



**SOUTH AFRICAN AIRWAYS**

A STAR ALLIANCE MEMBER 

# **INTEGRATED REPORT**

**FOR THE YEAR ENDED 31 March 2017**



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## OUR INTEGRATED REPORT

This integrated report seeks to inform our stakeholders of our business activities, performance against strategic objectives and management focus during the year 1 April 2016 to 31 March 2017. The report covers all entities and divisions within the SAA Group as reported in the annual financial statements. It combines information related to the financial, social, environment and governance aspects of our organisation.

The integrated report is published in line with the King III Code on Corporate Governance, the Companies Act, Act No 71 of 2008, the Public Finance Management Act, Act No 1 of 1999 and with reference to the IR Framework defined by the International Integrated Reporting Council. Our approach to integrated reporting is to communicate how our organisation's strategy, governance, performance and prospects lead to the creation of value over the short-, medium- and long-term. We are committed to embracing and furthering our advancement in integrated reporting in the years to come.

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## BOARD APPROVAL

The Board is responsible for the integrity of this integrated report. The Board has applied its collective mind to the preparation and presentation of the integrated report and is satisfied that the report is a fair and reasonable representation of SAA's performance and prospects. The annual financial statements were approved by the Board on 6 December 2017 and subsequently, this integrated report was approved by the Board on 27 February 2018.

**JB Magwaza**  
Chairperson

**N Fakude**  
Deputy Chairperson

South African Airways SOC Limited  
28 February 2018

South African Airways SOC Limited

## NAVIGATION

*This integrated report is cross-referenced with other sources of information as shown below.*



**More information about SAA and its activities can be found on the Company's website [www.flysaa.com](http://www.flysaa.com)**





## ACHIEVEMENT

### ARRIVAL OF NEW AIRBUS A330-300 AIRCRAFT

**In December 2016 SAA was delighted to take delivery of the first of five new Airbus A330-300 aircraft ordered to complement SAA's existing long-haul Airbus, domestic and regional fleet.**

The aircraft have been a welcome addition to the ten Airbus A320's delivered in recent years and which now play a key role in maintaining SAA's reputation as an award-winning airline.

The A330-300s offer cutting-edge technology, are environmentally friendly, and extremely comfortable. "The aircraft can carry 249 passengers, with 46 in premium Business Class and 203 in Economy Class. The delivery of this new aircraft is an important milestone for SAA in respect of the implementation of our long-term network and fleet strategy unveiled three years ago," says Aaron Munetsi, Acting Chief Commercial Officer. "We expect that the new aircraft will bring much needed efficiencies and impact positively on the Company's profitability," says Munetsi.

SAA staff celebrated the arrival of the new aircraft with a traditional water-canon salute.



# 01

## CREATING SUSTAINABLE VALUE

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## KEY METRICS FOR 2016/2017



**THE SAA GROUP IS A DIVERSIFIED AIRLINE GROUP PROVIDING PASSENGER AND CARGO TRANSPORT, AND RELATED SERVICES. FOR THE PAST 83 YEARS, SAA HAS CONNECTED SOUTH AFRICA TO ITS MAJOR TRADE AND TOURISM PARTNERS, PLAYING A VITAL ROLE AS A CATALYST FOR GROWTH AND DEVELOPMENT ACROSS THE AFRICAN CONTINENT.**



## KEY METRICS FOR 2016/2017

R30,7 billion total annual revenue

64 aircraft, SAA 52, Mango 10, and SAA Cargo 2

8 domestic destinations, SAA 5, Mango 7, with some markets served by both airlines

25 regional destinations, SAA 24, Mango 1

8 international destinations served by SAA

9,7 million passengers carried annually, SAA 6,8 million, Mango 2,9 million

75 percent passenger load factor

31 684 million available seat kilometres

111 000 tonnes cargo carried

11 million meals prepared annually by Air Chefs

2,7 million Voyager members globally – an 11 percent increase

## VISION

Africa's Leading  
World-Class Airline

## MISSION

To deliver commercially sustainable world-class air passenger and aviation services in South Africa, the African continent and our tourism and trading partners.

### MANDATE, VISION AND MISSION

SAA's mandate is defined in the SAA Act, Act No 5 of 2007 and is reconfirmed in the Shareholder's Compact, drafted by National Treasury in its capacity as the SAA Shareholder Ministry. The SAA mandate is to "engage in passenger airline and cargo transport services, air charter services and other related services" in support of the state's desire "to promote air links with the Republic's main business, trading and tourism markets within the African continent and internationally."

SAA is required to pursue this mandate in a manner that is financially sustainable, while being compliant with applicable operational regulations and legislation.

This mandate accordingly informs SAA's Vision and Mission.

### OUR STRATEGIC OBJECTIVES



Support South Africa's  
**National Developmental  
Agenda**



Achieve and maintain  
**commercial sustainability**



Provide excellent  
**customer service**



Achieve consistent,  
**efficient and effective  
operations**



Foster **performance  
excellence**

### OUR VALUES



#### Customer Focused

Striving to meet the unique needs of customers (internally and externally) by tailoring each interaction to suit their needs.



#### Accountability

Taking responsibility for individual and team actions, decisions and results by establishing clear plans and goals and measuring our progress against them.



#### Integrity

Practising highest standards of ethical behaviour in all our work and maintaining credibility by ensuring our actions match our words.



#### Safety

Living our safety philosophy by striving for zero safety incidents through proper training, work practice, risk management and adherence to safety regulations at all times.



#### Excellence in Performance

Setting goals beyond the best, reinforcing high quality performance standards and achieving excellence by implementing best practices.



#### Valuing our People

Committing to their satisfaction, development, and well-being, by treating them with respect, dignity and fairness.



# MILESTONES

## SAA LAUNCHED WITH 40 EMPLOYEES, A JUNKERS JU 52/3M AIRCRAFT, 3000 PASSENGERS

One of the oldest airlines in existence



1934

## SAA'S FIRST INTERCONTINENTAL SERVICE, TO BOURNEMOUTH, UK, TOOK THREE DAYS WITH OVERNIGHT STOPS MADE AT NAIROBI AND CAIRO

Seven decades of travelling the world



1945

## IN-FLIGHT ENTERTAINMENT INTRODUCED

Offering the finest entertainment in the skies



1948

1986



## SAA FLIES TO LUSAKA, ITS FIRST REGIONAL SERVICE

Eighty years of service across the SADC region



## CABIN CREW FIRST INTRODUCED ON SAA FLIGHTS

Excellent customer service



## AIR CHEFS ESTABLISHED

Passionate about food



### SAA VOYAGER LAUNCHED

Miles is a currency and your rewards are exceptional



1994

### MANGO LAUNCHED

Creating value in air travel



2000

2006

2006

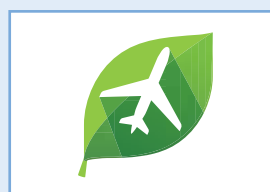
2015

2016



### SAA THE FIRST AFRICAN AIRLINE TO OPERATE USING BIOFUEL

Africa's greenest flight



### SAA TECHNICAL WAS CORPORATISED AS A WHOLLY-OWNED SUBSIDIARY OF SAA (SOC) LIMITED

World-class aviation maintenance and repair organisation



### SAA JOINED STAR ALLIANCE

Connecting people and cultures



### ARRIVAL OF NEW AIRBUS A330-300 AIRCRAFT

The new aircraft will bring much needed efficiencies and impact positively on the Company's profitability

# OUR NETWORK AND FLEET

## SAA OPERATIONAL OVERVIEW

6	CONTINENTS
5	DOMESTIC DESTINATIONS
24	REGIONAL DESTINATIONS
8	INTERNATIONAL ROUTES TO 7 COUNTRIES
AVERAGE OF 18	DAILY FLIGHTS BETWEEN JOHANNESBURG AND CAPE TOWN
1 330	STAR ALLIANCE DESTINATIONS
6 840 523	PASSENGERS
5 752	EMPLOYEES
111 000	TONNES OF CARGO

SAA PROVIDES SEAMLESS PASSENGER AND CARGO TRANSPORT SERVICES ACROSS THE AFRICAN CONTINENT AND TO THE WORLD. WE BELIEVE THAT THE RAPID LIBERALISATION OF THE SKIES WILL IMPROVE INTRA-AFRICA AIR CONNECTIVITY, AND WILL ENSURE THAT SAA AND ITS PEERS CONTINUE WITH THE PIONEERING TASK OF BRINGING THE WORLD TO AFRICA AND TAKING AFRICA TO THE WORLD.

## FLEET

SAA FLEET **54** — 52 SAA  
2 CARGO FREIGHTERS

8	A319-100s	8	A340-300Es
12	A320-200s	9	A340-600s
6	A330-200s	6	B737-800s
3	A330-300s	2	B737-FREIGHTERS



## SAA GROUP OVERVIEW

**11 MILLION** MEALS PREPARED  
ANNUALLY BY AIR CHEFS

**2,7 MILLION** VOYAGER MEMBERS

**R30,7 BILLION** TOTAL ANNUAL REVENUE

**64** AIRCRAFT

- 52 SAA
- 10 MANGO
- 2 SAA CARGO

**8** DOMESTIC DESTINATIONS

- 5 SAA
- 7 MANGO

with some markets served by both airlines

**25** REGIONAL DESTINATIONS

- 24 SAA
- 1 MANGO

**8** INTERNATIONAL DESTINATIONS  
SERVED BY SAA

**111 000** TONNES OF CARGO CARRIED ANNUALLY BY SAA CARGO  
5,8 PERCENT OF THE GROUP'S REVENUE

**10 071** STAFF EMPLOYED

- 5 752 SAA
- 713 MANGO
- 2 367 SAA TECHNICAL
- 1 237 AIR CHEFS
- 2 SATC

**9,7 MILLION** PASSENGERS CARRIED ANNUALLY

- 6,8 MILLION SAA
- 2,9 MILLION MANGO

# SAA GROUP

## SAA IS A DIVERSIFIED AVIATION GROUP WITH INTERESTS AT VARIOUS LEVELS WITHIN THE AVIATION VALUE CHAIN WITH A STRONG FOCUS ON THE AFRICAN CONTINENT.

- **R30,7 billion total annual revenue**
- **10 071 staff employed**
- **R38 million annual training spend**
- **34 000 jobs created in South Africa**
- **R9,2 billion, approximately 0.3 percent contributed to the national GDP every year**

The SAA Group is a 100 percent State-owned Company, with shareholder oversight vested in National Treasury. SAA was established in February 1934, when the South African Government took over Union Airways. It has been state-owned since then, except from 1999 to 2002, when Swissair held 20 percent of the equity in the Company. SAA is required to pursue its mandate, which includes providing aviation services and contributing to the development of South Africa in a manner that is financially sustainable, while being compliant with applicable operational regulations and legislation.

SAA provides passenger and cargo transport services, supported by operations. SAA is a full-service network carrier with an operational focus on the African continent as well as on inter-continental services, targeting both business and leisure traffic flows. It is a member of the largest international airline alliance, Star Alliance.

SAA's four wholly-owned subsidiaries are:

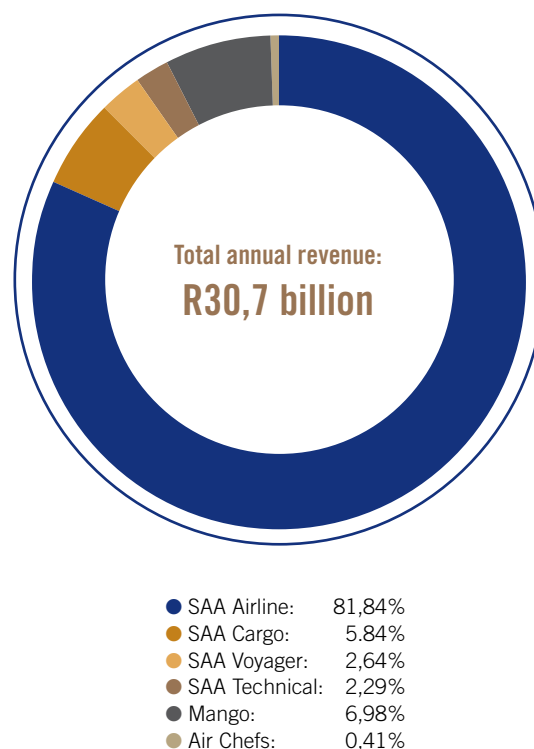
- Mango, a global best-practice low-cost carrier (LCC) primarily operating in the South African domestic market, which increasingly acts as a feeder airline to SAA
- SAA Technical, Africa's largest aircraft Maintenance, Repair and Overhaul (MRO) business
- Air Chefs, a catering business operating in Johannesburg, Cape Town and Durban
- South African Travel Centre, a retail travel business with franchises in South Africa and some other African states

SAA also maintains two other substantial non-corporate businesses:

- SAA Cargo, an air cargo service provider with capacity primarily sourced from the "belly space" of SAA's passenger aircraft fleet
- SAA Voyager, Africa's strongest airline loyalty programme

SAA has considerable scale, which is further strengthened by licensing its airline code on two feeder airlines: SA Express, a 100 percent state-owned airline, whose oversight shareholder is the Department of Public Enterprises and Airlink, a privately-owned airline.

## REVENUE FY2017



## FOUR-YEAR FINANCIAL HIGHLIGHTS

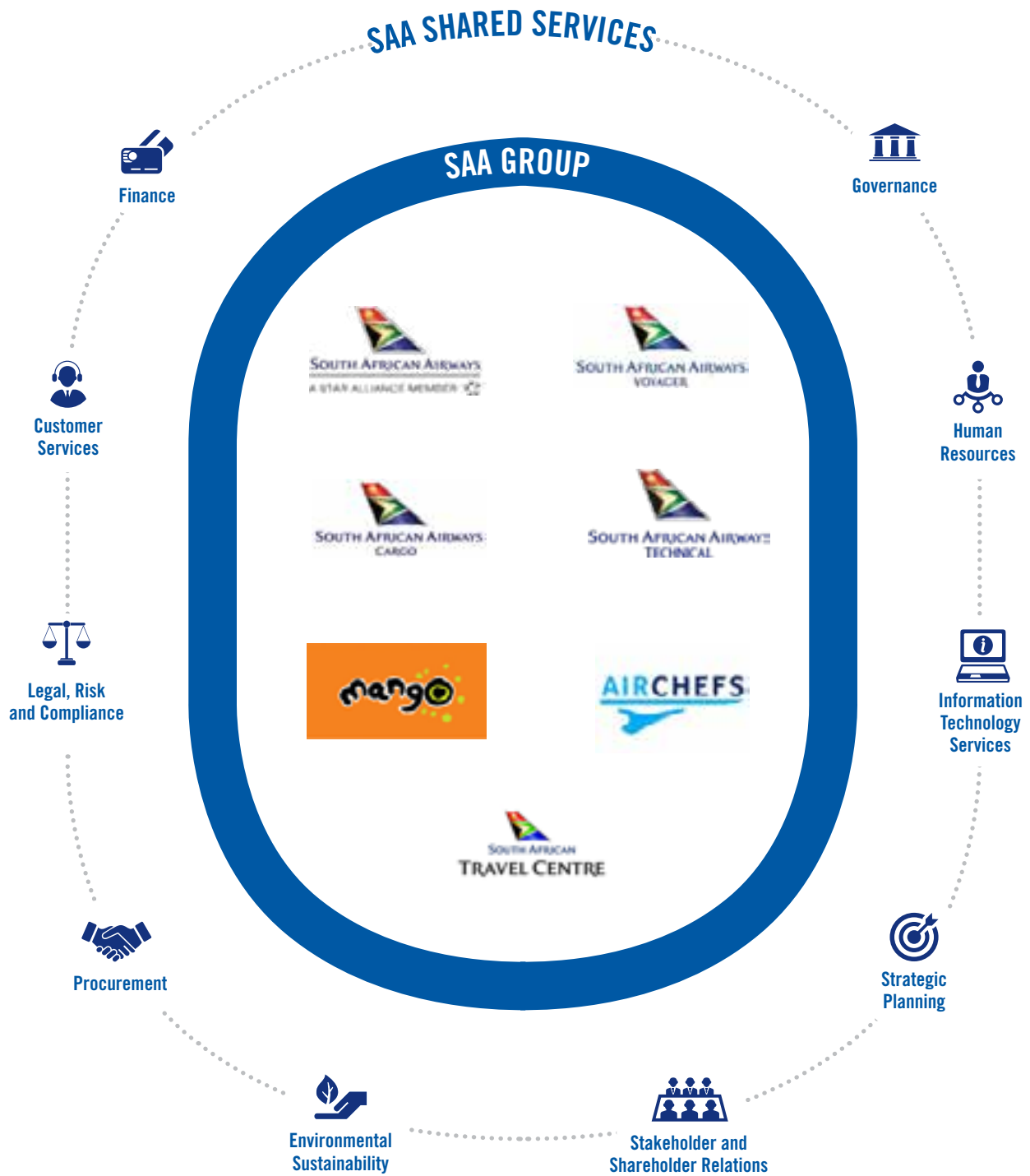
Total income	Operating costs	Operating profit/(loss) before interest, tax, depreciation and amortisation
2017 30 742 million	R33 502 million <sup>(a)</sup>	(R2 760 million)
2016 30 716 million	R30 194 million <sup>(b)</sup>	R522 million
2015 30 492 million	R33 407 million	(R2 915 million)
2014 30 266 million	R30 640 million	(R374 million)

(a) Note that Operating costs of R33 502 million included a fair value and translation loss of R1 092 million.

(b) Note that Operating costs of R30 194 million included a fair value and translation profit of R808 million.



## SAA GROUP HAS A HIGHLY VERTICALLY INTEGRATED CORPORATE STRUCTURE:





## SAA MAINTAINS ITS IMPECCABLE SAFETY RECORD AND IS THE MOST REVERED BRAND IN AFRICA.

- 54 SAA fleet
- 6 840 523 total passengers
- 77 percent passenger load factor (SAA)
- 28 005 million available seat kilometres
- 53 155 flights in the year

SAA is the national carrier of South Africa, targeting business and leisure traffic, flying to over 36 destinations across Africa, the Middle East, Asia, Europe, Australia and North and South America. SAA has a well-established network, which is served either directly or through its low cost airline brand Mango, or Star Alliance partners.

SAA is the most awarded airline on the African continent and has 15 consecutive Skytrax awards, recognising the carrier as the best African airline and Africa's first 4-star airline. SAA's customer-centric approach ensures that it provides an excellent passenger experience and an innovative product offering.

The airline operates through two divisions:

- SAA Commercial
- SAA Operations

## SAA COMMERCIAL

OUR ROUTE NETWORK GIVES MORE PEOPLE GREATER ACCESS TO AIR TRAVEL THAN EVER BEFORE, AND THE WORLD-CLASS CUSTOMER EXPERIENCE WE OFFER HAS ENSURED THAT WE REMAIN AN AIRLINE OF CHOICE ON THE AFRICAN CONTINENT.

- 52 aircraft
- 5 domestic destinations
- 24 regional destinations
- 8 international destinations

SAA Commercial is responsible for the sustainable strategic utilisation of the Company's assets and resources to generate revenue and profit.

SAA Commercial operates through four key departments:

- Network Planning
- Sales
- Revenue Management
- Voyager



Supported by:

- Marketing
- Digital Sales and Ancillary Revenue
- Alliances – utilising relationships to add revenue
- Product Development

### African Growth Strategy

SAA Commercial is driving the African Growth Strategy by entrenching SAA's strategic position in Africa to capitalise on the rapid economic growth on the continent. SAA is the longest serving network carrier, with a route network that gives more people greater access to air travel than ever before. SAA's competitiveness in Africa is highly dependent on the extent and reach of its network in conjunction with its ability to anticipate and provide for the travel needs of the ever growing middle class on the continent. SAA is proactively growing its footprint by deploying its own aircraft as well as by collaborating with other African airlines with which SAA has established relationships such as interline and or code-share agreements, to defend and grow its core markets.

### Network and Fleet Planning

An airline's network reach is the key differentiator in the markets in which it operates and underpins the airline's competitive advantage. We operate in a highly competitive environment that is dynamic and ever changing. It is therefore imperative that the Group remains focused on the ever-changing needs of its customers. This is accomplished by the meticulous

planning that goes into the airline's network and fleet plan. The network plan takes into consideration the air travel market in general, the performance of the airline's current routes, and opportunities for growth in new markets. Optimising the network plan strengthens SAA's position in the domestic market, entrenches and improves the Group's footprint in African markets, and sustains its international network. Network Planning determines the product offering, cost structure, and revenue generation potential, taking into account market demands, the most efficient use of our fleet, as well as extracting value from partnership agreements. The network plan works as the basis for the formulation of the day-to-day operations of the airline and is a key contributor to the schedule integrity expressed in terms of on-time performance.

### Revenue Management

The Revenue Management team employs resources including human capital, technology, and specialist analytic tools to maximise the revenue generation of the airline. The desired successful outcome is to be in a position to offer the right seat, at the right price, to the right customer, at the right time, on the right aircraft.

The network plan aims to align the outcome of our analytics with accuracy that then enables us to determine the ideal fleet size so that we are able to optimise the profitable deployment of our assets. Our aim is to make sure that we are the first choice for our customers, to the extent that travel in Africa is synonymous with South African Airways. Our aircraft are one of the most expensive assets we have, and every minute of





operations counts towards the sustainability of our business, hence the uncompromising and extreme focus of our team on making sure that our aircraft are deployed for operations to the highest utilisation level possible. Network Planning ensures that we are forever evaluating opportunities for new routes to increase the aircraft utilisation to drive profitability, as well as considering remediation or cancellation of unprofitable routes.

Dynamic scheduling enhances connectivity and enables the airline to optimally synchronise airport slots. SAA's Commercial division regularly receives enhanced international training to keep up with the latest and best in class trends for aircraft scheduling. Our investment in our team and in the cutting edge technology required in this area enables us to remain one of the leading carriers on the continent.

SAA always endeavours to operate more frequencies to the same or new destinations using the most appropriate aircraft. Where an increase in demand is identified, additional capacity is deployed by operating bigger aircraft. The fleet plan takes into account modern technology and the consumer product preference.

## Alliances and Partnerships

Just like most airlines, SAA cannot serve all their target markets in their own network, using their own aircraft, and as such, we enter into strategic relationships with other airlines. Indeed SAA was the first African airline to align itself with a global branded alliance, Star Alliance. This year we are proud to celebrate 11 years as a Star Alliance member. The airline also maintains non-alliance partnerships with other African airlines as well as other global airlines so that we can address the needs of specific market segments.

## Sales, Marketing and Product Development

Customer service starts with the first interaction with the customer, which is the realm of the Sales and Marketing departments. The Network and Scheduling departments contribute to customer service providing inter-connectivity between network segments and routes that meet customers' needs.

## 2016/2017 Achievements

- 11-year anniversary of Star Alliance membership
- Washington Accra route performs well
- New route launched: Johannesburg to Abuja, Nigeria

## SAA Commercial supports SAA's strategic objectives through:

- Ensuring that the airline operates at an optimal level of sustainability to support strategic industries that access global markets, tourism, and the majority of industries 🇿🇦
- Reviewing and revitalising SAA's network and fleet requirements to ensure financial sustainability while establishing a sustainable footprint on the African continent 🔄
- Driving revenue through dynamic, world-class network management, fleet utilisation, and customer value propositions that enhance our ability to upsell and increase our ancillary revenue 🇿🇦 🌸 ⚙️ 🔄
- Promoting, and providing access to South Africa as a tourism and business destination 🇿🇦



## SAA OPERATIONS

**OUR NUMEROUS AWARDS ARE A VALUABLE AFFIRMATION THAT WE OFFER OUR CUSTOMERS QUALITY ACROSS A RANGE OF PRODUCT AND SERVICE-DELIVERY AREAS.**

- **6,8 million passengers carried annually**

SAA Operations is responsible for the day-to-day running of the airline. This comprises the logistics required to provide SAA's product and ensure its safety. Customers' experience and perception of value is determined by the sum of all interactions they have with SAA. The majority of these are delivered through SAA Operations and contribute to providing a competitive product that secures market share and drives revenue. SAA Operations functions through:

### Airport Operations

Airport Operations includes airport ticket sales, passenger check-in, boarding, lounges, arrivals and baggage handling worldwide. Airport Operations measures its effectiveness based on the Skytrax service evaluations and adjusts its operations as required to ensure excellent and cost-effective operations.

### Flight Operations

Flight Operations includes SAA pilots, training, standards and flight planning/navigation. The SAA Training Department is highly regarded, proactive and forward thinking. The airline ensures that it achieves maximum certification and extensive training.

### Inflight Services

Inflight Services includes SAA cabin crew and the in-flight inventory necessary for all on-board logistics. SAA's cabin crew is key to consistently producing a safe and appealing product. As the on-board face of SAA, the airline highly values their ability to handle challenging situations and still ensure an excellent experience for customers. The cabin crew are instrumental in SAA's position as a highly awarded airline internationally. SAA will continue to focus on meeting customers' increasing expectations and invest in the training of the crew.

### Global Operations Control Centre

Global Operations Control Centre (GOCC) includes operations control, crew movement, flight dispatch, departure control, ramp and logistics, and 'flight following' radio. The Global Operations Control Centre ensures that its operations are world-class by keeping abreast of the latest trends in, and systems for, control centre infrastructure.

### Group Safety

SAA's excellent safety record is maintained through continuous world-class training and quality control processes that ensure that every flight meets the rigorous standards of various regulatory bodies. The implementation of an ICAO-approved Safety Management System (SMS) has enabled all processes and systems to be monitored and managed applying a risk-based approach in a highly complex aviation environment.





## Quality Assurance

SAA's quality assurance practice ensures the airline remains at the forefront of the aviation industry. SAA strives to exceed the minimum quality assurance standards at all times. It adheres to stringent internal audits and has an entrenched safety culture. SAA maintains its IATA Operational Safety Audit and E-IOSA audit as well as its Air Operator Certificate.

## Group Security Services

Group Security Services is responsible for preventing acts of unlawful interference perpetrated against SAA and protecting facilities, staff, and assets from general crime internally and externally through the following:

- Developing and implementing Security and Aviation Safety Policies, Procedures, and Systems to secure and safeguard all SAA Civil Aviation Operations from unlawful interference, and introducing appropriate security measures to protect passengers, baggage, cargo, employees, and company property
- Identifying, measuring, and advising on operational and physical security trends, risks, and processes
- Implementing sound security threat and risk management principles in all Group Security Services operational processes and procedures
- Conducting objective, effective, and professional criminal investigations and employee vetting, to prevent theft, fraud, pilferage, and any illegal, unlawful actions against SAA

## Flight Technical and Maintenance Standards

SAA Operations maintains oversight and control of all maintenance through monitoring and analysis to ensure the airworthiness of SAA aircraft.

## 2016/2017 Achievements

- SAA awarded a 4-Star ranking from Skytrax, in both Economy and Business Class, for a 15th year in a row
- SAA's five domestic stations each honoured with a prestigious ACSA Feather Award in 2016
- ATOL Best Airline in category Efficiency of Check-in Staff by Airport Terminal Operations Ltd
- Global Traveler Magazine Awards – Best Airline in Africa, Best Airline for On-board Service, Best Airline for Flight Attendants, Best Airport Lounges
- Ask Afrika Icon Brands – Overall Winner Business Airlines, Overall Winner Personal Airlines
- Sunday Times Generation Next Awards – Coolest Domestic Airline
- Business Traveller Africa Conference and Awards – Africa Short Haul Airline

## SAA Operations supports SAA's strategic objectives through:

- Shaping and supporting SAA customers' experience, which contributes to the commercial sustainability of the airline 🔄
- Delivering a quality product through consistent, efficient, and effective operations and excellent customer service 🚀 🌟 ⚙️
- Managing and reducing overhead costs of operations and people 🔄
- Ensuring excellent customer service 🌟

## SAA VOYAGER

### AFRICA'S LEADING WORLD-CLASS LOYALTY PROGRAMME.

- 2,7 million Voyager members globally – up 11 percent
- For every 1,3 Miles issued, 1 Mile was redeemed
- 17,5 million Miles were donated to charitable organisations

#### Vision

Africa's leading world-class Loyalty Programme.

#### Mission

To reward and recognise our loyal members through the delivery of a commercially sustainable, best in its class loyalty programme in South Africa and the African continent.

SAA Voyager is a key element of SAA's Customer Value Proposition as it:

- Attracts and retains customers
- Differentiates SAA's offering in a highly competitive market
- Recognises customer loyalty
- Constitutes a key element of SAA's customer growth proposition
- Augments customer service offerings
- Enriches operations
- Plays a vital role in performance excellence
- Supports African growth by providing an attractive incentive to existing and new customers on the African continent.





The programme is a recognition value model. High-value and high-yield customers are attracted by, and retained through, the opportunity to earn and spend on air, and limited non-air, aspects of the programme. This drives loyalty to SAA and its feeder models Mango, SA Express (SAX) and Airlink.

Over the past 22 years, SAA Voyager has successfully provided SAA with a distinct competitive advantage in a very competitive market, attracting and retaining high-value and high-yield customers.

SAA Voyager is the first revenue-based frequent flyer programme in Africa. In February 2015, SAA Voyager introduced significant changes to the programme to enhance its value proposition and secure customer retention in the highly competitive market. Miles earned changed from a basis of “distance travelled” to a “revenue-spend” earning structure for flights operated by SAA. The changes attach a transparent economic value to the Mile of eight cents, if redeemed on SAA – one Mile for every R1,60 spent with five percent return.

SAA Voyager offers five tiers – Blue, Silver, Gold, Platinum and Lifetime Platinum, each providing preferential treatment and prestige. SAA Voyager offers its members an opportunity to earn Miles from 68 programme partners, which can be spent in a diversified manner.

## Programme Partners

- 27 Star Alliance member airlines (SAA excluded)
- 11 Non-Star airlines (inclusive of SA Express (SAX), Airlink, Swaziland Airlink, and Mango)
- 9 Financial Partners
  - Conversion Partners: Investec, Nedbank Greenbacks, American Express, Standard Bank (Ucount Rewards), Discovery Credit Card
  - Accrual Partners: SAA Voyager/Nedbank Credit Card, Diners, SAA Voyager/Ecobank Credit Card, Bidvest Bank
- 3 Car Rental Partners
- 8 Hotel and Resort Partners
- 9 Lifestyle and Retail Partners
- 1 Other: SAA Cargo (conversion of Cargo ZAR paid/kg to Voyager Miles)

## 2016/2017 Achievements

- First revenue-based frequent flyer programme in Africa operational for a full two years
- 30 percent of SAA passengers' spend is from active SAA Voyager members.

## SAA Voyager supports SAA's strategic objectives through:

- Attracting new and retaining valued customers for SAA 
- Recognising loyalty through tier based value proposition  
- Reward customers equitably through the accrual and redemption of Miles  
- To provide excellent customer service  



## SAA CARGO

### AFRICA'S LEADING AIRFREIGHT SERVICE PROVIDER.

- 111 000 tonnes airfreight carried annually
- 54 percent cargo load factor
- Two aircraft

#### Vision

To be the leader in air cargo services between Africa and the world.

#### Mission

We commit to effective and time-sensitive airfreight solutions creating sustainable profit margins for our shareholders and lasting value for our stakeholders.

SAA Cargo provides effective, reliable and time-sensitive airfreight solutions, transporting general cargo, perishables, mail, livestock, vulnerable, and valuable cargo worldwide. The division uses capacity in the belly-space of SAA's passenger aircraft, has a small fleet of dedicated freighter aircraft, and offers *ad hoc* charter services for more urgent deliveries. SAA Cargo's network spans South Africa, Africa, and the world, leveraging interlines and partnerships to provide customers with extensive reach and seamless connectivity worldwide.

#### DOMESTIC

Johannesburg, Cape Town, Port Elizabeth, Durban, East London, George, and Bloemfontein

#### REGIONAL

Lagos, Accra, Lusaka, Entebbe, Kinshasa, Harare, Luanda, Maputo, and Nairobi

#### INTERNATIONAL

**Asia-Pacific** – 12 countries (direct passenger flights to Hong Kong and Perth and interline agreements with partners for the other destinations)

**Europe** – Germany, Italy, France, Switzerland, the UK, Ireland, Spain, Eastern Europe, and Nordic countries (direct passenger flights to Frankfurt, Munich and London and interline agreements with partners to the other destinations)

**North and South America** – Argentina, Brazil, Mexico, and the USA (direct passenger flights to New York, Washington, and São Paulo and interline agreements with partners to other destinations in both South and North America).

#### 2016/2017 Achievements

##### Air Cargo Brand of the Year in Africa Winner

International Award for Excellence in Air Cargo, voted for by the worldwide readers of the STAT Times. The award recognises the strength of SAA Cargo's brand among airfreight users in Africa and is testament to high levels of service reliability.

##### Best Cargo Airline – Africa Winner

Air Cargo Airline of the Year Awards 2017, hosted by Air Cargo News, voted by the readers of Air Cargo News.

SAA Cargo Amsterdam office was awarded Best Air Cargo Supporter for the Europe-Southern Africa Route for 2016 by Euro Cargo, an independent General Sales Agent and charter specialist based in Holland that specialises in cargo sales, warehouse supervision, flight operations, and after sales.

#### SAA Cargo supports SAA's strategic objectives through:

- Facilitating trade and development between South Africa and key African and international markets 📦 🌐
- Developing cargo routes aligned to key trade flows in the region 📦
- Operating cargo services based on profitability and commercial sustainability 🔄
- Providing excellent customer service to the logistics industry 🧑‍💻
- Ensuring secure, consistent, efficient, and effective operations ⚙️
- Fostering performance excellence 🏆 📈





## SAA TECHNICAL

### AFRICA'S LARGEST AIRCRAFT MAINTENANCE AND REPAIR ORGANISATION.

- **300 523 air-frame maintenance man-hours for the year**

#### Vision

To be Africa's leading world-class Maintenance, Repair and Overhaul facility.

SAA Technical is a world-class Maintenance, Repair and Overhaul company (MRO) with over 70 years' experience. The Company supplies line and heavy maintenance services to more than 75 percent of South Africa's domestic commercial airlift, including SAA, Mango and other domestic and international airlines. The primary operations are located at extensive premises at OR Tambo International Airport, with other smaller operations in Cape Town, Durban and Lanseria.

SAA Technical is the most advanced full service provider in Africa, with excellent facilities and comprehensive support from component and workshops services. The Company has maintained full uninterrupted FAA certification (US Federal Aviation Authority) since the early 1990s and complies with regulations and licenses including the European Aviation Safety Agency (EASA), South African Civil Aviation Authority (SACAA), SANAS (South African National Accreditation System), EASA Part 147 training accreditation and is an ISO 14001 organisation.

Two years ago, SAA Technical was restructured to improve efficiency and flexibility. Building on this, in the past year a comprehensive, fully integrated software package called AMOS was implemented. The programme manages the maintenance, engineering, and logistics requirements of modern airlines. After an extensive implementation process that included reviewing and mapping of work processes, the system went live in April 2017. This was to enhance SAA Technical's position in the competitive MRO industry to improve productivity and cut costs and enable higher automation of maintenance, repair, and overhaul.

SAA Technical employs 2 367 people across a broad skills base comprising maintenance-related employees. SAA Technical offers an extensive apprentice programme aimed at training apprentices for its own business and the wider-aviation industry.

#### Services:

- Minor/line maintenance
- Major/heavy maintenance
- Component and repair cycle workshops
- Machine shops
- Component shops
- Accessory shops
- Landing gear workshop









The Company is a wholly-owned subsidiary of the SAA Group, with its own Board comprising two Executive Directors, the CEO and CFO, and three non-Executive Directors, from SAA's Board.



### 2016/2017 Achievements

- MRO IT system AMOS implemented for improved efficiency
- Established a line station in Entebbe

### SAA Technical supports SAA's strategic objectives through:

- Focusing on opportunities to reduce maintenance and overhaul costs, which are the largest costs to an airline that are semi controllable 
- Generating third party revenue  
- Providing world-class aviation maintenance   
- Driving supplier development by supporting the set-up of new aircraft spares companies 
- Promoting women in aviation 



## AIR CHEFS

### A LEADING SOUTH AFRICAN CATERING COMPANY, WITH THE CAPACITY TO PRODUCE 44 000 MEALS A DAY.

- 11 million meals prepared annually

#### Vision

Africa's leading world-class catering company.

#### Mission

Deliver commercially sustainable airline catering services in South Africa and Africa.

Air Chefs provides in-flight catering services to SAA, SWISS International Airlines, SA Express, and Mango in South Africa, as well as a few other airlines. More than 80 percent of Air Chefs' revenue emanates from the SAA Group. Recently the Company has diversified its offering to target the wider food service market, providing catering to corporate clients, ready-made meals for contract caterers and other food service offerings.

Air Chefs has central production units in Johannesburg, Cape Town, and Durban in close proximity to international airports, OR Tambo International Airport, Cape Town International Airport, and King Shaka International Airport. The production facilities are ISO22000 certified, demonstrating its commitment to food safety systems and Hazard Analysis of Critical Control Points (HACCP) principles and criteria. During the year, the Company opened a new state-of-the art catering facility at the King Shaka International Airport, which promises growth opportunities in the province.

Air Chefs has a fleet of hi-loader trucks and refrigerated vehicles, which provide swift transport in ideal conditions. The Company employs more than 1 200 employees, who receive ongoing in-house and external training to ensure high standards of food preparation, quality assurance, and adherence to world-class food safety management programmes.

Air Chefs is a wholly-owned subsidiary of the SAA Group, with its own Board comprising two executive directors, the CEO and CFO, and three non-Executive Directors, from SAA's Board.





### 2016/2017 Achievements

- Made a profit
- Landed its first international airline catering contract
- Air Chefs celebrated 30 years as caterer
- Ranked in the Top 5 Best Managed Catering Companies in the country as chosen by the Top 500
- Opened a new facility in Durban

### Air Chefs supports SAA's strategic objectives through:

- Driving revenue growth through securing new business 
- Improving processes and systems to deliver more efficient operations and a better quality product   
- Contributing revenue from non-aviation markets 
- Providing excellent customer service and a high quality product shapes customers' perception of value  
- Supporting local South African economies by sourcing supplies from black-owned companies 



## MANGO

**FOR OVER TEN YEARS MANGO HAS BEEN THE PREFERRED LOW-COST CARRIER FOR DOMESTIC TRAVELLERS IN SOUTH AFRICA, TRANSPORTING MORE THAN TWENTY MILLION PASSENGERS.**

- 10 aircraft
- 8 domestic destinations
- 1 regional destination

Mango is a low-cost carrier (LCC) that targets leisure travellers and price-sensitive business passengers in the domestic and regional market. Mango offers low cost, affordable fares, positioning it as a leading competitor in price-sensitive markets where SAA cannot viably compete. Mango offers its customers the widest booking and payment options through an extensive distribution network.

Mango's key areas of focus are:

- Innovation
- Operational efficiency
- Guest Service

Mango was launched in late 2006 and since then has garnered the reputation as South Africa's most innovative airline and a pioneer in the market. It was the first carrier to sell flights through grocer Shoprite Checkers and the first to offer booking and payment facilities via its mobile app. Mango is the first and only airline in the world to accept store charge cards as payment online and through its call centre.

Mango flies between South Africa's major airports and offers air services between:

- Johannesburg (OR Tambo International) and Cape Town
- Lanseria (Johannesburg) and Cape Town
- Johannesburg and Durban
- Lanseria (Johannesburg) and Durban
- Cape Town and Durban
- Bloemfontein and Cape Town
- Johannesburg and Port Elizabeth
- Johannesburg and George





Mango also operates twice-weekly flights between Johannesburg and Zanzibar.

The Company is a wholly-owned subsidiary of the SAA Group, with its own Board comprising three Executive Directors, the CEO, CFO, GM Commercial, and two non-Executive Directors, from SAA's Board.

### 2016/2017 Achievements

- Net profit in 2016/2017, marking a significant reversal from losses in the previous year
- 87.5 percent departure on-time performance achieved

### Mango supports SAA's strategic objectives through:

- As the leading LCC competitor in price-sensitive markets 
- Defending SAA's share of the domestic market 
- Providing an innovative product and excellent customer service  



## SOUTH AFRICAN TRAVEL CENTRE

**SOUTH AFRICAN TRAVEL CENTRE OFFERS A FULL SPECTRUM OF PRODUCTS AND SERVICES, CATERING TO CORPORATE AND LEISURE TRAVEL.**

- **24 franchisees**

SA Travel Centre is a franchise-based retail travel agency held over from a dissolved Lufthansa City Centre partnership in the early 2000s. The Company consists of 24 franchisees. It has six (6) IATA-accredited members, 16 non-IATA accredited members, and two (2) offices in Africa. Through these branches, SA Travel Centre offers competitive rates and services on car rental, air travel, travel insurance, foreign exchange, global tour products, cruise holidays, packaged tours, assistance with VISA applications, and accommodation across the globe. Each SA Travel Centre agency is independently-owned and run by seasoned travel agents who are focused on consistently offering the best value to their clients.

SA Travel Centre is considered non-core and SAA is in the process of disposing thereof.

# SHARED SERVICES

## SHARED SERVICES ARE THE KEY BUSINESS ENABLERS THAT SUPPORT THE SAA GROUP IN DELIVERING SUSTAINABLE VALUE.

### STRATEGIC PLANNING

Strategic Planning supports SAA in the pursuit of its strategic objectives, with the primary emphasis on achieving and maintaining commercial sustainability.

### CUSTOMER SERVICES

#### Service Vision

We aim to become the most awarded airline for customer service excellence out of Africa to the world and from the world to Africa.

#### Service Culture

Inspiring the world with the warmest African hospitality.

Customer Services drives ongoing initiatives to enhance customer experience, maintain and improve customer satisfaction, and monitor service measures.

Customer Services plays a key role in managing stakeholder relations, and is often the first point of contact. Customer feedback enables an assessment of perceived value, which impacts contribution to the future revenue and service standards.

Customer feedback is shared with the business so that trending matters can be remediated and or positively shared. SAA takes an operations-based approach to how the business is informed by complaints, aiming to maintain an efficient ecosystem for the customer experience.

#### Strategic Focus

Excellent customer service is one of the five strategic objectives of the Long-Term Turnaround Strategy (LTTS) and is also the cornerstone of commercial sustainability for airlines worldwide.

To enhance customer experience and create value, Customer Services encapsulates the experience of the customer from the first contact to the end of their journey and beyond, to building loyalty and retention.

World-class, reliable customer service is central to SAA's performance and long-term sustainability.

Customer Services comprises two departments:

- **Customer Service Recovery team**, manages service interactions for SAA, supported by telephone, email, and social media platforms
- **CRM/CSS team**, is responsible for customer-focused business improvement initiatives that support achieving the deliverables derived from the LTTS

Continued monitoring of service measures such as on-time performance, contact centre service levels, and baggage pilferage rates, are key focus areas within the SAA business.

### HUMAN RESOURCES

SAA believes that its employees – through their abilities, passion, and efforts – are the foundation for the success of the Group. We are committed to ongoing engagement with our employees to ensure they are motivated, productive and have a strong connection to SAA's brand. Human Resources strives to create a high performance, values-based culture to deliver a commercially sustainable outcome, in line with the Group's mandate.

Assessing and managing talent is a continuous and integral part of SAA. HR is responsible for building a talent pipeline not only for SAA but for the South African aviation industry. The SAA Academy of Learning and SAA Technical offer youth development programmes including:

- Internship Programme, an opportunity to gain business skills in the aviation industry through valuable work experience for a limited period
- Cabin Crew Skills Programme, a programme providing tuition towards attaining a SA CAA Cabin Crew Member Licence
- Technical Apprenticeship Programmes, apprenticeships in 11 trade disciplines relating to aviation maintenance
- Workplace Experience Programme – an opportunity given to young graduates to gain skills for them to be employable in future

### INFORMATION TECHNOLOGY SERVICES (ITS)

Information Technology Services is a critical business enabler across the Group. The aviation industry is technology driven and is evolving more rapidly than ever. Technology and automation are changing the way customers interact with airlines as digital transformation in the industry continues at a swift pace. Innovation is the key to competitive advantage, and airlines need flexibility and agility to manage a rapidly evolving aviation value chain.

Information Technology Services is responsible for providing IT solutions that are competitive, cost effective, and efficient in a secure environment. ITS designs, develops, and maintains solutions to assist in measuring route profitability, automated airport operations, optimise utilisation of the fleet and crew, manage cargo operations, maintenance of the fleet, and facilitate the uptake of products by our customers.

### SHAREHOLDER AND STAKEHOLDER RELATIONS

Engaging and building relationships with all of SAA's stakeholders is crucial to the Group's sustainability. SAA is an integral part of South African society, with the South African Government as its sole shareholder. The Group is a large organisation with over 10 000 employees, a wide array of suppliers, and millions of customers, past, present, and future. SAA operates in communities across the globe, in a highly legislated and regulated industry, which has high levels



of government involvement worldwide. SAA's broad base of stakeholders are vital to the success of the business and their perception of SAA, the Group's reputation, is a valuable asset that needs to be safeguarded.

Shareholder and Stakeholder Relations plays a key role in risk and reputation management at SAA. The unit is the custodian of the Group's reputational risk and provides the Board oversight of the Group's relationships. SAA is committed to developing a stakeholder inclusive approach, aligned with the recommendations of King III of 2009 and with consideration of King IV.

### Shareholder and Stakeholder Relations comprises:

- **Stakeholder Relations**, responsible for positioning SAA's brand by managing its reputation and increasing the confidence of the Shareholder in SAA's capability to deliver on its strategic intent
- **Communications**, responsible for internal and external communications across the Group (excluding Mango), as well as the production of corporate publications such as the airline's in-flight magazine Sawubona and annual reports
- **CSI and Corporate Events**, hosts events that support key strategic stakeholder engagements and is responsible for projects that contribute to the wider South African society through supporting and uplifting communities
- **Transformation**, responsible for policy formulation and implementation oversight of Group-wide efforts to comply with B-BBEE requirements, including reporting and support of the government's broader socio-economic transformation agenda
- **Environmental Sustainability**, responsible for ensuring SAA has the least amount of impact on the natural environment possible, as part of SAA's mandate to benefit the citizens of South Africa and globally, and to address climate change

## LEGAL, RISK AND COMPLIANCE

The aviation industry is a multifaceted and highly regulated environment. The risk universe is complex and diverse with risk exposure managed across a number of different parts of the business. Effective and prudent management of risk is the cornerstone of the Group's sustainability.

The Legal, Risk, and Compliance team oversees the overall strategic and operational risk of the business. Monthly and quarterly reports are submitted to ExCo. Quarterly monitoring reports are submitted to the Audit and Risk Committee and the boards of SAA Technical and Air Chefs.

The Legal Risk and Compliance department is a shared service that supports the entire Group. The Risk department ensures that the risks facing the Group are identified and mitigation controls are established and implemented by management to mitigate the identified exposure to the Group. The Compliance department focuses on legal and regulatory risks and monitors the implementation of regulatory controls. The Legal team manages the Group's legal risk by overseeing contractual terms and conditions, analysing and monitoring litigation, and promoting general legal support and advice to the Group.

## PROCUREMENT

Procurement is responsible for the fair, equitable, transparent, competitive, and cost-effective management of the supply chain management function. Cost compression is a critical imperative for the commercial sustainability of SAA and one of the pillars of the LTTS.

Procurement plays a key role in meeting SAA's developmental mandate in its stewardship of the Group's preferential procurement and enterprise development programmes.

### SAA Procurement Transformation Mission

- To lead and accelerate transformation in the South African aviation industry and focus on the inclusive opportunities for black-owned, women-owned, disabled, and youth-owned businesses
- Development and implementation of a sustainable, environmentally friendly procurement strategy

## FINANCE

The Finance department manages SAA's financial profile. There have been losses over many years eroding equity. We operate in a massively capital intensive business. SAA is one of the most highly geared major airlines globally. This level of debt is not sustainable. We are developing a financially sustainable funding plan that will address the Company's cash and liquidity requirements.

## GOVERNANCE

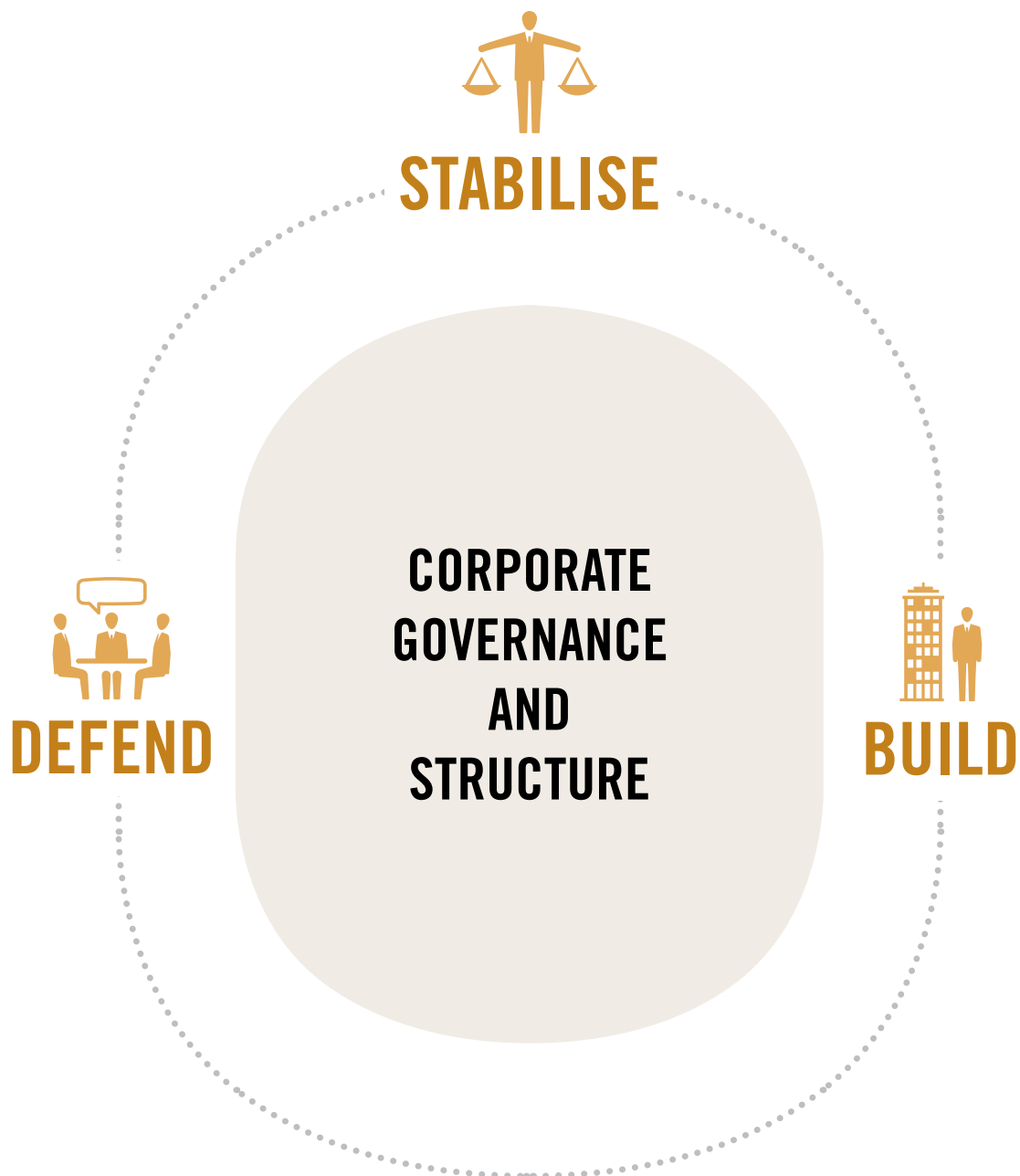
A robust corporate governance framework promotes accountability of management and improves transparency and disclosure. During the year, a new full strength Board was appointed by National Treasury. The Board is committed to applying the principles of corporate governance recognising that this is essential in protecting the interests of all stakeholders. The new Board will set the tone, leading the Group in an ethical and responsible manner, guided by principles of transparency, integrity, responsibility, and accountability.

# CREATING SUSTAINABLE VALUE

## STRATEGIC OBJECTIVE, FOCUS AND OUTCOMES

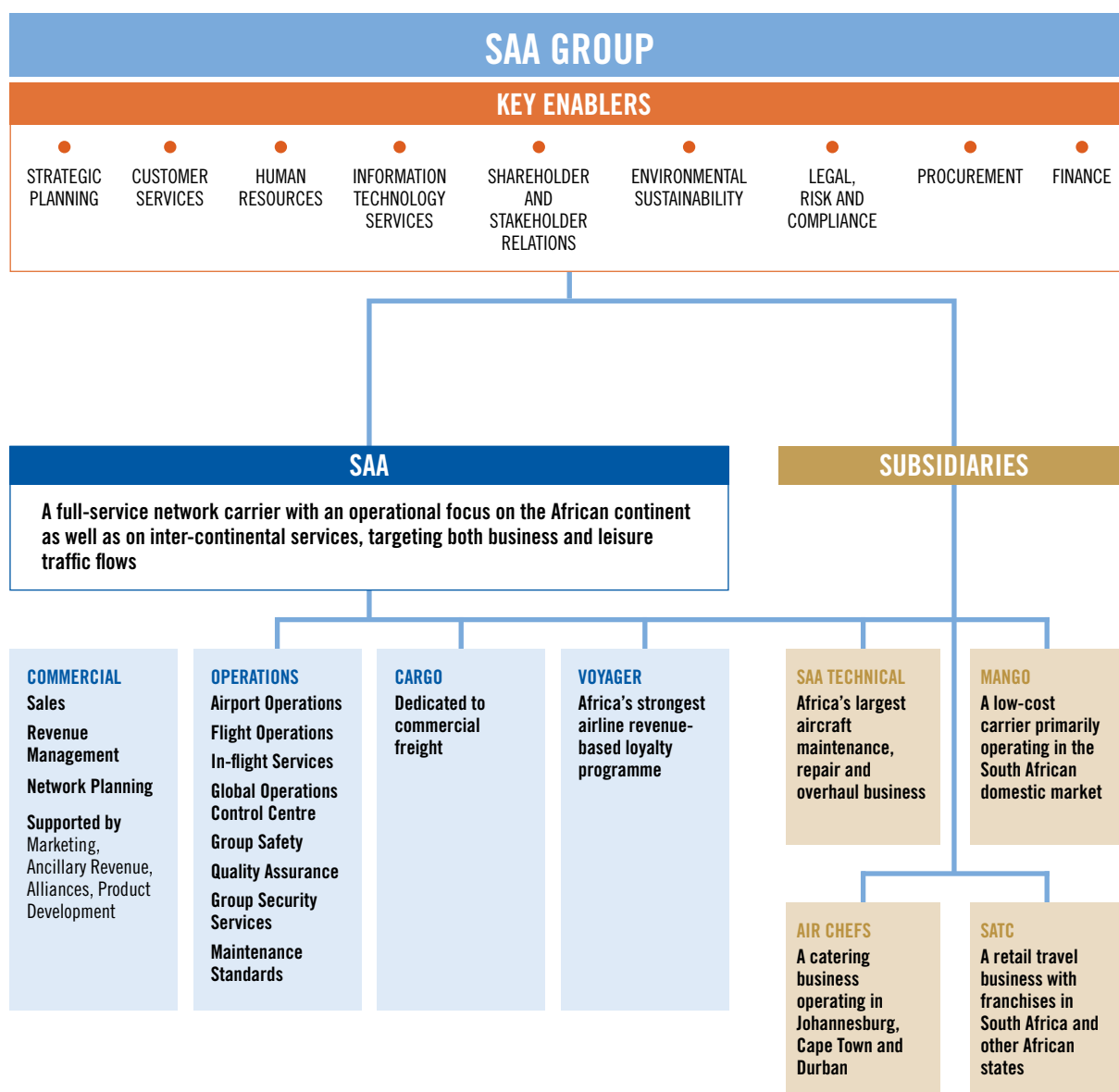
To transform SAA into a financially sustainable aviation group.

Pursuant to the primary strategic objective, the key strategic focus areas are: STABILISE, DEFEND and BUILD.



## OUR BUSINESS ACTIVITIES

SAA is a vertically integrated diversified airline group providing passenger and cargo transport services, supported by operations across the airline value chain.



# GROUP VALUE-ADDED STATEMENT

for the year ended 31 March 2017

R MILLION	2017	2016 Restated
Total income	30 742	30 716
Cost of services	(27 371)	(24 363)
<b>Value added</b>	<b>3 371</b>	<b>6 353</b>
Income from investments	40	26
<b>Wealth created by operations</b>	<b>3 411</b>	<b>6 379</b>
<b>Distribution of wealth</b>		
Employees (salaries, wages and other benefits)	6 131	5 831
Government (income tax)	–	2
Providers of capital (interest)	1 630	1 030
<b>Total wealth distributed</b>	<b>7 761</b>	<b>6 863</b>
Wealth distribution funded through debt	(4 350)	(484)
<b>Wealth created by operations</b>	<b>3 411</b>	<b>6 379</b>
<b>Dealings with government</b>		
<i>Gross contributions to government</i>		
Company taxes	–	2
Rates and taxes	4	5
Customs and excise duties	21	32
	25	39
Other government grants	(7)	(9)
<b>Charged against group income</b>	<b>18</b>	<b>30</b>
<b>Collected on behalf of government</b>	<b>2 686</b>	<b>2 875</b>





  
SOUTH AFRICAN AIRWAYS

# OUR BOARD

The group has a Board for the airlines, South African Airways (SAA) and Mango, as well as for its subsidiaries; Air Chefs, SAA Technical (SAAT), and SA Travel Centre (SATC).

The full governance report, including details of board committees, terms of reference, and the *curriculum vitae* of the board members, are available from the Company Secretary's office (refer page 92) or can be found on the South African Airways website, [flysaa.com](http://flysaa.com), under Corporate SAA / About SAA.

The SAA Board consists of:

○ 11 Non-Executive Directors      ○ 2 Executive Directors

**ARC** Audit and Risk Committee

**SEGC** Social, Ethics and Governance Committee

**REMC** Remuneration, Human Resources and Nominations Committee

**FINCO** Finance and Investment Committee

**LTTSC** Long-Term Turnaround Strategy Committee

**Committee Chairman**



**1 MR JOHANNES BHEKUMUZI MAGWAZA (75)**  
Chairperson and non-executive director

*Appointed: 3 November 2017*

**REMC**



**2 MS NOLITHA FAKUDE (53)**  
Deputy chairperson and non-executive director

*Appointed: 3 November 2017*

**REMC FINCO LTTSC**



**3 MR VUYANI JARANA (47)**  
Group Chief Executive Officer and executive director

*Appointed: 1 November 2017*



**4 MS PHUMEZA NHANTSI (39)**  
Chief Financial Officer and executive director

*Appointed: 4 March 2016*



**5 MR AHMED BASSA (58)**  
Non-executive director

*Appointed: 3 November 2017*

**ARC LTTSC SAA TECHNICAL SOC LIMITED**



**6 MR MARTIN KINGSTON (60)**  
Non-executive director

*Appointed: 3 November 2017*

**ARC FINCO LTTSC**

## Demographics



## Age



## Gender



**7 MR PETER MALULEKA (62)**  
Non-executive director

*Appointed: 1 September 2016*

SEGCOR LTTC AIR CHEFS SOC LIMITED



**8 MS THANDEKA MGODUSO (60)**  
Non-executive director

*Appointed: 1 September 2016*

REMCO SEGCOR LTTC SAA TECHNICAL SOC LIMITED



**9 MS TINYIKO MHLARI (34)**  
Non-executive director

*Appointed: 3 November 2017*

ARC FINCO MANGO SOC LIMITED



**10 MR AKHTER MOOSA (65)**  
Non-executive director

*Appointed: 1 September 2016*

ARC FINCO SAA TECHNICAL SOC LIMITED



**11 MR GEOFF ROTHSCILD (70)**  
Non-executive director

*Appointed: 3 November 2017*

REMCO SEGCOR AIR CHEFS SOC LIMITED



**12 MS BAJABULILE SWAZI TSHABALALA (51)**  
Non-executive director

*Appointed: 1 September 2016*

ARC FINCO LTTC AIR CHEFS SOC LIMITED



**13 MR PETER TSHISEVHE (47)**  
Non-executive director

*Appointed: 1 September 2016*

SEGCOR FINCO LTTC MANGO SOC LIMITED

# GROUP EXECUTIVE COMMITTEE

The board has delegated management of the day-to-day business and affairs of the SAA Group to the Group Chief Executive, with full power on behalf of and in the name of the Group. The Group Chief Executive, who is held accountable for the performance of the Group, including the airline, and its subsidiaries, has in turn established a Group Executive Committee (ExCo). The committee provides counsel to the Group Chief Executive, acts as a sounding board and ensures overall coordination across the SAA Group. Ultimate decision making powers remain vested with the Group Chief Executive and all members of the committee exercise powers in accordance with their delegated authority.

Members of the committee are depicted below.



**1 MR VUYANI JARANA (47)**

Group Chief Executive Officer

*Appointed: 1 November 2017*



**2 MS PHUMEZA NHANTSI (39)**

Chief Financial Officer

*Appointed: 25 November 2015*



**3 MS RUTH KIBUUKA (53)**

Company Secretary

*Appointed: 1 June 2015*



**4 MR PETER DAVIES (69)**

Chief Restructuring Officer

*Appointed: 16 October 2017*



**5 MR JOSUA DU PLESSIS (43)**

Chief Strategic Officer (Acting)

*Appointed: 14 September 2015*



**6 MS LUSANDA JIYA (50)**

General Manager: Shareholder and Stakeholder Relations

*Appointed: 1 October 2014*



**7 MR MARTIN KEMP (48)**

CEO Air Chefs (Acting)

*Appointed: 1 November 2013*

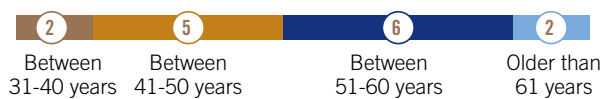


**8 MR TLELI MAKHETHA (57)**

General Manager: Cargo

*Appointed: 1 December 2010*



**Demographics:****Age****Gender**

**9 MR COBUS MC QUIRK (46)**

Chief Information Officer (Acting)

*Appointed: 1 December 2017*



**10 MR AARON MUNETSI (57)**

General Manager: Commercial (Acting)

*Appointed: 16 December 2015*



**11 MS ZUKISA RAMASIA (54)**

General Manager: Operations

*Appointed: 1 May 2012*



**12 MS VUYISWA RASEROKA (56)**

General Manager: Human Resources (Interim)

*Appointed: 22 November 2017*



**13 MS FIKILE THABETHE (40)**

General Manager: Legal, Risk, and Compliance (Acting)

*Appointed: 1 November 2017*



**14 MR NIC VLOK (70)**

CEO Mango (Acting)

*Appointed: 1 August 2016*



**15 MR MUSA ZWANE (53)**

CEO of SAA Technical

*Appointed: 1 November 2010*



## ACHIEVEMENT

### ALL FEMALE CREW FLY TO GHANA

**In August 2016, SAA celebrated Women's Month, together with the anniversaries of its service between Accra, Ghana and Washington DC, by fielding an all-female crew on its flight SA056.**

South Africa commemorates Women's Month in August as a tribute to the more than 20 000 women who marched to the Union Buildings on 9 August 1956 in protest against the extension of Pass Laws to women.

"Women are significantly underrepresented in many of the areas in this industry, hence SAA organised the all women-operated flight in celebration of women's achievement in this industry, as well as an encouragement for other women to join the aviation industry and take up careers as pilots, ground engineers, load controllers, flight dispatchers, operations controllers, or ramp agents," says Zuks Ramasia, SAA's General Manager: Operations.

The new non-stop route was launched on 4 August 2015 between Accra's Kokota International Airport and Washington DC's Dulles International Airport. Since its inception and due to its high load factors this route has proven popular and profitable.



# 02

## STRATEGY FOR FINANCIAL SUSTAINABILITY

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# MESSAGE FROM THE CHAIRPERSON



**IN THE 2016/2017 FINANCIAL YEAR, SAA MARKED 83 YEARS OF OPERATION DURING WHICH THE AIRLINE HAS PLAYED A PIVOTAL ROLE IN SOUTH AFRICAN SOCIETY AND ITS ECONOMY, CONNECTING SOUTH AFRICA TO ALL OF ITS MAJOR TRADE AND TOURISM PARTNERS.**

On behalf of the SAA Board, I present to our stakeholders our Annual Report covering the financial year 1 April 2016 to 31 March 2017. These were very difficult and challenging times at SAA. This is reflected in the delayed release of this report due to uncertainty regarding the going concern status of the Group. SAA's history of poor financial performance, has led to a reliance on debt, which is underpinned by government guarantees that are necessary to sustain its operations. This is an untenable situation for any business enterprise. SAA has long struggled with adequate capitalisation and a lack of capital injection from the Shareholder, which has weakened the balance sheet and prevented the implementation of the Long-Term Turnaround Strategy (LTTS) to return the airline to long-term and sustainable viability.

Notwithstanding the much reported challenges facing the Group over the past 10 years, SAA has remained a well-recognised and respected brand in the aviation industry. We have a highly rated track record of passenger safety and sound operations and on-time performance, as well as numerous air travel recognition awards. Due to the outstanding support of our employees, customers, regulators, and policy makers, SAA continues to be an industry leader on the continent. SAA was the first airline in Africa to fly a commercial flight using biofuel. In the year under review, SAA and Mango flew aircraft using a blended fuel made from locally grown tobacco plants. This has huge potential for transforming rural agriculture and promoting livelihoods in South Africa.

Having been appointed on 3 November 2017 the newly constituted Board is under no illusion regarding the enormity of the task of turning SAA around and building a financially sustainable enterprise. With almost 10 million passengers per annum, SAA is material in Africa's air travel market. The Group contributes over 53 000 direct and indirect jobs, R10 billion in economic value-add and provides approximately 15 percent of South Africa's global connectivity, an important contribution given South Africa's geographic location. SAA has a critical role to play in driving intra-Africa trade through enabling Pan-African air travel connectivity.



The Long-Term Turnaround Strategy developed by the Company provides a blueprint for transforming SAA into a financially sustainable enterprise. As the new Board, we appreciate the work overseen by our predecessors and thank them for their contribution. Our immediate focus is to bring organisational stability and strengthen governance and accountability. We are working tirelessly to ensure that the top executive structure of the organisation is filled by competent people. Significant progress has been made with the appointment of a highly regarded CEO who is empowered to get a competent executive team in place as soon as possible. The inadequate control environment, as borne out by the Auditor-General's findings, is receiving the urgent attention of executive management.

As a matter of urgency, we need to address liquidity concerns, continue the restructuring of the balance sheet, contain costs, and improve customer experience, whilst implementing our strategy. The receipt of a R10 billion capital injection from the Shareholder is a much welcomed development that will go a long way in addressing our weak balance sheet position. Nevertheless, SAA remains under-capitalised with a significant negative equity position. Finding solutions to the balance sheet challenges requires concerted action by the Shareholder, SAA's Board and the executive team. The announcement by the Minister of Finance during his medium term budget policy statement that SAA will seek a strategic equity partner is a welcome development for SAA. The possible consolidation of the Government's aviation assets through integrating SA Express into SAA will also contribute to the Group's strategy. SA Express operates thin to medium capacity routes using appropriate lower gauge aircraft to improve overall economics of transporting passengers. We keenly await the output of the inter-ministerial committee charged with the task of overseeing the integration.

The Board has taken note of the findings documented in the Report of the Auditor-General as laid out on pages 98 to 104 of this report. Executive management has been tasked to address the issues raised as a matter of urgency. Of particular focus, will be the effectiveness of the measures implemented to improve the control environment. If the current control environment does not improve, the risk of misstatements and financial losses through fraud and corruption remains.

We have also taken note of the non-achievement of Key Performance Indicators (KPIs) as laid out on page 97 of this report. Addressing this matter has been prioritised, including resolving issues such as the effectiveness of consequence management in the organisation.

The Board is committed to overseeing the plan to transform SAA into a financially sustainable enterprise focused on customer experience. Returning to profitability and delivering free positive cash flow is a key objective and essential to our licence to operate. As a Board we are geared to taking SAA to new heights and are dedicated to returning the airline to financial viability.



**JB Magwaza**

*Chairperson*

*South African Airways SOC Limited*

28 February 2018

# SAA'S OPERATING CONTEXT

Airlines and the wider air transport supply chain create substantial value for consumers and the broader economy. Air transport has transformed the world, providing rapid connections, which have enabled the globalisation of markets. SAA has always played a key role on the African continent by taking Africa to the world and bringing the world to Africa.

Aviation is a highly complex and integrated industry with dependencies on an array of internal and external, as well as cross functional factors.

## MACRO-ECONOMIC ENVIRONMENT

Aviation growth tracks GDP growth. World GDP growth is projected to gradually strengthen from 2.5 percent in 2016 to 3 percent in 2017 and 3.2 percent in 2018. Sub-Saharan African GDP is expected to grow from 1.4 percent in 2016 to 2.4 percent in 2017, 3.0 percent in 2018 and in South Africa from 0.28 percent in 2016, 0.94 percent in 2017, and 1.06 percent in 2018.

The strengthening of the Dollar contributed to falling GDP growth in emerging markets, which impacted growth in commodity producing countries. Economic growth in the sub-Saharan Africa region moderated in 2016, and is expected to face continued pressure in 2017, as a result of much lower oil prices and the commodities price slump. Non-oil-exporting countries such as Kenya, Burkina Faso, Côte d'Ivoire and Senegal did record GDP growth rate increases. However, growth momentum in sub-Saharan Africa is expected to remain fragile, with regional growth dipping to 1.4 percent, the lowest level of growth in more than two decades. Most oil exporters are in recession, and conditions in other resource-intensive countries remained difficult.<sup>1</sup> Although growth in the region has slowed, sub-Saharan Africa is still a region with tremendous growth potential and will remain the second-fastest growing region in the world for the foreseeable future, after emerging Asia.

Growth in South Africa is expected to rebound somewhat, driven by moderately stronger global growth, more favourable weather conditions, reliable electricity supply, less volatile labour relations, recovering business and consumer confidence, and stabilising commodity prices.<sup>2</sup>

Strengthening ZAR/USD rates had a significant financial impact on SAA in 2016 resulting in net translation losses on mark-to-market variation of foreign denominated assets and liabilities as foreign denominated assets exceed foreign denominated liabilities.

## Oil Prices

The rebalancing in the oil market has led to rising oil prices, a factor that will significantly impact the industry outlook for 2017. An average oil price of \$64/barrel (Brent) is forecast for 2017 compared to an average of \$44,6/barrel (Brent) in 2016. This is expected to drive jet fuel prices from \$52,1/barrel (2016) to \$64,0/barrel (2017). As a result, it is anticipated fuel will account for 18,8 percent of the industry's cost structure in 2017, which is significantly below the 2012/2013 peak of 33,2 percent.

## Exchange Rates

The Rand has historically been characterised with high volatilities, but the tumultuous performance of the currency, particularly against the US Dollar in 2016 was unprecedented. Approximately 55 percent of the Company's operating expenditure is foreign currency-denominated, with less than 50 percent of revenue in strong foreign currencies. As a result, any weakening of the rand against major currencies has a significant impact on the Group's cost base.

<sup>1</sup> Brookings Institution, Foresight Africa 2017

<sup>2</sup> African Economic Outlook, South Africa, Authors: Wolassa Lawisso Kumo, Fatou Nyang Leigh, Arthur Minsat

## SAA'S COMPETITIVE ENVIRONMENT GLOBAL AVIATION

Airlines are expected to report a \$31,4 billion profit in 2017 down from \$34,8 billion in 2016. IATA expects 7,2 billion passengers to travel in 2035, a near doubling of 3,8 billion air travellers in 2016. However, there are considerable differences in performance across regions with the majority of profits coming from the North American carriers. African carriers are expected to deliver the weakest financial performance, with a net loss of \$100 million predicted. This is on par with 2016. The region's weak performance is driven by low commodity prices, foreign exchange turmoil, and the impact of the drop in oil prices on oil producing African economies. Despite this, Africa is still the best growth opportunity as longer term economic growth potential on the continent remains excellent.

## Domestic Market

Demand in South Africa's domestic market remained flat with weak growth recorded during the year as intensifying competition from low-cost carriers (LCCs) led to oversupply of capacity and consequent pressure on average fares. About 48 percent of domestic seat supply now comes from LCCs. The competitive environment further deepened with the introduction of FlySafair. However, SAA remained the market leader in capacity in the domestic market particularly on the Johannesburg – Cape Town and Johannesburg – Durban routes. Mango has a slightly lower but still major market share.

## Regional (Africa) Market

Regional markets have been restricted and typically subject to bilateral agreements between states and the granting of temporary rights to operate specific services to specific carriers. The traditionally high yields attained by carriers in Africa are likely to be under some threat, with the liberalising markets and the implementation of the Yamoussoukro Decision in 2017, which will open up the African skies. This will provide SAA with both opportunities and an increasingly competitive market as a result of additional capacity into the local market.

SAA's low growth relative to its major African and non-African competitors, is increasing pressure on SAA's revenues and yields. SAA is starting to face LCC competition on regional international routes. Sub-Saharan Africa will undergo a significant transition where LCCs will grow from their 2016 minority share of 10 percent to a majority of 45 percent over the next 10 years. Ethiopian Airlines has doubled in size since the beginning of the decade, and Turkish Airlines has the largest network in Africa among foreign carriers.

## International Market

Emirates is leading the international market. Mid-hemisphere carriers have considerable advantages over end-of-hemisphere carriers like SAA. Airlines based in mid-hemisphere hubs, with the right aircraft can fly non-stop to almost any major airport in the world. South Africa's relative geographic remoteness means longer flights and therefore increased costs for carriers on these routes. The major beneficiaries of this are Middle East airlines, such as Emirates, Qatar Airways and Etihad. The growth of seat capacity from Middle Eastern carriers into South Africa is having a significant impact on international traffic flows to South Africa.



## IMPLEMENTATION OF SAA'S LONG-TERM TURNAROUND STRATEGY (LTTS)

The LTTS was designed to return SAA to commercial sustainability and provide greater support for the National Developmental Agenda. **The LTTS refined the organisational vision and mission, and outlined five strategic objectives:**



### Support South Africa's National Developmental Agenda

- Connecting South Africa to trade and tourism partners



### Achieve and Maintain Financial Stability

- Strengthen Balance Sheet
- Reduce Costs
- Increase Revenue
- Improved Cash Management



### Provide Excellent Customer Service

- Attractive Value Proposition
- Customer Service Excellence
- Prompt Recovery



### Consistent, Efficient, and Effective Operations

- Network Optimisation (routes, brands, partnerships, alliances)
- Safety First
- Improved On-time Performance
- Efficiency (fuel, productivity, sourcing, maintenance)
- Fleet Optimisation and Utilisation



### Performance Excellence

- Improved Performance Management
- Benchmarking

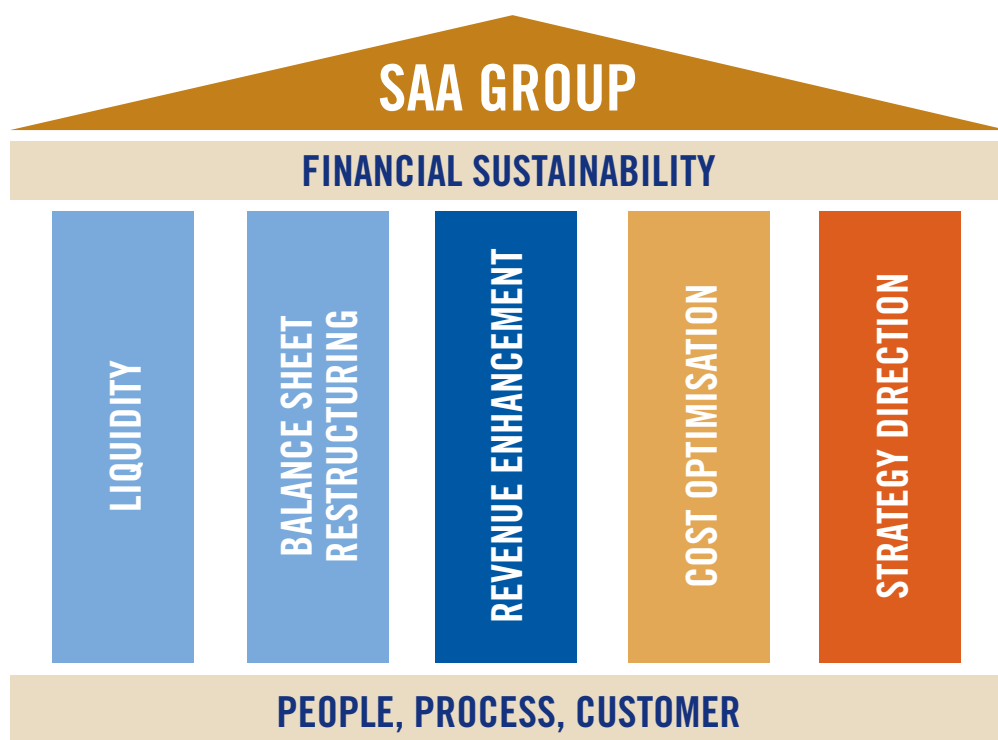
# STRATEGY FOR 2017/2018 FINANCIAL YEAR

**THE LTTS IS REVIEWED ANNUALLY TO TAKE INTO CONSIDERATION THE CHANGING AND COMPETITIVE ENVIRONMENT IN WHICH SAA OPERATES. IMPLEMENTATION OF STRATEGY IS REFINED TO ADAPT TO SAA'S OPERATING CONTEXT, TAKING INTO ACCOUNT INTERNAL AND EXTERNAL FACTORS THAT DETERMINE SAA'S STRATEGIC RESPONSE.**

SAA is faced with an even tougher competitive landscape than in previous years and the airline's financial performance and position has further deteriorated.

SAA tabled a one year corporate plan for April 2017 to March 2018 that supports SAA's strategic objectives, with the primary emphasis on curtailing its financial losses and setting the airline on a path to sustainability. SAA's high cost structure and heavy debt burden will continue to weigh heavily in the year ahead.

**PRIMARY STRATEGIC OBJECTIVE: TO TRANSFORM SAA INTO A FINANCIALLY SUSTAINABLE AVIATION GROUP.**



## KEY FOCUS AREAS:

The Corporate Plan for the next year will focus on specific key areas that will enable SAA to return to financial sustainability.



### Liquidity and Balance Sheet Restructuring

#### Focus areas:

- Cash management including a cash conservation office
- Improved management of macro-economic variables
- Creation of a contingency reserve
- Renegotiating existing funding agreements



### Revenue Optimisation

#### Key initiatives:

- Remediation of loss-making routes
- Air Chefs to grow its product offering
- Implementation initiatives to grow ancillary revenue aggressively
- SAA Voyager to focus on the redemption of miles
- Mango's contribution plans for enhancing revenue across the Group are driven by product differentiation



### Cost Optimisation

#### The five focus areas:

- Aircraft utilisation
- Driving distribution to digital channels
- Cost compression
- Minimise disruption costs
- Harnessing IT as an enabler



### Strategic Direction

Over the years, SAA has been confronted by multiple challenges that have resulted in the current financial status. Consequently, the strategy is being reviewed and where necessary revised to ensure that it remains valid and relevant for the Group to deliver on the mandate of the Shareholder.

#### Key focus areas:

- Clarifying the strategy context
- Redefining the competitive advantage
- Enhancing strategy choice and operating model
- Articulating strategy back to business vision, mission, and strategic objectives
- Optimising airline Group co-ordination





## ACHIEVEMENT

### SAA'S BIOFUEL FLIGHT MAKES 'GREEN' HISTORY

**SAA has long investigated the possibility to cut its carbon footprint through the use of biofuel. In July last year SAA and Mango made history on its flights between Johannesburg and Cape Town using sustainable biofuel made from locally grown tobacco plants.**

Called Solaris, after the energy tobacco plant used, the nicotine-free, hybridised plant that lends itself to the production of biofuel. Solaris produces small leaves and prodigious flowers and seeds that are crushed to extract a vegetable crude oil. The crushed remaining seedcake is then used as a high protein animal feed supplement that also contributes to food security.

South Africa's previously large tobacco crop has declined considerably, but growing tobacco for feedstock promises to revitalise tobacco farming and the related employment in the region. It also establishes a new regional bio-jet fuel supply chain of which South Africa can be proud.

The aircraft or engines require no modification as the biofuel can be blended with conventional fossil jet fuel and used as a 'drop in' fuel. The SAA and Mango flights carried 300 passengers from Johannesburg to Cape Town on Boeing 737-800s powered by a fuel blend made up of 30 percent aviation biofuel and 70 percent fossil fuel.

Lusanda Jiya, SAA's General Manager: Shareholder and Stakeholder Relations; says that the project has brought economic and rural development to the Limpopo province in keeping with SAA's mandate to support the South African National Developmental Plan.



# 03

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# CEO'S REPORT



## INTRODUCTION

I write this report as the new Group CEO of South African Airways to reflect on the achievements of the 2016/2017 financial year at a time when SAA is facing major challenges both internationally as well as in the domestic market. Increased competition in the international market is impacting on passenger numbers and yields, whilst the increase in available seat capacity, largely driven by low cost carriers (LCCs), has had a similar impact on the domestic market.

Despite the widely reported challenges affecting SAA, the business fundamentals are still solidly in place. South African Airways has a good reputation and track record for passenger safety and its on-time performance is amongst the best in the aviation industry. Moreover, SAA has maintained its operational excellence with huge endorsement coming from the 15-year streak of a 4 Star ranking by Skytrax as well as a host of other accolades.

A capital injection of R10 billion has helped restructure the balance sheet and improve our equity position. Even with R10 billion, SAA will remain with a negative equity position, a situation we together with the SAA Board of Directors, and the shareholder, are tirelessly working to improve.

## FINANCIAL PERFORMANCE

In the 2016/2017 financial year, SAA recorded very little revenue growth of R26 million, from R30.716 billion to R30.742 billion, mostly attributed to increased competition in international and domestic markets, reduction in passengers, and declining yields. On the other hand, operating costs rose by R3.308 billion, 11% higher than the previous year. The cost to income ratios continued to move in the wrong direction, an undesirable outcome for any business.

With 55 percent of the SAA cost base linked to foreign currency, the group has significant exposure to foreign exchange fluctuations.

SAA has to focus on increasing revenue as well as reigning in costs leading to improved margins and creating headroom to compete in an ever increasing competitive market.

## ENHANCING CUSTOMER EXPERIENCE

Improving customer experience is our number one priority. Our value proposition is underpinned by higher order commitment to maintain high safety standards, and improved customer experience in every customer interaction we engage in. We sustain our outstanding safety record through strict adherence to quality assurance, regular training, and a system of accreditation by international bodies in the aviation sector. Aircraft profile is an important part of any airline's service offering and arguably the most difficult to address. The source of our sustainable competitive advantage is quality of service in all customer touch points. We will continue to improve our service to our customers.

Voyager, our loyalty programme, is the key element of SAA's value proposition. It is the first airline loyalty programme that is based on revenue. We are extremely proud of its contribution to the Group.

Our distribution partners who sell our propositions in the market remain our pillar of strength. We will continue to invest in rich propositions including a diverse route network as well as customer experience improvements.

## OUR ROUTE NETWORK

With 25 destinations in Africa, our route network remains the widest network on the continent, making us the carrier of choice for the inbound international traveller and code-share partners, and our franchise partners, such as Airlink and SA Express. We will continue to optimise our route balance, geographical coverage, frequency, and route profitability.

## LONG TERM TURNAROUND STRATEGY (LTTS)

SAA has embarked on a five-year turnaround strategy to build a financially sustainable group. The pillars of the five-year turnaround plan include:

1. Liquidity – SAA has not been generating free cash flow for many years largely due to lack of profitability. It is important to drive key initiatives that will reduce cash burn and drive business performance
2. Balance Sheet Restructuring
3. Revenue Stimulation
4. Cost Optimisation
5. Refining the Strategy for SAA

**Vuyani Jarana**  
Group Chief Executive Officer  
South African Airways SOC (Limited)

28 February 2018

# KEY OPERATIONS

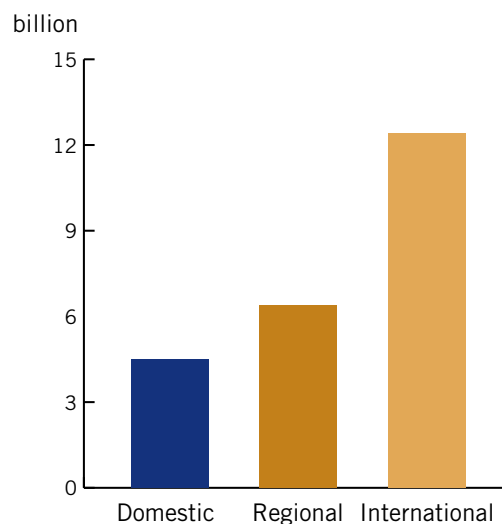


## SAA COMMERCIAL

SAA Commercial's performance for the year under review reflects the difficult macro-economic conditions, with fluctuating currency and Brent crude prices, and a fiercely competitive environment, which constrained revenue production. The nominal increase in revenue year-on-year was less than anticipated. The increase compared with the previous year, is largely a result of the local currency weakness, but does reflect an increase in airfares on all our routes. Currency devaluation is a double-edged sword in that, on the one hand, it makes the destination attractive to visitors who view it as a value for money proposition and thereby increases traffic. As long as revenue is generated in those markets, this works in favour of the business.

However, the same devaluation depresses local demand and inhibits stimulation, which results in less traffic flows into the network. The extremely competitive global aviation industry adversely impacted our revenue production because of dilution of yield through price wars, decline in demand in the oil and gas dependent markets, and increasing costs in the hard currency denominated markets.

## SAA Airline Revenue



# KEY OPERATIONS (continued)

## DOMESTIC MARKET

The domestic market experienced declining passenger demand and static fares due to competition and the emergence of Cape Town and Durban as secondary gateways. The weaker demand in Business Class is attributed to companies being more stringent with their budget allocations for travel. Domestic fares remained flat compared to the previous year, reflecting intensifying competition and increasing capacity in the market. This was particularly evident on the Cape Town and Durban routes where low-cost carriers (LCCs) increased capacity and/or frequencies. The Cape Town – Johannesburg route, which is the largest connecting point in SAA's network, experienced significant challenges from local and international operators. Increased capacity deployed by LCCs and additional capacity from international operators eroded demand on the Durban route, which was the best performing domestic route in the previous year. However, since late 2015, significant additional capacity from international markets was diverted to these subsidiary gateways resulting in the bypassing of our main hub, OR Tambo International Airport.

To address the challenges in the domestic market, the SAA Commercial team has implemented interventions such as fare promotions, capacity consolidation, and rationalisation of the network schedule with our affiliated partners, most of which have yielded positive results. Regional throughput continues to underpin a strong market for SAA.

## REGIONAL MARKET

Our focus on the Africa markets is based on the Long-Term Turnaround Strategy (LTTs) commitment that gives us a clear mandate to grow our footprint and retain our sustainable profitable route network structure. The competitive landscape has changed so much over the past decade to the extent that Africa is now one of the most competitive markets. The focus on Africa by mainly non-African airlines has resulted in a glut of capacity and in turn that has given rise to protracted price wars. The resultant yield dilution has adversely impacted on our profitability. This intense competition will become a norm because most airlines are aggressively expanding capacity into the African market to offset intensifying pressures in the wider global market. LCC competition is on the increase on regional routes meaning that yields will remain compressed for the

foreseeable future. The emergence of ultra-luxury bus services from neighbouring countries in the SADC region are also posing a challenge.

Southern African and Indian Ocean routes remain robust, although they are also increasingly attractive to other operators. However, SAA is well positioned to defend its market share and continues to take advantage of strong demand in the region. Enhancements to SAA's route network enabled the airline to offer more frequencies to Harare, Maputo, and to Mauritius, as well as increase capacity to Victoria Falls.

Mauritius is one of SAA's top performing routes, in terms of growth and revenue earnings. The country remains one of the fastest growing economies on the continent with consistent demand-side growth in both business and leisure travel. SAA has been flying to Mauritius for more than 50 years and now more than 100 000 South African passengers travel there every year. In addition, demand continues to grow from the African continent and internationally, a result of the liberal visa on arrival policy for all African passport holders. In October 2016, SAA introduced the new Airbus A330-200 on its Mauritius route, adding extra capacity of 200 seats per week. This caters for the increased demand and provides an improved in-flight product.

SAA introduced a new code-share route with Air Seychelles from Seychelles to Durban. Air Seychelles has a direct service between Seychelles and Durban that operates twice a week, launched in March 2017. This is an extension of the code-share partnership between SAA and Air Seychelles that was established in October 2013 with SAA as a marketing carrier between Johannesburg and Seychelles – Praslin Island operated by Air Seychelles.

In East Africa, SAA remains one of the leading operators to the region where we enable trade and tourism development. This year marked a momentous occasion when SAA celebrated 25 years of continuous operations to Nairobi. Tourism initiatives by SAA and SA Tourism have positioned South Africa as one of the top holiday destinations for Kenyans in particular and East Africans in general, with over 150 000 Kenyans visiting South Africa annually. Kenya is also an attractive destination for South African businesses looking to expand into the continent.





In the region, Tanzania is one of our major markets where we have established ourselves as the airline of choice for both business and leisure travellers. The Zanzibar archipelago, in conjunction with the Kilimanjaro and Serengeti experiences, are world renowned and continue to be the major draw-cards for travel to the region. SAA's 14 flights per week to Dar es Salaam are very popular and continue to offer the best travel options to that country.

With a well-articulated tourism focus, Uganda is gaining ground and making steady inroads on the international arena as a tourism destination. The commencement of crude oil production will no doubt bring additional traffic to the country and our focus is to continue to serve the requirements of the travelling public while we continue to act as a catalyst of economic growth.

Star Alliance members, SAA and Ethiopian Airlines, extended their 2013 code-share service agreement in October 2016 and again in March 2017. The two largest African carriers now code-share from Addis Ababa to Johannesburg, and from Addis Ababa to Bamako in Mali, as well as to Cape Town and Durban, in South Africa, Windhoek in Namibia and Toronto in Canada.

In West Africa, SAA celebrated 20 years of operating to Accra, Ghana, a key growth market for South African goods and services as well as an investment destination for South African companies. Ghana is growing at a tremendous rate, with a 6.8 percent averaged GDP Annual Growth Rate from 2000 until 2016. The country is positioning itself as an economic hub and entry point to West Africa. In the year prior, SAA introduced flights between Accra and Washington DC, after being granted traffic rights that enabled SAA to become the first African carrier to offer a direct service between Accra and Washington DC. From Washington DC SAA also offers convenient connections to and from over 50 markets in the United States and Canada through its airline partners United Airlines, JetBlue Airways and Virgin America.

The Accra to Washington DC route has proved very popular on both sides of the Atlantic by offering a convenient flight to both the business and the visit family and friends market segments.

This is more significant bearing in mind that there is a substantial number of not only Ghanaians but West Africans in the diaspora who have strong ties that keep them travelling between the USA and the African West Coast. SAA maintains a mutually beneficial relationship with Africa World Airlines, our Ghanaian partners. This airline partnership offers SAA customers from Washington DC and Johannesburg seamless connectivity via Accra to other destinations in Ghana such as Kumasi, Tamale, as well as to Lagos, Nigeria.

SAA operates to five destinations in central Africa – Kinshasa in the Democratic Republic of Congo, Douala in Cameroon, Brazzaville and Pointe Noire in the Republic of Congo, and to Libreville in Gabon.

Socio-economic dynamics played a significant part in performance on routes to some of the Central Africa operations and as a result the network has been restructured, replacing the Johannesburg – Pointe Noire – Cotonou service, with a triangular service: Johannesburg – Pointe Noire – Brazzaville – Johannesburg to consolidate the two markets. Flights to Brazzaville have increased from two to three weekly to improve the weekly service offering on the route and accommodate additional Pointe Noire traffic. SAA will continue to serve Cotonou, in Benin and will now do so utilising its service to Libreville, Gabon, effectively introducing a new sector between Libreville and Cotonou.

SAA has secured traffic rights enabling it to pick up and drop off passengers between Libreville and Cotonou in both directions. The Cotonou market has grown substantially and is now served three times a week. Frequency to Libreville has been increased from four to daily flights. That means the flights from Libreville to Douala have been reduced from four to three flights weekly. To improve performance on the Kinshasa route where SAA is the only operator between Johannesburg and Kinshasa, weekly services were reduced from seven to six.

Trade relations between the Monetary Community of Central Africa and the SADC region are growing. Serving these markets is part of SAA's African growth plan.



# KEY OPERATIONS (continued)

## INTERNATIONAL MARKET

Internationally, all routes except for São Paulo and London showed improved performance due to the increase in average fares and growth in traffic. This has particularly benefited the Munich, Frankfurt, New York, and Perth routes, as well as the Hong Kong route, which is a critical link between Latin America and East Asia. The London route remains extremely competitive with major airlines from other regions making a beeline to serve the entire SADC region via Johannesburg. Some of these operators have also commenced operations to Cape Town thereby by-passing our hub at OR Tambo International Airport.

At year end, SAA announced the realignment of its South American network with the objective of right-sizing the network to ensure that the airline continues serving the South America route with the best connectivity and the capacity required to meet the growing demand from the entire South American subcontinent. The Brazilian economy has been on a slow growth path due to various reasons and as such the demand from Brazil declined. Our focus is to ensure that we continue to serve this market and we will be able to enhance our offering in line with market dynamics.

## FLEET

SAA's Fleet Acquisition Plan is on track, with three new Airbus A330-300 wide-body aircraft deployed during the year. The aircraft are operating on the route between Washington Dulles International Airport and ORTIA via Dakar, Senegal, as well as via Accra, Ghana. The aircraft forms part of five new A330-300 aircraft on order, which will enable the airline to expand its current route network and improve its efficiencies. The A330-300s are suitable for routes of up to 11 hours. The range and superior payload will enable SAA to expand its route network in Africa and beyond. The A330-300s also offer state-of-the-art technology and have the latest innovations in on-board comfort and amenities.

The A330s complement SAA's existing Airbus long-haul and domestic/regional fleet, which includes 12 A320s which were delivered last year. A number of these aircraft have also been deployed across Sub-Saharan Africa to destinations in a four-hour range such as Windhoek, Lusaka, Entebbe, Dar es Salaam, and Mauritius.

## REVENUE MANAGEMENT

Revenue generation increased year-on-year, even though there was not a significant increase in capacity. We achieved an increase in the quality of revenue, as a result of fare adjustments in line with market supply and demand dynamics. Our philosophy remains based on the role we play as an enabler of economic growth by facilitating trade across the width and breadth of the African continent.

## SALES

Sales remains a key focus for the SAA Commercial team where our main focus is in improving the quality of revenue and increasing revenue throughput. SAA's Sales team performed exceptionally well considering the market dynamics and challenges that we faced and were provided with as much support as possible. Equipment and systems were upgraded and we enabled the team through training and development initiatives. A number of staff attended SABRE's Global Distribution Systems Fares and Ticketing Course and IATA Advanced Sales Course. SAA Commercial recruited new graduates, some as interns, to bolster teams in South Africa. Across the network sales teams received market specific training. The Sales Force Customer Management System was implemented domestically and in London and Frankfurt with the next phase being the roll out in the remaining markets in Africa, Asia, and South America.

We have enhanced our ancillary revenue portfolio by bringing on board some of the latest practices, which include options for the customer as well as their service providers. A dynamic team of product specialists has developed value-added products and services to entice customers to tailor their experience through ancillary products. These include bidding for an upgrade, blocking an empty seat next to you, or the opportunity for traders to pay for excess baggage prior to departure. Other lifestyle enhancement ancillary products are in the pipeline that will bring choice to food and entertainment.

SAA supports the Department of Tourism's objective to stimulate business and leisure tourism to South Africa. Stimulating tourism has the added effect that it boosts job creation. SAA offices in Africa and internationally are intensely involved in promoting tourism to South Africa through a variety of activities. During the year SAA participated in the World Travel Market® Africa, a fast growing inbound and outbound travel and tourism expo. SAA partnered with SA Tourism to bring travel agents from East Africa and from West Africa on educational trips to South Africa. SAA participated in the World Travel Market in London to encourage tourism to South Africa from the United Kingdom and the rest of Europe. SAA North America launched the Go See Southern Africa campaign to create awareness of the great destinations and excellent value that is offered throughout Southern Africa for tourists from North America and beyond.



## SAA OPERATIONS

### Cost Compression

SAA Operations achieved a cost saving of R90.8 million against a target of R31.1 million. Cost savings were attained in a number of areas, including international and domestic airport operations, the Global Operations Control Centre, Flight Operations, and Inflight Services.

### Airport Operations

Airport Operations strives to ensure excellent and cost effective operations and measures its effectiveness based on the Skytrax service evaluations. SAA retained its 4-Star Skytrax ranking, in both Economy and Business Class, for the 15th consecutive year, confirming its place amongst the top airlines in the world. Skytrax World Airline Star Ratings are recognised as a global benchmark of airline standards. The Skytrax annual award is based on the outcome of detailed product and service standards audits throughout the airline, which this year included SAA's new Airbus A330-300 aircraft. The process is not connected to any customer ratings. A 4-Star Airline rating signifies airlines providing a good standard of product and staff service across all travel categories, including cabin seating, safety standards, cabin cleanliness, comfort amenities, catering, tax-free sales, reading materials, in-flight entertainment, and staff service.

The 4-Star ranking confirms that SAA has maintained quality levels on all the services in the domestic market, across the African continent, and internationally. Achieving the 4-Star Airline ranking in the year under review demonstrates SAA's ability to maintain a world-class product and service standards for customers despite this being a particularly challenging year for the industry.

Awards demonstrate that SAA is standing its ground as one of the leading airlines in the world, despite the challenges the Group is facing.

### On-Time Performance

Airport operational efficiency is measured primarily through the internationally accepted standard, On-Time Performance.

#### ON-TIME PERFORMANCE

Target	Achieved FY2016/2017
87%	87,21%

During the year, SAA Operations established a committee comprising representatives of the entire value chain contributing to on-time performance, including SAA Technical, Customer Services, SAA Commercial, and Procurement. This is to improve communications and instil a proactive approach to potential problems in service delivery.

### Baggage Handling

In an initiative aimed at making travel easier and more convenient for customers, SAA and ACSA activated Self-Service Bag Counters at OR Tambo International Airport. Passengers on domestic flights, who have checked in online, are able to tag their own baggage and place it on the carousel.

Airport Operations measures pilferage rate per 1 000 bags.

#### PILFERAGE RATE

Target	Achieved FY2016/2017
0,20	0,20

### FLIGHT OPERATIONS

SAA is in the process of developing an automated dynamic fuel saving monitoring system to improve fuel-efficiency and save fuel costs.

# KEY OPERATIONS (continued)



## EXTENDED DIVERSION TIME OPERATIONS (EDTO)

International regulations stipulate that operators may not fly routes in twin engine aircraft that are more than 60 minutes from the closest adequate airport, without approval from the State Regulator. SAA is one of only four airlines in the world that have been granted approval to operate routes in the Airbus A330 that are up to 240 minutes from the closest suitable en-route alternate.

These regulations, that previously applied only to twin engine aircraft, have been extended by the South African Civil Aviation Authority (SACAA) Regulations to also include aircraft with more than two turbine engines. SAA is currently working with the SACAA and Airbus to ensure compliance with the latest Regulations and Standards. The result of this collaboration is that the SACAA will be one of the first regulators in the world to ensure full compliance with the ICAO EDTO Standards and Recommended Procedures. The EDTO regulations enhance the safety of flights that are operated over remote areas, safety is improved while operating costs are optimised.

## Initiatives for FY2018

- Flight Technical will continue to develop the Electronic Flight Bag to leverage the potential efficiencies of electronic documentation and communication
- Automated Documentation Check for visas and passports, to verify and reduce visa infringements, will be implemented
- Centralised Load Control: The departure control processes, traditionally conducted at every station, is in the process of being centralised to increase automation and productivity





## SAA VOYAGER

The 2016/2017 year was the second full year that SAA Voyager has operated as a revenue-based airline loyalty programme. The division's performance for the year reflects the continued success of restructuring the product construct with retained earnings of R184 million.

Active members increased 11 percent globally and an annual churn rate of 2.1 percent has been recorded. The SAA active members for Africa increased by 17.1 percent, indicating that the programme changes were to the benefit of SAA's Long-Term Turnaround Strategy (LTTS).

The strategic change in how Miles are earned is beneficial to all members but particularly to those travelling on the African continent as distances are shorter, but ticket prices are at a premium. SAA Voyager continues to contribute to securing SAA's African footprint and contribute to driving the Group's African Growth Strategy.

Miles redeemed for SAA travel, equaled 68,7 percent of the total number of Miles redeemed by active programme members. The redemption movement increased by 3.8 percent (198.2 million Miles) year-on-year.

The division implemented further changes to the operation of the programme and the effective management of the business model and its financials. The latter contributed R36,2 million towards SAA Voyager's bottom-line for the 2016/2017 year.

The JourneyBlitz redemption seat sales where members enjoy discounts of up to 85 percent on SAA-operated flights remains an unparalleled value proposition in the industry and 290 million Miles were redeemed through these redemption seat sales.

While SAA encourages Voyager members to use their Miles, if they are unable to and the Miles are due to expire, members have the opportunity to donate their Miles to charities.

The charity organisations which SAA Voyager supports are the Reach For A Dream Foundation, Wings and Wishes and the World Wildlife Fund For Nature.

## Looking Ahead

In the year ahead, SAA Voyager will continue to actively recruit new members to drive growth in the programme. In addition, mobility product enhancements will continue, shaped by members' needs and regional focus. The launch of part-cash part-mile payments, where members can use Miles to settle any portion of their journey, will provide additional flexibility and increase active membership.



# KEY OPERATIONS (continued)



## SAA CARGO

Globally the airfreight industry is depressed, reflecting the sluggish global trade, which is the key driver of the freight market. SAA Cargo revenue was 25 percent below target and six percent below the revenue of the previous year. Cargo's financial performance continued to be adversely impacted by lower than expected volumes and yields. Volumes were down three percent year-on-year.

SAA Cargo has suffered from a consistent downward pressure on yields over the past few years, which was exacerbated in the year under review by a global price war. This is complicated by different airlines' pricing strategies for cargo space, which make staying competitive difficult or in some cases impossible.

Operating costs were 16 percent down compared to the previous year. Landing costs and costs attributable to fuel surcharges increased. However, SAA managed to maintain load factors, a measure of capacity utilisation.

The domestic market remained flat with the drought impacting South Africa's export of perishable goods. In general the South African export market continues to face severe demand decline due to decreased international demand for South African exports. This is a matter of concern as the export volumes failed to react to periods of weakness in the domestic currency, which for all intent and purposes makes South African goods cheaper to international markets when measured in hard currency terms. Intense competition created by massive injection in belly-load capacity of wide body passenger operators impacted negatively on domestic yields particularly in the third quarter.

Soft commodity prices contributed to poor performance of African economies such as Nigeria, Malawi, Zimbabwe, and Angola, which resulted in reduced export volumes. Angola and Nigeria are two of South Africa's largest trading partners. Both these markets continued to experience the effects of the collapse of the oil price in the year under review. This resulted in a drop in consumer spend, and in turn a decrease in demand from South African retailers operating in these countries. Weak market conditions combined with the difficulty of repatriating money from oil producing countries also curtailed the expansion plans of these South African retailers.

Internationally, Europe and the Asia-Pacific region continued to experience a decline in export demand and American markets still show low airfreight volumes as volumes from the Americas are challenged due to lower yields, excess capacity via trans-Atlantic operators, and a struggling Brazilian economy.

The recession in Brazil continues to have a huge impact on SAA Cargo's performance as Brazil was the Company's largest market in the region and was a key gateway to other South American countries. The protracted customs strike in Brazil paralysed the cargo market. Despite coming to an end in January 2017, the strike has had a lasting effect on market dynamics in the region. SAA Cargo is addressing this by focusing on new clients with higher yield potential.

The termination of the Mumbai route in the previous years, impacted SAA's capacity for airfreight out of India, one of South Africa's biggest trading partners. SAA Cargo has entered into partnerships with other airlines but is constrained by limited capacity and high costs.



### Cargo Fleet Stabilisation

Two Boeing B737-300 Freighters were secured for a period of three years, which will significantly improve capacity going forward.

### E-freight Implementation

SAA Cargo continued to make strides towards its ongoing goal of increasing the use of e-Freight across its network. e-Freight is an industry-wide programme that aims to entrench a paperless transportation process for air cargo employing digitised standard documents adapted for electronic commerce. This promotes efficiencies and enhances security, eliminating the need for multiple data entry, reducing errors and enabling advance data transmission to the authorities.

SAA Cargo is in the top 20 companies to introduce e-Freight and is rated number 30 in the world. SAA domestic flights are 100 percent electronically based and 31 percent of SAA Cargo's international flights have adopted e-Freight. This compares to the global average of 42 percent. Regional routes are proving more challenging and more activation is needed.

### Safety, Security and Compliance

SAA Cargo was found to be fully compliant in the annual United States' Transport Security Administration audit, the South African Civil Aviation Authority audit, and the Australian Aviation Authority audit during the year. The Company also successfully underwent the biannual IATA Operational Safety Audit.

SAA Cargo received a five-star NOSA Rating for its King Shaka Airport in KwaZulu-Natal and four-star ratings in Johannesburg and Cape Town.

### New Facility for Pets

In October 2016, SAA Cargo introduced a new pet lounge facility for domestic pets at Cargo's OR Tambo International Terminal. The facility is specially designed for pets' comfort and safety, and minimises any environmental factors that may cause distress. The facility is staffed by a specialised team who provides handling and co-ordination services, making sure every travelling pet enjoys a comfortable and a hygienic environment, while waiting to be escorted on board their flight.

# SUBSIDIARIES



## SAA TECHNICAL

SAA Technical embarked on a number of strategic and tactical initiatives to improve its operational and financial performance, specifically in areas of business processes and productivity improvements.

The Company is in a consolidation phase and is reviewing the market, with a view to redefining its service offering to target high profit, high risk opportunities. Africa remains a strong focus.

During the year, SAA Technical established a new line station, in Entebbe, which required minimum capital investment and manpower but generates attractive rates, offers advantageous penetration into African markets and provides visibility for the brand.

SAA Technical focused on improving efficiencies to address key factors including:

- Quicker turnaround times in filling of critical positions
- The implementation of AMOS, which went live on 1 April 2017
- Automating the processes for technicians on both Line and Base Maintenance
- Optimising spares support during heavy maintenance checks
- Increasing capability in the back shops adding to the one stop shop methodology

## AMOS

The implementation of the AMOS platform will enable SAA Technical to innovate rapidly and enhance its competitiveness in the market.

The move to AMOS was a necessity that enabled SAA Technical to move from an outdated, unsupported platform to a much newer, modern software solution, which was to offer opportunities for improved work processes, productivity, and efficiency. The changeover on 1 April 2017 did not come without numerous challenges. These are being managed and reduced. Although this was the first step, the full benefits are still to be realised when the associated improvements are implemented.

## Third Party Revenue

Growth in third party work was restricted by demand from SAA as a significant segment of the fleet is at a stage of major maintenance checks. SAA Technical maintained contracted third party aircraft but took on limited *ad hoc* work. This impacted third party revenue for the year and temporarily slowed progress on the Company's strategy to increase third party work.





### Dispatch Reliability

Overall dispatch reliability of on-time departures for the year under review is 98.8 percent for the SAA fleet and 99 percent for its other customers, exceeding contractual agreement targets. Dispatch reliability is a measure of the competence of the operational line maintenance service, using the number of delays per 100 departures as an indicator.

During the year SA Technical underwent mandatory SACAA and EASA audits that form part of the SAA Technical certification by various regulators in the jurisdictions where SAA flies. The findings and observations of these audits have been communicated to management and are receiving the necessary attention.

### Harnessing Previously Disadvantaged Groups

SAA Technical places a strong focus on supplier development. During the year, SAA Technical assisted in setting up nine businesses that provide aircraft spares. The Company has also made its mark in actively promoting women in aviation by employing female technicians. The number of female technicians has grown from four in 1994 to 114 in 2016.

# SUBSIDIARIES (continued)



## AIR CHEFS

Air Chefs continued the previous year's trend of improved performance, breaking out of negative territory, and recording a profit for the first time since 2010. Revenue was up 11 percent to R493 million compared to R444 million in the year prior. This is attributable to higher volumes and pricing on SAA international routes as well as increases in revenue from airport lounges. The benefits of the restructuring programme in the previous year, and the success of the new pricing strategy, is evident in lower cost levels and an increased contribution from existing contracts. Employee costs were also down, following the head count rationalisation and a change in the shift system.

Improved inventory management translated to dramatically increased margins over the past two years, however, the impact of the drought resulted in margins coming under major pressure. The effect of the drought on prices across all commodities is evident in the increased cost of sales, up 53.14 percent compared to 51.29 percent in the previous year.

Air Chefs secured new business, and its first international carrier, SWISS International Airlines starting in November 2016. Industrial action at LSG Sky Chefs for a short period in the first quarter, provided a window of opportunity to demonstrate to a number of global carriers Air Chefs' capabilities, and that the Company is ready for business.

The strategy to diversify into non-airline customers gained traction with Air Chefs securing a contract to provide meals for Ster-Kinekor Lounges. This will be rolled-out nationally. Another promising opportunity of providing food products for a major franchise group is close to final confirmation.





In June 2016, a new catering facility opened at King Shaka International Airport, which positions Air Chefs to capitalise on significant growth opportunities in the KwaZulu-Natal province. A number of international airlines are now flying from Durban, and other food service companies in need of large-scale catering, offer opportunities for expansion. The brand new and modern facility is three times larger than that of the previous premises at the old Durban International Airport and offers the potential for large-scale growth. The facility will act as a central production facility and can safely and comfortably produce up to 7 500 cooked and prepared meals a day. Increased capacity means Air Chefs can also offer Halaal meals out of Durban, for the first time.

The purpose-built facility is equipped with a bonded stores area, where international airline customs-approved and certified equipment and stock is held that is meant for use on board flights, and not for entry into the South African space for customer use or consumption. A bonded stores area is a key requirement of international airlines, who entrust the storage and management of their equipment and special products to their catering partner.

The new facility was designed with HACCP in place to facilitate monitoring compliance. The environmental impact of the business was taken into account in the set up and equipping of the facility. It makes use of plate heat exchangers to reclaim waste heat energy from the unit. This heat is transferred to a 1 000 litre pressure vessel, which supplies the facility with all its hot water requirements, meaning that no geysers or heat pumps are required to operate the unit.

Air Chefs is committed to the South African Government's Policy of Localisation, with all procurement 100 percent local. 39 percent of Air Chefs' suppliers are black-owned companies.

The potential to grow Air Chefs' revenue by focusing on alternative revenue streams in additional market segments is considerable. However, to unlock this revenue growth, Air Chefs will require an equity partner.

# SUBSIDIARIES (continued)



## MANGO

In the 2016/2017 financial year, Mango reversed losses of the previous year, recording a net profit after tax of R12,5 million, despite the tough economic environment. Passenger numbers for the year were slightly lower: 2,9 million compared to 3 million in 2015/16. This is a result of a decrease in seat supply of 3.4 percent. Average fares grew by six percent, while load factor improved 0.8 percent year-on-year.

Mango effectively contained costs by limiting cost increases to 1,2 percent. Savings were realised by a downward capacity adjustment and a favourable 1,5 percent drop in the Brent Crude price for the year. However, this saving was counteracted by the weakening of the Rand Dollar exchange rate.

Mango's operating environment is expected to remain challenging, given South Africa's weak economic outlook in the year ahead. In response, Mango will prioritise revenue protection and cost-containment strategies.

### Strategic Focus

The domestic market remains oversubscribed in terms of available low-cost carriers (LCC) seat capacity. Mango has taken a strategic decision to refrain from unsustainable price sparring with other LCCs. South African consumers deserve airlines that offer value, affordability and, importantly, longevity. As such, the airline has taken a decision to focus on its strengths: innovation, operational efficiency and excellence in customer service.

### Innovation Delivers Results

Innovation and a relentless pursuit of excellence are the cornerstones of Mango's business and fundamental to its culture. Mango is still the only airline worldwide that accepts store cards as payment and offers a wide variety of distribution and payment options to ensure ease of access to its product.

### Operational Efficiency Attracts Business Travellers

Mango reported an excellent on-time performance of 87 percent. This has, in part, contributed to Mango's steady increase in business passengers. Passenger mix is now made up of around 40 percent business travellers and 60 percent leisure travellers.

### Ensuring an Excellent On-board Experience

In 2017 Mango was voted the Best Low Cost Airline in the Middle East and Africa by TripAdvisor's Travellers' Choice, testament to the service excellence provided by on-board staff. Mango has also been nominated for two World Travel Awards in 2017.

### Providing Drought Relief

The focus of Mango's corporate social investment programme was on providing drought relief services in partnership with Operation Hydrate. Further, Mango is passionate about education opportunities for young people and participated in career days for those interested in the airline industry and provides a media incubation programme for interns from disadvantaged backgrounds. Mango also supports the Johannesburg Ballet Township Development Programme.

### Looking ahead

In the short-term, Mango will focus on growing market share on the routes that it already operates and to drive cost-control and operational efficiencies while ensuring continued commercial success.

# SHARED SERVICES

## CUSTOMER SERVICES

### Achievements

- SAA once again scooped the “Africa Long Haul Airline” and “Africa Short Haul Airline Award” at the Business Traveller Africa Conference and Awards 2016
- SAA won the accolade adding to a line-up of awards the airline received for the year including a 4-Star Skytrax ranking, in both Business and Economy Class, for a 15th consecutive year
- SAA was named “Best Airline in Africa” from the Global Traveler Magazine. In addition to this award, SAA received honourable mention in the following categories:
  - Best Airline for On-board Service (SAA #2)
  - Best Airline for Flight Attendants (SAA #10)
  - Best Airport Lounges (SAA #9)
- SAA Cargo was named the Air Cargo Airline of the Year hosted by Air Cargo News in London
- SAA is proud to have received the following Magellan Awards:
  - Gold: Airline Marketing – Promotional Video “What It Means To Be African”
  - Gold: Airline Marketing – Direct Mail SAA Product Brochure
  - Silver: Tour Operator Marketing – Trade Collateral SAA Vacations 2016 Brochure
  - Sawubona, the in-flight magazine of SAA, scooped the award for Africa’s Leading In-Flight Magazine for the second year in a row at the World Travel Awards™

### Measuring Customer Satisfaction

We survey customers who travelled on SAA regularly, with the aim to truly understand our customer and architecting a plan for delivering exceptional customer service and empowering employees to deliver it.

Customers’ satisfaction throughout their journey is measured using the feedback received from surveys conducted, as well as advocacy where customers recommend SAA’s service to others.

Customer feedback is important, the airline remains committed to incorporating customer feedback and insight into improving the overall customer experience.

Service performance is measured on a monthly basis against the following KPIs:

- Customer Efficiency Score 82 percent
- Customer Satisfaction Score 80 percent
- Social Media Positive Sentiment

### Customer Efficiency Score

The Customer Efficiency Score is calculated by utilising the performance of our service centres against the revenue generated by passengers for a particular month in relation to customer satisfaction. Weightings are assigned to Business Class and Economy Class passengers.

The final performance is **76 percent**



### Customer Satisfaction Score

The customer satisfaction score takes into consideration service detractors within SAA's control and calculates a final customer satisfaction score by measuring it against performance.

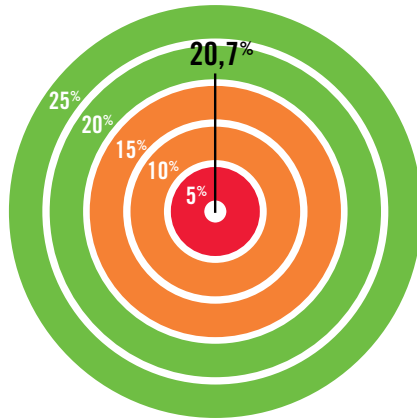
The final performance is **81 percent**



# SHARED SERVICES (continued)

## Social Media (Positive Sentiment)

The positive sentiment score is aggregated utilising specific software. It is calculated by analysing all forms of media related to SAA. The graph below illustrates the sentiment captured for the 2016/2017 financial year at 20,7 percent.



## Refreshing Service Delivery

During the year, initiatives to improve a seamless customer experience covered the following areas:

- Social Media Active Engaging
- Customer Service Training
- Customer Service Policies
- Touchpoint Efficiencies
- On-Time Performance
- Technology Enhancements

SAA introduced the following customer service enhancements during the year:

- Family check-in services at OR Tambo International Airport for families with Unaccompanied Minors during the holiday periods with active reading campaigns for our young travellers
- Unaccompanied Minors Campaign to ensure that the children's experience is seamless at Family Check-In, Unaccompanied Minors holding area, and SAA international and domestic lounges
- Improvement in our food and beverage offering with the introduction of African-inspired regional meals (specific to East and West Africa) in Business Class
- The airline continues to serve an awarding winning selection of locally produced wines
- Business Class amenity kits were designed by a young South African designer. Currently new designs for the 2018 collection are in progress
- The introduction of three new Airbus A330-300 aircraft saw the launch of new Business Class seating, giving every passenger access to the aisle as well as ensuring increased privacy. The new inflight entertainment product is state of the art allowing fast navigation and high definition viewing

- Refresh of the flysaa.com website
- Improvement of policies in support of customers with special needs
- Introduction of a new pet facility for our Cargo division at OR Tambo International Airport

## Harnessing the Customer Experience

To strengthen its competitive advantage, SAA has refined some of its products and services to enhance its offering to customers. SAA has embraced the integration of technology into this service offering to provide convenience to customers.

Maintaining and improving customer satisfaction is increasingly complex as customers' expectations change. Customers expect more flexibility, a seamless experience before embarking, an enjoyable journey that includes good food and in-flight entertainment, and to share their experience on social media, good or bad. Therefore, focusing on the customer experience has become the single most important way for SAA to achieve success.

## Consumer Regulations

SAA has to ensure that its policies are aligned to consumer regulations in the markets we serve. As there is an increasing emphasis on a customer's perception of value in the application of consumer rights, it is essential that SAA manages service failures to achieve the best outcome possible.

During the year, the Customer Services team focused on ensuring compliance with new and revised consumer regulations and policies that have been introduced in countries in which SAA operates. These include:

- The Brazilian Civil Aviation Authority introduced new legislation, which came into effect in March 2017
- People's Republic of China introduced a new regulation, the "Provisions on the Management of Flight Regularity", which came into effect on 1 January 2017
- The Consumer Protection Act in the UK has recently been overhauled with the introduction of the Consumer Rights Act 2015
- New consumer regulations have been adopted in West Africa that are similar to the EU regulations – the SAA policy is already in alignment

## Looking Ahead

Customer Services will continue to improve the SAA experience through monitoring and analysing data from customer feedback.

More comprehensive analysis of customer insights will be enabled by utilising online data. In addition, corporate sales trends and statistics will be used to improve product offerings brought to market.



## ACHIEVEMENT

### SAA WINS 16 AWARDS

**SAA CONTINUED TO DO THE COUNTRY PROUD BY SWEEPING THE BOARDS, WINNING NO LESS THAN 16 AWARDS FOR AIRLINES OPERATING IN BOTH THE AFRICAN AND INTERNATIONAL MARKETS.**

**OF SPECIAL SIGNIFICANCE IS THAT SAA WON THE SKYTRAX AWARD FOR THE BEST AIRLINE IN AFRICA FOR THE 14TH CONSECUTIVE YEAR. THE SKYTRAX AWARDS ARE CONSIDERED TO BE THE OSCARS OF THE AVIATION INDUSTRY.**

Equally important is that retail travel publications gave SAA, during the year under review, kudos in a variety of categories ranging from Best On-board Service and Best Airport Lounges (Global Traveller Magazine). The airline's marketing operations also got the thumbs up in the Magellan Awards in Travel Weekly when it won a Gold Medal for its promotional video "What it means to be African", and another Gold in the Airline Marketing – Direct Mail Category for its SAA Product Brochure. Among the other prestigious awards garnered include the Business Traveller Africa Conference Awards for the Best Africa Long-Haul Airline and for Africa Short-Haul Airline.

In May 2016, SAA Cargo had the honour of being voted Air Cargo Airline of the Year by the readers of Air Cargo News. Tleli Makhetha, General Manager SAA Cargo, says that the awards are based on the voting results of more than 18 000 supply chain professionals over a two-month period. "Shippers, the beneficial owners of the goods, and their logistics partners, were asked to vote on the publication's website for the airline that provided the best overall customer experience and for the best service provider in each region."

Of equal importance, at the end of last year, SAA was honoured with a prestigious ACSA Feather Award for each of SAA's five domestic stations.



Lusanda Jiya, General Manager: Shareholder and Stakeholder Relations (left) and Thola Nzuzi, Manager: Marketing and Communications – SAA Cargo; with the Air Cargo Brand of the Year in Africa award.



# SHARED SERVICES (continued)

## HUMAN RESOURCES

SAA recognises the value of employees as the most important resource the organisation has to drive its strategic objectives. During the year, HR's key strategic thrust was on people management interventions designed to move SAA forward on its current change trajectory to transform the airline into a financially sustainable aviation group. By sourcing talent, robust training, ensuring employee wellbeing, an effective performance management programme, and fair remuneration practices; the full potential of SAA employees as a strategic resource could be realised.

## TALENT MANAGEMENT

Ensuring a competent work force through managing human talent as a key strategic resource, forms the basis of SAA's approach to human resources management. Managing human talent starts before an employee is appointed. It starts where SAA ensures the company is the employer of choice. Therefore, the work of reaching out to young people at both tertiary and high school levels right through to the recruitment phase, with the imperative to source and attract high calibre individuals with the right set of technical and interpersonal skills, contributes to the sustainability and competitiveness of the Group.

Employees are then supported through career management programmes to channel their careers to ensure they support organisational objectives. Employees receive opportunities to develop through training by participating in either specialist or functional training. Mentorship and coaching offer employees the opportunity for further learning and growth contributing significantly to individual and organisational performance. Going forward the focus will be on managing future and existing talent through recruitment drives and training.

SAA is encouraged by the headway made during the year under review in managing talent at SAA. A major achievement was the launch of a programme for the development of management at senior levels, which will assist in creating leadership stability and preserving the institutional memory of the Group, as well as mitigating the impact of leadership changes. A focused career management programme, known as the Level 2 Succession Management Programme, gave managers the opportunity through learning and training to prepare themselves for possible future promotion through the ranks.

The SAA Leadership Framework was reviewed and has been integrated into the recruitment and selection process and career development discussions. The Framework is aligned to best global and current leadership practices. During the year, SAA also introduced Divisional Talent Review Committees to support the Executive Talent Review Committee.

An effective performance management system creates a high-performance culture aligned to the SAA strategy to ensure organisational goals are met consistently in an effective and efficient manner. As part of the comprehensive Talent Management Framework for SAA, key and critical talent will be considered for secondments or talent exchange programmes to enhance their career development progression. In addition a retention strategy is being developed with the aim of retaining high performers who have mission critical and scarce skills in the organisation.

## Training

The company continuously invests in training for a motivated, skilled, and safety conscious work force. Based on the highly regulated environment in which the airline operates, training focuses on both functional and developmental training. In the year under review, SAA spent 0.57% of its labour cost on training, focusing on compliance, safety, professional, and technical skills. As SAA's financial position improves, the investment in strengthening and developing SAA's work force would also be increased.

Aviation-specific training prioritises keeping SAA's customers safe, with the enhancement of professional and technical skills of those in critical positions. Pilots, cabin crew, technicians, and ground personnel, all undergo mandatory recurrent training. Recurrent training includes ground and refresher training, which incorporates aeroplane systems, operational procedures and requirements, inclusive of pilot incapacitation, accident/incident and occurrence review, as well as crew resource management.

Pilots undergo annual compulsory Safety and Emergency Procedures Training (SEPT) as well as recurrent training to validate their ability to operate the aircraft types they are qualified to operate. Proficiency is tested in several ways, including written exams, practical simulator assessments, and operational line checks and assessments.

Cabin crew training is overseen by the Head of Inflight Services as a statutory requirement by the SA Civil Aviation Authority (SACAA). Cabin crew undergo different categories of training. Safety training is paramount, and this includes Aviation Medical (AVMED) recurrent training, as well as Safety and Emergency Procedures Training (SEPT). Further, cabin crew also receive hospitality training and customer service training, which have shown a direct impact on our service delivery as an airline. SAA maintained quality levels on all the services it offers – in our home market, across the African continent, and internationally. SAA retained its 4-Star airline rating for Economy and Business Class for the 15th year in a row, a confirmation of consistent service standards.

SAA cabin crew is the pride of the airline; their specialised first aid training enables them to assist with medical emergencies and has often saved lives on board; on occasion they have even helped deliver babies.

2016 saw SAA continue its partnership with South African Express (SAX) to train cadet pilots to fast-track the attainment of required flying hours to enter SAA as a First Officer; the entry level requirement is 1 500 flying hours. Currently there are five employees in training at SAX.

The SAA Technical (SAAT) apprentice schools offered Training Apprenticeship Programmes for 130 unemployed youth during the year, exposing them to various aviation maintenance trade disciplines. They received tuition and practical training towards attaining a technical qualification. The new recruits addressed aviation-specific critical skills requirements, with 48 learners employed permanently during the year.

At SAA Cargo, employees regularly undergo aviation regulatory and functional training interventions required for operational compliance and sustainability. Air Chefs training includes health and safety compliance, specific skills training, management, and logistics training.

SAA employees were supported in maintaining professional registration through continuous professional development programmes funded by SAA. Professional bodies include SAICA, HPCSA, CIPS, SAIIA, and others.

As the leading airline on the continent, SAA is a regional trainer. The SAA Academy of Learning is an IATA Regional Training Partner in the SADC region, offering specialised aviation-related courses such as Pricing and Revenue Management, Sales and Airline Management, Regulatory and Compliance courses for Cargo, and Passenger Handling to airlines within the Sub-Saharan region. Going forward SAA will explore this facility as a revenue stream as SAA anticipates that 20% of the delegates will be from the Sub-Saharan Africa market in the next financial year.

SAA supported the National Developmental Plan by introducing 43 unemployed youth to the world of work. Twelve learnt the skills of airline ground staff, 20 learnt the jobs of Cabin Crew, and 11 were exposed to the workplace in general. Although SAA was not able to absorb these young people due to its current financial status, the young people were given workplace experience opportunities.

## An Employer of Choice

To attract the right talent to join the airline, SAA actively promotes the company as an employer of choice offering a variety of career options. A specific focus is on young people at both tertiary and high school levels. SAA annually participates in a number of career days and air shows reaching thousands of learners. The SiVulindlela truck, which is set up to look like the inside of an aircraft, has created much interest in the many careers on offer in aviation at schools throughout the country.

In the year under review, SAA's search for graduates interested in pursuing aviation as a career of choice once again resulted in thousands of applications. Unfortunately given the company's current financial challenges, SAA was unable to offer all of these graduates permanent positions. During this financial year 12 graduates were employed by SAA.

The SAA Bursary Programme supports employees without the relevant undergraduate qualification to attain a diploma or degree. A total of 210 employees were awarded bursaries in the last academic year. While the programme is currently earmarked for employees only, the airline realises the need to use the bursary programme as a recruitment tool by extending it to the public, albeit it on a small scale, due to SAA's current financial position.

The Talent Acquisition programme focused on optimising talent sourcing with the implementation of a new on-line recruitment and applicant tracking system. Internal and external candidates were assisted in registering on a careers website, resulting in an accessible on-line talent pool of over 50 000 registered candidates.

## Continuous Business Improvement

HR uses the latest technologies to smooth out processes and to enable learning, with the general approach being to move away from paper-based systems to IT driven processes.

During the year in review, HR embarked on the optimisation of its SAP Human Capital Management system, to replace the paper-based systems and processes that are manual, labour-intensive, and cumbersome. The HR SharePoint site was updated. This provides access to SAA-related HR tools and guides for the HR community.

An automated SAP Human Capital Management system will improve the current high levels of validation errors. The system will also facilitate the allocation of staff resources, currently deployed in low value adding activities, to strategic activities that will enhance productivity levels. SAP Human Capital Management also has the capability to support organisational

strategies and employee expectations. The aim is to help standardise HR processes thereby reducing the cost of HR service delivery. During the year, SAA activated the Employee Relations function of SAP Human Capital Management, which assists with the management of disciplinary matters and grievances.

To bring employees closer to the values the SAA brand stands for, an Employee Engagement Programme was launched to engage employees to share those burning issues of concern. The intention is to address these and reconnect employees with the Group's values and brand. Going forward these issues will be addressed by leadership with employees during face-to-face sessions.

## Employee Wellbeing and Medical Services

In addition to offering them a robust training calendar, SAA also nurtures the physical and emotional wellbeing of employees. SAA continues to ensure the wellbeing of its employees through the company's fully-funded comprehensive personal support programme, "Heartbeat". The programme is designed to assist employees to keep up with the continually changing workplace environment, and, together with their dependants, to help them with managing relationship and work-related stress and challenges.

The total engagement of the Heartbeat Programme has remained constant and above industry standards, and the trend in uptake is positive. Employees have been assisted with the management of stress, financial health, and interpersonal relationships, both at work and at home, with the two main presenting problems – stress and anxiety, being managed accordingly. In keeping with modern trends, employees are also assisted with the pursuit of a healthy diet and lifestyle. Going forward, SAA strives to achieve a more proactive approach and assist the organisation and its people to have greater emphasis on a health-work culture, aiming to enhance SAA's status as an employer of choice and demonstrate the airline's commitment to valuing its people. Onsite clinics bring the Heartbeat service to the workforce and assist managers with identifying relevant issues or trends for timely interventions.

This programme provides a supporting role and complements the operational services of SAA Medical Services, a fully equipped and functioning medical division staffed by doctors and professional nurses as SAA operates in a highly regulated environment with mandatory medical checks for cabin and cockpit crew. Cabin crew older than 40 undergo compulsory medical checks annually and pilots depending on their rank, have medical checks annually or every six months.

Ground staff undergo audiogram and vision screening every two years to certify that they are medically fit to work on the airport apron. Drivers who work airside further undergo alcohol, drugs, and full medical testing to keep their driving permits current.

The primary responsibility of SAA Medical Services is to look after the health of employees and to ensure wellness and reduce absenteeism. A project to reduce poor sick leave records and assist with monitoring sick leave trends, as well as with the on time capturing of sick notes, was initiated during the year. The Medical Services department is also licensed to offer family planning services onsite.

As part of the Long-Term Turnaround Strategy (LTTS), SAA is being repositioned as a financially sustainable aviation group, which implies a prolonged and increasingly stressful change process. Environmental and occupational exposure of employees to unsafe environments also have to be tracked to ensure timely and effective intervention.

# SHARED SERVICES (continued)

Moving forward, this area becomes increasingly important with a realigned focus dealing with Occupational Health and Safety to also assist employees throughout the company with health and safety issues and employee wellbeing.

As part of employee wellbeing programmes employees are surveyed from time to time to gauge morale and establish how they feel about the organisation. The most recent results indicated that there is room for improvement.

## Performance Management

Performance Management is an important pillar in the attainment of a turnaround plan, with the goal of creating a high-performance culture aligned to the SAA strategy to ensure organisational goals are met consistently in an effective and efficient manner.

SAA has made some progress in strengthening performance management, albeit slow. The alignment of strategic and operational KPIs have been improved, starting with the consolidation of the strategic objectives into a strategy map to engender Group-wide awareness and understanding of the critical success factors in creating shareholder value. Strategic KPIs were then cascaded to ExCo and HOD managers' scorecards to ensure alignment. Workshops were conducted throughout the year to entrench the performance management objectives and assist managers with performance contracting, monitoring, and reviewing.

SAA is currently in a state of flux with the main focus on transforming the business, however, HR firmly believes that as a strategic partner, HR and business strategy can be aligned to meet targets. Going forward the company will offer further training ensuring that performance management becomes a daily occurrence to entrench change management and ongoing improvement, starting at the top levels, as it is important to set the tone at the top from where it can be cascaded.

## Remuneration Philosophy

Group Remuneration Philosophy was approved by the Board in 2015, which provides guidance on remuneration policies and practices as well as performance. To ensure a strong link between performance and remuneration, a holistic approach to remuneration and incentives is followed.

Provision is made in the policy for incentives, but due to SAA's financial status, implementation had to be deferred.

## Employment Equity

As at 31 March 2017, SAA had 5 752 employees of which 5 275 are based in South Africa, and 477 in regional and international stations delivering safe and good services to our customers.

SAA's workforce is well represented in the different occupational levels across top and senior management, professionally qualified employees (including SAA's pilots), skilled, semi- and unskilled employees.

As the company progressively implements its turnaround, SAA's labour force cannot be increased. As part of labour cost optimisation, a freeze on employment, promotions, and salary adjustments were implemented. SAA remains upbeat that once the company enters a growth phase, as is envisaged in the Stabilise, Defend and Build strategic approach, SAA will turn the current downward trend around.

		South African								Foreign National		Grand Total
		Male				Female				Male	Female	
Occupational Level		African	Coloured	Indian	White	African	Coloured	Indian	White			
Top Management	Actual	3	0	0	0	4	0	0	0	1	0	8
	Target – March 2017	3	0	0	1	3	0	0	0	1	0	8
Senior Management	Actual	20	1	4	15	10	5	1	6	1	1	64
	Target – March 2017	27	2	5	16	19	5	2	7	1	1	85
Professionally qualified	Actual	150	42	70	584	106	20	38	121	2	1	1 134
	Target – March 2017	281	54	44	659	188	26	26	70	3	1	1 352
Skilled	Actual	157	42	30	82	192	47	30	87	0	1	668
	Target – March 2017	284	45	23	43	274	50	33	47	0	1	800
Semi-skilled	Actual	1 008	174	62	160	1 341	256	112	258	7	15	3 393
	Target – March 2017	1 374	230	68	209	1 485	322	145	348	14	21	4 216
Unskilled	Actual	1	0	0	0	4	0	0	0	0	0	5
	Target – March 2017	10	1	0	0	9	2	0	0	0	0	22
Temporary Employees	Actual	1	0	0	1	1	0	0	0	0	0	3
Grand Total	Actual	1 340	259	166	842	1 658	328	181	472	11	18	5 275
	Target – March 2017	1 979	332	140	928	1 978	405	206	472	19	24	6 480

**Table 1: SAA Employment Equity status as at 31 March 2017**

Note: Professionally qualified includes pilots; semi-skilled includes cabin crew and ground staff

## SAA's Performance against Department of Transport (DOT) Targets

SAA did not achieve all its employment equity targets across various job grades. SAA and DOT targets for top management were exceeded, those for senior management exceeded the DOT target and improved on the SAA target. DOT targets for pilots were exceeded whilst SAA's target was not met. Both the DOT's and SAA's targets for people with disabilities were not met.

## SAA's Pilots

Although SAA acknowledges that much work still needs to be done, the airline made good progress with employment equity since 1994, when for the first time in its history pilots of colour could join its ranks.

The SAA Cadet Pilot Training Programme was brought from Australia to South Africa in 2003. The programme was immensely successful and 147 cadets trained were employed by SAA. The programme was placed on hold in 2007 until 2011. Following its re-launch in 2011, a total of 88 cadets were selected between 2011 and 2015. Unfortunately, again due to financial constraints, the programme was placed on hold in January 2015 until further notice.

SAA will continue to look at ways of increasing representation of its pilot corps, although the absorption rate of young pilots into the ranks is low, due to the financial position of the company. Some progress has been made with increasing the number of women who fly for SAA, with 70 female pilots now flying for SAA. The uptake has been slow as there are not that many available female pilots in the market to start with as this male domain is slowly becoming a more attractive career option for women. HR is mindful that again due to the finances of the company SAA cannot embark on any concerted effort to increase the uptake.

		South African								Foreign National		Grand Total
		Male				Female				Male	Female	
Occupational Level		African	Coloured	Indian	White	African	Coloured	Indian	White			
Professionally qualified	Actual	65	26	47	526	7	2	4	57	1	0	735
	Target – March 2017	85	30	44	539	10	4	5	63	0	0	780

**Table 2: SAA Pilots Profile as at 31 March 2017**

As at year-end, SAA employed 36 people with disabilities, a figure which regrettably falls far short of SAA's targeted 194 employees. Representation of people with disabilities remains a challenge, however, the company is working at improving this through voluntary confidential disclosures, mindful of realities of the aviation industry where employees with special needs can do office work, work at check in counters, and airports, but some areas are excluded such as pilots and cabin crew.

		South African								Foreign National		Grand Total
		Male				Female				Male	Female	
People with disabilities – March 2017		African	Coloured	Indian	White	African	Coloured	Indian	White			
Grand Total	Actual	5	2	1	8	6	2	2	10	0	0	36
	Target – March 2017	56	14	5	30	57	12	6	14	0	0	194

**Table 3: SAA People with Disabilities Profile as at 31 March 2017**



# SHARED SERVICES (continued)



## INFORMATION TECHNOLOGY SERVICES

During the year, Information Technology Services (ITS) adopted a new operating model addressing the structure, customer engagement, and best practices' frameworks. The operating model breaks down the "silos", facilitating a broad set of performance improvements and transformation objectives. This model reduces costs, enhances performance, and will prepare SAA for next generation IT infrastructure products. The adoption of a governance forum that manages 'business demand' for new systems, digital transformation, and process automation is now in place.

PLAN	BUILD	RUN
<ul style="list-style-type: none"> <li>Align ITS Strategy to SAA Strategy</li> <li>Enterprise Architecture</li> <li>Portfolio Management</li> <li>ITS Investment Management</li> <li>Customer Relationship Management</li> </ul>	<ul style="list-style-type: none"> <li>Requirements Definition</li> <li>Developments</li> <li>Acquisition</li> <li>Resource Management</li> <li>Solution Architecture</li> <li>Project Management</li> </ul>	<ul style="list-style-type: none"> <li>ITS Service Management</li> <li>Application Maintenance</li> <li>Infrastructure Maintenance</li> <li>Customer Service</li> <li>Performance Management</li> </ul>

### Driving Innovation

ITS continued to focus on SAA's innovation and digital roadmap, with the following projects completed:

- Flysaa.com website was upgraded, redesigned, and launched with new features and functionality giving more choice to customers and encouraging more engagement. An increase in digital sales has been recorded since the launch of the transformed website
- New mobile booking app for IOS and Android devices was launched
- Pilot and cabin crew electronic flight bags were enhanced. On-time flight departure functionality for cabin crew tablets was implemented to enable cabin crew (rather than ground crew) to assist passengers
- Self-check-in, self-boarding, self-bag tagging and self-bag drop solutions were rolled out at domestic airports
- The cloud adoption was enhanced through the implementation of Office 365. Systems that are already in the cloud are Salesforce, Amadeus suite, and the private cloud storage in data centres

### Business Intelligence

Information Technology Services' focus on business intelligence and constantly improving analytics is ongoing. SAA employs operational performance analytics to monitor and improve its performance indicators, products and services. Customer surveys for passengers and Cargo customers are conducted by employing analytical tools.

The ongoing leveraging of the Salesforce capability within the Group was strengthened during the year.

Further enhancements to Salesforce were executed for the Customer Services processes. This will streamline customer complaints and queries and assist with addressing them in the most efficient and effective manner. In time, the functionality will be enhanced to perform analytics, identify trends, and improve SAA's understanding of customer behaviours.

Salesforce was rolled out in most sales regions, including the UK, USA, and Germany with implementation for SAA's local corporate office underway.

Salesforce enhancements will remain a strategic focus area in the year ahead, with specific attention to marketing, campaign management, social media integration, customer analytics, including roll-out for the Cargo customer services and sales processes.

## OPERATIONS BUSINESS PROCESS AUTOMATION

### SAP

During the year, Information Technology Services focused on optimising SAP, an enterprise resource planning system. ITS standardised all enterprise support processes on SAP and deployed SAP in most international outstations. Information Technology Services is in the process of implementing SAP in the following areas:

- SAP Success Factors Implementation (Performance Management)
- SAP Procure to Pay functional enhancement and deployment to all outstations.
- SAP Business Warehousing and Reporting
- SAP Profit and Cost Management
- SAP S4 Simple Finance

### AMOS

AMOS is an extensive programme that was implemented to automate all of the SAA Technical Maintenance, Repair and Overhaul processes (MRO), including fleet maintenance plans, spares and stock supply, and inventory management. AMOS went live on 1 April 2017.

### Cost Compression

During the year, Information Technology Services reviewed all the services from suppliers and renewed contracts where necessary. ITS achieved cost savings of R20 million as a result of contract optimisation, reduced license costs, and Type B messaging. Type B Messaging is a means of exchanging electronic messages with aviation partners and businesses operations across the globe.

### IT Governance

Information Technology Services continued to focus on good governance and information security. Information governance has become increasingly critical as the dependency on information and systems increases. Cyber security is a growing threat in aviation. Best practice information security and a sound governance framework are pivotal in addressing this risk. During the year, SAA adopted the Information Technology Services Governance Framework, aimed at achieving the following:

- Information security governance entrenched across the Group
- Strategic alignment of information security with business strategy
- Establishment of an information security action plan
- Development and implementation of information security policies and standards
- Provision of a risk management process
- Ongoing review and improvement of controls
- Compliance with regulations
- Assurance on business continuity

The Audit and Risk Committee has oversight of IT Governance on behalf of the Board.

### Key Projects for 2018

- Implementing the new Payment Card Industry security standards
- AMOS upgrade
- SAP standardisation
- Focus on website as a sales channel
- Cargo operational system/s
- Business Intelligence improvements
- IT Security and Governance
- Customer Services and analytics

## ACHIEVEMENT

### SAA TAKES BEE IT COMPANY TSHINTSHA TO THE NEXT LEVEL

SAA's Supplier Development programme has set Tshintsha Business Solution (Pty) Ltd on the path to becoming one of the SAA Group's fully fledged primary IT suppliers. In March 2017, SAA Technical completed the extensive implementation of AMOS, an industry leading MRO software system that will considerably improve efficiencies in the business.

BEE company, Tshintsha Business Solutions was brought in as part of the Supplier Development programme and partnered with Hexaware Technologies Limited for the provision of data migration services from the legacy SAA MRO system to the new AMOS MRO system. The agreement with Hexaware included the development of five Tshintsha Business Solutions resources in IT skills at the Hexaware India university. All of these resources are young graduates with very little work experience. On completion of their training, SAA's ITS advanced the five graduates by engaging Tshintsha in an IT Services contract for the provisioning of maintenance and support responsibilities on the AMOS system.

"We recognised the potential in Tshintsha as a company and worked together to develop the Company and its employees," says Phinda Ncala, SAA's Chief Information Officer. "SAA has committed to ongoing support with the award of a maintenance contract, which will position the Company for further growth."

# SHARED SERVICES (continued)



## SHAREHOLDER AND STAKEHOLDER RELATIONS

### 2016/2017 Highlights

- SAA reached over 30 000 students creating awareness of careers in aviation
- Africa's first ever green flight

### Shareholder and Stakeholder Relations

Shareholder and Stakeholder Relations provides strategic counsel to SAA to ensure that the stakeholders who drive sustainability of the Group are working together to achieve a common goal. Shareholder and Stakeholder Relations' primary focus is to meet and manage the interests, expectations, and impact of a wide array of shareholders.

SAA is a business with a high cost structure and little equity, requiring that the Group rely on borrowings to fund its working capital needs. Financial stakeholders, including the Shareholder, banks, and potential funders, are a key stakeholder group. During the year, the Board engaged these stakeholders to devise interventions that will stem the deteriorating financial status of the airline.

Strengthening government relations across the continent, and globally, is key to our business. Stakeholder Relations played a pivotal role in building relations, amongst others, with governments in West Africa in support of network initiatives as we continued to strengthen SAA's footprint in the region. Notably, SAA also took the opportunity to build on existing good relations with the Ghanaian Government and key industry stakeholders during the first anniversary of the Accra – Washington route, one of the most profitable routes in our network.

Notably, SAA participated in the Department of Transport process of reviewing the Aviation Policy. This policy was approved by Cabinet in February 2017.

## Communications

External communications continued to focus on extracting positive messaging from the business. Informing customers through the mass media on operational developments (route network changes, improved product offering, weather related flight cancellations, and operational issues) remain a core focus.

Worth noting during the review period was the operation of Africa's first-ever "green" flight, when SAA operated a flight to Cape Town on Friday 15 July, in celebration of the first biofuel flight made from tobacco plant oil extracts farmed in Limpopo. Partners in the project, such as the aircraft manufacturer Boeing, international and local producers of the tobacco plant, farmers from the area, and a large media contingent participated in this first ever "green" flight. This historic event attracted considerable media coverage across all media.

SAA received a number of awards throughout the year, the most notably being the Skytrax Awards for Best Airline in Africa which the airline has won for 14 years in a row. A number of other milestones were celebrated such as flying to Accra, Ghana for 20 years. A fully-constituted Board was appointed in September 2016. SAA welcomed the first of five new Airbus A330-300 aircraft in December, operating on routes to São Paulo, Dakar-Washington, Munich, and Accra-Washington.

In January 2017 the focus shifted to a turnaround programme named "Project Phakama", and preparing and executing a communications plan for the project.

Internal Communications continued its strategic focus of keeping employees informed and engaged during the year and updated on operational and other matters using a variety of internal communications channels. Employees participated in company events such as a Heritage Day cook-off celebrating the different cultures in South Africa.

SAA's Annual General Meeting (AGM) was concluded for FY2015 and FY2016 on 28 October 2016, followed by a media conference. The AGM was the first since the appointment of 12 new non-Executive Board members in September 2016.

## Corporate Events

Various strategic events were held at different times in the year to support business in strengthening stakeholder relations and profiling the Company and its services:

- On the first anniversary of SAA's non-stop Washington DC flight services from Accra, SAA hosted valued stakeholders and patrons in Ghana at a stakeholder's dinner to commemorate this occasion
- In commemoration of Women's Month in South Africa, the flight to Accra from Johannesburg was operated by an all-female crew, SA056 on 25 August. The crew comprised of ten female Cabin Crew members and two female Flight Deck Crew
- SAA held an internal employee event, Heritage Month Cook-off, to celebrate cultures across the country and encourage team building
- Ghana High Commission hosting of Ghana Fest. The event took place from 17 to 19 September 2016. SAA provided support in return for marketing exposure

## Sustainability

Includes compliance reporting on aspects of B-BBEE, localisation, as well as Environmental Sustainability and Corporate Social Investment. These areas, which share the common purpose of ensuring a positive impact of SAA's operations on the socio-economic and natural environment, all fall within the ambit of Shareholder and Stakeholder Relations.

## Transformation

In line with the strategic counsel function of the Shareholder and Stakeholder unit, the Group Transformation unit is positioned to provide policy direction and tools to aid execution and corporate reporting across the broader spectrum of transformation requirements. The responsibility for implementation of the specific elements comprising B-BBEE vests with the airline's operational divisions, for example, Preferential Procurement at Global Supply Chain Management (GSM) please see page 76, Employment Equity and Skills Development at Human Resources please see page 64.

The establishment of a dedicated Group Transformation function in the 2014/2015 financial year heralded the beginning of a new era for SAA. In 2015/2016 important milestones were reached that focused primarily on laying the strategic foundation and policy framework for the airline's transformation efforts. These milestones include:

- Development and Board approval of a Group Transformation Policy in tandem with an amended Supply Chain Management Policy
- In line with the Long-Term Turnaround Strategy (LTS), incorporated Environmental Sustainability (Green Procurement) in the Board approved Supply Chain Management Policy
- Board approval and roll out of the Group Corporate Social Investment Policy

- Improved reporting to the Social Ethics Governance and Nominations Committee (SEGNCO) on all the elements of the B-BBEE scorecard
- Shaping the industry transformational landscape by contributing substantially to the revision of the aviation sub-sector B-BBEE Codes, which have now been gazetted in terms of section 9(5) of the B-BBEE Act (2003) by the Minister of Trade and Industry as Notice no. 2 of 2016 Gazette no. 39744
- Attaining a 95 percent proportion of total domestic procurement spend from B-BBEE compliant suppliers as at 31 March 2016, relative to 92 percent in the previous financial year

With the policy and business process foundation in place, SAA is better positioned to integrate transformation into the airline's business infrastructure whilst taking full cognisance of its financial situation. As a Group entity, SAA is driven by a transformation philosophy that seeks to position the airline amongst the leading organs of state when it comes to viable and sustainable pursuit of the National Developmental Agenda in an innovative manner that is also informed by the Broader Public Sector Procurement Regulatory Framework.



## Corporate Social Investment

SAA's CSI activities focus on four main areas:

- Strengthening education especially around maths, science, and technology
- Response to natural disasters
- Medical emergencies that require air transportation
- Caring for our environment

Despite limited resources in the year under review, SAA has built strong partnerships and found creative ways of delivering on its responsibility to be a beneficial and caring corporate citizen and support and uplift communities.



# SHARED SERVICES (continued)

## Key Projects

### SAA VOYAGER

Members of Voyager donated Voyager Miles to the following organisations:

- Wings and Wishes, to assist with the transportation of sick people to clinics or treatment facilities.
- Reach for a Dream, to enable children with life threatening illnesses to travel and realise their dreams.
- World Wildlife Fund, to assist with the mobilisation of conservationists in their effort to conserve biodiversity assets (endangered wildlife, species, habitats, and ecosystems).

The following information is the total miles (millions) and equivalent ZAR value that each of the beneficiaries received during the financial year:

BENEFICIARY	NUMBER OF MILES	ZAR VALUE OF MILES
Wings and Wishes	3 649 821	291 986
Reach for a Dream	8 394 284	671 543
World Wildlife Fund	5 467 823	437 426
<b>TOTAL</b>	<b>17 511 928</b>	<b>1 400 954</b>

### SAA CARGO

During the 2016/2017 financial year, SAA Cargo (airfreight) contributed R174 736 to CSI projects by transporting quilts for the Love Quilt project, and by moving items such as artwork for the Nelson Mandela Foundation, donated goods, and medical supplies.

### AVIATION AWARENESS

SAA CSI, supported by SAA Technical, SAA Training and Development, SAA Cargo, and Mango participated in several career days and air shows around the country, reaching over 60 000 scholars.

A career day at Mahlenga Secondary School in Bronkhorstspuit for 500 learners, was held on 26 April 2016. SAA handed out career brochures, school back packs, beanies, scarfs, gloves, and lunch packs to all the learners. SAA donated a mobile container library to the school with 370 books. The total cost of the in-kind donation was R97 500.

SAA partnered with the Gauteng Department of Education on the opening of a specialisation school in Soweto on 9 May 2016. The Curtis Nkondo School of Specialisation, a learning facility of the future, focuses on subjects such as engineering, maths and science, information and communications technology, commerce, and entrepreneurship. SAA Technical donated a Boeing B747 jet engine to the newly-revamped school in Soweto. The engine will provide inspiration to learners and be a reminder of the kinds of careers their studies can build toward.

### OTHER PROJECTS WHERE SAA PARTICIPATED WERE:

- The Annual SA Air Force Museum Air Show on 6 and 7 May 2016 at Swartkops, Pretoria
- National Cell C Take a Girl Child to Work Day
- Morongwa Projects Careers and Education Expo in June 2016 at the Rustenburg Show Grounds
- SAA's Youth Month Career Summit at Airways Park, the Northern Cape Department of Education's Kimberley Career Awareness Expo. The exhibition at the Kimberley Air Force Base attracted around 4 000 learners from previously disadvantaged backgrounds
- TETA Career Expo in Secunda, Mpumalanga
- The Africa Aerospace and Defence Show (AAD) at the Waterkloof Military Base
- National Department of Tourism Career Awareness Exhibition Bloemfontein, Free State
- As part of the Transport Month celebrations, the South African Civil Aviation Authority, an entity of the DOT, hosted an air show at Phalaborwa Gateway Airport in Limpopo
- International Civil Aviation Day (ICAD) 2016, organised by the DOT in partnership with KwaZulu-Natal Provincial Government at Margate Airport in Margate
- The Sci-Bono Discovery Centre National Science week event held in Newtown
- SASOL National Science Week Career Exhibition in Sasolburg
- The Department of Public Enterprises' Telematics Switch-on event at Tsakane Secondary School, Tsakane, Ekurhuleni

## SAA supported the pillars of its CSI policy, with the following initiatives:

### SOCK DRIVE

SAA CSI ran a drive requesting head-office employees to donate new pairs of socks from 4 to 15 July 2016. Volunteers assisted with the packing and distribution of the socks to non-governmental organisations, Little Eden, an organisation that takes care of disabled people with mental challenges; Hospice in Orlando, Soweto – who care for sick people; and the Thembisa Old Age home. The project was a success as we were able to collect 150 pairs of socks, which were donated on Mandela Day on 18 July 2016.

### SAA IMBUMBA FOUNDATION PARTNERSHIP AND MISS SOUTH AFRICA

On 7 July, SAA activated a partnership with Richard Mabaso of the Imbumba Foundation. This partnership saw SAA CSI and SAA's Employee Wellbeing unit collecting more than 200 000 sanitary pads donated by employees and distributed to rural school learners around the country. As at 21 October 2016, SAA provided 2 650 girls with dignity packs, and continues this partnership with the aim of reaching 5 000 girls.

### READ FOR LEISURE PROGRAMME

At the commencement of the December 2016 holiday period, SAA encouraged young travellers and all scholars to read during the holidays. We participated in NaliBali reading activations to unaccompanied minors.

### CHILDREN OF FIRE

Children of Fire is an independent non-partisan organisation established to improve the lives of impoverished, badly burned children and young people through direct assistance. CSI donated Christmas gifts to 25 beneficiaries. The event took place on 15 December 2016 and gifts such as reading books, wrist watches, and portable music players were presented. About R3 000 was utilised from the CSI account to make these beneficiaries' Christmas a happier one. SAA CSI partnered with Children of Fire to provide corrective surgery for burn victims (children) who cannot afford plastic surgery.

## ACHIEVEMENT

### CARING4GIRLS CSI INITIATIVE

**SAA is always proud to celebrate Nelson Mandela International Day and supports the universal human rights and values that he stood for. We heed his call to work towards making a difference in the lives of others who are less fortunate.**

The airline fully endorses participating in the 67 minutes' of service each year on this special day. SAA is recognised as the official partner of the Nelson Mandela Foundation, collaborating on a number of educational projects as part of its Corporate Social Investment (CSI) programme.

In the year under review, we supported the annual Trek4Mandela Kilimanjaro expedition to raise funds and awareness for the Imbumba Foundation's Caring4Girls programme. Imbumba provides sanitary care for less privileged girls across South Africa, so they don't have to miss out on school because they are menstruating. Research has shown that girls from marginalised backgrounds can miss up to 50 school days each year, a fact that has an adverse effect on their educational prospects.

"We were also delighted to welcome the founder of Imbumba Foundation, Richard Mabaso, as our brand ambassador to the SAA Caring4Girls initiative in which SAA will mobilise its employees and donate sanitary pads to a school in Johannesburg," says Lusanda Jiya, SAA GM Shareholder and Stakeholder relations.



# SHARED SERVICES (continued)

## ENVIRONMENTAL SUSTAINABILITY

As a State-owned Company (SOC) tasked to deliver on the National Developmental Mandate of Government for the benefit of the citizens of South Africa, SAA has undertaken to operate in a manner that has the least amount of impact on the natural environment possible. SAA has a robust 10-year strategy to significantly reduce the impact of operations on the planet and to become a leading South African corporate in the war on climate change.

SAA has several key programmes designed to ensure that environmental sustainability is integrated throughout the airline and is a top priority.

### IATA Environmental Assessment Programme (IEnvA)

This stringent environmental assessment programme allows airlines to simplify regulatory compliance, demonstrate good governance, and ensure the highest level of environmental sustainability. SAA has been part of this process from its genesis and currently chairs the IEnvA Oversight Working Group.

The IEnvA Programme assesses environmental performance against sustainability standards across a broad range of disciplines, including, but not limited to, the management of air quality and emissions, noise, fuel consumption and operational efficiency, recycling, energy efficiency, sustainable procurement, and biofuel utilisation.

Because of the complexity and global presence of airlines, as well as the number of role-players and touch points, IEnvA implementation follows a phased approach:

#### STAGE 1

Stage 1 ensures an airline has developed the foundation and framework for its environmental management system. Stage 1 also certifies an airline has identified and complied with its environmental legal requirements.

#### STAGE 2

Stage 2, the highest level of IEnvA assessment, ensures that an airline has implemented all of the IEnvA programme standards, identified and mitigated its significant environmental impacts, and has set performance targets. Stage 2 also certifies that an airline has developed processes for monitoring and reviewing its performance against its targets and objectives, thus driving environmental efficiency.

In December 2016 SAA underwent an extensive audit and was re-awarded IEnvA Stage 2 status.

### Project Solaris – A Focus on the Future

The airline, together with partners Boeing, SunChem, and SkyNRG, launched a biofuels project, named Project Solaris, after the tobacco plant used. Developed at Marble Hall in Limpopo, the project saw the harvesting of its first crop, comprising 50 hectares of the nicotine-free Solaris tobacco plant, in December 2014.

With its seed oils processed into jet fuel, the biofuel offers a possible lifecycle reduction of up to 50 percent in carbon emissions. Beyond this advantage, an optimised supply chain could reduce overall emission by up to 75 percent. The new technology also has a broader social benefit by supporting skills transfer, job creation, and the expansion of opportunities for South Africans in the agro-innovation sector, thereby playing a role in fulfilling the airline's developmental mandate.

SAA joined the Roundtable on Sustainable Biomaterials (RSB) as a full member in 2015 and has also been elected to sit as a Chamber member of the RSB that assists in refining and developing sustainability standards for the industry. RSB approval is considered the 'gold standard' in sustainability in biomaterials.

SAA works very closely with the WWF-SA on a range of environmental sustainability projects. WWF-SA has been commissioned by the Boeing Company to undertake a comprehensive biofuel study centred on Project Solaris to understand any unintended consequences of the programme – both positive and negative.

On 15 July 2016, SAA became the first airline in Africa to undertake a sustainable biofuel flight when a flight from Johannesburg to Cape Town flew on a biofuel mix of conventional jet fuel and biofuel refined from sustainable Solaris oil.

This demonstrated SAA's commitment to sustainability and that the project is viable and fuel can be produced from the Solaris energy tobacco.

More than 1 600 passenger flights all over the world have taken place using biofuel since its approval in 2011, and SAA has joined their esteemed ranks.

Aside from the benefits to SAA in reduced emissions, the social and economic benefits to South Africa are simply astounding.

### Energy, Reduction, Recycling, Collaboration

SAA has implemented a Group-wide effort to reduce energy consumption by utilising energy-efficient technologies within all buildings and commercial properties while investigating methods of generating clean energy for the Group to further reduce the impact on the environment. This, coupled with recycling programmes and other initiatives already underway, is expected to have positive environmental and financial outcomes for SAA in the near future.

A number of strategic relationships have been formalised with key environmental stakeholders in South Africa such as the Forest Stewardship Council and the WWF-SA. These relationships help SAA to monitor and implement continuous improvements to the environmental sustainability programme ensuring that all bases have been comprehensively covered.



## LEGAL, RISK AND COMPLIANCE

### Strategic Focus

SAA is striving to create an enabling business environment with a foundation of sound risk governance that drives decision-making processes.

A disciplined and deliberate focus on sound risk management will foster a natural progression and evolution towards a maturity of risk management, which is aligned to SAA's strategic objectives.

Progress in implementing the Long-Term Turnaround Strategy (LTTS) risk strategy is reflected in the establishment of programmes such as monthly risk assessments, training and awareness to improve the quality of risk management, and the implementation of integrated risk management and governance.

### Risk

The Board is ultimately accountable and responsible for risk management. SAA has adopted an enterprise-wide approach to risk management, guided by the Group Risk Policy and Framework, which is aligned to ISO31000.

During the year there was an increased integration of the Risk Management function within SAA from various stakeholders contributing towards improving the effectiveness of enterprise risk management across the Group.

A concerted effort will be made to embed enterprise risk awareness throughout the Group. The aim is to ensure an increased focus with regular interrogation of risk management and continued introduction and/or improvement of controls where necessary.

The Group Risk Policy and Framework was reviewed during the year in consultation with the Shareholder.

The Group Risk function maintains an Annual Risk Plan, which is tabled with the Board prior to implementation. The Annual Risk Plan encapsulates risk management activities for the financial year. It is included in the Corporate Plan and is used for monitoring. A risk register was compiled, which identified required controls that are needed and actions to be taken by the risk owner. Internal Audit reviews and monitors the controls in place for effectiveness.

Legal, Risk, and Compliance are looking to improve governance by using tools that facilitate the implementation

and maintenance of governance and risk management best practices.

The procurement of the Governance, Risk, and Compliance Tool was finalised and will be implemented at an appropriate time.

### Compliance

During the year under review, compliance procedures and controls emanating from the Compliance Risk Framework as approved in the previous year, were institutionalised.

The framework addresses the material regulatory risks associated with non-compliance of regulatory requirements. Implementation of the procedures and control has been a steady process of embedding compliance and risk management into the Group.

The Group Compliance Policy was approved and adopted by the Group. A Risk-based Compliance Plan, formed by the compliance risk profile, i.e., high-risk legislation, has been developed and is being implemented. The regulatory universe was defined in the previous year, following a Group-wide engagement process in which all applicable laws were identified. This will now form the compilation of comprehensive policies to ensure compliance, which in turn will underpin monitoring and consequences for non-compliance.

A clear line of sight on international regulations is maintained and is starting to produce positive results and improve potential non-compliance to regulations. Creating early awareness of compliance requirements enables the Group to address them more proactively.

SAA continues to create awareness of the criticality of the Public Finance Management Act (PFMA) compliance, domestically and internationally. The SAA Board continues to monitor implementation of the PFMA Compliance Plan as well as the PFMA tracker used to record non-compliance.

### Legal

The Legal department is responsible for managing legal risk, including litigation risk, that SAA is faced with from time to time. This entails constant analysis and monitoring of litigious matters and provisions made for various claims. The Legal department manages the Group's legal risk with respect to contracting, litigation management, and legal advice and support.



# SHARED SERVICES (continued)



## PROCUREMENT

During the year, Procurement partly conducted a review of supply chain management function including systems, processes, and issues in performance. There are, however, still outstanding issues within the department that still need to be addressed. Some of the issues are emanating mainly from lack of resources, which lead to few staff members having to handle several complex commodities and transactions. This is risky for GSM. The other burning issue is based on the gaps in the GSM structure. Although an independent study was conducted with the final recommendations, there was never any implementation. The processes, systems and performance issues still need to be reviewed robustly.

### Procurement governance structure

SAA's Procurement Framework is governed by the Public Finance Management Act (PFMA); The National Treasury Practice Note 3 of 2016/2017 and other public procurement regulatory instruments established by National Treasury. Annual procurement plans and quarterly procurement reports are submitted to National Treasury. Currently the SCM policy is being reviewed and amended to ensure flexibility and to further strengthen procurement governance. Currently, the SCM policy has a number of gaps that should be filled as a matter of urgency to ensure efficient and consistent adherence to applicable laws. The framework entrenches the separation of power and reduces the likelihood of conflicts of interest.

## Socio-economic Procurement and Supplier Development

SAA, after the amendment of the PPPFA which came into effect on the 1 April 2017, plans to develop a Supplier Development Framework and Strategy, which will be in line with the updated SCM policy and the applicable provisions that were amended to regulate B-BBEE empowerment by State-owned Companies. SAA plans to empower the small local black-owned companies whenever is feasible to do so, in terms of Regulation 9 and 3 of the Amended PPPFA.

SAA's supplier enterprise development programme is aimed at facilitating SMMEs to compete in the relevant markets. SAA has partnered with the Industrial Development Corporation (IDC) and other developmental agencies to assist SMMEs. Furthermore, SAA is currently working closely with the Department of Trade and Industry on the Black Industrialist programme and localisation of procurement.

# DEFINITIONS

ACSA	Airports Company South Africa
ASK	Available Seat Kilometre
CAA	Civil Aviation Association
CASK	Cost per Available Seat Kilometre
CIP	Commercially Important Passenger
CRM	Customer Relationship Management
CVP	Customer Value Proposition
DOT	Department of Transport
dti	Department of Trade and Industry
EDTO	Extended Diversion Time Operations
FFP	Frequent Flyer Programme
Fifth Freedom	The right of an airline to carry revenue traffic between foreign countries as part of a service connecting the airline's own country
FTK	Freight Tonne Kilometres
GSM	Global Supply Management
IATA	International Air Transport Association
IFE	In-flight Entertainment
HR	Human Resources
IT/S	Information Technology/Services
JV	Joint Venture
King III of 2009	King Code on Corporate Governance
KPI	Key Performance Indicator
LCC	Low-Cost Carrier
LTTS	Long-Term Turnaround Strategy
MFMA	Municipal Finance Management Act
MRO	Maintenance, Repair and Overhaul
NDA	National Developmental Agenda
NIPP	National Industrial Participation Programme
OECD	Organisation for Economic Co-operation and Development
ORTIA	OR Tambo International Airport
PDP	Pre-Delivery Payment
PFMA	Public Finance Management Act, Act No 1 of 1999 (PFMA)
POPI	Protection of Personal Information
RASK	Revenue per Available Seat Kilometre
RFI	Request for Information
ROI	Return on Investment
RPK	Revenue Passenger Kilometres
SAX	SA Express
SACAA	South African Civil Aviation Authority
SLA	Service Level Agreement
SMME	Small-, Medium-, and Micro-sized Enterprises
SOC	State-owned Company
VSP	Voluntary Severance Package
WACC	Weighted Average Cost of Capital
YD	Yamoussoukro Decision, commits 44 signatory countries in Africa to deregulating air services, and promoting the opening of regional air markets to transnational competition



## ACHIEVEMENT

### **SOUTH AFRICAN AIRWAYS (SAA) HAS WON THE BEST STAFF SERVICE AWARD AT THE WORLD AIRLINE AWARDS RUN BY AVIATION EXPERTS SKYTRAX FOUR TIMES.**

"To win the Best Staff Service award shows that our customer-facing employees are our true brand ambassadors who made a difference to more than 19 million travelling customers. Feedback on excellent customer service is simply priceless," says Zuks Ramasia, SAA General Manager Operations.

These awards are based on unsolicited customer feedback which makes them the benchmark of airline excellence.

"Customer feedback is very important, and we incorporate customer feedback and insights gained therefrom into improving the overall customer experience. Winning the Best Staff Service is testimony to our commitment to reach and maintain one of our strategic objectives of Excellent Customer Service. This award celebrates the excellence of our staff," says Ramasia.





# 04

## GOVERNANCE, RISK AND COMPLIANCE

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# GOVERNANCE REPORT

## LEADERSHIP OF THE COMPANY

### SAA GROUP BOARD

As at 31 March 2017, the SAA Board comprised of the following Members:

#### Non-Executive Directors

Ms Duduzile Myeni (*Chairperson*)  
Ms Tryphosa Ramano (*Deputy Chairperson*)  
Mr Siphile Buthelezi  
Mr Peter Maluleka  
Mr Mzimkulu Malunga  
Dr Martha Mbatha  
Ms Thandeka Mgoduso  
Ms Nazmeera Moola  
Mr Akhter Moosa  
Ms Gugu Sepamla  
Ms Swazi Tshabalala  
Mr Peter Tshisevhe

#### Executive Directors

Mr Musa Zwane (*Acting Group CEO*)  
Ms Phumeza Nhantsi (*Interim Chief Financial Officer*)

The Board of the Company comprises of a mix of independent non-Executive Directors and Executive Directors. The independent non-Executive Directors are the majority. The Memorandum of Incorporation (MOI) stipulates that the SAA Board consist of a minimum of five Directors and a maximum of 15 directors who are to be appointed by the Minister of Finance in consultation with Cabinet. At year-end, the Board comprised of 12 non-Executive Directors and two Executive Directors.

The Board comprises an appropriate balance of knowledge, skills, experience, diversity and independence. This allows it to discharge its governance role and responsibilities objectively and effectively.

## KEY BOARD CHANGES DURING THE YEAR

During the year, there were a number of movements in the Board. Ms Yakhe Kwinana resigned from the Board on 23 August 2016. Subsequent to this, the Shareholder made a number of changes to the Board on 1 September 2016. Dr John Tambi was released from the Board on 1 September 2016 and the following non-Executive Director appointments were made, on the same date:

Ms Tryphosa Ramano (*Deputy Chairperson*)  
Mr Siphile Buthelezi  
Mr Peter Maluleka  
Mr Mzimkulu Malunga  
Dr Martha Mbatha  
Ms Thandeka Mgoduso  
Ms Nazmeera Moola  
Mr Akhter Moosa  
Ms Gugu Sepamla  
Ms Swazi Tshabalala  
Mr Peter Tshisevhe

## KEY ROLES IN THE BOARD

The Board derives its duties, responsibilities, and powers from the Memorandum of Incorporation (MOI), Board Charter, which are informed by the Companies Act and the Public Finance Management Act, and Shareholder's directives such as the Shareholder's Compact, amongst others.

SAA has put systems and processes in place to ensure compliance with the aforementioned documents and legislation.

According to the MOI and good corporate governance principles, an independent non-Executive Chairperson leads the entire Board and business is led by the Acting Group Chief Executive Officer (Group Acting CEO). The Board Charter goes further to separate the roles and responsibilities of the Board Chairperson and the Group Acting CEO.

All the Members of the Board have unrestricted access to the Company Secretary for guidance and any information they require. They are also entitled to seek independent professional advice, in appropriate circumstances, at the Company's expense. None of the non-Executive Directors participate in any bonus, share option, or pension scheme of the Company. Every financial year the performance of the Board and individual Directors is evaluated with the assistance of an independent organisation.

SAA continues to implement initiatives that continuously improve the effectiveness and efficiency of the Board and its structures.

In the discharge of its duties, the Board meets regularly and retains full and effective management and control over the Company. The Board serves as the focal point and custodian of corporate governance in the Company. Among its other duties, it approves and monitors the development and implementation of policies, strategies, and the annual Board Work Plan. Furthermore, the agenda of the Board and its governance structures are designed in a manner that enables focus on policies, strategy, performance monitoring, governance, and related matters.

### The Board Chairperson ("Chairperson")

The role of the Chairperson is set out in the Board Charter and includes the following:

- The Chairperson is responsible for representing the Board to the Executive Authority and indirectly to the general public for performance
- The Chairperson is responsible for setting the ethical tone for the Board and the Company
- The Chairperson is responsible for ensuring the integrity and effectiveness of the governance process of the Board
- The Chairperson acts as facilitator at meetings of the Board to ensure that no member, whether executive or non-executive, dominates discussion, that appropriate discussion takes place and that relevant opinion among members is forthcoming. The Chairperson also ensures that discussions result in concise outcomes and precise decisions to permit effective implementation
- The Chairperson maintains control of the proceedings without dominating discussions
- Between Board meetings, the Chairperson maintains an informal link between the Board and the Acting CEO

### The Group Acting Chief Executive Officer ("Acting CEO")

The role of the Acting CEO is set out in the Board Charter and includes the following:

- The Board links the Company's governance and management functions through the Acting CEO

- The task of the Acting CEO is to run the business and to implement the policies and strategies adopted by the Board
- All Board authority conferred on management is delegated through the Acting CEO, so that the authority and accountability of management is considered to be the authority and accountability of the Acting CEO so far as the Board is concerned. The Board must agree to the levels of sub-delegation immediately below the Acting CEO
- The Acting CEO acts within all specific authorities delegated to him or her by the Board and ensures that everybody within the Company operates within proper delegations of authority
- The Acting CEO, with the management team, is expected to ensure that the assets of the Company are adequately maintained and protected, and not unnecessarily placed at risk
- The Acting CEO shall ensure that employees and other parties working for the Company are not subjected to treatment or conditions that are undignified, inequitable, unfair or unsafe

## Company Secretary

The Company Secretary plays a significant role in:

- Providing governance support and guidance to the SAA Board
- Conducting the induction of new Directors
- Providing the Board with relevant information on regulatory and legislative changes
- Providing guidance to Directors individually and collectively on their duties and responsibilities to the Company
- Providing guidance and advice to the Board on matters of ethics and good governance
- Facilitating and managing communication with the Shareholder and stakeholders
- Facilitating and ensuring compliance with the Memorandum of Incorporation, King III, the Companies Act, the PFMA, and other relevant legislation

## BOARD COMMITTEES

To assist the Board and Directors in discharging their duties and responsibilities, specific responsibilities have been allocated to the Board Committees listed below, each of which has specific Terms of Reference. The Terms of Reference deal with, or provide for, issues such as the composition of Board Committees, duties and responsibilities, and their scope of authority. The Terms of Reference are reviewed annually.

### Audit and Risk Committee (ARC)

#### MEMBERS

Mr Akhter Moosa (*Chairperson*)  
 Ms Tryphosa Ramano  
 Ms Nazmeera Moola  
 Ms Swazi Tshabalala

This is a statutory committee set up in terms of section 94 (7) of the 2008 Companies Act and is primarily responsible for carrying out the duties prescribed in section 94(7) of the Companies Act and Regulation 27 of the Treasury Regulations contained in the Public Finance Management Act, 1999.

The Committee's duties include the appointment of auditors, overseeing the functions of the auditors, determining the non-audit services that the auditors may provide, reviewing the annual financial statements, accounting policies and procedures, internal controls, and the Internal Audit and Risk Management functions.

### Remuneration, Human Resources and Nominations Committee (REMCO)

#### MEMBERS

Ms Thandeka Mgoduso (*Chairperson*)  
 Ms Duduzile Myeni  
 Mr Mzimkulu Malunga  
 Mr Siphile Buthelezi

The main duties of this Committee include the formulation, development and implementation of remuneration and human capital strategies, policies, plans and programmes for the entire SAA Group. The Committee also assists the Board to ensure that its governance structures are adequately resourced and that Directors are appointed through a formal process, that new Directors undergo a formal induction process, and oversees the continuing development of Directors.

### Social, Ethics and Governance Committee (SEGC)

#### MEMBERS

Dr Martha Mbatha (*Chairperson*)  
 Mr Peter Maluleka  
 Ms Gugu Sepamla  
 Mr Peter Tshisevhe

This Committee performs duties prescribed in section 72(4) and Regulation 43(5) of the 2008 Companies Act. Its duties relate to social and economic development, good corporate citizenship, the environment, health and public safety issues, consumer relationships, labour and employment issues, transformation and compliance matters. It also assists the Board in dealing with the induction and development of Directors and other governance related matters.

### Finance (and Investment) Committee (FINCO)

#### MEMBERS

Ms Tryphosa Ramano (*Chairperson*)  
 Ms Nazmeera Moola  
 Mr Akhter Moosa  
 Ms Swazi Tshabalala

This Committee is responsible for ensuring that financial planning and investment decisions are effective, efficient, and in accordance with the organisation's strategic objectives. This Committee also ensures that there are systems and procedures in place to ensure that goods and services are procured in a manner that is cost-effective, equitable, transparent, and fair.

### Long-Term Turnaround Strategy Committee (LTTSC)

#### MEMBERS

Ms Swazi Tshabalala (*Chairperson*)  
 Mr Siphile Buthelezi  
 Mr Peter Maluleka  
 Ms Thandeka Mgoduso  
 Ms Nazmeera Moola  
 Mr Peter Tshisevhe  
 Ms Gugu Sepamla

# GOVERNANCE REPORT (continued)

The role of this Committee is to assist and advise the Board in developing, revising and monitoring the implementation of the strategy of the Company and its subsidiaries. It also assists in tracking the performance of the business in line with the strategy. In the year under review the strategy of the Company was revised and implementation is being monitored by this structure of the Board.

## **Ad-Hoc Committee on Stakeholder and Communications Management**

### **MEMBERS**

Mr Mzimkulu Malunga (*Chairperson*)  
Ms Gugu Sepamla  
Mr Peter Maluleka

This is an ad-hoc committee whose short-term mandate is to reposition SAA within South African society, preserve its brand equity, and change the negative perceptions around the airline.

## **OTHER GOVERNANCE STRUCTURES**

SAA has four wholly-owned subsidiaries; SAA Technical SOC Ltd, SAA Travel Centre SOC Ltd, Mango Airlines and Air Chefs SOC Ltd. The subsidiaries have their own separate Boards of Directors which comprise a mix of Non-Executive directors, who are mainly selected from the SAA Board of Directors as well as *Ex-officio* directors of the subsidiaries, being the respective CEOs and CFOs.

The subsidiary boards of the Company are comprised as follows:

### **SAA Technical SOC Ltd**

#### **MEMBERS**

Mr Siphile Buthelezi (*Chairperson*)  
Mr Akhter Moosa  
Ms Thandeka Mgoduso  
Mr Musa Zwane (CEO)  
Mr Dev Erriah (CFO)

SAA Technical is a Maintenance, Repair and Overhaul (MRO) subsidiary.

### **Mango Airlines**

#### **MEMBERS**

Mr Peter Tshisevhe (*Chairperson*)  
Ms Gugu Sepamla  
Ms Pumla Luhabe (*GM: Commercial*)  
Ms Marelize Labuschagne (*CFO*)

Mango Airlines provides a low cost airline carrier service.

### **Air Chefs SOC Ltd**

#### **MEMBERS**

Ms Gugu Sepamla (*Chairperson*)  
Mr Mzimkulu Malunga  
Ms Swazi Tshabalala  
Mr Martin Kemp (*Acting CEO*)  
Mr Lloyd Hudson (*CFO*)

Air Chefs is mainly an airline caterer.

### **SAA Travel Centre SOC Ltd**

#### **MEMBER**

Mr Thapelo Lehasa (*Chairperson*)

SAA Travel Centre supports SAA in the sale of passenger air and other complementary travel retail services, thus ensuring the provision of a complete travel offering to clients. A process is underway to divest the subsidiary.

## **TERMS OF REFERENCE**

To assist the Directors in discharging their duties, specific responsibilities have been allocated to the Board Committees, each of which is governed by its own Terms of Reference and Charters. The Terms of Reference deal with, or provide for, issues such as the composition of Board Committees, duties, and responsibilities of the Directors and their scope of authority. These are informed by the Board-approved Delegation of Authority Framework of the Company.

## **INDEPENDENCE OF THE BOARD**

The independence of the Board is achieved and maintained through a number of measures, including but not limited to:

- Retainer-only remuneration for non-Executive Board members, a policy that discourages members from meeting too frequently, a practice, which may compromise their independence
- Clear separation of the positions of the Acting CEO and that of the Chairperson
- In accordance with King III, Board Committees are all chaired by non-Executive Directors
- The Directors of the Board have access to independent external advice at the cost of the Company

Non-Executive Board members are appointed for a maximum fixed-term of three years, which is reviewed annually, and is limited to three terms. The length of this period is not regarded as having an impact on their independence.

## BOARD AND COMMITTEE MEETING ATTENDANCE DURING THE YEAR

The SAA Board, Subsidiary Boards and all Board Committees held their scheduled meetings during the year ended 31 March 2017 as well as special meetings to deal with urgent matters. The attendance of the members is as indicated in Tables 1 and 2 below.

**Table 1: SAA Board and Board Committee Attendance as at 31 March 2017**

MEMBER	SAA BOARD		ARC		REMCO		SESCO		FINCO		LTTSC		AD-HOC COMM ON SCM	
Number of meetings	12 (Incl. 8 Special Meetings)		7 (Incl. 3 Special Meetings)		7 (Incl. 2 Special Meetings)		4 (Incl. 1 Special Meeting)		9 (Incl. 5 Special Meetings)		6 (Incl. 5 Special Meetings)			
DC Myeni	8	Chair	–	✓	5	✓	2	Chair	2	✓				
Y Kwinana <sup>1</sup>	2	✓	2	Chair	1	✓	1	✓	1	✓				
J Tambi <sup>2</sup>	2	✓	2	✓	2	Chair	2	✓	2	Chair				
T Ramano <sup>3</sup>	9	✓	4	✓				✓	7	Chair				
S Tshabalala <sup>3</sup>	9	✓	5	✓				✓	7	✓	6	Chair		
M Mbatha <sup>3</sup>	4	✓					3	Chair						
T Mgoduso <sup>3</sup>	7	✓			4	Chair					6	✓		
P Tshisevhe <sup>3</sup>	7	✓					3	✓			5	✓		
P Maluleka <sup>3</sup>	9	✓					3	✓			6	✓	1	✓
A Moosa <sup>3</sup>	10	✓	5	Chair					7	✓				
S Buthelezi <sup>3</sup>	8	✓			4	✓					5	✓		
M Malunga <sup>3</sup>	10	✓			4	✓							4	Chair
N Moola <sup>3</sup>	7	✓	4	✓					7	✓	6	✓	1	✓
G Sepamla <sup>3</sup>	10	✓					2	✓			4	✓	3	✓
M Zwane (ACEO)	11	✓	5*		4*				2*		5*			
P Nhantsi (ICFO)	10	✓	7*						8*		3*			

**Legend:**

**REMCO** Remuneration, Human Resources and Nominations Committee

**SESCO** Social, Ethics and Governance Committee

**ARC** Audit and Risk Committee

**FINCO** Finance Committee (reconstituted to Finance and Investment Committee on 18 September 2016)

**LTTSC** Long-Term Turnaround Strategy Committee (officially reconstituted on 29 November 2016 but met on an interim basis from 3 November 2016)

**AD-HOC COMM ON SCM** Ad-hoc Committee on Stakeholder and Communications Management (Constituted on 30 September 2016)

On 7 February 2017 Mr Maluleka was appointed to this Committee and Ms Moola resigned

\* Attendance by Invitation

✓ Depicts Membership of Board and/or Board Committees

<sup>1</sup> Resigned effective 23 August 2016

<sup>2</sup> Released effective 01 September 2016

<sup>3</sup> Appointed effective 01 September 2016



# GOVERNANCE REPORT (continued)

**Table 2: Subsidiary Boards Attendance as at 31 March 2017**

MEMBER	SAAT BOARD		MANGO BOARD		AIR CHEFS BOARD		SATC BOARD	
No. of Meetings	9 (Incl. 5 Special Meetings)		3		4		2	
DC Myeni <sup>1</sup>					1	✓		
Y Kwinana <sup>2</sup>	5	Chair					2	✓
M Zwane (SAAT CEO)	8	✓						
M Kemp					4	✓		
D Erriah	9	✓						
L Hudson					4	✓		
T Lehasa							2	Chair
J Tambi <sup>3</sup>	5	✓	1	✓	2	✓	2	✓
S Tshabalala <sup>4</sup>					2	✓		
G Sepamla <sup>4</sup>					2	Chair		
S Buthelezi <sup>4</sup>	4	Chair						
A Moosa <sup>4</sup>	3	✓						
T Mgoduso <sup>4</sup>	4	✓						
M Malunga <sup>4</sup>					2	✓		

## Legend

✓ Depicts Membership of Subsidiary Board

<sup>1</sup> Resigned effective 30 September 2016

<sup>2</sup> Resigned effective 23 August 2016

<sup>3</sup> Released effective 1 September 2016

<sup>4</sup> Appointed effective 30 September 2016

## BOARD REMUNERATION

The remuneration of non-Executive Board Members is determined in accordance with the Remuneration Guidelines issued by the Department of Public Enterprises. The remuneration is made up solely of a monthly retainer, which is paid to the Board Members for the services rendered to the Company.

The details of the Board Members' remuneration for the year under review are stated in Note 48 to the annual financial statements (AFS) on page 177.

# SOCIAL, ETHICS, GOVERNANCE AND NOMINATIONS COMMITTEE REPORT

The Social, Ethics, Governance and Nominations Committee is comprised of four non-executive directors. The Committee reports to the Board on a quarterly basis highlighting areas of concern within its mandate as they arise.

The Committee considers mandatory reports from management providing detailed accounts of the Company's activities in respect of matters relating to:

- Social and economic development including the Company's standing in terms of the goals and purposes of the 10 principles set out in the United Nations Global Compact Principles and the Organisation for Economic Co-operation and Development (OECD) recommendations regarding corruption
- Black economic empowerment imperatives
- Good corporate citizenship
- Environment, health and public safety
- Consumer relationships, and compliance with consumer protection laws and
- Labour and employment matters including the Company's standing in terms of the International Labour Organisation Protocol on decent work and working conditions

The Social, Ethics, Governance and Nominations Committee is satisfied that it fulfilled its mandate in accordance with the requirements of the Companies Act during the financial year under review and continues to exercise due oversight on the airline to ensure that it remains a socially, economically and environmentally responsible and caring corporate citizen.

# REPORT OF THE AUDIT AND RISK COMMITTEE

The Audit and Risk Committee (the Committee) is pleased to present its report in respect of the financial year ended 31 March 2017 in terms of its obligations according to Paragraph 3.1.13 of the Treasury Regulations issued in terms of section 51(1)(a)(ii) of the Public Finance Management Act, Act 1 of 1999, as amended by Act 29 of 1999 (PFMA).

The Committee is independent and was appointed by the shareholders at the Annual General Meeting (AGM) held on 28 October 2016 in line with the legislative requirements.

The Committee constitutes both a statutory committee in terms of section 77 of the PFMA, Companies Act and a committee of the South African Airways SOC Limited (SAA) Board in respect of duties assigned to it by the Board.

The Committee discharges both its statutory and Board delegated responsibilities as outlined in the report below.

## COMMITTEE MEMBERS AND ATTENDANCE AT MEETINGS

The composition of the Committee complies with the requirements of section 77 of the PFMA. The Committee consists of four independent, non-Executive Directors and meets quarterly as per its Terms of Reference. The Group's Chief Executive Officer (Acting), Chief Financial Officer, Chief Information Officer and Legal Counsel attend committee meetings by invitation. Furthermore Internal Audit, external auditor and other assurance providers of the Group are invited to every meeting. Details on the number of meetings held for the year and members' attendances are set out on page 83. Biographical details of members are provided on pages 32.

## ROLES AND RESPONSIBILITIES

The Committee's roles and responsibilities include its statutory duties as per the relevant provisions of the PFMA, Companies Act, 2008 as amended and the responsibilities assigned to it by the Board. The Committee has adopted formal Terms of Reference approved by the Board, which are reviewed annually by the Committee and the Board.

The Committee has conducted its affairs in compliance with these Terms of Reference for the year ended 31 March 2017 and has discharged its responsibilities contained therein. The Terms of Reference are available on request from the Group Company Secretary whose contact details are provided on page 92 or 181 of this annual report.

The Committee is satisfied that it has complied with its legal, regulatory, and other responsibilities.

## STATUTORY DUTIES

The Committee has performed the following statutory duties:

### External Auditor

The Committee has satisfied itself that the external auditor, Auditor-General of South Africa (AGSA), was independent of the Group as set out in the PFMA, section 90(2)(c) of the Companies Act, 2008 as amended, which includes consideration of compliance with criteria relating to independence or conflicts of interest as prescribed by the Independent Regulatory Board of Auditors. Requisite assurance was sought and provided by the external auditor

that internal governance processes within the AGSA support and demonstrated their claim to independence.

The Committee, in consultation with executive management, agreed to the engagement letter, terms, audit plan and budgeted audit fees for the 2016/2017 financial year. The Committee is not aware of any significant non-audit services that the external auditor provided during the 2016/2017 financial year.

The Committee will consider the reappointment of the current external auditors at the AGM in line with the legislative requirements.

## Internal Financial Controls

An assessment of the effectiveness of the Group's system of internal controls, which includes internal financial controls, was conducted by Internal Audit during the 2016/2017 financial year. The Committee has observed that the overall control environment, including internal financial controls, has not improved during the year under review. There are still concerns with the level of internal controls within the operations where evidence of lapses of effective monitoring and enforcement by management were observed. Based on the results of the Internal Audit assessment, the information and the explanations provided by management and discussions held with external audit on their findings, the Committee concluded and advised the Board that a significant improvement in the entire control environment, including internal financial controls, is needed.

Most of the identified control weaknesses indicated that internal financial controls are largely not working as intended regarding the financial statements assertion of validity, i.e., expenditure is incurred after following approved processes and in the best interest of the Company. This is mainly regarding expenditure or purchases.

While there is a need for significant improvement, the Committee concluded that there was no complete breakdown of internal controls, including internal financial controls.

The effectiveness of the implemented measures to improve the control environment continues to be an area of focus. If the current control environment does not improve, the risk of misstatements and financial losses through fraud and corruption remains real. The Committee also noted that the effectiveness of consequence management in the organisation is less than ideal. It is expected that further action will still be taken following up on reports from a forensic investigation into procurement practices at the company.

Where irregular expenditure and fruitless and wasteful expenditure have occurred, this has been mainly a consequence of legacy ineffective tender processes, administrative delays and/or non-compliance with policies. The Committee is hopeful that areas of non-compliance are progressively eliminated towards full compliance. The Committee has resolved to ensure that the comprehensive implementation of and the adherence to the internal control environment reforms be expedited. Where there is non-compliance with policies, the Committee has committed to hold management accountable to ensure consequence management is applied.

In 2016/2017 20 audits of SAA's Information Technology (IT) environment have highlighted a number of areas for improvement. A number of internal financial controls which

could be automated are currently manual. Given the number of daily transactions processed by the organisation, this is an undesirable situation. The Committee has instructed the Chief Information Officer to develop and implement action plans to address areas needing improvement. Through the Internal Audit and IT progress reports, the Committee will monitor the implementation of the action plans. The Committee is satisfied that the Internal Audit Plan provides for sufficient IT audit coverage in the next three years.

The audits of SAA international outstations have highlighted a number of areas for improvement. Due to limited resources, a number of staff members are performing incompatible functions resulting in lack of segregation of duties. There is an urgent need for staff training on SAA procurement policy and implementation of automated procure-to-pay processes and controls.

While the Internal Audit and management reports regarding controls to curb baggage pilferage have highlighted improvements compared to previous periods, there were reported areas that still need further improvement to ensure baggage pilferage is eradicated completely. Recent internal audits have highlighted instances of excess baggage underbilling. If not addressed immediately, this might result in revenue leakage. The Committee will be monitoring the implementation of controls to curb this challenge.

The Audit of Predetermined Objectives (AOPO) is a specific focus area for the AGSA and the Committee. The Committee, however, realises that AOPO is a specialist area. Through the guidance of AGSA, the Committee commits to support the organisation in its efforts to improve controls regarding development, implementation and reporting on predetermined objectives.

## Financial statements and accounting practices

The Committee reviewed the annual consolidated financial statements of the Group and the annual financial statements of the Company as well as the accounting policies and practices of the Group and is satisfied that they comply with the relevant provisions of the PFMA and the International Financial Reporting Standards. The Committee recommended the consolidated annual financial statements of the Group and annual financial statements of the Company to the Board for approval.

## Going concern

The Committee reviewed a documented assessment by management of the going concern premise of the Group and the Company before recommending to the Board that the Group and the Company could be considered a going concern for the foreseeable future.

## Expertise and experience of the Group Chief Financial Officer and Finance Function

While the board made recommendations that the Finance function effectiveness of SAA be independently assessed, this was not possible as the Cash Conversion Office was only prepared to approve priority spending. The Committee relied on the findings made by the AG in their commentary about the skills available within this function. The Committee has taken note of the AG's report which addresses the need to ensure

that the lack of appropriate skills and competencies to ensure that accounting standards are properly applied when preparing financial statements is addressed. This includes ensuring that appropriate knowledge and skills to ensure that critical judgements and assumptions in areas including maintenance reserves, provision for lease liabilities and Voyager Miles are available to SAA. The need to ensure continuous training to address this need together with ensuring that the Finance function is appropriately capacitated will need to be addressed.

## DUTIES ASSIGNED BY THE BOARD

The Committee has performed the following duties assigned to it by the Board:

### Internal Audit

South African Airways SOC Ltd has an in-house Internal Audit function. The Committee has an oversight responsibility for the Internal Audit function. As delegated by the Board, the Committee reviews and approves the Internal Audit Charter annually. The Chief Audit Executive is appointed by the Committee and has direct access to the Committee, primarily through its Chairperson. The Internal Audit function has the responsibility of reviewing and providing assurance on the adequacy of internal controls across the Group's operations. It therefore plays an integral role in the governance of risk.

The 2016/2017 financial year was the fifth year of the SAA in-house Internal Audit function after many years of an outsourced Internal Audit function. There are still many areas of improvement that are required in order to build an effective Internal Audit function. During the 2016/2017 financial year, the Committee appointed an independent service provider to conduct the external assessment of the Internal Audit function. While the report indicated that good progress has been made in building an effective Internal Audit function, a number of areas for improvement were identified. We specifically noted an urgent need for continuous staff development and training on the development and implementation of Computer Assisted Audit Techniques (CAATS). The external assessment report recommendations will be used to identify and address areas of improvement. The Committee will continue working closely with the Chief Audit Executive to ensure that the momentum is not lost.

The Internal Audit function does not have forensic investigation skills. All forensic investigations are outsourced. The Committee has committed to identify and eradicate all fraudulent activities and elements within the organisation.

The 2016/2017 Internal Audit plan and budget were approved by the Committee timeously before the start of the financial year. Approximately 95 percent of planned audits were executed successfully. The very few internal audits not conducted were rolled over to the 2017/2018 financial year. Over and above the planned audits conducted, a number of *ad hoc* audit requests were also completed by Internal Audit.

The Committee is satisfied with the three-year rolling Internal Audit plan in that there is a clear alignment with the major risks, adequate information systems coverage and a good balance between different categories of audits, i.e., risk-based audits, mandatory and follow-up audits. The Internal Audit plan will be updated during the financial year as the need arises.



# REPORT OF THE AUDIT AND RISK COMMITTEE (continued)

## Risk Governance

The Board has assigned the oversight of the Group's Risk Management function to the Committee. The Committee fulfils an oversight function regarding risks in all areas of the Group including operations, finance, fraud, information technology and ethics. For more detail on Risk Management and regulatory compliance refer to page 75. An assessment of the effectiveness of the Group's internal controls system was conducted by Internal Audit during the 2016/2017 financial year. Based on this assessment and the ongoing oversight of the Committee, significant improvement in internal controls is needed. While there are indications of progress in this regard, there is a need for strict timelines in which the internal controls should be developed and implemented.

## Whistleblowing and ethics

The Committee evaluated the anonymous reporting (Whistleblowing) policy and fraud prevention plan. Internal Audit regularly reports to the Committee on progress made on the fraud prevention plan implementation and instances of alleged misconduct reported through the anonymous Whistleblowing line. The Committee regularly reports to the Board in this regard to consider whether instances of whistleblowing and unethical behaviour are appropriately dealt with.

Based on specific events that came to the attention of the Committee, the Committee has concluded that the current Whistleblower line is not credible.

## The quality of in-year management and monthly reports/quarterly reports submitted in terms of the PFMA

The Committee has noted the content of quarterly financial reports prepared and issued by SAA during the year under review, in compliance with the statutory reporting framework.

## Specific focus areas for 2017/2018 financial year

Whilst the significant focus will be directed towards building and maintaining an effective controls environment in the operational and financial controls environment, a specific focus will be directed towards the following areas:

- The implementation of the Long-Term Turnaround Strategy (LTTS)
- Development, implementation and reporting of predetermined objectives

- Information Technology as an enabler of the effective control environment, e.g., automation of operational and financial controls that are currently manual
- Baggage handling processes to prevent pilferage and underbilling of excess baggage
- Development and implementation of anti-corruption and fraud prevention mechanisms
- Compliance with the Supply Chain Management Policy
- Implementation of the effective combined assurance framework and reporting
- Alignment of Internal Audit and Risk Management efforts
- Control environment at certain outstations
- Development and implementation of contracts management framework

## Meeting with Internal and External Audit

During the year under review, the Committee met with External Audit and Internal Audit without management being present. The Committee also met with executive management without Internal Audit or External Audit.

## Discharge of responsibilities

The Committee agrees that the adoption of the going concern premise is appropriate in preparing the 2016/2017 annual Group financial statements, with the consideration of the factors highlighted on page 94 of the Directors' Report. The Committee has therefore recommended the adoption of the annual financial statements by the Board of Directors on 6 December 2017.

On behalf of the Audit and Risk Committee



**A Moosa**  
Chairman

South African Airways SOC Limited Audit and Risk Committee

6 December 2017





## ACHIEVEMENT

### PREPARING FUTURE EXECUTIVES

SAA recognises the talent it has within the Group, and the importance of capitalising on its people to take it forward. In August last year, SAA launched its first Succession Programme (SPP2) for Level 2 managers. This type of effective mentoring programme is crucial in fostering employee learning and development and also contributes significantly to both individual and organisational performance.

“Mentoring relationships has proven to be a significant factor in skills development, career management, succession planning, and training and development initiatives,” says Mbongeni Manqele, Acting General Manager: Human Resources.

The programme is aimed at SAA employees who have at least seven years’ work experience of which at least five are at management level and who have at least two years’ working experience with the airline on Level 2. The candidates being developed for the Level 2 Management positions have successfully completed year one of their three-year development programme as well as their annual evaluations.

Applications were received and the programme is progressing well. In March this year, a new development programme was introduced aimed at developing employees at non-management level, but who are considered to have the potential to become managers.

“Up skilling our employees and giving them the confidence in their abilities to climb their career ladders is really important to us. It is gratifying to see these people thriving and becoming the best they can be.”



# 05

## GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS

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# Statement by the Company Secretary

The Company Secretary, Ms Ruth Kibuuka, certifies that the company has lodged with the Companies and Intellectual Property Commission all such returns and notices as required for South African Airways SOC Ltd in terms of the Companies Act and that all such returns and notices are true, correct and up to date.



**Ruth Kibuuka**  
*Company Secretary*

6 December 2017

**Name:** Ms Ruth Kibuuka  
**Business address:** Airways Park, Jones Road  
OR Tambo International Airport  
Kempton Park, 1619

**Postal address:** Private Bag x 13  
OR Tambo International Airport  
Kempton Park, 1627

# Directors' Report

## INTRODUCTION

The directors have pleasure in presenting their report, which forms part of the annual financial statements of South African Airways SOC Limited (SAA) and its subsidiaries – 'the Group' – for the year ended 31 March 2017.

The financial statements set out in this report have been prepared by management in accordance with International Financial Reporting Standards (IFRS), and are based on appropriate accounting policies adopted in terms of IFRS, as detailed in Note 1 to the annual financial statements. Other than in respect of power-by-the-hour maintenance costs in respect of C-checks previously expensed now recognised as a prepayment as referenced in Note 5 to the annual financial statements there have been no changes made to the accounting policies in the year under review. The accounting policies are supported by reasonable and prudent judgements and estimates as detailed in Notes 3 and 4. The audited financial statements are submitted in accordance with the statutory requirements of the Public Finance Management Act No 1 of 1999 (PFMA) (as amended) and the South African Companies Act No 71 of 2008.

The directors confirm that the annual financial statements present fairly the state of affairs and the business of the Group, and explain the transactions and financial position of the business of the Group for the year ended 31 March 2017.

## NATURE OF THE BUSINESS AND COMPANY SHAREHOLDING

SAA is a state-owned company, incorporated in terms of the South African Airways Act No 5 of 2007 and shareholder oversight is effected via the Minister of Finance as supported by National Treasury. The airline's principal activities include providing scheduled air services for the transportation of passengers, freight and mail to international, regional and domestic destinations. In fulfilling its mission to deliver commercially sustainable world-class air passenger and aviation services in South Africa, the African continent and our tourism and trading partners. SAA proudly operates to 33 destinations across the continent and provides a competitive, quality air transport service within South Africa and to major cities worldwide.

## OVERVIEW OF OPERATING AND FINANCIAL RESULTS

Doing business at a time when the global economy is experiencing a downturn has and continues to be a challenge for the South African economy, and SAA has not remained immune to this challenge. The 2016/2017 financial year proved another challenging year for SAA with the airline recording a total comprehensive loss of R5.431 billion for the year compared to the loss of R1.497 (restated) billion in the previous year.

## FINANCIAL PERFORMANCE SUMMARISED

R million	2017	2016
Total income	30 742	30 716
Operating costs excluding translation (losses)/profits	(32 410)	(31 002)
Translation (losses)/gain	(1 092)	808
EBITDA	(2 760)	522
Finance costs	(1 630)	(1 030)
Total comprehensive loss	(5 431)	(1 497)

## FINANCIAL OVERVIEW

SAA's revenue increased by R26 million to R30.742 billion in 2016/2017. Compared to the previous year, growth in terms of passenger numbers has remained relatively flat.

The austerity measures that were implemented yielded savings of R801 million. The Group's total operating costs, of which R1.092 billion was net foreign exchange translation losses, rose by R3.308 billion (11 percent). This resulted in a R3.3 billion decrease in EBITDA for the year, translating to a loss of R2.760 billion in 2016/2017 compared to profit of R522 million in the previous year. Forex losses due to the strengthening of the rand during the year, accounted for R1.9 billion of the decline in profitability. In the year under review, translation losses of R1.092 billion were recorded compared to translation profits of R808 million in the 2015/2016 year. This is a direct result of SAA holding greater foreign currency denominated assets than liabilities. In addition, our capital structure, with a debt to equity ratio of 217 percent has resulted in increased reliance on debt raised against shareholder guarantees, which in turn resulted in increased finance costs with interest charges rising by 58 percent, to R1.630 billion in the current financial year, compared to R1.030 billion in the previous year.

## LIQUIDITY CHALLENGES

Cash flow continued to be an area of concern for the airline throughout the year. Cash generated by Operations had to be used to fund both Operating costs and investing activities, in addition, the inability of the airline to repatriate funds from certain African countries because of restrictions in those countries put a further strain on SAA's cash position. The result was a build-up of blocked funds to R1.084 billion (2016: R536 million) by financial year end. This severely impacted available working capital and the company had to access further short-term funding of R2.3 billion against existing shareholder guarantees.

Debt of R9.0 billion was scheduled to mature during the second half of the year. SAA engaged with a consortium of lenders to extend the maturity date of the debt. Except for one lender, SAA was able to successfully negotiate the extension of the maturity of R6.8 billion debt to 30 September 2018, where after certain debt was retired and the balance extended to 31 March 2019.

The company's capital structure has weakened SAA's balance sheet and SAA remains undercapitalised. This is evidenced by the impact of interest on cash generated by operations, where interest payments consume what would otherwise be positive cash flows from operating activities (see details on page 138, notes to the statement of cash flows). The matter of SAA's overgearing was raised by the Board with the Shareholder, and the Minister of Finance, in his budget speech in February 2017, committed to reviewing the situation. As a post balance sheet event, SAA received a R2.2 billion capital injection on 30 June 2017, which funded the repayment of a loan. An additional R3.0 billion was received on 30 September 2017, R1.8 billion of which was allocated to settle a loan with the balance to be used for working capital. The repayment of loans has released previously utilised shareholder guarantees and the company currently has R3.8 billion in available unutilised guarantees. The Minister of Finance announced that SAA would receive a further recapitalisation of R4.8 billion before 31 March 2018, bringing the total recapitalisation received during the 2017/2018 financial year to R10 billion. This further recapitalisation will be utilised to repay some short-term debts and for investing activities.

# Directors' Report continued

## GOING CONCERN CHALLENGE

SAA has posted losses for the past six years and has experienced shortfalls in revenue compared to budget, partly due to discontinued routes. Revenue for the past four years has been stagnant, ranging between R30.5 billion and R30.7 billion. Cost compression initiatives have yielded R4.2 billion over the past five years, the company has, however, experienced an average cash burn of R250 million on a monthly basis. Key financial ratios are sub-optimal and excessive reliance has had to be placed on short-term borrowings to fund working capital.

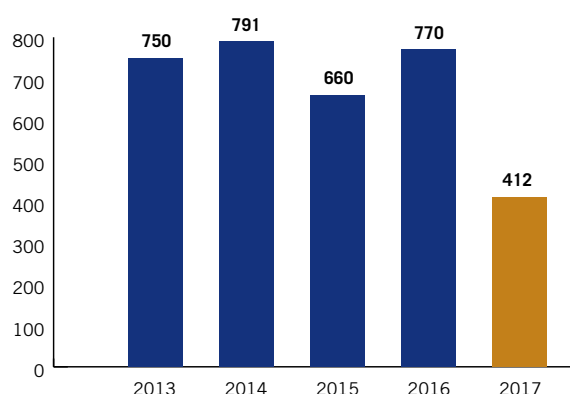
Going concern, defined as the organisation's ability to pay its debts as and when they fall due, in the 12 months from date of signature of the auditors report, has been satisfied. The post balance sheet successful conclusion of a process of engaging debt providers on the relaxation of payment terms, coupled with a capital injection of R10 billion from the shareholder, has enabled SAA to satisfy the going concern assumption and submit its annual financial statements to the auditors for auditing. More detail relating to the going concern can be found in Note 50 to the annual financial statements. The process followed to prove the going concern status has unfortunately led to a delay in both the timely submission of the annual financial statements to the auditors and to National Treasury as prescribed by s55(1)(c) and (d) of the Public Finance Management Act, as well as the submission of signed annual financial statements within six (6) months of the year end as prescribed in the Companies Act.

The Board has previously informed the Shareholder of SAA's financially distressed situation. The Board is also aware that, in terms of SAA's Memorandum of Incorporation, it may only commence business rescue proceedings with the prior written consent of the Shareholder. The Board was informed on 2 May 2017 that the Shareholder recognises that SAA's capital structure is weak and that its solvency position must be resolved. The Shareholder reaffirmed its commitment that SAA will be recapitalised during 2017 and this will be followed through with further incremental amounts from 2018 to 2021. The Shareholder expects that the commitments made to return SAA to financial stability will hold it in good stead.

## OPERATING PERFORMANCE

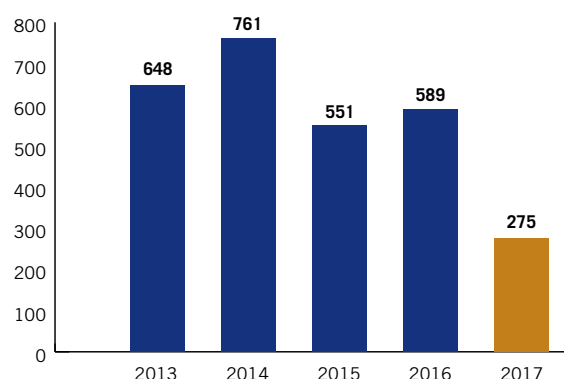
The SAA Group operations are segmented into three geographical areas and their respective contributions to the Group operating result are as follows:

### Domestic contribution



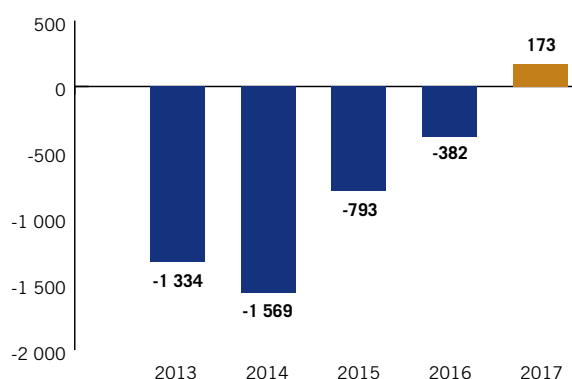
Industry-wide, demand in the domestic market remained flat with increased competition from the Low Cost Carriers (LCCs) putting pressure on fares and reducing yields. While the SAA Group is able to capitalise on the demand for LCCs via its wholly owned subsidiary, Mango, the full-service airline operation has experienced challenges in this regard. Contribution has declined by 46 percent with Mango, with the Group's LCC, contributing positively to the bottom line but the full-service airline recording negative results at this level. A further factor impacting revenue is the growth of international traffic to secondary hubs such as in KwaZulu Natal and the Western Cape, affecting domestic demand between these areas and the OR Tambo hub in Johannesburg.

### Regional contribution



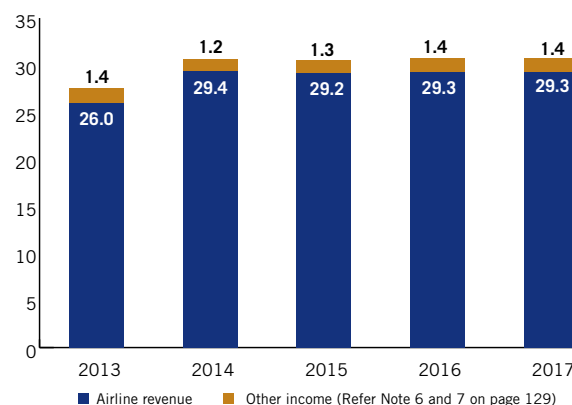
Regional markets continue to be impacted by low commodity prices, currency issues and the drop in oil prices in oil producing African economies. In addition, LCC operations on regional routes are growing, which has impacted average fares, however, the company's safety record has stood it in good stead, otherwise the impact could have been greater. The contribution from the region, while remaining positive, has dropped compared to the previous year.

### International contribution



SAA's international routes showed improvement over previous years, generating a positive contribution for the first time in six years on the back of improved average fares. SAA managed to improve year-on-year operating contributions from all international routes, other than the routes to South America, which is still experiencing financial constraints, and the UK where competition is fierce. The improvement is due to a combination of improved fares and lower operating costs, slightly diluted by a weak Rand.

## Revenue



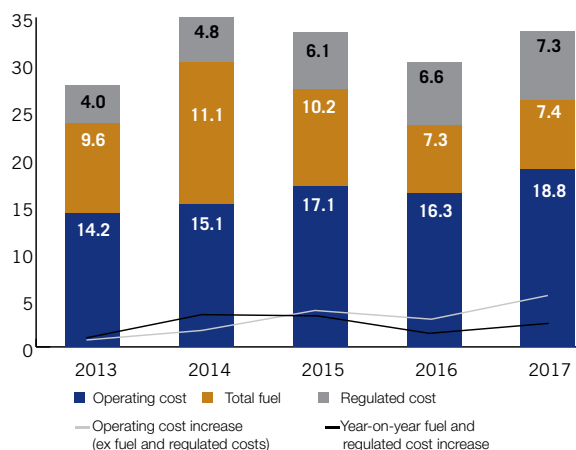
■ Airline revenue ■ Other income (Refer Note 6 and 7 on page 129)

During the financial year aggressive competition, particularly from Low Cost Carriers (LCCs), continued in all regions in which SAA operates, putting pressure on airfares. Globally, air travel is becoming more and more commoditised and Africa is no exception to this trend.

Passenger revenue grew by two percent but this must be seen in the light of a strengthening currency. While a strengthening of the rand against major currencies has a positive impact on costs, the reverse is true for revenue. In addition, the massive impact of Brexit on the value of the pound significantly impacted revenue from the UK. Cargo revenues were impacted by declining yields, during the year, due to the competitive environment.

### Operating costs

The graph depicts the operating cost and fuel cost trends over the past five financial years.

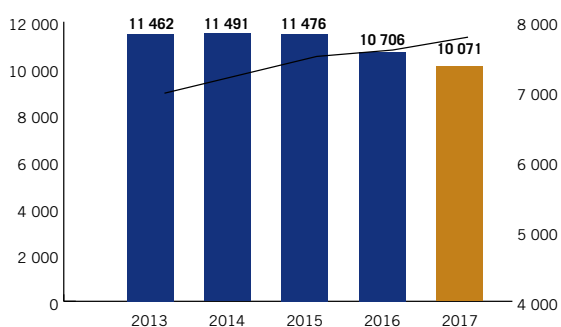


Total operating costs, inclusive of forex gains and losses, rose by R3.308 billion (11 percent) year-on-year. The ongoing focus on cost compression generated additional sustainable savings of R801 million in the year (R4.2 billion over five years).

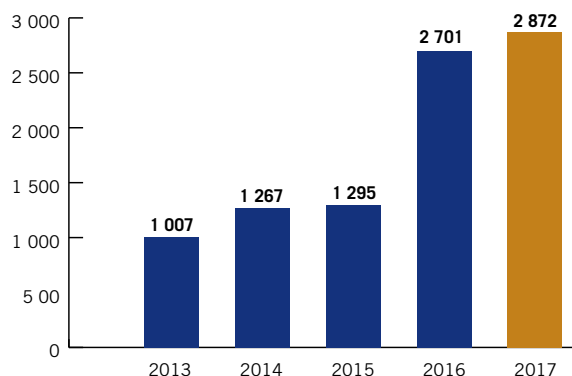
Fuel costs remained aligned with the previous year as the average Brent Crude price was two percent lower while the average value of the Rand against stronger currencies, although strengthening significantly in the latter parts of the year, was five percent weaker than the year before. SAA's fuel uplift was also one percent lower than 2015/2016.

SAA's safety record has held it in good stead over the years and the Company's commitment to maintaining high safety standards is not negotiable. Higher maintenance costs this year are activity related and include increases in the provisions for lease liabilities.

The employee cost increase of five percent is well within the wage mandate for the year. Headcount has further decreased as the moratorium on employment remains with only essential positions being filled. From the graph below the reduction in headcount of 1391 since 2014 is clearly evident.

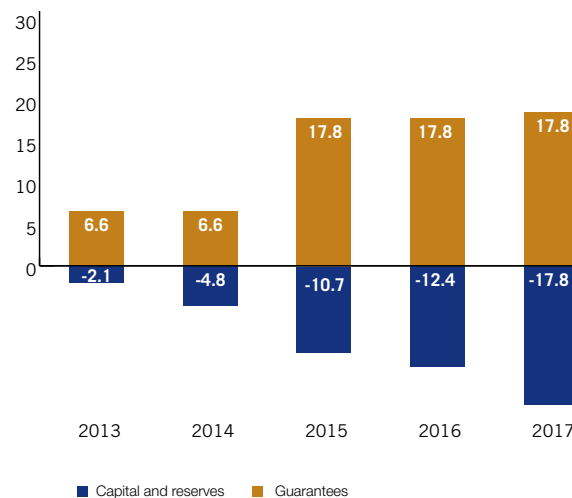


### CASH AND CASH EQUIVALENTS



While SAA ended the year with cash and cash equivalents of R2.872 billion, this position is negatively impacted by the inability to repatriate a balance of R1.084 billion cash held in countries such as Angola, that are experiencing a shortage of foreign currency due to the prevailing economic conditions in those regions. The blocked funds balance increased by R548 million during the year and SAA has had to access additional funds of R2.3 billion in the current year against shareholder guarantees to fund working capital requirements.

### EQUITY AND BORROWINGS



Historically SAA has had to operate with a weak balance sheet, which, together with the operating losses accumulated over the past six years, requires financial assistance from its shareholder. To date SAA has been granted R19.1 billion in shareholder guarantees to support the business. These guarantees are perpetual and have been used to support SAA's liquidity and solvency challenges. The cost associated with servicing this level of debt is prohibitive and the Board has made representation to the shareholder for a capital injection over a period of time. The Minister of Finance announced R10 billion in recapitalisation funding for SAA during the 2017/2018 financial year. This would address the immediate working capital needs and partially repay existing debt.



# Directors' Report continued

## CRITICAL ISSUES FACING THE AIRLINE

In addition to the primary challenges of liquidity and financial performance facing the airline, SAA continues to deal with a number of critical issues from previous years that are outlined below.

### A320 Swap transaction

SAA took delivery of three Airbus A330-300 aircraft during the financial year, with a further two aircraft due for delivery in the first quarter of 2017/2018. This brings to a close the transaction whereby SAA swapped the delivery of the final 10 Airbus A320-200 aircraft for five A330-300 aircraft. SAA will be refunded all pre-delivery payments for these aircraft.

### Competition matters

The Company has defended three actions brought against it by Comair (Ltd) and the liquidators of Nationwide. The claims

arose from the ruling of the Competition Tribunal that SAA contravened sections of the Competition Act No 89 of 1998 in regard to the provisions of its agreements with travel agents – between October 1999 and May 2001 ('the first period') and between 1 June 2001 and 31 March 2005 ('the second period'). Comair's claims, which have since been consolidated into a single action, relate to both the first and the second period, while the Nationwide claim relates to the second period only.

On 12 August 2016 the court ruled on the Nationwide litigation and awarded compensation of R104 million in favour of Nationwide. The company and the liquidators of Nationwide agreed on a full and final settlement.

In February 2017 the court ruled on the Comair litigation and awarded R1.1 billion compensation in favour of Comair. SAA has appealed the award. This matter remains outstanding.

## GROUP OPERATING DATA

The table below reflects the metrics pertinent to SAA, summarised over a five-year period.

	2017	2016	2015	2014	2013
<b>Capacity</b>					
Available seat kilometres (ASKs) (millions)	<b>31 684</b>	32 282	33 562	33 999	33 441
<b>Traffic</b>					
Revenue passenger kilometres (RPKs) (millions)	<b>23 740</b>	24 234	24 523	25 606	24 880
SAA	<b>20 678</b>	21 079	21 814	23 124	22 901
Mango	<b>3 062</b>	3 155	2 709	2 482	1 979
Revenue passengers (thousands)	<b>9 481</b>	9 700	9 181	9 332	8 846
SAA	<b>6 555</b>	6 698	6 700	7 071	7 009
Mango	<b>2 926</b>	3 002	2 481	2 261	1 837
Cargo - tonnes flown (thousands)	<b>111</b>	114	131	132	133
<b>Utilisation</b>					
Passenger load factor (%)	<b>75</b>	75	73	75	74
Yield (passenger revenue/RPKs) – passenger	<b>0,83</b>	0,79	0,79	0,78	0,72
Passenger revenue (R million)	<b>19 653</b>	19 241	19 365	20 047	18 030
Yield (revenue/ASKs) – airline revenue	<b>0,92</b>	0,91	0,87	0,86	0,78
Yield (total income/ASKs) – total income	<b>0,97</b>	0,95	0,91	0,90	0,82
<b>Unit cost (cost per available seat kilometre)</b>	<b>1,06</b>	0,94	1,00	0,91	0,83
Labour cost	<b>0,19</b>	0,18	0,17	0,15	0,14
Energy	<b>0,23</b>	0,23	0,30	0,33	0,29
Material cost	<b>0,15</b>	0,13	0,12	0,08	0,07
Other operating costs	<b>0,49</b>	0,40	0,41	0,35	0,33

## OUTLOOK 2018 ONWARDS

SAA has embarked on a five-year turnaround strategy to build a financially sustainable group. The pillars of the five-year turnaround plan include:

1. Liquidity – SAA has not been generating free cash flow for many years largely due to lack of profitability. It is important to drive key initiatives that will reduce cash burn and drive business performance
2. Balance Sheet Restructuring
3. Revenue Stimulation
4. Cost Optimisation
5. Refining the Strategy for SAA

## SHAREHOLDER'S COMPACT

Key Performance Indicators (KPIs) have been created to monitor SAA's performance against the pre-determined objectives as agreed upon between the airline and the Shareholder. These KPIs are reported on a monthly and quarterly basis, with regular feedback sessions held with the Shareholder. The KPIs are aligned with SAA's 2017 Corporate Plan.

Key Performance Area	Key Performance Indicator	FY 2017 Target	FY 2017 Actual	Explanations
<b>Support national development agenda</b>	% Procurement spend locally	>72%	82%	KPI achieved
	B-BBEE spend as a % of local eligible spend	>91%	95%	KPI achieved
<b>Achieve and maintain financial sustainability</b>	Operating cash flow	R697m	(R1.399m)	KPI not achieved
	EBITDA	R283m	(R1.664m)	KPI not achieved
	Net profit	(R1.754m)	(R5.569m)	KPI not achieved
	RASK	121c	109c	KPI not achieved
	CASK	120c	115c	KPI achieved
	Route profitability (% of routes profitable)	85%	80%	KPI not achieved
<b>Provide excellent customer service</b>	Net promoter score (referral rate)	60	29	KPI not achieved
	Customer retention	30%	29%	KPI not achieved
<b>Achieve consistent, efficient and effective operations</b>	Asset utilisation (Hours per day):			
	• Wide body daily utilisation	11:48	11:26	KPI not achieved
	• Narrow body utilisation	08:55	08:33	KPI not achieved
	Safety record	95%	100%	KPI achieved
	Audit findings (No repeat, material findings)	95%	8	KPI achieved
	On time performance	87%	87.21%	KPI achieved
<b>Foster performance excellence</b>	Productivity increase (% of headcount growth)	<=105%	93%	KPI achieved
	Compliance to performance management	98%	92%	KPI not achieved
	Management stability % (Avoidable departures/total members)	10%	4%	KPI achieved

## EVENTS SUBSEQUENT TO THE STATEMENT REPORTING DATE

### BOARD OF DIRECTORS

Subsequent to the 2017 financial year-end, Dr M Mbatha resigned as a director. On 3 November 2017 the Minister of Finance appointed six new non-executive directors namely: JB Magwaza (Chairperson), N Fakude (Deputy Chairperson), G Rothschild, A Bassa, T Mhlari and M Kingston. They replaced the following directors: DC Myeni (Chairperson), MMT Ramano (Deputy Chairperson), N Moola, SS Buthelezi, JG Sepamla and M Malunga.

### RECAPITALISATION

On 25 October 2017, the Minister of Finance announced a capital injection for the airline of R10 billion during the 2017/2018 financial year. The airline received R2.2 billion on 30 June 2017 which was used to settle short-term debt. A further R3 billion was received on 29 September 2017 of which R1.8 billion was allocated to repay debt and the remaining R1.2 billion utilised for working capital. Of the remaining R4.8 billion, R3.6 billion will be allocated to further reduce the company's short-term debt burden and R1.2 billion to be used for working capital. In total R7.6 billion will be used to repay debt.

### APPOINTMENT OF KEY PERSONNEL

Subsequent to year end the Chief Executive Officer, Chief Financial Officer and Chief Restructuring Officer were appointed.

## APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The directors confirm that the annual financial statements present fairly the financial position of the Company and the Group at 31 March 2017, and the results of their operations and cash flows for the year then ended. In preparing these annual financial statements, the directors are required to:

- Select suitable accounting policies and apply them consistently;
- Make judgements and estimates that are reasonable and prudent;

- State whether applicable accounting standards have been followed; and
- Prepare the annual financial statements on the going-concern basis unless it is inappropriate to presume that the Group and/or the company will continue in business for the foreseeable future.

The directors are of the opinion that they have discharged their responsibility for keeping proper accounting records that disclose the financial position of the Group and the Company, with the exception of matters disclosed elsewhere in the Integrated Report with respect to PFMA compliance.

The directors have every reason to believe that the Company and the Group have adequate resources in place to continue in operation for the foreseeable future, subject to the comments noted above.

The directors have continued to adopt the going-concern concept in preparing the annual financial statements. (Refer to going concern paragraph on page 94 of the Director's report and Note 50 to the annual financial statements).

The external auditors, the Auditor-General, is responsible for independently auditing and reporting on the annual financial statements in conformity with International Standards on Auditing. Their report on the annual financial statements is in accordance with the terms of the Companies Act and the PFMA, and appears on page 98.

In preparing the Company and Group annual financial statements set out of pages 106 to 180, unless otherwise disclosed, the Company and Group have complied with International Financial Reporting Standards, the Companies Act and the reporting requirements of the PFMA, and has used the appropriate accounting policies supported by reasonable and prudent judgements and estimates. The directors confirm that these financial statements present fairly the financial position of the Company and the Group at 31 March 2017, and the results of their operations and cash flows for the year then ended.

Approved by the Board of Directors and signed on its behalf by:



**JB Magwaza**  
Chairperson

6 December 2017



**V Jarana**  
Chief Executive Officer

6 December 2017

# REPORT OF THE AUDITOR-GENERAL

## TO PARLIAMENT ON SOUTH AFRICAN AIRWAYS SOC LIMITED AND ITS SUBSIDIARIES

### REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

#### Qualified opinion

1. I have audited the consolidated and separate financial statements of South African Airways SOC Limited (SAA) and its subsidiaries set out on pages 106 to 180, which comprise the consolidated and separate statement of financial position as at 31 March 2017, the consolidated and separate statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as well as the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion section of my report, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of South African Airways SOC Limited and its subsidiaries (SAA group) as at 31 March 2017, and their financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA) and the Companies Act of South Africa, 2008 (Act No. 71 of 2008) (Companies Act).

#### Basis for qualified opinion

##### Property, aircraft and equipment

3. The SAA group did not adequately review the useful lives and residual values of property, aircraft and equipment at each reporting date in accordance with the International Accounting Standards (IAS) 16, *Property, plant and equipment*. In addition, some of A-class rotables, equipment and furniture were not recorded in the financial statements, while some A-class rotables were recorded but their existence could not be verified. As a result, I was unable to obtain sufficient appropriate audit evidence to determine the correct net carrying amount of property, aircraft and equipment, depreciation and amortisation stated at R4,574 billion (2015/16: R4,474 billion), (Company: R3,114 billion; 2015/16: R3,146 billion) and R1,033 billion (2015/16: R732 million), (Company: R953 million; 2015/16: R656 million), respectively, as disclosed in notes 12 and 9 to the consolidated and separate financial statements. I was unable to confirm these physical assets by alternative means. Consequently, I was also unable to determine the impact that any adjustments would have on the loss for the period, the accumulated loss and the restatements Note 5 to the consolidated and separate financial statements.
4. The SAA group did not adequately assess property, aircraft and equipment for impairment at the reporting date in accordance with IAS 36, *Impairment of assets*. I was unable to obtain sufficient appropriate audit evidence regarding the impairment assessment, as internal controls had not been established for assets other than aircraft. Consequently, I was unable to determine the correct net carrying amount of property, aircraft and equipment and impairments by alternative means. These amounts are stated in Note 12 and 11 to the consolidated and separate financial statements as R4,574 billion (2015/16: R4,474 billion), (Company: R3,114 billion; 2015/16: R3,146 billion) and R26 million (2015/16: R158 million), (Company: R906 million; 2015/16: R98 million) respectively. I was also not able to determine the impact that any adjustments would have on the loss for the period and the accumulated loss in the consolidated and separate financial statements.

##### Inventory

5. South African Airways Technical SOC Limited (SAAT), a SAA subsidiary, measures its inventory at the lower of cost or net realisable value in accordance with the IAS 2, *Inventories*. The key assumptions that SAAT applied in calculating the net realisable value were not supported by sufficient appropriate audit evidence and there were no satisfactory audit procedures that I could perform to obtain reasonable assurance that inventory was valued correctly. In addition, the existence of some inventory could not be verified and the company did not have adequate systems to collate and maintain data for cut-off of inventory scrapping. As a result, I was unable to determine the correct net carrying amount of inventory stated as R879 million in Note 38 to the consolidated financial statements by alternative means. Consequently, I was also not able to determine the impact that any adjustments would have on the loss for the period and the accumulated loss in the consolidated financial statements. The possible effect of the matter did not impact the separate financial statements.

##### Maintenance costs

6. The SAA did not recognise maintenance costs in accordance with the IFRS Framework, *The conceptual framework for financial reporting*. Some maintenance costs were recognised in the incorrect accounting period, some were not recognised in profit or loss, some were recognised using incorrect exchange rate and some were recognised as an expense when paid in advance. The effect on the separate financial statements was that maintenance costs was understated by R282 million (2015/16: R273 million), trade and other payables was understated by R226 million (2015/16: R199 million), provisions was understated by R135 million (2015/16: R24 million), trade and other receivables was understated by R146 million (2015/16: R150 million) and fair value and translation movements was overstated by R67 million. There was a resultant impact on the loss for the period and on the accumulated loss.

##### Irregular expenditure

7. Section 55(2)(b)(i) of the PFMA requires the SAA group to include particulars of irregular expenditure in the notes to the financial statements. The SAA group did not establish adequate controls to maintain complete records of irregular expenditure. I was not able to obtain sufficient appropriate audit evidence to confirm the amount of irregular expenditure to be disclosed by alternative means. Consequently, I was unable to determine whether any adjustment to irregular expenditure, disclosed in Note 42 to the consolidated and separate financial statements, was necessary.

### Fruitless and wasteful expenditure

8. Section 55(2)(b)(i) of the PFMA requires the SAA group to include particulars of fruitless and wasteful expenditure in the notes to the financial statements. The SAA group did not establish adequate controls to maintain complete records of fruitless and wasteful expenditure. I was unable to obtain sufficient appropriate audit evidence to confirm the amount of fruitless and wasteful expenditure to be disclosed by alternative means. Consequently, I was unable to determine whether any adjustment to fruitless and wasteful expenditure, disclosed in Note 42 to the consolidated and separate financial statements, was necessary.

### Context for the auditor's opinion

9. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the consolidated and separate financial statements section of my report.
10. I am independent of the SAA group in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
11. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### Material uncertainty related to going concern

12. I draw attention to Note 50 to the separate and consolidated financial statements, which indicates that the SAA group incurred a net loss of R5,569 billion (2015/16: R1,478 billion) during the year ended 31 March 2017 and, as of that date the SAA group's liabilities exceeded its total assets by R17,801 billion (2015/16: R12,363 billion). As stated in Note 50, six consecutive years of operating losses have further eroded the capital base and this continues to impact on the entity's ability to operate in a highly demanding and competitive environment. The government has made guarantees available and, subsequent to year-end, as disclosed in Note 49, recapitalisation funds to the extent of R10 billion for utilisation by SAA. This is in line with the long-term turnaround strategy that the group has adopted to regain its solvency and self-sustainability. The history of losses, lack of capital and volatility in foreign exchange rates, along with maturing loans and working capital deficiencies, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. My opinion is not modified in respect of this matter.

### Emphasis of matters

13. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### Restatement of corresponding figures

14. As disclosed in Note 5 to the consolidated and separate financial statements, the corresponding figures for 31 March 2016 have been restated as a result of numerous errors in the consolidated and separate financial statements of the SAA group at, and for the year ended, 31 March 2017.

### Contingent liabilities

15. With reference to Note 39 to the consolidated and separate financial statements, SAA is appealing certain judgements. The ultimate outcome of the matters cannot presently be determined and the uncertain part of the litigation claim has been disclosed in the consolidated and separate financial statements.

### Other matters

16. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### Business rescue proceedings

17. SAA did not report the reasons for not adopting a resolution to file for business rescue while the company was in financial distress to the affected parties, as required by section 129(7) of the Companies Act.

### Previous year audited by a predecessor auditor

18. The financial statements of the previous year were audited by a predecessor auditor in terms of section 4(3) of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) on 30 September 2016. An unqualified audit opinion was expressed.

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

19. The board of directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the IFRS and the requirements of the PFMA and the Companies Act and for such internal control as the accounting authority determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.
20. In preparing the consolidated and separate financial statements, the accounting authority is responsible for assessing the SAA group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless there is an intention to liquidate the public entity or to cease operations, or there is no realistic alternative but to do so.



# REPORT OF THE AUDITOR-GENERAL

TO PARLIAMENT ON SOUTH AFRICAN AIRWAYS SOC LIMITED AND ITS SUBSIDIARIES (CONTINUED)

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

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

## REPORT ON THE AUDIT OF THE ANNUAL PERFORMANCE REPORT

### Introduction and scope

23. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings, but not to gather evidence to express assurance.
24. My procedures address the reported performance information, which must be based on the approved performance planning documents of the public entity. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
25. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the public entity for the year ended 31 March 2017:

OBJECTIVES	PAGE IN THE ANNUAL PERFORMANCE REPORT
Objective 1 – Support national development agenda	97
Objective 2 – Achieve and maintain financial sustainability	97
Objective 3 – Provide excellent customer service	97
Objective 4 – Achieve consistent, efficient and effective operations	97
Objective 5 – Foster performance excellence	97

26. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
27. The material findings in respect of the usefulness and reliability of the selected objectives are as follows:

### Objective 1 – Support national development agenda

#### Various indicators

28. When the indicators listed below were planned, it was not determined how the achievements would be measured and monitored as the source information and method of calculating of the achievements were not predetermined, as required by the Framework for managing programme performance information (FMPPi). Due to the lack of technical indicator descriptions that could clearly define the source information and method of calculation, I was unable to obtain sufficient appropriate audit evidence to verify the reliability of the reported achievements. I was unable to confirm whether these reported achievements were reliable by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements.

INDICATOR	STRATEGIC OBJECTIVE	REPORTED ACHIEVEMENT
% Procurement spend locally	Support national development agenda	82%
% B-BBEE spend as a % of local eligible spend	Support national development agenda	95%

## Objective 2 – Achieve and maintain financial sustainability

### Various indicators

29. When the indicators listed below were planned, it was not determined how the achievement would be measured and monitored as the source information, evidence and method of calculation of achievements was not predetermined, as required by the *FMPPI*.

INDICATOR	STRATEGIC OBJECTIVE
Operating cash flow	Achieve and maintain financial sustainability
CASK	Achieve and maintain financial sustainability
RASK	Achieve and maintain financial sustainability

### Indicator: Net profit

30. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of Net profit (R5,569 million). Due to limitations on the scope of my work during the audit of Property, Aircraft and Equipment as I was unable to determine the correct net carrying amount of property, aircraft and equipment, depreciation and amortisation, and maintenance costs. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of Net profit (R5,569 million).

### Indicator: Refinement of the LTTS

31. The indicator: Refinement of the LTTS and target of 90% was removed in the annual performance report. The indicator and target were approved and part of this financial years' shareholders compact. The change during reporting is not in line with the requirements of treasury regulation 28.2.2.
32. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of refinement of the Long Term Turnaround Strategy (LTTS) and target of 95%. This was due to a lack of proper performance management systems and processes, formal standard operating procedures, and documented system descriptions to predetermine how the achievements would be measured, monitored and reported, as required by the *FMPPI*. I was unable to confirm that the reported achievement of this indicator is reliable by alternative means. Consequently, I was unable to determine whether any adjustments are required to the reported achievement of 100%.

## Objective 3 – Provide excellent customer service

### Indicator: Net promoter score

33. The source information and method of calculating the achievement of the planned indicator were not clearly defined, as required by the *FMPPI*. In addition, the entity did not have an adequate performance management system for maintaining records to enable reliable reporting on the achievement of targets, as required by the *FMPPI*. Sufficient appropriate audit evidence could not be provided in some instances, while in other cases the evidence provided was not consistent with the recorded achievements. I was also unable to determine whether any further adjustments are required as I could not confirm the achievements by alternative means.

The planned target was changed to 60 and reported achievement 29 without the necessary approval required by Treasury Regulation 29.1.1. The planned target was 60%.

## Objective 4 – Achieve consistent, efficient and effective operations

### Indicator: Safety record

34. I was unable to obtain sufficient appropriate audit evidence for the reported target achievement of 100%. This was due to a lack of technical indicator descriptions and proper performance management systems and processes to predetermine how the achievement would be measured, monitored and reported, as required by the *FMPPI*. I was unable to confirm that the reported achievement of this indicator was reliable by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of 100%.

### Indicator: Audit findings (No repeat, material findings)

35. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of Audit findings and target of 95%. This was due to a lack of proper performance management systems and processes and formal standard operating procedures or documented systems descriptions that predetermined how the achievements would be measured, monitored and reported, as required by the *FMPPI*. I was unable to confirm that the reported achievement of this indicator is reliable by alternative means. Consequently, I was unable to determine whether any adjustments are required to the reported achievement of eight findings.
36. The indicator and target reported for internal audit findings was resolved – target 8, while the indicator and target was approved in the shareholders compact as external audit findings resolved - target 95%. This inconsistency is not in line with the requirements of Treasury Regulation 28.2.2.

# REPORT OF THE AUDITOR-GENERAL

TO PARLIAMENT ON SOUTH AFRICAN AIRWAYS SOC LIMITED AND ITS SUBSIDIARIES (CONTINUED)

## Objective 5 – Foster performance excellence

### Indicator: Management stability %

37. The source information and method of calculation for the achievement of the planned indicator was not clearly defined, as required by the *FMPPI*.

### Indicator: Compliance to performance management

38. The entity did not have an adequate performance management system to maintain records that would enable reliable reporting on the achievement of targets, as required by the *FMPPI*. Sufficient appropriate audit evidence could not be provided in some instances while in other cases the evidence provided was not consistent with the recorded achievements. This resulted in a misstatement of the target achievements reported. From the evidence provided, the projected misstatement rate was 41% for compliance to performance management principles established.

### Other matter

39. I draw attention to the matter below. My opinion is not modified in respect of this matter.

### Achievement of planned targets

40. Refer to the annual performance report on pages 96 to 97 for information on the achievement of planned targets for the year and explanations provided for the over- or under-achievement of a significant number of targets. This information should be considered in the context of the material findings reported in paragraphs 28 to 38 of this report.

## REPORT ON AUDIT OF COMPLIANCE WITH LEGISLATION

### Introduction and scope

41. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the public entity with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
42. The material findings in respect of the compliance criteria for the applicable subject matters are as follows:

### Annual financial statements, performance and annual reports

43. Financial statements were not submitted for auditing within two months after the end of financial year, as required by *section 55(1)(c)(i) of the PFMA*.
44. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and supported by full and proper records, as required by *section 55(1)(a) and (b) of the PFMA* and *section 29(1)(a) of the Companies Act*. Material misstatements of non-current assets, current assets, liabilities and disclosure items identified by the auditors in the submitted financial statements were corrected and the supporting records were provided, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

### Expenditure management

45. Effective steps were not taken to prevent fruitless and wasteful expenditure, as required by *section 51(1)(b) (ii) of the PFMA*. The expenditure disclosed does not reflect the full extent of the fruitless and wasteful expenditure indicated in the basis for qualification paragraph.
46. Effective steps were not taken to prevent irregular expenditure, as required by *section 51(1)(b)(ii) of the PFMA*. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred in the basis for qualification paragraph.

### Assets management

47. Proper control systems to safeguard and maintain assets were not implemented, as required by *sections 50(1)(a) and 51(1)(c) of the PFMA*.
48. SAA provided financial assistance to its subsidiaries without the approval of the shareholders in a special resolution and without considering the solvency and liquidity of the company, in contravention of *section 45 of the Companies Act*.

### Strategic planning and performance management

49. Procedures for quarterly reporting to the National Treasury and for facilitation of effective performance monitoring, evaluation and corrective action were not established, as required by *treasury regulation 29.3*.

### Procurement and contract management

50. I was unable to obtain sufficient appropriate audit evidence that some of the contracts were awarded according to legislation, due to the limitations placed on the scope of my work.
51. Some goods, works or service were not procured through a procurement process which is fair, equitable, transparent and competitive, as required by *section 51(1)(a)(iii) of the PFMA*.

52. Contracts and quotations were awarded to suppliers whose tax matters had not been declared by the South African Revenue Services to be in order as required by *paragraph 14 of the Preferential Procurement Regulations* and paragraph 21 of the entity's SCM policy.
53. The preferential point system was not applied in the procurement of some goods and services above R30 000, as required by *section 2(a) of the Preferential Procurement Policy Framework Act*.
54. Some contracts were awarded to, and quotations accepted from, bidders based on preferential points that were not allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.
55. Some contracts were awarded to, and quotations accepted from, bidders that had not scored the highest points in the evaluation process, as required by section 2(1) (f) of the Preferential Procurement Policy Framework Act and Preferential procurement regulations.
56. Some contracts were awarded to and quotations accepted from bidders based on functionality criteria that differed from those stipulated in the original invitation for bidding and quotations, in contravention of Preferential Procurement Regulation 4.

### Consequences management

57. I was unable to obtain sufficient appropriate audit evidence that irregular expenditure was investigated and that disciplinary steps were taken against officials who had incurred and permitted irregular expenditure as required by *section 51 (1)(e)(iii) of the PFMA*.
58. I was unable to obtain sufficient appropriate audit evidence that fruitless and wasteful expenditure was investigated and that disciplinary steps were taken against officials who had incurred and permitted fruitless and wasteful expenditure as required by *section 51 (1)(e)(iii) of the PFMA*.

### OTHER INFORMATION

59. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report which includes the director's report, the audit committee's report and the company secretary's certificate as required by the Companies Act. The other information does not include the consolidated and separate financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported on in the auditor's report.
60. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
61. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements and the selected strategic goals presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
62. I have not yet received the annual report. When I do receive this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected I may have to re-issue my auditor's report amended as appropriate.

### INTERNAL CONTROL DEFICIENCIES

63. I considered internal control relevant to my audit of the consolidated and separate financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for a qualified opinion, the findings on the performance report and the findings on compliance with legislation included in this report.

### Leadership

64. The entity experienced instability in leadership as a result of a number of suspensions and resignations in key leadership positions. Instability in leadership contributed to the overall decline in the internal control environment.
65. The lack of decisive action to mitigate emerging risks and implement timely corrective measures to address non-performance was evidenced management's failure to adequately address audit findings in a timely manner.
66. The leadership did not implement effective human resource management to ensure that resources were sufficiently skilled and that individuals were held accountable for non-performance.
67. The leadership did not adequately establish policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities.
68. The audit and risk committee (ARC) mandated implementing of IT governance, in line with good corporate governance (King). However, the absence of a technical IT representative within the ARC, as an oversight body of IT governance, inhibited effective ARC direction and oversight. As a result, the IT governance framework was not formally communicated or reviewed and updated with the evolved business processes by IT management. This resulted in a number of key IT governance initiatives (outputs of the IT governance framework) not being performed.



# REPORT OF THE AUDITOR-GENERAL

TO PARLIAMENT ON SOUTH AFRICAN AIRWAYS SOC LIMITED AND ITS SUBSIDIARIES (CONTINUED)

## Financial and performance management

69. The entity did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial reporting.
70. Regular reconciliations were not always adequately prepared for financial items during the year. This resulted in reliance on manual reconciliations at year-end. Due to the volume of manual reconciliation required, assurance processes were not implemented in time to ensure that information was accurate and complete. As a result, a number of errors were identified in the reconciliations by the external auditors.
71. Effective financial systems of internal controls and their management had not been implemented to ensure accurate financial statements. The preparation and review of the financial statements was not adequately planned, to ensure a comprehensive review of year-end adjustments and reconciliation, resulting in errors.
72. The quality of the annual performance report was poor as significant audit findings were identified in usefulness and reliability of performance indicators and targets. This is as a result of SAA who does not have a policy on performance information clarifying standard operating procedures on performance reporting as well as the lack of understanding by management of the National Treasury Framework for Programme Performance Information (FMPPi). This is also due to the lack of oversight and monitoring of performance reporting by senior leadership and poor record keeping at SAA. Controls have not been implemented to create a control environment that supports useful and reliable reporting of performance information.
73. Performance indicators and targets on the corporate plan, shareholders compact and annual performance report were not adequately reviewed by leadership to ensure compliance with FMPPi before approval and submission for audit. The staff within the reporting units also does not fully understand the performance information requirements as set out in the FMPPi.
74. The asset management unit is under staffed; as a result, basic disciplines such as physical verifications and conditional assessment of the assets are not performed periodically to ensure that the assets are accounted for in accordance with the applicable financial reporting framework.
75. The accounting system used to maintain spare parts during the year under review is outdated (MEMIS). A new system (AMOS) became live on 1 April 2017 and the unreliable data from the old system was migrated to the new system. These spare parts could not be uniquely identifiable in the accounting system (SAP) used by SAA for financial reporting purposes. Reconciliation between the two accounting systems resulted in differences on a quarterly basis and the reconciling items are not adequately investigated.
76. The design and implementation of formal controls over information technology systems were not adequate to ensure the reliability of the systems and the availability, accuracy and protection of information.

## Governance

77. Although a risk assessment framework was in place, management did not adequately monitor and report on the progress of controls implemented, or respond to new risks that may arise. Therefore, the entity's risk management processes were not considered adequate or effective.
78. The leadership did not act on a timely basis on the internal audit unit's recommendations or reports, thus negatively affecting its effectiveness as an assurance provider to the leadership of the entity.

## OTHER REPORTS

79. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the public entity's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

## Investigations

80. Independent consultants investigated allegations of irregular procurement and contract management practices and other misconduct. The reports were finalised after year-end and leadership is considering the recommendations made in these reports and the outcomes could result in disciplinary proceedings against the parties concerned.

*Auditor-General*

Pretoria  
8 December 2017



## ANNEXURE – AUDITOR-GENERAL'S RESPONSIBILITY FOR THE AUDIT

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the consolidated and separate financial statements, and the procedures performed on reported performance information for selected objectives and on the public entity's compliance with respect to the selected subject matters.

## FINANCIAL STATEMENTS

2. In addition to my responsibility for the audit of the consolidated and separate financial statements as described in the auditor's report, I also:
  - identify and assess the risks of material misstatement of the consolidated and separate financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
  - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the public entity's internal control.
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors, which constitutes the accounting authority.
  - conclude on the appropriateness of the board of directors, which constitutes the accounting authority's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the SAA and its subsidiaries ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor's report. However, future events or conditions may cause a public entity to cease to continue as a going concern.
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
  - obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

## COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

3. I communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting authority that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and here applicable, related safeguards.

## GROUP AND COMPANY STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 March 2017

R MILLION	Notes	GROUP			COMPANY		
		2017	2016 Restated	2015 Restated	2017	2016 Restated	2015 Restated
<b>Total income</b>		<b>30 742</b>	30 716	30 492	<b>28 319</b>	28 383	28 219
Airline revenue	5 & 6	<b>29 273</b>	29 273	29 160	<b>26 789</b>	26 755	26 775
Other income	5 & 7	<b>1 469</b>	1 443	1 332	<b>1 530</b>	1 628	1 444
<b>Operating costs</b>		<b>33 502</b>	30 194	33 407	<b>31 278</b>	27 889	31 015
Aircraft lease costs	5 & 8	<b>3 103</b>	3 132	2 756	<b>3 022</b>	3 078	2 711
Accommodation and refreshments		<b>1 413</b>	1 279	1 040	<b>1 715</b>	1 566	1 416
Commissions and network charges	5	<b>1 894</b>	1 829	1 848	<b>1 798</b>	1 730	1 763
Electronic data costs		<b>680</b>	657	543	<b>666</b>	636	530
Fuel and other energy costs		<b>7 368</b>	7 344	10 217	<b>6 738</b>	6 673	9 449
Employee benefit expenses	5 & 29	<b>6 131</b>	5 831	5 698	<b>4 013</b>	3 819	3 758
Maintenance costs	5	<b>4 895</b>	4 167	3 912	<b>6 198</b>	5 368	4 866
Navigation, landing and parking fees		<b>2 429</b>	2 384	2 207	<b>2 161</b>	2 108	1 980
Fair value and translation movements	5 & 40	<b>1 092</b>	(808)	36	<b>1 081</b>	(834)	22
Other operating costs	5	<b>4 497</b>	4 379	5 150	<b>3 886</b>	3 745	4 520
<b>Operating (loss)/profit before interest, tax, depreciation and amortisation</b>	8	<b>(2 760)</b>	522	(2 915)	<b>(2 959)</b>	494	(2 796)
Depreciation and amortisation	5 & 9	<b>(1 033)</b>	(732)	(825)	<b>(953)</b>	(656)	(754)
Impairments	5 & 11	<b>26</b>	(158)	(1 773)	<b>(906)</b>	(98)	(1 514)
Net gain/(loss) on disposal of property, aircraft and equipment	10	<b>7</b>	(6)	(9)	<b>18</b>	(2)	(3)
<b>Operating loss</b>		<b>(3 760)</b>	(374)	(5 522)	<b>(4 800)</b>	(262)	(5 067)
Finance costs	5 & 19	<b>(1 630)</b>	(1 030)	(634)	<b>(1 663)</b>	(1 063)	(667)
Interest income	20	<b>40</b>	26	26	<b>12</b>	11	16
<b>Loss before taxation</b>		<b>(5 350)</b>	(1 378)	(6 130)	<b>(6 451)</b>	(1 314)	(5 718)
Taxation	34	<b>(219)</b>	(100)	(12)	<b>–</b>	–	–
<b>Loss for the year</b>		<b>(5 569)</b>	(1 478)	(6 142)	<b>(6 451)</b>	(1 314)	(5 718)
<b>Other comprehensive income/(loss):</b>							
Remeasurements of defined benefit plans*		<b>(11)</b>	(6)	(6)	<b>(11)</b>	(6)	(6)
Gains/(impairments) on property revaluations*		<b>173</b>	(18)	48	<b>67</b>	(18)	(47)
Change in value of available-for-sale financial asset**		<b>6</b>	5	3	<b>6</b>	5	3
Taxation related to components of other comprehensive income	34	<b>(30)</b>	–	(25)	<b>–</b>	–	–
<b>Other comprehensive income/(loss) for the year net of taxation</b>	41	<b>138</b>	(19)	20	<b>62</b>	(19)	(50)
<b>Total comprehensive loss</b>		<b>(5 431)</b>	(1 497)	(6 122)	<b>(6 389)</b>	(1 333)	(5 768)
<b>Total comprehensive loss attributable to:</b>							
Owners of the parent		<b>(5 431)</b>	(1 497)	(6 122)	<b>(6 389)</b>	(1 333)	(5 768)
		<b>(5 431)</b>	(1 497)	(6 122)	<b>(6 389)</b>	(1 333)	(5 768)

\* This item may not subsequently be reclassified to profit or loss

\*\* This item may subsequently be reclassified to profit or loss

## GROUP AND COMPANY STATEMENT OF FINANCIAL POSITION

as at 31 March 2017

		GROUP			COMPANY		
R MILLION	Notes	2017	2016 Restated	2015 Restated	2017	2016 Restated	2015 Restated
<b>Assets</b>							
<b>Non-current assets</b>							
Property, aircraft and equipment	5 & 12	4 574	4 474	4 587	3 114	3 146	3 233
Intangible assets	5 & 37	244	210	171	224	188	155
Investments in subsidiaries	43	–	–	–	336	1 032	1 122
Deferred tax asset	35	33	281	380	–	–	–
Amounts receivable from subsidiaries	5 & 44	–	–	–	–	178	178
Non-current prepayments	5 & 13	1 777	1 880	2 184	1 710	1 880	2 184
Retirement benefit asset	30	26	38	38	26	38	38
		6 654	6 883	7 360	5 410	6 462	6 910
<b>Current assets</b>							
Inventories	38	879	727	725	101	101	121
Amounts receivable from subsidiaries	5 & 44	–	–	–	1 212	1 298	1 262
Derivatives	14	34	84	171	34	84	171
Trade and other receivables	5 & 21	5 333	6 725	4 998	5 225	6 640	4 832
Current tax receivable	36	16	16	–	–	–	–
Investments	46	29	23	18	29	23	18
Cash and cash equivalents	5 & 22	2 872	2 701	1 295	2 484	2 044	519
		9 163	10 276	7 207	9 085	10 190	6 923
Non-current assets classified as held-for-sale and assets of disposal groups	5 & 12	99	99	99	99	99	99
<b>Total assets</b>		<b>15 916</b>	<b>17 258</b>	<b>14 666</b>	<b>14 594</b>	<b>16 751</b>	<b>13 932</b>
<b>Equity and liabilities</b>							
<b>Equity</b>							
<b>Equity attributable to equity holders of the parent</b>							
Share capital	47	12 892	12 892	12 892	13 126	13 126	13 126
Reserves	5	946	815	953	446	391	529
Accumulated Loss	5	(31 640)	(26 071)	(24 593)	(32 127)	(25 676)	(24 362)
		(17 802)	(12 364)	(10 748)	(18 555)	(12 159)	(10 707)
<b>Non-current liabilities</b>							
Long-term loans	5 & 24	7 804	7 810	4 984	7 800	7 800	4 969
Retirement benefit obligation	30	121	128	91	121	128	91
Provisions	5 & 15	2 328	2 305	2 143	2 314	2 291	2 135
Deferred revenue on ticket sales	16	668	633	715	668	633	715
Other long-term liabilities	31	316	63	63	253	–	–
		11 237	10 939	7 996	11 156	10 852	7 910
<b>Current liabilities</b>							
Derivatives	14	1	4	346	1	4	346
Current tax payable	36	–	–	3	–	–	–
Trade and other payables	5 & 25	8 285	6 797	7 145	7 786	6 352	6 668
Provisions	5 & 15	1 096	1 399	511	995	1 390	511
Current portion of long-term loans	24	8 140	6 248	4 638	8 133	6 243	4 634
Deferred revenue on ticket sales	16	4 275	4 212	3 590	4 058	4 069	3 415
Bank overdraft	5 & 23	684	23	1 185	663	–	1 155
Amounts payable to subsidiaries	45	–	–	–	357	–	–
		22 481	18 683	17 418	21 993	18 058	16 729
<b>Total liabilities</b>		<b>33 718</b>	<b>29 622</b>	<b>25 414</b>	<b>33 149</b>	<b>28 910</b>	<b>24 639</b>
<b>Total equity and liabilities</b>		<b>15 916</b>	<b>17 258</b>	<b>14 666</b>	<b>14 594</b>	<b>16 751</b>	<b>13 932</b>



## GROUP AND COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2017

R MILLION	Share capital	Other reserves*	Revaluation reserve	Shareholder restructuring fund	Total share capital and reserves	Accumulated loss	Total equity
<b>GROUP</b>							
<b>Balance at 1 April 2015 – Restated**</b>	12 892	(97)	857	193	13 845	(24 593)	(10 748)
Total comprehensive income for the year	–	(1)	(18)	–	(19)	(1 478)	(1 497)
Voluntary severance packages paid	–	–	–	(119)	(119)	–	(119)
<b>Balance at 1 April 2016 – Restated**</b>	12 892	(98)	839	74	13 707	(26 071)	(12 364)
Total comprehensive income for the year	–	(5)	143	–	138	(5 569)	(5 431)
Voluntary severance packages paid	–	–	–	(7)	(7)	–	(7)
<b>Balance at 31 March 2017</b>	<b>12 892</b>	<b>(103)</b>	<b>982</b>	<b>67</b>	<b>13 838</b>	<b>(31 640)</b>	<b>(17 802)</b>
<b>COMPANY</b>							
<b>Balance at 1 April 2015 – Restated***</b>	13 126	(97)	433	193	13 655	(24 362)	(10 707)
Total comprehensive income for the year	–	(1)	(18)	–	(19)	(1 314)	(1 333)
Voluntary severance packages paid	–	–	–	(119)	(119)	–	(119)
<b>Balance at 1 April 2016 – Restated***</b>	13 126	(98)	415	74	13 517	(25 676)	(12 159)
Total comprehensive income for the year	–	(5)	67	–	62	(6 451)	(6 389)
Voluntary severance packages paid	–	–	–	(7)	(7)	–	(7)
<b>Balance at 31 March 2017</b>	<b>13 126</b>	<b>(103)</b>	<b>482</b>	<b>67</b>	<b>13 572</b>	<b>(32 127)</b>	<b>(18 555)</b>
<b>Notes</b>	47	41	12				

\* Other reserves relate to amounts recognised in other comprehensive income, except for any changes in the revaluation surplus/deficit, which are recognised in the revaluation reserve.

\*\* The opening accumulated loss at 1 April 2015 of R24 352 million was restated to R24 593 million. Similarly, the opening accumulated loss balance at 1 April 2016 of R25 935 million was restated to R26 071 million. This was due to prior year restatements as detailed in Note 5.

\*\*\* The opening accumulated loss balance at 1 April 2015 of R24 246 million was restated to R24 362 million. Similarly, the opening accumulated loss balance at 1 April 2016 of R25 691 million was restated to R25 676 million. This was due to prior year restatements as detailed in Note 5.

## GROUP AND COMPANY STATEMENT OF CASH FLOWS

for the year ended 31 March 2017

		GROUP			COMPANY		
R MILLION	Notes	2017	2016	2015	2017	2016	2015
			Restated*	Restated*		Restated*	Restated*
<b>Cash flows from operating activities</b>							
Cash generated from/(used in) operations	18	219	117	(1 593)	425	195	(1 731)
Interest income		40	26	26	12	11	16
Finance costs		(1 630)	(1 030)	(634)	(1 663)	(1 063)	(667)
Realised gains/(losses) from derivative financial instruments		116	(40)	205	116	(40)	205
Currency and jet fuel option premium spend		(136)	(158)	(173)	(136)	(158)	(173)
Tax paid	36	(8)	(36)	(40)	(7)	(16)	(16)
<b>Net cash outflow from operating activities</b>		<b>(1 399)</b>	<b>(1 121)</b>	<b>(2 209)</b>	<b>(1 253)</b>	<b>(1 071)</b>	<b>(2 366)</b>
<b>Cash flows from investing activities</b>							
Additions to property, aircraft and equipment	12	(997)	(714)	(4 341)	(885)	(658)	(4 250)
Proceeds on disposal of property, aircraft, equipment and intangible assets	12 & 37	45	44	2 781	43	36	2 784
Additions to intangible assets	37	(44)	(13)	(32)	(39)	(1)	(26)
<b>Net cash outflow from investing activities</b>		<b>(996)</b>	<b>(683)</b>	<b>(1 592)</b>	<b>(881)</b>	<b>(623)</b>	<b>(1 492)</b>
<b>Cash flows from financing activities</b>							
External borrowings raised		2 257	6 000	4 342	2 257	6 000	4 341
External borrowings repaid		(371)	(1 564)	(442)	(367)	(1 560)	(438)
Movement in bank overdraft		661	(1 162)	(120)	663	(1 155)	(140)
<b>Net cash inflow from financing activities</b>		<b>2 547</b>	<b>3 274</b>	<b>3 780</b>	<b>2 553</b>	<b>3 285</b>	<b>3 763</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>							
Cash and cash equivalents at the beginning of the year		152	1 470	(21)	419	1 591	(95)
Foreign exchange effect on cash and cash equivalents		2 701	1 295	1 267	2 044	519	564
		19	(64)	49	21	(66)	50
<b>Cash and cash equivalents at the end of the year</b>		<b>2 872</b>	<b>2 701</b>	<b>1 295</b>	<b>2 484</b>	<b>2 044</b>	<b>519</b>

\* Some prior year items above have been restated due to other restatements made throughout the annual financial statements. Please refer to Note 5 for more details regarding prior year restatements.

# NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS

for year ended 31 March 2017

## 1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

### STATEMENT OF COMPLIANCE

The Group and company annual financial statements of South African Airways SOC Limited (the Group and the company), have been prepared in accordance with International Financial Reporting Standards (IFRS), the Companies Act No 71 of 2008 and the Public Finance Management Act No 1 of 1999 (as amended) (PFMA). National Treasury has exempted major public entities under Schedule 2 of the PFMA from preparing financial statements according to SA GAAP (Generally Accepted Accounting Practice) in terms of Treasury Regulation 28.1.6 and section 79 of the PFMA until further notice. The Group and company annual financial statements are presented in South African rand, which is the Group's reporting currency, rounded to the nearest million. The Group and company annual financial statements have been prepared on an historical cost basis, except for measurement at fair value of certain financial instruments and the revaluation of land and buildings as described further in the accounting policy notes below.

The financial statements are prepared on the basis of the accounting policies applicable to a going concern. This basis presumes that the company will continue to receive the support of its Shareholder and that the realisation of assets and settlement of liabilities will occur in the ordinary course of business. Full disclosure relating to the directors' going concern assessment can be found in Note 50.

These accounting policies are consistent with the previous period.

The principal accounting policies adopted in the preparation of these annual financial statements are set out below:

### BASIS OF CONSOLIDATION

#### Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

#### Goodwill

Goodwill represents the excess of the cost of acquisition over the net fair value of the identifiable assets, liabilities and contingent liabilities recognised at the acquisition date. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

On disposal of a subsidiary, the attributable goodwill is included in the determination of the profit or loss on disposal.

#### Foreign currency transactions

For the purpose of the Group and company annual financial statements, the results and financial position of each entity are expressed in South African rand, which is the presentation currency for the Group and company annual financial statements.

In preparing the annual financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the ruling rates of exchange, which are taken as being the International Air Transport Association (IATA) five day average rate applicable to the transaction month. At each statement of financial position date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the statement of financial position date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items and on the retranslation of monetary items are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income.

For the purpose of presenting Group and company annual financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in rand using exchange rates prevailing on the statement of financial position date. Income and expense items (including comparatives) are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the five day average exchange rates are used. Exchange differences arising, if any, are classified as other comprehensive income and transferred to the Group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period.

#### Revenue

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

## 1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Rendering of services

Revenue from the rendering of services is recognised by reference to the stage of completion of the transaction at the end of the reporting period. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the entity;
- The stage of completion of the transaction at the end of the reporting period can be measured reliably;
- The costs incurred for the transaction and the costs to complete the transaction can be measured reliably, recognised by reference to the stage of completion of the transaction at the end of the reporting date.

Revenue consists of passenger airline revenue, freight and mail revenue, revenue from technical services, Voyager income, commission received, the release of unutilised air tickets and fuel levies.

Passenger air ticket and cargo air waybill sales, net of discounts, are initially recognised as current liabilities in the Air Traffic Liability account and only recognised as revenue when the transportation service is provided. Commission costs are recognised in the same period as the revenue to which they relate.

Air tickets that remain unutilised after a 12-month period in respect of international and regional tickets or a six-month period in respect of domestic tickets are released to revenue. The estimate is based on historical statistics and data that takes into account the terms and conditions for various ticket types.

### Frequent flyer programme

SAA operates a frequent flyer programme, SAA Voyager, which provides a variety of awards to programme members based on a mileage credit for flights on SAA and other airlines that participate in the programme. Members can also accrue and redeem miles with non-airline programme partners. Cargo users accumulate equivalent awards relating to freight transported.

Consideration for the provision of Voyager awards consists of annual participation fees, service fees and the sale of miles to Voyager airline and non-airline partners, as well as a portion of the ticket price of SAA flights sold to Voyager members. The participation fees and service fees are recognised as revenue immediately when they become due and payable. The deferred revenue method has been adopted for revenue recognition relating to the sale of airline miles to airline and non-airline partners. Income arising from the sale of miles to airline and non-airline partners is accounted for as deferred revenue in the statement of financial position and only recognised as revenue when SAA fulfils its obligations by supplying free or discounted goods or services on redemption of the accrued miles.

SAA accounts for award credits issued on SAA flights as a separately identifiable component of the sales transaction in which they are earned. The consideration in respect of the initial sale is allocated to award credits based on their fair value and is accounted for as a liability (deferred revenue) in the Group and company statement of financial position. The fair value is determined with reference to the value of the awards for which miles have been redeemed during the last 12 months and is not adjusted for future changes in fair value. Revenue is recognised on unredeemed miles when they expire.

### Technical maintenance

Revenue from maintenance services rendered external to the Group on a power by the hour basis is recognised as revenue when services are rendered based on maintenance events. Revenue is deferred until the maintenance event takes place. Other maintenance services rendered on a time and material basis are recognised as revenue when services are rendered by reference to the stage of completion of the transaction.

### Commission received

SAA provides a ticketing service to other airlines. Commission is earned on interline transactions but is only recognised as revenue when the passenger utilises the ticket.

### Other income

Other income relates to income received from handling fees, income from leased assets and other recoveries and are recognised in profit or loss in the period in which they arise.

### Interest income

Interest earned on arrear accounts and bank/other investment balances are accrued on a time proportionate basis.

## MAINTENANCE COSTS

### Owned aircraft

Major airframe and engine overhaul expenditure, including replacement spares and labour costs, is capitalised and amortised over the expected life between major overhauls. All other replacement spares and other expenditure relating to maintenance of owned fleet assets is charged to profit or loss on consumption or as incurred.

Major overhauls are considered to be those programmes that extend the useful life of the asset or increase its value. Major maintenance events typically consist of more complex inspections and servicing of the aircraft.

### Leased aircraft

Provision is made for aircraft maintenance expenditure which the Group incurs in connection with major airframe and engine overhauls on operating leased aircraft, where the terms of the lease imposes obligations on the lessee to have these overhauls carried out. Provision for expenditure to meet the contractual return conditions is also included. The actual expenditure on the overhauls is charged against the provision when incurred. Any residual balance is transferred to profit or loss. All other



## NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

### 1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### Leased aircraft (continued)

replacement spares and other expenditure relating to maintenance of leased fleet assets is charged to profit or loss on consumption or as incurred.

#### Power by the hour

Expenditure for engine overhaul costs covered by power by the hour (fixed rate charged per hour) maintenance agreements is charged to profit or loss over the life of the contract.

#### Sundry return costs

With regards to leased aircraft, where the Group has an obligation to return the aircraft with adherence to certain maintenance conditions, provision is made during the lease term. The provision is based on the present value of the expected future costs of meeting the maintenance return conditions. The present value of non-maintenance return conditions is provided for at the inception of the lease and an equal asset is capitalised and depreciated over the lease term.

#### Maintenance reserve: Group and Company as lessee

Maintenance reserves are payments made to certain lessors in terms of the aircraft lease contract. The lessors are contractually obligated to reimburse the Group and company for the qualifying maintenance expenditure incurred on aircraft if the Group and company has a maintenance reserves credit. Maintenance reserves are recognised as an asset. The recoverability of the asset is assessed annually against the entity's ability to claim against future maintenance events. Where it is deemed that the entity will be unable to claim for a future maintenance event, the maintenance reserve payments are expensed accordingly.

Reimbursement amounts are only recognised as assets in respect of maintenance costs to be reimbursed if the work has been performed and it is probable that the amounts claimed are recoverable in terms of the aircraft lease contract and based on the available balance in the maintenance reserve account.

The reimbursement amounts claimed from lessors in respect of qualifying maintenance are transferred to receivables until actually received.

#### Maintenance reserve: Company as lessor

Where the company leases aircraft to a subsidiary company, appropriate maintenance payments are included in the lease agreements. The maintenance amounts received by the company are recognised as revenue as and when they become due from the lessee.

The provision for maintenance claim liability, limited to the maintenance reserves credits, is raised by the company on receipt of a valid claim for reimbursement in respect of qualifying maintenance costs by the lessee.

### TAXATION

Income tax expense represents the sum of the current tax and deferred tax.

#### Current tax

The current tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the Group and company statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

#### Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Group and company financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises on the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

#### Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income, in which case, the current and deferred tax are also recognised in other comprehensive income. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

**1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****PROPERTY, AIRCRAFT AND EQUIPMENT****Owned assets****Land and buildings**

Land and buildings are shown at fair value based on valuations performed by external independent valuers, less subsequent accumulated depreciation and accumulated impairment losses for buildings. Valuations are performed with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any accumulated depreciation and accumulated impairment losses at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

**Aircraft**

Aircraft are stated at cost less accumulated depreciation and any recognised impairment losses. Cost includes buyer furnished equipment (BFE) costs and is net of manufacturer's discount/credits, with subsequent additions to or renewal of exchangeable units also stated at cost. Cost includes any fair value gains or losses resulting from hedging instruments used to hedge the acquisition of the underlying asset, which qualify for hedge accounting. Where there are deferred payment terms, the cost is the cash price equivalent.

**Other property, machinery and equipment**

All other property, machinery and equipment, including unit leading devices, are stated at cost less accumulated depreciation and any recognised impairment losses. Equipment includes major spare parts and standby equipment to the extent that SAA is expected to use them in more than one accounting period.

**Depreciation**

Depreciation is not provided on assets in the course of construction or on land. All other property and equipment are depreciated by recording a charge to profit or loss, computed on a straight-line basis so as to write off the cost of the assets less the anticipated residual value over their estimated useful lives.

When parts of an item of property, aircraft and equipment have different useful lives, those components are identified and the useful lives and residual values are estimated for each component. Where the useful lives for the identified components are similar, those are aggregated and depreciated as one component by applying the useful life relevant to that significant component. During the current financial year, two previously leased second-hand aircraft were purchased. These were not componentised as their intended useful lives were similar.

The residual value, depreciation method and the useful life of each asset or component thereof is reviewed at least at each financial year end and any difference is treated as a change in accounting estimate in accordance with IAS 8.

The following annual rates are applicable:

Asset class	Useful lives
Aircraft and simulators	5 to 20 years
Buildings and structures	10 to 50 years
Furniture	10 years
Office equipment	5 to 10 years
Computer equipment	3 to 5 years
Light motor vehicles	5 years
General purpose vehicles	10 years
Containers	5 years
Machinery	15 to 20 years
Cabin loaders	10 to 20 years
Leased assets	Shorter period of lease or useful life.
Restoration assets	Shorter period of lease or useful life.

**Residual values**

Residual values of all asset classes represent the most reliable estimate of the amount that will be recovered when the asset is fully depreciated. Residual values are reviewed annually and any difference is treated as a change in accounting estimate in accordance with IAS 8.

**Capital work in progress**

Capital work in progress are assets (tangible and intangible) being constructed over periods of time in excess of the present reporting period. These assets often require extensive development, installation work or integration of various assets, and contrast with simpler assets that are ready for use when acquired, such as motor vehicles and equipment. Capital work in progress are not depreciated as the airline is not currently deriving any economic benefits from them.

**Exchangeable units**

Exchangeable units are high value components that are classified as equipment and are depreciated accordingly. The cost of repairing such units is charged to profit or loss as and when incurred.

**Disposal of assets**

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss when the risks and rewards related to the assets are transferred to the buyer.

## NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

### 1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### LEASEHOLD IMPROVEMENTS

##### Land and buildings

Improvements to leased premises are recognised as an asset and depreciated over the period of the lease term, or the useful life of the improvements, whichever is shorter.

##### Aircraft

In cases where the aircraft held under operating leases are fitted with BFE at the cost of the company, the BFE acquired is recognised as an asset (leasehold improvements) and depreciated over its useful life or over the period of the lease term, whichever is shorter.

##### Accounting for leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

##### Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the Group and company statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Manufacturers' credits that represent a portion of manufacturers' cash incentives which have not been taken into account in determining the lease rentals payable on operating leased aircraft are initially recognised as liabilities and are amortised on a straight-line basis over the lease term to reduce the net rental expense payable.

Initial rentals represent amounts paid to the lessor in advance. These are recognised as prepaid lease payments at the commencement of the lease and are amortised on a straight-line basis over the lease term.

##### Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the company's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

#### NON-CURRENT ASSETS HELD-FOR-SALE

Non-current assets and disposal groups are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held-for-sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held-for-sale are measured at the lower of their previous carrying amount and fair value less cost of disposal.

#### INTANGIBLE ASSETS

##### Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

##### Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

## 1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Amortisation

Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets assessed to have indefinite useful lives and goodwill are not amortised but are tested for impairment at each reporting period.

The intangible assets with finite useful lives are amortised from the date they are available for use applying the following rates:

Intangible asset class	Useful lives
Application software	3 to 5 years
Internet booking site	5 years

### Derecognition of intangible assets

An intangible asset is derecognised on disposal or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Any subsequent expenditure on capitalised intangible assets is capitalised only when it meets the recognition criteria of an intangible asset. All other expenditure is expensed as incurred.

### IMPAIRMENTS

#### Intangible assets

Intangible assets are tested for impairment whenever there are circumstances that indicate that the carrying value may not be recoverable. Intangible assets that have not yet been brought into use or have an indefinite useful life, including goodwill, will be reviewed for impairment at least on an annual basis.

#### Tangible assets

The carrying amounts of the Group's tangible assets, which mainly consist of property, aircraft and equipment, are reviewed at each statement of financial position date to determine whether there is any indication that those assets have been impaired. If there is any indication that an asset may be impaired, its recoverable amount is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

#### Calculation of recoverable amount

The recoverable amount is the higher of the asset's fair value less cost of disposal and its value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

#### Reversal of impairments

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount. The increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately. An impairment loss in respect of goodwill is not reversed in subsequent periods.

### PRE-DELIVERY PAYMENTS (PDPs) AND OTHER AIRCRAFT DEPOSITS

PDPs paid to the manufacturers of aircraft in terms of the contractual arrangements governing the purchase of aircraft are initially recognised as part of capital work in progress at the cost of the consideration delivered. In the event that a decision is taken that it is likely that the underlying aircraft will not be purchased at the expected delivery date, but will be leased under an operating lease, then the related PDPs will be remeasured to the present value of the consideration expected to be received from the ultimate lessor.

This consideration will, if it is denominated in a foreign currency, be translated to the measurement currency by applying the exchange rate ruling at the reporting date.

In calculating the value of the future consideration receivable, any benefit or loss that will result as a consequence of the Group having secured the aircraft at the original contractual price as against the fair value of the aircraft at the date of delivery to the lessor, which is taken into consideration if the future operating lease payments form part of the consideration receivable. Any loss arising on remeasurement is classified as an impairment.

Once the operating lease agreement related to the aircraft has been formally concluded, the receivable amount so arising is transferred from capital work in progress to refundable deposits.

Where an aircraft is delivered under short-term bridging finance, pending the finalisation of an operating lease, the related PDPs and the final instalment paid to the manufacturer are again remeasured at the present value of the expected consideration from the lessor in the same manner as outlined above. Under these circumstances the full consideration receivable is classified under refundable amounts.



## NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

### 1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised when a Group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

#### Financial assets

Financial assets are classified into the following specified categories: financial assets “at fair value through profit or loss” (FVTPL), “held-to-maturity” investments, “available-for-sale” (AFS) financial assets and “loans and receivables”. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, such as trade receivables, loans originated by the Group, fixed deposits and defeasance deposits.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment. Interest income is recognised by applying the effective interest rate method, except for trade and other receivables when the recognition of interest would be immaterial.

#### Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or that are not classified as at fair value through profit or loss, loans and receivables or held-to-maturity investments.

This category includes listed and unlisted investments, except for investments in subsidiaries.

After initial recognition, available-for-sale financial assets are measured at fair value with unrealised gains or losses being recognised directly in other comprehensive income.

With disposal of financial assets, the accumulated gains and losses recognised in other comprehensive income resulting from measurement at fair value are recognised in profit or loss. If a reliable estimate of the fair value of an unquoted equity instrument cannot be made, this instrument is measured at cost less any impairment losses.

Dividends received from these investments are recognised in profit or loss when the right of payment has been established. Fair value is determined as stated in Note 28.1.

#### Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest rate method less any impairment.

#### Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held-for-trading. These mainly include derivative financial assets and commodity derivatives. A financial asset is classified as held-for-trading if it has been acquired principally for the purposes of selling in the near future, is a derivative that is not designated and effective as a hedging instrument and it is part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking.

After initial recognition, these financial assets are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest on the financial asset. Fair value is determined as stated in Note 28.1.

#### Derivative financial instruments

The Group uses derivative financial instruments, such as foreign currency contracts, currency options, commodity derivative swaps, options and collars, to manage its risks associated with foreign currency fluctuations and underlying commodity fluctuations. The Group does not hold or issue derivative financial instruments for trading purposes. Derivative financial instruments are classified as held-for-trading financial assets or financial liabilities.

The Group's derivatives normally have a maturity period of 12 months or less and are therefore presented as current assets or current liabilities.

Embedded derivatives in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

#### Investments

Investments in subsidiaries are recognised on a trade date basis and are initially recognised at cost. After initial recognition, the company's investments in subsidiaries will continue to be held at cost and are reviewed annually for impairment.

## 1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, cash in banks, short-term deposits, bank overdrafts and highly liquid investments and are initially measured at fair value and subsequently measured at amortised cost.

### Hedge accounting

The Group does not hedge account as its hedging activities do not meet the criteria for hedge accounting as set out in IAS 39.

### Effective interest rate method

The effective interest rate method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest rate method basis for debt instruments other than those financial assets classified as at FVTPL.

### Impairment of financial assets

Financial assets, other than those at FVTPL are assessed for indicators of impairment at each statement of financial position date. Financial assets are impaired where there is objective evidence that, because of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For categories of financial assets, such as trade receivables, impairment is assessed on an individual basis. Any assets that are assessed not to be impaired on an individual basis are subsequently assessed for impairment on a portfolio basis. The assets are grouped in a portfolio, taking into consideration similar credit risk characteristics. The objective evidence of impairment for a portfolio of receivables normally includes the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of between 60 to 90 days, depending on the defined credit risk assessment for each type of debtor. Any dispute of amount receivable from the debtor is also considered as part of impairment indicators. For more details refer to Note 21.

For loans and deposits carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced using an allowance account. When a trade receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

### Derecognition

A financial asset is derecognised when the Group loses control over the contractual rights of the asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished. When available-for-sale assets and assets held-for-trading are sold, they are derecognised and a corresponding receivable is recognised at the date the Group commits the assets. Loans and receivables are derecognised on the day the risks and rewards of ownership are transferred.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (eg when the Group retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Group retains control), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

### Financial liabilities and equity instruments

Debt and equity instruments are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangement.

# NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

## 1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The Group's equity instruments comprise company shares issued. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

If the entity reacquires its own equity instruments, these instruments are classified as treasury shares and any consideration paid is recognised as a direct reduction from equity. The gains or losses on purchase, sale, issue or cancellation of treasury shares are recognised directly in other comprehensive income.

### Financial liabilities

Financial liabilities primarily include trade and other payables, bank overdrafts, interest bearing borrowings from financial institutions denominated in local and foreign currency and other liabilities such as finance lease obligations.

Other financial liabilities are subsequently measured at amortised cost, with the exception of finance lease obligations, which are measured in terms of IAS 17 Leases (refer to "Accounting policy on leases").

Financial liabilities at fair value through profit or loss are classified as held-for-trading. A financial liability is classified as held-for-trading if it is a derivative not designated and effective as a hedging instrument. Financial liabilities held-for-trading are subsequently stated at fair value, with any gains and losses recognised in profit or loss. Fair value is determined in a manner described in Note 28.1.

### Interest bearing loans and borrowings

All loans and borrowings are initially recognised at fair value, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement.

### Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

## INVENTORIES

Inventories are stated at the lower of cost and net realisable value. In general, the basis of determining cost is the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. The inventory held by the Group relates mainly to maintenance inventories, other consumables and work in progress.

Redundant and slow moving inventories are identified on a regular basis and written down to their realisable values. Consumables are written down with regard to their age, condition and utility.

## PROVISIONS

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision will be reassessed at each statement of financial position date taking into account the latest estimates of expenditure required and the probability of the outflows. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability except those that have been taken into account in the estimate of future cash flows. Where discounting is used, the increase in a provision due to the passage of time is recognised as an interest expense.

A provision is used only for the expenditures for which the provision was originally recognised.

### Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as a provision. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

### Reimbursements

Where the Group expects a provision to be reimbursed by a third party, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

### Restructuring provision

A restructuring provision is recognised when the Group has a present obligation (legal or constructive) because of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The obligation to restructure arises when management has made a decision to restructure and a detailed formal plan for restructuring is put in place, an announcement to stakeholders is made and valid expectation to those affected has been raised that it will be carried out or has started to be implemented before the statement of financial position date.

## 1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### Provision for lease liabilities

For aircraft held under operating lease agreements, SAA is contractually committed to either return the aircraft in a certain condition or to compensate the lessor based on the actual condition of the airframe, engines and life-limited parts upon return. In order to fulfil such conditions of the lease, maintenance in the form of major airframe overhaul, engine maintenance checks, and restitution of major life-limited parts is required to be performed during the period of the lease and upon return of the aircraft to the lessor. The estimated airframe and engine maintenance costs and the costs associated with the restitution of major life-limited parts are accrued and charged to profit or loss over the lease term for this contractual obligation.

### EMPLOYEE BENEFITS

#### Pension benefits

The Group operates two defined benefit funds as well as various defined contribution funds. The assets of each scheme are held separately from those of the Group and are administered by the schemes' trustees. The funds are actuarially valued by professional independent consulting actuaries.

The Group's contributions to the defined contribution fund are charged to profit or loss during the year in which they relate.

The benefit costs and obligations under the defined benefit fund are determined separately for each fund using the projected unit credit method. The benefit costs are recognised in profit or loss. Remeasurements of defined benefit plans are recognised in the period in which they occur outside of profit or loss in other comprehensive income.

Past service costs are recognised immediately in profit or loss.

When the benefits of a plan are improved, the portion of the increased benefit relating to past services by the employees is recognised as an expense immediately in profit or loss. The amount recognised in the statement of financial position represents the present value of the defined benefit obligation reduced by the fair value of plan assets.

#### Post-retirement medical benefits

Post-retirement medical benefits are provided by the Group to qualifying employees and pensioners. The benefit medical costs are determined through annual actuarial valuations by independent consulting actuaries using the projected unit credit method.

#### Short and long-term benefits

The cost of all short-term employee benefits, such as salaries, bonuses, housing allowances, medical and other contributions, is recognised during the period in which the employee renders the related service.

The Group's net obligation in respect of long-term service benefits, other than pension plans, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. This obligation is calculated using the projected unit credit method and is discounted to its present value and the fair value of any related assets is deducted.

#### Termination benefits

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it has demonstrated its commitment either to terminate the employment of current employees according to a detailed formal plan without the possibility of withdrawal or to provide termination benefits because of an offer made to encourage voluntary redundancy.

#### Fruitless, wasteful and irregular expenditure

When confirmed, irregular expenditure will be recorded in the notes to the annual financial statements. The amounts to be recorded in the notes must be equal to the value of the irregular expenditure incurred, unless it is impracticable to determine the value thereof. Where such impracticability exists, the reasons thereof will be recorded in the notes. Irregular expenditure will be removed from the notes when it is either (a) condoned by the National Treasury or the relevant authority; (b) it is transferred to receivables for recovery; or (c) it is not condoned and is irrecoverable.

A receivable related to irregular expenditure is measured at the amount that is expected to be recovered and must be derecognised when the receivable is settled or subsequently written-off as irrecoverable.

#### Related parties

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or jointly control the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control.

Related parties also include key management personnel who are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of the Group.

#### Comparative figures

The comparative information, with the exception of the restatements as detailed in Note 5, is consistent with the prior year.

## NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

### 2. NEW STANDARDS AND INTERPRETATIONS

#### 2.1 STANDARDS AND INTERPRETATIONS EFFECTIVE AND ADOPTED IN THE CURRENT YEAR

In the current year, the entity has adopted the following new standards and interpretations that are effective for the current financial year. The new standards and interpretations effective and adopted in the current year, did not have a significant impact on the Group.

Standard/interpretation	Effective date: years beginning on or after	Summary of changes
Amendments to IAS 1 – <i>Presentation of financial statements, disclosure initiative</i>	1 January 2016	Clarifies the guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.
Amendments to IAS 16 – <i>Property, plant and equipment</i> and IAS 38 – <i>Intangible assets, on depreciation and amortisation</i>	1 January 2016	In this amendment the IASB has clarified that the use of revenue based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.
Amendments to IAS 27 – <i>Separate financial statements on equity accounting</i>	1 January 2016	In this amendment the IASB has restored the option to use the equity method to account for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.
IFRS 5 – <i>Non-current assets held-for-sale and discontinued operations</i>	1 January 2016	This is an amendment to the changes in methods of disposal – Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment to IFRS 5 clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.
IFRS 7 – <i>Financial instruments: disclosures</i>	1 January 2016	Applicability of the offsetting disclosures to condensed interim financial statements. The amendment removes the phrase 'and interim periods within those annual periods' from paragraph 44R, clarifying that these IFRS 7 disclosures are not required in the condensed interim financial report. However, the Board noted that IAS 34 requires an entity to disclose '[...] an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period'. Therefore, if the IFRS 7 disclosures provide a significant update to the information reported in the most recent annual report, the Board would expect the disclosures to be included in the entity's condensed interim financial report.
IAS 19 – <i>Employee benefits</i>	1 January 2016	Discount rate: regional market issue – The amendment to IAS 19 clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.



## 2. NEW STANDARDS AND INTERPRETATIONS (CONTINUED)

### 2.2 STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE

The Group has chosen not to early adopt the following standards and interpretations which have been published and are only mandatory for the Group's accounting periods beginning on or after 1 April 2017. The standards and interpretations included below only include those that the directors believe may have an impact on the Group, the quantum of which cannot be reliably estimated.

Standard/interpretation	Impact	Effective date: years beginning on or after
Amendments to IAS 7 – <i>Statement of cash flows, as a result of the disclosure initiative</i>	Additional disclosures relating to the statement of cash flows.	1 January 2017
Amendments to IAS 12 – <i>Recognition of deferred tax assets for unrealised losses</i>	The amendments clarify the existing guidance under IAS 12. The underlying principles for the recognition of deferred tax assets do not change.	1 January 2017
IFRS 9 – <i>Financial Instruments, finalised version incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition</i>	No significant impact expected.	1 January 2018
IFRS 15 – <i>Revenue from contracts with customers</i>	Reassessment of revenue and interest recognition specifically relating to long-term contracts and impacts timing of profit recognition on long-term contracts within the statement of profit or loss and other comprehensive income.	1 January 2018
IFRIC 22 – <i>Foreign currency transactions and advance consideration</i>	The amendments are intended to eliminate diversity in practice, when recognising the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration received or paid in foreign currency.	1 January 2018
IFRS 16 – <i>Leases</i>	The accounting for leases which will result in the recognition of the obligation and asset for long-term leases.	1 January 2019

## 3. CRITICAL JUDGEMENTS IN APPLYING THE ENTITY'S ACCOUNTING POLICIES

### USEFUL LIVES, DEPRECIATION METHOD AND RESIDUAL VALUES OF PROPERTY, AIRCRAFT AND EQUIPMENT

The Group assesses the useful lives, depreciation method and residual values of property, aircraft and equipment at each reporting date. During the year it was determined that the remaining useful lives and residual values of owned aircraft be amended as detailed below. The useful lives, residual values and the depreciation method of all other classes of assets remained unchanged as they were deemed to be appropriate.

#### CHANGE IN ESTIMATE

Included in the loss before tax is a change in estimate relating to depreciation charge of aircraft. The useful lives and the residual values of aircraft were reassessed during the current year due to changes in the fleet plan. It was determined that there was only a maximum of four years remaining for the A340-600 fleet and six months for the A340-300 fleet as at 31 March 2017. Management also determined the residual values of the A340-300 fleet to R335 million (previously Rnil) due to the change in fleet plan. The effect of the change in estimate is an increase in the loss before tax of R2 million. The carrying value of these aircraft would have been R2.155 billion using the original estimates, the current carrying value of these aircraft using the amended estimate is now R2.153 billion at year end. The cumulative effect of the change on the future periods will be a decrease in the depreciation charge of R142 million.

#### MAINTENANCE RESERVES EXPENSED

Maintenance reserves prepayments unutilised at the expiry of the lease term are not refundable. The Group estimates the unutilised balance that is likely to remain at the end of the lease term based on planned events and assumed consumed life of leased aircraft and their components between year end and the lease expiry date and uses this estimate as the basis for expensing maintenance reserve payments. The recognition of the maintenance reserves assets and values thereof are subject to critical judgements followed by management. The difference between the net maintenance reserve and the claimable major maintenance is the consumed life. The critical judgements that management had to make are with regards to how much of the maintenance reserves outstanding will not be utilised by the end of the lease term and how much will be claimed from lessors. To do this management needed to estimate when the next event will happen in order to determine if the next event is likely to happen after the end of the lease term. Management generally looks at the scheduled events and the time elapsed since the last event to estimate when the next event will happen.

## NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

### 3. CRITICAL JUDGEMENTS IN APPLYING THE ENTITY'S ACCOUNTING POLICIES (CONTINUED)

#### PROVISION FOR LEASE LIABILITIES

For aircraft held under operating lease agreements, the Group is contractually committed to either return the aircraft in a certain condition or to compensate the lessor based on the actual condition of the airframe, engines and life-limited parts upon return. In order to fulfil such conditions of the lease, maintenance in the form of major airframe overhaul, engine maintenance checks, and restitution of major life-limited parts is required to be performed during the period of the lease and upon return of the aircraft to the lessor. The estimated airframe and engine maintenance costs and the costs associated with the restitution of major life-limited parts, are accrued and charged to profit or loss over the lease term for this contractual obligation.

The contractual obligation to maintain and replenish aircraft held under operating leases exists independently of any future actions within the control of the Group. These elements of accounting policies involve the use of estimates in determining the quantum of both the initial maintenance asset and/or the amount of provisions to be recorded and the respective periods over which such amounts are charged to profit or loss. The major sources of estimation uncertainty, regarding the calculation of the provision include the price at which the life limited parts will be replaced based on current prices, the quantity of the limited life parts that will need to be replaced, the cost of the next event regarding the major maintenance and, the expected timing of the next event. The occurrence of major events is either time or activity based therefore the time that has passed or activity that has been consumed since the last event also required management's judgement. At the inception of the lease, management need to estimate the cost of returning the aircraft to the condition required by lessors including the costs of painting the aircraft and replacing certain components which affect both the restoration asset and the related provision. In making such estimates, the Group has primarily relied on its own and industry experience, industry regulations and recommendations from manufacturers, however, these estimates can be subject to revision, depending on a number of factors, such as the timing of the planned maintenance, the ultimate utilisation of the aircraft, changes to government and international regulations and increases or decreases in estimated costs. The Group evaluates its estimates and assumptions in each reporting period and, when warranted, adjusts its assumptions, which generally impact maintenance and depreciation expense in the statement of profit or loss and other comprehensive income on a prospective basis.

### 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below:

#### FREQUENT FLYER PROGRAMME

SAA accounts for award credits as a separately identifiable component of the sales transaction in which they are granted. The consideration in respect of the initial sale is allocated to award credits based on their fair value and is accounted for as a liability (deferred revenue) in the Group and company statement of financial position.

Estimation techniques are used to determine the fair value of award credits. The estimation technique applied considers the fair value of a range of different redemption options by reference to their cash selling prices, such as airfares on different routes and in different classes of travel as well as flight upgrades and partner rewards. A weighted average value per mile is derived based on past experience of the mix of rewards selected by Voyager members. A 12-month historical trend forms the basis of the calculations. The number of award credits not expected to be redeemed by members is also factored into the estimation of the fair value.

Professional judgement is exercised by management due to the diversity of inputs that go into determining the fair value of the award credits and due to the possibility that the trend may change over time. A one percent variance in the weighted average fair value for all the buckets of outstanding miles equates to a movement of R11.6 million in the outstanding mileage liability in the statement of financial position.

The carrying amount of long-term frequent flyer deferred revenue at year end was R668 million (2016: R633 million) and the carrying amount of short-term frequent flyer deferred revenue was R493 million (2016: R578 million). Please refer to Note 16 for more details regarding the frequent flyer deferred revenue.

#### ALLOWANCE FOR SLOW MOVING, DAMAGED AND OBSOLETE INVENTORIES

An allowance to write-down inventories to the lower of cost or net realisable value. Management have made estimates of the selling price and direct costs to sell on certain inventory items. The write-down is included in Note 11.

### 5. RESTATEMENTS

The Group and company annual financial statements have been prepared in accordance with International Financial Reporting Standards. The basis is consistent with the prior year except for restatements reflected below.

#### RECLASSIFICATIONS

During the current financial year, management decided to change certain general ledger account classifications in the annual financial statements in order to achieve a more accurate presentation in the Group and company annual financial statements. As a result of these reclassifications, the prior years were restated retrospectively in terms of IAS 8 – Changes in Accounting Policies, Accounting Estimates and Errors. The annual financial statement line items affected by these reclassifications were property, aircraft and equipment, amounts receivable from subsidiaries, trade and other receivables, cash and cash equivalents, subordinated loan guaranteed by government, long-term loans, trade and other payables, provisions, bank overdraft, airline revenue, other income, commissions and network charges and finance costs. The above reclassifications did not have an effect on the loss previously reported in the prior years.

## 5. RESTATEMENTS (CONTINUED)

### AIRCRAFT AND SIMULATORS

During the current financial year, an error was noted where the Group had not raised a provision in relation to sundry return costs related to leased aircraft at the inception of the lease. A correction has been made in the current financial year, where these items have been corrected and prior period amounts adjusted retrospectively in accordance with IAS 8 – Changes in Accounting Policies, Accounting Estimates and Errors. The restoration asset, provision for return costs and the related depreciation and finance costs were updated accordingly.

### NON-CURRENT ASSET HELD-FOR-SALE

During the current financial year, an error was noted where land and buildings, classified as non-current assets held-for-sale, were carried at an incorrect amount. A correction has been made in the current financial year, where these items have been corrected and prior period amounts adjusted retrospectively in accordance with IAS 8 – Changes in Accounting Policies, Accounting Estimates and Errors.

### PREPAYMENTS

During the current financial year, an error was noted where the Group had recognised an impairment on a prepaid amount in the 2015/2016 financial year. There were no indicators for impairment and the error was corrected retrospectively in accordance with IAS 8 – Changes in Accounting Policies, Accounting Estimates and Errors. The prepayments and the related impairment expense were adjusted accordingly.

### SUBORDINATED LOAN GUARANTEED BY GOVERNMENT

In the current year, an error was noted regarding the classification of the subordinated loan of R1,3 billion in the annual financial statements. The loan was initially categorised as equity in prior years which should have been classified as a loan in line with IAS 32 Financial Instruments: Presentation. A correction has been made in the current financial year, where this item is corrected and prior period amounts adjusted retrospectively in accordance with IAS 8 – Changes in Accounting Policies, Accounting Estimates and Errors.

The loan was reclassified to liabilities, recognised retrospectively at fair value at date of contract, the liability is carried at amortised cost and finance costs recognised in profit and loss in line with IAS 39 Financial Instruments: Recognition and Measurement.

### PROVISIONS

In the current year, an error was noted where the Group did not raise the provision for C checks, which were to be carried out in the future where the Group has been operating the aircraft. A correction has been made in the current financial year, where these items have been corrected and prior period amounts adjusted retrospectively in accordance with IAS 8 – Changes in Accounting Policies, Accounting Estimates and Errors.

### AIRCRAFT LEASE COSTS

During the 2014/2015 and 2015/2016 financial years, there was a portion of aircraft lease costs that were prepaid and incorrectly expensed in those years. A correction has been made in the current financial year, where these items have now been treated as prepayments. The prior year balances have been restated in terms of IAS 8 – Changes in Accounting Policies, Accounting Estimates and Errors. Also a portion of aircraft lease costs that should have been accrued for as an expense in prior years have been adjusted and the prior year balances restated accordingly.

### MAINTENANCE COSTS

During the 2014/2015 and 2015/2016 financial years, there was a portion of maintenance costs that were prepaid and incorrectly expensed in those years. A correction has been made in the current financial year, where these items have now been treated as prepayments. The prior year balances have been restated in terms of IAS 8 – Changes in Accounting Policies, Accounting Estimates and Errors. Also a portion of maintenance costs that should have been accrued for as an expense in prior years have been adjusted and the prior year balances restated accordingly. Previously it was SAA's accounting policy to expense the portion of the power by the hour payment that related to C checks as and when they are incurred, however during the current financial year it was decided that it would be more appropriate to recognise this as a prepayment.

### OVER ACCRUAL OF COMMISSIONS

During the 2015/2016 financial year, there was an over accrual of commissions to be paid to agents. The accrual was based on a maximum achievement calculation assuming that all agents would exceed their revenue targets. This did not materialise as the majority of agents did not reach their targets, hence resulting in the over accrual. There were also some disputes with agents in terms of calculations and documentation required, which resulted in the delay of the accrual being released. These issues have subsequently been resolved and therefore the accrual was released.

## NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

The aggregate effect of the restatements on the Group and company annual financial statements for the year ended 31 March 2016 and 31 March 2015 is as follows:

		GROUP		COMPANY	
R MILLION	Notes	2016	2015	2016	2015
5. RESTATEMENTS (CONTINUED)					
STATEMENT OF FINANCIAL POSITION					
Land	12				
Previously stated		437	437	48	48
Reclassification from buildings		188	188	223	223
Restated balance		625	625	271	271
Buildings – cost	12				
Previously stated		1 710	1 774	1 016	1 016
Reclassification to land		(188)	(188)	(223)	(223)
Restated balance		1 522	1 586	793	793
Aircraft and simulators – cost	12				
Previously stated		10 694	10 125	10 586	10 027
Recognition of restoration asset		75	75	75	75
Restated balance		10 769	10 200	10 661	10 102
Aircraft and simulators – accumulated depreciation	12				
Previously stated		(8 554)	(7 972)	(8 527)	(7 953)
Depreciation of restoration asset		(33)	(26)	(33)	(26)
Restated balance		(8 587)	(7 998)	(8 560)	(7 979)
Capital work in progress – Property, aircraft and equipment	12				
Previously stated		210	182	176	157
Reclassification to intangible assets		(120)	(85)	(120)	(85)
Restated balance		90	97	56	72
Capital work in progress – Intangible assets	37				
Previously stated		–	–	–	–
Reclassification from property, aircraft and equipment		120	85	120	85
Restated balance		120	85	120	85
Amounts receivable from subsidiaries – Non-current	44				
Previously stated		–	–	1 476	1 440
Reclassification to current		–	–	(1 298)	(1 262)
Restated balance		–	–	178	178
Amounts receivable from subsidiaries – current	44				
Previously stated		–	–	–	–
Reclassification from non-current		–	–	1 298	1 262
Restated balance		–	–	1 298	1 262
Non-current portion of maintenance reserve receivable	13				
Previously stated		1 790	1 967	1 790	1 967
Reclassification to prepayments		(176)	–	(176)	–
Restated balance		1 614	1 967	1 614	1 967

R MILLION	Notes	GROUP		COMPANY	
		2016	2015	2016	2015
<b>5. RESTATEMENTS (CONTINUED)</b>					
<b>Prepayments</b>	21				
Previously stated		2 898	2 110	2 811	1 990
Reclassification to foreign bank accounts		47	(35)	47	(35)
Reclassification to domestic bank accounts		(12)	(8)	(12)	(8)
Reclassification from other receivables		1 209	605	1 209	605
Adjustment to prepaid aircraft lease costs		77	78	77	78
Adjustment to prepaid maintenance costs		–	–	151	125
Adjustment to maintenance reserve		(254)	–	(254)	–
Reversal of impairment of PDPs		269	121	269	121
Reclassification from non-current prepayments		176	–	176	–
<b>Restated balance</b>		<b>4 410</b>	<b>2 871</b>	<b>4 474</b>	<b>2 876</b>
<b>Other receivables</b>	21				
Previously stated		1 217	630	1 184	608
Reclassification to prepayments		(1 209)	(605)	(1 209)	(605)
Reclassification to foreign exchange differences on trade and other receivables		(8)	(25)	25	(3)
<b>Restated balance</b>		<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Foreign exchange differences on trade and other receivables</b>	21				
Previously stated		–	–	–	–
Reclassification from other receivables		8	25	(25)	3
<b>Restated balance</b>		<b>8</b>	<b>25</b>	<b>(25)</b>	<b>3</b>
<b>Foreign bank accounts</b>	22				
Previously stated		1 747	1 043	1 785	1 044
Reclassification from prepayments		(47)	35	(47)	35
Reclassification from trade payables		107	16	107	16
<b>Restated balance</b>		<b>1 807</b>	<b>1 094</b>	<b>1 845</b>	<b>1 095</b>
<b>Domestic bank accounts</b>	22				
Previously stated		391	(1 290)	(3)	(1 852)
Reclassification from prepayments		12	8	12	8
Reclassification from trade payables		291	177	13	(8)
Reclassification to bank overdraft		23	1 185	–	1 155
<b>Restated balance</b>		<b>717</b>	<b>80</b>	<b>22</b>	<b>(697)</b>
<b>Non-current asset held-for-sale</b>	12				
Previously stated		63	63	63	63
Revaluation of non-current asset held-for-sale		36	36	36	36
<b>Restated balance</b>		<b>99</b>	<b>99</b>	<b>99</b>	<b>99</b>
<b>Accumulated loss</b>					
Previously stated		(25 935)	(24 352)	(25 691)	(24 246)
Adjustment to previously reported loss		(5)	(503)	21	(378)
Finance cost already included in opening accumulated loss		110	98	110	98
Prior year effect of restatements		(241)	164	(116)	164
<b>Restated balance</b>		<b>(26 071)</b>	<b>(24 593)</b>	<b>(25 676)</b>	<b>(24 362)</b>
<b>Reserves</b>					
Previously stated		779	917	355	493
Revaluation of non-current asset held-for-sale		36	36	36	36
<b>Restated balance</b>		<b>815</b>	<b>953</b>	<b>391</b>	<b>529</b>



## NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

R MILLION	Notes	GROUP		COMPANY	
		2016	2015	2016	2015
<b>5. RESTATEMENTS (CONTINUED)</b>					
<b>Subordinated loan guaranteed by government</b>					
Previously stated		1 300	1 300	1 300	1 300
Reclassification to long-term loans		(1 300)	(1 300)	(1 300)	(1 300)
<b>Restated balance</b>		–	–	–	–
<b>Long-term loans</b>	24				
Previously stated		6 510	3 684	6 500	3 669
Reclassification from subordinated loan guaranteed by government		1 300	1 300	1 300	1 300
<b>Restated balance</b>		7 810	4 984	7 800	4 969
<b>Provisions – non-current</b>	15				
Previously stated		2 394	2 202	2 380	2 194
Adjustment to provision for minor maintenance		20	46	20	46
Recognition of restoration liability		75	75	75	75
Foreign exchange revaluation of restoration liability		259	189	259	189
Finance cost recognised on restoration liability		94	38	94	38
Adjustment to return costs		(537)	(407)	(537)	(407)
<b>Restated balance</b>		2 305	2 143	2 291	2 135
<b>Trade payables</b>	25				
Previously stated		947	1 378	1 250	1 574
Reclassification to foreign bank accounts		107	16	107	16
Reclassification to domestic bank accounts		291	177	13	(8)
<b>Restated balance</b>		1 345	1 571	1 370	1 582
<b>Payroll accruals</b>	25				
Previously stated		–	–	–	–
Reclassification from other payables		858	871	669	662
<b>Restated balance</b>		858	871	669	662
<b>Ticket tax accruals</b>	25				
Previously stated		–	–	–	–
Reclassification from other payables		2 729	2 635	2 632	2 555
<b>Restated balance</b>		2 729	2 635	2 632	2 555
<b>Other payables</b>	25				
Previously stated		6 006	5 205	5 536	4 717
Reclassification to payroll accruals		(858)	(871)	(669)	(662)
Reclassification to ticket tax accruals		(2 729)	(2 635)	(2 632)	(2 555)
Reclassification to provisions		(709)	(107)	(709)	(107)
Over accrual of commission		(131)	–	(131)	–
Adjustment to maintenance accruals		199	422	199	422
Adjustment to aircraft lease accruals		3	–	3	–
Adjustments relating to PAYE not withheld on fringe benefits		84	54	84	54
<b>Restated balance</b>		1 865	2 068	1 681	1 869
<b>Provisions – current</b>	15				
Previously stated		486	332	477	332
Reclassification from other payables		709	107	709	107
Adjustment to provision for minor maintenance		204	72	204	72
<b>Restated balance</b>		1 399	511	1 390	511
<b>Bank overdraft</b>	23				
Previously stated		94	1 392	294	1 899
Reclassification from domestic bank accounts		(71)	(207)	(294)	(744)
<b>Restated balance</b>		23	1 185	–	1 155

R MILLION	Notes	GROUP		COMPANY	
		2016	2015	2016	2015
<b>5. RESTATEMENTS (CONTINUED)</b>					
<b>STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME</b>					
<b>Passenger revenue</b>	6				
Previously stated		18 910	18 978	16 882	17 119
Reclassification to commissions and network charges		331	387	330	388
<b>Restated amount</b>		19 241	19 365	17 212	17 507
<b>Release from prescribed tickets</b>	6				
Previously stated		396	372	396	372
Reclassification from other recoveries		419	301	419	301
<b>Restated amount</b>		815	673	815	673
<b>Other airline revenue adjustments</b>	6				
Previously stated		–	–	–	–
Reclassification from other recoveries		(304)	(41)	(304)	(41)
<b>Restated amount</b>		(304)	(41)	(304)	(41)
<b>Other recoveries</b>	7				
Previously stated		1 330	1 389	1 286	1 341
Reclassification to release from prescribed tickets		(419)	(301)	(419)	(301)
Reclassification to other airline revenue adjustments		304	41	304	41
<b>Restated amount</b>		1 215	1 129	1 171	1 081
<b>Aircraft lease costs</b>	8				
Previously stated		3 149	2 840	3 095	2 795
Adjustment to prepaid aircraft lease costs		1	(78)	1	(78)
Adjustment to aircraft lease accruals		3	–	3	–
Foreign exchange correction on aircraft lease costs		(21)	(6)	(21)	(6)
<b>Restated amount</b>		3 132	2 756	3 078	2 711
<b>Commissions and network charges</b>					
Previously stated		1 629	1 461	1 531	1 375
Reclassification from passenger revenue		331	387	330	388
Over accrual of commission		(131)	–	(131)	–
<b>Restated amount</b>		1 829	1 848	1 730	1 763
<b>Employee benefit expenses</b>	29				
Previously stated		5 822	5 687	3 810	3 747
Adjustments relating to PAYE not withheld on fringe benefits		9	11	9	11
<b>Restated amount</b>		5 831	5 698	3 819	3 758
<b>Maintenance costs</b>					
Previously stated		4 283	3 412	5 510	4 491
Adjustment to maintenance accruals		(223)	422	(223)	422
Adjustment to prepaid maintenance costs		–	–	(26)	(125)
Adjustment to provision for minor maintenance		106	118	106	118
Adjustment to maintenance reserve		254	–	254	–
Foreign exchange correction on maintenance costs		(123)	32	(123)	32
Adjustment to return costs		(130)	(72)	(130)	(72)
<b>Restated amount</b>		4 167	3 912	5 368	4 866

## NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

R MILLION	Notes	GROUP		COMPANY	
		2016	2015	2016	2015
<b>5. RESTATEMENTS (CONTINUED)</b>					
<b>Foreign currency denominated net receivables</b>	40				
Previously stated		(207)	(82)	(254)	(91)
Foreign exchange effect of reversal of impairment of PDPs		(148)	–	(148)	–
Foreign exchange correction on aircraft lease costs		21	6	21	6
Foreign exchange correction on maintenance costs		123	(32)	123	(32)
Foreign exchange revaluation of restoration liability		71	37	71	37
<b>Restated amount</b>		<b>(140)</b>	<b>(71)</b>	<b>(187)</b>	<b>(80)</b>
<b>Other operating costs</b>					
Previously stated		4 362	5 114	3 728	4 484
Adjustments relating to PAYE not withheld on fringe benefits		17	36	17	36
<b>Restated amount</b>		<b>4 379</b>	<b>5 150</b>	<b>3 745</b>	<b>4 520</b>
<b>Depreciation on aircraft and simulators</b>	9				
Previously stated		(561)	(628)	(549)	(621)
Depreciation of restoration asset		(7)	(6)	(7)	(6)
<b>Restated amount</b>		<b>(568)</b>	<b>(634)</b>	<b>(556)</b>	<b>(627)</b>
<b>Impairment of PDPs</b>	11				
Previously stated		–	(121)	–	(121)
Reversal of impairment of PDPs		–	121	–	121
<b>Restated amount</b>		<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Interest paid on borrowings</b>	19				
Previously stated		(794)	(404)	(794)	(404)
Reclassification from preference dividends		(110)	(98)	(110)	(98)
<b>Restated amount</b>		<b>(904)</b>	<b>(502)</b>	<b>(904)</b>	<b>(502)</b>
<b>Interest paid on overdraft</b>	19				
Previously stated		(67)	(86)	(62)	(81)
Finance cost recognised on restoration liability		(56)	(38)	(56)	(38)
Adjustments relating to PAYE not withheld on fringe benefits		(3)	(8)	(3)	(8)
<b>Restated amount</b>		<b>(126)</b>	<b>(132)</b>	<b>(121)</b>	<b>(127)</b>
<b>Loss for the year</b>					
Previously stated		(1 473)	(5 639)	(1 335)	(5 340)
Net result of the above adjustments		(5)	(503)	21	(378)
<b>Restated loss</b>		<b>(1 478)</b>	<b>(6 142)</b>	<b>(1 314)</b>	<b>(5 718)</b>

		GROUP			COMPANY		
R MILLION	Notes	2017	2016 Restated	2015 Restated	2017	2016 Restated	2015 Restated
<b>6. AIRLINE REVENUE</b>							
The analysis of airline revenue for the year is as follows:							
Passenger revenue	5	19 653	19 241	19 365	17 610	17 212	17 507
Freight and mail		1 794	1 776	1 744	1 791	1 775	1 742
Technical services		705	775	701	269	293	188
Voyager income	16	813	867	771	813	867	771
Commission received		39	71	86	37	65	74
Release from prescribed tickets	5	559	815	673	559	815	673
Release from prescribed air waybills		–	–	28	–	–	28
Fuel levies		6 232	6 032	5 833	6 232	6 032	5 833
Other airline revenue adjustments*	5	(522)	(304)	(41)	(522)	(304)	(41)
		29 273	29 273	29 160	26 789	26 755	26 775

\* Other airline revenue adjustments comprise inter airline processing offsets and revenue accounting system adjustments.

		GROUP			COMPANY		
R MILLION	Notes	2017	2016 Restated	2015 Restated	2017	2016 Restated	2015 Restated
<b>7. OTHER INCOME</b>							
Other income is made up of the following items:							
Handling fees		191	148	134	69	52	58
Income from leased assets		94	80	69	362	405	305
Other recoveries*	5	1 184	1 215	1 129	1 099	1 171	1 081
		1 469	1 443	1 332	1 530	1 628	1 444

\* Other recoveries comprise income associated with ticket cancellations and other miscellaneous income.

		GROUP			COMPANY		
R MILLION	Notes	2017	2016 Restated	2015 Restated	2017	2016 Restated	2015 Restated
<b>8. OPERATING (LOSS)/PROFIT BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION</b>							
Operating (loss)/profit before interest, tax, depreciation and amortisation is stated after taking into account among others, the following:							
<b>OPERATING LEASE PAYMENTS</b>							
Aircraft	5	3 103	3 132	2 756	3 022	3 078	2 711
Buildings		128	117	111	104	97	94
Equipment and vehicles		34	40	54	29	28	43
<b>Total operating lease payments</b>		3 265	3 289	2 921	3 155	3 203	2 848
<b>AUDITORS' REMUNERATION</b>							
Audit fees – current year		16	15	13	13	11	9
Other regulatory audit services		–	3	1	–	3	1
Non-audit services		–	1	2	–	1	2
<b>Total auditors' remuneration</b>		16	19	16	13	15	12

Directors' emoluments and executive management emoluments are disclosed in Note 48.

## NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

		GROUP			COMPANY		
R MILLION	Notes	2017	2016 Restated	2015 Restated	2017	2016 Restated	2015 Restated
<b>9. DEPRECIATION AND AMORTISATION</b>							
Aircraft and simulators	5	(853)	(568)	(634)	(841)	(556)	(627)
Buildings and structures		(45)	(46)	(64)	(18)	(21)	(40)
Machinery, equipment and furniture		(76)	(68)	(72)	(53)	(46)	(49)
Vehicles and cabin loaders		(16)	(15)	(14)	(5)	(4)	(4)
<b>Total depreciation</b>	12	<b>(990)</b>	(697)	(784)	<b>(917)</b>	(627)	(720)
Amortisation of intangible assets	37	(43)	(35)	(41)	(36)	(29)	(34)
<b>Total depreciation and amortisation</b>		<b>(1 033)</b>	(732)	(825)	<b>(953)</b>	(656)	(754)
		GROUP		COMPANY			
R MILLION		2017	2016	2017	2016		
<b>10. NET GAIN/(LOSS) ON DISPOSAL OF PROPERTY, AIRCRAFT AND EQUIPMENT</b>							
<b>Net gain/(loss) on disposal of property, aircraft and equipment comprises the following:</b>							
Profit on disposal of property, aircraft and equipment		24	1	21	–		
Loss on disposal of property, aircraft and equipment		(17)	(7)	(3)	(2)		
		<b>7</b>	(6)	<b>18</b>	(2)		
		GROUP			COMPANY		
R MILLION	Notes	2017	2016 Restated	2015 Restated	2017	2016 Restated	2015 Restated
<b>11. IMPAIRMENTS</b>							
<b>Impairments of loans and receivables held at amortised cost</b>							
(Impairment)/reversal of impairment of accounts receivable		(24)	(14)	12	(28)	(9)	(3)
<b>Impairment of other assets</b>							
Impairment of investments in subsidiaries	43	–	–	–	(696)	(90)	–
(Impairment)/reversal of impairment of loans to subsidiaries	44	–	–	–	(182)	1	(3)
Impairment of aircraft	12	–	–	(1 508)	–	–	(1 508)
Reversal of impairment/(impairment) arising from write-down of inventory to net realisable value	38	50	(144)	(277)	–	–	–
		<b>26</b>	(158)	(1 773)	<b>(906)</b>	(98)	(1 514)



	2017			2016 Restated*			2015 Restated*		
R MILLION	Cost/ valuation	Accumulated depreciation/ impairment	Carrying value	Cost/ valuation	Accumulated depreciation/ impairment	Carrying value	Cost/ valuation	Accumulated depreciation/ impairment	Carrying value
<b>12. PROPERTY, AIRCRAFT AND EQUIPMENT GROUP</b>									
Land	687	–	687	625	–	625	625	–	625
Buildings and structures	1 428	(126)	1 302	1 522	(281)	1 241	1 586	(300)	1 286
Machinery, equipment and furniture	887	(543)	344	757	(486)	271	894	(592)	302
Vehicles and cabin loaders	147	(99)	48	155	(90)	65	157	(82)	75
Aircraft and simulators	11 299	(9 155)	2 144	10 769	(8 587)	2 182	10 200	(7 998)	2 202
Containers	30	(30)	–	30	(30)	–	30	(30)	–
Capital work in progress	49	–	49	90	–	90	97	–	97
<b>Total</b>	<b>14 527</b>	<b>(9 953)</b>	<b>4 574</b>	<b>13 948</b>	<b>(9 474)</b>	<b>4 474</b>	<b>13 589</b>	<b>(9 002)</b>	<b>4 587</b>
<b>COMPANY</b>									
Land	299	–	299	271	–	271	271	–	271
Buildings and structures	682	(115)	567	793	(244)	549	793	(224)	569
Machinery, equipment and furniture	382	(240)	142	347	(198)	149	486	(309)	177
Vehicles and cabin loaders	48	(28)	20	47	(27)	20	46	(25)	21
Aircraft and simulators	11 176	(9 116)	2 060	10 661	(8 560)	2 101	10 102	(7 979)	2 123
Containers	29	(29)	–	29	(29)	–	29	(29)	–
Capital work in progress	26	–	26	56	–	56	72	–	72
<b>Total</b>	<b>12 642</b>	<b>(9 528)</b>	<b>3 114</b>	<b>12 204</b>	<b>(9 058)</b>	<b>3 146</b>	<b>11 799</b>	<b>(8 566)</b>	<b>3 233</b>

\* A restatement was done on the opening balances of land and buildings in order to reflect the correct split between land and buildings. The total carrying value of property, aircraft and equipment did not change in the prior years as a result of this restatement. Please refer to Note 5 for more details regarding prior year restatements.

## NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

R MILLION	Land	Buildings and structures	Machinery, equipment and furniture	Vehicles and cabin loaders	Aircraft and simulators	Containers	Capital work in progress	Total
<b>12. PROPERTY, AIRCRAFT AND EQUIPMENT (CONTINUED)</b>								
<b>GROUP</b>								
<b>Reconciliation</b>								
Opening balance – Restated	585	1 353	304	75	3 433	–	658	6 408
Additions	–	7	47	14	3 676	–	597	4 341
Disposals	–	(20)	–	–	(2 770)	–	–	(2 790)
Transfers*	–	2	23	–	5	–	(1 158)	(1 128)
Revaluations	40	8	–	–	–	–	–	48
Depreciation	–	(64)	(72)	(14)	(634)	–	–	(784)
Impairment loss	–	–	–	–	(1 508)	–	–	(1 508)
<b>Balance at 31 March 2015 – Restated</b>	<b>625</b>	<b>1 286</b>	<b>302</b>	<b>75</b>	<b>2 202</b>	<b>–</b>	<b>97</b>	<b>4 587</b>
Opening balance – Restated	625	1 286	302	75	2 202	–	97	4 587
Additions	–	13	22	5	233	–	441	714
Disposals	–	(2)	(4)	–	(40)	–	–	(46)
Transfers*	–	8	19	–	355	–	(448)	(66)
Revaluations	–	(18)	–	–	–	–	–	(18)
Depreciation	–	(46)	(68)	(15)	(568)	–	–	(697)
<b>Balance at 31 March 2016 – Restated</b>	<b>625</b>	<b>1 241</b>	<b>271</b>	<b>65</b>	<b>2 182</b>	<b>–</b>	<b>90</b>	<b>4 474</b>
Opening balance – Restated	<b>625</b>	<b>1 241</b>	<b>271</b>	<b>65</b>	<b>2 182</b>	<b>–</b>	<b>90</b>	<b>4 474</b>
Additions	–	5	82	7	449	–	454	997
Disposals	–	(11)	(7)	(8)	(12)	–	–	(38)
Transfers*	–	1	74	–	378	–	(495)	(42)
Revaluations	<b>62</b>	<b>111</b>	–	–	–	–	–	<b>173</b>
Depreciation	–	(45)	(76)	(16)	(853)	–	–	(990)
<b>Balance at 31 March 2017</b>	<b>687</b>	<b>1 302</b>	<b>344</b>	<b>48</b>	<b>2 144</b>	<b>–</b>	<b>49</b>	<b>4 574</b>

\* The amount reflected in the transfers column represents the amount transferred from Capital work in progress to Software (Intangible assets). Refer to Note 37 for more information.

R MILLION	Land	Buildings and structures	Machinery, equipment and furniture	Vehicles and cabin loaders	Aircraft and simulators	Containers	Capital work in progress	Total
<b>12. PROPERTY, AIRCRAFT AND EQUIPMENT (CONTINUED)</b>								
<b>COMPANY</b>								
<b>Reconciliation</b>								
Opening balance – Restated	278	662	173	22	3 374	–	664	5 173
Additions	–	5	30	3	3 646	–	566	4 250
Disposals	–	(20)	–	–	(2 767)	–	–	(2 787)
Transfers*	–	2	23	–	5	–	(1 158)	(1 128)
Revaluations	(7)	(40)	–	–	–	–	–	(47)
Depreciation	–	(40)	(49)	(4)	(627)	–	–	(720)
Impairment loss	–	–	–	–	(1 508)	–	–	(1 508)
<b>Balance at 31 March 2015 – Restated</b>	<b>271</b>	<b>569</b>	<b>177</b>	<b>21</b>	<b>2 123</b>	<b>–</b>	<b>72</b>	<b>3 233</b>
Opening balance – Restated	271	569	177	21	2 123	–	72	3 233
Additions	–	13	7	3	211	–	424	658
Disposals	–	(1)	(1)	–	(32)	–	–	(34)
Transfers*	–	7	12	–	355	–	(440)	(66)
Revaluations	–	(18)	–	–	–	–	–	(18)
Depreciation	–	(21)	(46)	(4)	(556)	–	–	(627)
<b>Balance at 31 March 2016 – Restated</b>	<b>271</b>	<b>549</b>	<b>149</b>	<b>20</b>	<b>2 101</b>	<b>–</b>	<b>56</b>	<b>3 146</b>
Opening balance – Restated	<b>271</b>	<b>549</b>	<b>149</b>	<b>20</b>	<b>2 101</b>	<b>–</b>	<b>56</b>	<b>3 146</b>
Additions	–	4	4	5	435	–	437	885
Disposals	–	(7)	(6)	–	(12)	–	–	(25)
Transfers*	–	–	48	–	377	–	(467)	(42)
Revaluations	<b>28</b>	<b>39</b>	–	–	–	–	–	<b>67</b>
Depreciation	–	(18)	(53)	(5)	(841)	–	–	(917)
<b>Balance at 31 March 2017</b>	<b>299</b>	<b>567</b>	<b>142</b>	<b>20</b>	<b>2 060</b>	<b>–</b>	<b>26</b>	<b>3 114</b>

\* The amount reflected in the transfers column represents the amount transferred from Capital work in progress to Software (Intangible assets). Refer to Note 37 for more information.

A register of land and buildings is available for inspection at the registered office of the Group.

In the previous financial year, certain aircraft were encumbered as security for the financing thereof. The carrying value of capitalised aircraft encumbered in respect of financing raised by the Group amounted to R0.6 billion in the previous financial year, these loans have been fully paid up in the current financial year, with the result being that the aircraft are no longer encumbered.

Certain aircraft are held under suspensive sale agreements with title only passing to SAA once all obligations to the seller have been settled and the seller in turn has settled all its obligations under a finance lease. These events are expected to occur simultaneously.

The category of aircraft includes the refurbishment costs of both the owned and leased aircraft. This refurbishment is amortised over the shorter of the useful life of the refurbished equipment or the lease term of the leased aircraft.

The fair value of land and buildings was determined by an independent external valuation expert during the last quarter of the financial year, using the income capitalisation method of valuation. The utilisation of the property in terms of its industrial use is considered to be its highest and best use. A capitalisation rate of 10,5 percent was used in the valuation with comparative rentals in the area being applied in the model. As the valuation includes significant unobservable inputs, it is classified as level 3 in the fair value hierarchy.

Asset and disposal groups classified as held-for-sale are as follows:

#### NON-CURRENT ASSETS CLASSIFIED AS HELD-FOR-SALE

R MILLION	Notes	GROUP		COMPANY	
		2017	2016 Restated	2017	2016 Restated
Carrying value of land and buildings classified as held-for-sale	5	99	99	99	99
		99	99	99	99

The period to complete the sale has extended beyond one year due to events and circumstances beyond SAA's control. However, SAA remains committed to the plan to sell the asset and has therefore retained the classification of held-for-sale.

## NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

R MILLION	Notes	GROUP		COMPANY	
		2017	2016 Restated	2017	2016 Restated
<b>13. NON-CURRENT PREPAYMENTS</b>					
Pre-delivery payments (PDPs)		–	266	–	266
Non-current portion of maintenance reserve receivable	5	<b>1 777</b>	1 614	<b>1 710</b>	1 614
		<b>1 777</b>	1 880	<b>1 710</b>	1 880

In accordance with the accounting policy, in the event that it is unlikely that the underlying aircraft will be purchased at the expected delivery date, but will be leased under an operating lease, the related PDPs will be transferred to receivables. The amount above represents the long-term portion of such PDPs. Maintenance reserves receivable represent amounts that will be received in a period exceeding 12 months.

Included in non-current prepayments are amounts in respect of maintenance payments made to lessors. The total below represents the total maintenance reserve receivable, the portion of the receivable that is short-term is shown under prepayments in Note 21. Refer to the accounting policies section for details of the treatment of these claims.

R MILLION	GROUP		COMPANY	
	2017	2016 Restated	2017	2016 Restated
Maintenance reserve balance	<b>4 330</b>	4 883	<b>4 230</b>	4 883
Current portion	<b>(652)</b>	(1 293)	<b>(619)</b>	(1 293)
Maintenance reserves expensed	<b>(1 901)</b>	(1 976)	<b>(1 901)</b>	(1 976)
<b>Non-current portion of maintenance reserve receivable</b>	<b>1 777</b>	1 614	<b>1 710</b>	1 614

R MILLION	GROUP		COMPANY	
	Jet fuel options	Currency derivatives	Jet fuel forward exchange contracts and swaps	Total

## 14. DERIVATIVES

### GROUP AND COMPANY

Assets	18	66	–	84
Liabilities	–	(2)	(2)	(4)
<b>Fair value at 1 April 2016</b>	18	64	(2)	80
Amounts spent on premiums	<b>86</b>	<b>50</b>	–	<b>136</b>
Fair value movements for the year ended 31 March 2017	<b>(79)</b>	<b>(106)</b>	<b>2</b>	<b>(183)</b>
<b>Fair value at 31 March 2017</b>	<b>25</b>	<b>8</b>	–	<b>33</b>
Assets	<b>25</b>	<b>9</b>	–	<b>34</b>
Liabilities	–	<b>(1)</b>	–	<b>(1)</b>
	<b>25</b>	<b>8</b>	–	<b>33</b>

R MILLION	Provision for lease liabilities <sup>(1)</sup>	Other provisions <sup>(2)</sup>	Total
<b>15. PROVISIONS</b>			
<b>GROUP</b>			
<b>Reconciliation</b>			
Opening balance – Restated	1 258	403	1 661
Additions	479	968	1 447
Utilised during the year	(534)	(12)	(546)
Reversed during the year	–	(94)	(94)
Unwinding of the discount	38	–	38
Currency revaluation	148	–	148
<b>Balance at 31 March 2015 – Restated</b>	<b>1 389</b>	<b>1 265</b>	<b>2 654</b>
Current portion	404	107	511
Non-current portion	985	1 158	2 143
	1 389	1 265	2 654
Opening balance – Restated	1 389	1 265	2 654
Additions	1 080	700	1 780
Utilised during the year	(654)	(1)	(655)
Reversed during the year	(295)	(7)	(302)
Unwinding of the discount	56	–	56
Currency revaluation	171	–	171
<b>Balance at 31 March 2016 – Restated</b>	<b>1 747</b>	<b>1 957</b>	<b>3 704</b>
Current portion	530	869	1 399
Non-current portion	1 217	1 088	2 305
	1 747	1 957	3 704
Opening balance – Restated	<b>1 747</b>	<b>1 957</b>	<b>3 704</b>
Additions	<b>2 102</b>	<b>184</b>	<b>2 286</b>
Utilised during the year	<b>(693)</b>	<b>(108)</b>	<b>(801)</b>
Reversed during the year	<b>(1 066)</b>	<b>(554)</b>	<b>(1 620)</b>
Unwinding of the discount	<b>70</b>	<b>–</b>	<b>70</b>
Currency revaluation	<b>(216)</b>	<b>1</b>	<b>(215)</b>
<b>Balance at 31 March 2017</b>	<b>1 944</b>	<b>1 480</b>	<b>3 424</b>
Current portion	<b>753</b>	<b>343</b>	<b>1 096</b>
Non-current portion	<b>1 191</b>	<b>1 137</b>	<b>2 328</b>
	<b>1 944</b>	<b>1 480</b>	<b>3 424</b>



## NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

R MILLION	Provision For lease liabilities <sup>(1)</sup>	Other provisions <sup>(2)</sup>	Total
<b>15. PROVISIONS (CONTINUED)</b>			
<b>COMPANY</b>			
<b>Reconciliation</b>			
Opening balance – Restated	1 249	403	1 652
Additions	479	968	1 447
Utilised during the year	(533)	(12)	(545)
Reversed during the year	–	(94)	(94)
Unwinding of the discount	38	–	38
Currency revaluation	148	–	148
<b>Balance at 31 March 2015 – Restated</b>	<b>1 381</b>	<b>1 265</b>	<b>2 646</b>
Current portion	404	107	511
Non-current portion	977	1 158	2 135
	1 381	1 265	2 646
Opening balance – Restated	1 381	1 265	2 646
Additions	1 079	686	1 765
Utilised during the year	(654)	(1)	(655)
Reversed during the year	(295)	(7)	(302)
Unwinding of the discount	56	–	56
Currency revaluation	171	–	171
<b>Balance at 31 March 2016 – Restated</b>	<b>1 738</b>	<b>1 943</b>	<b>3 681</b>
Current portion	521	869	1 390
Non-current portion	1 217	1 074	2 291
	1 738	1 943	3 681
Opening balance – Restated	<b>1 738</b>	<b>1 943</b>	<b>3 681</b>
Additions	<b>2 014</b>	<b>184</b>	<b>2 198</b>
Utilised during the year	<b>(693)</b>	<b>(108)</b>	<b>(801)</b>
Reversed during the year	<b>(1 066)</b>	<b>(554)</b>	<b>(1 620)</b>
Unwinding of the discount	<b>70</b>	<b>–</b>	<b>70</b>
Currency revaluation	<b>(220)</b>	<b>1</b>	<b>(219)</b>
<b>Balance at 31 March 2017</b>	<b>1 843</b>	<b>1 466</b>	<b>3 309</b>
Current portion	<b>652</b>	<b>343</b>	<b>995</b>
Non-current portion	<b>1 191</b>	<b>1 123</b>	<b>2 314</b>
	<b>1 843</b>	<b>1 466</b>	<b>3 309</b>

<sup>(1)</sup> For aircraft held under operating lease agreements, the Group is contractually committed either to return the aircraft in a certain condition or to compensate the lessor based on the actual condition of the airframe, engines and life-limited parts upon return. In order to fulfill such conditions of the lease, maintenance in the form of major airframe overhaul, engine maintenance checks, and restitution of major life-limited parts, is required to be performed during the period of the lease and upon return of the aircraft to the lessor. The estimated airframe and engine maintenance costs and the costs associated with the restitution of major life-limited parts, are accrued and charged to profit or loss over the lease term for this contractual obligation.

<sup>(2)</sup> Other provisions include, but are not limited to, amounts set aside to settle claims against the Group/company arising in the course of its operations. Further information regarding individual claim amounts has not been provided as this may prejudice the Group/company in its ongoing litigation. Other provisions in the prior years were restated during the current financial year, please refer to Note 5 for more details of prior year restatements.

	GROUP		COMPANY	
R MILLION	2017	2016	2017	2016
<b>16. DEFERRED REVENUE ON TICKET SALES</b>				
Frequent flyer deferred revenue – long-term	668	633	668	633
Net air traffic liability SAA – short-term	3 401	3 329	3 184	3 186
Net air traffic liability franchise partners – short-term	381	305	381	305
Frequent flyer deferred revenue – short-term	493	578	493	578
	4 275	4 212	4 058	4 069

**AIR TRAFFIC LIABILITY**

This balance represents the unrealised income resulting from tickets and air waybills sold but not yet utilised. The balance includes the value of coupons sold by SAA, which will be flown and claimed in future periods by code-share, interline and franchise partners. The liability is of a short-term nature and is reflected as a current liability.

**FREQUENT FLYER DEFERRED REVENUE**

Deferred revenue relates to the frequent flyer programme and represents the fair value of the outstanding credits. Revenue is recognised when SAA fulfils its obligations by supplying free or discounted goods or services on the redemption of award credits. Refer to Notes 1 and 4 for more information.

	GROUP		COMPANY	
R MILLION	2017	2016	2017	2016
<b>17. COMMITMENTS</b>				
<b>AUTHORISED CAPITAL EXPENDITURE</b>				
Property, aircraft and equipment	183	41	138	36
<b>Total approved capital expenditure not contracted</b>	<b>183</b>	<b>41</b>	<b>138</b>	<b>36</b>
This committed expenditure relates to property, aircraft and equipment and will be financed by available bank facilities, retained profits, rights issue of shares, issue of debentures and other sources of funding.				
<b>Operating leases – as lessee (expense)</b>				
<b>Operating lease commitments for property, aircraft, equipment and vehicles are expected to be incurred as follows:</b>				
– within one year	3 242	2 760	3 149	2 760
– in second to fifth year inclusive	9 669	8 075	9 458	8 075
– later than five years	7 277	3 664	7 277	3 664
	20 188	14 499	19 884	14 499
Included in the operating lease commitments above are the following US\$ based lease commitments. Currency risks associated with these commitments are not hedged. The table below sets out the foreign denominated lease commitments.				
<b>Uncovered lease commitments (US\$ million)</b>				
– within one year	231	175	224	175
– in second to fifth year inclusive	721	536	705	536
– later than five years	543	248	543	248
	1 495	959	1 472	959
<b>Operating leases – as lessor (income)</b>				
<b>Operating lease income on leased assets are expected to be received as follows:</b>				
– within one year	6	5	189	326
– in second to fifth year inclusive	22	16	343	901
– later than five years	16	20	16	20
	44	41	548	1 247

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for the year ended 31 March 2017

R MILLION	GROUP			COMPANY		
	2017	2016 Restated*	2015 Restated*	2017	2016 Restated*	2015 Restated*
<b>18. CASH GENERATED FROM/(USED IN) OPERATIONS</b>						
Loss before taxation	(5 350)	(1 378)	(6 130)	(6 451)	(1 314)	(5 718)
<b>Adjustments for:</b>						
Depreciation and amortisation on property, aircraft and equipment	990	697	784	917	627	720
Net (gain)/loss on disposal of property, aircraft and equipment	(7)	6	9	(18)	2	3
Amortisation of intangible assets	43	35	41	36	29	34
Impairment of aircraft	–	–	1 508	–	–	1 508
Impairment/(reversal of impairment) of loans to subsidiaries	–	–	–	182	(1)	3
Derivative market movements	67	(57)	367	67	(57)	367
Impairment of investments in subsidiaries	–	–	–	696	90	–
Interest income	(40)	(26)	(26)	(12)	(11)	(16)
Finance costs	1 630	1 030	634	1 663	1 063	667
Release from air traffic liability	(380)	(396)	(400)	(380)	(396)	(400)
Movement in employee benefit obligations	(7)	37	18	(7)	37	18
Impairment/(reversal of impairment) of accounts receivable	24	14	(12)	28	9	3
Non-cash movement on retirement benefit plans	(11)	(6)	(6)	(11)	(6)	(6)
Release from passenger tax levies	(178)	(418)	(301)	(178)	(418)	(301)
Non-cash movement on shareholder restructuring fund	(7)	(119)	–	(7)	(119)	–
Unrealised foreign exchange loss on revaluation of loans	–	–	52	–	–	52
Unrealised foreign exchange (gain)/loss on cash and cash equivalents	(19)	64	(49)	(21)	66	(50)
Movement in retirement benefit asset	12	–	(9)	12	–	(9)
Tax paid in foreign jurisdictions	7	16	16	7	16	16
<b>Changes in working capital:</b>						
Transfer of PDPs to capital work in progress	–	–	826	–	–	826
Movement in non-current portion of maintenance reserve receivable	(163)	353	(587)	(96)	353	(587)
Movement in non-current portion of PDPs	266	(49)	–	266	(49)	–
Movement in engine power by the hour liability	253	–	–	253	–	–
Transfer from intangible assets to sundry debtors	10	–	–	10	–	–
Inventories	(152)	(2)	83	–	20	(12)
Trade and other receivables	1 368	(1 741)	(101)	1 469	(1 852)	(335)
Trade and other payables	1 665	71	904	1 968	103	709
Air traffic liability	528	1 049	(226)	454	1 081	(236)
Frequent flyer deferred revenue	(50)	(113)	(123)	(50)	(113)	(123)
Provisions	(280)	1 050	1 135	(372)	1 035	1 136
	<b>219</b>	<b>117</b>	<b>(1 593)</b>	<b>425</b>	<b>195</b>	<b>(1 731)</b>

\* Some prior year items above have been restated due to other restatements made throughout the annual financial statements. Please refer to Note 5 for more details regarding prior year restatements.

		GROUP			COMPANY		
R MILLION	Notes	2017	2016 Restated	2015 Restated	2017	2016 Restated	2015 Restated
19. FINANCE COSTS							
The interest paid related to financial liabilities held at amortised cost is detailed below:							
Interest paid on borrowings	5	(1 356)	(904)	(502)	(1 356)	(904)	(502)
Interest paid on overdraft	5	(274)	(126)	(132)	(265)	(121)	(127)
Other interest paid		–	–	–	(42)	(38)	(38)
		(1 630)	(1 030)	(634)	(1 663)	(1 063)	(667)

		GROUP		COMPANY	
R MILLION		2017	2016	2017	2016
20. INTEREST INCOME					
Interest received was derived from:					
Cash and bank balances		35	23	7	8
Loans and receivables		5	3	5	3
		40	26	12	11

		GROUP			COMPANY		
R MILLION	Notes	2017	2016 Restated	2015 Restated	2017	2016 Restated	2015 Restated
21. TRADE AND OTHER RECEIVABLES							
Gross accounts receivable		2 423	2 410	2 200	2 279	2 275	2 034
Allowance for impairment		(85)	(103)	(98)	(72)	(84)	(81)
		2 338	2 307	2 102	2 207	2 191	1 953
Prepayments	5	2 955	4 410	2 871	3 000	4 474	2 876
Foreign exchange differences on trade and other receivables	5	40	8	25	18	(25)	3
		5 333	6 725	4 998	5 225	6 640	4 832

		GROUP		COMPANY	
R MILLION		2017	2016	2017	2016
Reconciliation of impairment of trade and other receivables					
Opening balance		(103)	(98)	(84)	(81)
Impairments		(24)	(14)	(28)	(9)
Amounts utilised for write-offs		21	9	19	6
Amounts moved to provisions		21	–	21	–
Closing balance		(85)	(103)	(72)	(84)

The trade receivables portfolio impairment loss relates to:

- debtors in dispute which are provided for when they become known;
- defaulting Billing and Settlement Plan (BSP) and General Sales Agents (GSA) that have exceeded 90 days past their due date; and
- errors due to differences identified when capturing sales.

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for the year ended 31 March 2017

The gross accounts receivable is analysed below based on the risk profile group linked to the nature of the distribution network and the nature of operations within the group. The analysis is based on period past due.

R MILLION	Gross amount	Current not yet past due	Past due but not impaired	Impaired amount
<b>21. TRADE AND OTHER RECEIVABLES (CONTINUED)</b>				
<b>GROUP – 2017</b>				
BSP	1 101	964	118	19
Credit card	313	276	23	14
GSA	205	153	51	1
Stations	11	–	2	9
Cargo freight and mail	259	231	24	4
Airline catering	12	7	4	1
Travel services	3	3	–	–
Technical maintenance	126	89	25	12
Alliance partners	145	130	15	–
Voyager	41	41	–	–
Default debtors	25	–	–	25
Other trade debtors	182	160	22	–
	<b>2 423</b>	<b>2 054</b>	<b>284</b>	<b>85</b>
<b>COMPANY – 2017</b>				
BSP	1 101	964	118	19
Credit card	313	276	23	14
GSA	205	153	51	1
Stations	11	–	2	9
Cargo freight and mail	259	231	24	4
Alliance partners	145	130	15	–
Voyager	41	41	–	–
Default debtors	25	–	–	25
Other trade debtors	179	157	22	–
	<b>2 279</b>	<b>1 952</b>	<b>255</b>	<b>72</b>
<b>GROUP – 2016</b>				
BSP	1 020	988	17	15
Credit card	228	159	62	7
GSA	225	172	52	1
Stations	10	–	3	7
Cargo freight and mail	328	153	151	24
Airline catering	8	4	3	1
Travel services	3	2	1	–
Technical maintenance	213	150	45	18
Alliance partners	146	133	13	–
Voyager	57	32	25	–
Default debtors	29	–	–	29
Other trade debtors	143	113	29	1
	<b>2 410</b>	<b>1 906</b>	<b>401</b>	<b>103</b>
<b>COMPANY – 2016</b>				
BSP	1 020	988	17	15
Credit card	228	159	62	7
GSA	225	172	52	1
Stations	10	–	3	7
Cargo freight and mail	328	153	151	24
Alliance partners	146	133	13	–
Voyager	57	32	25	–
Default debtors	30	–	–	30
Other trade debtors	231	202	29	–
	<b>2 275</b>	<b>1 839</b>	<b>352</b>	<b>84</b>



	GROUP		COMPANY	
R MILLION	2017	2016	2017	2016
<b>21. TRADE AND OTHER RECEIVABLES (CONTINUED)</b>				
Past due but not impaired can be analysed further in terms of ageing as follows:				
30 to 60 days	120	316	114	299
61 to 90 days	44	(47)	40	(47)
91 to 120 days	120	131	101	100
+120 days	–	1	–	–
	<b>284</b>	<b>401</b>	<b>255</b>	<b>352</b>
<b>Credit quality of trade and other receivables</b>				
Trade receivables can be analysed based on historical collections performance as follows:				
<b>Trade receivables</b>				
Trade debtors with no history of default	1 996	1 880	1 899	1 839
Trade debtors where there have been isolated instances of default but no loss suffered	58	26	53	–
	<b>2 054</b>	<b>1 906</b>	<b>1 952</b>	<b>1 839</b>

**COLLATERAL HELD**

BSP debtors are credit-vetted by IATA, which holds a guarantee appropriate to the level of risk identified. Should an agent be in default with IATA, the guarantee is encashed and apportioned between the creditor airlines. SAA holds additional guarantees of R86 million (2016: R74 million) in respect of local GSA debtors and R117 million (2016: R124 million) in respect of Cargo debtors and Cargo GSAs, there were no significant changes in the quality of the collateral during the current financial year.

		GROUP			COMPANY		
R MILLION	Notes	2017	2016 Restated	2015 Restated	2017	2016 Restated	2015 Restated
<b>22. CASH AND CASH EQUIVALENTS</b>							
Cash and cash equivalents consist of:							
Foreign bank accounts	5	2 417	1 807	1 094	2 422	1 845	1 095
Domestic bank accounts	5	455	717	80	62	22	(697)
Short-term investments – call deposits (US\$ and EURO denominated)		–	177	121	–	177	121
<b>Total cash and cash equivalents</b>		<b>2 872</b>	<b>2 701</b>	<b>1 295</b>	<b>2 484</b>	<b>2 044</b>	<b>519</b>

Cash and cash equivalents consist of cash on hand, balances with banks and short-term deposits which can be accessed within 3 months at most. Cash and cash equivalents included in the cash flow statement are as detailed above.

Included in cash and cash equivalents above is restricted cash to the value of R1960 million (2016: R1418 million). Of this restricted cash, R1084 million (2016: R536 million) relates to “blocked cash”. According to IATA funds are deemed to be “blocked” when repatriations have not been possible for a period of two months, due to for instance, Exchange Control Regulations, shortages of foreign currency, tax laws or the obligatory submission of documentary evidence of monthly activities required by some foreign countries. Countries currently deemed blocked due to the aforementioned restrictions are Angola, Egypt, Nigeria, Zimbabwe, Senegal and the Ivory Coast. The balance of the restricted cash relates to funds held at outstations that are not readily available, however the outstations will transfer surplus funds (net of working capital requirements) at regular intervals, depending on banking infrastructure and country regulations in terms of repatriation of sales receipts.

		GROUP			COMPANY		
R MILLION	Notes	2017	2016 Restated	2015 Restated	2017	2016 Restated	2015 Restated
<b>23. BANK OVERDRAFT</b>							
Domestic bank overdrafts	5	684	23	1 185	663	–	1 155

All of the above overdraft facilities are reviewed annually and accrue interest at floating rates. The total available overdraft facility at year end was R830 million (2016: R930 million).

## NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

R MILLION	Notes	GROUP			COMPANY		
		2017	2016 Restated	2015 Restated	2017	2016 Restated	2015 Restated
<b>24. LONG-TERM LOANS</b>							
<b>Secured loans</b>							
External loans		<b>15 944</b>	14 058	9 622	<b>15 933</b>	14 043	9 603
<b>The loans are repayable as follows:</b>							
On demand or within one year		<b>8 140</b>	6 248	4 638	<b>8 133</b>	6 243	4 634
Two to five years	5	<b>6 304</b>	6 310	1 469	<b>6 300</b>	6 300	1 454
Later than five years		<b>1 500</b>	1 500	3 515	<b>1 500</b>	1 500	3 515
		<b>15 944</b>	14 058	9 622	<b>15 933</b>	14 043	9 603
Less: Current portion		<b>(8 140)</b>	(6 248)	(4 638)	<b>(8 133)</b>	(6 243)	(4 634)
	5	<b>7 804</b>	7 810	4 984	<b>7 800</b>	7 800	4 969
<b>The carrying amounts of long-term loans are denominated in the following currencies:</b>							
Rand denominated domestic loans*	5	<b>15 944</b>	14 058	9 291	<b>15 933</b>	14 043	9 272
US\$ denominated foreign loans		–	–	331	–	–	331
		<b>15 944</b>	14 058	9 622	<b>15 933</b>	14 043	9 603

\* Domestic secured loans amounting to R151 million in the prior year, were fully repaid in the current year. These loans used to bear interest at JIBAR plus a margin ranging from 1,48% to 2,44% and were secured over aircraft (Note 12). The balance of the loans bear interest at JIBAR plus a margin ranging from 0,6% to 5% and are secured by Shareholder guarantee.

R MILLION	Notes	GROUP			COMPANY		
		2017	2016 Restated	2015 Restated	2017	2016 Restated	2015 Restated
<b>25. TRADE AND OTHER PAYABLES</b>							
Trade payables	5	<b>1 601</b>	1 345	1 571	<b>1 606</b>	1 370	1 582
Payroll accruals	5	<b>949</b>	858	871	<b>705</b>	669	662
Ticket tax accruals	5	<b>2 827</b>	2 729	2 635	<b>2 731</b>	2 632	2 555
Other payables*	5	<b>2 908</b>	1 865	2 068	<b>2 744</b>	1 681	1 869
		<b>8 285</b>	6 797	7 145	<b>7 786</b>	6 352	6 668

\* Other payables comprise accruals processed in the normal course of business.

R MILLION	Notes	Financial liabilities at amortised cost	Fair value through profit or loss held-for-trading*	Total
<b>26. FINANCIAL LIABILITIES BY CATEGORY</b>				
Set out below is an analysis of all of the Group's financial liabilities that are carried at either fair value or amortised cost in the annual financial statements depending on their classification:				
<b>GROUP – 2017</b>				
Long- and short-term liabilities	24	15 944	–	15 944
Shareholder loan to share trust	31	63	–	63
Trade and other payables	25	4 325	–	4 325
Bank overdraft	23	684	–	684
Currency derivatives	14	–	1	1
Engine power by the hour liability	31	253	–	253
		<b>21 269</b>	<b>1</b>	<b>21 270</b>
<b>GROUP – 2016</b>				
<b>Restated**</b>				
Long- and short-term liabilities	24	14 058	–	14 058
Shareholder loan to share trust	31	63	–	63
Trade and other payables	25	3 149	–	3 149
Bank overdraft	23	23	–	23
Jet fuel forward exchange contracts and swaps	14	–	2	2
Currency derivatives	14	–	2	2
		<b>17 293</b>	<b>4</b>	<b>17 297</b>

\* Financial instruments held at fair value are level two instruments. A separate analysis has not been provided for the company, as the numbers do not differ significantly from the Group numbers.

\*\* Some prior year items above have been restated due to other restatements made throughout the annual financial statements. Please refer to Note 5 for more details regarding prior year restatements.

R MILLION	Notes	Loans and receivables	Fair value through profit or loss held-for-trading*	Available-for-sale	Total
<b>27. FINANCIAL ASSETS BY CATEGORY</b>					
Set out below is an analysis of all of the Group's financial assets that are carried at either fair value or amortised cost in the annual financial statements depending on their classification:					
<b>GROUP – 2017</b>					
Currency derivatives	14	–	9	–	9
Jet fuel options	14	–	25	–	25
Trade and other receivables	21	4 807	–	–	4 807
Cash and cash equivalents	22	2 872	–	–	2 872
Investment in SA Airlink (Pty) Limited	46	–	–	29	29
Maintenance reserve receivable	13	1 777	–	–	1 777
		<b>9 456</b>	<b>34</b>	<b>29</b>	<b>9 519</b>
<b>GROUP – 2016</b>					
<b>Restated**</b>					
Currency derivatives	14	–	66	–	66
Jet fuel options	14	–	18	–	18
Trade and other receivables	21	6 616	–	–	6 616
Cash and cash equivalents	22	2 701	–	–	2 701
Investment in SA Airlink (Pty) Limited	46	–	–	23	23
Maintenance reserve receivable	13	1 614	–	–	1 614
		<b>10 931</b>	<b>84</b>	<b>23</b>	<b>11 038</b>

\* Financial instruments held at fair value are level two instruments. A separate analysis has not been provided for the company, as the numbers do not differ significantly from the Group numbers.

\*\* Some prior year items above have been restated due to other restatements made throughout the annual financial statements. Please refer to Note 5 for more details regarding prior year restatements.

## NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

### 28. RISK MANAGEMENT

#### 28.1 FINANCIAL INSTRUMENTS CATEGORIES

##### Fair value of financial instruments

The Group has estimated fair values where appropriate, by using the following methods and assumptions:

##### Investment in unlisted shares classified as available-for-sale financial assets

The investment in the unlisted shares is held as an ancillary investment and is not considered a material holding to the Group. The value of the shares was impaired to zero but in previous financial years the impairment was reversed by a total of R23 million. There was a further reversal of R6 million in the current financial year. The investment is classified as a level 3 financial instrument. A valuation of the investment was conducted during the year on the net asset value and based on the results of SA Airlink's latest audited financial statements. The impairment has been reversed limited to SAA's 2,95 percent shareholding in SA Airlink.

##### Derivative assets and liabilities

The derivative assets and liabilities are entered into to manage Group exposure to foreign currency, interest rates and jet fuel price risks. The Group derivatives include fixed contracts, vanilla European and Asian options, swaps, call spreads and collars, which are entered into mainly to manage foreign currency exchange risk and jet fuel price risk. The fair values of the derivative instruments are determined based on observable inputs into valuation models.

Foreign currency forward contracts are mainly entered into to manage foreign currency exchange risk and are measured using the quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

All other financial assets and liabilities are measured at amortised cost.

Fixed swaps are valued using a simple discounted cash flow calculation. Asian options are valued using a combination of the Black Scholes and Black 76 formulas, where the inputs into the pricing model are the expected arithmetic average and the variance of the expected arithmetic average of the underlying. The treasury system used for the foreign currency hedges is SunGard Quantum and SunGard Kiodex for the Fuel commodity derivatives.

#### 28.2 GOVERNANCE STRUCTURE

The SAA Board is charged with the responsibility of managing the airline's financial risks. It is assisted by the Audit and Risk Committee, which reviews all the financial risks of the organisation, as well as key financial decisions. The Audit and Risk Committee is a committee of the Board and it meets at least once per quarter and is supported by the Financial Risk Subcommittee (FRSC) which meets on a monthly basis. The FRSC is chaired by the Chief Financial Officer and its membership is made up of key representatives: Chief Risk Officer, Group Treasurer, Head Cash Management, Chief Dealer, Risk Manager, Financial Risk Manager, Fuel Management, Head Financial Accounting and CFOs of all the subsidiaries.

##### Risk management systems

SAA has implemented a Treasury risk analytical system with advanced analytics to assist SAA's Front Office in the hedging decisions in the hedging portfolios. The key for this tool is its ability to handle jet fuel price risk exposures using commodity pricing models and the aggregation of all the other risks to enable SAA to have a view of its financial risks in the treasury environment.

The capital risk and financial risk management is described below.

#### 28.3 CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of share capital. The non-distributable reserves include general reserves and government restructuring funds, which are ring fenced for funding of the Group's restructuring activities to ensure that the entity returns to profitability with financial performance metrics similar to those of its world class peers. The debt includes long-term interest bearing borrowings and short-term borrowings, including accounts payable and bank overdrafts.

The Group uses short-term investment instruments to ensure continued funding of operations.

Refer to the going concern details as disclosed in Note 50, which notes the concern in respect of the risk that SAA is largely undercapitalised.

##### Aircraft and engine financing

Recent aircraft financing has been conducted using a sale and leaseback mechanism as a financing transaction. This type of structure is able to limit on balance sheet debt whilst acquiring much needed assets.

## 28. RISK MANAGEMENT (CONTINUED)

### 28.4 FINANCIAL RISK MANAGEMENT

The fundamental objective of financial risk management at SAA is to protect and, where possible, improve on future budgeted and forecast cash flows, and the financial performance and financial position of the Group, by:

- Protecting the Group from adverse market movements that manifest as financial downside for the business and endanger stakeholders (Shareholder, employees and the community), and threaten the sustainability and competitive position and reputational risk of the SAA Group in the market;
- Reducing the volatility and resultant uncertainty of operating revenues and cash flows that result from financial market volatility;
- Providing some price stability through improving the transparency of price mechanisms.

The main financial market risks faced by the Group are liquidity risk, credit risk and market risk which consist of interest rate risk, currency risk and commodity price risk.

The Board has a financial risk management policy with clearly defined objectives. This policy presents a framework and control environment that sets the limits within which management can leverage their experience and knowledge of the business together with financial risk management skills and a degree of innovation, to manage and mitigate financial risk on a day-to-day basis.

#### Liquidity risk

Liquidity risk is the risk that the Group does not meet its financial obligations on a cost effective and a timeous basis, and could result in reputational damage should a default occur.

The cash management and liquidity risk management processes are aimed at ensuring that the Group is managing its cash resources optimally, has sufficient funds to meet its day-to-day financial obligations, has established prudent limits on the percentage of debt that can mature in any financial year, is investing any cash surpluses in an appropriate and authorised way and has sufficient facilities in place to provide its relevant forecast liquidity requirement.

The principles for cash and liquidity management at SAA are as follows:

- Transactional banking relationships must be reviewed every five years. SAA Treasury is responsible for the recommendation of bankers through the normal tendering process within SAA and the Board will give final approval;
- All requests for the opening and closing of bank accounts and the management of bank account signatories are to be reviewed and approved by the Chief Financial Officer and the Group Treasurer;
- Prudent cash management practices must be implemented, including the use of a centralised pooled cash management bank account structure and systems, and the maintenance of minimum cash balances at operational level.

All companies within the Group are included in the cash management structure and form part of the cash and liquidity management practices of the Group.

#### Committed funding facilities

SAA is dependent on funding in the form of operating leases and loans in foreign currency and local currency, mainly for the purchase of aircraft and aircraft components and for funding SAA's operations. The volatility of the financial markets, SAA's financial standing and the difficulties experienced by the airline industry in general affect the availability of funding to airlines. Funding can sometimes be constrained to a limited number of counterparties at any given time. The underlying risk manifests in three forms:

- SAA loses committed funding from a particular counterparty due to that counterparty defaulting on an existing funding arrangement;
- SAA is unable to secure new funding at a particular time;
- SAA loses assets deposited as security deposits, defeasance deposits, or cash collateral on funding structures.

Cash and liquidity management takes into account the medium- to long-term funding plans of SAA as developed by the Funding Committee.



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for the year ended 31 March 2017

The following are the contractual maturities of financial liabilities based on undiscounted cash flows, excluding the impact of netting agreements and the derivative financial instruments that are out of the money at year end. The derivative financial instruments that are in the money are reflected as financial assets.

R MILLION	Carrying principal amount*	Contractual amount*	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years
<b>28. RISK MANAGEMENT (CONTINUED)</b>								
<b>28.4 FINANCIAL RISK MANAGEMENT (CONTINUED)</b>								
<b>Committed funding facilities (continued)</b>								
<b>GROUP – 31 MARCH 2017**</b>								
<b>Non-derivative financial liabilities</b>								
ZAR denominated secured loans	15 944	18 033	6 612	1 748	150	299	7 713	1 511
Accounts payable	8 285	8 285	–	8 285	–	–	–	–
Shareholder loan to share trust	63	63	–	–	–	–	63	–
<b>Total</b>	<b>24 292</b>	<b>26 381</b>	<b>6 612</b>	<b>10 033</b>	<b>150</b>	<b>299</b>	<b>7 776</b>	<b>1 511</b>
<b>Derivative financial instruments</b>								
Fuel – Asian options	25	25	12	10	3	–	–	–
FX – currency options	9	9	–	4	5	–	–	–
Forward exchange contracts – liabilities	(1)	(1)	(1)	–	–	–	–	–
<b>Total</b>	<b>33</b>	<b>33</b>	<b>11</b>	<b>14</b>	<b>8</b>	<b>–</b>	<b>–</b>	<b>–</b>

\* The carrying principal amount excludes interest while the contractual amount includes interest. This is applicable to non-derivative financial liabilities.

\*\* A separate liquidity analysis has not been provided for the company, as the numbers do not differ significantly from the Group numbers.

R MILLION	Carrying principal amount*	Contractual amount*	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years
<b>GROUP – 31 MARCH 2016**</b>								
<b>Restated Non-derivative financial liabilities</b>								
ZAR denominated secured loans	14 058	14 067	–	3 116	41	3 099	6 311	1 500
Accounts payable	6 797	6 797	–	6 797	–	–	–	–
Shareholder loan to share trust	63	63	–	–	–	63	–	–
<b>Total</b>	<b>20 918</b>	<b>20 927</b>	<b>–</b>	<b>9 913</b>	<b>41</b>	<b>3 162</b>	<b>6 311</b>	<b>1 500</b>
<b>Derivative financial instruments</b>								
Fuel – Asian options	18	18	–	1	5	12	–	–
FX – currency options	66	66	23	22	16	5	–	–
Fuel – swap liabilities	(2)	(2)	–	–	–	(2)	–	–
Forward exchange contracts – liabilities	(2)	(2)	(1)	–	–	(1)	–	–
<b>Total</b>	<b>80</b>	<b>80</b>	<b>22</b>	<b>23</b>	<b>21</b>	<b>14</b>	<b>–</b>	<b>–</b>

\* The carrying principal amount excludes interest while the contractual amount includes interest. This is applicable to non-derivative financial liabilities.

\*\* A separate liquidity analysis has not been provided for the company, as the numbers do not differ significantly from the Group numbers. Some prior year items above have been restated due to other restatements made throughout the annual financial statements. Please refer to Note 5 for more details regarding prior year restatements.

## 28. RISK MANAGEMENT (CONTINUED)

### 28.4 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### Other risks

##### Interest rate risk

Interest rate risk is the risk of increased financing cost due to adverse movements in market interest rates. Interest rate risk impacts SAA in the following forms:

- Increased cash costs in an increasing interest rate environment due to the Group's floating aircraft funding structures;
- The opportunity cost of funding at a higher rate in a declining interest rate environment due to the Group's fixed funding structures;
- The bulk of the Group's interest rate exposure is as a result of US\$ denominated aircraft financing structures.

This portfolio is made up of operating leases and loans. The portfolio is highly sensitive to the movement of US interest rates. The Group is continually monitoring and adjusting its fixed/floating ratio to adapt to the changing dynamics of its business operations and to protect its statement of profit or loss and other comprehensive income and statement of financial position.

The objectives of managing interest rate risk are to:

- Design appropriate funding structures (fixed versus floating, and local versus foreign currency) through the Treasury and Finance departments;
- Reduce the cost of capital;
- Minimise the effect of interest rate volatility on the Group's financing expenditure;
- Manage the ratio of floating rate exposures to fixed rate exposures;
- Obtain optimal investment returns on surplus cash, while ensuring that credit risk is managed;
- Ensure that appropriate levels of liquidity are maintained, while remaining within the guidelines set by this policy;
- Ensure efficiency by restructuring interest rate exposure as and when necessary.

The Group is exposed to changes in interest rates on floating rate debt and cash deposits. Interest rate risk on borrowings and leases is managed through determining the right balance of fixed and floating debt within the financing structure. To manage the interest rate exposure, the Group Treasury keeps a reasonable amount of foreign cash deposits to offset to some degree the finance charges. The current SAA Group policy limits the maximum interest rate exposure to fixed debt at 75 percent and floating debt at 50 percent. As at 31 March 2017, the current interest rate exposure to fixed debt is 58 percent and 42 percent in respect of floating debt. Market conditions are considered when determining the desired balance of fixed and floating rate debt. The sensitivities of the Group's floating interest rate debt and cash deposits are calculated using the annualised volatility over the last five years.

### 28.5 CREDIT RISK MANAGEMENT

Credit risk is the risk of losses (realised or unrealised) arising from a counterparty defaulting on a financial market instrument where the Group is a party to the transaction or failure to service debt according to contractual terms. Credit risk encompasses both the direct risk of default and the risk of deterioration of creditworthiness and the respective concentration risk.

The objectives of managing counterparty risk are to avoid contracting with any party that is not of an acceptable credit standing, formulate evaluation criteria of potential counterparties and implement monitoring measures and control processes for counterparty risk.

The Group is exposed to a number of types of counterparty risk as part of its normal business operations as described below:

#### Investment risk

Cash balances and investments held in a range of local and offshore bank accounts, in a range of currencies, which form part of SAA's cash management and revenue collection infrastructure.

#### Marginal risk

The Group makes use of derivative instruments in the foreign exchange, interest rate and commodity markets to mitigate the risk of adverse changes in cash flow and earnings that result from fluctuations in the financial markets. Counterparty risk arises on these derivative instruments when the hedging positions with counterparties have a positive net present value to SAA and are providing SAA with protection against adverse market movements in future. In this scenario SAA would lose the protection if the counterparty defaults on its obligation and SAA will have to replace this protection with similar hedging transactions at a higher cost. It is also important to note that, in the event that a counterparty goes into liquidation and its marginal risk position (net present value) is positive (an asset to the counterparty) with SAA, the company may be called on by the creditors of the counterparty to crystallise and settle the positions in question earlier than anticipated.

Counterparties are grouped in two major groups from a credit risk perspective:

## NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

### 28. RISK MANAGEMENT (CONTINUED)

#### 28.5 CREDIT RISK MANAGEMENT (CONTINUED)

##### Rated counterparties

Local and international banking and financial institutions, which are rated by major ratings agencies, and whose financial information is readily available.

##### Unrated counterparties

SAA needs to deal with and hold bank accounts in various locations with local banking institutions that may not be rated and for which there is very little or no financial information available. This is typically the case where there is no representation of any of the rated counterparties in such location and SAA has to use an unrated counterparty to fulfil normal operational banking requirements, or where it is agreed by the Board as a prerequisite for specific operating bases. The Group has therefore a very restricted mandate when dealing with any unrated counterparties.

The Group has operating accounts in some African countries which are not rated. The exposure to these banks is kept at a minimum.

##### Loans and receivables credit risk

The Group is exposed to credit risk relating to the nature of the distribution network for airline operations. The Group airline distribution network includes BSPs (these are IATA accredited travel agents) and general sales agents (GSAs) who are used in countries where there are no IATA accredited travel agents. Credit card debtors arise from the customers paying their fares using credit cards and the Group has to recover the money through the credit card financial institutions' clearing houses globally.

Other debtors mainly consist of loans receivable and fuel trading debtors. These are classified as other because they do not form part of the Group's normal operating activities. The Group manages its credit risk from trade receivables on the basis of an internally developed credit management policy. This policy sets out the credit limits and requirements for any credit enhancements. The Group holds a guarantee from a GSA as a prerequisite before it can accredit it to be part of its distribution network. The Group also requires some counterparties to provide guarantees in the form of cash and letters of credit as security for exposure. This is prevalent mainly on GSAs. The amount of guarantees is agreed upon based on the risk profile of the counterparty. The guarantees relating to BSP debtors are held directly by IATA for the benefit of all airlines exposed to a particular BSP.

##### Maximum exposure to credit risk

The carrying amount of financial assets represents the maximum credit risk exposure. The maximum exposure to credit risk at the reporting date was as follows:

	GROUP		COMPANY	
	2017	2016 Restated**	2017	2016 Restated**
<b>R MILLION</b>				
<b>Financial instruments</b>				
Cash and cash equivalents	2 872	2 701	2 484	2 044
Amounts receivable from subsidiaries*	–	–	1 212	1 476
Derivative assets held-for-trading	34	84	34	84
Trade and other receivables	4 807	6 616	4 662	6 564
Investments	29	23	29	23
Maintenance reserve receivable	1 777	1 614	1 710	1 614

\* These amounts are not past due or impaired.

\*\* Some prior year items above have been restated due to other restatements made throughout the annual financial statements. Please refer to Note 5 for more details regarding prior year restatements.

	IMPACT ON OTHER COMPONENTS OF EQUITY IN RAND*				
	Foreign currency amount '000	Carrying amount R'000	+30%* -30%* US\$ R'000	+17%* -17%* EUR R'000	+19%* -19%* GBP R'000
<b>Financial instruments</b>					
<b>Accounts receivable</b>					
<b>31 MARCH 2017</b>					
US\$ denominated	277 624	3 723 948	1 117 184	–	–
EUR denominated	34 387	491 329	–	83 526	–
GBP denominated	7 675	129 201	–	–	24 548
		4 344 478	1 117 184	83 526	24 548

		IMPACT ON OTHER COMPONENTS OF EQUITY IN RAND*			
	Foreign currency amount '000	Carrying amount R'000	+21%* -21% US\$ R'000	+17%* -17% EUR R'000	+15%* -15% GBP R'000

## 28. RISK MANAGEMENT (CONTINUED)

### 28.5 CREDIT RISK MANAGEMENT (CONTINUED)

#### Maximum exposure to credit risk

(continued)

#### Financial instruments

#### Accounts receivable

#### 31 MARCH 2016

US\$ denominated	221 385	3 269 376	686 569	–	–
EUR denominated	30 856	518 553	–	88 154	–
GBP denominated	6 753	143 216	–	–	21 482
		3 931 145	686 569	88 154	21 482

\* The percentages used are based on the average movement over the past four years.

The Group does not generally charge interest on any overdue accounts, therefore the accounts receivable are mainly sensitive to movements in major foreign currencies as detailed above.

### 28.6 MARKET RISK MANAGEMENT

Market risk comprises currency risk, interest rate risk and price risk.

Set out below is the impact of market risk on the Group's annual financial statements:

#### Currency risk

Foreign exchange risk is the risk of loss as a result of adverse movements in currency exchange rates. The biggest contributors to currency risk for the Group are foreign revenues earned at operating unit level, aircraft financing transactions and the covariance risks inherent in the Group's revenue and cost streams. The Group's approach to foreign currency risk management is to protect itself against exchange rate volatility and adverse movements in the exchange rate of the rand in relation to other currencies that the Group is exposed to. The Board made a decision to manage its foreign exchange risk exposures on a net exposure basis, ie taking into account the different currencies it receives in its revenue stream, the different currencies in which its cost base is denominated, and the underlying natural hedges that exist in its business operations. Foreign exchange risk is managed through the use of cash collection and conversion strategies and approved derivative financial instruments which are marked to market on a daily basis. The Group's policy on foreign exchange risk management is to hedge up to 75 percent of its exposure on an 18-month rolling basis.

The Group's currency risk is represented by the increased financial cost and/or cash requirements due to the net exposure between foreign revenue generated, foreign expenditure commitments and domestic revenues and expenditure commitments. The main objective of the currency risk management policy is to mitigate the potential for financial loss arising through unfavourable movements in exchange rates relative to the budget.

Foreign exchange risk will be managed on a net basis, including operating and capital exposures after taking the following into consideration:

- Source currencies for revenue and costs (US\$, GBP and EUR);
- Both direct and indirect foreign exposure. Indirect foreign exposure is where SAA pays in ZAR, but the exposure is determined by using a US\$ price, for example jet fuel uplifted in South Africa;
- Volatility of the rand versus US\$, GBP and EUR and the correlation between these currencies;
- Foreign currency exposures are determined from the 18-month rolling ZAR and foreign cash budget. Foreign currency risk will be monitored and managed under the following principles:
  - The net foreign currency position will be monitored on a monthly basis by obtaining the net foreign currency position in all currencies from the 18-month rolling cash budget, including forecast foreign cash balances;
  - The accuracy of forecast revenues and costs are of critical importance when determining net foreign currency exposure. Management should take care to establish the levels of confidence in achieving forecast revenues and costs on an ongoing basis when designing hedging strategies;
  - The foreign versus domestic currency funding decision (loans/leases) should always consider current foreign currency risk management position and practices, since these decisions are a significant source of foreign currency exposure for the Group.

The decision to manage capital foreign currency exposures (such as leases and loans) should be combined with the business strategy, route planning and funding decisions (as appropriate), to ensure that funding and foreign currency risk management strategies are complementary to the business strategy and present the most relevant overall solution to the Group.

## NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

### 28. RISK MANAGEMENT (CONTINUED)

#### 28.6 MARKET RISK MANAGEMENT (CONTINUED)

##### Foreign exchange risk

The Group collects revenues in approximately 30 currencies other than ZAR, EUR, GBP and US\$. The foreign risk of exotic currencies cannot be practically managed at the local currency level, therefore the cash management structure rolls local currency balances up into hard currency pool accounts on a weekly basis. Currency risk exposures are managed at the hard currency level, ie in US\$, GBP and EUR versus ZAR.

The Group did not have any derivatives that qualified for hedge accounting in the current or prior year.

The year end exchange rates applied in the translation of the Group's foreign monetary assets and liabilities are as follows:

	2017	2016
<b>Exchange rates used expressed in the number of rands per unit of foreign currency:</b>		
United States dollar (US\$)	13,41	14,77
Euro (EUR)	14,29	16,81
Pounds sterling (GBP)	16,83	21,21

	FOREIGN AMOUNT		RAND AMOUNT	
FIGURES IN MILLIONS	2017	2016	2017	2016
<b>Foreign currency exposure at statement of financial position date</b>				
The following debtors and creditors amounts included in the statement of financial position have not been covered by forward exchange contracts:				
<b>Accounts receivable</b>				
US dollar	278	221	3 724	3 269
Euro	34	31	491	519
UK pound	8	7	129	143
Hong Kong dollar	14	11	24	20
Danish krone	2	3	4	6
Swiss franc	3	2	34	30
Australian dollar	2	4	23	48
Brazilian real	36	29	157	119
Thai baht	5	3	2	1
Malawian kwacha	797	637	15	14
Other	–	–	422	453
			5 025	4 622
<b>Accounts payable</b>				
US dollar	31	28	414	418
Euro	22	17	316	283
UK pound	2	2	41	45
Australian dollar	4	3	39	39
Benin CFA Franc BCEAO	322	5	7	–
Other	–	–	79	64
			(896)	(849)
Accounts receivable as above			5 025	4 622
<b>Net exposure</b>			4 129	3 773

The Group reviews its foreign currency exposure, including commitments on an ongoing basis. The company expects to hedge foreign exchange exposure with foreign exchange contracts and currency options.



## 28. RISK MANAGEMENT (CONTINUED)

### 28.6 MARKET RISK MANAGEMENT (CONTINUED)

#### Price risk associated with commodities

Jet fuel consumption is SAA's biggest cost contributor, representing approximately 22 percent of the Group's cost base. Jet fuel prices have a high level of uncertainty caused by supply shocks, demand patterns, currency fluctuations, market sentiment and political events. Jet fuel price risk is the risk of increased cash cost of jet fuel due to an increase in the prices of the various jet fuel product prices that the Group pays for physical jet fuel purchased around the globe.

SAA currently consumes approximately 101 million litres (2016: 101 million litres) of jet fuel per month. This means that any change in price will have a significant impact on the Group's performance.

The objectives of managing jet fuel price risk are to:

- Reduce the volatility of jet fuel costs and the effect of this volatility on cash flows and earnings, ie price stability;
- Limit the impact of derivative instruments on the Group's financial position and performance;
- Occupy a competitive position in the airline industry in terms of jet fuel price risk management, negating the competitive advantage that competitors derive from their jet fuel risk management strategies;
- Utilise any backwardation in the energy forward curves to reduce future jet fuel costs;
- Provide a protection buffer during times of elevated jet fuel prices;
- Continually and dynamically transact a minimum amount of hedging in the financial markets;
- Ensure that hedging prices are averaged into the market and that large hedges are not transacted at single points in time, which may represent the peak of the market.

The Group manages its jet fuel price risk exposures using derivative financial instruments. All derivative contracts are marked to market and are cash settled. The Group's risk policy permits the organisation to manage its jet fuel price risk exposures using the underlying products such as International Crude Exchange (ICE), Brent Crude Oil, ICE Gas Oil 0,5 percent, Gas Oil, Western Texas Intermediate (WTI), FOB ARAB Gulf 0,5 percent and Jet Kerosene (North West Europe) NWE. It is SAA's policy to hedge a maximum of 60 percent of its jet fuel price risk exposures on an 18-month rolling basis with no minimum hedge percentage.

#### Sensitivity analysis

The Group sensitivity analysis would include the sensitivity of annual financial statements to currency risk based on US\$, which carries a greater impact on the Group, the interest rate risk sensitivity to LIBOR and JIBAR, the other price risk sensitivity mainly driven by the price per barrel of oil based commodity derivatives.

The following sensitivity analysis was determined based on the 12-month horizon with reasonable possible change at year end. Management has determined the reasonable possible change using market input and historical data. The 12 months was considered appropriate as the Group only publishes its results annually and has reasonable expectations for uncertainties in the 12-month horizon. For internal reporting to the Audit and Risk Committee, a one-month horizon is utilised.

	CURRENCY*		COMMODITY PRICE DERIVATIVES*			
	Foreign currency amount '000	Carrying amount R'000	Profit/(loss) impact -30% US\$ R'000	Profit/(loss) impact +30% US\$ R'000	Loss impact -40% Brent -38% WTI -38% gas oil -33% jet fuel R'000	Profit impact +40% Brent +38% WTI +38% gas oil +33% jet fuel R'000
<b>GROUP AND COMPANY**</b>						
<b>Derivative financial instruments</b>						
<b>31 MARCH 2017</b>						
<b>ICE Brent commodity derivatives</b>						
Call spreads	1 815	24 346	(7 304)	7 304	21 461	27 016
Asian call options	18	241	(72)	72	162	368
<b>US\$ foreign exchange derivatives</b>						
European options	–	8 688	(1 003)	1 092	–	–
Forward exchange contracts – liabilities	–	(609)	(75)	75	–	–
		<b>32 666</b>	<b>(8 454)</b>	<b>8 543</b>	<b>21 623</b>	<b>27 384</b>

## NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

			CURRENCY*		COMMODITY PRICE DERIVATIVES*	
	Foreign currency amount	Carrying amount	Profit/(loss) impact -21% US\$	Profit/(loss) impact +21% US\$	Loss impact -34% Brent -32% WTI -32% gas oil -28% jet fuel	Profit impact +34% Brent +32% WTI +32% gas oil +28% jet fuel
	'000	R'000	R'000	R'000	R'000	R'000

### 28. RISK MANAGEMENT

(CONTINUED)

#### 28.6 MARKET RISK

MANAGEMENT (CONTINUED)

##### Sensitivity analysis

(continued)

##### GROUP AND COMPANY\*\*

Derivative financial instruments

31 MARCH 2016

ICE Brent commodity derivatives

Fixed swaps – liabilities	(127)	(1 875)	394	(394)	(3 123)	(627)
Call spreads	400	5 905	(1 240)	1 240	5 146	6 712
Asian call options	823	12 153	(2 552)	2 552	10 344	14 227

ICE gas oil commodity derivatives

Call spreads	12	179	(38)	38	134	234
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US\$ foreign exchange derivatives

European options	–	65 549	(64 545)	165 823	–	–
Forward exchange contracts – liabilities	–	(2 402)	(1 614)	–	–	–

	79 509	(69 595)	169 259	12 501	20 546
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\* The percentages are based on the average movement over the past four years.

\*\* A separate liquidity analysis has not been provided for the company, as the numbers do not differ significantly from the Group numbers.

R MILLION	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
<b>28. RISK MANAGEMENT (CONTINUED)</b>				
<b>28.6 MARKET RISK MANAGEMENT (CONTINUED)</b>				
<b>Fair value hierarchy and fair value measurements of all financial assets and liabilities held at fair value:</b>				
<b>GROUP AND COMPANY</b>				
<b>31 MARCH 2017</b>				
<b>Assets</b>				
Jet fuel options	–	25	–	25
Currency derivatives	–	9	–	9
	–	34	–	34
<b>Liabilities</b>				
Currency derivatives	–	1	–	1
	–	1	–	1
<b>31 MARCH 2016</b>				
<b>Assets</b>				
Jet fuel options	–	18	–	18
Currency derivatives	–	66	–	66
	–	84	–	84
<b>Liabilities</b>				
Jet fuel forward exchange contracts and swaps	–	2	–	2
Currency derivatives	–	2	–	2
	–	4	–	4

### Fair value measurements

The fair values of jet fuel options, currency derivatives and jet fuel forward exchange contracts and swaps are valued using a market approach. Inputs into the fair value measurement, include interest rates and yield curves at commodity quoted intervals, interest rates and applied volatilities. There was no change in the fair value measurement during the current financial year.

### Fair value hierarchy

The table above analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identifiable assets and liabilities;
- Level 2: Inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (ie from prices) or indirectly (ie derived from prices);
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial statement items for which fair value is recognised or disclosed are categorised within the fair value hierarchy as described above. Please refer to Note 12 for the valuation techniques and inputs used to determine the fair value of revalued land and buildings. The fair value of long-term loans as disclosed in Note 24 can be determined by calculating the present value of future principal and interest cash flows, discounted at the market rate of interest for similar liabilities at the reporting date. The fair values of financial liabilities such as trade and other payables and the bank overdraft have not been disclosed, as their carrying values will be a reasonable approximation of their fair values, due to the short-term nature of these instruments, similarly the fair values of financial assets such as trade and other receivables and cash and cash equivalents will not be disclosed as well. Please refer to Note 28.1 for the valuation techniques and inputs used to determine the fair value of the Investment in SA Airlink, this investment is classified as a level 3 instrument, the valuation of this investment resulted in a R5 million gain being recognised in other comprehensive income in the current financial year. There were no changes in any of the fair value measurements during the current financial year.

## NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

			CURRENCY <sup>(1)</sup>		INTEREST RATE <sup>(1)</sup>	
	Foreign currency amount '000	Carrying amount R'000	Profit/(loss) impact -30% US\$ R'000	Profit/(loss) impact +30% US\$ R'000	Profit/(loss) impact -12 BPS US\$ -30 BPS ZAR R'000	Profit/(loss) impact +12 BPS US\$ +30 BPS ZAR R'000
<b>28. RISK MANAGEMENT (CONTINUED)</b>						
<b>28.6 MARKET RISK MANAGEMENT (CONTINUED)</b>						
<b>GROUP AND COMPANY</b>						
<b>Non-derivative financial instruments</b>						
<b>31 MARCH 2017</b>						
Secured borrowing – JIBAR floating debt (ZAR denominated)	–	15 943 934	–	–	47 832	(47 832)
Accounts payable (US\$ denominated)	30 836	413 625	124 088	(124 088)	–	–
ZAR based bank overdraft	–	683 579	–	–	2 051	(2 051)
<b>Total financial liabilities</b>		<b>17 041 138</b>	<b>124 088</b>	<b>(124 088)</b>	<b>49 883</b>	<b>(49 883)</b>
Foreign cash and cash equivalents (Favourable cash – US\$ equivalent)	180 220	2 417 404	(725 221)	725 221	(2 901)	2 901
ZAR based cash and cash equivalents (Favourable cash)	–	455 341	–	–	(1 366)	1 366
<b>Total financial assets</b>		<b>2 872 745</b>	<b>(725 221)</b>	<b>725 221</b>	<b>(4 267)</b>	<b>4 267</b>
			CURRENCY <sup>(1)</sup>		INTEREST RATE <sup>(1)</sup>	
	Foreign currency amount '000	Carrying amount R'000	Profit/(loss) impact -21% US\$ R'000	Profit/(loss) impact +21% US\$ R'000	Profit/(loss) impact -16 BPS US\$ -54 BPS ZAR R'000	Profit/(loss) impact +16 BPS US\$ +54 BPS ZAR R'000
<b>GROUP AND COMPANY</b>						
<b>Non-derivative financial instruments</b>						
<b>31 MARCH 2016</b>						
<b>Restated*</b>						
Secured borrowing – JIBAR floating debt (ZAR denominated)	–	14 058 308	–	–	75 915	(75 915)
Accounts payable (US\$ denominated)	28 301	417 938	87 767	(87 767)	–	–
ZAR based bank overdraft	–	23 177	–	–	125	(125)
<b>Total financial liabilities</b>		<b>14 499 423</b>	<b>87 767</b>	<b>(87 767)</b>	<b>76 040</b>	<b>(76 040)</b>
Foreign cash and cash equivalents (Favourable cash – US\$ equivalent)	134 376	1 984 438	(416 732)	416 732	(3 175)	3 175
ZAR based cash and cash equivalents (Favourable cash)	–	717 323	–	–	(3 874)	3 874
<b>Total financial assets</b>		<b>2 701 761</b>	<b>(416 732)</b>	<b>416 732</b>	<b>(7 049)</b>	<b>7 049</b>

\* Some prior year items above have been restated due to other restatements made throughout the annual financial statements. Please refer to Note 5 for more details regarding prior year restatements.

			IMPACT ON OTHER COMPONENTS OF EQUITY IN RAND <sup>(1)</sup>	
	Foreign currency amount '000	Carrying amount R'000	+17% -17% EUR/US\$ R'000	+19% -19% GBP/US\$ R'000
<b>28. RISK MANAGEMENT (CONTINUED)</b>				
<b>28.6 MARKET RISK MANAGEMENT (CONTINUED)</b>				
<b>GROUP AND COMPANY</b>				
<b>Non-derivative financial instruments</b>				
<b>31 MARCH 2017</b>				
<b>Denominated in EUR and GBP<sup>(2)</sup></b>				
Accounts payable – EUR	22 131	316 219	53 757	–
Accounts payable – GBP	2 438	41 048	–	7 799
		357 267	53 757	7 799
			IMPACT ON OTHER COMPONENTS OF EQUITY IN RAND <sup>(1)</sup>	
	Foreign currency amount '000	Carrying amount R'000	+17% -17% EUR/US\$ R'000	+15% -15% GBP/US\$ R'000
<b>GROUP AND COMPANY</b>				
<b>Non-derivative financial instruments</b>				
<b>31 MARCH 2016</b>				
<b>Denominated in EUR and GBP<sup>(2)</sup></b>				
Accounts payable – EUR	16 812	282 538	48 031	–
Accounts payable – GBP	2 133	45 242	–	6 786
		327 780	48 031	6 786

(1) The percentages are based on the average movement over the past four years.

(2) The Group does not incur any interest on accounts payable.

### Lease commitments

The Group lease commitments are mainly denominated in US\$. Some of these commitments are fixed while some have a floating LIBOR rate linked component. SAA is therefore through its lease commitments exposed to both interest rate risk and foreign currency risk. Interest rates on these leases are linked to one, three and six months LIBOR rates. These are not specifically hedged but are considered part of the net exposure for hedging purposes on foreign exchange.

### Foreign defined benefit obligations

The Group is also exposed to foreign currency risk relating to its foreign defined benefit obligations. The German Pension Fund obligation is denominated in Euro. Any movement is currency based on this fund and reasonable possible changes in the Euro would further impact the Group exposure to foreign currency risk and SAA hedges this exposure on a net portfolio hedge basis.



## NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

		GROUP		COMPANY	
R MILLION	Notes	2017	2016 Restated	2017	2016 Restated
<b>29. EMPLOYEE BENEFIT EXPENSES</b>					
<b>29.1 SHORT-TERM EMPLOYEE BENEFIT EXPENSES</b>					
Personnel and labour costs		5 622	5 311	3 650	3 446
Contribution to medical funds		69	67	51	47
		5 691	5 378	3 701	3 493
<b>29.2 POST-EMPLOYMENT BENEFIT EXPENSES*</b>					
Contribution to pension funds		423	408	295	281
Contribution to provident funds		57	64	57	64
Current-service cost		18	17	18	17
Interest cost		151	130	151	130
Return on plan assets		(209)	(166)	(209)	(166)
		440	453	312	326
<b>Total employee benefit expenses</b>	5	<b>6 131</b>	<b>5 831</b>	<b>4 013</b>	<b>3 819</b>

\* These costs relate to other post-employment and other long-term employee benefit plans for the Group. The post-employment benefit costs have been disclosed in Note 32.

		GROUP		COMPANY	
R MILLION		2017	2016	2017	2016
<b>30. RETIREMENT BENEFITS</b>					
Post-retirement medical benefits		(26)	(26)	(26)	(26)
Retirement benefit obligation		(95)	(102)	(95)	(102)
Retirement benefit asset		26	38	26	38
		(95)	(90)	(95)	(90)
Non-current assets		26	38	26	38
Non-current liabilities		(121)	(128)	(121)	(128)
		(95)	(90)	(95)	(90)
<b>31. OTHER LONG-TERM LIABILITIES</b>					
Shareholder loan to South African Airways					
Employee Share Trust		63	63	–	–
Engine power by the hour liability		253	–	253	–
		316	63	253	–

The Shareholder loan to the South African Airways Employee Share Trust was created when the class E shares were transferred into the South African Airways Employee Share Trust from the Shareholder. The loan is interest-free and is repayable on the winding up of the South African Airways Employee Share Trust. It is unlikely that the South African Airways Employee Share Trust will be wound up during the 2017/2018 financial year and therefore has been classified as long-term.

The engine power by the hour liability relates to catch-up payments that the Group will pay for engines previously not covered by power by the hour agreements. This relates to the non-current portion of the liability, the current portion is disclosed under "Other payables" in Note 25.

## 32. EMPLOYEE BENEFIT INFORMATION

### 32.1 SAA GROUP PENSION BENEFITS

The Group offers pension benefits through two defined benefit pension funds and various defined contribution funds. The Transport Pension Fund was previously known as the Transnet Pension Fund, the name was amended in November 2005. The Transnet Pension Fund Amendment Act restructured the Transport Pension Fund into a multi-employer pension fund. From the date this Act came into operation, all existing members, pensioners, dependant pensioners, liabilities, assets, rights and obligations of the Transport Pension Fund are attributable to a subfund, with Transnet as the principal employer.

The amended Rules of the Fund establish a subfund in the name of South African Airways SOC Limited (SAA Group) from 1 April 2006. A further subfund in the name of South African Rail Commuter Corporation Limited was established with effect from 1 May 2006. The third subfund currently in existence is the Transnet subfund.

The SAA Group also offers post-retirement medical benefits to its employees through various funds of its own.

#### Exposure to risks

The risks faced by the Group as a result of the post-employment benefit obligation can be summarised as follows:

- **Inflation:** The risk that future CPI inflation is higher than expected and uncontrolled;
- **Longevity:** The risk that pensioners live longer than expected and thus their pension benefit is payable for longer than expected;
- **Open-ended, long-term liability:** The risk that the liability may be volatile in the future and uncertain;
- **Future changes in legislation:** The risk that changes to legislation with respect to the post-employment liability may increase the liability for the Group;
- **Future changes in the tax environment:** The risk that changes in the tax legislation governing employee benefits may increase the liability for the Group;
- **Administration:** Administration of this liability poses a burden to the Group.

#### 32.1.1 Transnet retirement fund (TRF)

The fund was structured as a defined contribution fund from 1 November 2000. All employees of SAA are eligible members of the fund. There were 4 101 members (2016: 4 703) at 31 March 2017. Actuarial valuations are done, at intervals not exceeding three years, to determine its financial position. The last actuarial valuation was performed at 31 March 2017. The actuaries were satisfied with the status of the members' credit account then. The Group's contributions for the period to 31 March 2017 amounted to R446 million (2016: R427 million).

#### 32.1.2 SAA subfund of the transport pension fund

The fund is a closed defined benefit pension fund. Members are current employees of the SAA Group who elected to remain as members of the fund at 1 November 2000 and pensioner members who retired subsequent to that date. There were 61 active members (2016: 70) and 298 pensioners (2016: 304) at 31 March 2017. An actuarial valuation was done as at 31 March 2017 based on the projected unit credit method.

The benefits for the members of the fund are determined based on the formula below:

A member with at least 10 years' pensionable service is entitled to the following benefits on attaining the minimum retirement age: An annual pensionable salary equal to average pensionable salary multiplied by pensionable service multiplied by accrual factor plus a gratuity equal to a third of annual pension multiplied by gratuity factor. A member with less than 10 years of pensionable service is entitled to a gratuity equal to twice the member's own contributions without interest on attaining the age limit.

The asset splits between the three subfunds were calculated, based on the proportional allocation of benefit liabilities to be transferred to each subfund, and presented to the Board of the fund. The physical split has been agreed by the principal employers and the subfunds' Boards.

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in each territory. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 63.

The Group expects to make a contribution of R5.7 million (2017: R5.9 million) to the defined benefit plan during the next financial year.

## NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

PERCENT	2017	2016
<b>32. EMPLOYEE BENEFIT INFORMATION (CONTINUED)</b>		
<b>32.1 SAA GROUP PENSION BENEFITS (CONTINUED)</b>		
<b>32.1.2 SAA subfund of the transport pension fund (continued)</b>		
<b>Principal actuarial assumptions used:</b>		
Discount rate	9,12	9,26
Inflation	6,53	6,94
Salary increases		
– Inflation	7,53	7,94
Pension increases		
– First three years	4,90	5,21
– After three years	4,90	5,21
R MILLION	2017	2016
<b>Benefit asset</b>		
Present value of obligation	(1 575)	(1 592)
Fair value of plan assets	2 372	2 261
Surplus	797	669
Asset not recognised	(771)	(631)
<b>Net asset per the statement of financial position</b>	<b>26</b>	<b>38</b>
<b>Reconciliation of movement in present value of obligation</b>		
Opening benefit liability at the beginning of the year	(1 592)	(1 625)
Service cost	(10)	(10)
Interest cost	(142)	(122)
Remeasurement	30	46
Benefits paid	143	123
Member contributions	(4)	(4)
<b>Closing fair value of obligation</b>	<b>(1 575)</b>	<b>(1 592)</b>
<b>Reconciliation of fair value of plan assets</b>		
Opening fair value of plan assets	2 261	2 132
Return on plan assets	203	161
Remeasurement	43	82
Employer's contributions	5	5
Benefits paid	(144)	(123)
Member contributions	4	4
<b>Closing fair value of plan assets</b>	<b>2 372</b>	<b>2 261</b>
PERCENT	2017	2016
<b>The major categories of plan assets as a percentage of total plan assets are:</b>		
Equity	33	34
Property	7	8
Bonds	22	22
Cash	13	9
International	25	27
<b>Total</b>	<b>100</b>	<b>100</b>
R MILLION	2017	2016
Current-service cost	10	10
Interest on obligation	142	122
Return on plan assets	(203)	(161)
	(51)	(29)

The plan has a surplus that is not recognised on the basis that future economic benefits are not available to the Group in the form of a reduction in future contributions or a cash refund.

## 32. EMPLOYEE BENEFIT INFORMATION (CONTINUED)

### 32.1 SAA GROUP PENSION BENEFITS (CONTINUED)

#### 32.1.2 SAA subfund of the transport pension fund (continued)

The net remeasurement loss on this defined benefit plan of R9 million (2016: gain of R2 million) per Note 41 is arrived at by reducing the net remeasurement gain of R73 million (2016: R128 million) above by R82 million (2016: R126 million), which is the net change in the surplus asset that may not be recognised per the actuarial valuation.

As at the last valuation date, the present value of the defined benefit obligation was comprised of approximately R445 million (2016: R454 million) relating to active employees, RNil (2016: RNil) relating to deferred members and R1 130 million (2016: R1 138 million) relating to members in retirement.

The plan assets are primarily invested in equities and bonds (with a majority in equities). This exposes the Fund to a slight concentration of market risk. If the plan assets are not adequate or suitable to fund the liabilities of the fund (and the nature thereof) the Group will be required to fund the balance, hence exposing the Group to risks on the investment return.

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	IMPACT ON DEFINED BENEFIT OBLIGATION		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1%	Decrease by 9,0%	Increase by 8,3%
Inflation rate	1%	Increase by 6,2%	Decrease by 7,5%
Pension increase rate increased to 5,5%	0,60%	Decrease by 11,5%	N/A

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

### 32.2 MEDICAL BENEFITS

#### 32.2.1 SAA Group employees' post-retirement medical benefits

The Group has an arrangement with its employees whereby SAA subsidises its members for post-retirement medical benefits. The post-retirement medical benefits obligation relates to SAA Group continuation and in-service members who are members of Transnet, and who retired after 31 March 1990 or are still employees of SAA; employees who participate in the Discovery Health Medical Scheme; employees who participate in the Bonitas Medical Scheme and those who do not belong to a medical scheme.

There were 687 continuation members (2016: 719) and 4 777 in-service members (2016: 4 242) at 31 March 2017. The expected retirement age is 63 years and there is no allowance for early retirement. The average age of the continuation members was 70,6 years (2016: 70,8 years) and the average age of the in-service members was 41,0 years (2016: 41,8 years) at 31 March 2017. The Group expects to make a contribution of R1.8 million (2017: R1.9 million) to the defined benefit plan during the next financial year.

## NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

	2017	2016
<b>32. EMPLOYEE BENEFIT INFORMATION (CONTINUED)</b>		
<b>32.2 MEDICAL BENEFITS (CONTINUED)</b>		
<b>32.2.1 SAA Group employees' post-retirement medical benefits (continued)</b>		
<b>Eligible in-service members:</b>		
<b>Number of members</b>		
Male	2 375	1 975
Female	2 402	2 267
	<b>4 777</b>	<b>4 242</b>
<b>Average age and average past service</b>		
Average age (years)	<b>41,0</b>	41,8
Average past service (years)	<b>14,0</b>	25,4
<b>Eligible continuation members:</b>		
<b>Number of members</b>		
Male	<b>532</b>	579
Female	<b>155</b>	140
	<b>687</b>	<b>719</b>
<b>Average age</b>		
Average age (years)	<b>70,6</b>	70,8

SAA subsidises continuation and in-service members with a fixed amount of R213 (2016: R213) per month in retirement. The amount is fixed irrespective of the number of dependants on the medical scheme. Dependants of members who die while in-service continue to receive this amount. To enable the SAA Group to fully provide for such post-retirement medical aid liabilities, since April 2000 actuarial valuations are obtained annually, as required by IAS 19 – Employee benefits. There are no assets held to fund the obligation.

### Risks involved in maintaining the post-employment healthcare obligation

The risks faced by SAA as a result of the post-employment healthcare obligation can be summarised as follows:

- **Longevity:** The risk that pensioners live longer than expected and thus their healthcare benefit is payable for longer than expected;
- **Open-ended, long-term liability:** The risk that the liability may be volatile in the future and uncertain;
- **Future changes in legislation:** The risk that changes to legislation with respect to the post-employment healthcare liability may increase the liability for SAA;
- **Future changes in the tax environment:** The risk that changes in the tax legislation governing employee benefits may increase the liability for SAA;
- **Perceived inequality by non-eligible employees:** The risk of dissatisfaction of employees who are not eligible for a post-employment healthcare subsidy;
- **Administration:** Administration of this liability poses a burden to SAA;
- **Enforcement of eligibility criteria and rules:** The risk that eligibility criteria and rules are not strictly or consistently enforced.

### Allocation of liability to SAA Group

The net benefit costs are allocated to subsidiaries of Transnet based on the demographic distribution of the Transnet Medical Scheme members across units.

Any deficit or liability for post-retirement medical benefits, incurred prior to 31 March 1999, is by agreement between Transnet Limited and SAA, for the account of Transnet Limited. Any liability directly attributable to the airline after 1 April 1999 will be for SAA's account.

The economic assumptions have been set in relation to the duration of the liability as at 31 March 2016 of 11,8 years. The duration of the liability as at 31 March 2017 is 8,8 years.

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in each territory. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 63.

The projected unit credit method has been used for the purposes of determining an actuarial valuation of post-retirement medical benefits as at 31 March 2017.



**32. EMPLOYEE BENEFIT INFORMATION (CONTINUED)****32.2 MEDICAL BENEFITS (CONTINUED)****32.2.1 SAA Group employees' post-retirement medical benefits** (continued)

The table below summarises the components of net benefit expense recognised in both the statement of profit or loss and other comprehensive income and the statement of financial position for the SAA Group as at 31 March 2017 for SAA Group employees.

The principal actuarial assumptions used were as follows:

PERCENT	2017	2016
Discount rate	9,00	10,05
R MILLION	2017	2016
<b>Net benefit liability</b>		
Present value of unfunded benefit obligations	26	26
<b>Changes in the present value of defined benefit obligations are as follows:</b>		
Opening liability	26	29
Service cost	2	1
Interest cost	1	2
Remeasurement	(1)	(5)
Benefits paid	(2)	(1)
<b>Benefit liability at year end</b>	<b>26</b>	<b>26</b>
<b>Amounts recognised in the statement of profit or loss and other comprehensive income</b>		
Current-service cost	2	1
Interest on obligation	1	2
	<b>3</b>	<b>3</b>

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	IMPACT ON DEFINED BENEFIT OBLIGATION		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1%	Decrease by 9,4%	Increase by 11,4%
Expected retirement age	one year	Decrease by 5,0%	Increase by 5,7%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the medical liability recognised within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

**32.3 SA GERMAN PENSION FUND BENEFITS**

SAA operates a retirement plan for its permanent employees based in Germany. The scheme is a defined benefit fund. The scheme consists of three groups which are entitled to different benefits as follows:

**Group 1:** Those in the employment of SAA before 1976. All employees who were members in this group have retired and the scheme has therefore been closed with effect from March 2004;

**Group 2:** Those in the employment of SAA from April 1976 to December 1988;

**Group 3:** All new employees who joined SAA after 1 January 1989.

The benefits payable to groups 2 and 3 are determined with reference to the rules of the scheme and are based on the percentage of the average salary for the last 12 months multiplied by the number of years of pensionable service plus a cash lump sum. The retirement age for all employees is 63 years.

The Group expects to make a contribution of R2.6 million (2017: R3.3 million) to the defined benefit plan during the next financial year.

## NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

### 32. EMPLOYEE BENEFIT INFORMATION (CONTINUED)

#### 32.3 SA GERMAN PENSION FUND BENEFITS (CONTINUED)

##### Actuarial valuations

Actuarial valuations in terms of the rules of the scheme are done at intervals not exceeding three years to determine its financial position. The most recent actuarial valuation of plan assets and the present value of the defined benefit obligation were carried out in March 2017 using the projected unit credit method.

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in each territory. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 63.

PERCENT	2017	2016
<b>Principal actuarial assumptions used:</b>		
Discount rate	1,74	1,94
Salary increases	1,50	1,00
Pension increases per three years	3,00	3,00
R MILLION	2017	2016
<b>Benefit liability</b>		
Present value of obligation	(378)	(427)
Fair value of plan assets	283	325
<b>Net liability per the statement of financial position</b>	<b>(95)</b>	<b>(102)</b>
<b>Reconciliation of movement in present value of obligation</b>		
Opening benefit liability at the beginning of the year	427	338
Service cost	6	6
Interest cost	8	6
Exchange differences on foreign plans	(65)	98
Benefits paid	(15)	(13)
Remeasurement	17	(8)
<b>Closing present value of obligation</b>	<b>378</b>	<b>427</b>
<b>Reconciliation of fair value of plan assets</b>		
Opening fair value of plan assets	325	276
Exchange differences on foreign plans	(49)	76
Return on plan assets	6	5
Remeasurement	14	(21)
Benefits paid	(16)	(14)
Employer's contribution	3	3
<b>Closing fair value of plan assets</b>	<b>283</b>	<b>325</b>
PERCENT	2017	2016
<b>The major categories of plan assets as a percentage of total plan assets are:</b>		
Equity	28	27
Cash	51	51
Other	21	22
<b>Total</b>	<b>100</b>	<b>100</b>
R MILLION	2017	2016
Current-service cost	6	6
Interest on obligation	8	6
Return on plan assets	(6)	(5)
	<b>8</b>	<b>7</b>

As at the last valuation date, the present value of the defined benefit obligation was comprised of approximately R116 million (2016: R130 million) relating to active employees, R24 million (2016: R26 million) relating to deferred members and R238 million (2016: R271 million) relating to members in retirement.

**32. EMPLOYEE BENEFIT INFORMATION (CONTINUED)****32.3 SA GERMAN PENSION FUND BENEFITS (CONTINUED)**

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	IMPACT ON DEFINED BENEFIT OBLIGATION		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0,5%	Decrease by 7,2%	Increase by 8,2%
Salary increase rate	0,5%	Increase by 1,8%	Decrease by 1,7%
Pension increase rate	0,5%	Increase by 1,9%	Decrease by 1,8%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The net liability per the statement of financial position is denominated in Euro and is translated to South African rand using the closing Rand/Euro exchange rate at year end. As per Note 28.6, the average movement in the Rand/Euro exchange rate over the past four years was 17 percent (2016: 17 percent), therefore a 17 percent change in the Rand/Euro exchange rate will lead to a change of R16.2 million (2016: R17.3 million) in the net liability recognised at year end.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

**32.4 FLIGHT DECK CREW (FDC) DISABILITY BENEFIT**

SAA has an agreement with FDC members who are on permanent employment to top up the disability benefits payable by the Transnet Retirement Fund and the SAA Retirement Fund. In terms of the rules of the Transnet Retirement Fund all employees are entitled to 75 percent of the members' pensionable salary payable when a member becomes disabled before the normal retirement age of 63. The agreement with FDC members is for SAA to pay a further 25 percent in addition to what the member would receive from the pension fund in the case of disability. The members or SAA make no additional contribution towards these benefits, and these benefits are therefore unfunded.

In the past, SAA has recognised the full obligation in the financial statements as there were no plan assets or insurance cover in place of these promised benefits. In 2007, SAA took an insurance policy to cover the 25 percent additional benefit to pilots, which resulted in SAA no longer having a legal or constructive obligation to fund the disability benefit.

	NUMBER OF SHARES	
	2017	2016
<b>32.5 SHARE-BASED PAYMENTS</b>		
<b>32.5.1 FDC share scheme</b>		
The FDC Share Scheme was created for flight deck crew members and Transnet Limited allocated 40 150 000 class E ordinary R1,00 shares of SAA to the scheme. These shares are held as follows:		
South African Airways Employee Share Trust	3 431 418	3 431 418
	<b>3 431 418</b>	<b>3 431 418</b>
<b>32.5.2 Share incentive scheme</b>		
The scheme granted two types of shares, ie joining and promotional shares to management. The promotional shares had a 12-month vesting period and the joining shares had a 24-month vesting period. Vesting was calculated from 1 April 1999 or when the employee joined the company. The employees could exercise these options at 25 percent per annum after vesting took place. These shares are held as follows:		
South African Airways Employee Share Trust	23 005 660	23 005 660
	<b>23 005 660</b>	<b>23 005 660</b>

## NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

		NUMBER OF SHARES	
		2017	2016
<b>32. EMPLOYEE BENEFIT INFORMATION (CONTINUED)</b>			
<b>32.5 SHARE-BASED PAYMENTS (CONTINUED)</b>			
<b>32.5.3 EMPLOYEE SHARE OWNERSHIP PROGRAMME (ESOP)</b>			
This scheme was implemented in March 2001, granting employees in service of SAA on or before 1 April 1999 options to purchase shares at R1,00 per share. These shares vested over a three year period and were fully vested as at 31 March 2004. These shares are held as follows:			
South African Airways Employee Share Trust		<b>91 141 728</b>	91 141 728
		<b>91 141 728</b>	91 141 728

### 32.6 EMPLOYEE WELLNESS PROGRAMME

The Group offers employees and their immediate families access to an holistic health and wellness programme, providing life skills, awareness, counselling and education programmes to promote healthy lifestyles and coping skills. The programme is aimed at providing support covering a whole range of health and medical conditions, including HIV and Aids.

### 32.7 TRAVEL BENEFITS

The Group offers certain air travel benefits to both current employees and retirees. A percentage of the face value of the air ticket is normally paid in respect of the benefit (with such percentage exceeding the marginal cost of supplying the service) and the ticket is only issued on a "standby" basis, with fare paying passengers always having preference. Employees and retirees may only fly if there is available space on the flight.

R THOUSAND	2017	2016
<b>33. DIRECTORS' EMOLUMENTS FOR SAA SUBSIDIARIES</b>		
<b>Executive directors' emoluments</b>		
<b>Mango Airlines SOC Limited</b>		
<b>Mr N Bezuidenhout<sup>(1)</sup></b>		
Salary	1 613	2 064
Other benefits <sup>(2)</sup>	3 074	–
	<b>4 687</b>	<b>2 064</b>
<b>Ms P Luhabe</b>		
Salary	1 330	1 088
Variable pay	–	489
	<b>1 330</b>	<b>1 577</b>
<b>Ms M Labuschagne</b>		
Salary	1 668	1 348
Variable pay	–	529
	<b>1 668</b>	<b>1 877</b>
<b>SAA Technical SOC Limited</b>		
<b>Mr M Zwane</b>		
Salary	3 711	3 452
Allowance	360	360
	<b>4 071</b>	<b>3 812</b>
<b>Mr D Erriah</b>		
Salary	2 033	1 904
	<b>2 033</b>	<b>1 904</b>
<b>Mr A Malola-Phiri<sup>(3)</sup></b>		
Salary	413	606
Retirement fund contributions	16	34
	<b>429</b>	<b>640</b>
<b>Air Chefs SOC Limited</b>		
<b>Mr M Kemp</b>		
Salary	1 396	1 289
Retirement fund contributions	139	128
Allowance	635	587
	<b>2 170</b>	<b>2 004</b>
<b>Mr L Hudson</b>		
Salary	1 599	1 498
	<b>1 599</b>	<b>1 498</b>
<b>South African Airways City Center SOC Limited</b>		
<b>Ms GB Koyana<sup>(4)</sup></b>		
Salary	–	378
Other benefits <sup>(5)</sup>	–	1 846
	<b>–</b>	<b>2 224</b>

<sup>(1)</sup> Resigned 30 September 2016.

<sup>(2)</sup> This payment relates to a variable payment in respect of March 2015 financial performance. Board approval received and made in June 2016. It also includes leave paid out.

<sup>(3)</sup> Appointed as Acting CEO from 23 November 2015 until 31 May 2016.

<sup>(4)</sup> Resigned 30 June 2015.

<sup>(5)</sup> Other benefits relate to amounts paid on termination of contract.



## NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

R THOUSAND	2017	2016
<b>33. DIRECTORS' EMOLUMENTS FOR SAA SUBSIDIARIES (CONTINUED)</b>		
<b>Non-executive directors' emoluments</b>		
<b>Mango Airlines SOC Limited</b>		
Mr R Wally <sup>(6)</sup>	589	498
Mr T Adams <sup>(7)</sup>	102	158
Ms L Barnard <sup>(6)</sup>	230	61
Dr JE Tambi <sup>(8)</sup>	34	–
	955	717
<b>SAA Technical SOC Limited</b>		
Ms Y Kwinana <sup>(9)</sup>	250	601
Dr JE Tambi <sup>(10)</sup>	53	128
Mr AD Dixon <sup>(11)</sup>	–	21
Mr AH Moosa <sup>(12)</sup>	64	–
Mr SS Buthelezi <sup>(12)</sup>	300	–
Ms TN Mgoduso <sup>(12)</sup>	64	–
	731	750
<b>Air Chefs SOC Limited</b>		
Ms DC Myeni <sup>(13)</sup>	40	89
Dr JE Tambi <sup>(14)</sup>	148	37
Ms JG Sepamla <sup>(12)</sup>	222	–
Ms BS Tshabalala <sup>(12)</sup>	48	–
Mr M Malunga <sup>(12)</sup>	48	–
	506	126
<b>South African Airways City Center SOC Limited</b>		
Ms Y Kwinana <sup>(9)</sup>	27	65
Mr T Lehasa	–	–
Dr JE Tambi <sup>(15)</sup>	27	38
	54	103

<sup>(6)</sup> Resigned 31 March 2017.

<sup>(7)</sup> Resigned 31 October 2016.

<sup>(8)</sup> Appointed 6 July 2016 and resigned 31 January 2017.

<sup>(9)</sup> Resigned 23 August 2016.

<sup>(10)</sup> Released 1 September 2016.

<sup>(11)</sup> Appointed 26 August 2015 and resigned 30 October 2015.

<sup>(12)</sup> Appointed 30 September 2016.

<sup>(13)</sup> Appointed 28 May 2015 and resigned 30 September 2016.

<sup>(14)</sup> Appointed 4 March 2016 and released 1 September 2016.

<sup>(15)</sup> Appointed 26 August 2015 and released 1 September 2016.

	GROUP			COMPANY		
	2017	2016	2015	2017	2016	2015
R MILLION	Restated*	Restated*		Restated*	Restated*	
<b>34. TAXATION</b>						
<b>Major components of the tax expense</b>						
<b>Current</b>						
Local income tax – current year	–	(2)	(20)	–	–	–
<b>Deferred</b>						
Deferred tax – current year	(219)	(98)	8	–	–	–
Deferred tax recognised on components of other comprehensive income – current year	(30)	–	(25)	–	–	–
	(249)	(100)	(37)	–	–	–
<b>Reconciliation of the tax expense</b>						
Reconciliation between accounting loss and tax expense:						
Accounting loss	5 350	1 378	6 130	6 451	1 314	5 718
Tax at the applicable tax rate of 28% (2016: 28%)	1 498	386	1 716	1 806	368	1 601
<b>Tax effect of adjustments on taxable income</b>						
Tax effect of non-taxable income	219	32	–	45	–	–
Tax effect of non-deductible expenses	(244)	(60)	(390)	(239)	(60)	(330)
Current year temporary differences for which no deferred income tax asset was recognised	(414)	(385)	(567)	(447)	(368)	(396)
Tax losses for which no deferred income tax asset was recognised	(1 278)	–	(796)	(1 165)	–	(875)
Assessed loss utilised	–	(73)	–	–	60	–
Deferred tax recognised in other comprehensive income	(30)	–	–	–	–	–
	(249)	(100)	(37)	–	–	–
Estimated tax losses available to be utilised against future taxable income	20 324	16 540	16 707	19 408	15 247	15 461

\* In prior years, the maintenance on aircraft capitalised to property, aircraft and equipment was incorrectly treated for tax purposes. Previously maintenance costs were depreciated for tax purposes in terms of section 12C of the Income Tax Act, but now these costs have been correctly claimed in terms of section 11(d), thus the reconciliation for the prior years has been restated. The reconciliation of deferred tax in Note 35 has also been restated. There was no change to the actual tax charge or deferred tax asset recognised in the prior years.

## NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

	GROUP			COMPANY		
	2017	2016	2015	2017	2016	2015
R MILLION		Restated	Restated		Restated	Restated
<b>35. DEFERRED TAX ASSET</b>						
Temporary differences in respect of property, aircraft and equipment	(497)	(775)	(1 115)	(519)	(602)	(931)
Doubtful debts	30	30	29	27	25	25
Air traffic liability and other deferred income	1 174	1 180	839	1 129	1 133	799
Provisions	1 928	1 735	1 137	1 633	1 469	1 129
Prepayments	112	(94)	164	113	(93)	165
Differences due to changes in fair value of financial instruments	(11)	(25)	(51)	(11)	(25)	(51)
Consumable stock	7	–	–	7	–	–
Leased assets	3	4	4	–	–	–
Computed tax loss	5 691	4 631	4 678	5 434	4 269	4 329
	<b>8 437</b>	<b>6 686</b>	<b>5 685</b>	<b>7 813</b>	<b>6 176</b>	<b>5 465</b>
Deferred tax asset not recognised	(8 404)	(6 405)	(5 305)	(7 813)	(6 176)	(5 465)
<b>Deferred tax asset recognised</b>	<b>33</b>	<b>281</b>	<b>380</b>	<b>–</b>	<b>–</b>	<b>–</b>

### Recognition of deferred tax asset

Deferred tax assets are recognised for tax loss carry forwards to the extent that the realisation of the related tax benefit through future taxable income is probable. The Group did not recognise deferred tax assets of R8.4 billion (2016: R6.4 billion) in respect of losses amounting to R20.3 billion (2016: R16.5 billion) that can be carried forward against future taxable income. It is anticipated that there will be sufficient taxable income in future periods to support the recognition of the deferred tax asset reflected above.

	GROUP			COMPANY		
	2017	2016	2015	2017	2016	2015
R MILLION		Restated*	Restated*		Restated*	Restated*
<b>36. TAX PAID</b>						
Movement in the deferred tax balance in the current year	248	99	18	–	–	–
Movement in the current tax receivable balance in the current year	–	(19)	(5)	–	–	–
Current tax recognised for the year	(219)	(100)	(37)	–	–	–
Deferred tax recognised in other comprehensive income in the current year	(30)	–	–	–	–	–
Tax paid in foreign jurisdictions	(7)	(16)	(16)	(7)	(16)	(16)
<b>Tax paid per statement of cash flows</b>	<b>(8)</b>	<b>(36)</b>	<b>(40)</b>	<b>(7)</b>	<b>(16)</b>	<b>(16)</b>

\* Tax paid was restated in the current and prior years in order to include the tax paid in foreign jurisdictions. Please refer to Note 5 for more details regarding prior year restatements.

	2017			2016 Restated			2015 Restated		
R MILLION	Cost/ valuation	Accumulated amortisation/ impairment	Carrying value	Cost/ valuation	Accumulated amortisation/ impairment	Carrying value	Cost/ valuation	Accumulated amortisation/ impairment	Carrying value
<b>37. INTANGIBLE ASSETS</b>									
<b>GROUP</b>									
Software development	469	(358)	111	599	(509)	90	557	(474)	83
Internet booking site	–	–	–	36	(36)	–	39	(36)	3
Goodwill*	35	(35)	–	35	(35)	–	35	(35)	–
Capital work in progress	133	–	133	120	–	120	85	–	85
<b>Total</b>	<b>637</b>	<b>(393)</b>	<b>244</b>	<b>790</b>	<b>(580)</b>	<b>210</b>	<b>716</b>	<b>(545)</b>	<b>171</b>
<b>COMPANY</b>									
Software development	418	(327)	91	547	(479)	68	517	(450)	67
Internet booking site	–	–	–	36	(36)	–	39	(36)	3
Capital work in progress	133	–	133	120	–	120	85	–	85
<b>Total</b>	<b>551</b>	<b>(327)</b>	<b>224</b>	<b>703</b>	<b>(515)</b>	<b>188</b>	<b>641</b>	<b>(486)</b>	<b>155</b>

R MILLION	Software development	Internet booking site	Goodwill*	Capital work in progress	Total
<b>GROUP</b>					
<b>Reconciliation</b>					
Opening balance – Restated	92	3	–	–	95
Additions	32	–	–	–	32
Amortisation	(41)	–	–	–	(41)
Reclassification from property, aircraft and equipment	–	–	–	85	85
<b>Balance at 31 March 2015 – Restated</b>	<b>83</b>	<b>3</b>	<b>–</b>	<b>85</b>	<b>171</b>
Opening balance – Restated	83	3	–	85	171
Additions	13	–	–	–	13
Disposals	(4)	–	–	–	(4)
Transfer from capital work in progress	33	(3)	–	–	30
Amortisation	(35)	–	–	–	(35)
Reclassification from property, aircraft and equipment	–	–	–	35	35
<b>Balance at 31 March 2016 – Restated</b>	<b>90</b>	<b>–</b>	<b>–</b>	<b>120</b>	<b>210</b>
Opening balance – Restated	90	–	–	120	210
Additions	44	–	–	–	44
Transfer from capital work in progress	30	–	–	–	30
Transfer to sundry debtors	(10)	–	–	–	(10)
Amortisation	(43)	–	–	–	(43)
Reclassification from property, aircraft and equipment	–	–	–	13	13
<b>Balance at 31 March 2017</b>	<b>111</b>	<b>–</b>	<b>–</b>	<b>133</b>	<b>244</b>

## NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

R MILLION	Software development	Internet booking site	Capital work in progress	Total
<b>37. INTANGIBLE ASSETS (CONTINUED)</b>				
<b>COMPANY</b>				
<b>Reconciliation</b>				
Opening balance – Restated	75	3	–	78
Additions	26	–	–	26
Amortisation	(34)	–	–	(34)
Reclassification from property, aircraft and equipment	–	–	85	85
<b>Balance at 31 March 2015 – Restated</b>	<b>67</b>	<b>3</b>	<b>85</b>	<b>155</b>
Opening balance – Restated	67	3	85	155
Additions	1	–	–	1
Disposals	(4)	–	–	(4)
Transfer from capital work in progress	33	(3)	–	30
Amortisation	(29)	–	–	(29)
Reclassification from property, aircraft and equipment	–	–	35	35
<b>Balance at 31 March 2016 – Restated</b>	<b>68</b>	<b>–</b>	<b>120</b>	<b>188</b>
Opening balance – Restated	<b>68</b>	<b>–</b>	<b>120</b>	<b>188</b>
Additions	<b>39</b>	<b>–</b>	<b>–</b>	<b>39</b>
Transfer from capital work in progress	<b>30</b>	<b>–</b>	<b>–</b>	<b>30</b>
Transfer to sundry debtors	<b>(10)</b>	<b>–</b>	<b>–</b>	<b>(10)</b>
Amortisation	<b>(36)</b>	<b>–</b>	<b>–</b>	<b>(36)</b>
Reclassification from property, aircraft and equipment	<b>–</b>	<b>–</b>	<b>13</b>	<b>13</b>
<b>Balance at 31 March 2017</b>	<b>91</b>	<b>–</b>	<b>133</b>	<b>224</b>

The goodwill arose from the acquisition of Air Chefs SOC Limited and has been impaired in full.

	GROUP		COMPANY	
R MILLION	2017	2016	2017	2016
<b>38. INVENTORIES</b>				
Maintenance inventories	<b>1 321</b>	1 135	–	–
Work in progress	<b>36</b>	109	–	–
Consumables	<b>173</b>	168	<b>101</b>	101
	<b>1 530</b>	1 412	<b>101</b>	101
Impairment of Inventories	<b>(651)</b>	(685)	–	–
	<b>879</b>	727	<b>101</b>	101
<b>Reconciliation of impairment of inventories</b>				
Opening balance	<b>(685)</b>	(692)	–	–
Reversal of previous write-downs to net realisable value	<b>50</b>	151	–	–
Write-down of inventories recognised as an expense during the year	<b>(16)</b>	(144)	–	–
<b>Closing balance</b>	<b>(651)</b>	(685)	–	–

The write-down of inventories in the prior year related to the impairment of obsolete aircraft spares. This stock was impaired to its net realisable value. The reversal of write-down of inventories in the current and prior year relates to obsolete aircraft spares that were written down to their net realisable value and have now subsequently been sold.

## 39. CONTINGENT LIABILITIES AND UNQUANTIFIABLE EXPOSURE

### Competition matters

The Group is currently appealing the judgement awarded by the High Court in respect of the Comair litigation which was based on two actions brought by Comair against SAA as a consequence of the findings by the Competition Tribunal that SAA contravened the Competition Act, 89 of 1998, in agreements between SAA and various travel agents between October 1999 and May 2001 (“the first period”) and between SAA and various travel agents between 1 June 2001 and 31 March 2005 (“the second period”). As the appeal is still sub judice or not finalised SAA is not in a position to confirm the full extent of the financial exposure that may arise as a result of the appeal, but has made an appropriate estimate of all necessary costs based on legal advice received.



**39. CONTINGENT LIABILITIES AND UNQUANTIFIABLE EXPOSURE (CONTINUED)****Civil Litigation, Labour and Passenger Claims**

SAA is not in a position to assess the full extent of the financial exposure that may attach to these claims as a consequence of an order of court but has made an appropriate estimate of all necessary costs in the current year's annual financial statements based on legal advice received.

**Contingent liability – airport taxes**

Passenger services costs charged to customers are currently treated by airlines (including SAA) as being held on behalf of Airport Authorities. These taxes are not recognised as revenue in the books of the airlines as they are considered to accrue to the Airport Authorities. The tariff is regarded as regulated and levied on behalf of the Airport Authorities and not the airlines. Based on the Supreme Court case between SARS and another airline, it was held that the airline acts as principal and not as an agent of the Airport Authority. This scenario requires airlines to recognise these tariffs as revenue at point of sale. SAA has received a legal opinion which agrees with the Supreme Court case that SAA is the principal and not the agent. The draft Interpretation Note from SARS purports that the airlines are agents and not principals, however, the judgement contradicts this draft Interpretation Note. The Interpretation Note remains draft to-date and has not been finalised as at 3 March 2017, nor at the date of the approval of the annual financial statements.

		GROUP			COMPANY		
		2017	2016	2015	2017	2016	2015
R MILLION	Notes		Restated*	Restated*		Restated*	Restated*
<b>40. FAIR VALUE AND TRANSLATION MOVEMENTS</b>							
<b>Foreign exchange loss/(gain) on translation of:</b>							
Foreign cash balances		(19)	64	(49)	(21)	66	(50)
Foreign currency denominated net receivables	5	708	(140)	(71)	716	(187)	(80)
Net monetary assets and liabilities		336	(675)	(211)	319	(656)	(215)
<b>Translation of foreign assets and liabilities</b>		<b>1 025</b>	(751)	(331)	<b>1 014</b>	(777)	(345)
<b>Fair value loss/(gain) on derivative instruments held-for-trading:</b>							
Realised (gain)/loss on derivatives		(116)	40	(205)	(116)	40	(205)
Fair value loss/(gain) on derivative financial instruments		183	(97)	572	183	(97)	572
<b>Net fair value loss/(gain) on derivative instruments held-for-trading</b>		<b>67</b>	(57)	367	<b>67</b>	(57)	367
<b>Total fair value and translation movements</b>		<b>1 092</b>	(808)	36	<b>1 081</b>	(834)	22

## NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

R MILLION	Gross	Tax	Net
<b>41. OTHER COMPREHENSIVE INCOME/(LOSS)</b>			
<b>Components of other comprehensive income/(loss)</b>			
<b>GROUP – 2017</b>			
<b>Movements in other reserves</b>			
Remeasurement of SAA German Pension Fund	(3)	–	(3)
Remeasurement of SAA subfund of Transport Pension Fund	(9)	–	(9)
Remeasurement of post-retirement medical benefits	1	–	1
Change in value of available-for-sale financial asset	6	–	6
	(5)	–	(5)
<b>Movements in revaluation reserve</b>			
Gain on property revaluations	173	(30)	143
<b>Total</b>	<b>168</b>	<b>(30)</b>	<b>138</b>
<b>Components of other comprehensive income/(loss)</b>			
<b>GROUP – 2016</b>			
<b>Movements in other reserves</b>			
Remeasurement of SAA German Pension Fund	(13)	–	(13)
Remeasurement of SAA subfund of Transport Pension Fund	2	–	2
Remeasurement of post-retirement medical benefits	5	–	5
Change in value of available-for-sale financial asset	5	–	5
	(1)	–	(1)
<b>Movements in revaluation reserve</b>			
Impairment on property revaluations	(18)	–	(18)
<b>Total</b>	<b>(19)</b>	<b>–</b>	<b>(19)</b>
<b>Components of other comprehensive income/(loss)</b>			
<b>COMPANY – 2017</b>			
<b>Movements in other reserves</b>			
Remeasurement of SAA German Pension Fund	(3)	–	(3)
Remeasurement of SAA subfund of Transport Pension Fund	(9)	–	(9)
Remeasurement of post-retirement medical benefits	1	–	1
Change in value of available-for-sale financial asset	6	–	6
	(5)	–	(5)
<b>Movements in revaluation reserve</b>			
Gain on property revaluations	67	–	67
<b>Total</b>	<b>62</b>	<b>–</b>	<b>62</b>
<b>Components of other comprehensive income/(loss)</b>			
<b>COMPANY – 2016</b>			
<b>Movements in other reserves</b>			
Remeasurement of SAA German Pension Fund	(13)	–	(13)
Remeasurement of SAA subfund of Transport Pension Fund	2	–	2
Remeasurement of post-retirement medical benefits	5	–	5
Change in value of available-for-sale financial asset	5	–	5
	(1)	–	(1)
<b>Movements in revaluation reserve</b>			
Impairment on property revaluations	(18)	–	(18)
<b>Total</b>	<b>(19)</b>	<b>–</b>	<b>(19)</b>

#### 42. INFORMATION REQUIRED BY THE PUBLIC FINANCE MANAGEMENT ACT

SAA is a state owned company and listed as a Schedule 2 Major Public Entity in terms of the PFMA (Act No 1 of 1999). The SAA Board as the accounting authority, has the responsibility of ensuring that SAA has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The design and implementation of effective controls has been delegated to the SAA executive management.

The tables below indicate the PFMA non-compliance for 2016/2017 compared to the 2015/2016 financial year:

R MILLION	GROUP		COMPANY	
	2017	2016	2017	2016
<b>Fruitless and wasteful expenditure</b>				
Opening balance	16,6	17,6	16,3	17,6
Add: Fruitless and wasteful expenditure – current year	40,4	7,3	15,7	7,0
Less: Transfer to receivables for recovery	(10,8)	(8,3)	(1,1)	(8,3)
<b>Fruitless and wasteful expenditure closing balance</b>	<b>46,2</b>	16,6	<b>30,9</b>	16,3

A portion of the amount of R10.8 million transferred to receivables has already been recovered by the Group. The fruitless and wasteful expenditure in the current year includes unavoidable expenses of R16.2 million, which are costs inherent to the operation of the airline. Therefore avoidable fruitless and wasteful expenditure amounts to R24.2 million for the 2016/2017 financial year.

R MILLION	GROUP		COMPANY	
	2017	2016	2017	2016
<b>Irregular spend without loss</b>				
Opening balance	73,8	68,4	73,8	68,4
Add: Irregular spend – current year	125,9	5,4	122,5	5,4
Less: Condoned or written off by relevant authority	(86,1)	–	(86,1)	–
<b>Irregular spend awaiting condonement</b>	<b>113,6</b>	73,8	<b>110,2</b>	73,8

The majority of the irregular spend incurred to date was due to expired contracts or no contracts in place. Most of these contracts will be put in place during the 2017/2018 financial year, with the result being a reduction in irregular spend in the next financial year.

The organisation will continuously review and update interactions that will assist the organisation to reduce the PFMA non-compliance. Some of the interactions that are currently being monitored are:

- Review of the contract management department structure. The optimal structure will assist the organisation in ensuring the contract management process is appropriate to discharge the cost effective, transparent and fair objectives of the procurement process.
- Review the control measures such as disciplinary processes, to ensure consistent application within the organisation.

## NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

		COMPANY	
R MILLION		2017	2016
<b>43. INVESTMENTS IN SUBSIDIARIES</b>			
Shares at cost		2 404	2 404
Impairment of investments in subsidiaries		(2 068)	(1 372)
		336	1 032

Subsidiary	Place of incorporation	Nature of business
Mango Airlines SOC Limited	South Africa	Airline business
SAA Technical SOC Limited	South Africa	Maintenance of aircraft
Air Chefs SOC Limited	South Africa	Airline catering
South African Airways City Center SOC Limited	South Africa	Travel agency

		PERCENTAGE HOLDING		R MILLION SHARES AT COST	
Name of company	Shares	2017	2016	2017	2016
Mango Airlines SOC Limited	1 120	100	100	336	336
SAA Technical SOC Limited	200	100	100	1 960	1 960
Air Chefs SOC Limited	100	100	100	106	106
South African Airways City Center SOC Limited	1 000	100	100	2	2
				2 404	2 404
Impairment of investments in subsidiaries				(2 068)	(1 372)
				336	1 032

All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from the proportion of ordinary shares held. The net aggregate profits in subsidiaries for the year amounted to R37 million (2016: losses of R250 million).

		COMPANY		
R MILLION		2017	2016 Restated	2015 Restated
<b>44. AMOUNTS RECEIVABLE FROM SUBSIDIARIES</b>				
<b>SUBSIDIARIES</b>				
SAA Technical SOC Limited		1 212	1 298	1 262
Air Chefs SOC Limited		178	178	178
South African Airways City Center SOC Limited		21	17	18
		1 411	1 493	1 458
Impairment of loans to subsidiaries		(199)	(17)	(18)
		1 212	1 476	1 440
Non-current assets	5	–	178	178
Current assets	5	1 212	1 298	1 262
		1 212	1 476	1 440

The amounts receivable from the subsidiaries are interest free. These balances fluctuate in line with the financing requirements of the subsidiaries and there are no fixed terms of repayment. The loans to SAA Technical SOC Limited (SAAT) and South African Airways City Center SOC Limited (SATC) are both classified as short-term, the loan to SATC was fully impaired in the current and prior years. The loan to SAAT was classified as long-term in prior years, the decision was taken in the current year to classify the loan as short-term, due to the fact that the loan is repayable on demand. Therefore the prior year classification of this loan has been restated to short-term, please refer to Note 5 for more details regarding prior year restatements. The loan to Air Chefs SOC Limited has been classified as long-term. During the year a decision was taken by management to impair this loan in full.

As indicated in the accounting policy on financial instruments, management have assessed the loan to SAAT for impairment at year end. The operations of SAAT are a core functionality of SAA and the monthly fluctuations in the balance of the loan is reflective of the operational commitments which is effected by an actual sweeping of funds between the two entities. Management are confident based on cash flow projections, that sufficient cash resources will be generated in SAAT to repay the proposed interest and capital repayments based on a ten year loan agreement. The current net asset value of SAAT is reflected as R791 million as at 31 March 2017. Land and buildings are currently valued at R1,02 billion and undervaluation of inventory and other fixed assets are sufficient to cover the outstanding capital balance of the loan reflected at year end. It is based on these facts that management are confident that the loan to SAAT is recoverable and no impairment is necessary as at the end of the period under review.

		COMPANY	
R MILLION		2017	2016
<b>45. AMOUNTS PAYABLE TO SUBSIDIARIES</b>			
<b>SUBSIDIARIES</b>			
Mango Airlines SOC Limited		<b>357</b>	–

Certain surplus funds of Mango Airlines SOC Limited (Mango) are held by South African Airways SOC Limited and attract interest at a market related interest rate (Prime less 2,7%). There is a contractual agreement in place with Mango that these capital sums shall remain unencumbered and free from any claim or attachment by a third party. The prior year balance of R273 million was classified as cash and cash equivalents (Note 22) in the previous year's financial statements. In the current year, management has taken the decision to reclassify this balance to payables as it is unlikely that monies will be recalled within three months.

		GROUP		COMPANY	
R MILLION		2017	2016	2017	2016
<b>46. INVESTMENTS</b>					
<b>Investment in unlisted shares</b>					
SA Airlink (Pty) Limited		<b>35</b>	35	<b>35</b>	35
Impairment of unlisted investment		<b>(6)</b>	(12)	<b>(6)</b>	(12)
		<b>29</b>	23	<b>29</b>	23
<b>Investment in share trust</b>					
South African Airways Employee Share Trust		–	–	<b>157</b>	157
Impairment of the loan to South African Airways Employee Share Trust		–	–	<b>(157)</b>	(157)
		–	–	–	–
<b>47. SHARE CAPITAL</b>					
<b>Authorised</b>					
9 000 000 000 Class A ordinary shares of R1 each		<b>9 000</b>	9 000	<b>9 000</b>	9 000
3 000 000 000 Class B ordinary shares of R1 each		<b>3 000</b>	3 000	<b>3 000</b>	3 000
1 500 000 000 Class C ordinary shares of R1 each		<b>1 500</b>	1 500	<b>1 500</b>	1 500
750 000 000 Class D ordinary shares of R1 each		<b>750</b>	750	<b>750</b>	750
750 000 000 Class E ordinary shares of R1 each		<b>750</b>	750	<b>750</b>	750
		<b>15 000</b>	15 000	<b>15 000</b>	15 000
<b>Reconciliation of number of shares issued:</b>					
Opening balance		<b>12 892</b>	12 892	<b>13 126</b>	13 126
<b>Issued</b>					
8 786 771 465 Class A ordinary shares of R1 each		<b>8 787</b>	8 787	<b>8 787</b>	8 787
2 412 563 822 Class B ordinary shares of R1 each		<b>2 413</b>	2 413	<b>2 413</b>	2 413
1 206 281 911 Class C ordinary shares of R1 each		<b>1 206</b>	1 206	<b>1 206</b>	1 206
603 140 956 Class D ordinary shares of R1 each		<b>603</b>	603	<b>603</b>	603
117 578 806 Class E ordinary shares of R1 each		<b>117</b>	117	<b>117</b>	117
Less: Treasury shares		<b>(234)</b>	(234)	–	–
		<b>12 892</b>	12 892	<b>13 126</b>	13 126

All shares in the classes A to D are held by the South African Government, represented by the Department of Finance, and enjoy the same rights. The class E shares are held by the South African Airways Employee Share Trust.



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### 48. RELATED PARTIES

The SAA Group has applied the exemption under paragraph 25 of IAS 24 to government related entities. South African Airways SOC Limited (SAA) is owned by the Department of Finance, a South African Government National Department. SAA is a Schedule 2 Public Entity in terms of the Public Finance Management Act No 1 of 1999 (as amended) (PFMA). Its related parties therefore constitute the Department of Finance, its subsidiaries, some major public entities falling under Schedule 2 of the PFMA and key management personnel.

Public entities that are classified as Schedule 2 major public entities are omitted from detailed disclosure as per paragraphs 25 and 26 of IAS 24. The exemption also applies to the Department of Finance. The following significant transaction was entered into with South African Express SOC Limited (SAX) and is disclosed as required by paragraph 26 of IAS 24. The transaction that was entered into with SAX was a cash neutrality advance of R344 million (2016: R274 million). The prepayment is done in order to compensate SAX for the loss of interest and cash flow impact caused by the delay in the settlement of flown revenues when the service is rendered by SAX.

The revenue from the sale of tickets to related parties has been quantified based on the information available from frequent flyer corporate contracts entered into with the Group. The frequent flyer participants qualify for the same benefits as all other third parties who participate in this frequent flyer programme for corporates. Other ticket sales with related parties were made on terms equivalent to those that prevail in arms' length transactions. The revenue from the sale of tickets that are not reported in terms of these contracts has not been disclosed as it is, and will continue to be, impossible to quantify these sales due to the nature of the distribution network. In addition, there is no requirement or obligation for any related party to purchase its tickets from SAA with the result that SAA's relationship with these parties has no impact on related party sales and would not negatively impact results should the relationship be terminated.

Liabilities include an amount of R279 million (2016: R331 million) relating to leases entered into with a subsidiary of SAA.

The Group and its subsidiaries, in the ordinary course of business, enter into various other sales, purchase and service agreements with other parties within the SAA Group. The transactions entered into by entities within the Group are eliminated on consolidation.

	GROUP		COMPANY	
R THOUSAND	2017	2016	2017	2016
<b>RELATED PARTY BALANCES</b>				
<b>Amounts receivable from related parties*</b>				
Subsidiaries	–	–	1 211 551	1 475 849
Public entities	8 107	9	44	9
	<b>8 107</b>	<b>9</b>	<b>1 211 595</b>	<b>1 475 858</b>
<b>Amounts payable to related parties**</b>				
Subsidiaries	–	–	354 741	337 693
Public entities	31 107	51 369	31 107	51 000
	<b>31 107</b>	<b>51 369</b>	<b>385 848</b>	<b>388 693</b>

\* Amounts receivable represent short- and long-term amounts receivable.

\*\* Amounts payable represent short- and long-term amounts payable.

	GROUP		COMPANY	
R THOUSAND	2017	2016	2017	2016
<b>RELATED PARTY TRANSACTIONS</b>				
<b>Sales of goods/services</b>				
Subsidiaries	–	–	629 287	704 763
Public entities	20 387	9	152	9
	<b>20 387</b>	<b>9</b>	<b>629 439</b>	<b>704 772</b>
<b>Purchases of goods/services</b>				
Subsidiaries	–	–	3 310 946	3 125 659
Public entities	1 123 525	787 339	757 571	109 592
	<b>1 123 525</b>	<b>787 339</b>	<b>4 068 517</b>	<b>3 235 251</b>
<b>Other transactions</b>				
Subsidiaries	–	–	41 553	38 347
Key management personnel*	48 911	50 746	30 924	33 146
	<b>48 911</b>	<b>50 746</b>	<b>72 477</b>	<b>71 493</b>

\* Long- and short-term employee benefits paid to executive members. Executive members' emoluments of subsidiaries that form part of the SAA Group Executive Committee are disclosed in Note 33. The short-term employee benefits reflected below refer to members of the SAA company who are also members of the SAA Group Executive Committee.

	2017	2016
R THOUSAND	Directors' fees	Directors' fees
<b>48. RELATED PARTIES (CONTINUED)</b>		
Non-executive compensation is set out below:		
<b>Board of Directors</b>		
<b>Non-executive</b>		
DC Myeni <sup>(5)</sup>	885	912
Y Kwinana <sup>(1)</sup>	212	425
AD Dixon <sup>(2)</sup>	–	236
JE Tambi <sup>(3)</sup>	295	408
MMT Ramano <sup>(4) (5)</sup>	208	–
SS Buthelez <sup>(4) (5)</sup>	152	–
HP Maluleka <sup>(4)</sup>	185	–
M Malunga <sup>(4) (5)</sup>	196	–
MS Mbatha <sup>(4)</sup>	168	–
TN Mgoduso <sup>(4)</sup>	191	–
N Moola <sup>(4) (5)</sup>	225	–
AH Moosa <sup>(4)</sup>	216	–
JG Sepamla <sup>(4) (5)</sup>	204	–
BS Tshabalala <sup>(4)</sup>	229	–
MP Tshisevhe <sup>(4)</sup>	176	–
	<b>3 542</b>	<b>1 981</b>

<sup>(1)</sup> Resigned 23 August 2016.

<sup>(2)</sup> Resigned 30 October 2015.

<sup>(3)</sup> Released 1 September 2016.

<sup>(4)</sup> Appointed 1 September 2016.

<sup>(5)</sup> Released 2 November 2017.

In terms of the Group's travel benefits policy as referred to in Note 32.7, key management personnel are entitled to utilise surplus capacity on flights at a nominal cost to the beneficiaries and at no loss of revenue to the Group.

R THOUSAND	Salaries	Allowances	Fund contributions	Other benefits <sup>(1)</sup>	Total
<b>SHORT-TERM EMPLOYEE BENEFITS</b>					
<b>2017</b>					
<b>Executive directors<sup>(2)</sup></b>					
M Zwane	611	–	–	–	611
P Nhantsi	3 396	–	–	–	3 396
	<b>4 007</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>4 007</b>
<b>Executive Committee</b>					
ME Mpshe	2 495	–	229	–	2 724
TP Makhetha	2 956	–	–	–	2 956
Z Ramasia	2 694	–	193	–	2 887
U Fikelepi	2 275	–	–	–	2 275
P Ncala	3 163	–	–	–	3 163
S Bosc <sup>(3)</sup>	3 091	1 599	–	1 723	6 413
L Jiya	2 411	–	–	–	2 411
J du Plessis	1 149	238	108	–	1 495
A Munetsi	1 227	198	95	–	1 520
MZ Manqele <sup>(4)</sup>	1 073	–	–	–	1 073
	<b>22 534</b>	<b>2 035</b>	<b>625</b>	<b>1 723</b>	<b>26 917</b>

<sup>(1)</sup> Other benefits relate to amounts paid on termination of contract.

<sup>(2)</sup> Executive directors of the Board are also members of the Executive Committee.

<sup>(3)</sup> Resigned 2 March 2017.

<sup>(4)</sup> Appointed to the Executive Committee effective 3 June 2016.

## NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

R THOUSAND	Salaries	Allowances	Fund contributions	Other benefits <sup>(1)</sup>	Total
<b>48. RELATED PARTIES (CONTINUED)</b>					
<b>SHORT-TERM EMPLOYEE BENEFITS</b>					
<b>2016</b>					
<b>Executive directors<sup>(2)</sup></b>					
M Kalawe <sup>(3)</sup>	379	–	–	2 825	3 204
WH Meyer <sup>(4)</sup>	2 577	–	–	3 104	5 681
M Zwane <sup>(5)</sup>	41	–	–	–	41
P Nhantsi <sup>(6)</sup>	240	–	–	–	240
	3 237	–	–	5 929	9 166
<b>Executive Committee</b>					
N Bezuidenhout <sup>(7)</sup>	1 061	–	–	–	1 061
M Zwane <sup>(5)</sup>	175	–	–	–	175
P Nhantsi <sup>(6)</sup>	939	–	–	–	939
ME Mpshe <sup>(8)</sup>	2 495	126	229	–	2 850
TP Makhetha	2 802	–	–	–	2 802
Z Ramasia	2 502	–	179	–	2 681
U Fikelepi	2 124	–	–	–	2 124
P Ncala	2 929	–	–	–	2 929
S Bosc	3 372	1 678	–	–	5 050
L Jiya	2 258	–	–	–	2 258
J du Plessis <sup>(9)</sup>	541	105	54	–	700
A Munetsi <sup>(10)</sup>	328	56	27	–	411
	21 526	1 965	489	–	23 980

<sup>(1)</sup> Other benefits relate to amounts paid on termination of contract.

<sup>(2)</sup> Executive directors of the Board are also members of the Executive Committee.

<sup>(3)</sup> Resigned 22 April 2015.

<sup>(4)</sup> Resigned 16 November 2015.

<sup>(5)</sup> Appointed as Acting CEO effective 14 November 2015 and appointed as an Executive director effective 4 March 2016.

<sup>(6)</sup> Appointed as Interim CFO effective 25 November 2015 and appointed as an Executive director effective 4 March 2016.

<sup>(7)</sup> Appointed as Acting CEO until 28 July 2015.

<sup>(8)</sup> Appointed as Acting CEO effective 29 July 2015 until 13 November 2015.

<sup>(9)</sup> Appointed to the Executive Committee effective 14 September 2015.

<sup>(10)</sup> Appointed to the Executive Committee effective 14 December 2015.

	2017 TRAVEL BENEFITS NUMBER OF FLIGHTS			2016 TRAVEL BENEFITS NUMBER OF FLIGHTS		
	International	Domestic	Regional	International	Domestic	Regional
<b>48. RELATED PARTIES (CONTINUED)</b>						
<b>Executive directors</b>						
M Kalawe <sup>(1)</sup>	–	–	–	–	3	–
WH Meyer <sup>(2)</sup>	–	–	–	8	15	5
M Zwane <sup>(3)</sup>	3	4	–	–	–	–
P Nhantsi <sup>(4)</sup>	1	15	–	–	–	–
	4	19	–	8	18	5
<b>Executive Committee</b>						
N Bezuidenhout <sup>(5)</sup>	–	–	–	5	1	–
M Zwane <sup>(3)</sup>	–	–	–	–	2	–
ME Mpshe <sup>(6)</sup>	1	9	2	2	24	–
TP Makhetha	4	1	–	3	3	1
Z Ramasia	9	34	1	17	38	–
U Fikelepi	–	14	1	–	14	–
P Ncala	7	1	–	14	–	–
S Bosc <sup>(7)</sup>	13	21	–	19	27	12
L Jiya	2	17	3	1	26	6
J du Plessis <sup>(8)</sup>	7	5	–	3	2	–
A Munetsi <sup>(9)</sup>	7	9	17	1	–	7
MZ Manqele <sup>(10)</sup>	2	17	–	–	–	–
	52	128	24	65	137	26

<sup>(1)</sup> Resigned 22 April 2015.

<sup>(2)</sup> Resigned 16 November 2015.

<sup>(3)</sup> Appointed as Acting CEO effective 14 November 2015 and appointed as an Executive director effective 4 March 2016.

<sup>(4)</sup> Appointed as Interim CFO effective 25 November 2015 and appointed as an Executive director effective 4 March 2016.

<sup>(5)</sup> Appointed as Acting CEO until 28 July 2015.

<sup>(6)</sup> Appointed as Acting CEO effective 29 July 2015 until 13 November 2015.

<sup>(7)</sup> Resigned 2 March 2017.

<sup>(8)</sup> Appointed to the Executive Committee effective 14 September 2015.

<sup>(9)</sup> Appointed to the Executive Committee effective 14 December 2015.

<sup>(10)</sup> Appointed to the Executive Committee effective 3 June 2016.

#### 49. EVENTS SUBSEQUENT TO THE REPORTING DATE

##### BOARD OF DIRECTORS

Subsequent to the 2017 financial year end, Dr M Mbatha resigned as a director. On 3 November 2017, the Minister of Finance appointed six new non-executive directors namely:

JB Magwaza – Chairperson

N Fakude – Deputy Chairperson

G Rothschild

Al Bassa

T Mhlari

ML Kingston

They replaced the following directors:

DC Myeni – Chairperson

MMT Ramano – Deputy Chairperson

N Moola

SS Buthelezi

JG Sepamla

M Malunga

## NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2017

### 49. EVENTS SUBSEQUENT TO THE REPORTING DATE (CONTINUED)

#### RECAPITALISATION

On 25 October 2017, the Minister of Finance announced a capital injection for the airline of R10 billion during the 2017/2018 financial year. The airline received R2.2 billion on 30 June 2017 which was utilised to settle short-term debt. A further R3 billion was received on 29 September 2017 of which R1.8 billion was allocated to repay further debt and the remaining R1.2 billion utilised for working capital. Of the remaining R4.8 billion, R3.6 billion will be allocated to further reduce the company's short-term debt burden and R1.2 billion to be used for working capital. In total R7.6 billion will be used to repay debt.

#### APPOINTMENT OF KEY PERSONNEL

Subsequent to year end, Chief Executive Officer, Chief Financial Officer and Chief Restructuring Officer were appointed.

#### TURNAROUND STRATEGY

The turnaround strategy "Project Phakama" was approved by the Board in July 2017 and submitted to the Shareholder. Project Phakama's objective is to transform SAA into a financially sustainable aviation group. Its key strategic focus is Stabilise, Defend and Build ("SDB"). SDB has the following key strategic outcomes:

- Liquidity;
- Balance sheet restructuring;
- Revenue enhancement programme; and
- Cost optimisation.

### 50. GOING CONCERN

In determining the appropriate basis of preparation of the financial statements, the directors are required to consider whether the Group can continue in operational existence for the foreseeable future. As with the previous years, SAA has remained undercapitalised. Six consecutive years of operating losses have further eroded the capital base and this continues to impact on the ability of the business to operate in a highly demanding and competitive environment. The lack of capital has hindered the director's ability to invest and improve the efficiencies of the aircraft and left the company less able to cope with the significant volatility in foreign exchange rates.

The Group recorded a net loss of R5.6 billion (2016: R1.5 billion) for the year ended 31 March 2017 and, as at that date its total liabilities exceeded its total assets by R17.8 billion (2016: R12.4 billion).

The conditions above together with the issues listed below resulted in material uncertainties at year end that might cast significant doubt on SAA's ability to continue as a going concern:

- loans to the value of R8.9 billion were maturing during the year and the company did not have confirmation that these loans would be extended for a period sufficient to satisfy the going-concern assumption; and
- the company is experiencing working capital deficiencies.

Management and the Board initiated mitigating steps to address these matters, including requesting a capital injection from the shareholder, the establishment of a Cash Conservation Office with the objective of reducing the utilisation of working capital and engaging with the lenders to refinance the facilities that were maturing in the short term for a period longer than 18 months.

In addition, the company developed a five-year turnaround plan and identified initiatives to be implemented to reduce costs and enhance revenue in order to reduce further the cash burn. These initiatives included revenue growth through revenue management, ancillary revenue and pricing strategy, cost containment and fleet optimisation.

On 25 October 2017, the Minister of Finance announced that SAA would receive a recapitalisation of R10 billion during the 2017/2018 financial year. Amounts of R2.2 billion and R3 billion had already been distributed to SAA on 30 June 2017 and 29 September 2017 respectively. The funds were utilised to repay maturing debt of R4 billion and to provide SAA with R1.2 billion in working capital. Of the remaining R4.8 billion to be received by SAA, R3.6 billion will be earmarked to settle short-term debt and the balance of R1.2 billion for working capital.

Currently loans to the value of R5 billion, which are maturing within the next 12 months, have been successfully extended to 31 March 2019.

The Group has filled almost all the key vacancies post year end which includes Chief Executive Officer, Chief Financial Officer and the Chief Restructuring Officer. The success of the turnaround plan, "Project Phakama" depends on rebuilding the leadership team at SAA, which was not only decimated over the last few years, but with many positions remaining unfilled.

Progress is being made in this regard. The directors therefore are of the view that with the recapitalisation, appointment of key personnel, and the successful extension of the loan maturities that SAA has met the conditions set by the lending banks, unutilised guarantees and effective implementation of the turnaround plan, SAA will be in a position to continue trading operations into the immediate future.

Once the short-term debt is settled, SAA will have unutilised shareholder guarantees of R8.2 billion. The directors are of the view that the initiatives reflected above, coupled with the available shareholder guarantees, will ensure SAA meets the going-concern requirement in the foreseeable future, being 12 months from the approval of these annual financial statements.

Given already received and expected capital injections from National Treasury as well as current cash sources available, SAA is expected to have a surplus of available cash resources to be able to meet its liquidity requirements.

# Corporate information

## COUNTRY OF INCORPORATION AND DOMICILE

The Republic of South Africa

## COMPANY REGISTRATION NUMBER

1997/022444/30

## DIRECTORS

*Resigned*

Two resignations from the Board in 2016/2017

## Directors during the reporting period

DC Myeni  
Y Kwinana\*  
JE Tambi\*  
M Zwane  
P Nhantsi  
MMT Ramano  
SS Buthelezi  
HP Maluleka  
M Malunga  
MS Mbatha  
TN Mgoduso  
N Moola  
AH Moosa  
JG Sepamla  
BS Tshabalala  
MP Tshisevhe

*\*Resigned 2016/2017*

## COMPANY SECRETARY

R Kibuuka

## BANKERS

Standard Bank Limited  
Nedbank, a division of Nedbank Group Limited  
Citibank of South Africa (Pty) Limited

## AUDITORS

Auditor-General of South Africa  
300 Middel Street, New Muckleneuk, Pretoria, 0011  
PO Box 446  
Pretoria, 0001

## REGISTERED OFFICE

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OR Tambo International Airport  
Kempton Park, 1619

## POSTAL ADDRESS

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