|---|---|---|
| Information technology steering committee | Financial risk management committee | Airports operations committee | Talent board |

# Governance continued

## ETHICS

King III requires the board to provide effective leadership based on an ethical foundation. The board is responsible for ensuring that management actively cultivates a culture of ethical conduct and setting the values to which the company will adhere. The board delegates oversight of the management of the organisation's ethics to the social and ethics committee. Through this committee, the board holds management accountable for the organisation's ethical performance.

At Airports Company South Africa, we continue to place emphasis on our defined values, called PRIDE (Passion, Results, Integrity, Diversity and Excellence). These values are incorporated into our code of ethics which contain our overall strategic ethical intent and our related ethics policies. It enables a culture of entrenched values and norms that guide our behaviour. The code obliges the directors, managers, employees, service providers, suppliers and trading partners to the highest standard of ethical behaviour.

### Training and awareness

Training and raising awareness of the code of ethics, declaration of gifts policy and declaration of interests was conducted, reaching approximately 2 220 employees in the year. Ethics forums were conducted on a quarterly basis to raise awareness and induction was held for new non-executive directors.

### Ethics programme

As part of compliance with King III, Airports Company South Africa contracted an independent party, the Ethics Institute of South Africa (EthicsSA) to conduct an ethics risk assessment and gap analysis. As part of the process, an employee survey was conducted to measure the perceptions and experiences of the company. While the results indicate areas of improvement, we have made significant strides in ethics management, continue to build on ethics opportunities and address identified ethics risks. These positives are reflected in our improved declarations reports both for gifts and conflict of interest.

### Whistleblowing

Our company approved a whistleblowing policy to encourage the reporting of unethical conduct to a tip-off hotline. The policy provides various channels to employees and stakeholders to raise concerns, obtain feedback on reports and reassures the employees that they will be protected from detriment, reprisals or victimisation for disclosures made in good faith. The policy is being rolled out to employees and stakeholders as part of our broader anti-corruption programme. The anti-corruption hotline is independently monitored and administered by an external company, with frequent investigations.

### Fraud prevention programme

In our efforts to foster a culture of zero tolerance to fraud and corruption, the company developed a fraud prevention programme aimed at employees and trading partners.

### Monitoring

Employees were vetted through the directorship guidelines contained at the Companies and Intellectual Property Commission (CIPC) to ensure that they are aligned to what our employees disclosed internally. All gifts offered by suppliers to our officials are formally disclosed in the gift register as per the gift policy. Employees are also required to declare and disclose directorships and conflicts of interest online. Monetary gifts are not permitted. The gift declaration registers and declaration of interests are maintained and updated on an ongoing basis and tabled at social and ethics committee meetings for noting.

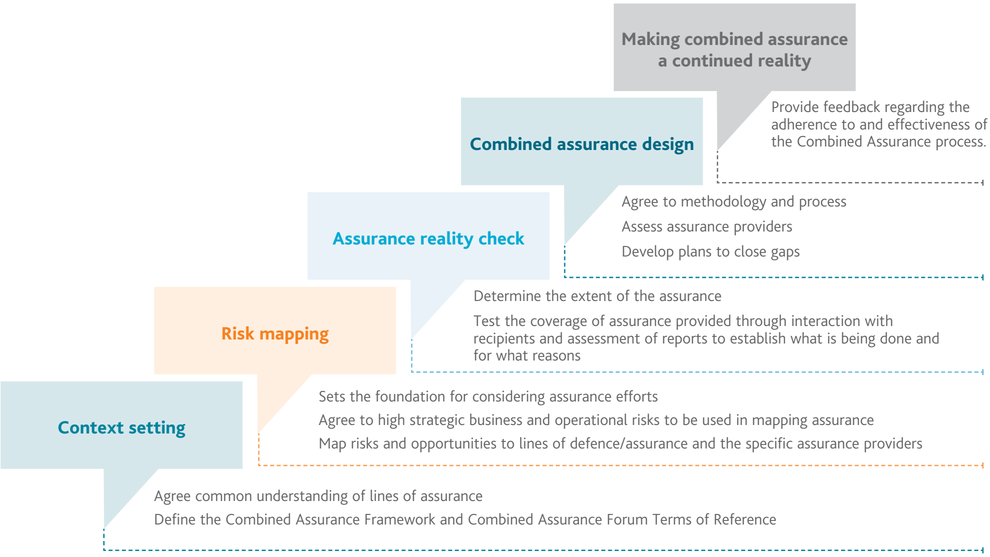
### Communication

We have a formalised communication strategy to provide guidance to employees in ambiguous situations in order to allow them to apply ethics policies in their day-to-day activities. We communicate through monthly newsflashes, e-mails, posters and PRIDE magazine.

## ASSURANCE

### Combined Assurance

The process below outlines the combined assurance journey we are undertaking:




The diagram below illustrates the five levels of assurance in our updated operating model.

GOVERNANCE

STRATEGY

| Lines of assurance | Purpose | Roles, core responsibility and reporting lines |
|---|---|---|
| 5th line | Oversight | Board; Audit and risk committee; Remuneration and nominations; Social and ethics; Investment committee; Economic regulation; Subsidiary boards |
| 1st line | Management control and assurance | **Executive and management committees**<br>**Management and staff**<br>As the first line of assurance, operational managers own, manage and report risks. Management assurance is provided via self-assessment procedures, management review and control |
| 2nd line | Specialist support and assurance | **Corporate ERM**<br>**Other second line functions (compliance)**<br>The second line of assurance leads the development and maintenance of risk management and internal control frameworks and policies, challenges opinions on risks and controls and provides advisory support to the first line regarding matters of risk, compliance and internal control |
| 3rd line | Internal independent assurance | **Internal audit, safety, security, environmental and process assessors**<br>The third line of assurance are internal assurance providers that provide objective assurance |
| 4th line | External independent assurance | **External audit**<br>**Other**<br>The fourth line of assurance is the independent assurance function providing overall assurance to the board on governance, risk management and internal controls |

PERFORMANCE AND REPORTING

ASSURANCE

# Governance continued

## Internal Audit

Internal Audit is an independent assurance provider to the Airports Company South Africa Audit and Risk Committee in order to establish the effectiveness of the risk management, control and governance processes within the organisation. The Internal Audit function operates within a co-sourced environment and follows a risk-based audit methodology, which is in compliance with the Institute of Internal Auditors (IIA) and the International Standards for the Professional Practice of Internal Auditing. Internal Audit operates a quality assurance programme that involves performing detailed quality review assessments at an activity and functional level.

The general conformance outcome achieved after an external quality assessment in relation to IIA Standards allows us to state that we conduct our work as per the professional practices. This success was realised by committing to the following:

- embracing forward thinking through technology to create efficiencies for the Internal Audit department; and
- implementing Combined Assurance to ensure the right amount of assurance in the right areas from providers. In addition, its objective is to ensure that the best and most relevant experience and skills are used in assurance activities as cost effectively as possible.

The risk-based annual audit plan covers the breadth and depth of the company's value chain, and is approved by the Audit and Risk Committee annually. Internal audit activities are conducted in terms of the annually approved mandate provided by the Audit and Risk Committee and executed either by a team of appropriate, qualified and experienced internal auditors, or through the engagement of the external co-source practitioners on specified and agreed terms. The Internal Audit team is based at the Corporate Head Office in Johannesburg and services all of our airports. The Head of Internal Audit provides quarterly feedback to the Audit and Risk Committee and has a functional reporting line to the Audit and Risk Committee Chair.

The Internal Audit stakeholders at Airports Company South Africa have been classified into three main categories, namely:

- **Primary:** Those who have direct interest, and/or responsibility for Internal Audit or required substantial engagement from the Internal Audit function. It includes stakeholders upon whom Internal Audit placed reliance for work or who wanted to rely on Internal Audit work.
- **Secondary:** Those who have an indirect primary interest in the Internal Audit function achieving their objectives. It includes stakeholders who require key information from Internal Audit and vice versa.
- **Tertiary:** Stakeholders who have an interest in the information that could be provided by Internal Audit or vice versa.

Based on the work performed during the year, the Head of Internal Audit has presented the Audit Committee with an assessment of the effectiveness of the company's systems of internal control and risk management, internal financial controls as well as the IT control framework. It is Internal Audit's opinion that the internal control environment and risk management processes are adequate and provide reasonable assurance that its strategic objectives will be met.

The primary focus for the next financial year will be to gain management confidence through consistently ensuring quality deliverables, expert knowledge and a client-centric business approach. Furthermore, stakeholder engagement, training and mentoring Internal Audit staff will be undertaken to achieve maximum benefit from professionally skilled individuals with strong stakeholder relationships.

Key activities that enable Internal Audit to deliver on its mandate as well as to offer value to the entity includes the following implementations:

- Data Analytics within the audit processes;
- Audit Workflow tool to maintain audit outcomes database; and
- Combined Assurance for adequate audit Assurance and elimination of duplications.

## DELEGATED LEVEL OF AUTHORITY

The board periodically reviews and approves the delegated levels of authority policy, which deals with the legislative and governance framework, including King III. The policy defines decision-making structures and the board delegation to these structures. Individual accountability and responsibility for risk management is clearly articulated and introduces the Delegated Level of Authority Procedure Manual that sets out approval limits as periodically reviewed and approved by the executive committee within its delegated level of authority. The board further approved a framework for approval limits to guide the executive committee in this regard.

## COMPLIANCE

The board ensured that Airports Company South Africa complies with applicable laws and considered where we adhere to non-binding rules, codes and standards.

We continued with implementation and alignment of our compliance framework and processes with best practice and ISO 19600, a standard for compliance. The following was achieved:

- Improved focus on raising awareness on our compliance processes and procedures.
- Reviewed and updated the compliance universe and incorporated key legislation, bylaws, standards and codes that are specific to our operations.
- Conducted regular reviews of the company compliance profile and reported on non-compliance to the executive committee and the audit and risk committee. Further, achieved improved tracking and reporting of progress on non-compliance identified in the previous quarters.
- In 2014/15 our focus was on compliance with key legislation which is classified as core or critical. In 2016, compliance risk management processes were extended to the following legislation, amongst others, which are classified as secondary in terms of our compliance universe: Occupational Health and Safety Act and Regulations, Preferential Procurement Policy Framework Act, Competition Act and Petroleum Pipelines Act.
- Subsequent to the R2 million fine imposed by the Competition Commission (the Commission) for collusion with Bombela Concession Company (Pty) Ltd to set parking bay prices for car rental companies at O.R. Tambo International Airport, the company embarked on a competition law compliance programme. The programme included training of the board, executive committee and senior management in areas of the business with exposure to competition risk. Training is being extended to employees with refresher training, and training for new employees is set for 2016/17. A competition law compliance manual is being developed to further embed competition law compliance within our compliance practices. A report on the progress of implementation of the competition law compliance programme has already been provided to the Commission.
- In light of issues of non-compliance reported in 2015, the company embarked on programmes to improve and tighten controls related to provisions of PFMA, PPPFA, Treasury Regulations, Treasury Practice Notes and Supply Chain Management policies and procedures. The issues raised were:
  - the Corporate Plan did not appropriately deal with the affairs of the subsidiaries; and
  - evidence in relation to the governance associated with subsidiary information provided for the Group Corporate Plan could not be provided, i.e. subsidiary board resolutions to approve its contribution to the Corporate Plan.

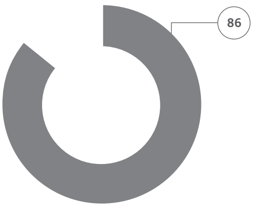
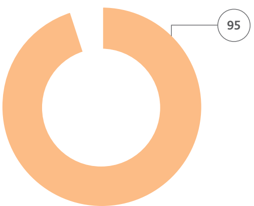
    The Corporate Plan submitted and approved by the DOT now includes the Corporate Plans of the subsidiaries.

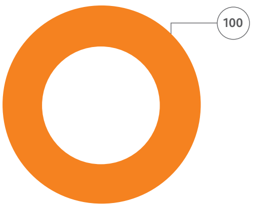
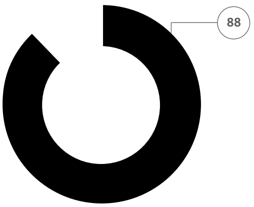
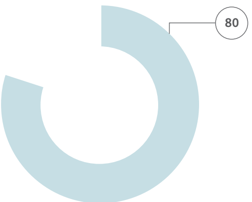
  These issues have now been addressed during this financial year.
- Collaboration between internal audit, risk management and legal departments will be extended to other areas of operation in order to enhance governance practices and support effective implementation of the company's governance framework and operating model.

# Governance continued

## ACTIVITIES FOR THE YEAR

### HOW THE BOARD AND EACH COMMITTEE ADDS VALUE

| Committee | Member | Attendance % | Summarised committee feedback |
|---|---|---|---|
| **Audit and risk committee**<br><br> | Chair: Bajabulile Luthuli | 100 | • Recommendation of the delegated level of authority for board approval<br>• Monitoring of IT Governance<br>• Approval of the internal audit charter<br>• Approval of the audit response plan<br>• Recommendation of the New Strategic Risk Register to the board for approval<br>• Whistleblowing policy<br>• Recommendation of the amendment of the Airports Company South Africa SOC Ltd memorandum of incorporation to the board for approval<br>• Recommendation of the Amendment of the Precinct 2A and JIA Piazza Park memoranda of incorporation to the board for approval<br>• Approval of the internal audit plan<br>• Approval of the external auditor's plan and fees<br>• Recommendation of the following amended policies to the board for approval:<br>– Renewal of Insurance Policies<br>– Whistleblowing policy<br>– Inventory management policy and statement<br>– Accounting, assets management statement and policy, travel-subsistence-employees claim<br>– Approval of the external audit plan and fees for subsidiaries |
| | Roshan Morar | 60 | |
| | Siyakhula Simelane | 90 | |
| | Chwayita Mabude | 80 | |
| | Matlodi Mabela | 100 | |
| **Remuneration and nominations committee**<br><br> | Chair: Deon Botha | 100 | • Appointed a service provider for the board evaluation<br>• Conclusion of the 2014/15 Executive Development Programme (the third programme of its kind), with approximately 22 employees graduating<br>• Finalisation of 2014/15 performance assessments and performance contracts for 2016/17<br>• Maintaining and updating our talent and position profile<br>• Facilitation and implementation of the leadership development and succession management talent assessment project<br>• Obtaining board approval and designing implementation plans as it relates to employee value proposition projects, noting housing, transport and remuneration parity<br>• Disciplinary code and procedure was recommended for board approval<br>• New employment equity plan target setting for five years commencing 1 September 2016 was approved<br>• Conclusion of the 2015 wage negotiations<br>• Review and approval of certain employment terms and conditions<br>• Remuneration parity costing and pay scale were recommended to the board for approval |
| | John Lamola | 75 | |
| | Skhumbuzo Macozoma | 100 | |
| | Siyakhula Simelane | 100 | |
| | Bajabulile Luthuli | 100 | |

| Committee | Member | Attendance % | Summarised committee feedback |
|---|---|---|---|
| Board regulations committee | Chair: John Lamola | 100 | • This committee met only once during the financial year, mainly to consider permission and agree on the steps to be followed during the engagement process with the Regulator and the Minister of Transport in her capacity as shareholder. The committee deliberated on the Permission and the implications and related interventions that may be required<br>• In the absence of a final Permission, the committee has not convened a meeting |
|  | Deon Botha | 100 | |
| | Bajabulile Luthuli | 100 | |
| | Roshan Morar | 100 | |
| | Kenosi Moroka | 100 | |
| | Skhumbuzo Macozoma | 100 | |
| | Matlodi Mabela | 100 | |
| Board investment committee | Chair: Roshan Morar | 100 | • Engagement on transforming retail<br>• Monitoring of capital expenditure<br>• Monitoring of commercial activities and approval of relevant policies<br>• Monitoring of the company's equity investments<br>• Implementation of an audit response plan in relation to supply chain management |
|  | Kenosi Moroka | 100 | |
| | Skhumbuzo Macozoma | 100 | |
| | Chwayita Mabude | 83 | |
| | Matlodi Mabela | 100 | |
| | Bongani Maseko | 50 | |
| | Kate Matlou | 83 | |
| Social and ethics committee | Chair: Kenosi Moroka | 100 | • Monitoring the effectiveness of the anti-corruption hotline<br>• Litigation and the equitable distribution of cases was monitored<br>• Ethics management<br>• The transformation policy was approved<br>• The socio-economic development expenditure was monitored |
|  | Kate Matlou | 75 | |
| | Deon Botha | 75 | |
| | John Lamola | 75 | |
| | Bongani Maseko | 75 | |

## FOCUS AREAS FOR THE NEXT FINANCIAL YEAR

- Implementation of the Transformation Strategy
- The Development of the Business Development Strategy
- Improved Stakeholder Relations
- Engagement around strategies to attain true economic transformation beyond policies
- Expanding the Group's footprint in the chosen jurisdictions based on a Business Development Strategy yet to be approved
- Cost Containment in line with National Treasury Regulations
- Constructively defending the company's reputation against unsubstantiated allegations
- Constructively addressing allegations made in numerous platforms in relation to the Supply Chain Management

# REMUNERATION

We ensure that we pay our employees an equitable market related remuneration for the work that they have performed. The company has adopted the "Total Reward" best practice model to ensure that the remuneration mix for employees is market competitive and has a sustainable and positive impact. To stay competitive in the evolving world of work our Total Reward is annually benchmarked in order to compare our remuneration to those in the national market.

Our remuneration philosophy aims to align the strategic thrusts and value drivers of the company, attract and retain key talent, encourage and promote superior performance, and position the company as a preferred employer.

Remuneration is viewed as a key component to foster high performance and stimulate positive employee behaviour. The figure below reflects the elements of remuneration represented by guaranteed and variable pay as well as the strategic relevance for the design of the mix. Further details on each element have been referenced to the appropriate page within this section to learn more.

TOTAL REWARD

| Remuneration component | | Value proposition for strategic intent |
|---|---|---|
| **Fixed pay**<br>• Total cost to company<br>• Base pay<br>• Employee benefits | Refer to page 112.<br>**Guaranteed pay** | • Attraction and retention<br>• Skills, knowledge and competence<br>• Internal and external benchmarking<br>• Individual performance |
| +<br>**Short-term performance bonus**<br>+<br>**Recognition**<br>Long service and performance awards | Refer to page 112.<br>**Variable pay** | • Performance-driven<br>- company<br>- business unit<br>- individual performance<br>• Significant performance difference<br>• Shorter-term view (one year)<br>• Board discretion |

## FOCUS AREAS DURING THE YEAR

The organisation has significantly progressed in positioning its Total Rewards Offering by focusing on:

- aligning the company remuneration structures to be equitable, fair, transparent and competitive in order to attract and retain talent;
- enhancing the company Employee Home-Ownership programme through individual home ownership that will lead to improved quality of life; and
- providing transport support to our employees, aligning with company operational requirements.

## OVERVIEW OF REMUNERATION POLICY BY CATEGORY AND STRUCTURE

### Equitable remuneration practices

In an effort to ensure a fair, equitable and market-related remuneration, the company conducts a holistic review of its remuneration framework and supporting policies. This ensures improved transparency and equality in alignment with section 6 of Employment Equity legislation Act no. 55 of 1998 for Equal Pay for Work of Equal Value, as well as our governance framework and operating model which seeks to apply best practice in all activities, including remuneration.

The company intends to ensure consistent application of remuneration practices and offerings, through a well-defined company discipline framework, job design, profiling and evaluation and grading of all positions in the business. Noting the importance of equal pay for work of equal value, Airports Company South Africa integrated a remuneration approach, anchored by pay scale and ranges, where the market 50$^{th}$ percentile serves as the mid-point of the pay scales. This holistic review shall inform the future remuneration application and practice for equality and transparency.

### Employees inside the bargaining unit

Unionised employees receive a basic salary plus benefits, which among others include membership of the Pension Fund and medical aid, housing support scheme, an annual bonus (thirteenth cheque) and inclusion in the short-term incentive performance scheme, subject to board discretion. The basic salaries and conditions of employment are reviewed annually through a collective bargaining process.

### Management

Management employees are remunerated on a Total Cost to Company Basis (package). The package includes pensionable earnings and compulsory benefits (retirement and medical aid) as well as the cash component (Base Pay). The salaries are reviewed annually through board approval, considering financial factors, external equity and company performance. Managerial employees participate in the company annual performance short-term incentive scheme which has a direct link to the strategic pillars set by the Executive Committee and approved by the board.

### Executive remuneration

The Chief Executive Officer (CEO) has been appointed on a five-year contract. The Chief Finance Officer (CFO), Chief Operating Officer (COO) and Group Executives have been permanently appointed in line with the company's basic conditions of employment. Executive remuneration is based on shareholder guidelines, company performance and individual performance. The remuneration mix is based on base pay and variable pay (short-term incentive scheme). Executives are remunerated on a Total Cost to Company (Package), which includes pensionable earnings and compulsory benefits (retirement and medical aid) as well as the cash component (Base Pay). The executive remuneration mix is annually reviewed by the board in line with the latest executive remuneration benchmark.

### Non-executive directors' fees

Non-Executive Directors are paid a retainer and meeting fees. The fees are reviewed and approved annually in accordance with the shareholder requirements at our annual general meeting. Non-executive directors are reimbursed for company-related expenses.

# Remuneration continued

## VARIABLE PAY SPECIFICS

### Short-term incentives

The purpose of the short-term incentive scheme is to drive the short–term achievement of the company performance objectives and to reward employees for their individual performance contributions. Executive directors, group executives, management and permanent employees are eligible to participate. The table which follows provides a summary of the minimum to maximum on-target bonus percentage (OTB%). The scheme is directly linked to our performance scorecard approved by the board on an annual basis. Once the company achieves the set business targets, the board of directors will approve the bonus pool and delegate executive directors to distribute the approved bonus pool in the form of a cash payment.

The determination of the bonus pool is based on principles agreed with the shareholder through the corporate plan. Refer to the Remuneration structure diagram for more details. Affordability of the performance bonus proposal is also to be considered in terms of cash generation, current cash position and the company's ability to continue to be profitable and generate cash.

The Performance Incentive scheme is designed to promote business performance. The OTB% is a percentage of total guaranteed package that could be allocated should company and individual performance targets be met and is differentiated as indicated below:

| Employee category | Salary structure | OTB% |
|---|---|---|
| CEO | Total cost to company | 50% |
| CFO, COO and executives | | 35% to 45% |
| Senior management | | 30% to 35% |
| Management | | 25% to 30% |
| Non-unionised employees (OBU) | Basic salary plus benefits | 14% – 25% |
| Unionised employees (IBU) | | 8.33% |

### Long service rewards

These awards relate to uninterrupted service to the company for between five and 35 years that are celebrated through a combination of peer recognition and certification along with cash reward incentives. The rewards reinforce a culture of belonging and consistent performance.

### Long-term incentive scheme

The board took a decision to pay out the deferred executive long-term incentive which was accrued from the unwinded scheme. The approved deferred amount totals R9.5 million, which has been paid to the qualifying executives. The approved payment has been subject to compliance in accordance with the financial management guidelines, and the final amount due to the executives has been settled during the 2015/16 financial year.


2

# Remuneration continued

## REMUNERATION POLICY AND STRUCTURE

### REMUNERATION STRUCTURE

| | | Employee category | |
|---|---|---|---|
| | | Executive directors | Executives |
| | | F band | EU band |
| Guaranteed pay | Base Pay | Annual salary adjustment is based on:<br>a. Company performance<br>b. Executive performance<br>c. CPI<br>d. Executive benchmark and trends<br>e. Company affordability | |
| | Other employee benefits part of guaranteed pay | a. Retirement Fund: 100% employee contribution (Structured according to SARS tax benefits)<br>b. Medical Aid: 100% employee contribution (Structured according to SARS tax benefits) | |
| Variable pay | Circumstantial allowance | Not applicable | |
| | Short-term incentives | Based on:<br>• The company profitability prerequisite set, i.e. positive Profit after Tax is required.<br>• A prerequisite achievement of a minimum of 75% of our Pre-determined Objectives.<br>• The size of the bonus pool will be based on 3% of EBITDA and will be adjusted by a weighted score for all Pre-determined Objectives (as a percentage). | |

## REMUNERATION IN PRACTICE

### BONUS PAYMENTS

The payment of bonuses continue to remain the prerogative of the board and dependent on the company achieving its set business targets. The board approves a bonus pool and delegate executive members to distribute it in the form of cash payments. Different categories of employees are allocated percentages which are used to calculate bonus.

**Patterson grade target bonus percentage (%)** X **Business performance BU average** X **Individual performance score** = **Final individual bonus pay-out percentage (%)** X **Basic salary or total cost to company** = **Bonus performance payment**

| | Senior management | Middle management | Professionals | Skilled general workers |
|---|---|---|---|---|
| | EL and DU band | DL band | CU | CL to A band |
| | Annual salary adjustment is based on:<br>a. CPI<br>b. Internal parity<br>c. Market benchmark and trends<br>d. Individual performance<br>e. Company affordability | | | Annual salary is based on:<br>a. National negotiations<br>b. CPI<br>c. Internal parity<br>d. Company affordability<br>e. Market benchmark and trends<br>f. Thirteenth cheque |
| | | | a. Retirement fund: 13% employer and 8% employee contribution<br>b. Medical aid: 50% Employer and 50% employee contribution<br>c. A once-off grant amounting to R10 000 is offered to first-time home owners<br>d. Offer a monthly housing subsidy to salaried employees<br>e. Pension back loan for buying a house<br>f. Uniform (providing branded uniform for employees) | |
| | | | a. Job-specific<br>b. Operational requirements | |

## FOCUS AREA GOING FORWARD

### GUARANTEED PAY

- Alignment of Guaranteed Pay to the day-to-day operational outputs underpinned by the 'Equal Pay for Work of Equal Value' Code of Good Practice enshrined in the Employment Equity Act.
- Review Executive Base Pay with the objective of aligning the offering to short and long term business objectives.

### ENHANCING OUR HOUSING SCHEME

- Salaried employees to qualify for the housing scheme grant with first-time home owners receiving R75 000.
- Improve the structure of housing support through housing and rental subsidies.
- Provide financial wellness training and related support programmes.

### IMPLEMENT THE TRANSPORT SOLUTION PROGRAMME

- Operationalise the shuttle service for our employees in the airport precinct.

### VARIABLE PAY

- Review and update a short-term incentive scheme to create a transparent alignment to:
  - organisational objectives;
  - divisional objectives; and
  - individual goals.
- Alignment of performance management frameworks to short-term reward incentives.
- Review Executive Variable Pay with the objective of aligning the offering for medium to long-term business objectives.
- Initiate the development of the Talent Retention Scheme and Recognition Programme.
- Review and align executive and director remuneration with King IV and Company's Act.

# Remuneration continued

## SUMMARY OF EMOLUMENTS FOR FY2016

### Executive Directors

| | Salary | | Pension Fund Contributions | | Other benefits* | | Total | |
|---|---|---|---|---|---|---|---|---|
| Figures in Rand thousand | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 |
| B Maseko[1] | **3 397** | 3 128 | **293** | 276 | **3 553** | 1 638 | **7 243** | 5 042 |
| M Manyama[2] | **2 712** | 2 526 | **237** | 223 | **1 523** | 1 593 | **4 472** | 4 342 |
| | **6 109** | 5 654 | **530** | 499 | **5 076** | 3 231 | **11 715** | 9 384 |

*[1] Appointed 15 May 2013.*
*[2] Appointed 1 April 2013.*
** Other benefits comprise of cash bonuses and long-term incentives.*

### Non-executive Directors

| | | | Directors' fees | |
|---|---|---|---|---|
| Figures in Rand thousand | Appointment Date | Resignation Date | **Mar 2016** | Mar 2015 |
| S Macozoma (Chairman effective 1 March 2015) | 1 Mar 2012 | | **806** | 393 |
| B Mabuza (Retired Chairman) | 1 Mar 2012 | 28 Feb 2015 | **–** | 739 |
| R Morar | 1 Jan 2012 | | **468** | 437 |
| D Botha (fees payable to the PIC) | 1 Aug 2013 | | **397** | 471 |
| BP Mabelane | 1 Aug 2012 | 31 Dec 2014 | **–** | 247 |
| T Ramano | 1 Mar 2012 | 28 Feb 2015 | **–** | 357 |
| J Lamola | 1 Dec 2012 | | **391** | 410 |
| K Moroka | 1 Dec 2012 | | **464** | 260 |
| B Luthuli | 1 Dec 2012 | | **643** | 333 |
| C Mabude | 1 Dec 2012 | | **443** | 452 |
| K Matlou | 1 Mar 2015 | | **351** | – |
| M Mabela | 1 Mar 2015 | | **523** | – |
| S Simelane | 1 Mar 2015 | | **482** | – |
| | | | **4 968** | 4 099 |

## Prescribed officers

| | Salary | | Pension Fund Contributions | | Other benefits* | | Total | |
|---|---|---|---|---|---|---|---|---|
| Figures in Rand thousand | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| DA Cloete | 1 985 | 1 857 | 174 | 163 | 2 088 | 986 | 4 247 | 3 006 |
| PM du Plessis | 1 968 | 1 831 | 172 | 161 | 2 265 | 818 | 4 405 | 2 810 |
| H Jeena | 2 224 | 2 069 | 194 | 182 | 2 567 | 973 | 4 985 | 3 224 |
| TS Mekgoe | 2 552 | 2 384 | 224 | 210 | 1 615 | 912 | 4 391 | 3 506 |
| B Mbomvu | 2 037 | 1 903 | 179 | 168 | 1 025 | 533 | 3 241 | 2 604 |
| T Delomoney | 1 843 | 1 722 | 161 | 151 | 1 924 | 943 | 3 928 | 2 816 |
| JR Neville | – | 160 | – | – | 1 824 | 939 | 1 824 | 1 099 |
| G Vracar | – | 35 | – | – | 1 011 | 734 | 1 011 | 769 |
| YE Schoeman[1] | 991 | 1 616 | 74 | 142 | 2 567 | 823 | 3 632 | 2 581 |
| A Vermeulen | 2 343 | 2 297 | 204 | 182 | 1 012 | 724 | 3 559 | 3 203 |
| S Mmakau | 1 941 | 919 | 168 | 81 | 368 | 7 | 2 477 | 1 007 |
| B Pityi | 1 887 | 1 195 | 165 | 105 | 502 | – | 2 554 | 1 300 |
| R Shinners | 1 919 | 306 | 168 | 27 | – | – | 2 087 | 333 |
| G Gopal[2] | 2 018 | – | 175 | – | 410 | – | 2 603 | – |
| B Matshego[3] | 1 455 | – | 127 | – | – | – | 1 582 | – |
| C Shilowa[4] | 835 | – | 72 | – | – | – | 907 | – |
| T Phateng[5] | 1 170 | – | 102 | – | 423 | – | 1 695 | – |
| | 27 168 | 18 294 | 2 359 | 1 572 | 19 601 | 8 392 | 49 128 | 28 258 |

*[1] YE Schoeman (General Manager: Regional Airports, resigned 30 September 2015)*
*[2] G Gopal (Group Executive: Technical Services and Solutions, appointed 1 May 2015)*
*[3] B Matshego (Group executive: infrastructure asset management, appointed 2 July 2015)*
*[4] C Shilowa (Group Executive: Business Development, appointed 1 November 2015)*
*[5] T Phateng (Acting General manager: Regional Airports)*
** Other benefits comprises of cash bonuses and long service awards.*

SUMMARISED ANNUAL FINANCIAL STATEMENTS

# Our summarised financial statements for the year.

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## AUDIT OPINION

These summarised consolidated financial statements for the year ended 31 March 2016 have been audited by the Auditor-General of South Africa, who expressed an unmodified opinion thereon. The auditor also expressed an unmodified opinion on the annual consolidated financial statements from which these summarised consolidated financial statements were derived.

## APPROVAL BY THE BOARD OF DIRECTORS

The summarised consolidated financial statements were approved by the board of directors on 31 August 2016 and signed on its behalf by:

**S MACOZOMA**
Chairman

**R MORAR**
Deputy chairman

SUMMARISED ANNUAL FINANCIAL STATEMENTS

# DIRECTORS' REPORT

## GENERAL INFORMATION

The directors have pleasure in submitting their report on the consolidated annual financial statements of Airports Company South Africa SOC Limited for the year ended 31 March 2016, published on the 23 September 2016.

The company was established in terms of the Airports Company Act, No.44 of 1993 as amended.

## NATURE OF BUSINESS

The principal activities of the company are the acquisition, establishment, development, provision, maintenance, management, control and operation of airports or part of any airport or any facilities or services that are normally performed at an airport.

During the month of October 2015 the company concluded the transaction of R363 million to acquire an additional 10% shareholding in Grupar. This brings the total investment to 20%.

There have been no material changes to the nature of the group's business from prior years.

## REVIEW OF OPERATIONS

Revenue for the group amounted to R8.3 billion (March 2015: R7.8 billion), including non-aeronautical revenue of R3.1 billion (March 2015: R2.8 billion).

Profit before income tax for the group amounted to R2.7 billion (March 2015: R2.3 billion).

The profit for the year for the group was R2 billion (March 2015: R1.6 billion) after taxation expense of R789 million (March 2015: R728 million).

## DIVIDENDS

The board of directors has approved but not yet paid an ordinary dividend of R343 million for the 2016 financial year (March 2015: ordinary dividend R274 million).

## CAPITAL EXPENDITURE

During the current year, R1.3 billion (March 2015: R830 million) was spent on capital expenditure relating to improvements, expansions and replacements by the group. (Refer to Notes B1, B2 and G1 for more details).

## SHARE CAPITAL

There were no changes to the authorised and issued share capital of the company and the group during the financial year.

## GOING CONCERN

The consolidated annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

## SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

Airports Company South Africa SOC Ltd is the ultimate parent of the group.

The group has a 100% interest in ACSA Global Ltd, a management company incorporated in Mauritius. ACSA Global Ltd is registered in Mauritius with a financial year-end of 31 March. The investment has been accounted for as a subsidiary.

Airports Company South Africa Global Ltd holds a 10% interest in the Mumbai International Airport concession (MIAL). The investment has been accounted for as an associate.

Airports Company South Africa SOC Ltd holds a 100% interest in JIA Piazza Park (Pty) Ltd with a financial year end of 31 March. The investment has been accounted for as a subsidiary.

Airports Company South Africa SOC Ltd holds a 100% interest in Precinct 2A (Pty) Ltd with a financial year end of 31 March. The investment has been accounted for as a subsidiary.

The Group has a 50% interest in Airport Logistics Property Holdings (Pty) Ltd with a financial year end of 30 June, which is a joint venture between the company and the Bidvest Group Ltd. The investment has been accounted for as a joint venture using the equity method of accounting.

Airports Company South Africa SOC Ltd has a 40% interest in the La Mercy JV Property Investments (Pty) Ltd with a financial year-end of 31 March, a property holding, development and letting company. The investment has been accounted for as an associate using the equity method of accounting

Airports Company South Africa SOC Ltd holds a 20% interest in Aeroporto de Guarulhos Participações S.A. Aeroporto de Guarulhos Participações S.A. is registered in Brazil with a financial year end of 31 December. The investment has been accounted for as an associate using the equity method of accounting.

Airports Company South Africa SOC Ltd holds 100% of Sakhisizwe Community Programme NPC which is a special purpose entity (SPE) created and controlled by Airports Company South Africa from a government grant received from the Department of Transport.

Details of the assets, liabilities, revenues and expenses of the subsidiaries, joint ventures and associates that are included in the consolidated statement of comprehensive income and the consolidated statement of financial position are set out in notes E1, E2 and E3 of the consolidated annual financial statements.

**DIRECTORS AND SECRETARY**

Details of the directors and secretary of the company are given on pages 94 and 95 of the integrated report.

**INTERESTS OF DIRECTORS AND OFFICERS**

No contracts were entered into in which directors and officers of the company had an interest and which affect the business of the Group. The directors had no interest in any third party or company responsible for managing any of the business activities of the Group. The emoluments of directors are determined by the Board Remuneration Committee. (Directors emoluments can be found on page 116 and 117).

**INFORMATION REQUIRED IN TERMS OF THE PUBLIC FINANCE MANAGEMENT ACT (PFMA)**

In terms of the materiality framework agreed with the shareholder and as per S55(2) (b) (i) & (ii) of the PFMA, any losses due to criminal conduct or irregular or fruitless and wasteful expenditure that individually (or collectively where items are closely related) exceed R60 million for the group, must be disclosed separately, including any criminal or disciplinary steps taken as a consequence of such losses or irregular or fruitless and wasteful expenditure.

Fruitless and wasteful expenditure amounted to R5 million (March 2015: R13 million) – the March 2015 figure was restated. The fruitless and wasteful expenditure relates to;

1) Losses in relation to cancelled tenders;

2) Interest on provisional payment; and

3) Financial misconduct.

Cumulative irregular expenditure is R446 million (March 2015: R312 million).

The irregular expenditure incidents relate to contravention of the supply chain management policy and the Preferential Procurement Policy Framework Act (PPPFA) and regulations.

Management has controls in place to monitor and report on this type of expenditure on a regular basis. This information is considered and presented to the executive committee (EXCO) and the audit and risk committee for review on a quarterly basis.

Irregular expenditure of R446 million (March 2015: R312 million) has been sent to National Treasury for consideration of condonation.

SUMMARISED ANNUAL FINANCIAL STATEMENTS

# SUMMARISED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 March 2016

| | | GROUP | | |
|---|---|---|---|---|
| Figures in Rand thousand | Note | 2016 | Restated 2015 | Restated 2014 |
| **ASSETS** | | | | |
| **Non-current assets** | | **26 668 060** | 25 552 421 | 25 834 451 |
| Property, plant and equipment | B.2 | **19 512 477** | 19 589 848 | 20 150 814 |
| Investment property | B.1 | **4 881 537** | 4 336 073 | 3 865 021 |
| Intangible assets | | **34 039** | 55 511 | 110 608 |
| Investment in joint ventures | E.2 | **147 734** | 127 942 | 107 383 |
| Investments in associates | E.3 | **1 761 660** | 1 348 026 | 1 422 739 |
| Other non-current assets | | **330 613** | 95 021 | 177 886 |
| **Current assets** | | **3 206 815** | 2 932 849 | 3 032 906 |
| Inventories | | **1 459** | 1 391 | 1 180 |
| Derivative financial instruments | | **–** | 701 | - |
| Current tax receivable | | **60 824** | 4 980 | 461 |
| Trade and other receivables | D.1 | **1 014 864** | 1 183 312 | 943 188 |
| Investments | D.2 | **760 100** | 515 899 | 1 073 569 |
| Cash and cash equivalents | D.2 | **1 369 568** | 1 226 566 | 1 014 508 |
| **Total assets** | | **29 874 875** | 28 485 270 | 28 867 357 |
| **EQUITY AND LIABILITIES** | | | | |
| **Equity** | | | | |
| Share capital | | **500 000** | 500 000 | 500 000 |
| Share premium | | **250 000** | 250 000 | 250 000 |
| Treasury share reserve | | **(44 024)** | (44 024) | (44 024) |
| Other reserves | | **703 989** | 67 887 | (77 467) |
| Retained earnings | | **15 723 964** | 14 036 403 | 12 705 076 |
| **Total equity** | | **17 133 929** | 14 810 266 | 13 333 585 |
| **Non-current liabilities** | | **9 356 154** | 11 546 462 | 12 639 472 |
| Derivative financial instruments | | **3 766** | 50 719 | 48 081 |
| Retirement benefit obligations | | **27 647** | 30 831 | 34 858 |
| Deferred income | | **64 467** | 62 859 | 69 614 |
| Deferred tax liabilities | G.1 | **1 346 013** | 1 365 207 | 1 349 374 |
| Interest-bearing borrowings | C.1 | **7 914 261** | 10 036 846 | 11 137 545 |
| **Current liabilities** | | **3 384 792** | 2 128 542 | 2 894 300 |
| Derivative financial instruments | | **2 604** | 24 304 | 51 601 |
| Income tax liability | | **–** | 61 999 | 68 644 |
| Trade and other payables | | **1 276 534** | 724 241 | 752 284 |
| Deferred income | | **3 613** | 3 339 | 2 731 |
| Provisions | | **198 786** | 174 955 | 172 531 |
| Interest-bearing borrowings | C.1 | **1 903 255** | 1 139 704 | 1 846 509 |
| **Total liabilities** | | **12 740 946** | 13 675 004 | 15 533 772 |
| **Total equity and liabilities** | | **29 874 875** | 28 485 270 | 28 867 357 |

SUMMARISED ANNUAL FINANCIAL STATEMENTS

# SUMMARISED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 March 2016

| | | GROUP | |
|---|---|---|---|
| Figures in Rand thousand | Note | 2016 | Restated 2015 |
| Revenue | A.1 | 8 305 765 | 7 773 936 |
| Other operating income | | 66 769 | 4 704 |
| Employee benefit expenses | | (1 185 791) | (1 070 210) |
| Other operating expenses | | (2 009 638) | (1 872 315) |
| **Earnings before interest, tax, depreciation and amortisation** | | 5 177 105 | 4 836 115 |
| Fair value gains on investment properties | B.1 | 328 454 | 414 243 |
| Depreciation and amortisation expense | | (1 163 099) | (1 476 962) |
| Loss from accounted investments | E.2 & E.3 | (690 435) | (155 446) |
| Finance income | C.2 | 129 281 | 87 098 |
| Finance costs | C.2 | (1 093 358) | (1 314 425) |
| Gains/(losses) on remeasurement and disposal of trading financial instruments | | 59 623 | (126 043) |
| Gains on property and equipment* | B.2 | – | 91 357 |
| **Profit before tax** | | 2 747 571 | 2 355 937 |
| Income tax expense | | (789 128) | (728 187) |
| **Profit/(loss) for the year** | | 1 958 443 | 1 627 750 |
| **Other comprehensive income** | | | |
| **Items that will not be reclassified to profit or loss** | | | |
| Actuarial gain/(loss) | | 3 930 | 1 453 |
| Income tax relating to items that will not be reclassified | | (340) | (407) |
| **Total items that will not be reclassified to profit or loss** | | 3 590 | 1 046 |
| **Items that may be reclassified to profit or loss** | | | |
| Exchange differences on translating foreign operations | | 771 491 | 130 583 |
| Effects of cash flow hedges | | 33 952 | 59 490 |
| **Income tax relating to items that may be reclassified** | | (172 931) | (45 763) |
| **Total items that may be reclassified to profit or loss** | | 632 512 | 144 310 |
| **Other comprehensive income for the year, net of tax** | | 636 102 | 145 356 |
| **Total comprehensive income for the year** | | 2 594 545 | 1 773 106 |
| **Earnings per share** | | | |
| **Per share information** | | | |
| Basic earnings per share (cents) | | 396.42 | 329.48 |
| Diluted earnings per share (cents) | | 396.42 | 329.48 |

** Gains on property and equipment resulted from physical asset verification adjustments, refer to note G.5.*

SUMMARISED ANNUAL FINANCIAL STATEMENTS

# SUMMARISED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2016

| | GROUP | | | | | |
|---|---|---|---|---|---|---|
| | Attributable to equity holders of the parent | | | | | |
| Figures in Rand thousand | Share capital | Share premium | Retained earnings | Treasury share reserve | Other reserves | Total |
| **Balance at 1 April 2014 – previously stated** | 500 000 | 250 000 | 11 951 507 | (44 024) | (77 467) | 12 580 016 |
| **Adjustments – prior period error** | – | – | 753 569 | – | – | 753 569 |
| **Balance at 1 April 2014 restated** | 500 000 | 250 000 | 12 705 076 | (44 024) | (77 467) | 13 333 585 |
| Profit for the year – restated | – | – | 1 627 750 | – | – | 1 627 750 |
| **Other comprehensive income** | – | – | – | – | 145 354 | 145 354 |
| Actuarial gains on defined benefit post-retirement medical aid liability, net of tax | – | – | – | – | 1 046 | 1 046 |
| Foreign currency translation differences, net of tax | – | – | – | – | 101 476 | 101 476 |
| Cash flow hedge reserve on derivative financial instruments, net of tax | – | – | – | – | 42 832 | 42 832 |
| Dividends declared | – | – | (296 423) | – | – | (296 423) |
| **Balance at 1 April 2015 – restated** | 500 000 | 250 000 | 14 036 403 | (44 024) | 67 887 | 14 810 266 |
| Balance at 1 April 2015 – previously reported | 500 000 | 250 000 | 13 221 663 | (44 024) | 67 887 | 13 995 526 |
| Adjustments – prior period error | – | – | 814 740 | – | – | 814 740 |
| Profit for the year | – | – | 1 958 443 | – | – | 1 958 443 |
| **Other comprehensive income** | – | – | – | – | 636 102 | 636 102 |
| Actuarial gains on defined benefit post retirement medical aid liability, net of tax | – | – | – | – | 3 590 | 3 590 |
| Foreign currency translation differences, net of tax | – | – | – | – | 607 853 | 607 853 |
| Cash flow hedge reserve on derivative financial instruments, net of tax | – | – | – | – | 24 659 | 24 659 |
| Dividends declared | – | – | (270 882) | – | – | (270 882) |
| **Balance at 31 March 2016** | 500 000 | 250 000 | 15 723 964 | (44 024) | 703 989 | 17 133 929 |

SUMMARISED ANNUAL FINANCIAL STATEMENTS

# SUMMARISED CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 March 2016

| | | GROUP | |
|---|---|---|---|
| Figures in Rand thousand | Note | 2016 | Restated 2015 |
| **Cash flows from operating activities** | | | |
| Cash receipts from customers | | 8 540 982 | 7 538 516 |
| Cash paid to suppliers and employees | | (2 962 950) | (2 951 618) |
| Cash generated from operations | D.4 | 5 578 032 | 4 586 898 |
| Interest income | C.2 | 129 281 | 87 098 |
| Tax paid | D.5 | (1 065 471) | (743 235) |
| **Net cash inflow from operating activities** | | 4 641 842 | 3 930 761 |
| **Cash flows from investing activities** | | | |
| Purchase of property plant and equipment | B.2 | (1 161 657) | (762 575) |
| Sale of property, plant and equipment | | 3 709 | 9 011 |
| Purchase of investment property | B.1 | – | (49 094) |
| Purchase of intangible assets | G.1 | (2 566) | (18 564) |
| Loan to group companies (advanced)/repaid | | 2 647 | (2 729) |
| Decrease/(increase) in short-term investments | | (244 201) | 557 670 |
| Investments in associates | E.3 | (362 576) | – |
| **Net cash outflow from investing activities** | | (1 764 644) | (266 281) |
| **Cash flows from financing activities** | | | |
| Interest-bearing borrowings repaid | | (1 458 067) | (1 948 809) |
| Financial instruments held for trading | | (44 611) | (140 355) |
| Dividends paid | | (270 882) | (296 819) |
| Interest paid | C.2 | (960 636) | (1 066 439) |
| **Net cash outflow from financing activities** | | (2 734 196) | (3 452 422) |
| **Increase in cash and cash equivalents** | | 143 002 | 212 058 |
| Cash and cash equivalents at beginning of year | | 1 226 566 | 1 014 508 |
| **Cash and cash equivalents at end of year** | D.2 | 1 369 568 | 1 226 566 |

SUMMARISED ANNUAL FINANCIAL STATEMENTS

# SELECTED NOTES TO THE SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2016

## 1. GENERAL INFORMATION

Airports Company South Africa SOC Limited (the "company") and its subsidiaries (together the "group") were established in terms of the Airports Company Act, No. 44 of 1993 as amended and the Companies Act, No. 71 of 2008 (Companies Act) as amended. The address of the company's registered office is The Maples, Riverwoods Office Park, 24 Johnson Road, Bedfordview. The group is primarily involved in the acquisition, development, provision, maintenance, management, control and operation of airports or parts of airports or any facilities or services that are normally performed at an airport.

The summarised consolidated financial statements have been prepared under the supervision of the Chief Financial Officer, Maureen Manyama CA(SA).

The audited financial statements as at and for the year ended 31 March 2016 are available for inspection at the company's registered office and on the Company's website, www.airports.co.za.

## 2. BASIS OF PREPARATION

The summarised consolidated annual financial statements have been prepared in accordance with the recognition and measurement criteria of the International Financial Reporting Standards (IFRS) and their interpretations issued by the International Accounting Standards Board (IASB), as well as the preparation and disclosure requirements of IAS 34 in the manner required by the Companies Act. Although the audited consolidated financial statements have been prepared in accordance with the Public Finance Management Act, No1 of 1999 (PFMA), the PFMA does not prescribe or prohibit the preparation of these summarised consolidated financial statements. The financial statements have been prepared on the historical cost basis, except for investment property and certain financial instruments that are carried at fair value, and are presented in South African Rand.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the summary consolidated financial statements are disclosed in note 3 below.

## 3. ESTIMATES AND ASSUMPTIONS

In preparing the summarised consolidated annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the consolidated annual financial statements and related disclosures. Use of available information and the application of judgement are inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the summarised consolidated annual financial statements. The significant judgements have been disclosed in the applicable notes. These include:

- accounting for investments in associates – note E.3
- fair values of financial instruments – note F.1
- post retirement medical aid obligation
- fair value of investment property – note B.1
- contingencies – note G.6
- property and equipment – note B.2
- deferred tax – note G.1
- prior period error – note G.5

## 4. SEGMENTAL INFORMATION

The group's reported segments are based on reports reviewed by the Executive Committee (EXCO) to make strategic decisions. Five reportable segments were identified namely:

- O.R. Tambo International
- Cape Town International
- King Shaka International
- Regional Airports
- Corporate and other

The Regional Airports segment comprises the additional airports in South Africa which the group manages.

Information regarding the operations of each reportable segment is included below. EXCO assesses the performance of the operating segments as a measure of earnings before interest, taxation, depreciation and amortisation expense (EBITDA).

The group calculates EBITDA as follows:

Profit/(loss) before tax
*Add* Interest expense
*Less* Interest income
*Add* Depreciation, amortisation and any impairment
*Less* Income from equity accounted investments

**Items not allocated to segments**

Tax, derivative financial instruments and interest-bearing liabilities have not been allocated to operating segments as these are managed centrally.

Similarly interest income and expenditure are not allocated to operating segments as they are driven largely by the Corporate division, which manages the cash requirements of the company. Corporate overhead expenses are not allocated to the reportable segments.

SUMMARISED ANNUAL FINANCIAL STATEMENTS

# Selected notes to the summarised consolidated financial statements continued

for the year ended 31 March 2016

## 4. SEGMENTAL INFORMATION (CONTINUED)

| | O.R. Tambo International | | Cape Town International | | King Shaka International | |
|---|---|---|---|---|---|---|
| Figures in Rand thousand | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 |
| Aeronautical | **3 339 384** | 3 237 638 | **1 079 489** | 978 880 | **456 724** | 423 122 |
| Non-aeronautical | **1 879 118** | 1 723 993 | **611 035** | 549 554 | **262 667** | 244 540 |
| Total external revenue | **5 218 502** | 4 961 631 | **1 690 524** | 1 528 434 | **719 391** | 667 662 |
| EBITDA | **4 151 064** | 3 640 046 | **1 234 617** | 966 074 | **382 707** | 332 516 |

Below is the reconciliation of the segmental information to that presented in the abridged statement of financial position:
Reportable segment assets are reconciled to total assets as follows:

| Figures in Rand thousand |
|---|
| Segment assets for reportable segments |
| Corporate and other segment assets |
| Unallocated* |
| **Total assets per statement of financial position** |

** Comprises current and deferred tax liabilities/assets, derivative financial instruments and interest-bearing liabilities, as these are carried at the Corporate and other segments.*

| | Regional Airports | | Corporate and Other | | Elimination | | Total | |
|---|---|---|---|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| | **319 039** | 286 259 | **–** | – | **–** | – | **5 194 636** | 4 925 899 |
| | **161 026** | 145 244 | **253 105** | 233 072 | **(55 822)** | (48 366) | **3 111 129** | 2 848 037 |
| | **480 065** | 431 503 | **253 105** | 233 072 | **(55 822)** | (48 366) | **8 305 765** | 7 773 936 |
| | **207 906** | 86 646 | **(793 377)** | (219 763) | **(5 812)** | 30 596 | **5 177 105** | 4 836 115 |

| | 2016 | 2015 |
|---|---|---|
| | **54 526 529** | 38 832 876 |
| | **(24 712 464)** | (10 353 287) |
| | **60 810** | 5 681 |
| | **29 874 875** | 28 485 270 |

SUMMARISED ANNUAL FINANCIAL STATEMENTS

# Selected notes to the summarised consolidated financial statements continued

for the year ended 31 March 2016

## A. MANAGING EBITDA

### A.1 Revenue

Revenue of the group comprises aeronautical revenue (landing fees, passenger service charges, and aircraft parking) and non-aeronautical revenue (advertising, retail, car parking, car hire, property rental, hotel operations, and premiums).

| | GROUP | |
|---|---|---|
| Figures in Rand thousand | 2016 | 2015 |
| **Aeronautical** | | |
| Landing fees | 1 869 357 | 1 801 498 |
| Passenger services charges | 3 254 874 | 3 052 185 |
| Aircraft charges | 70 405 | 72 216 |
| | 5 194 636 | 4 925 899 |
| **Non-aeronautical** | | |
| Advertising | 187 324 | 194 267 |
| Retail | 1 141 492 | 1 010 619 |
| Car parking | 536 223 | 506 569 |
| Car hire | 226 100 | 190 126 |
| Property rental | 646 238 | 597 930 |
| - Originally stated | 646 238 | 584 914 |
| - Restatement | – | 13 016 |
| Hotel operations | 132 987 | 124 669 |
| Recoveries[1] | 133 881 | 127 469 |
| Other[2] | 106 884 | 96 388 |
| | 3 111 129 | 2 848 037 |
| | 8 305 765 | 7 773 936 |

[1] *Recoveries include water, electricity and other utility charges recovered from tenants.*
[2] *Other includes permits and airports management services.*

## B. ASSETS

### B.1 Investment property

| | | GROUP | |
|---|---|---|---|
| Figures in Rand thousand | 2016 | 2015 | 2014 |
| Balance at 1 April | 4 336 073 | 3 865 021 | 2 991 127 |
| Restatement | | | 524 086 |
| Improvements | 155 601 | 49 094 | 16 106 |
| Write-offs | (30) | – | – |
| Change in fair value: | | | |
| - Recognised in statement of comprehensive income (A.2) | 328 454 | 414 243 | 317 315 |
| - Originally stated | 328 454 | 360 722 | 248 006 |
| - Prior year error | – | 53 521 | 48 599 |
| - recognised in other comprehensive income | – | – | 20 710 |
| Reclassification from property and equipment | 61 439 | 7 715 | 16 387 |
| **Balance at 31 March** | 4 881 537 | 4 336 073 | 3 865 021 |

**B. ASSETS (CONTINUED)**

**B.1 Investment property (continued)**

*Fair Values*

Investment properties are stated at fair value, which has been determined based on valuations performed by accredited independent valuers, as at 31 March 2016 and 31 March 2015. Where there was a lack of comparable data, a valuation model in accordance with that recommended by the International Valuation Standards Committee has been applied. The following main inputs have been used:

| | GROUP | |
|---|---|---|
| | **2016** | 2015 |
| Market yield of comparable properties (%) | **7 – 11** | 9 – 11 |
| Average escalation of lease rentals (%) | **8 – 10** | 8 – 10 |
| Average duration of lease (years) | **1 – 5** | 3 – 5 |

Rental income received of R646 million (2015: R598 million) from investment properties has been included in the profit for the year.

*Fair value hierarchy*

The fair values of these investment properties are determined using valuation techniques which uses inputs that are directly or undirected observable. They are therefore classified as Level 2 on the fair value hierarchy.

SUMMARISED ANNUAL FINANCIAL STATEMENTS

# Selected notes to the summarised consolidated financial statements continued

for the year ended 31 March 2016

**B. ASSETS (CONTINUED)**

**B.2 Property and equipment**

GROUP

| Figures in Rand thousand | Land | Buildings | Equipment | Motor vehicles | Pavements | Work in progress | Total |
|---|---|---|---|---|---|---|---|
| Opening balance at 1 April 2014 | 742 736 | 10 031 580 | 1 537 553 | 103 523 | 6 562 758 | 1 172 664 | 20 150 814 |
| Closing balance at 31 March 2014 | 742 777 | 9 977 909 | 1 200 295 | 93 774 | 6 512 119 | 1 184 629 | 19 711 503 |
| Restatements | (41) | 53 671 | 337 258 | 9 749 | 50 639 | (11 965) | 439 311 |
| Additions | – | 70 911 | 166 088 | 64 403 | 99 224 | 525 800 | 926 426 |
| Disposals | – | (1 008) | (72 730) | (1 395) | (1 099) | – | (76 232) |
| Reclassification to investment property | – | (2 978) | – | – | (4 737) | – | (7 715) |
| Transfers | – | 95 739 | 119 563 | 44 984 | 241 780 | (502 066) | – |
| Depreciation | – | (571 953) | (445 350) | (32 831) | (353 311) | – | (1 403 445) |
| Opening balance at 1 April 2015 – restated | 742 736 | 9 622 291 | 1 305 124 | 178 684 | 6 544 615 | 1 196 398 | 19 589 848 |
| Closing balance at 31 March 2015 – previously stated | 742 777 | 9 548 088 | 1 012 176 | 168 006 | 6 466 727 | 1 204 724 | 19 142 498 |
| Restatements | (41) | 74 203 | 292 948 | 10 678 | 77 888 | (8 326) | 447 350 |
| Additions | 71 073 | 53 801 | 47 258 | 22 792 | 5 632 | 961 109 | 1 161 665 |
| Disposals | – | – | (1 043) | (2 273) | – | (34 851) | (38 167) |
| Reclassification to investment property | – | – | – | – | – | – | – |
| Property and intangible assets transfers | (20 899) | – | – | – | – | (9 915) | (30 814) |
| Transfers* | 8 373 | 185 438 | 98 321 | 41 568 | 12 956 | (346 656) | – |
| Depreciation and impairment | – | (443 624) | (305 728) | (41 030) | (340 731) | – | (1 131 113) |
| Reconstruction reclassification* | 96 653 | (861 155) | 2 197 634 | 75 308 | (1 508 440) | | – |
| Reconstruction reclassification relating to investment property and intangible assets* | (40 901) | | 1 959 | | | | (38 942) |
| **Closing balance at 31 March 2016** | **857 035** | **8 556 751** | **3 343 525** | **275 049** | **4 714 032** | **1 766 085** | **19 512 477** |

**Reconstruction reclassification relates to all the transfers that occurred through the fixed assets verification project to ensure the assets have been recognised in the correct category. Reclassifications to investment property and intangible assets, that amount to R38.9 million, have been disclosed above.*

## C. DEBT AND CASH MANAGEMENT

### C.1 Interest-bearing borrowings

GROUP

| Figures in Rand thousand | 2016 Carrying value | 2016 Fair value | 2015 Carrying value | 2015 Fair value |
|---|---|---|---|---|
| **Unsecured:** | | | | |
| Long-term bonds | 7 043 047 | 7 123 743 | 7 549 286 | 8 785 677 |
| Nedbank Bullet Loan | – | – | 750 000 | 818 535 |
| Infrastructure finance | 147 257 | 159 176 | 166 422 | 183 485 |
| Southern Sun loan | 1 500 | 1 500 | 1 500 | 1 500 |
| L'Agence Francaise de Developpement (AFD) | 680 416 | 722 715 | 764 829 | 840 491 |
| L'Agence Francaise de Developpement (AFD1) | 1 945 296 | 2 108 501 | 1 944 513 | 2 206 133 |
| **Balance at 31 March** | 9 817 516 | 10 115 635 | 11 176 550 | 12 835 821 |
| **Maturity analysis:** | | | | |
| Current portion | 1 903 255 | 1 903 255 | 1 139 704 | 1 139 704 |
| Non-current portion | 7 914 261 | 8 212 380 | 10 036 846 | 11 696 117 |
| | 9 817 516 | 10 115 635 | 11 176 550 | 12 835 821 |

### C.2 Finance income and expense

Finance income comprises interest income on funds invested, and finance expenses comprise interest expense on borrowings.

GROUP

| Figures in Rand thousand | 2016 | 2015 |
|---|---|---|
| Interest received | 129 281 | 87 098 |
| **Finance income** | 129 281 | 87 098 |
| **Finance costs** | (1 093 358) | (1 314 425) |
| 'Originally stated | (1 093 358) | (1 313 554) |
| 'Restatement | – | (871) |
| Gains/(Losses) on re-measurement and disposal of trading financial instruments* | 59 623 | (126 043) |
| **Total finance expense** | (1 033 735) | (1 440 468) |
| **Net finance expense** | (904 454) | (1 353 370) |

** Interest rate swaps*

### C.3 Derivative financial instruments and hedging information

The following information relates to derivative financial instruments included in the abridged consolidated annual financial statements.

| Figures in Rand thousand | 2016 Assets | 2016 Liabilities | 2015 Assets | 2015 Liabilities |
|---|---|---|---|---|
| Interest rate swaps – cash flow hedges | – | 5 658 | – | 75 023 |
| Forward foreign exchange contracts – held for trading | – | 712 | 701 | – |
| | – | 6370 | 701 | 75 023 |
| Current | – | 2 604 | 701 | 24 304 |
| Non-current | – | 3 766 | – | 50 719 |
| | – | 6370 | 701 | 75 023 |

SUMMARISED ANNUAL FINANCIAL STATEMENTS

# Selected notes to the summarised consolidated financial statements continued

for the year ended 31 March 2016

## C. DEBT AND CASH MANAGEMENT (CONTINUED)

### C.3 Derivative financial instruments and hedging information (continued)

The notional principal amounts of the outstanding derivative contracts were as follows:

| Figures in Rand thousand | Received | Pay | Notional amount 2016 | Notional amount 2015 | Fair value 2016 | Fair value 2015 |
|---|---|---|---|---|---|---|
| **Interest rate swaps** | | | | | | |
| Wednesday, 30 September 2020 | 3 month JIBAR + 1.92% | 10.98% | – | 750 000 | – | (63 050) |
| Thursday, 30 November 2023 | 3 month JIBAR + 1.90% | 10.98% | **250 000** | 250 000 | **(5 658)** | (11 973) |
| **Forward foreign exchange contracts**[1] | | | | | **(712)** | – |
| **Total derivatives** | | | | | **(6 370)** | (75 023) |

*[1] The notional principal amounts of the outstanding forward foreign exchange contracts at 31 March 2016 were $2.3 million (2015: €620 thousand and $2 million). The exchange rates vary from R15.3393 to R16.4675 (2015: €12.8982 and $11.8665).*

The table below analyses the group derivative financial instruments in terms of their maturities. The amounts disclosed are the contractual undiscounted cash flows:

| Figures in Rand thousand | Carrying amount | Contractual cash flows | 6 months or fewer | Between 6 – 12 months | Between 1 – 2 years | Between 2 – 5 years | More than 5 years |
|---|---|---|---|---|---|---|---|
| Mar-16 | 6 370 | 6 370 | 2 209 | 395 | 2 166 | 1 477 | 123 |
| Mar-15 | 75 023 | 75 023 | 13 450 | 10 853 | 16 633 | 30 561 | 3 526 |

## D. MANAGING WORKING CAPITAL

### D.1 Trade and other receivables

| Figures in Rand thousand | GROUP 2016 | GROUP 2015 |
|---|---|---|
| Trade receivables | **864 002** | 971 304 |
| Loan to joint venture/associate | **88 848** | 59 538 |
| Impairment of Trade and other receivables | **(55 559)** | (87 547) |
| **Loans and receivables** | **897 291** | 943 295 |
| Taxation receivable | **834** | 140 |
| Prepayments | **3 805** | 15 544 |
| Insurance rent-a-captive receivable* | **102 716** | 97 624 |
| Lease receivables | **–** | 112 182 |
| Other receivables | **10 218** | 14 527 |
| **Total trade and other receivables** | **1 014 864** | 1 183 312 |

** The contingency policies are underwritten by Guardrisk and Centriq. The amount receivable represents the balance of the special experience account. The special experience account is payable on demand.*

The average credit period is 33 days (2015: 38 days). Trade receivables are carried at cost which normally approximates their fair value due to short-term maturity thereof. An adjustment for impairment of receivables has been made for estimated irrecoverable amounts.

Loans to joint ventures and associates bear no interest and have no fixed repayment terms.

The following table represents an age analysis of trade and other receivables. Trade and other receivables are considered past due should a qualifying payment not be received within 30 days.

## D. MANAGING WORKING CAPITAL (CONTINUED)

### D.1 Trade and other receivables (continued)

GROUP

| Figures in Rand thousand | 2016 Trade and other receivables | 2016 Allowance for impairment | 2015 Trade and other receivables | 2015 Allowance for impairment |
|---|---|---|---|---|
| Not past due | **755 416** | **–** | 713 445 | – |
| Past due 0 – 30 days | **81 993** | **–** | 194 318 | – |
| Past due 31 – 60 days | **20 833** | **–** | 7 548 | – |
| Past due 61 – 90 days | **95 290** | **(55 559)** | 115 531 | (87 547) |
| **Total trade and other receivables** | **933 532** | **(55 559)** | 1 030 842 | (87 547) |

*Impairment loss*

The movement in the allowance for impairment in respect of trade receivables during the year was as follows:

GROUP

| Figures in Rand thousand | 2016 | 2015 |
|---|---|---|
| Balance at 1 April | **87 547** | 56 795 |
| Increase in allowance | **(609)** | 30 752 |
| Bad debts written off | **(31 379)** | – |
| **Balance at 31 March** | **55 559** | 87 547 |

*Credit quality of financial instruments*

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to historical information about the customer. Before accepting any new customer, the group uses an external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer. Limits and scoring attributed to customers are reviewed periodically. 60% of the trade receivables that are neither past due nor impaired were recovered within one month after the reporting date. Of the trade receivables balance at the end of the year, R147 million (2015: R137 million) is due from one significant client, the group's largest. There are no other customers who represent more than 10% of the total balance of trade receivables. As at 31 March 2016, the group had no significant concentration of credit risk (2015: Nil). The allowance account in respect of trade receivables is used to record impairment losses unless the group is satisfied that no recovery of the amounts owing is possible; at that point the amounts considered irrecoverable and are written off against the allowance account.

The group believes that based on historic default rates, no other impairment allowance in respect of trade receivables not past due or past due 90 days is required.

### D.2 Cash and cash equivalents and investments

GROUP

| Figures in Rand thousand | 2016 | 2015 |
|---|---|---|
| Cash on hand | **163** | 75 |
| Bank balances | **1 110 467** | 920 568 |
| Money markets | **258 938** | 305 923 |
| Cash and cash equivalents | **1 369 568** | 1 226 566 |
| Stanlib Income Fund | **760 100** | 515 899 |
| Investments | **760 100** | 515 899 |

SUMMARISED ANNUAL FINANCIAL STATEMENTS

# Selected notes to the summarised consolidated financial statements continued

for the year ended 31 March 2016

**E. FOREIGN INVESTMENT**

**E.1 Subsidiaries**

Details of the company's subsidiaries at 31 March are indicated below. All subsidiaries are incorporated in South Africa, except for Airports Company South Africa Global Ltd which is incorporated in Mauritius.

| Figures in Rand thousand | Principal activity | Interest held 2016 (%) | Interest held 2015 (%) | Investment at cost 2016 | Investment at cost 2015 |
|---|---|---|---|---|---|
| **Subsidiary** | | | | | |
| OSI Airport Systems (Pty) Ltd | Dormant | **51** | 51 | **–** | – |
| Precinct 2A (Pty) Ltd | Property owning | **100** | 100 | **647 060** | 640 904 |
| JIA Piazza Park (Pty) Ltd | Hotel operations | **100** | 100 | **–** | – |
| Airports Company South Africa Global Ltd | Management company | **100** | 100 | **77 958** | 81 494 |
| | | | | **725 018** | 722 398 |
| Special Purpose Entities* | | | | | |
| Lexshell 342 Investment Holdings (Pty) Ltd | Employee share option plan | **–** | – | **36 265** | 34 137 |
| Airport Management Share Incentive Scheme Company (Pty) Ltd | Employee share option plan | **–** | – | **30 098** | 29 051 |
| Sakhisizwe Community Programme | Non-profit company | **–** | – | **2 647** | – |
| | | | | **69 010** | 63 188 |
| | | | | **794 028** | 785 586 |

** The group figures include the consolidation of the Airport Management Share Incentive Scheme Company Proprietary Limited and Lexshell 342 Investment Holdings Proprietary Limited. Although the Airport Management Share Incentive Scheme Company Proprietary Limited is wholly owned by the Airport Management Share Incentive Scheme Trust and Lexshell 342 Investment Holdings Proprietary Limited is wholly owned by the Airports Company South Africa Kagano Trust, in terms of IFRS 10. The group consolidates these entities as it is exposed to significant risks that are associated with loans extended to the entities to acquire shares of the company.*

*Sakhisizwe Community Programme NPC is a SPE created and controlled by Airports Company South Africa from a government grant received from the Department of Transport*

**E.2 Joint ventures**

| Figures in Rand thousand | Airport Logistics Property Holdings (Pty) Ltd |
|---|---|
| Opening balance at 1 April 2014 | 107 383 |
| Share of net assets | 20 559 |
| Closing balance at 31 March 2015 | 127 942 |
| Share of net assets | 19 792 |
| **Closing balance at 31 March 2016** | 147 734 |

**E. FOREIGN INVESTMENT (CONTINUED)**

**E.3 Associates**

| Figures in Rand thousand | La Mercy JV property Investments (Pty) Ltd 2016 | La Mercy JV property Investments (Pty) Ltd 2015 | Mumbai International Airport Private Limited 2016 | Mumbai International Airport Private Limited 2015 | Aeroporto de Guarulhos Participações S.A. 2016 | Aeroporto de Guarulhos Participações S.A. 2015 | Total 2016 | Total 2015 |
|---|---|---|---|---|---|---|---|---|
| Interest held | **40%** | 40% | **10%** | 10% | **20%** | 10% | | |
| Investment opening balance | **239 387** | 156 209 | **890 958** | 770 720 | **217 681** | 495 810 | **1 348 026** | 1 422 739 |
| Acquisitions | **–** | – | **–** | – | **362 576** | | **362 576** | – |
| Share of profit/ (losses) | **(3 273)** | 83 178 | **(84 614)** | (81 104) | **(622 340)** | (178 079) | **(710 227)** | (176 005) |
| Share of other comprehensive income | **2 283** | – | **135 365** | 201 342 | **623 637** | (100 050) | **761 285** | 101 292 |
| Investment closing balance | **238 397** | 239 387 | **941 709** | 890 958 | **581 554** | 217 681 | **1 761 660** | 1 348 026 |

**E.4 Commitments**

GROUP

| Figures in Rand thousand | 2016 | 2015 |
|---|---|---|
| **Capital commitments** | | |
| **Contracted:** | | |
| Within one year | **429 473** | 105 031 |
| One to two years | **97 173** | – |
| Two to five years | **100 667** | 258 147 |
| After five years | **338 539** | – |
| **Not yet contracted for:** | | |
| – Authorised by the directors but not yet contracted for* | **29 581** | 129 124 |
| | **995 433** | 492 302 |

** Commitments authorised by directors not yet contracted for, relate to the partnership investment with Investments E Participacoes EM INFRA-ESTRUTURA S.A. (Invepar), (51% of Guarulhos International Airport concession), with Airports Company South Africa acquiring an additional 10% interest in the concession. The group committed to an initial investment of R450 million.*

**F. FINANCIAL INSTRUMENTS**

**F.1 Fair value measurement**

*Fair value hierarchy*

The different levels are defined as follows:

Level 1: Quoted unadjusted prices in active markets for identical assets or liabilities that the group can access at measurement date.

Level 2: Inputs other than quoted prices included in level 1 that are observable for the asset or liability either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

The table below analyses assets and liabilities carried at fair value

GROUP

| Figures in Rand thousand | 2016 | 2015 |
|---|---|---|
| **Level 2** | | |
| **Recurring fair value measurements** | | |
| *Assets* | | |
| Trade and other receivables | **1 014 864** | 1 183 312 |
| Investments | **760 100** | 515 899 |
| Derivative financial instruments | **–** | 701 |
| Cash and cash equivalents | **1 369 568** | 1 226 566 |
| *Liabilities* | | |
| Derivative financial instruments | **6 370** | 75 023 |

SUMMARISED ANNUAL FINANCIAL STATEMENTS

# Selected notes to the summarised consolidated financial statements continued

for the year ended 31 March 2016

**F. FINANCIAL INSTRUMENTS (CONTINUED)**

**F.1 Fair value measurement (continued)**

*Fair value estimation*

The fair values of financial instruments traded in active markets are based on quoted market prices at the reporting date. The Group uses the current bid prices to determine the market prices for financial assets.

The fair values of financial instruments that are not traded in active markets are determined using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each reporting date. Quoted market prices and dealer quotes for similar instruments are used for long-term debt.

The fair values of forward foreign exchange contracts are determined using forward exchange rates at the reporting date.

The fair values of interest rate swaps are calculated as the present value of the estimated future cash flows based on observable yield curves.

Other techniques such as estimated discounted cash flows, are used to determine fair values for the remaining financial instruments.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**G. OTHER**

**G.1 Deferred tax liability**

| | GROUP | |
|---|---|---|
| Figures in Rand thousand | 2016 | 2015 |
| Balance at 1 April | **1 365 206** | 1 125 960 |
| Prior year error | – | 223 411 |
| Movements during the year: | | |
| – Change in estimate | – | (36 447) |
| – Prior year error | – | 12 094 |
| – Recognised in the statement of comprehensive income | **(158 500)** | (15 977) |
| – Recognised directly in other comprehensive income | **139 306** | 56 166 |
| **Balance at 31 March** | **1 346 013** | 1 365 207 |

**G.2 Dividend per share**

| | GROUP | |
|---|---|---|
| Figures in cents | 2016 | 2015 |
| Final | **55.49** | 60 |

**G.3 Related parties**

The company is one of 21 Schedule 2 major public entities in terms of the Public Finance Management Act1 of 1999 as amended and therefore falls within the national sphere of Government. As a consequence, the company has a significant number of related parties that are public entities. In addition, the company has a related party relationship with its subsidiaries, associates and with its directors and executive officers (key management). Unless specifically disclosed, these transactions are concluded on an arm's length basis and the company is able to transact with any entity.

*Relationships*

| | |
|---|---|
| Subsidiaries | Refer to note E.1 |
| Joint ventures | Refer to note E.2 |
| Associates | Refer to note E.3 |

G. OTHER (CONTINUED)

G.3 Related parties (continued)

*Related party transactions and balances*

| Figures in Rand thousand | Services rendered 2016 | Services rendered 2015 | Service received 2016 | Service received 2015 | Amounts due from 2016 | Amounts due from 2015 | Amounts due to 2016 | Amounts due to 2015 |
|---|---|---|---|---|---|---|---|---|
| National departments | **35 550** | 32 110 | **5 399** | 5 321 | **4 284** | 2 312 | **(0.44)** | – |
| Constitutional institutions | **–** | – | **2** | 93 | **–** | – | **–** | – |
| Major public entities | **2 197 419** | 2 216 721 | **205 170** | 77 357 | **248 033** | 314 595 | **(51)** | (157) |
| Other national public entities | **21 866** | 18 629 | **819 309** | 446 302 | **2 536** | 1 479 | **(1)** | (2 339) |
| Subsidiaries, joint ventures and associates | **58 167** | 105 943 | **72** | – | **938 397** | 844 943 | **–** | (3 577) |
| National government business | **–** | – | **178** | – | **–** | – | **–** | – |

SUMMARISED ANNUAL FINANCIAL STATEMENTS

# Selected notes to the summarised consolidated financial statements continued

for the year ended 31 March 2016

## G. OTHER (CONTINUED)

### G.3 Related parties (continued)

| Figures in Rand thousand | Salary 2016 | Salary 2015 | Pension Fund Contributions 2016 | Pension Fund Contributions 2015 | Other benefits* 2016 | Other benefits* 2015 | Total 2016 | Total 2015 |
|---|---|---|---|---|---|---|---|---|
| **Executive** | | | | | | | | |
| B Maseko (Appointed 15 May 2013) | **3 397** | 3 128 | **293** | 276 | **3 553** | 1 638 | **7 243** | 5 042 |
| M Manyama (Appointed 1 April 2013) | **2 712** | 2 526 | **237** | 223 | **1 523** | 1 593 | **4 472** | 4 342 |
| | **6 109** | 5 654 | **530** | 499 | **5 076** | 3 231 | **11 715** | 9 384 |

** Other benefits comprise retirement medical benefits, cash bonus and long term incentive*

| Figures in Rand thousand | Appointment date | Resignation date | Directors' fees 2016 | Directors' fees 2015 |
|---|---|---|---|---|
| **Non-executive** | | | | |
| S Macozoma (Chairman, effective 1 March 2015) | 01 March 2012 | | **806** | 393 |
| B Mabuza (Retired Chairman) | 01 March 2012 | 28 February 2015 | **–** | 739 |
| R Morar | 01 January 2012 | | **468** | 437 |
| D Botha (fees payable to the PIC) | 01 August 2013 | | **397** | 471 |
| BP Mabelane | 01 August 2012 | 31 December 2014 | **–** | 247 |
| T Ramano | 01 March 2012 | 28 February 2015 | **–** | 357 |
| J Lamola | 01 December 2012 | | **391** | 410 |
| K Moroka | 01 December 2012 | | **464** | 260 |
| B Luthuli | 01 December 2012 | | **643** | 333 |
| C Mabude | 01 December 2012 | | **443** | 452 |
| K Matlou | 01 March 2015 | | **351** | – |
| M Mabela | 01 March 2015 | | **523** | – |
| S Simelane | 01 March 2015 | | **482** | – |
| | | | **4 968** | 4 099 |

## G OTHER (CONTINUED)

### G.3 Related parties (continued)

| Figures in Rand thousand | Salary 2016 | Salary 2015 | Pension fund contributions 2016 | Pension fund contributions 2015 | Other benefits* 2016 | Other benefits* 2015 | Total 2016 | Total 2015 |
|---|---|---|---|---|---|---|---|---|
| **Prescribed officers** | | | | | | | | |
| DA Cloete | **1 985** | 1 856 | **174** | 163 | **2 088** | 986 | **4 247** | 3 006 |
| PM du Plessis | **1 968** | 1 830 | **172** | 161 | **2 265** | 818 | **4 404** | 2 810 |
| H Jeena | **2 224** | 2 069 | **194** | 182 | **2 567** | 973 | **4 984** | 3 224 |
| TS Mekgoe | **2 552** | 2 385 | **224** | 210 | **1 615** | 912 | **4 391** | 3 507 |
| B Mbombu (Appointed 1 September 2013) | **2 037** | 1 903 | **179** | 168 | **1 025** | 533 | **3 241** | 2 604 |
| T Delomoney | **1 843** | 1 721 | **161** | 151 | **1 924** | 943 | **3 928** | 2 816 |
| JR Neville | **–** | 160 | **–** | – | **1 824** | 939 | **1 824** | 1 098 |
| G Vracar | **–** | 34 | **–** | – | **1 011** | 734 | **1 011** | 769 |
| YE Schoeman[1] | **991** | 1 615 | **74** | 142 | **2 567** | 823 | **3 632** | 2 581 |
| A Vermeulen | **2 343** | 2 297 | **204** | 182 | **1 012** | 724 | **3 559** | 3 203 |
| S Mmakau (Chief Information Officer, October 2014 | **1 941** | 919 | **168** | 81 | **368** | 7 | **2 476** | 1 007 |
| B Pityi (General Manager: OR Tambo International Airport appointed 1 Aug 2014 | **1 887** | 1 195 | **165** | 105 | **502** | – | **2 554** | 1 300 |
| R Shinners (Group Executive: Corporate Affairs, appointed 2 February 2015) | **1 919** | 306 | **168** | 27 | **–** | – | **2 087** | 333 |
| G Gopal[1,2] | **2 018** | – | **175** | – | **410** | – | **2 603** | – |
| B Matshego[3] | **1 455** | – | **127** | – | **–** | – | **1 583** | – |
| C Shilowa[4] | **835** | – | **72** | – | **–** | – | **907** | – |
| T Phateng[5] | **1 170** | – | **102** | – | **423** | – | **1 696** | – |
| | **27 168** | 18 291 | **2 359** | 1 572 | **19 599** | 8 392 | **49 127** | 28 257 |

*[1] YE Schoeman (General Manager: Regional Airports, resigned 30 September 2015).*
*[2] G Gopal (Group Executive: Technical Services and Solutions, appointed 1 May 2015).*
*[3] B Matshego (Group Executive: Infrastructure Asset Management, appointed 2 July 2015).*
*[4] C Shilowa (Group Executive: Business Development, appointed 1 November 2015).*
*[5] T Phateng (Acting General Manager: Regional Airports).*

### G.4. Events after the reporting period

*Equity injections (Aeroporto de Guarulhos Participações S.A.)*

The company made a further equity investment into the associate Aeroporto de Guarulhos Participacoes S.A, in which it holds a 20% interest. This was a proportionate equity injection and the shareholding by the company remains at 20%.

No other matter which is material to the financial affairs at the company has occurred between 31 March 2016 and the approval date of the financial statements.

SUMMARISED ANNUAL FINANCIAL STATEMENTS

# Selected notes to the summarised consolidated financial statements continued

for the year ended 31 March 2016

## G OTHER (CONTINUED)

### G.5 Prior year errors

*G.5.1 Asset verification*

The company reassessed and adjusted the useful lives of certain property and equipment carried at zero net carrying amount, that were determined to be still in use.

The company also identified buildings which were incorrectly classified as property and equipment instead of investment property, as well was an unrecorded transaction relating to investment property. Adjustments have been made to the affected account balances indicated below.

The correction of this error affects both the group's and company's results, and has been applied retrospectively.

During the physical verification there were assets that were identified on the floor and could not be traced or linked due to the insufficient documentation in the old fixed assets register. There were also assets that were in the old fixed asset register which could not be linked to the assets found on the floor. These were accounted for in the prior financial year as this was the most practical year to restate, an amount of R164 million (newly identified assets) and R72 million (write offs). The reason why it was impractical to quantify and restate years prior to the 2015 financial year are listed below:

- Those assets were identified as a result of a verification that was performed in the 2016 financial year.
- All attempts to link the assets to line items that were in the existing asset register (e.g. by description, location, serial number) were not successful.
- There is no documentation available to assist in determining when the assets were acquired.

**G.5.2 Reclassifications to provisions**

Items that are provisions in nature were incorrectly classified as payables in the 2014/ 2015 financial year.

The correction of this error affects both the group's and company's results, and has been applied retrospectively.

**G.5.2 Precinct 2A operating lease expenses**

"Precinct 2A lease rental payments made in prior years were erroneously recorded as expenses when paid. These leases have now been treated in line with the group accounting policy on operating leases.

The correction of this error affects only the group's results, and has been applied retrospectively.

The prior year adjustments are summarised below:

| | GROUP | |
|---|---|---|
| Figures in Rand thousand | 2015 | 2014 |
| **Non-current assets** | | |
| Previously stated | 24 513 453 | 24 856 896 |
| Restatement | 1 038 968 | 977 555 |
| Restated amount | 25 552 421 | 25 834 451 |
| **Retained earnings** | | |
| Previously stated | 13 221 663 | 11 951 507 |
| Restatement | 814 740 | 753 569 |
| Restated amount | 14 036 403 | 12 705 076 |
| **Non-current liabilities** | | |
| Previously stated | 11 310 956 | 12 403 914 |
| Restatement | 235 506 | 232 558 |
| Restated amount | 11 546 462 | 12 636 472 |
| **Current liabilities** | | |
| Previously stated | 2 139 820 | 2 905 449 |
| Restatement | (11 278) | (11 149) |
| Restated amount | 2 128 542 | 2 894 300 |
| **Effect on profit and loss** | | |
| Previously stated (relating only to affected line items) | 4 698 792 | 3 990 655 |
| Restatement | (30 187) | 521 957 |
| Restated amount | 4 668 605 | 4 512 612 |

## G.6 CONTINGENCIES

**Contingent assets**

An amount of R15 million for penalties is currently being disputed by a customer with Airports Company South Africa. The recoverability of the amount is more likely to occur than not to occur pending the outcome of negotiations with the customer, and at the date of this report it was not resolved. Legal proceedings have been instituted against the customer.

**Contingent liabilities**

Nedbank has provided guarantees of R14.6 million to Airports Company South Africa SOC Limited.

The company has signed levy agreements in respect of infrastructure projects relating to the city of Cape Town for R11.2 million. The obligation to pay these levies are contingent upon the city choosing to invoke their right in terms of the agreement.

**Contingencies relating to interests in joint ventures**

There are no contingencies relating to interests in joint ventures.

SUMMARISED ANNUAL FINANCIAL STATEMENTS

# STATISTICAL REVIEW

for the year ended 31 March 2016

| | GROUP | | | | |
|---|---|---|---|---|---|
| Figures in Rand thousand | **2016** | 2015 | 2014 | 2013 | 2012 |
| **Operations** | | | | | |
| Aeronautical revenue | **5 194 636** | 4 925 899 | 4 559 301 | 4 245 654 | 3 349 653 |
| Non-aeronautical revenue | **3 111 129** | 2 848 037 | 2 567 660 | 2 400 948 | 2 388 890 |
| **Revenue** | **8 305 765** | 7 773 936 | 7 126 961 | 6 646 602 | 5 738 543 |
| EBITDA | **5 177 105** | 4 836 115 | 4 647 029 | 4 442 297 | 3 563 630 |
| Operating profit | **4 014 006** | 3 359 153 | 3 234 364 | 3 030 344 | 2 099 826 |
| Profit before tax | **2 747 571** | 2 355 937 | 2 303 142 | 1 641 280 | 118 068 |
| Profit for the year | **1 958 443** | 1 627 750 | 1 712 454 | 991 310 | 187 573 |
| Depreciation and amortisation | **(1 163 099)** | (1 476 962) | (1 412 656) | (1 411 433) | (1 463 804) |
| Dividends paid | **(270 882)** | (296 819) | (97 528) | – | – |
| Capital expenditure | **(1 300 000)** | (830 000) | (928 001) | (990 603) | (417 100) |
| **Financial position** | | | | | |
| Capital and reserves | **17 133 929** | 14 810 266 | 12 580 016 | 10 838 599 | 9 689 991 |
| Non-current liabilities excluding deferred tax | **8 010 141** | 10 181 255 | 11 277 954 | 12 365 922 | 15 946 569 |
| Deferred tax | **1 346 013** | 1 365 207 | 1 125 960 | 956 461 | 1 000 885 |
| | **26 490 083** | 26 356 728 | 24 983 930 | 24 160 982 | 26 637 445 |
| Property, plant and equipment, investment property and intangible assets | **24 428 053** | 23 981 432 | 23 098 060 | 23 314 799 | 23 535 684 |
| Investment in joint ventures | **147 734** | 127 942 | 107 383 | 85 078 | 43 752 |
| Investment in associates | **1 761 660** | 1 348 026 | 1 422 739 | 932 832 | 748 643 |
| Other non-current assets | **330 613** | 95 021 | 228 714 | 270 096 | 191 543 |
| Current assets | **3 206 815** | 2 932 849 | 3 032 483 | 3 405 768 | 3 619 359 |
| Non-current assets held for sale | **–** | – | – | – | 1 850 000 |
| Total assets | **29 874 875** | 28 485 270 | 27 889 379 | 28 008 573 | 29 988 981 |
| Current liabilities | **3 384 792** | 2 128 542 | 2 905 449 | 3 847 591 | 3 351 536 |
| | **26 490 083** | 26 356 728 | 24 983 930 | 24 160 982 | 26 637 445 |
| **Cash flow** | | | | | |
| Net cash generated in operating activities | **4 641 842** | 3 930 762 | 4 039 636 | 3 930 409 | 3 036 235 |
| Cash (utilised)/generated in investing activities | **(1 764 644)** | (266 281) | (975 539) | (1 018 997) | 164 440 |
| Net cash (utilised)/generated by financing activities | **(2 734 196)** | (3 452 423) | (3 303 709) | (3 631 966) | (1 899 118) |
| Net cash inflow/(outflow) | **143 002** | 212 058 | (239 612) | (720 554) | 1 301 504 |
| **Profitability** | | | | | |
| Earnings per share (cents) | **396.42** | 329.48 | 346.62 | 200.67 | 37.97 |
| Dividends per share (cents) | **54.83** | 60.00 | 19.82 | – | – |
| **Productivity** | | | | | |
| Number of employees | **2 841** | 2 932 | 2 819 | 2 715 | 2 490 |
| Revenue per employee | **2 924** | 2 651 | 2 528 | 2 448 | 2 305 |
| Operating profit per employee | **1 413** | 1 146 | 1 147 | 1 116 | 843 |
| Departing passengers per employee | **6 820** | 6 086 | 6 179 | 6 423 | 7 208 |
| Cost to income (%) | **38** | 38 | 40 | 54 | 63 |

| | GROUP | | | | |
|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | 2013 | 2012 |
| **Other key statistics (in numbers)** | | | | | |
| **Aircraft landings** | | | | | |
| International | 36 803 | 36 573 | 38 315 | 36 146 | 34 716 |
| Domestic | 141 978 | 133 093 | 125 956 | 126 388 | 142 696 |
| Regional | 13 080 | 12 157 | 11 131 | 11 251 | 12 087 |
| Unscheduled | 92 424 | 91 519 | 85 892 | 81 238 | 82 821 |
| | 284 285 | 273 342 | 261 294 | 255 023 | 272 320 |
| **Departing passengers** | | | | | |
| International | 5 360 767 | 5 198 086 | 5 116 779 | 4 914 163 | 4 845 495 |
| Domestic | 13 401 807 | 12 036 117 | 11 701 577 | 11 963 082 | 12 534 937 |
| Regional | 540 530 | 531 211 | 518 989 | 487 569 | 490 407 |
| Unscheduled | 71 225 | 79 136 | 81 838 | 73 072 | 76 715 |
| | 19 374 329 | 17 844 550 | 17 419 183 | 17 437 886 | 17 947 554 |
| **Number of airlines** | | | | | |
| International | 43 | 50 | 43 | 44 | 44 |
| Domestic | 9 | 8 | 7 | 6 | 7 |
| | 52 | 58 | 50 | 50 | 51 |
| **Aeronautical tariffs (R)** | | | | | |
| Passenger service charges | | | | | |
| Domestic | 111.4 | 111.4 | 105.26 | 101.75 | 96.49 |
| Regional | 230.6 | 230.7 | 218.42 | 212.23 | 19.12 |
| International | 303.6 | 303.5 | 287.72 | 279.82 | 262.28 |
| Landing fees (based on an aircraft with a maximum take-off weight of 60 000 kg) | | | | | |
| Domestic | 4 966.6 | 4 817.3 | 4 561.8 | 4 437.01 | 4 166.0 |
| Regional | 4 439.4 | 7 027.2 | 6 654.6 | 6 472.85 | 6 067.5 |
| International | 28 258.1 | 9 236.4 | 8 746.7 | 8 507.50 | 7 986.9 |
| **Operational volume (in numbers)** | | | | | |
| **Aircraft landings** | | | | | |
| O.R. Tambo International | 112 177 | 108 792 | 103 341 | 100 007 | 106 353 |
| Cape Town International | 50 127 | 45 587 | 44 281 | 44 537 | 48 996 |
| King Shaka International | 26 190 | 24 693 | 24 797 | 24 850 | 27 556 |
| Port Elizabeth International | 32 516 | 31 720 | 33 956 | 31 821 | 35 087 |
| East London Airport | 14 998 | 15 897 | 15 238 | 15 265 | 16 285 |
| George Airport | 29 161 | 27 722 | 22 233 | 19 815 | 16 726 |
| Bram Fischer International | 8 780 | 8 418 | 7 281 | 8 925 | 10 161 |
| Kimberley Airport | 5 044 | 5 915 | 5 290 | 5 766 | 6 172 |
| Upington International | 5 292 | 4 598 | 4 877 | 4 037 | 3 924 |
| **Total** | 284 285 | 273 342 | 261 294 | 255 023 | 271 260 |

SUMMARISED ANNUAL FINANCIAL STATEMENTS

# Statistical review continued

for the year ended 31 March 2016

| | GROUP | | | | |
|---|---|---|---|---|---|
| | **2016** | 2015 | 2014 | 2013 | 2012 |
| **Departing passengers ('000)** | | | | | |
| O.R. Tambo International | **10 205** | 9 589 | 9 415 | 9 318 | 9 491 |
| Cape Town International | **4 850** | 4 387 | 4 216 | 4 226 | 4 301 |
| King Shaka International | **2 475** | 2 266 | 2 241 | 2 337 | 2 526 |
| Port Elizabeth International | **804** | 674 | 624 | 651 | 682 |
| East London Airport | **364** | 320 | 333 | 323 | 339 |
| George Airport | **361** | 309 | 289 | 274 | 290 |
| Bram Fischer International | **197** | 183 | 192 | 207 | 222 |
| Kimberley Airport | **84** | 80 | 78 | 75 | 70 |
| Upington International | **34** | 37 | 32 | 27 | 26 |
| **Total** | **19 374** | 17 845 | 17 419 | 17 438 | 17 947 |

| | **2016** | 2015 | 2014 | 2013 | 2012 |
|---|---|---|---|---|---|
| **Staff** | | | | | |
| O.R. Tambo International | **1 200** | 1 172 | 1 148 | 1 184 | 1 064 |
| Cape Town International | **535** | 620 | 549 | 547 | 521 |
| King Shaka International | **382** | 387 | 413 | 391 | 335 |
| Port Elizabeth International | **118** | 119 | 108 | 112 | 103 |
| East London Airport | **69** | 64 | 67 | 67 | 63 |
| George Airport | **68** | 69 | 68 | 72 | 60 |
| Bram Fischer International | **71** | 64 | 67 | 66 | 63 |
| Kimberley Airport | **38** | 40 | 39 | 41 | 39 |
| Upington International | **27** | 26 | 23 | 19 | 20 |
| Corporate Office | **294** | 331 | 309 | 216 | 222 |
| Regional airports – central management office | **39** | 40 | 28 | – | – |
| **Total** | **2 841** | 2 932 | 2 819 | 2 715 | 2 490 |

# ABBREVIATIONS

| Abbreviation | Definition |
|---|---|
| AASA | Airline Association of South Africa |
| ACAA | Air Cargo Agents Association of India |
| Account Ability | AA 1000 stakeholder engagement standard |
| ACI | Airports Council International |
| ACSA | Airports Company South Africa |
| AGM | Annual general meeting |
| AMC | Airport management centre |
| AMS | Airport management solutions |
| APEX | Airport excellence in safety |
| ASQ | Airport service quality |
| ATM | Air traffic movements |
| ATNS | Air Traffic Navigation Services |
| BARSA | Board of Airline Representatives South Africa |
| B-BBEE | Broad-based black economic empowerment |
| BCM | Business continuity management |
| BRICS | Five major emerging national economies: Brazil, Russia, India, China and South Africa |
| BRS | Baggage reclaim system |
| BU | Business unit |
| CEO | Chief Executive Officer |
| CFO | Chief Financial Officer |
| CIDB | Construction Industry Development Board |
| CIO | Chief Information Officer |
| Companies Act | Companies Act No. 71 of 2008 |
| COO | Chief Operating Officer |
| CPI | Consumer price index |
| CSI | Corporate social investment |
| CSIA | Chhatrapati Shivaji International Airport |
| CUSS | Common user self service |
| CUTE | Common user terminal equipment |
| DFI | Development finance institution |
| DMTN | Domestic medium-term note |
| DRC | Democratic Republic of Congo |
| DTP | Dube Trade Port |
| EBITDA | Earnings before interest tax depreciation and amortisation |
| ECM | Enterprise content management |
| EDP | Executive development programme |

| Abbreviation | Definition |
|---|---|
| EIA | Environmental Impact Assessment |
| EMS | Environmental Management System |
| ER | Economic Regulator |
| ERP | Enterprise resource planning |
| ETD | Explosive trace detectors |
| EXCO | Executive committee |
| FIDS | Flight information display system |
| GDP | Gross domestic product |
| GPS | Global positioning system |
| GVK | A leading Indian conglomerate with diversified interests across various sectors of economic significance. GVK is a partner in MIAL consortium India |
| ha | Hectares |
| IATA | International Air Transport Association |
| ICAD | International Civil Aviation Day |
| ICAO | International Civil Aviation Organisation |
| IFRS | International Financial Reporting Standards |
| IIRC | International Integrated Reporting Council |
| ISA 610 | International standard on auditing 610 (Revised) |
| ISO | International Standards Organisation |
| IT | Information technology |
| JAAP | Joint aviation awareness programme |
| JV | Joint venture |
| King III | King Code of Governance for South Africa (2009) |
| Km | Kilometres |
| KPI | Key performance indicator |
| LMJVC | La Mercy Joint Venture Company |
| Ltd | Limited |
| MCT | Minimum connecting times |
| MDP | Management development programme |
| MIAL | Mumbai International Airport (Private) Limited |
| MOU | Memorandum of understanding |
| MRO | Maintenance, repair and overhaul |
| NDP | National Development Plan |
| NEHAWU | National education, health and allied workers union |
| NGO | Non-governmental organisation |
| OLA | Operational level agreement |

# Abbreviations continued

| Abbreviation | Definition |
|---|---|
| PAX | Passengers |
| Permission | Permission Application |
| PFMA | Public Finance Management Act No. 1 of 1999 |
| PIC | Public Investment Corporation |
| PMO | Project management office |
| PPE | Property, plant and equipment |
| PropCo | Property Group |
| RFP | Request for proposal |
| ROCE | Return on capital employed |
| SAA | South African Airways |
| SACAA | South African Civil Aviation Authority |
| SANRAL | South African National Roads Agency |
| SANS | South African National Standards |
| SAPOS | South Africa Post Office Services |
| SAPIA | South African Petroleum Industry Association |
| SDP | Supervisory development programme |
| SED | Socio-economic development |
| SEZ | Special economic zone |
| SMS | Short message service |
| SOC | State-owned Group |
| SPE | Special purpose entity |
| STI | Short-term incentive |
| sqm | Square metres |
| TMPS | Total measurable procurement spend |
| TSA | Transport security administration |
| UTFC | Ultra-thin fractional course |
| WAN | Wide area network |

# Notes

# GENERAL INFORMATION

| | |
|---|---|
| Country of incorporation and domicile | South Africa |
| Company registration number | 1993/004149/30 |
| Directors | S Macozoma (Chairman, effective 1 March 2015)<br>R Morar[1]<br>J Lamola[1]<br>B Luthuli[1]<br>C Mabude[1]<br>K Moroka[1]<br>D Botha[1]<br>M Mabela[1] (appointed 1 March 2015)<br>S Simelane[1] (appointed 1 March 2015)<br>K Matlou[1] (appointed 1 March 2015)<br>B Maseko[2]<br>M Manyama[2] |
| Registered office | The Maples<br>Riverwoods Office Park<br>24 Johnson Road<br>Bedfordview<br>2008 |
| Postal address | PO Box 75480<br>Gardenview<br>2047 |
| Bankers | Standard Bank<br>Nedbank |
| Auditors | Auditor-General South Africa |
| Secretary | N Kekana |

[1] *Non-executive Director*
[2] *Executive Director*

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