

SOUTH AFRICAN AIRWAYS

INTEGRATED REPORT 2013

South Africa's National Airline



SOUTH AFRICAN AIRWAYS

MISSION

TO DELIVER SUSTAINABLE PROFITS AND GROW MARKET SHARE THROUGH WORLD-CLASS SERVICE TO CUSTOMERS INTERNALLY AND EXTERNALLY.

VISION

AN AFRICAN AIRLINE WITH A GLOBAL REACH.

CORE BUSINESS

THE MOVEMENT OF PEOPLE AND GOODS BY AIR.

CORE VALUES

SAFETY

ADOPTING A ZERO-DEFECT PHILOSOPHY AND STRIVING FOR ZERO SAFETY INCIDENTS THROUGH PROPER TRAINING, WORK PRACTICES, RISK MANAGEMENT AND ADHERENCE TO SAFETY REGULATIONS AT ALL TIMES.

CUSTOMER-FOCUSED

STRIVING TO MEET THE UNIQUE NEEDS OF CUSTOMERS (INTERNALLY AND EXTERNALLY) BY TAILORING EACH INTERACTION TO SUIT THEIR SPECIFIC NEEDS.

INTEGRITY

PRACTISING THE HIGHEST STANDARDS OF ETHICAL BEHAVIOUR IN ALL LINES OF WORK AND MAINTAINING CREDIBILITY BY ENSURING THAT SAA'S ACTIONS CONSISTENTLY MATCH ITS WORDS.

VALUING ITS PEOPLE

SAA IS COMMITTED TO THEIR SATISFACTION, DEVELOPMENT AND WELL-BEING BY TREATING THEM WITH RESPECT, DIGNITY AND FAIRNESS.

ACCOUNTABILITY

TAKING RESPONSIBILITY FOR INDIVIDUAL AND TEAM ACTIONS, DECISIONS AND RESULTS BY ESTABLISHING CLEAR PLANS AND GOALS AND MEASURING PROGRESS AGAINST THEM.

EXCELLENCE IN PERFORMANCE

SETTING GOALS BEYOND THE BEST, REINFORCING HIGH-QUALITY PERFORMANCE STANDARDS AND ACHIEVING EXCELLENCE BY IMPLEMENTING BEST PRACTICES.

Scope and contents

THE SCOPE OF THIS REPORT

THIS INTEGRATED REPORT, PUBLISHED IN LINE WITH THE KING CODE ON CORPORATE GOVERNANCE (KING III OF 2009), REVIEWS SOUTH AFRICAN AIRWAYS (SAA) ECONOMIC, SOCIAL AND ENVIRONMENTAL PERFORMANCE FOR THE PERIOD BETWEEN 1 APRIL 2012 AND 31 MARCH 2013. THIS REPORT COMBINES ELEMENTS OF A SUSTAINABILITY REPORT WITH A CONVENTIONAL FINANCIAL REPORT. THE AIM IS TO PROVIDE SUFFICIENT INSIGHT TO ENABLE STAKEHOLDERS TO FORM A COMPREHENSIVE VIEW OF THE ORGANISATION'S PERFORMANCE AND ITS ABILITY TO CREATE AND SUSTAIN VALUE, IN THE CONTEXT OF ITS ENVIRONMENTAL, SOCIAL AND ECONOMIC CHALLENGES.

CONTENTS

2013 Highlights	2
About SAA	4
Operational Overview	8
LEADERSHIP	
Board of Directors	12
Group Executive Committee	16
LEADERSHIP STATEMENTS	
Chairperson's Report	18
Chief Executive Officer's Report	20
SAA'S OPERATIONS	
Commercial	24
Cargo	26
Human Resources	28
SUSTAINABILITY REPORTS	
Group Environmental Affairs	32
Corporate Social Responsibility	34
CORPORATE GOVERNANCE	
Corporate Governance and Accountability	36
SUBSIDIARY REPORTS	
Mango	40
SAA Technical	42
Air Chefs	44
South African Travel Centre	46
ANNUAL FINANCIAL STATEMENTS	
Statement by the Company Secretary	51
Directors' Report	52
Report of the Audit Committee	66
Independent Auditors' Report	68
Consolidated Statement of Comprehensive Income	70
Consolidated Statement of Financial Position	71
Consolidated Statement of Changes in Equity	72
Consolidated Statement of Cash Flows	74
Notes to the Financial Statements	75
Corporate Information	127

2013 Highlights

SUPPORT FOR SOUTH AFRICA'S NATIONAL DEVELOPMENT AGENDA

- The airline contributes R8,6 billion to South Africa's GDP and is responsible for 35 000 jobs
- An additional R11 billion in catalytic demand impact on tourism and an additional 44 000 South African jobs created in tourism

STRATEGIC

- Compilation and submission to the Shareholder (the Department of Public Enterprises) of SAA's first-ever comprehensive and holistic Long-Term Turn-Around Strategy (LTTS) developed by Executives under the guidance and leadership of the Board
- Skills development Key Performance Indicators achieved for cadet pilots and technicians
- Three new African routes introduced: Cotonou (Benin), Abidjan (Ivory Coast) and Brazzaville (The Republic of the Congo)

COMMERCIAL

- Strengthened alliance and code-share relationships
- SAA achieved an overall 12% sales revenue increase
- Skytrax Award for Best Airline in Africa for the 10th consecutive year
- Four-star Skytrax rating reconfirmed

OPERATIONAL

- SAA achieved a 91,17% on-time performance average and won the *FlightStats* On-Time Performance Service Awards in the category "Middle East and Africa Major Airlines"

FINANCIAL

- Total income up 14%
- Controllable costs up 5%
- Average rand/USD exchange rate of 8.42 (2012: 7.48) and average Brent oil price USD 111.80 (2012: USD 113.70)
- Cost savings against budget in excess of R1 billion
- Irregular expenditure down 59%
- Operating loss before interest, tax, depreciation and amortisation improved by 40%
- R5 billion Government guarantee received

2013 Highlights



SAA, AFRICA'S MOST AWARDED AIRLINE, OPERATES ITS CORE BUSINESS IN THREE DISTINCT MARKETS:

DOMESTIC

SAA and Mango have the most extensive schedules, enhanced by their partnerships with state-owned regional carrier South African Express and the privately owned SA Airlink, which operates as a feeder network linking smaller towns and regional centres to the main hubs in the country. Additionally, SAA moves 40% of all air cargo in South Africa.

REGIONAL

SAA is one of the leading carriers in Africa, offering 26 routes across the continent.

INTERNATIONAL

SAA's international network creates links to all major continents from South Africa through direct routes. SAA accounts for approximately 35% of all international arrivals to South Africa and through its Star Alliance membership offers 21 900 daily flights serving 1 329 airports in 194 countries.

About SAA

SOUTH AFRICAN AIRWAYS (SAA) PROUDLY SUPPORTS SOUTH AFRICA'S NATIONAL DEVELOPMENT AGENDA AND CAN REPORT POSITIVE GROWTH IN VARIOUS PARTS OF THE BUSINESS. THE AIRLINE IS OPERATIONALLY SOUND AND BOTH SAA AND ITS LOW-COST AIRLINE, MANGO, HAVE BEEN RECOGNISED FOR THEIR RELIABLE ON-TIME DEPARTURE AND NOTABLE SAFETY RECORD FOR THE YEAR UNDER REVIEW.

SUPPORTING SOUTH AFRICA'S NATIONAL DEVELOPMENT AGENDA

SAA is proudly 100% state-owned by the South African Government and, as the national carrier, strongly supports our national development agenda. SAA contributes 0.3% of South Africa's Gross Domestic Product and is responsible for 35 000 jobs through its activity and a further 44 000 jobs through its catalytic demand impact on tourism. It is heavily focused on skills development for previously disadvantaged individuals, particularly cadet pilots and technicians.

AT YOUR SERVICE

On-Time Performance remains a high priority. In addition, Skytrax, a recognised and independent global airline-rating organisation, has awarded SAA a four-star rating for 10 years in a row.

Substantial improvements have also been achieved in baggage handling. SAA implemented a system-wide structured approach which resulted in reducing baggage irregularities and pilferage.

SAA remains committed to its core value: safety first. The SAA Technical team of experts applies a zero-defect philosophy to all safety-related activities. The Group's safety record is testimony to its uncompromising approach towards world-class operational standards, with SAA fully compliant with International Air Transport Association's (IATA) Operational Safety Audit.

The oversight role of the South African Civil Aviation Authority (SACAA) is pivotal in ensuring that SAA not only maintains our exceptionally high standards, but that we exceed expectations.

SAA values the loyalty of those who fly with the airline. That's why it's always looking for innovative ways of improving the SAA experience and delivering outstanding service to our customers.

FIRST POINT OF CALL

The SAA Call Centre is where many customer interactions take place. Its effective and efficient operation is key to the overall success of the airline.

Customer service levels apply the best practice standard, with 80% of calls being answered within seconds. In the year under review Reservations and Voyager achieved 84% of calls being answered in 17

seconds. The Abandoned Call Rate measure is that no more than 5% of total calls may be abandoned. At Reservations and Voyager, a 3% average was achieved.

THE BEST IN BUSINESS TRAVEL

The expansion of SAA's value proposition tailored for corporate entities now offers even more to global corporations. The SAA Global Sales Programme is designed to provide multi-national companies with a holistic incentive programme that entitles a corporate entity to a host of generous discounts and other benefits. The aim is to provide the corporate world with a single solution that encompasses contract negotiation and other business-specific requirements.

TAPPING INTO THE MICE MARKET

With global trends focusing on the revenue potential of this lucrative industry, SAA has identified the Global Meetings, Incentives, Conferences & Exhibitions (MICE) desk as an important sales channel. There is a clear need for SAA to partner with organisers on future meetings.

A close partnership with South Africa Tourism's National Convention Bureau, which aims to better serve the business events community,

2012 AWARDS:

World Travel Awards – Leading Airline in Africa
Public Sector – Service Excellence Gold Award (Transport)
Sunday Times – Generation X Coolest Domestic Airline
Sunday Times – Best Brand Awards (Consumer)
Skytrax – Best Airline in Africa
Skytrax – Best Staff Service in Africa
Global Traveller Magazine Awards – Best White Wine in International Business Class
South African Tour Operators Association (SATO) Awards – Best Airline
Business Traveller Awards – Best African Airline
Apex – Passenger Experience (over 50 fleet IFE) Best in Region: Africa
Ask Africa – Orange Index – Service Excellence Africa
Premier Traveller Magazine – Best Airline to Africa
Global Traveller Award – Best Airline to Africa

About SAA

enables SAA to bid for major events. With the expansion in the network across Africa, SAA is better equipped to serve the business tourism market more effectively. Special MICE fares are available to meeting organisers for delegates once a partnership with SAA has been concluded.

AT YOUR FINGERTIPS

SAA's travel trade partners benefit from a suite of self-service check-in products - such as on-line check-in, bag drop and mobile check-in - which improve business processes considerably. All SAA passengers who make bookings through these valued trade partners can access these features.

AFRICA'S MOST AWARDED AIRLINE

In 2012 SAA was awarded Best Airline in Africa for the 10th consecutive year and Best Service Excellence in Africa for the third consecutive year by Skytrax.

SKYTRAX FOUR-STAR RATING

For ten consecutive years, SAA has retained its Skytrax Four-Star rating, one of the airline industry's highest accolades. The rating is recognised worldwide and is awarded to those airlines which are delivering consistent and inspired service to their customers. Moreover, it is the airline industry's benchmark for airlines' frontline product and service quality excellence. This is testimony to SAA's customer service focus and excellent standards, which are on par with the best in the industry.

AN AFRICAN SUCCESS STORY

SAA's strategy for growth on the African continent is consistent with its Shareholder's mandate, which aims to enhance travel within and beyond Africa for Africans and the rest of the world. The introduction of new African destinations to the route network ensures further growth of SAA's footprint on the continent, made possible as ties between African countries and the rest of the world strengthen and continue to grow.

The African route network focuses on three key areas: southern Africa and the Indian Ocean Islands (Zambia, Malawi, Zimbabwe, Mozambique, Namibia, Botswana, Lesotho, Swaziland, Mauritius and Angola); East Africa and the Middle East (Kenya, Tanzania, Uganda, Ethiopia, Burundi and Rwanda) and North, West and Central Africa (Ghana, Nigeria, Senegal, Ivory Coast, the Republic of the Congo, Gabon, Cameroon and Benin Republic).

From October 2012, the Southern Africa and Indian Ocean Region was strengthened by adding Ndola as a third destination in Zambia, along with Lusaka and Livingstone.

EAST AFRICA

The Johannesburg to Bujumbura (Burundi) and Johannesburg to Kigali (Rwanda) routes were added to the East African region in 2012.

SAA CONDUCTS ITS CORE BUSINESS, THE MOVEMENT OF PEOPLE AND GOODS BY AIR, THROUGH TWO OPERATING BUSINESS UNITS, FOUR SUBSIDIARY COMPANIES AND TWO PARTNER AIRLINES – LED AND SUPPORTED BY THE GROUP'S HEAD OFFICE CORPORATE SERVICES FUNCTION



MANGO

Mango is SAA's low-cost domestic airline, with a mandate to make air travel accessible and affordable. It uses a young, highly-utilised fleet, innovative distribution model, lean organisation principles and warm, energetic branding.



SAA TECHNICAL

SAA Technical is the sole provider of aircraft maintenance, repair and overhaul to SAA and Mango in Africa. It also supplies line maintenance to 24 other domestic, regional and international airlines, and heavy maintenance to eight other customers.



AIR CHEFS

Air Chefs, SAA's in-flight catering subsidiary, is one of the largest catering and in-flight providers in South Africa. It has five airline customers and produces over 30 000 meals a day.



SOUTH AFRICAN TRAVEL CENTRE

South African Travel Centre is a retail travel agency franchise network aimed at corporate and leisure customers, and is one of the Group's most cost-effective sales channels.

About SAA

NORTH, WEST AND CENTRAL AFRICAN REGION

SAA's presence in the North, West and Central African region was expanded by adding Pointe Noire and Brazzaville (The Republic of the Congo), Cotonou (Benin) and Abidjan (Côte d'Ivoire) to the network.

Johannesburg to Cotonou, Benin, launched on 17 May 2012, is served twice-weekly. Cotonou, the country's largest city, is the economic capital of Benin and the seat of many government departments and embassies. Flights operate from Johannesburg to Pointe Noire and onwards to Cotonou.

SAA also introduced a twice-weekly service from Johannesburg to Abidjan, Côte d'Ivoire as an extension of our Accra (Ghana) flights on Tuesdays and Fridays, enabling SAA to serve customers flying between these two cities in either direction. Ghana is an important travel destination in West Africa, which is why Johannesburg-Accra was increased from five to six flights per week, with the additional flight on a Sunday.

Brazzaville, the latest addition to the African route network, effective 14 September 2012, offers customers another destination in the Republic of the Congo, besides Pointe Noire. In May 2012, SAA celebrated 10 years of flying to the Republic of the Congo.

AN AFRICAN AIRLINE WITH GLOBAL REACH

SAA's intercontinental capacity enriches the continental offering of Africa. SAA makes it possible for investment, trade and government role-players to meet as and when their schedules demand.

ASIA PACIFIC REGION

China

In January 2012, SAA launched its first-ever non-stop flight between Johannesburg and Beijing, China. This flight operates on a Tuesday, Friday and Sunday from South Africa and returns on a Monday, Wednesday and Saturday. Operated by an Airbus A340-600, this long-haul flight has a flying time of approximately 15 hours.

SAA is challenged on this route due to low frequency, poor airport slots in Beijing and needing to operate fuel inefficient aircraft due to its range from Beijing. These serious challenges need to be overcome to make the route profitable.

On 1 March 2012, SAA's code-share agreement with Air China came into effect. Based on the free-sale principle, it is a bilateral agreement in which Air China code-shares on SAA-operated flights between Beijing and Johannesburg and SAA code-shares on Air China-operated services between Beijing and Shanghai.

India

SAA offers non-stop daily flights between Johannesburg and Mumbai, India, on an Airbus A330-200, offering 36 Business and 186 Economy Class seats.

Over the past three years the market between southern Africa and India

has grown consistently. South Africa's membership of Brazil, Russia, India, China and South African (BRICS) has played an important role here. Passengers flying from Mumbai will appreciate the benefit and convenience of connectivity to 26 African destinations, and to key cities in South America and Australasia through Johannesburg.

Australia

SAA offers a daily service between Perth, Australia on an Airbus A340-300s and Airbus A340-600s, which operate this route. Customers can enjoy the added benefit of connectivity to all major cities in Australia through the Qantas code-share.

SOUTH AMERICAN REGION

The South America to South Africa contribution to the MICE market is expected to increase this year by 150% in comparison with the previous year. Boosting incentive travel from South America, especially from Brazil to South Africa, has been an important focus area for the South American region, which has resulted in record performance levels.

The Buenos Aires route remains challenging and is being reviewed closely by SAA

NORTH AMERICA

In recent months, SAA has launched new code-share flights with Air Canada and US Airways, which means convenient connections and more options for travel between South Africa and North America. Customers connecting between SAA and either Air Canada or US Airways will be able to book a single itinerary and ticket through check-in and baggage transfer from origin to destination.

SAA will code-share on Air Canada-operated flights between Toronto, Vancouver and both Johannesburg and Cape Town via London Heathrow. Air Canada will, in turn, code-share on SAA-operated flights between Toronto and both Johannesburg and Cape Town via New York-JFK.

CONTINENTAL EUROPE

Improving on feeder connectivity in Europe, new code-share agreements with Scandinavian Airlines, the flag-carrier of Denmark, Norway and Sweden and the Portuguese airline TAP were implemented from Lisbon to London, with Lisbon to Frankfurt and Munich to be implemented. SAA also offers convenient self-check-in kiosks at Frankfurt airport.

The SAA Service Centre was ranked eighth in a survey (out of 32 airlines in Germany with 840 travel agents participating) by the German travel trade magazine *Travel One* on the availability, competence and responsiveness of call centres.

United Kingdom

Customers flying with SAA from London Heathrow's Terminal One in March and April were invited to take part in a "self-boarding" trial, making boarding faster and more efficient. The trial involves an infra-red scanner taking a scan of the customer's face when they arrive at Heathrow check-in and then again when they reach the "self-boarding" gate. When these two

About SAA

scans are successfully matched, the barrier opens and the customer can pass through to board their flight. For greater convenience, their identification documents are only checked once, which makes their journey even smoother.

PREMIUM PRODUCT ENHANCEMENTS

For added on-board comfort, new branded amenity kits have been introduced in Business Class. The kit includes airline socks and shades, a full-length toothbrush and toothpaste, a comb/brush combination, and branded professional skin and bodycare products.

SAA now also offers high-quality, noise-cancelling headsets in Business Class on all aircraft types.

ENTERTAINMENT

SAA offers a wide selection of the latest blockbuster movies, as well as 12 music channels. Passengers flying to Pointe Noire and Cotonou can choose from four movies and an additional West African music channel.

On the Airbus A330-200s every seat has its own screen: Business Class has 12" screens and Economy Class has 10" screens. Customers can select English, French or German to navigate the system and most movies will be available in all three languages. The all-new entertainment system allows for additional applications to be included, such as movie information, menus, surveys, duty-free catalogues and a 2D interactive map with in-depth information about the countries over which the aircraft is flying. Business Class passengers have laptop power at each seat, as well as a USB and RCA jack where they can plug in their camera, memory stick or iPod. Customer's content, such as movies, can be viewed from a personal iPad.

GREEN INITIATIVES

SAA has completed its baseline *Carbon Footprint Report* and is in the process of consolidating the information. This will allow the Group to monitor carbon reduction efforts and ensure that the public is kept informed of the carbon cost of a flight and what the national carrier is doing to reduce its impact on the environment.

SAA has an extensive environmental initiative which includes:

- Energy and fuel efficiency programme;
- Carbon offset programme for all flysaa.com bookings;
- Renewable energy projects;
- Recycling;
- Environmental management system;
- Air traffic management programme to reduce flight distances;
- Biofuel programme, working closely with our Shareholder;
- Water programmes; and
- Sustainable procurement.

No other airline in Africa can match the scale, scope and ambition of SAA's environment programme.



Operational Overview

6
CONTINENTS

30
COUNTRIES

42
DESTINATIONS

1 329
STAR ALLIANCE
DESTINATIONS

26
INTRA-AFRICAN
ROUTES

53
FLIGHTS A
DAY BETWEEN
JOHANNESBURG
AND CAPE TOWN
(38 SAA, 15 MANGO)

8,8
MILLION
PASSENGERS
(7.0 MILLION SAA,
1.8 MILLION MANGO)

11 462
EMPLOYEES
WORLDWIDE

132 866
TONNES OF
CARGO FLOWN

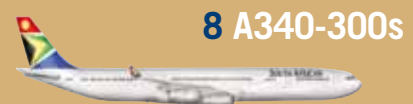
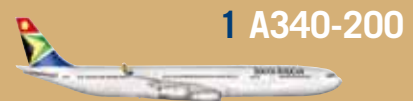


Operational Overview



SOUTH AFRICAN AIRWAYS FLEET

SAA



MANGO



Thanks for Voting us Best Airline in Africa for 10 Years Running.

Thanks to you, we have been voted Best Airline in Africa for 10 years running.

With over 25 destinations in Africa, SAA is not only taking you more places more often, we've also been voted Best Airline in Africa for 10 consecutive years at the Skytrax Awards. This, coupled with the coveted Best Staff Service in Africa Award is a result of 19 million passengers voting for the airline that best exceeded their expectations. So we'd like to thank you for voting for SAA. The more we win, the more we strive to serve you.

South African Airways. Bringing the World to Africa and taking Africa to the World.



Visit flysaa.com/Skytrax to find out more.



SOUTH AFRICAN AIRWAYS

A STAR ALLIANCE MEMBER 

Skytrax Award

**Best Airline in Africa
for Tenth Consecutive Year**

Leadership

Board of Directors



NON-EXECUTIVE DIRECTORS

DUDUZILE MYENI

CHAIRPERSON

**Secondary Teachers' Diploma (Commerce),
Advanced Business Management Dip,
Leadership and Management Development
Certificate**

Ms Myeni is the current President of Africa Water Association (AfWA), Chairperson of South Association of Water Utilities (SAAWU), Mhlathuze Water Board and the Executive Chairperson of the Jacob G Zuma Foundation. Ms Myeni was appointed to the Board of SAA in September 2009 and to the Board of Air Chefs in April 2010. An entrepreneur, business woman and a philanthropist, she was the founder and CEO of Skills Dynamics, consulting for various blue chip companies such as BHP Billiton, RBM and others. She previously served on the ABSA Bank Board. She also served as a Board Member of the Trade and Investment KZN, and was a Deputy President of the Zululand Chamber of Commerce and Industry. In 2001 she was nominated by Investec Private Bank and *Sunday Tribune* for a Woman Entrepreneur award, and was a winner of the SABC 3/ Shoprite Checkers Woman of the Year Award in the Education Category. She won a prestigious South African Philanthropist Award in 2007 (First Woman). In 2009, she was nominated for Businesswoman of the Year by the South African Chamber of Commerce (SACCI). She is one of the founding members and a stalwart of the Black Business Council. Ms Myeni has been an Honorary member of Lattice (USA) since 2007 and is a current member of the Institute of Directors.



ANDILE KHUMALO

**CA(SA), BCom (Accounting), Post-Graduate
Diploma in Theory of Accounting**

Currently Chief Investment Officer at MSG Afrika Investment Holdings, Mr Khumalo is a member of the Association for the Advancement of Black Accountants of Southern Africa and of the Black Business Council. He sits on the boards of Quarto Press, Continental Outdoor Media, Metropolitan Republic and The Communications Firm. He started his career in auditing and financial management with Deloitte & Touche. He also worked for Deloitte & Touche in the USA on the financial and compliance audit of Duke Energy – the largest producer of natural gas liquids in the USA reporting to the Securities Exchange Commission. Following this, he worked at Investec Corporate Finance. He was a Director of Sasol Inzalo Groups Ltd, the Chairperson of Metropolitan Republic and sat on the Financial Services Board's Directorate of Market Abuse. Mr Khumalo is also a member of the Takeover Regulations Panel.



ANDILE MABIZELA

BSc Economics (Hons), LLB

A member of the SA Institute of Financial Markets and a registered attorney with the Southern Gauteng Law Society, Mr Mabizela was appointed Executive Director: New Business for Afrilog SA in 2011. He has acquired an in-depth understanding of economic development in his previous positions, including Deputy Director-General: Economic Planning and Co-ordination at the Economic Development Department, Head of Africa Asset Management for Liberty Holdings, Executive Vice-President: Commercial for SAA. He developed SAA's Africa strategy and established its first regional airline franchise, Trans Air Congo, and also managed the airline's franchise relations and third-party ground handling agreements with 17 international carriers. He is the Chairperson of the Johannesburg Property Company and South African Express and has sat on the boards of numerous national and regional organisations and companies.

Leadership

Board of Directors



YAKHE KWINANA

CA(SA), BCompt (Hons), BCom (Hons), Diploma in Banking, Higher Diploma in Computer Auditing

Appointed to the Board in December 2009, Ms Kwinana is Chairperson of SAA's Audit Committee and was Chairperson of SAA's Finance, Financial Risk and Investment Committee prior to its merger with the Audit Committee in early 2011, as well as a Director of SAA Technical. She is a finance and auditing specialist and previously served on the boards of the Air Services Licensing Council, the Debt Collectors' Council and the South African State Information Technology Agency (SITA) as Chairperson of the Audit Committee. She is currently Managing Director of Kwinana & Associates.



BONGISIZWE MPONDO

BSc (Town & Regional Planning) (Hons)

Mr Mpondo, a social entrepreneur, has extensive experience in the fields of transportation planning, development planning, project management and strategy development. Presently Managing Director and founder of SAFIRI (Pty) Ltd, a transportation planning company, he has served in Board positions at the Cross-Border Roads Transport Agency, the Gauteng Transport Management Agency (Freight Transport Expert) and African Tramways. Prior to venturing into managing his own businesses, he was employed at the Council for Scientific and Industrial Research (CSIR - Transportek), the Gauteng Provincial Government's Office of the Premier (Director for Growth & Development) and the Road Freight Association (Policy and Regulation Head). Amongst his various activities, he is also a co-founder of the Institute for Transport & Sustainable Development (ITSD) whose major objective is to provide sustainable transport solutions. His portfolio of projects range from Freight & Public Transport Plans, Freight Databanks & Freight Logistics Hubs amongst others. Awards he has received include the 2001 CSIR: Transportek Outstanding Achievers Team Award, the 2002 CSIR: Transportek Young Professional Award and a nomination for the 2003 CSIR Young Professional Award. He is also the co-author of numerous works in the transportation field.



RAJESH NAITHANI

MBA, PhD (Medicinal Chemistry)

Dr Naithani's professional research experience has included extensive stints with the IFIM Business School and the Mukti Mission and Shankracharya Charitable Trust Hospitals in India, where he gained specialised sales and marketing skills by helping to expand and implement various promotional projects, as well as raise funds and increase revenues. His positions included working with the private sector to create jobs for youth, launching a voluntary blood donation project and cleaning the Ganges River and its tributaries. He has worked with the Cancer Research Institute of HIHT University and served as an advisor to the CM Uttarakhand Government in Dehradun. In the USA he was the leading scientist in cancer drug discovery for the Illinois Institute of Technology Research in Chicago, as well as an Assistant Professor at the University of Illinois. He has in-depth knowledge of synthetic organic and analytical chemistry, modern laboratory techniques, instruments and safety practices, radiation and hazardous materials safety training. He has been an officer, on special duty, to the Indian Commerce and Industry Minister and is currently Pro Vice Chancellor of Bharath University and is a board member of a number of private companies.

Leadership

Board of Directors



NONHLANHLA KUBEKA

Secondary Teacher's Diploma, BCom (Accounting), MBA (Strategic Marketing), Executive Leadership Diploma

Ms Kubeka has extensive expertise in the areas of: strategy; leadership; financial planning and reporting; yield management; brand and marketing; and meetings, incentives, conferences, and exhibitions (MICE). She holds numerous certificates in subjects related to these fields, as well as in promoting South Africa in the tourism industry. She is a member of numerous local and international professional organisations, including the Southern African Association for Conference Industry (SAACI), Destination Marketing International (DMAI) and Deputy Chairperson of the African Chapter of the International Conference and Convention Association (ICCA). Appointed the Executive: Destination Marketing for Gauteng Tourism, she has a wealth of experience in marketing both brand "South Africa" and its national carrier to an increasing international tourist trade, as well as attracting international investors to the country. Her career began when she served her articles with Grant Thornton and her previous positions include Executive Manager: Commercial for the Cape Town International Convention Centre, Senior Manager: Direct Marketing for Standard Bank (Corporate and Investment) and Investor Relations Manager: Transnet Group. She also served as a non-executive director of Cape Town Tourism and the Sandton Tourism Association.



CAROL ROSKRUGE

BSc (Hons), MSc, MBL (Corporate Governance)

Ms Roskruge was appointed in September 2012 and is a member of the Audit Committee, Procurement and Tender Processes Committee and Chairperson of the Board of South African Travel Centre (SATC). She has 12 years' executive and senior-level experience in supply chain management, strategic sourcing, sales and operational planning, outsourced operations, logistics and complex project management. Having begun her career at the South African Sugar Association doing scientific research into sugar cane genetic engineering, she later joined Unilever. Her roles encompassed product and brand development, category innovation management and cost effectiveness. She then joined Avroy Shlain Cosmetics as Group Technical Leader, a position in which she led the business to an ISO accreditation. She also worked at SAB as Supply Chain Executive in the Project Management department, where she managed innovation and capital projects. She has completed consulting assignments with organisations such as, PepsiCo, the National Department of Health and Sasol. She rejoined SABMiller in 2011 to drive Preferential Procurement, Enterprise and Supplier Development. In November 2012, she was appointed to Supply Chain Strategic Projects. Ms Roskruge is also the Managing Member of Thacali Consulting Services and Chairperson of Rural Brands.



RAISIBE LEPULE

BAdmin (Economics and Public Administration), BAdmin Economics (Hons), MPhil (Maritime Studies), Certificate in Project Management

Ms Lepule has specialist knowledge in the areas of public-private partnerships and is a member of both the Transport Forum Sector Interest Group and the Women's International Shipping & Trading Association. As Group Executive: Transnet Property, she heads the team administering its asset portfolio of residential, commercial and vacant land. She also leads the Group's strategic direction on property issues and is instrumental in aligning its portfolio with the national objectives of B-BBEE and the Property Charter. She is a key driver of SAA's transition into a successful national carrier and the strengthening of South African Express as a regional carrier. She was previously Deputy Director-General for the Department of Public Enterprises, as well as Business Development Manager at Viamax Logistics, where she led the Zimbabwe relief food (grain) logistics project that won Viamax the Logistics Achiever Award in 2002. She has also worked for Rennis Cargo Terminals (Bidvest Group).

Leadership

Board of Directors



LINDIWE NKOSI-THOMAS

BJuris, LLB

Appointed to the Board in September 2009, Advocate Nkosi-Thomas is a member of the Audit Committee and the Social and Ethics, Governance and Nominations Committee, and Chairperson of the Ad Hoc Committee on Litigation. She also serves on the Mango Board of Directors and is a member of the Mango Audit Committee. Admitted as an advocate of the High Court of South Africa in 1994, she had the status of Silk conferred upon her by the President of the Republic of South Africa in 2009. She has been in active practice as a member of the Bar since 1995 and has served as an Acting Judge of the High Court of South Africa, South Gauteng High Court and North West High Court. Ms Nkosi-Thomas serves as Chairperson of the Appeals Board of the Financial Services Board. She also serves as a member of the Board of Trustees of Government Employees' Medical Scheme and is Chairperson of its Governance and Nominations Committee. In 2008 she served as Non-Executive Director of Soul City Broad-Based Empowerment and was Vice-Chairperson of the Advertising Standards Authority Tribunal of South Africa in 2007 and 2008.



EXECUTIVE DIRECTORS

NICO BEZUIDENHOUT

CEO OF MANGO AND ACTING CHIEF EXECUTIVE OFFICER OF SAA FOR THIS REPORTING PERIOD

Mr Bezuidenhout moved to Mango from SAA, having led the team that created the low-cost airline. While with SAA, he was involved in launching the carrier's e-commerce functionality and electronic ticketing system. Prior to his career in aviation, he served as founder of the first and highly successful South African online ticketing service TicketWeb, preceded by a period in the commercial segment of the entertainment industry.



WOLF MEYER

CHIEF FINANCIAL OFFICER

BPL, BCompt (Hons), CA(SA)

Mr Meyer was appointed Chief Financial Officer of the South African Airways Group in June 2011. Prior to this, he was Chief Financial Officer at the Land and Agricultural Development Bank of South Africa and part of the team who was responsible for the successful turnaround of the Land Bank. He previously served as Chief Financial Officer of private equity company Brait SA for five years and, prior to that, held senior financial positions in several financial institutions. He has a strong banking background and extensive local and international listing experience. His career began in 1987 when he commenced his articles with Ernst & Young.

Leadership

Group Executive Committee



1

1. SANDILE DLAMINI

COMPANY SECRETARY

B Juris, LLB, LLM (Corporate Law) and Advanced Labour Law Programme Certificate

Mr Dlamini provides Company Secretariat services to the SAA Group. He is admitted as an Advocate of the High Court of South Africa and a member of the National Bar Council of South Africa. He is an experienced legal counsel and company Secretary. He also serves as a member with special expertise on the Audit and Risk Committee of the University of KwaZulu-Natal and also chairs its Litigation Management Sub Committee.



2

2. TLELI MAKETHA

GENERAL MANAGER: CARGO

BCom, LLB, Advanced Executive Programme and Wolfson Programme (Cambridge)

An admitted attorney, Mr Maketha was appointed GM of SAA Cargo in December 2010. He was previously with Cargo as Executive Manager: Networks and Alliances and later Executive Vice-President from 2001-2004. At various times before that, he was Legal Advisor at JCI, Executive Manager: Fuel (Coal) Procurement at Eskom, Executive Director at Safair and Divisional Secretary (Aviation Division) at Imperial Holdings. Before rejoining SAA, he consulted to a number of organisations as a business coach.

3. THULI MPSHE

GENERAL MANAGER: HUMAN RESOURCES

BCom, Postgraduate Certificate in Business Management, International Licentiate Diploma, Associate Banking Diploma

Ms Mpshe started her career at Standard Bank and has held senior posts at IDT Finance Corporation, the then African Bank and Nedcor Bank. Between 2001 and 2003, she was Executive Manager: Human Resources at SAA Cargo and Executive Manager: Human Resources for SAA's Operations department. From 2003 to 2010, she was Executive Director: Human Resources at Makro, part of Massmart Holdings, and then re-joined SAA in September 2010 in her current role. She has been a council member of the University of Zululand for seven years and Chairperson of the Board for Kids Haven (a home for street children in Benoni) for seven years.



3



4

4. MANOJ PAPA

ACTING GENERAL MANAGER: COMMERCIAL

Mr Papa is an aviation specialist with over 10 years' experience in senior positions within the airline industry, with a focus on its strategic and commercial aspects. He spent five years in the Middle East as Vice-President: Corporate Strategy for Etihad Airways, where his priorities were designing, developing and implementing strategic initiatives that underpin and align with overall business strategy in building an airline with a vision of "being the best in the world". He returned to South Africa in 2012 and is currently Acting General Manager: Commercial, while also heading Market SA (the home market, responsible for a major part of the airline's revenue). He is currently completing an MBA through Herriot Watt University, London.



5

5. BARRY PARSONS

CHIEF STRATEGY OFFICER

BEC (Accounting), Graduate Diploma in Arts (Russian Studies), Member of the Project Management Institute (USA)

Mr Parsons took up his current role in July 2011, however, his relationship with SAA goes back to 2005, with his involvement in the design and establishment of Mango. He was Mango's Head of Commercial from its launch in 2006 to 2008. From 2008-2010, he worked on assignments for the Centre for Asia Pacific Aviation, involving aviation policy development and state-owned enterprise airlines in developed and emerging markets. He has held Executive commercial and major project management positions with Air New Zealand and Ansett Australia. Prior to entering aviation in 1997, he held various information technology and internal audit management roles with the Australia and New Zealand Banking Group.

Leadership

Group Executive Committee



6

6. ZUKISA RAMASIA

GENERAL MANAGER: OPERATIONS

BA (Hons) (English and Psychology), Human Resources Development Degree, IATA Diploma in Airline Operations, Leadership Development Programme

Ms Ramasia has had an illustrious 20-year career in airline operations in areas such as Cabin Crew Daily Operations Manager, Senior Manager of Crew Movement and Global Operations Control Centre Head. Her skill lies in ensuring operational efficiency through effective planning for on-time departures and arrivals during normal and irregular operations, identifying bottlenecks and providing optimum solutions. She currently serves on the Board of Directors for Aviation Coordination Services (ACS).



7

7. FIKILE THABETHE

ACTING GENERAL MANAGER: LEGAL RISK AND COMPLIANCE

BProc (Law), Certificate in Legal Practice, Certificate in Legislative Drafting, Advanced Certificate in Compliance, SARS Executive Leadership Development Programme

Ms Thabethe practised as an attorney at Solomon Nicholson & Verster Inc in 2002. She also served as its Deputy Director: Legal Advisor to the Executive Management Unit in the Department of Trade & Industry. She has worked at the South African Revenue Service (SARS) as Senior Manager: Corporate Legal Service and was legal leader in the SARS IT Modernisation Project. She was also responsible for supporting Corporate Governance and the Company Secretariat to the Commissioner and Executive Committee. She was later employed by Barloworld Logistics Africa as the Executive: Legal, responsible for its Dedicated Transport Services and Freight Forwarding operations. She joined SAA in 2012 as Head of the Legal Department and is currently Chairperson of the Bid Adjudication Committee of SAA.

8. ALISON CROOKS

CHIEF EXECUTIVE OFFICER: AIR CHEFS

BCom (Accounting and Law), Fellow of the Institute of Certified Accountants (UK)

Ms Crooks was appointed CEO of Air Chefs in November 2010. She initially joined the SAA Group in 2008 and has held a number of positions, including Financial Controller (Commercial), Group Financial Controller



8



9

9. BULELWA KOYANA

CHIEF EXECUTIVE OFFICER: SA TRAVEL CENTRE

BSocSc (Hons) (Psychology), Certificate in Airline Management, Transnet Executive Development Programme

Ms Koyana took up her current position in September 2011, having spent over 10 years at SAA in various positions, including Regional General Manager: Direct Sales Channels, Executive Manager: SAA Global Call Centres, Senior Manager: Reservations, Manager: Alliance Sales and Manager: Corporate Sales. Her involvement with SATC dates back to 1996, when she was part of the team responsible for implementing the SATC concept (then called SAA City Centre) within Lufthansa. She was previously CEO of Business Process-enabling SA (BPesa), an industry association promoting business process services and offshoring in South Africa in collaboration with the Department of Trade & Industry and the Business Trust.

10. MUSA ZWANE

CHIEF EXECUTIVE OFFICER: SAA TECHNICAL

MBA, MAP, MSc (Industrial Chemistry)

Mr Zwane was appointed CEO of SAA Technical in November 2010. Prior to this, he spent 14 years with Sasol, most recently holding the position of Managing Director of Sasol Gas and serving on various boards within the Sasol Group. Having joined that organisation in 1996, he held a range of other posts, such as General Manager: Heating Fuels at Sasol Oil (2001) and General Manager: Sales and Marketing at Sasol Gas (2005). He was a member of the executive team at Sasol Synthetic Fuels. Before joining Sasol, Zwane was Chemical Services Manager with Eskom and a Senior Research Scientist with AECI.



10

Leadership Statements

Chairperson's Report

SAA EXISTS WITHIN A DEVELOPMENTAL STATE AND OUR MANDATE IS NATURALLY TO ENSURE THAT THE AIRLINE ADEQUATELY SUPPORTS OUR COUNTRY'S NATIONAL DEVELOPMENT AGENDA, WHILE CONTINUING TO OPERATE OPTIMALLY AS A BUSINESS, RETURNING TO AN OPERATING PROFIT AND IMPROVING EFFICIENCIES



On behalf of the Board of Directors of the airline, I am proud to present the 2013 Integrated Report for South Africa's national carrier. This is the current Board's first report and it highlights some of the achievements realised and also presents solutions that will be implemented in areas that require greater focus.

The airline has made significant progress in this reporting period. Noteworthy is SAA's continued contribution to South Africa's economy by supporting both developed and developing business hubs, connecting people and working with our stakeholders to transform the industry. The airline contributes 0,3% of South Africa's Gross Domestic Product (GDP) and is, directly and indirectly, responsible for 35 000 jobs in South Africa. As the airline implements its expansion plans, this contribution will increase.

LEADERSHIP STABILITY FOR THE NATIONAL CARRIER

After the departure of the previous Board and CEO, the current Board was appointed in September 2012. Its key focus areas included stabilising the leadership structure at SAA and producing a cohesive, all-encompassing strategy for the airline, as mandated by our Shareholder, the Department of Public Enterprises (DPE). The Board called upon Nico Bezuidenhout, a CEO of one of our subsidiaries, Mango, to act as CEO for the SAA Group while the Board underwent due process for the appointment of a new Chief Executive for the national carrier. The Board lauds Mr. Bezuidenhout and the Executive team for keeping the airline's operations running smoothly, until Mr. Monwabisi Kalawe commenced as CEO of the Group on 1 June 2013.

Leadership Statements

Chairperson's Report

ACHIEVEMENTS UNDER CHALLENGING CONDITIONS

Restoration of leadership stability during the 4th quarter of the fiscal and the commitment of the entire SAA Group family saw material improvements in the majority of the Group's major business areas and subsidiaries, including:

- Year-on-year growth in total income of 14%, together with continued gains made in SAA's cost compression programme and a strong financial performance from key subsidiaries, resulted in a 21% reduction in consolidated Group operating losses relative to the FY 2012;
- A 59% year-on-year reduction in losses emanating from financial control breaches, with a zero-tolerance approach being enforced and further supported by an enhanced focus on employee fraud awareness, prevention and whistleblowing mechanisms;
- Active support of the country's transformation objectives, reflected in the level of workplace and supply-chain transformation achieved by the Group, culminating in the two airline brands, SAA and Mango, jointly leading the industry in terms of B-BBEE ratings - further gains are expected.

Financial sustainability, governance and performance in accordance with the Shareholder mandate are three of the cornerstones of survival in an industry that remains notoriously challenging. Increased emphasis on these business imperatives, along with an emphasis on service improvement, have helped the Group report improved results over the last fiscal and form the foundation of our business approach going forward.

LONG-TERM TURNAROUND STRATEGY

The SAA Board of Directors was tasked with creating a Long-Term Turnaround Strategy (LTTS) for the airline. The LTTS is intended to implement SAA's strategic response to a highly competitive operating environment and to address specific weaknesses and inefficiencies within the business.

This strategy is designed to repair the business from the inside out and restore the airline's reputation in the market globally, regionally and, most importantly, nationally.

The executive team and employees of SAA worked tirelessly, under the guidance and leadership of the Board, to ensure that the strategy was delivered on time. Comprehensive input was consolidated, updated and assimilated from previous consulting reports that were commissioned, yet never implemented by the airline. As the custodians and implementers of the strategy, these inputs were work-shopped with all SAA employees for effective execution.

The steadfast implementation of this strategy is crucial and this will be aligned to the Group's next four corporate plans. These will constitute clear milestones and be synchronised with specific and measurable outcomes that will indicate, through continuous monitoring, the progress made.

Corporate governance and accountability are at the core of SAA's LTTS, as a state-owned company operating under the Public Finance Management Act (PFMA). Also included in the document are SAA's plans to enhance its status as a good corporate citizen and achieve employment equity targets and overall transformation of the industry. The LTTS holds the potential to ensure that SAA takes off into an era of sustained profitability while quantifying the amount of support required from our Shareholder and the state as a whole.

The Board is confident that all short-, medium- and long-term objectives will be fulfilled on time and that SAA will soon begin to report on achieved deliverables emanating from the strategy. A detailed Implementation Dashboard has been developed to provide the Board, Shareholder and key stakeholders visibility of the implementation progress and achievement of financial and other agreed targets.

THE FUTURE OF SAA

The SAA brand is strong and instantly recognisable all over the world. Most customers who fly with the airline feel that they are already home even before boarding the aircraft. The quintessential warmth and vibrancy of SAA, coupled with its quality product and impeccable safety record, put this airline head and shoulders above its competitors.

The world can look forward to an airline that is agile enough to respond to operational challenges, innovative enough to be a pioneer and trend-setter among its peers without losing its warm African hospitality and, above all, an efficient business that has the potential to deliver year-on-year operating profits.

We call upon each valued SAA customer to continue flying with the national carrier and show their support as we aspire to our new vision to be 'Africa's Leading World-Class Airline'.



Duduzile Myeni
Chairperson
22 January 2014

Leadership Statements

Chief Executive Officer's Report

WHETHER TRAVELLING ABROAD OR DOMESTICALLY, NO FEELING MATCHES THE SIGHT OF AN SAA TAIL ON THE APRON. OUR NATIONAL AIRLINE REPRESENTS, IN MANY WAYS, AN EXPORT OF OUR NATIONAL CULTURE, AMBITION AND ASPIRATIONS



Even before I joined SAA, as the new Chief Executive Officer on 1 June 2013, I understood that beyond the emotive impact of the South African flag landing and taking off across the globe, SAA fulfils a strategic national role in supporting South Africa's national development agenda. This is through our critical role in the provision of air services that enable the movement of people and goods; an invaluable underpinning of economic activity.

The will of the business to grow this contribution has never been stronger, with the Oxford Economics study as a foundation, the Long-Term Turnaround Strategy as a future roadmap and the passion of SAA's people to succeed.

ON-TIME PERFORMANCE

The Group dominated domestic on-time performance, with SAA and Mango respectively occupying first positions for the majority of the past fiscal period. *FlightStats*, a global leader in flight and airport information services, recently announced On-time Performance Service (OTPS) Awards for airlines across the globe. The OTPS Awards programme recognises airlines around the world which achieve sustained operational excellence and deliver the highest percentage of flights to their arrival gates within 15 minutes of the scheduled arrival time. SAA, with its 91,17% on-time performance average, won in the category "Middle East and African Major Airlines", which includes airlines that operate at least 30 000 scheduled flights annually within this region. The flight status coverage threshold was set at 80%.

WORLD'S MOST ON-TIME AIRLINE

In the *FlightStats* June 2013 Airline and Airport On-time Performance Report, SAA was named the world's most on-time airline. According to the report, which covers major international airlines and airports in North America, Europe and Asia, the big international airlines on average delivered 75,85% of their flights to the arrival gate within 15 minutes of schedule in June, down from 80,70% in May. Only six major international

Leadership Statements

Chief Executive Officer's Report

carriers delivered over 90% of their flights on time, with SAA topping the list at 93,33%, outperforming several reputable carriers from across the world.

SKYTRAX AWARD: BEST AIRLINE IN AFRICA

For the 10th consecutive year, SAA was named the Best Airline in Africa by SkyTrax. This is the most prestigious recognition for airlines globally. All airlines are voted for by their customers in this online customer satisfaction survey, which runs during a 10-month period, with over 18 million business and leisure air travellers from 160 countries participating.

IMPROVED BAGGAGE-HANDLING

SAA embarked on an initiative to improve baggage-handling as part of the airline's overall passenger service enhancement project. It also focuses on improving co-ordination of security activities at the airports. The initiative has started to yield positive results, with SAA achieving its goal of reducing the number of tampered and mishandled bags. The pilferage rate has stabilised, in line with global industry standards and SAA will continue to further reduce this.

Such operational successes are indicative of the airline's continued aspirations towards improvement. The economic benefits that are delivered against SAA's mandate are equally impressive.

ECONOMIC CONTRIBUTION

According to the June 2012 Oxford Economics study, the SAA Group contributes R8,6 billion to South Africa's GDP. This is broken down into three categories, where R3,4 billion is a direct consequence of the Group's (SAA, Mango, SAA technical and SAA Cargo) economic output, while R3,8 billion is indirectly contributed through the Group supply chain and R1,5 billion through employee and supply chain employee spending. Catalytic demand impact on tourism is measured at R11 billion. The SAA Group supports 35 000 jobs in South Africa, with 17 000 jobs directly supported by the group's output, 7 000 employment opportunities through employee and supply chain spending, and an additional 44 000 further jobs created through catalytic demand impact on tourism.

The SAA Group employs 11 462 people, each generating Gross Value Add (GVA) of R301 392, indicating 30% higher productivity than the South African average.

The importance of a state-owned airline for a developing economy such as South Africa's cannot be underestimated. The movement of people and goods to territories outside South Africa's borders continue to open up markets for export, particularly on high value to weight goods. Air transport lowers costs over long distances and increases the competitive advantage of domestic suppliers across a wider area. It is estimated that each 10% improvement in air connectivity impacts the long-run economic benefit to South Africa with R415 million.

South Africa is rich in entrepreneurs, natural resources and boasts a resilient economy, despite the many challenges it faces. With the relative end-of-hemisphere geographic disadvantage, the role of air services to the economy will continue to play a major part in securing long-term trade and tourism potential. As a business owned by the people of the country, it is the Group's mandate to fulfil national development ideals and actively seek out opportunities where the benefit to the South African economy far outweighs the opportunity cost.

STRATEGIC FOCUS

As our Chairperson highlighted in her report, the LTTS is designed to repair the business from the inside out and restore the airline's reputation in the market. My key challenge is to ensure our strategic objectives of supporting our nation's national development agenda is balanced with commercial sustainability and I will be focused on improving our recent poor operating results and strengthening operating cash flows with continued cost compression as a key intervention.

Our Africa growth strategy is exciting and SAA will continue to build its already strong African passenger and cargo network. The LTTS also stresses the importance of closer alignment of SAA's operations with the intent of our Shareholder and we welcome this guidance and look forward to delivering this for South Africa in a stronger 'Whole of State' aviation policy framework where aviation has an even greater role as a strategic state sector.



Monwabisi Kalawe
CEO
22 January 2014



Operations & Sustainability Report

An African Airline with Global Reach

South African Airways Integrated Report 2013

SAA Operations

Commercial

THE YEAR UNDER REVIEW HAS BEEN AN EXCITING ONE FOR THE SAA COMMERCIAL TEAM. THE TEAM RESPONDED RESOLUTELY TO THE CHALLENGES IT ENCOUNTERED AND WAS ABLE TO CONTINUE WITH THE MOMENTUM ESTABLISHED DURING THE PREVIOUS FINANCIAL YEAR. HIGHLIGHTS INCLUDE 12% IN SALES REVENUE EMINATING FROM 9% PASSENGER GROWTH

OPERATING LANDSCAPE

The lingering European sovereign debt crisis, continued moderate growth in China and slow response to quantitative easing in Japan and the USA continued to adversely impact the global aviation industry.

In addition, the Arab Spring uprising and escalating Syrian conflict resulted in unpredictably high oil prices, with Brent Crude oil prices peaking early in the financial year at over US\$120 per barrel and averaging at US\$112 per barrel for the period under review.

For the 2013 financial year, SAA achieved an overall 12% sales revenue increase, driven by 9% passenger growth in comparison with the previous financial year.

DOMESTIC MARKET

Locally, the demise of two domestic airlines highlight the difficult environment faced by airlines operating in the South African market.

The team adopted a robust process of refining and maintaining the highest level of schedule integrity to meet the needs and demands of discerning customers. Sales and marketing initiatives, complemented by solid pricing and revenue management systems, ensured that SAA Commercial gained market share and that grew revenue generated at high yields. A positive performance compared to the previous year was driven by a structured focus on the Voyager programmes and the resultant positive trends in customer relationship management.

The domestic market was adequately serviced through refining the broad range of capacity change. For the year under review, SAA domestic routes achieved a 13% increase in revenue compared with the prior year, driven by a 10% increase in passengers and a 3% increase in average fares year-on-year.

REGIONAL MARKET

SAA continued to achieve robust results on its African routes, despite increasing competition from well funded airlines from the Middle East as well as other African airlines. Almost all the



SAA now offers Canada

SAA begins code share with Air Canada to offer the most convenient ways to see more of Canada. Fly to Toronto and Vancouver by connecting via London or New York, while still enjoying the benefits of earning and redeeming frequent flyer miles on the SAA Voyager programme and Air Canada Aeroplan. For more information call +27 11 978 1111.

South African Airways. Bringing the World to Africa and taking Africa to the World.
flysaa.com



SOUTH AFRICAN AIRWAYS
A STAR ALLIANCE MEMBER

SAA Operations

Commercial

African routes continued to perform well in all aspects, including Harare (Zimbabwe), Luanda (Angola), Maputo (Mozambique) and Lilongwe and Blantyre (Malawi), which continued to show positive revenue results. Further afield, routes such as Accra (Ghana), Dar es Salaam (Tanzania), Lagos (Nigeria) and Nairobi (Kenya) remain of strategic importance and also performed well.

As part of SAA's African growth strategy, three new routes were launched in 2013. Operations to Cotonou (Benin), Abidjan (Ivory Coast) and Brazzaville (Congo) were commenced. These new routes performed to expectation and the connecting revenue from them complements the broader SAA route network strategy. The team continues to work diligently to ensure that the momentum is maintained and that more strategic routes are added to our African footprint.

INTERNATIONAL MARKET

With Europe in financial crisis and the USA's quantitative easing slow in showing results, the intercontinental routes showed a slight improvement in passenger numbers. The lower-than-budgeted revenue resulted in the 2013 financial year ending at -12% below target.

SAA re-routed its Cape Town-London operation in August 2012. The analysis of the Cape Town-London route performance highlighted the fact that that aircraft would be more productive and efficiently utilised by serving other profitable destinations, and that SAA can ensure continued excellent service of the London-Cape Town business and tourism passengers via its Johannesburg hub. In order to ensure seamless connectivity, SAA increased its services from Cape Town to Johannesburg.

The Beijing route, which was introduced late in the 2012 financial year, continues to show steady growth. Compared with the previous year, the load factors on this route indicated positive improvement in both Business Class (3% increase year-on-year) and Economy Class (23% increase year-on-year). Despite this improvement, Beijing remains a challenging route for SAA and its performance is being very closely monitored. Buenos Aires is also under-performing and its performance is also being closely monitored.

ALLIANCES

As a member of Star Alliance, SAA enjoys a greatly extended global network reach, while simultaneously providing passengers with a safe, customer-focused and seamless air transportation experience to virtually every corner of the globe. Member carriers of Star Alliance are required to undertake a wide range of service and quality programmes to ensure the strength of the combined alliance offering, while enabling member airlines to derive the maximum value from their participation.

SAA also continued to develop additional alliances by concluding two new code-share agreements with Air Canada and US Airways. We achieved further code-share enhancements with All Nippon Airways, Virgin Atlantic, Lufthansa and United Airways.

VOYAGER

Voyager, SAA's frequent flyer programme, remains one of the best customer

loyalty programmes in Africa. In early 2013 the Voyager team embarked on an exciting "Voyager iFly Loyalty" project. The new platform, which will be launched in the third quarter of 2014, will give customers more self-service options on www.flysaa.com, as well as the benefits of real-time interaction with dedicated Voyager contact centre consultants who can access accounts more quickly and easily. The flexibility offered by Voyager iFly Loyalty will make a world of difference to how customers experience Voyager and the way the airline manages its relationships with frequent flyers.

MARKETING AND PRODUCTS

In 2013, SAA continued to refresh its brand identity and completed the consolidation of the customer touch-point audit. The global roll-out of the brand refresh was completed, focusing on customer interfacing environments.

Great improvements were made to the contents of the in-flight entertainment arena during the financial year under review. SAA further concluded negotiations with Samsung to introduce tablet-driven in-flight entertainment on longer regional routes.

The new in-flight menus, introduced in May 2011 by celebrated South African chef Reuben Riffel, were a resounding success, spurring SAA to continue with the enhancement of its on-board offering by alternating its menu cycles. Signature dishes by master chef Benny Masekwameng were introduced to showcase South African cuisine to the world. Executive Chef Song Lee Chong will continue to focus on improving the menus on the Beijing and Hong Kong routes.

Marketing continued with consistent tactical and promotional through-the-line campaigns promoting prices, inventory sales, specials, new routes and product and frequency adjustments. Further co-ordination between inbound and outbound destination marketing continued on a regional level, in line with the many routes commenced during the prior year and frequency adjustments.

Marketing campaigns highlighting the extent of SAA's achievements were ongoing, with emphasis on SAA's long list of accolades. SAA was awarded Best Airline in Africa by Skytrax. Furthermore, SAA received numerous other accolades, including the Sunday Times' Generation X Coolest Domestic Airline and the public sector's Excellence Award.

SAA Operations

Cargo

SAA CARGO IS A CRITICAL PART OF THE GROUP'S KEY MANDATE TO TRANSPORT GOODS DOMESTICALLY, WITHIN THE REGION AND ACROSS THE GLOBE. ITS CORE BUSINESS IS TO PROVIDE RELIABLE AIR TRANSPORTATION OF TIME-SENSITIVE FREIGHT.

It moved more than 132 866 tonnes of cargo – from perishables and livestock to automobiles and dangerous goods – and has established itself as one of the most profitable divisions of SAA.

In addition to using the belly space of SAA's passenger aircraft and its own three Boeing 737 freighters, SAA Cargo leverages interlines and partnerships in accessing key markets to provide customers with extensive reach and seamless connectivity worldwide.

OPERATING LANDSCAPE

Due to the uncertainty resulting from many international political and economic events – including fluctuating exchange rates, fuel costs and the ongoing weakness in the Eurozone – the airfreight market was challenging, however SAA Cargo continues to provide a strong revenue contribution to the results.

Demand into and out of Africa continued to grow, as did the increase in



SAA Operations

Cargo

airfreight capacity by Middle Eastern and European carriers into South Africa.

South Africa's admittance to the emerging economies association BRICS (Brazil, Russia, India, China and South Africa) continued to have a positive impact on demand to South America. Johannesburg-Beijing-Johannesburg showed good volumes once permission was granted by the Chinese authorities for the movement of cargo by SAA on this route as of July 2012.

The implementation of transfer pricing was introduced, with the result that SAA Cargo now accounts for the cost of belly space to SAA. A further refinement of transfer pricing will be implemented in the coming financial year to account for further head office overhead costs.

PERFORMANCE

The division's performance in the year under review was better than expected, considering the trading environment, with revenue 6% above budget and 8% above the previous year. Actual tonnage decreased by 6% as opposed to a 10% increase in the previous year.

In order to increase volumes and improve service delivery in the African markets, SAA Cargo appointed new ground handling agents in Lagos, Luanda, Lilongwe, Blantyre, Abidjan, Dar es Salaam, Brazzaville and Bujumbura.

Load factors remained in line with the previous year; however, SAA Cargo remains committed to continued growth in support of South Africa's developmental state policy objectives and the SAA Group mandate to grow trade links with South Africa's major trading partners.

OPERATIONAL HIGHLIGHTS

Despite market challenges and capacity changes on various routes, SAA Cargo achieved a number of milestones during the year:

- Freighter activities increased by 7% due to additional rotation on existing routes;
- Load factors of freighters also increased by 7%;
- The implementation of a new ventilation and extraction system at the OR Tambo Cargo Terminal was a major step in improving the health and safety conditions of employees;
- The upgrade of the fridges at OR Tambo International improved the Company's ability to handle temperature-sensitive consignments such as perishables and pharmaceuticals;
- The Company was able to improve profit margin on its purchase of capacity out of Europe from 20% the previous year to 23%;
- The sponsorship of Team SA in the Dakar Rally held in Peru in January 2013 showcased SAA Cargo's capability and delivered valuable marketing exposure. The Toyota Imperial SA team performed exceptionally well and finished the 2013 event in the second position overall; and
- SAA Cargo participated in the successful Air Cargo Africa 2013 conference and exhibition, which was held for the first time in South Africa. SAA Cargo was the Diamond Sponsor for the Gala Awards Night Dinner, which was addressed by the Minister of Public Enterprises, the Hon. Malusi Gigaba. Due to the success of the event, the organisers have committed to holding the next event in South Africa in 2015.

AWARDS

SAA Cargo was named African Cargo Airline of the Year at Air Cargo Africa 2013.



SAA Operations

Human Resources

AT THE CORE OF SAA'S INTRICATE OPERATIONS ARE ITS DEDICATED PEOPLE. THE HUMAN RESOURCES DEPARTMENT ACKNOWLEDGES THAT IN ORDER TO NAVIGATE THE CURRENT AND FUTURE COMPLEXITIES OF THE AVIATION INDUSTRY, IT IS CRITICAL TO ENSURE THAT SAA ATTRACTS AND RETAINS THE RELEVANT TALENT AND CAPABILITIES.

TALENT MANAGEMENT

SAA has designed a human capital framework that focuses on building organisational capability targeted at an individual (career management), operational (talent identification) and leadership (succession planning) level.

Key strategic focus areas include identifying those positions that represent the lynchpins to support SAA's strategy and operations. By understanding what roles are at the "heart" of the organisation, SAA is able to ensure that top talent is attracted and retained, ensuring its sustainability as an airline.

SAA has also started building its talent pipeline through the implementation of a formal Graduate Programme, which is aimed at creating a talent pipeline for critical areas within the business, as well as for the aviation sector in general. Graduates obtain a significant amount of exposure and experience in the workplace over an 18-month period, with the aim of retaining talent in trainee positions. This programme further supports SAA in building its brand in the market as an "employer of choice, of employees of choice".

NEW GROWTH PATH (NGP) INITIATIVES

SAA strives to implement programmes that positively prepare South Africa's youth to take on a progressive career journey. The Group's Youth Development Programmes are designed to expose youth to new knowledge and opportunities to practise skills in the workplace. The overall aim is to position youth to become an integral part of the workplace by acquiring cognitive, emotional and social competencies that will assist them to function successfully within the working community.

During the last financial year, SAA developed an integrated focus on youth development and invested resources into providing career days for youth in disadvantaged communities.

INTERNSHIP PROGRAMME

The SAA Internship Programme provides youth with the opportunity to gain valuable work experience for a six-month period. Interns benefit from being exposed to the world of work and the aviation environment, in particular. Upon completion of the programme, interns are better prepared for a working role in their career fields of study. The Internship Programme is supported across SAA and all of its subsidiaries. The SAA Group successfully employed 83 interns during the financial year under review.

LEARNING AND DEVELOPMENT

The learning and development team achieved a score of 11,93/15 for the financial year 2011/12 (from a score of 6,22 for the financial year 2010/11) in the B-BBEE skills development pillar, making a significant contribution to SAA being classified as a level 3 skills development contributor.

The Department achieved the 2012/13 NGP targets for cadets, interns and technicians, as agreed with the DPE.

As part of the HR strategy to build leadership capability, the Supervisory Development Programme, Management Development Programme and Leadership Development Programme were implemented. Research topics associated with these programmes will focus on the initiatives.

The team also conducted a skills audit over the past financial year and a database of qualifications for levels 1 and 2 was created. This aims to support the succession planning strategy.

As part of the Department's strategy to provide performance support for real-time learning, an e-learning strategy was developed. This initiative also supports SAA's drive of cost containment.

In order to improve data integrity and reporting to statutory bodies and business, the team ensured that the SAP Learning Solution (LSO) went functionally live in April 2013.

With regard to aviation medical training, there were no findings from either the ICAO or SACAA aviation authorities

EMPLOYEE RELATIONS

Key focus areas included:

- Training of managers and supervisors as presiding and disciplinary officers;
- Automating key Employee Relations (ER) processes and improving reporting capability; and
- Introducing a new stakeholder engagement framework to improve relationships and manage conflict.

HR priorities for the year under review and the impact of these priorities:

- The ER team trained 79 managers and supervisors in employee relations;

SAA Operations

Human Resources



- A new ER system (Labourite) was implemented in Cargo, OR Tambo and Cape Town International Airports; and
- The ER team designed and consulted on a stakeholder engagement framework with UASA and SATAWU.

CHANGE AND ORGANISATIONAL DEVELOPMENT

An organisational culture survey dipstick was completed during the reporting period. The results were analysed and recommendations were provided to relevant departments. Action plans are being developed and finalised for improving the organisational culture and they will be rolled out by each department. The roll-out progress is monitored on an ongoing basis by HR.

A project plan was developed and completed for the regional stations' organisational analysis interventions. The information was analysed and project plans were jointly agreed upon with outstations in order to ensure

that staff satisfaction levels within this region increase.

A change management framework was developed and presented to the Human Capital Forum Committee for approval. The strategy was piloted within Airport Operations on the biometric system implementation process. The lessons learnt from this implementation will be used to roll out the strategy in forthcoming change at SAA.

The Central Employment Equity Committee was established and is fully functional. This assisted in compliance with stipulations from the Department of Labour. The improvements to the processes of implementing the Employment Equity Act earned SAA an accolade from the Commission of Employment Equity in its annual report for showing progress since it received a compliance order from the Department of Labour. A diversity management strategy was developed and senior leadership were engaged.

SAA Operations

Human Resources

HR SERVICES

The upgrading to SAP EC6 with the latest enhancement commenced and is at an advanced stage. The development platform is also being upgraded.

ESS/MSS (Employee/Management Self-Service) was rolled-out to all managers, pilots, corporate junior employees, SAA technical administrative employees and cargo administrative employees. The next roll-out of ESS/MSS will be to all operations staff, including cabin crew, airport employees (not desk-bound), technicians and cargo employees (not desk-bound).

Both personnel cost planning and enterprise compensation management are in production. This functionality is under review to ensure alignment with the business process.

Learning Solutions (LSO) is in production and the Training Department is in the process of collecting the history data to be loaded on SAP. Training is in the process of being rolled out in LSO.

PERFORMANCE MANAGEMENT

SAA has embraced a performance management culture that is aligned to the organisation's values and goals. During the past financial year, various interventions were implemented to promote the performance-driven culture. To this end, a unilateral approach was maintained, supported by a standardised performance management system in sustaining progress and accomplishing valuable outcomes, despite challenges and adversity.

Performance management focused on both management and non-management.

Development of an e-learning training solution was started and will be rolled out from August 2013. This will significantly contribute towards maximising the economies of scale by reaching outlying stations.

A pilot system to automate performance management was conducted. Pending contractual approval, this will be rolled out to the rest of the business during 2013.

The performance management policy was revised to be more suitable to SAA's business environment. Training material for classroom-based sessions was developed and is currently being reviewed to support additional Long Term Turnaround Strategy requirements, with a particular focus on induction and on-boarding processes.

Due to continuous challenges in embedding a performance-driven culture, an in-depth analysis was embarked upon and its findings tabled. The intention is to develop future interventions in line with these findings. (The analysis excluded the subsidiaries, but included the regional and international stations.)

EMPLOYEE WELLNESS PROGRAMMES

During the year under review, SAA intensified its focus on employee well-being and capitalised on the successes achieved through the Company's "Heartbeat" Employee Assistance Programme (EAP), which was implemented in the previous year. In its first year of implementation, running from 1 October 2011 to 30 September 2012, a total of 1 742 employees made use of the EAP. For the subsequent six month period, from October 2012 to March 2013, 1 662 employees accessed the programme.

The Heartbeat EAP is administered by ICAS Southern Africa, a leading provider of behavioural risk management services. The purpose of the Heartbeat EAP is to improve the psychological health of the airline's employees. The programme helps staff develop coping skills and accept a greater degree of personal responsibility. It also helps them resolve marital, family and job performance problems. The Heartbeat EAP is driven by a confidential toll-free number operational for 24 hours a day, 365 days a year. The service is available to all employees within the Group and their immediate family members and aims to help them manage their personal and professional lives more effectively. It includes confidential services relating to legal advice, stress, relationships, trauma, family matters, work, substance abuse, health and finances.

During March 2013, SAA implemented its Employee Added Benefits Programme with the objective of assisting employees in various ways, including the following:

- Providing employee assistance using the SAA database to get preferential rates on various goods and services;
- Supporting initiatives to enhance employees' health and well-being; and
- Enhancing SAA's status as an employer of choice and demonstrating the airline's commitment to valuing its people.

POLICY DEVELOPMENT

An employment equity policy was approved. SAA received recognition from the Commission of Employment Equity on this improvement with regard to the implementation of the Employment Equity Act.

CHALLENGES FACED BY THE PUBLIC ENTITY

Budget constraints remained a challenge, as strategic initiatives had to be conducted internally, with limited external resources.

FUTURE HR PLANS AND GOALS

The strategic purpose of HR is to create and drive a high-performance, values-based culture to deliver commercially sustainable outcomes, as outlined in the LTTS.

The focus of HR for the 2013/14 financial year will revolve around implementation of the LTTS, with the key themes being performance management, productivity, accountability and succession planning.

SAA Operations

Human Resources

EQUITY TARGET AND EMPLOYMENT EQUITY STATUS

MALE								
Levels	AFRICAN		COLOURED		INDIAN		WHITE	
	Current	Target	Current	Target	Current	Target	Current	Target
Top management	2	2	0	0	0	1	1	1
Senior management	21	15	1	1	3	2	22	12
Professional qualified	133	129	41	33	67	50	712	723
Skilled	127	91	53	40	32	32	110	114
Semi-skilled	1 077	733	203	199	66	68	215	216
Unskilled	11	12	1	3	0	0	0	0
TOTAL	1 371	982	299	276	168	153	1 060	1 066

FEMALE								
Levels	AFRICAN		COLOURED		INDIAN		WHITE	
	Current	Target	Current	Target	Current	Target	Current	Target
Top management	2	2	0	0	0	0	1	1
Senior management	12	11	3	3	2	2	8	6
Professional qualified	90	52	22	19	27	26	130	102
Skilled	152	125	50	44	42	38	116	94
Semi-skilled	1 471	1 145	318	273	151	128	368	331
Unskilled	11	18	1	2	0	0	0	0
TOTAL	1 738	1353	394	341	222	194	623	536

PEOPLE WITH DISABILITIES				
Levels	MALE		FEMALE	
	Current	Target	Current	Target
Top management	0	0	0	0
Senior management	2	0	0	0
Professional qualified	6	0	4	0
Skilled	5	2	6	2
Semi-skilled	8	19	7	19
Unskilled	0	1	0	1
TOTAL	21	22	17	22

Sustainability Reports

Group Environmental Affairs

IN THE YEAR UNDER REVIEW, THE GROUP MADE SIGNIFICANT PROGRESS IN EMBEDDING ENVIRONMENTAL SUSTAINABILITY AS A KEY STRATEGIC FOCUS THAT SUPPORTS THE PRINCIPLES OF THE DEPARTMENT OF PUBLIC ENTERPRISE'S (DPE'S) CLIMATE CHANGE POLICY FRAMEWORK FOR STATE-OWNED COMPANIES.

SAA has embedded the framework's principles into its Long-Term Turnaround Strategy with clear goals and measurables at intervals of three, 12 and 20 years, designed to ensure SAA's position as one of the most environmentally sustainable airlines in the world by 2022.

Major initiatives implemented include:

- A Voluntary Carbon Offset Programme which supports a cookstove project in Uganda. The programme was supported with a series of advertorials. The inclusion of Mango is planned in 2013, along with additional carbon offset projects;
- A Carbon Footprint Report was developed that provides a baseline measurement of the Group's carbon emissions;
- Facilities' energy-efficiency measures were developed with installation progressively scheduled during 2013 to reduce both electricity consumption and carbon emissions;
- Implementation of a major recycling programme with separation bins placed at most SAA facilities at head office as the pilot action. A comprehensive, group-wide recycling programme, with strong black enterprise development goals, is under development;
- SAA participated in the International Air Transport Association (IATA) Environmental Assessment (IEnvA) Programme, as one of six pilot airlines developing a comprehensive environmental management system. SAA took a leading role in the programme by qualifying for IEnvA Stage 1 accreditation;
- A relationship is being developed with the World Wide Fund for Nature (WWF) in order to facilitate access to knowledge and skills housed within the WWF to further enhance SAA's environmental sustainability strategy. The Voyager programme partnered with the WWF so that it receives donated miles from passengers;
- SAA's procurement policy is being revised to incorporate environmental sustainability factors into tender processes, in line with the DPE Climate Change Policy Framework for State-owned Companies. Implementation commences in 2013;
- The DPE and SAA have embarked upon a joint bio-fuel programme designed to investigate the potential for alternative aviation fuel production in southern Africa, with the aim of providing 50% of SAA's fuel requirements sustainably by 2022; and
- An energy efficiency and generation project, incorporating solar panels for electricity and heat pumps for efficient use of heat in our Air Chefs in-flight catering subsidiary, is being progressively implemented in 2013. This will reduce costs and carbon emissions in line with the long-term strategy of ensuring Air Chefs is the greenest in-flight caterer in Africa.



We work hard to reduce our carbon footprint and now to add a small charge to your ticket, you contribute to
For details visit flysaa.com

SAA has been awarded IATA Environmental Assessment stage



FLYING SHOULDN'T COST THE EARTH

Sustainability Reports

Group Environmental Affairs

In addition to the established projects, SAA embarked upon a solar water geyser programme for South African staff. This reduces energy bills and creates carbon credits which SAA can use for its Voluntary Carbon Offset Programme.

SAA also continues to contribute strongly to the industry environmental sustainability drive, as a full member of the IATA Environment Committee setting policy on behalf of all IATA member airlines.

HOW YOU VIEW THE WORLD IS UP TO YOU.

Offset your carbon emissions every time you fly.



you can join us. By choosing
to carbon-offsetting projects.

1 status.



SOUTH AFRICAN AIRWAYS

A STAR ALLIANCE MEMBER 

Sustainability Reports

Corporate Social Responsibility

SAA'S CORPORATE SOCIAL RESPONSIBILITY (CSR) STRATEGY AIMS TO PROMOTE PROJECTS WHICH RESULT IN MEANINGFUL CHANGE FOR BENEFICIARIES WHICH ENCOURAGE THE PARTICIPATION AND INVOLVEMENT OF EMPLOYEES AND OTHER STAKEHOLDERS AND THAT CREATE A CULTURE OF CORPORATE RESPONSIBILITY

REACH FOR A DREAM FOUNDATION IN COLLABORATION WITH VOYAGER

Collaboration with the Reach for a Dream Foundation continued in 2012 to enable the dreams of children aged three to 18 living with terminal illnesses to come true.

SAA also partnered with the organisation to host various events such as Queen for a Day, for children who have been diagnosed with life-threatening illnesses.

Queen for a Day focuses on girls aged five to 11 and living with diseases ranging from cancer and blood disorders to cystic fibrosis and kidney failure. The day allows the girls to escape the hospital environment and feel special.

VULINDLELA AVIATION AWARENESS PROGRAMME

The Vulindlela Aviation Awareness Programme continues to highlight career opportunities for young South Africans with a strong focus on communities in disadvantaged areas.

The programme takes teams of pilots, cabin crew and aircraft technicians to schools and career exhibition platforms across the country. It also encourages youth in high schools to explore careers in aviation, with a spotlight on maths and science career paths in the sector.

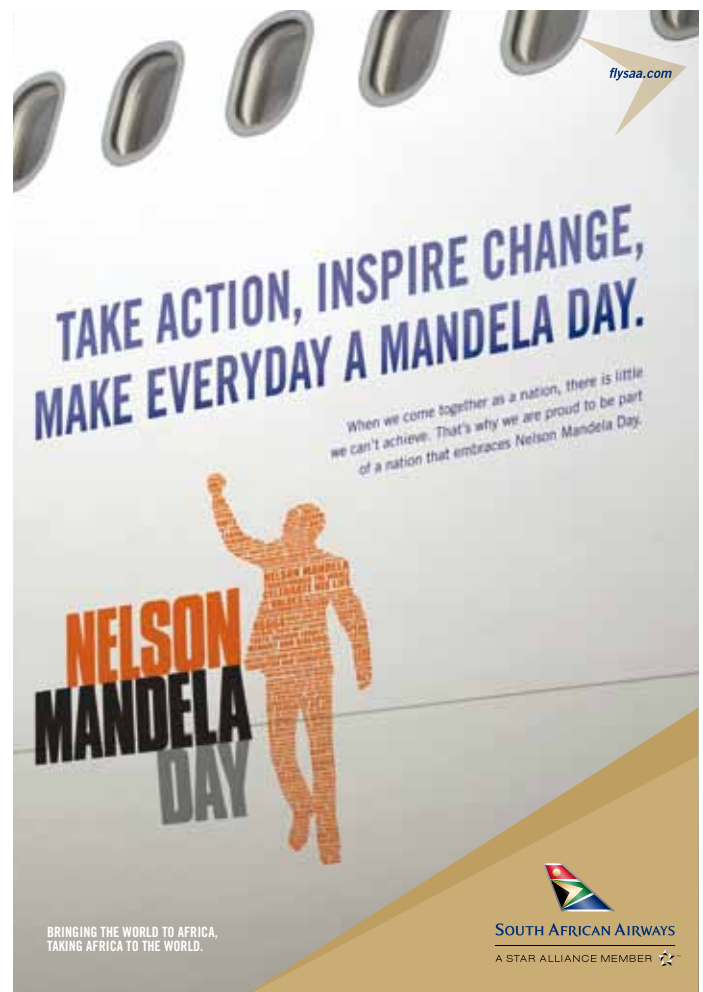
Through a partnership with the Vulindlela Aviation Awareness Programme, SAA and other industry players participated in the successful hosting of the 2012 International Civil Aviation Day (ICAD) in Mafikeng.

This event aims to raise knowledge and understanding of the training opportunities offered in the aviation industry.

Other partners in this South Africa chapter of the international initiative include the South African Civil Aviation Authority, Air Traffic and Services, the Airports Company of SA, the South African Air Force, the South African Police Service Air Wing and the Department of Transport.

Over 3 000 learners were treated to aeronautical displays, which included displays by three SAA Harvard aircraft.

The purpose of the annual ICAD celebration is to establish and reinforce



awareness – both worldwide and among communities less exposed to air travel – of the importance of international civil aviation in the social and economic development of states. The celebrations also highlight the role of the International Civil Aviation Organisation (ICAO) in promoting the safety, efficiency and regularity of international air transport.

GOODWILL TICKETS

Sixteen years ago Kwakhe Msibi was born with cystinosis, a lysosomal storage disease that affects the kidneys, eyes and bones.

Sustainability Reports

Corporate Social Responsibility

Kwakhe, who is on peritoneal dialysis because of renal failure, is one of the many recipients of SAA-sponsored goodwill tickets that are offered to needy individuals who require emergency medical relief.

In December 2012 SAA enabled him to go to the Red Cross Children's Hospital in Cape Town with his two sisters, Sizakele and Khanye, as well as his mother, Constance, for further treatment.

Constance Msibi is a single parent, so taking her family to Cape Town was something she could not do on her own. However, SAA gladly stepped in and was able to sponsor the Msibi family with return tickets to the city. Over the past year, SAA has provided many other families like the Msibis with flight ticket assistance in cases where emergency medical relief was required.

ANNUAL CHRISTMAS PARTY FOR ORPHANED AND VULNERABLE CHILDREN

In December SAA hosted the annual Christmas party for 130 orphans at a children's farm in Kempton Park, Johannesburg. The two homes to which SAA reached out were the Siyazigabisa Home of Hope in Tembisa and the Sithabile Child and Youth Centre in Benoni.

The SAA team that organises the annual Christmas parties ensured that the gifts were appropriate for the needs and interests of the orphans.

MANDELA DAY 2012

SAA commemorated Mandela Day in 2012 by flying 17 youngsters from different parts of the world, on continents where the airline operates, to Johannesburg.

This group joined other young minds in preparation for a youth dialogue focusing on Nelson Mandela's ideals on 14 July 2012. The youth dialogue was hosted at the Johannesburg Mayoral Council Chambers in Braamfontein and focused on the lessons learnt during each of the 27 years of Madiba's incarceration.

Preparation for the dialogue was made possible by the "Life College" and the Nelson Mandela Centre of Memory, otherwise known as the Nelson Mandela Foundation.

The 2012 dialogue's focus was on keeping Mandela's legacy alive and encouraging the youth of the world to "take action and make every day a Mandela day".

During the week of Madiba's birthday, SAA hosted activities at various airports globally, including London, Frankfurt and New York, regionally in Lagos, Maputo and Kinshasa, and locally in Cape Town, East London, Port Elizabeth, Durban and Johannesburg. At these airports, stands were set up for staff and passengers to sign pledges for Mandela Day activities.

The month of July also saw onboard activations carrying the Mandela Day message to various continents as a reminder to our global passengers to "make every day a Mandela day". Birthday cards were handed out to passengers to write messages for Madiba.

THE MANDELA DAY LIBRARIES

In 2012 support for teacher training in library resource management continued for Breadline Africa and the Nelson Mandela Centre of Memory.

SAA provided flights for this crucial annual training for the teachers of the schools that are recipients of the Mandela container libraries to ensure that the programme is sustainable.

As part of the Mandela legacy projects, SAA will continue to support the literacy initiatives through the Nelson Mandela Centre of Memory by rolling out more Mandela libraries to needy schools in the coming year.

On 18 July – Madiba's birthday – SAA staff were also encouraged to participate in outreach activities. They visited:

- The Paediatric Oncology Unit at Charlotte Maxeke Hospital in Johannesburg, to which they donated 50 blankets and toys to the children's unit;
- The Day Care Centre in Alexandra Township, to which they donated non-perishable food items, clothing and 150 blankets;
- The Soweto Home for the Elderly, to which they donated 150 blankets, toiletries and non-perishable food items;
- The homeless in and around Johannesburg, including Hillbrow and Braamfontein, to whom they donated 250 blankets; and
- Various centres that care for orphaned and vulnerable children in Durban and Cape Town, to whom they donated hundreds of blankets.

Blankets distributed by SAA staff, during the outreach sessions were donated by Swissport.

TAKE A GIRL CHILD TO WORK DAY

SAA is proud to be part of the national initiative of Take a Girl Child to Work Day.

On this day, girls in Grades 10-12 are exposed to the working aviation world. Girls from different provinces to which SAA flies were flown into the SAA headquarters to join a group of girls from Gauteng at the Johannesburg offices.

They were given an opportunity to visit the simulators and the highly specialised operational areas of SAA technical.

CSR INTO THE FUTURE

SAA CSR will continue supporting literacy projects aimed at under-resourced primary schools, especially in rural communities, through the Nelson Mandela Centre of Memory. The airline will also focus its efforts in promoting maths and science education and thereby giving learners access to the world of aviation.

The airline will make an effort to bring aviation to those who cannot reach SAA's facilities, through a purpose-built vehicle that resembles an aircraft.

Corporate Governance

Corporate Governance & Accountability

AS A STATE-OWNED COMPANY OPERATING IN A STRICTLY REGULATED INDUSTRY, THE SOUTH AFRICAN AIRWAYS GROUP IS COMMITTED TO OPERATING WITH THE UTMOST TRANSPARENCY. THE PAST FEW YEARS HAVE SEEN A NUMBER OF SYSTEMS IMPLEMENTED AS PART OF THE ORGANISATION'S EFFORTS TO ACHIEVE ACCOUNTABILITY.

The aviation industry is faced with a number of challenges, as well as a unique operating environment. To ensure that SAA is equipped to meet these challenges in a way that is fair and transparent, the organisation is monitored and regularly reviewed by a number of independent bodies. Key organisations in this regard include the South African Civil Aviation Authority, as well as the US Federal Aviation Administration.

Internally, corporate governance is ensured through the implementation of a rigorous ethical framework. The Board also plays a vital role in ensuring that SAA meets its obligations, while adhering to the strictest standards and operating in a manner that not only benefits the society which the Company serves, but also serves the Shareholder's interests. To this end, a number of policies have been introduced, such as those dealing with conflicts of interest.

Attention has been focused on key areas such as aviation safety compliance and customer care. Again, relevant policies and procedures have been put in place to ensure that the Group now adheres strictly to all requirements and is able to address challenges effectively.

SAA recognises that effective corporate governance hinges on co-operation between management, the Board, the Shareholder and other stakeholders. It is guided in this regard by the King Report on Corporate Governance for South Africa (King III of 2009). Moreover, the Company sets its own targets for corporate governance, which are closely monitored and regularly reviewed.

BOARD OF DIRECTORS

As of 31 March 2013, SAA's Board comprised 10 Non-Executive directors and two Executive Directors. All Non-Executive Directors, including the Chairperson of the Board, are appointed by the Shareholder. SAA prides itself on having a Board peopled by local and international individuals hailing from diverse backgrounds, granting them a multi-dimensional view of business issues and challenges. Members boast many years' experience and are considered experts in their field.

The responsibilities of the Board are clearly outlined in the Company's Articles of Association, Board Charter, Companies Act and in the approved Delegation of Authority Framework. These responsibilities include the review and approval of strategic direction, annual budgets and the corporate plan of SAA and its subsidiaries. The Board further approves all major capital expenditure and monitors the Group's performance against financial objectives and approved detailed budgets.

The Group Executive Committee, a sub-structure of the CEO's delegation

from the Board, is responsible for ensuring the implementation of processes guiding operations, so that SAA is able to achieve its key performance indicators. It is headed by the CEO and meets monthly to monitor the progress of the strategy in terms of the annual Corporate Plan.

BOARD COMMITTEES

During the past year, the SAA Group updated its constitution and terms of reference to align to the Companies Act of 2008. Through this exercise, a number of sub-committees of the Board have been established, including the:

- Audit Committee;
- Procurement and Tender Processes Committee;
- Social and Ethics, Governance and Nominations Committee;
- Remunerations and Human Resources Committee;
- Long-Term Turnaround Strategy Committee; and
- Ad Hoc Committee on Litigation.

The terms of reference and mandates of these sub-committees have been redefined to ensure a stronger focus on SAA's statutory obligations.

COMPLIANCE

The Group is currently working to finalise the revision of the Memorandum of Incorporation of SAA and its subsidiaries in compliance with the Companies Act.

SAA's compliance with the competition laws improved significantly over the past year. During 2012 there were no adverse findings against the Group, with the exception of those rulings already in place.

SAA is still dealing with several outstanding civil litigation matters, including anti-trust related matters initiated by Comair and Nationwide, as well as an investigation initiated by the Swiss Competitions Authority in 2007.

An initiative developed around the Consumer Protection Act was launched in August 2012. This included the revision of policies and standard operating procedures, as well as identifying personnel affected by the Act and provision of training to impacted staff.

Irregular expenditure was reduced by 59%. A multi-pronged approach was adopted to achieve this; the entire organisation underwent refresher training to reiterate the aims and implementation of the Public Finance Management Act (PFMA), while training around procurement processes – to ensure the correct utilisation of SAP – was also given. Added to this,

Corporate Governance

Corporate Governance & Accountability

a contract management system and process has been developed which monitors expiring contracts, along with the review and renewal of existing ones. A contract management framework and policy was approved. The PFMA forum is operational and, among its terms of reference, the forum monitors and reports on compliance and/or non-compliance with the PFMA on a monthly basis and reports to the Board through Exco every quarter. These actions ensure that proper procurement practices are followed and that SAA's policies are adhered to.

Open litigation was also reduced during the year, with the result that contingent liabilities have also come down.

ENTERPRISE RISK MANAGEMENT

Enterprise risk management is viewed as an ongoing process. Assessments are conducted at SAA and its subsidiaries on a quarterly basis to ensure that risk is maintained at a manageable level.

SAA INTERNAL AUDIT (SAAIA)

SAA has an in-house internal audit function, which was introduced during the 2012/13 financial year. The function reports to the Board through the Audit Committee. The Committee approves SAAIA's audit plan and monitors performance against a three-year rolling plan. SAAIA is further guided by an approved charter, which was developed in accordance with the guidelines put forward by the Institute of Internal Auditors. This charter is reviewed annually and was reviewed by the Audit Committee during the year under review.

The primary function of internal auditing is to provide reasonable assurance regarding internal controls, governance, efficiencies, effectiveness and performance against strategic objectives. It provides a systematic and disciplined approach to evaluating and improving the effectiveness of these criteria. The function is therefore a key part of the Group's risk management and combined assurance strategies.

In order to provide the Board and management with the necessary assurance and timely early-warning alerts on potential failures, SAAIA maintained a risk-based audit approach through the implementation of the 2012/13 internal audit plan.

During the year, SAAIA focused on the following key areas:

- Developing internal information technology audit skills capacity;
- Following up on the remediation of the root causes of management letter findings;
- Trend analysis of the cross-cutting root causes, repetitive findings, process and control failures and their owners;
- Creating awareness around the role of SAAIA;
- Increasing the audit focus on strategic risks; and
- Improving the efficiency of internal audit processes.

Highlights during the period in question included:

- The development and implementation of SAAIA methodology, which is aligned to the International Standards for the Professional Practice of Internal Auditing;
- The development and implementation of service-level agreements



with all stakeholders to ensure that their expectations are met and exceeded;

- The implementation of an audit working paper software (TEAMMATE) that is aligned to SAA's internal audit methodology, as well as the International Standards for the Professional Practice of Internal Auditing;
- All duties of SAAIA function, as laid out in the 2012/13 annual internal audit plan, were discharged;
- The function filled 16 of the approved 19 staff positions. This excellent progress has meant that approximately 70% of planned audits were conducted by in-house staff members; and
- The establishment of SAAIA has ensured that the overall control environment improved during the year under review and can now be deemed to be effective. However, there will be increased focus on developing internal controls within the operations.

Any control deficiencies identified by the internal auditors were brought to the attention of management for corrective action. Where internal controls did not operate effectively, compensating controls and/or corrective action were recommended by SAAIA and implemented by management, enabling the organisation to eliminate or reduce risk. This ensured that the Group's assets were safeguarded and proper accounting records maintained.

SAA has adopted an aggressive stance against corruption and SAAIA plays a key role in the detection, reporting and prevention of fraud.



SUBSIDIARIES

Mango

SAA Technical

Air Chefs

SAA Travel Centre

Subsidiary Reports

Mango

MANGO ACHIEVED THE HIGHEST TURNOVER AND BOTTOM-LINE PROFITABILITY RESULT IN ITS HISTORY DURING THE 2012/13 FINANCIAL YEAR. THE AIRLINE'S TURNOVER REACHED R1,36 BILLION DURING THE PERIOD UNDER REVIEW, RECORDING A NET PROFIT OF R39,1 MILLION.

Given the backdrop of a subdued economy, Mango performed exceptionally well. Achievement, growth and responsible business practice set the tone for Mango's performance during the 2012/13 fiscal year. This within a sector that faced a continued decline in the number of domestic travellers (Airports Company SA (ACSA): 4,6% decline in domestic travel 2012), as well as high fuel prices, a weak currency and global industry forecasts of a low profitability benchmark of 1,6% by the International Air Transportation Association. The exit of two domestic carriers during the period in review emphasised the flat-lined condition of the South African aviation industry.

PERFORMANCE

Mango launched a new port in 2012 and introduced a sixth aircraft to its fleet, launching Port Elizabeth-Johannesburg-Cape Town frequencies in the third quarter, after adding wet-leased capacity and bulking up its existing Golden Triangle presence. The airline continued to focus on innovation with the launch of the first African on-board Wi-Fi service across its fleet. The G-Connect In-flight Wi-Fi service saw take-up of well over the international aggregate of 6%.

The development of its travel management system, designed to deliver seamless corporate and trade inventory distribution, saw Mango become the first airline to launch booking and payment applications across mobile platforms. It continues to be the only carrier globally to accept store charge cards as tender online and through its call centre (Edcon), and offers the widest distribution channel and payment options in the domestic market.

In December 2012, Mango also crossed South African borders for the first time when it introduced highly successful charters to Zanzibar. The airline plans to implement a scheduled service to Zanzibar and other African destinations, pending route rights and regional licensing.

Mango continued its lead in terms of on time performance in the domestic market with a 93% network aggregate (ACSA) and a load factor increase to 81% for the period in review against 77% in the previous period. Aircraft dispatch reliability targets were exceeded with an achievement of 99.05% (target 98.5%). Call centre service levels exceeded industry norms of 80%.

SOCIAL PARTICIPATION

Mango continues to be active among the communities it serves, beyond its direct and indirect socio-economic roles as employer, customer and

economic enabler through the cost-effective transportation of people and products in South Africa. Among other things:

- Mango initiated a national Career Day programme with three successful



Subsidiary Reports

Mango

events in Lanseria, Athlone and Tshwane, reaching 41 000 individuals and learners collectively, and will continue to create awareness to educate a future human resources market to consider a career in aviation and its respective support industries;

- The airline achieved a Level 5 B-BBEE rating under the new Transport Charter, with more stringent criteria than the Generic Charter previously applied;
- The airline renewed its fundraising partnership with UNICEF, whereby South African youth are afforded life-changing opportunities through development in sport, while also implementing a community-driven sustainability programme;
- Mango continued its national programme where community feeding, opportunity creation and environmental educational schemes are

supported by way of the construction of fully sustainable vegetable gardens at community centres and schools;

- Mango also turned its attention to arts and culture through partnering with the South African Mzansi Ballet Company in the development of formerly disadvantaged talent, as well as the Vryfees Arts Festival, among others;
- Mango announced its intention of becoming the most carbon-efficient domestic airline and achieving relative neutrality within two decades; and
- As a responsible corporate and environmental citizen, Mango will continue to invest in youth development and enabling self-sufficiency as it relates to meeting basic needs, cognisant of our own environmental impact, as a means of investing in the future of South Africa.



LOOKING AHEAD

Mango plans to increase its fleet with two additional units during the 2013/14 period, with capacity increases on existing domestic routes, as well as regional expansion on the near horizon. A seat replacement programme will see new lightweight seats introduced, increasing fuel-efficiency and guest comfort without compromising seat density. The business also plans to launch travel package products later in the year.

The key to aviation business sustainability lies in the extent to which a given airline/model can respond to extreme volatility in both cost and demand while maintaining liquidity – this within an industry that is showing undeniable trends of commoditisation amidst continuing, and capital-intensive, supply growth. From a financial standpoint, it is accordingly important to minimise the proportion of total cost deemed to be fixed in the long term, while simultaneously compressing costs that are variable in nature – an ongoing trade-off. It is also important, as across all industries, to effectively target customers (guests) through a relevant value proposition cognisant of current and future consumer needs and trends.

Mango believes that, within the context of growing demand for cost-effective air travel and an ever-increasing consumer flight to value, the low-cost model will continue to be the fastest-growing and most profitable airline. Mango further believes that the Company's strong cash reserves and gearing position, operational unit-cost leadership and growing brand positions it well for a 2013/14 financial period.

The combination of capital efficiency, cost-effectiveness and market relevance, along with environmental responsibility and a commitment to employee well-being, is evident in a brand that conducts itself with integrity, in full compliance with a well-developed governance framework. All of this leads Mango to be confident of the long-term financial future and growth of the Company.

Subsidiary Reports

SAA Technical

SAA TECHNICAL ACHIEVED A R39 MILLION OPERATING PROFIT AND CONTINUED TO STRONGLY SUPPORT SOUTH AFRICA'S NATIONAL DEVELOPMENT AGENDA THROUGH ITS JOBS CREATION AND TECHNICIAN SKILLS DEVELOPMENT PROGRAMMES

SAA Technical is the sole provider of aircraft maintenance to SAA and Mango in Africa, and an independent business that contributes revenues to the greater SAA Group. The Company operates as a full-service maintenance repair organisation (MRO), and is the largest such organisation in Africa. It has held full and uninterrupted US Federal Aviation Authority certification since the late 1980s. It supplies line maintenance to 24 other domestic, regional and international airlines, and heavy maintenance to eight major customers.

OPERATING LANDSCAPE

The MRO business is rapidly changing in an industry subjected to uncertainty of oil prices, pressure on yields, limits on aircraft financing and increased competition to win traffic.

Despite these challenges, long-term fleet growth looks solid. This is mainly driven by population growth, growing middle class and the decline in the average age of the fleet since 2009 (12.2 to 11.9 years over 20 000 aircraft). The production rate of the new generation aircrafts with fuel efficient engines has also increased. Fleet growth is forecast at 3.7% CAGR to 29 955 in 10 years.

The implications of a solid long-term fleet growth to the MRO business outlook are positive. According to Team SAI, the global MRO spend last year was US\$49.5 billion, 5.7% higher than 2011. This growth was mainly driven by fleet renewal programmes by various airlines as well as higher aircraft utilisation. Maintenance of components increased at a higher rate than that of airframe and line while engine overhauls decreased slightly compared to the previous year. Labour rates marginally increased in the same period.

Global growth is expected to maintain a 3.3% CAGR through 2022. The \$49.5 billion industry is expected to grow to \$68.5 billion over the ten year forecast period. This growth will be slowed down towards 2022 due to the lower average fleet age. Engine maintenance is expected to continue being the largest segment with the highest growth rate whilst the growth in component is expected to catch up in the latter half of the forecast.

SAA Technical response to the challenges and opportunities highlighted above was critical to the continued growth of the company. The focus on efficiency improvements, high utilisation of labour and process innovation was key towards ensuring positive outcomes. Tightened relationships with Original Equipment Manufacturers (OEMs) and continued investments in facilities, training and new product development are some of the important steps that were considered in the period under review.

PERFORMANCE

In the year to 31 March 2013, SAA Technical achieved a R39 million

operating profit, down from the R171 million achieved in March 2012. The year-on-year drop in operating profit was mainly influenced by a drop in flight hours from SAA as well as depressed heavy maintenance business.

An in-depth operational, financial and organisational assessment completed during the financial year to March 2011 confirmed that SAA Technical's quality and technical work are well regarded from both a quantitative and qualitative perspective, but indicated that improvements in certain areas were needed if long-term sustainability was to be assured.

A three year project code named Thrust was initiated in order to foster delivery of the recommendation by Simat, Heiliesen & Eichner (SH&E) department. Although the project achieved a bottom-line improvement of R100 million during the first year, there was a drop in the quantum of savings achieved in the year under review. The implementation of the project has largely delivered though in three key areas: cost containment; business efficiency improvements, especially in base maintenance; and alignment of the structure to the organisational strategy.

Cost-containment initiatives focused largely on the two most high-cost items – labour and materials. The reduction of overtime continued during the year under review and a focus on a reduction in material consumption has resulted in a saving of more than R30 million as at the end of March 2013.

The overall reduction of turnaround time, achieved through the application of lean principles, continues to yield positive results for our customers and has ensured that customers receive their aircraft within the budgeted timelines – a remarkable improvement over the performance achieved in the previous financial year. In fact, almost 40% of major maintenance checks conducted in our hangar were completed a day earlier than the budgeted turnaround time.

The Quality Assurance department has successfully managed the renewal of all major AMO approvals ie. South African Civil Aviation Authority (SACAA), Federal Aviation Administration (FAA) and European Aviation Safety Agency (EASA), as well as a number of other approvals such as South African National Accreditation System (SANAS) for Metrology and Compressed Gas Cylinders and Regulatory Authorities like the Namibian DCA, Madagascar DCA and Qatar CAA. All line stations were audited at least once during this period to renew their approvals. A total of 418 audits were performed on product processes, procedures and vendors.

A commendable achievement was the development of a complete new Maintenance Organisation Exposition (MOE) for the Civil Aviation Safety Authority of Australia (CASA).

Subsidiary Reports

SAA Technical



Quality Assurance (QA) has also used in-house available resources to develop an entire certification management system to replace an antiquated and unsupported system from the 1980's, which became unusable and could no longer satisfy the increasing requirements of the aviation regulatory authorities. A very useful extension to this programme also monitors the currency of all compulsory training, and provides warning reports of training due to expire, to assist managers with their planning.

IN-SOURCING OF ENGINE MAINTENANCE SERVICES

A decision taken a few years ago to outsource all engine work to other MROs and OEMs has led to a huge loss in revenue streams and not contributing optimal to Total Cost of Ownership. The investment in test equipment for the new generation engines has not taken place thus limiting the upgrading of the facility. As a result of this decision not much development was done increasing the human resources skills to complement the new generation engine types and there are a few technicians most of whom are closer to retirement that have the capability to repair and overhaul old generation aircraft engines.

South African Airways Technical (SAAT) Jet Engine Overhaul Service (JEOS) Facility has limited repair capability on the current SAA fleet; hence any major repair work that is required is outsourced. The contract value of outsourcing these services is significant, at more than R1.3 billion per annum (narrow and wide body aircraft engines), the narrow body engines have a potential to increase SAAT revenues if in-sourced. The project to in-source engine maintenance services will provide an opportunity for organisational growth and capability as well as reducing the current unit cost of labour complementing the contribution to the total cost of ownership

SAAT currently has the capability to repair and overhaul JT8 and JT9D series aircraft engines and had full capability in the V2500-A1 engines for SAA's previously owned A320's. There is limited capability to repair the current fleet of engines on both the narrow and wide-body aircraft flown by SAA.

In order to revive the JEOS, it was decided in 2012 to enter into an Off Load Agreement with Pratt and Whitney to repair JT8 and JT9 engines. The Off Load agreement on the JT8 engines are currently under investigation to test the viability of the agreement. It was envisaged that as part of this off load agreement, capacity would be created for more engine work to be done in SAAT Jet shop which will ensure optimum profitability and productivity improvement of workshop staff.

The key strategic objective of SAAT is to improve its profit position, largely by increasing volume through added third-party business and putting underutilised resources and facilities to more productive use thus positioning itself as a leader in the sub-Saharan Africa MRO business. The in-sourcing of engine maintenance is one avenue that can be used in order to ensure that we are successful in attaining that goal.

HUMAN RESOURCES: HIGHLIGHTS AND MILESTONES

The year was eventful in a number of areas. The first challenge was to restructure the department such that the Staffing Function is separated from the Remuneration and Benefits functions. This needed to be achieved without disruption of the total system which has been integrated for more than 10 years. This milestone has been achieved and both functions are now working together in a complementary fashion.

The unstable Employee Relations climate was partially arrested through continuous meetings with both South African Transport and Allied Workers Union (SATAWU) and Aviation Union of Southern Africa (AUSA) unions. This was done in the wake of the split in SATAWU with its former leadership forming a new splinter union with the name of National Transport Movement (NTM), thus complicating the ER terrain even further. Needless to say, the wage negotiations for the financial year were protracted and at times acrimonious. Eventually all was resolved and a wage agreement was signed. NTM remains unrecognised as they do not have the threshold membership.

Two management development programmes were pursued to deal with the threat of a leadership vacuum due to an ageing baby boomer management cadre which would retire nearly in the same period. Both the Future Leaders Development Programme (FLDP) and the Women in Aviation (WIA) initiatives took off without a hiccup, with initial stages at Wits Business School and subsequent sessions at Cranfield University in the UK. These are intensive two year programmes culminating in an MSc (Aviation).

The Technical Training school is currently approved by the SACAA as an Aircraft Training Organisation as per part 141 of the South African Civil Aviation Regulations. In 2011 the SACAA included a requirement that all instructors must be appropriately licensed to provide tuition and examinations. Currently all affected instructors have been licensed and a monitoring system implemented. Training provided towards licensing is also accepted by EASA and the FAA.

LOOKING FORWARD

A number of opportunities have been pursued regionally and internationally creating a robust pipeline for A checks C checks and potential cooperation with an OEM for component maintenance for the Embraer fleet.

Subsidiary Reports

Air Chefs

AIR CHEFS IS SAA'S CATERING SUBSIDIARY FOCUSED ON MARKET SHARE GROWTH, LEVERAGING NON-AIRLINE BUSINESS OPPORTUNITIES AND INVESTING TO GROW. THIS WAS ACHIEVED BY REOPENING THE DURBAN AND BLOEMFONTEIN FACILITIES AND CONSOLIDATING THE TWO OPERATING UNITS IN JOHANNESBURG INTO ONE UNIT.



Subsidiary Reports

Air Chefs

MARKET SHARE GROWTH

Following the recent merger of Wings (dnata/Emirates) and First Newrest, there are now three airline catering companies in South Africa, namely Air Chefs, LSG Sky Chefs and Wings/First Newrest. There is fierce competition to secure new business in the market as it comes up for re-tender. Air Chefs was awarded the SA Express and Precision Air business in 2011/12, and has been shortlisted for the Air Mauritius tender. Air Chefs still holds the largest market share of the South African airline catering market.

INVESTING TO GROW

Air Chefs invested in new fleet and infrastructural improvements over the past year, in order to meet Airports Company South Africa (ACSA) licensing requirements of airside vehicles, provide adequate facilities for operations and consolidate in Johannesburg.

Twenty-five Light Duty Vehicles (LDV) and eight Hi-loader vehicles were purchased as part of the fleet replacement plan. The Hi-loaders were to address the aged fleet of specialised vehicles that could no longer go airside (six years for normal vehicles and 12 years for specialised vehicles) and the LDVs to service the SA Express business, requiring refrigerated LDVs that can carry six trolleys per journey.

The two Johannesburg facilities were consolidated into one facility at Jones Road in mid-2012, in order to reduce operating costs. However, given a change in strategy regarding the in-flight building, which is much better positioned to access airside, a motivation to evaluate the plans and costs associated with the refurbishment of this building has commenced.

LEVERAGING NON-AIRLINE BUSINESS OPPORTUNITIES

Air Chefs' non-airline business now includes airport lounge catering, events catering and canteen services, including the SAAT, Cargo and Airways Park Canteen and the King Shaka International Airport Lounge in Durban.

FINANCIAL PERFORMANCE

A plan to turn Air Chefs around was put into place and incorporated the following:

- Consolidating the two Johannesburg facilities to eliminate duplicate overheads, which was completed in mid-2012;
- Reducing material costs by re-implementing the SAP Production Planning programme to ensure that business operates more efficiently; and
- Implementing processes and procedures for both accountability and reduction of waste.

LOOKING AHEAD

Air Chefs' strategic objectives are:

- To support South Africa's national developmental agenda;
- To achieve and maintain commercial sustainability;
- To provide excellent customer service;
- To achieve consistent, efficient and effective operations; and
- To foster performance excellence.

Based on the achievements in the 2012/13 financial year and the reduction in losses during March 2013, the 2013/14 financial year is set to turn around to one of profitability.

The areas of focus that will further assist Air Chefs are:

- Structural changes to mirror best practice and ensure that accountabilities are clearly set through appropriate job descriptions and KPIs (separate submission); and
- The creation of appropriate policies and standard operating procedures and further enforcement of existing policies and procedures.

Subsidiary Reports

South African Travel Centre

THE SOUTH AFRICAN TRAVEL CENTRE (SATC), A WHOLLY-OWNED SUBSIDIARY OF SOUTH AFRICAN AIRWAYS (SAA), HAS BEEN IN EXISTENCE FOR 16 YEARS. THE TRAVEL RETAIL CONSORTIUM IS PART OF THE SAA-OWNED SALES CHANNEL NETWORK, WHOSE MAIN FUNCTION IS TO PROMOTE SALES OF THE AIRLINE'S TICKET INVENTORY THROUGH ITS FRANCHISEES.

SATC boasts an extensive footprint, with over 80 agencies located in the major centres around South Africa, as well as Maseru, Maputo, Gaborone and Accra. Through these retail outlets, it offers competitive rates and service on air travel, car rental, travel insurance, foreign exchange, global tour products, cruise holidays, packaged tours, assistance with visa applications and accommodation across the globe. Each SATC agency is independently owned and run by seasoned travel agents who are focused on consistently offering the best value to their clients. Most importantly, they all share in our common purpose of promoting SAA sales in a mutually beneficial manner.

SATC'S PERFORMANCE IN 2012/13

SATC completed the year having achieved notable improvements in key areas of the business, which in turn resulted in a healthier financial position. The overall organisational improvement was supported by advances in employee engagement following SATC's restructuring process, as well as advances in technology. Client acquisitions also improved in comparison with previous years, while attrition was kept to a minimum. Financial performance suggests an impending turnaround.

IMPROVEMENT OF RETURN ON INVESTMENT FOR CLIENT ACQUISITION/RETENTION

The sustained growth of SATC is dependent on the improvement of franchisee benefits, which in turn will ensure the retention of current franchisees, as well as the successful recruitment of new ones.

DEVELOPING BUSINESS GROWTH AND COUNTERING ATTRITION

SATC head office has been engaged in rendering business development support to franchisees in order not only to grow their enterprises, but to counter possible attrition of their businesses.

FRANCHISEE RECRUITMENT AND AFRICAN EXPANSION

SATC continued to grow its geographical footprint through ongoing recruitment of franchisees into the consortium. An additional 11 franchisee acquisitions were achieved in the 2012/13 financial year.



Subsidiary Reports

South African Travel Centre

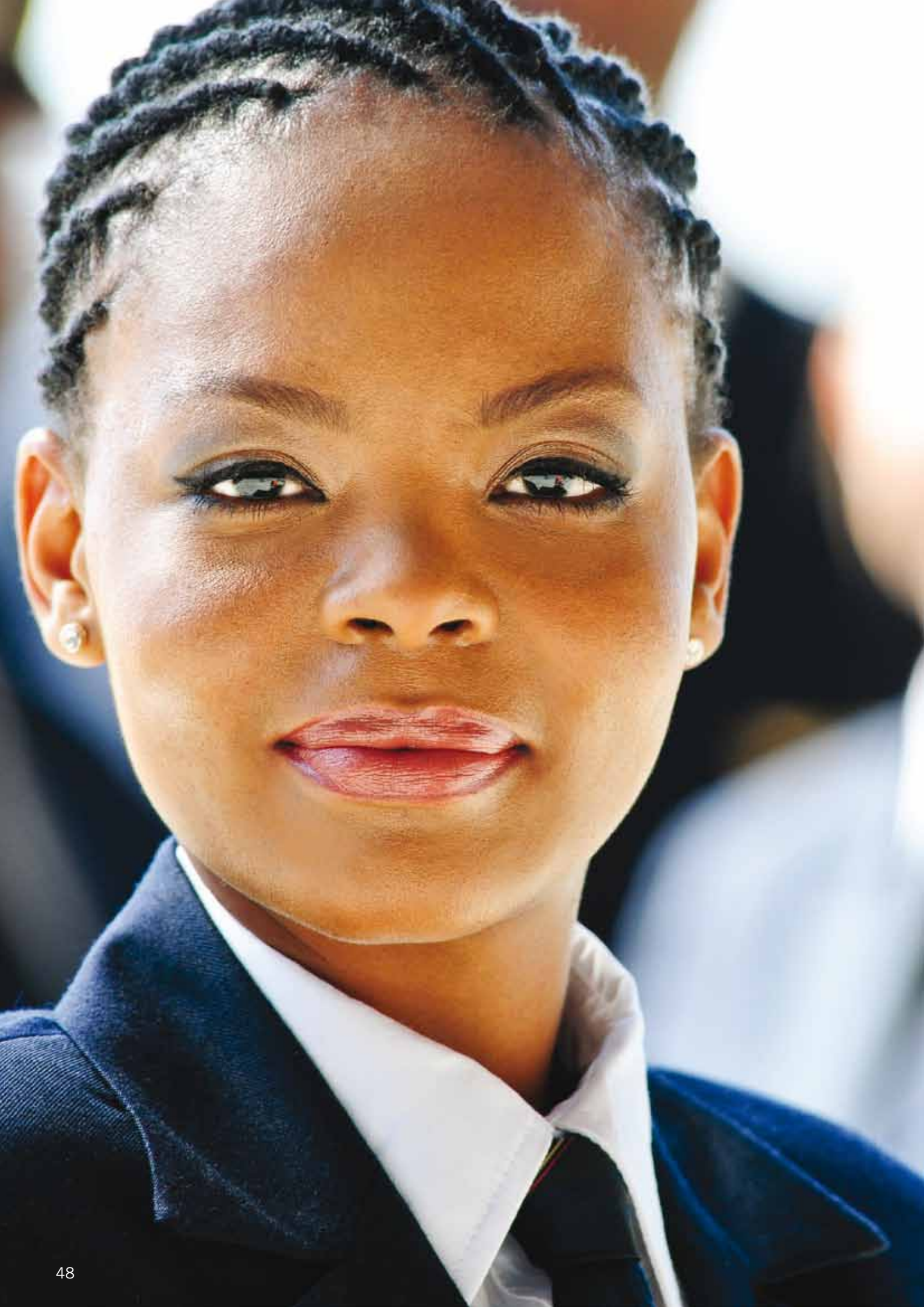
HIGHLIGHTS

- SATC's B-BBEE rating has progressed from Level 4 to Level 3. This is expected to improve further, partly owing to SATC's Learnership Programme which was launched nationally at the end of Q4. The programme is being run nationally in conjunction with the Culture, Arts, Tourism, Hospitality and Sport Sector Education & Training Authority and is aligned to the National Skills Development objectives. A total of 50 unemployed learners have been engaged. Over a 12-month period, the learners are afforded theoretical

training by the appointed training provider, as well as practical training at the participating franchisee offices;

- Following the appointment as the official travel agent to the 29th Orange Africa Cup of Nations, SATC successfully managed the account, ensuring smooth movement of the participating teams and match officials, as well as Local Organising Committee members;
- The implementation of the public relations strategy continued until the end of the financial year, with a number of media engagements, press releases and articles for *Sawubona* magazine being produced; and
- Cost compression continued to form an integral part of operations and significant long-term cost-savings have been realised through the SATC head office's relocation to Parktown, Johannesburg, and organisational restructuring.





Annual Financial Statements

South African Airways Integrated Report 2013

Contents

ANNUAL FINANCIAL STATEMENTS

Statement by the Company Secretary	51
Directors' Report	52
Report of the Audit Committee	66
Independent Auditors' Report	68
Consolidated Statement of Comprehensive Income	70
Consolidated Statement of Financial Position	71
Consolidated Statement of Changes in Equity	72
Consolidated Statement of Cash Flows	74
Notes to the Financial Statements	75
Corporate Information	127

Statement by the Company Secretary

The Company Secretary, Mr Sandile Dlamini, 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.



Sandile Dlamini
Company Secretary
22 January 2014

NAME:

Mr CS Dlamini

BUSINESS ADDRESS

Airways Park, Jones Road,
OR Tambo International Airport
Kempton Park, 1619

POSTAL ADDRESS

Private Bag X13,
OR Tambo International Airport
Kempton Park, 1627

Directors' Report

For the year ended 31 March 2013

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 2013.

The financial statements, set out on pages 70-126 of 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.

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 2013.

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, reporting to the Minister of Public Enterprises as supported by the Department of Public Enterprises (DPE). 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 in 26 destinations across the continent and provides a competitive, quality air transport service within South Africa and to major cities worldwide.

REVIEW OF OPERATING AND FINANCIAL RESULTS

SAA and its subsidiaries all operate in highly competitive global markets that are rapidly liberalising and consolidating, resulting in growing levels of competition. As a result, SAA is facing strong competition in the domestic market, increasing levels of competition in the regional (African) market and intense competition in the international market. Mid-hemisphere airlines are capitalising on African market liberalisation and continue to aggressively advance their positions.

SAA was faced with a number of specific challenges during the year under review. These included, in addition to a sustained competitive landscape, persistently high jet fuel prices and the weakening of the rand against all major currencies. While fuel remained the biggest single expense, accounting for 35% (2012: 34%) of the Group's operating costs, the weaker currency had a significant impact on operating costs as approximately 60% of the Group's costs are foreign currency denominated.

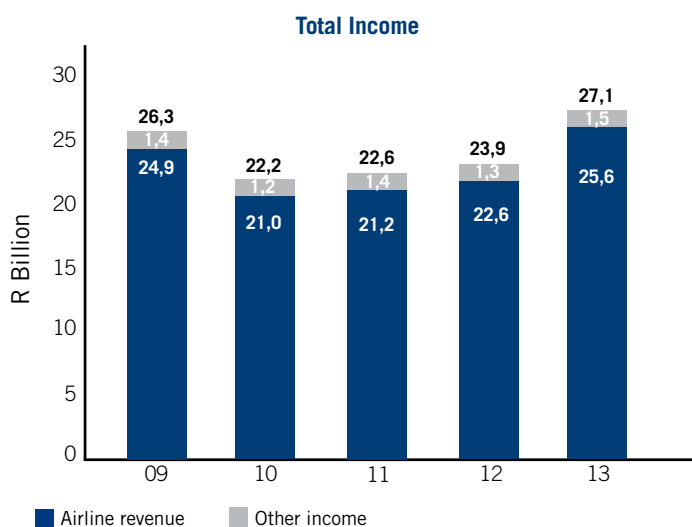
The net impact of the weaker currency was to reduce profitability by approximately R1 billion.

Despite the challenging and competitive operating environment, the Group still managed to achieve a R261 million improvement (21%) in its operating result for the year, with a loss of R991 million compared to R1,3 billion in the previous financial year. After finance costs, tax and items reflected in other comprehensive income, the total comprehensive loss for the year was R1,2 billion. The previous year's comprehensive result was a profit of R60 million, which was bolstered by the recognition of a deferred tax asset of R514 million and property revaluations of R823 million.

Total income

Group total income increased by 14% to R27,1 billion from R23,9 billion in the previous financial year. The 11% improvement in passenger airline revenue was partly attributable to a 6,3% improvement in average air fares – from R2 644 in the previous financial year to R2 812 in the current financial year. This increase, however, was driven by the impact of the 13% weakening of the rand/dollar exchange rate on airfares. Other contributors to the increase in passenger revenue were the 9,3% increase in revenue passengers and a 3,1% increase in available capacity.

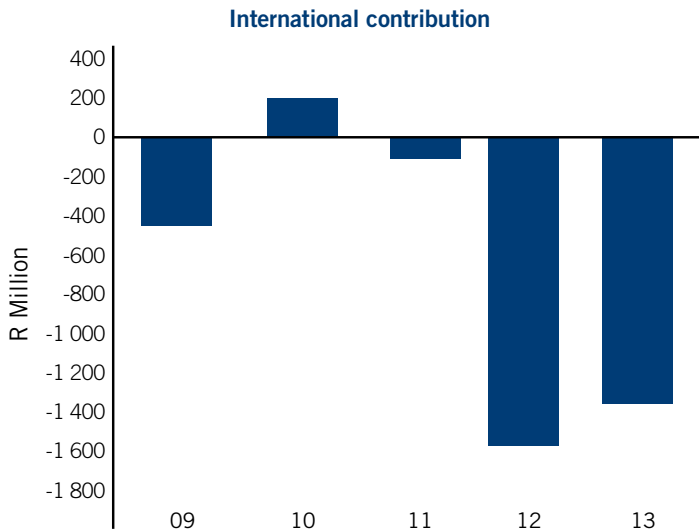
The graph below depicts the Group's total income trend over the past five financial years, reflecting a continuous upward trend from 2010.



Segmental performance

International

The graph below depicts the contribution to the Group from its international operations.



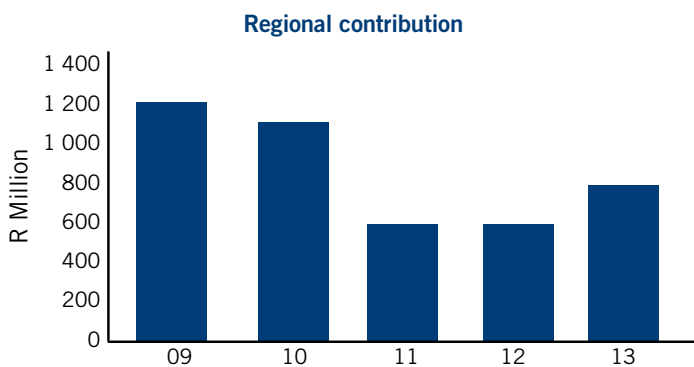
The 5-year contribution trend for the international operations reflects great volatility. Fuel costs severely impacted on the profitability of the long-haul routes where the existing fleet is fuel inefficient.

It should be noted that in years that produced losses, the average fuel prices were at levels in excess of \$80 (2009) and \$100 (2012 and 2013) which further eroded route profitability. 2010 reflected a positive contribution from the international routes as a result of a “double positive”, ie. a lower Brent crude oil price coupled with a stronger currency. (Refer to graph on page 54).

The increase in Cost per Available Seat Kilometre (CASK) on the international routes of 18% in 2012 was predominately as a result of the increased fuel price, combined with the introduction of new routes that have not had the time to mature and become profitable. As a result, this segment significantly underperformed during 2012. The improvement in the current year is largely attributable to the termination of the Cape Town-London route from the flight schedule, coupled with the positive impact of the cost compression project.

Regional

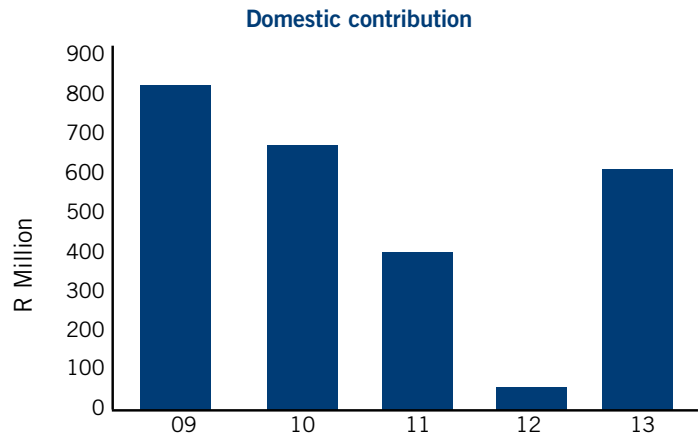
The graph below depicts the contribution to the Group from its regional operations.



Competition from Middle East carriers in the region has placed pressure on average airfares, significantly reducing yields over time. New destinations and frequencies launched during 2011 are now maturing and making a positive contribution to airline profitability. Additional routes launched in 2012 are similarly starting to yield more positive returns.

Domestic

The graph below depicts the contribution to the Group from its domestic operations.



Domestic routes have traditionally contributed positively to the airlines performance. SAA was particularly hard hit in 2012 by the increase in fuel price and the economic climate restricting the Group's ability to adjust airfares. The domestic market contracted by 15% in 2012 and yields fell by 4%. The domestic market is still below that of 2008. Domestic passenger numbers increased in the current year, as did average airfares and load factors, particularly in the Business Class segment. This, together with increased capacity in the low cost offering, contributed to the improved results for 2013.

Operating costs

The increase in fuel costs as well as the steady weakening of the rand over the past three financial years, severely impacted Group costs. While operating costs reflect a year-on-year increase of 12%, fuel remains the single biggest cost to the Group, having increased from 34% to 35% of operating costs. Despite the 2% decrease in the average Brent crude oil prices for the financial year, fuel costs increased by R1,3 billion (15%) over the previous year due largely to the weaker rand.

Cost Compression Programme

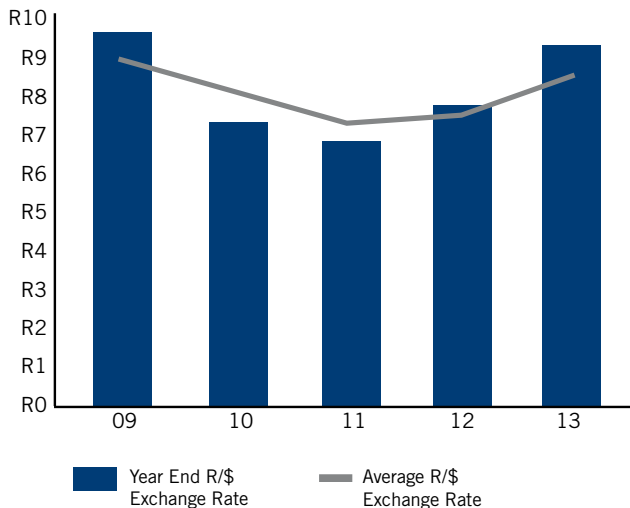
During the financial year, the Group embarked on a cost savings and compression programme to re-engineer processes in order to derive sustainable cost benefits going forward. The programme consisted of 38 individual projects covering a multitude of initiatives. These initiatives ranged from basic simple projects, such as saving energy by switching off unnecessary lights, to more complex projects such as fuel-saving initiatives to optimise fuel by utilising dynamic flight plans and alternative landing rights, and reducing the weight of on-board items. SAA successfully achieved 97% of the R1,3 billion budgeted reduction in costs, removing in excess of R1 billion in costs from the business, which was unfortunately to a large extent offset by the weakening rand.

Directors' Report (continued)

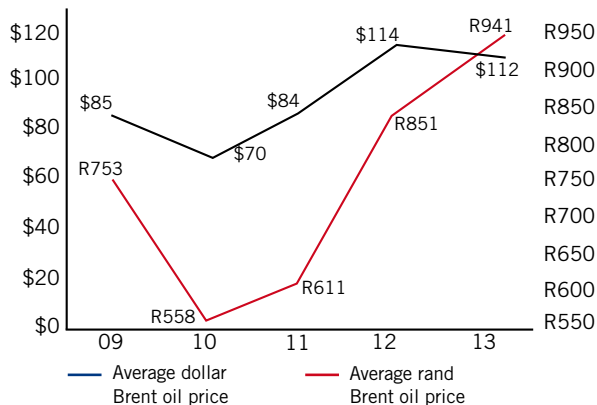
For the year ended 31 March 2013

The graphs below depict the movement of the ZAR/USD exchange rate as well as a comparison between the dollar price of Brent crude oil and the rand price of Brent crude oil.

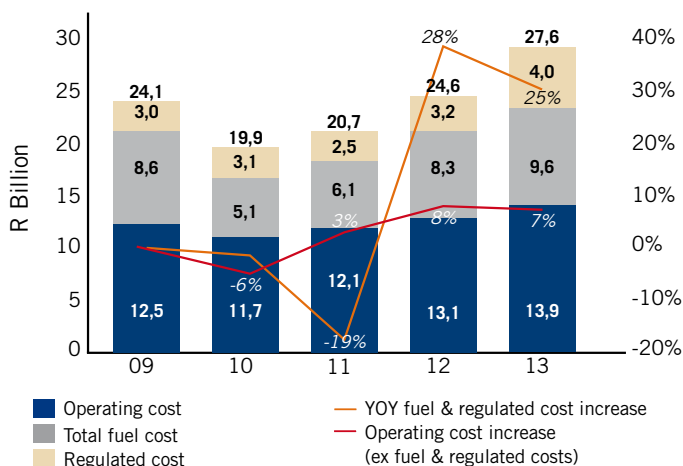
Average R/\$ exchange rate



Rand and dollar price of Brent crude oil



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



Operating costs over the past 5 years have remained well contained compared with the significant increases in fuel and regulatory costs.

Employee costs increased by 3% to R4,8 billion from R4,7 billion in the previous financial year. If the once-off pension related expense in the

previous year is excluded, the increase is 5%. Management did not receive any increase for the year, while the pilots received 7,2 % and general staff received 6,1 %. Headcount reflected a 4% increase, primarily at SAA Technical. Elsewhere in the Group only critical vacancies were filled.

Aircraft lease costs have increased by 17% from R1,8 billion to R2,1 billion in the current financial year. The increase is largely attributable to the full year impact of aircraft entering the fleet during the previous financial year. In addition, the weak rand had a significant impact on this expense item.

Regulatory costs (which include navigation, landing and parking fees) have increased by 18% from R1,5 billion in the previous financial year to R1,8 billion in the current year, reflecting the impact of increases in fees charged by Airports Company of South Africa (ACSA) and similar service providers across the global network.

Maintenance costs reflect an increase of 33% over the previous year from R1,7 billion to R2,3 billion. The majority of these costs are contract driven and impacted by currency fluctuations. If one removes the impact of the exchange rate movements and costs directly attributable to changes to the fleet plan, the increase reduces to only 11%.

Commissions and network charges have increased by 13% from R1,2 billion to R1,4 billion in the current financial year. There is a direct correlation between these costs and the improvement in airline revenue. Electronic data costs have decreased by 11%, primarily due to reduced network costs following the sale of the Galileo reservation/distribution system.

Excluding the impact of fuel, regulatory and maintenance costs, which are to a large extent out of the control of management, the Group's operating costs increased by 5%, underlining the tight control maintained over controllable costs. In real terms, operating costs have reduced by 2% over the previous year.

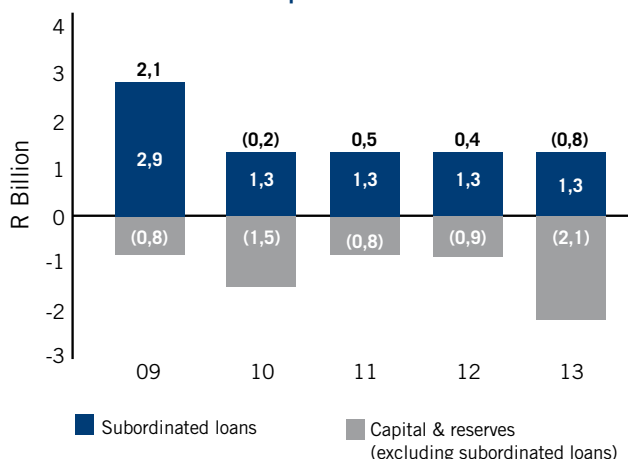
STATEMENT OF FINANCIAL POSITION

Equity

In October 2012, SAA was granted a R1,5 billion guarantee by its Shareholder to secure its continued operations over the next two years until alternative forms of shareholder support is received to restore the airline's capital and reserves position.

The graph below depicts the capital and reserves trend over the past five financial years.

Capital & reserves



Note: 2009 not adjusted for restatements.

Cash Flow

Cash and cash equivalents reduced to R1,1 billion during the year from a net overdraft of R33 million. Cash generated from operations of R161 million improved by R 1,3 billion from the R 1,1 billion cash utilised in the previous financial year. Banking facilities utilised increased from R1,2 billion to R2,1 billion in the current financial year.

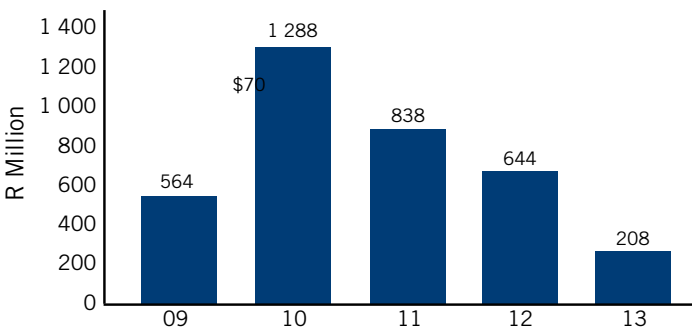
The cash outflow from investing activities for the current financial year includes a net capital expenditure of R806 million (2012: R552 million). The outflow is primarily attributable to pre-delivery payments with regard to the A320 transaction (R383 million), the acquisition of aircraft spares included in PPE and the capitalisation of

major maintenance events (R359 million).

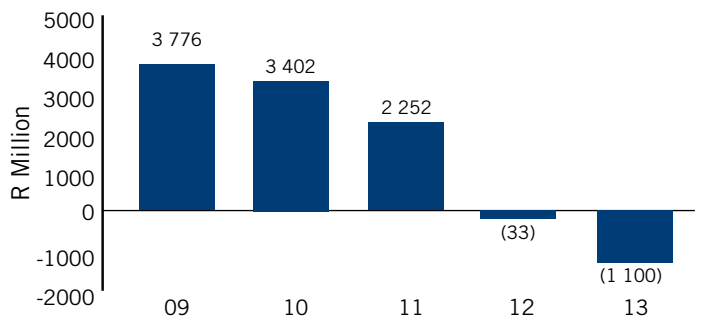
In addition, R208 million of long-term loans were repaid during the year (2012: R644 million). Dividends paid (interest on the subordinated loan) was R88 million, reduced from R92 million in the previous financial year. Finance costs during the year amounted to R191 million (2012: R147 million).

It can further be noted that over a period of five years, SAA has repaid loans to the value of R3,5 billion (refer to the graph below) and invested R585 million in aircraft pre-delivery payments. This has contributed to the erosion of the cash reserves over the period.

Loans repaid

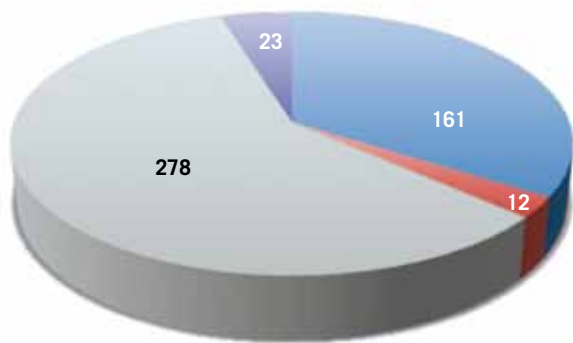


Net cash position



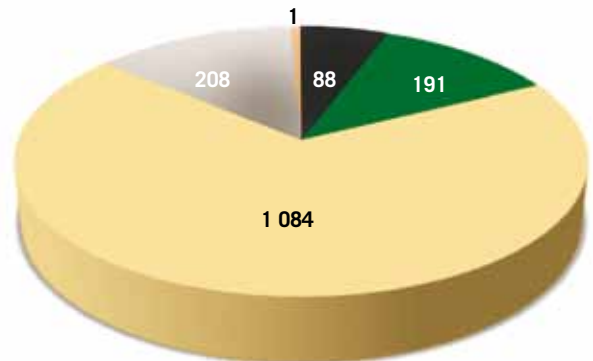
The graphs below analyse the sources of cash flows and how the cash was applied.

2013 Cash inflow - R474 Million



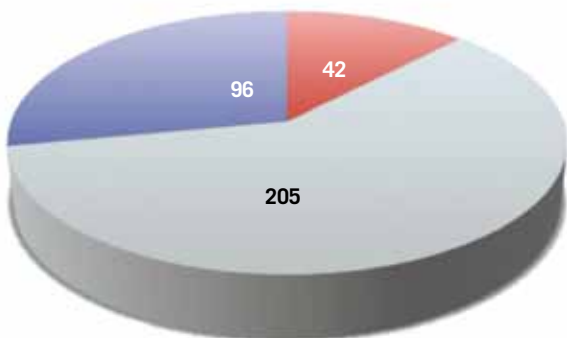
- Operations
- Interest
- Proceeds on disposal of assets
- Derivatives and forex

2013 Cash outflow - R1 572 Million



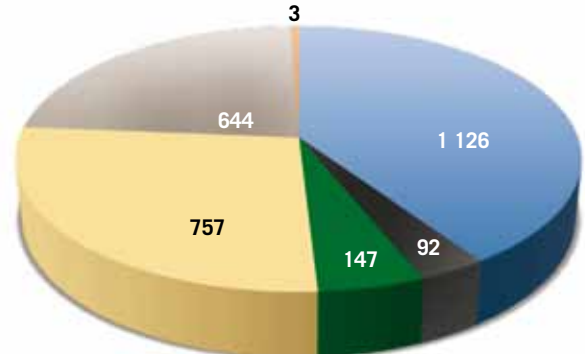
- Investments
- Finance cost
- Dividends
- Borrowings
- Additions

2012 Cash inflow - R343 million



- Interest
- Proceeds on disposal of assets
- Derivatives and forex

2012 Cash outflow - R2 769 Million



- Investments
- Finance cost
- Dividends
- Borrowings
- Additions
- Operations

Directors' Report (continued)

For the year ended 31 March 2013

Group Operating Data

	2009	2010	2011	2012	2013
Capacity					
Available-seat kilometres (ASKs) (millions)	31 718	31 543	32 378	32 423	33 441
Traffic					
Revenue passenger kilometres (RPKs) (million)	23 328	22 413	22 661	23 217	24 880
SAA*	21 935	21 081	21 181	21 509	22 901
Mango*	1 393	1 332	1 480	1 708	1 979
Revenue passengers (thousands)	8 230	8 023	8 053	8 087	8 846
SAA*	6 898	6 735	6 630	6 480	7 009
Mango*	1 332	1 288	1 423	1 607	1 837
Cargo – tonnes flown (thousands)	138	119	129	142	133
Utilisation					
Passenger load factor (%)	74	71	70	72	74
Yield (passenger revenue/RPKs) - passenger*	0,74	0,65	0,68	0,69	0,71
Passenger revenue (R million)*	17 343	14 598	15 443	15 908	17 716
Yield (revenue/ASKs) - airline revenue*	0,77	0,66	0,65	0,70	0,76
Yield (total income/ASKs) - total income*	0,83	0,71	0,70	0,74	0,81
Unit cost (cost per available - seat kilometre)**	0,76	0,63	0,64	0,76	0,82
Labour cost	0,11	0,13	0,14	0,15	0,14
Energy	0,27	0,16	0,19	0,26	0,29
Material cost*	0,06	0,06	0,04	0,05	0,07
Other operating costs**	0,32	0,28	0,27	0,30	0,32

* The 2009 and 2010 amounts have not been adjusted for the restatements that occurred in those years.

** Before restructuring costs and exceptional items.

CRITICAL ISSUES FACING THE AIRLINE

SAA continues to deal with a number of critical issues that are elaborated on below. These include strategic and policy issues in respect of which the Directors wish to acknowledge the support received from the DPE. The Group reported on these issues in its 2012 Annual Report with progress highlighted below.

Cash flow will remain a critical issue until such time as the airline receives appropriate Shareholder support. This is being addressed in the Long-Term Turnaround Strategy

Aircraft orders and fleet modernisation

Critical to the success of the implementation of the Long-Term Turnaround Strategy and the airline's return to profitability is the replacement of the wide-body aircraft on international routes, with more fuel-efficient new-generation aircraft.

The replacement of these aircraft, however, will be subject to a phase-in period driven by the expiry of current leases and the availability of new-generation aircraft. During June 2013, SAA issued a Request for Proposal (RFP) to aircraft manufacturers for the acquisition of appropriate wide-body aircraft commensurate to the network requirements of SAA.

As reported previously, SAA signed an agreement with Airbus for the delivery of 20 A320 aircraft, with deliveries scheduled to commence in 2013 through to 2017.

The order's total capital commitment of US\$942 million is contained in Note 34 to the annual financial statements.

The financing of the first 10 aircraft has been finalised and delivery of the first four aircraft is expected during the 2013/14 financial year.

Voyager system upgrade

On 7 October 2012, SAA Voyager switched to a new, modern-technology customer relationship management system, i-Fly Loyalty. As with the implementation of any new system various challenges have been experienced that have been or are in the process of being resolved.

The advantages to members resulting from the implementation of the new system include:

- Ease of access to information for call centre agents, enabling faster customer service;
- Automated confirmation messages to members for all transactions on their account;
- Service resolution at most SAA touch points instead of only at the call centre;
- Reduction in the time period for processing missing miles claims;
- Simplification of the award-booking process to a single transaction and the elimination of the need to contact Voyager to complete the process; and
- Enhanced account information and self-service functionality on the web site in respect of:
 - upgrading with miles;
 - purchase of miles;
 - requesting and replacement of membership cards;
 - claiming missing miles for Star Alliance partners; and
 - donating miles to charity.

Competition matters

The company is currently defending various litigation matters including the three actions brought by Comair and the liquidators of Nationwide which arose from findings by the Competition Tribunal that SAA contravened the Competition Act No 89 of 1998 in agreements between SAA and various 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 refer to both the first and the second period, while the Nationwide claim refers to the second period only. SAA is not in a position to assess the extent of the exposure that may attach to these claims as a consequence of an order of court but has made an approximate estimate of all necessary costs in the financial statements based on legal advice received.

Compliance with the Public Finance Management Act (PFMA)

SAA, as a state-owned company and listed as Schedule 2 Major Public Entity in terms of the PFMA, (Act No 1 of 1999), and its Board as the accounting authority, has the responsibility to ensure 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 SAA's Executive Management. The table below provides a summary of PFMA non-compliance categories for 2011/12 and 2012/13.

Category of PFMA non-compliance	2011/12	2012/13	Movement from previous year
Irregular spend without loss	R128m	R33,8m	▼
Fruitless and Wasteful expenditure	R4m	R19,9m	▲
Losses due to Criminal conduct	R28k	R556K	▲
Recoveries	R3,7m	R187k	▼

There was a significant decrease in PFMA non-compliance as indicated by the table above. The improvement in the level of non-compliance was due to initiatives that were put in place during the current financial year by SAA, ensuring that effective controls around identification, collating, reporting and monitoring were in place and working as intended.

During the year detailed analyses of the previous year's irregular spend without loss was performed to identify the root causes or weaknesses that contributed to the PFMA non-compliance. The irregular spend without loss was the biggest reported PFMA non-compliance category in the previous financial year. The analysis identified the following root causes (categories) of non-compliance:

- Procurement process not properly followed;
- Delayed contract renewals;
- Procuring without a valid signed contract; and
- Lack of understanding in terms of proper classification of PFMA non-compliance issues.

Initiatives were developed to address these causes to ensure that SAA achieved a significant reduction in the PFMA non-compliance and to put adequate efforts in place to achieve that objective. Some of the initiatives that were developed and implemented were:

- PFMA refresher training was provided for the entire organisation;
- Development of a contract management process within the organisation;
- Monthly monitoring of expiring contracts through the PFMA forum and following up on action plans;
- Vigorous training around the procurement process ensuring that SAP

is properly utilised; and

- The review and renewal of existing contracts with suppliers was performed.

Two specific categories that have shown significant improvement with the direct implementation of these initiatives are:

Category	2011/12	2012/13	Movement indicator	Remarks
Expired contracts	R73,1m	R8m	▼	<ul style="list-style-type: none"> • Review and monitoring expiring contracts. • Development of the contract management system.
Procurement process not followed	R26,6m	R4,9m	▼	<ul style="list-style-type: none"> • Vigorous procurement training together with PFMA refresher training that took place during the year.

With the development of the PFMA tracking system and enhancements thereto, the levels of PFMA non-compliance have improved and will continue to do so in future years. Focus and effort will be placed on other areas of weaknesses that have been identified to achieve the intended objective of minimising the incidence of PFMA non-compliance within SAA.

Fruitless and wasteful expenditure has increased from R4 million to R19,9 million largely due to inventory losses at Air Chefs. Management has instituted rigorous financial controls to address the matter.

Loss due to criminal conduct for 2012/2013 was R556 thousand (2012: R28 thousand). This loss relates to three specific incidents. Disciplinary action has been taken and two police cases were opened.

Internal control

The Critical Financial Reporting Controls project, implemented some two years ago and designed to address key financial control deficiencies in core financial processes, has successfully addressed areas that were of concern. SAA continues to be fully compliant with section 51(1)(a)(i) and 51(1)(a)(ii) of the PFMA.

AIR SERVICE LICENCES: GUARANTEES

In terms of both the International Air Services Act No 60 of 1993 and the Domestic Air Services Act No 115 of 1990, all South African carriers are obliged to have a guarantee in place to cover passengers who have purchased tickets, but have not yet travelled, against non-performance by the airline. Without a guarantee in place, SAA would not be permitted to operate any domestic or international routes. The required liability guarantee amount at the end of the current financial year has been calculated at R466 million (2012: R388 million). This increase is directly related to the increase in passenger tickets sold.

Directors' Report (continued)

For the year ended 31 March 2013

GOING CONCERN

As with previous years, SAA remains undercapitalised. Two 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 Directors' ability to invest in newer and more efficient aircraft and left the company less able to cope with the significant volatility in foreign exchange rates and the price of jet fuel.

During the financial year, SAA received a R5 billion guarantee from its Shareholder in terms of which SAA had the right to utilise R1,5 billion for working capital requirements while the remaining R3,5 billion could only be accessed should certain pre-determined critical economic thresholds be met. To assist with its ongoing working capital requirements and to strengthen its balance sheet, the Shareholder gave an assurance to the company on 29 November 2013 that this guarantee, which was previously scheduled to expire on 30 September 2014, has been converted to a perpetual guarantee, which would, in the event of future capitalisation, reduce proportionately.

The full terms and conditions of this extension are yet to be finalised, but the Directors believe this process to be perfunctory. This guarantee is in addition to the existing R1,6 billion perpetual guarantee. Any future utilisation against these guarantees is conditional upon the approval of both the Minister of Public Enterprises and the Minister of Finance. These guarantees provide reasonable comfort that SAA will have the ability to continue as a going concern in the foreseeable future.

In addition, certain cost-cutting programmes set out in the Long-Term Turnaround Strategy have already been implemented successfully. The positive impact that these actions have already had on the income statement gives the Directors further comfort over the going concern status.

In their assessment, the Directors have taken the future cash flow requirements of the airline into account and are of the view that the financial support extended by its Shareholder through the two guarantees is adequate for the going concern requirement in the short term, being 12 months from the date of approval of these annual financial

statements. The Directors, however, remain of the view that a more permanent appropriate capital structure is required for the airline and set out their proposals to the Shareholder in the Long-Term Turnaround Strategy which was presented in April 2013.

LEGAL AND REGULATORY

Section 51(I)(h) of the PFMA requires that SAA complies with the PFMA and any other legislation applicable to the company. SAA's process of developing, reviewing and monitoring the regulatory universe is underpinned by the approved compliance policy and framework. The framework was informed by the adopted enterprise risk management methodology aligned to ISO31000. The alignment of risk and compliance methodologies forms the building blocks towards an integrated reporting and combined assurance framework.

The annual review and update of the SAA consolidated regulatory universe was completed during the year and included outstations as well. To date, there are four outstations that have been audited to ensure compliance with regulations in their respective jurisdictions.

Embedding a culture of compliance is a continuous process. To this end, refresher training on the Consumer Protection Act was conducted during the year. Further training sessions will be scheduled on critical regulations for the 2013/2014 year. Compliance checklists (CRMP) have been developed to assist with effective monitoring within the organisation.

SHAREHOLDER'S COMPACT

Key Performance Indicators (KPIs) have been created to monitor SAA's performance against the predetermined 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 Net Retained Earnings of the SAA Group was the main performance indicator for the 2012/2013 financial year. Other supporting KPIs have been formulated to support the main KPI and are consistent with SAA's 2012-2015 Corporate Plan. During the current financial year SAA achieved 60% (2012: 52%) of its total KPIs.

KEY PERFORMANCE AREA	KEY PERFORMANCE INDICATOR BY 31 MARCH 2013	FY 2013 TARGET	FY 2013 ACTUAL	EXPLANATIONS
Main KPI	Net retained earnings.	R(960) million	R(1,256) million	KPI not achieved. This financial year was another challenging one for the airline industry. Profits were adversely affected by the high Brent Crude oil price and adverse exchange rates. The Brent Crude oil price remained consistently high and the weak ZAR/USD exchange rate (2013: R8,42 vs 2012: R7,48) had a major influence on the weakening of profit margins. Fuel comprised 35% (2012: 34%) of operating expenditure for the year. Aircraft maintenance costs were also higher than target. Similarly, passenger revenue was below target for all sectors, as expected demand did not materialise.
	Cash generated from operations.	R(200) million	R161 million	KPI achieved.
Profitability KPIs – structural and operational improvements	Net profit of 5% of Voyager revenue (before consolidation).	5%	41%	KPI achieved.
	Net profit of 8% of cargo revenue.	8%	39%	KPI achieved.
	Net profit of 5% of Air Chefs revenue.	5%	(14,8)%	KPI not achieved. Revenue was 18% below target as a result of an overall softening in passenger volumes. Additionally, operating costs were above target due to higher food costs and efficiency savings which have not yet been fully achieved.
	Net profit of 7% of SAAT revenue.	7%	0,4%	KPI not achieved. Revenue was 12% below target as a result of lower demand and the exiting from the market of one of the commercial airlines.
	Continuous monitoring of the effectiveness of the revised hedging policy.			KPI achieved.
	Obtain suitable financing for the A320 transaction, without government support, at least six months prior to the first aircraft delivery.			KPI not achieved. SAA engaged with a number of potential financiers on this matter. Subsequent to the year end, funding for the first 10 aircraft was finalised and the process to finance the second 10 aircraft has commenced.
Revenue, traffic and costs	Cargo belly revenue per available tonne kilometre.	134 cents	122 cents	KPI not achieved. This KPI was not achieved as the air freight market endured the effects of a slow-moving economy.
	Average passenger fare.	R2 789	R2 812	KPI achieved.

Directors' Report (continued)

For the year ended 31 March 2013

KEY PERFORMANCE AREA	KEY PERFORMANCE INDICATOR BY 31 MARCH 2013	FY 2013 TARGET	FY 2013 ACTUAL	EXPLANATIONS
Financial value creation	RASK* (total income).	80,03 cents	81,68 cents	KPI achieved.
	RASK (total income) excluding fuel levy.	66,98 cents	68,07 cents	KPI achieved.
	RASK (only PAX revenue and fuel levy).	61,49 cents	62,27 cents	KPI achieved.
	CASK** (total operating expenses + leases + depreciation).	82,27 cents	85,31 cents	KPI not achieved. Operating costs were strongly impacted by the weaker ZAR against other major currencies. Excluding the impact of the weakening exchange rate, the CASK would have been 79.93 cents. The Brent Crude oil price also remained high at an average of US\$112. Aircraft maintenance expenses were also higher than target.
	CASK (excluding fuel costs).	54,11 cents	56,18 cents	KPI not achieved. Operating costs, excluding fuel costs, were higher as a result of the weaker ZAR against other major currencies. Excluding the impact of the weakening exchange rate, the CASK (excluding fuel costs) would have been 53.94 cents.
<p>*Revenue per available seat kilometre **Cost per available seat kilometre</p>				
Operational efficiency	Passenger load factor (Revpx*).	73%	74%	KPI achieved.
	Cargo load factor (tonnes carried/ATK**).	72%	62%	KPI not achieved. Air-freight markets continued to suffer the effects of a sluggish economy, as the freight volumes did not improve as much as passenger volumes over the last financial year.
	Daily block hours per aircraft.	11,13	10,36	KPI not achieved. SAA was not able to achieve the target utilisation of its aircraft. The CPT-LHR route was cancelled and the aircraft was redeployed on shorter sectors, hence the lower number of block hours.
	On-time performance (within 15 minutes of scheduled departure time).	86%	86%	KPI achieved.
<p>*Revenue-bearing passengers (SAA only) **Average tonne per kilometre ***Revenue tonne per kilometre</p>				
Human capital	Average seat per kilometre (ASKs) per employee (SAA only).	4,9 million	5,26 million	KPI achieved.
	Training spend on total income.	3,0%	2,66%	KPI not achieved. This KPI was not achieved as a result of re-prioritising training needs.
<p>*Average seat per kilometre</p>				

KEY PERFORMANCE AREA	KEY PERFORMANCE INDICATOR BY 31 MARCH 2013	FY 2013 TARGET	FY 2013 ACTUAL	EXPLANATIONS
Skills development	Cadet pilots.	43	43	KPI achieved.
	SAA technical apprentices.	100	144	KPI achieved.
	Internships.	83	83	KPI achieved.
Safety and maintenance efficiency	Operational reportable incidents.	100	55	KPI achieved.

Corporate governance and code of ethics

In accordance with the prescript of King Code, PFMA and the new Companies Act, the Board of Directors, through a number of initiatives, has ensured that SAA has a robust and effective corporate governance process in place. This is evidenced by the Board's commitment in promoting values of integrity and transparency through the adoption of and compliance with the company's conflict of interest policies for Board members and staff members.

SAA's Code of Ethics, by which all employees and Board members are bound, is underpinned by the company values. The Code of Ethics remains a cornerstone in prescribing the behaviour and conduct of SAA staff in delivering exceptional service to customers and other stakeholders.

Events subsequent to the statement reporting date

Subsequent to the end of the reporting period, in April 2013, SAA completed its Long-Term Turnaround Strategy and presented its proposals to its Shareholder.

In addition, on 29 November 2013, SAA received an assurance from its Shareholder that the R5 billion financial guarantee, previously due to expire on 30 September 2014, has been converted to a perpetual guarantee. Full terms and conditions associated with this extension are still to be finalised, but the Directors believe this process to be perfunctory.

For a full description of how these events support the going concern status of the company, please refer to note 42.

Compliance statement

This report is presented in terms of the National Treasury Regulation 28.1 of the PFMA, as amended. The prescribed disclosure of emoluments in terms of National Treasury Regulation 28.1.1 is reflected in the notes of these financial statements titled "Related Parties".

The performance information as envisaged in Subsection 55(2)(a) of the PFMA and Section 28(l)(c) of the Public Audit Act No 25 of 2004 has been incorporated into this report. By virtue of the matters referred to in this report, the Board does not consider that the company has complied with the provisions of Sections 51 and 57 of the PFMA throughout the period under review and up to the date of the approval of these annual financial statements.

The Board and management have taken and are continuing to take steps to ensure that the areas of non-compliance are addressed in the 2013/14 financial year.

Special resolutions passed during the 2012/13 financial year

One special resolution was presented at the Annual General Meeting held on 15 October 2012. It was resolved that there be no increase in the Non-Executive Directors' fees payable for the financial year 2012/13.

Appointment of auditors

At the Annual General Meeting held on 15 October 2012, the company re-appointed PricewaterhouseCoopers Inc and Nkonki Inc as joint auditors for the 2012/13 financial year.

Dividends paid and recommended

No dividends have been recommended, declared or paid for the current or prior financial year. The government guaranteed subordinated loan has been classified as equity in accordance with IAS 32 and the terms of the guarantee conditions. Accordingly, any interest that SAA has paid on this loan has been classified as dividends. For the current year, SAA paid dividends of R88 million (2012: R92 million).

Share capital

Details of the share capital of the Group and Company are set out in note 26 to the annual financial statements.

Directors

SAA has put in place processes, frameworks and structures to ensure that the Board and all its Committees operate effectively and efficiently. Adequate resources in terms of both human resources and finances have been allocated to provide sustainable support to the Board.

During the year under review, the SAA Board comprised 10 Non-Executive Directors and two Executive Directors. All Non-Executive Directors are appointed by the Minister of Public Enterprises. The Directors are drawn from diverse backgrounds (both local and international) and bring a wealth of experience and professional skill to the Board.

Directors' duties, responsibilities and powers are set out in the Memorandum of Incorporation, the Board of Directors' Charter, the Companies Act, the PFMA and/or shareholder's directives.

The Board considers that the balance of Executive and Non-Executive Directors as detailed above to be appropriate and effective for the control and direction of the business.

The Board is led by a Non-Executive Chairperson and the Executive Management of the Company is led by the Chief Executive Officer (CEO). All Non-Executive Directors are independent of SAA. There is a

Directors' Report (continued)

For the year ended 31 March 2013

division of responsibilities between the Chairperson and the CEO, and their respective roles are described in the Board of Directors' Charter.

There have been a number of changes to the Board during the year. Nine Non-Executive Members of the Board, including the Chairperson, resigned in September 2012. The Minister of Public Enterprises appointed a new Board lead by a new Chairperson. When the CEO of SAA resigned in October 2012, the then Chairperson was appointed as Acting CEO by the Board and the Minister was requested to appoint a Chairperson in order to ensure the separation of roles between the two Offices. The Minister appointed the current Chairperson in an acting capacity in December 2012. This appointment was made permanent on 30 June 2013. During January 2013 the then Acting CEO was replaced by the CEO of Mango Airlines SOC Limited as Acting CEO until a permanent CEO could be recruited. The newly appointed CEO of SAA took up office on 1 June 2013 and was appointed to the Board on that date.

All Board members have separate and independent access to the Company Secretary for any information they require. The appointment and removal of the Secretary is a matter for the Board as a whole.

Independent professional advice is available to Directors, 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 body. In the year under review, the evaluation was facilitated by the Institute of Directors. The outcome of the assessment indicated that most areas of board governance are satisfactory or good. A remedial plan has been developed with a view to addressing areas for improvement.

Delegation of authority

The ultimate responsibility for the company's operations rests with the Board. The Board discharges its obligations in this regard through Board Committees and necessary delegations to the CEO, subject to the statutory and legal provisions applicable to SAA. The company's Group Executive Committee assists the CEO in managing the business of the company when the Board is not in session, subject to the statutory limits and the Board's limits on the delegation of authority to the CEO.

Meetings and related matters

The Board meets regularly and retains full and effective management and control over the company. It, among other things, approves and monitors development and the implementation of policies, strategies and the Board work plan.

The Board agenda is designed in such a manner as to enable the Board to focus on policies, strategy, performance monitoring, governance of risks, IT, stakeholders and related matters. The Directors have unrestricted access to all information, records and documents of the company to enable them to discharge their responsibilities and make informed decisions.

The Board had four scheduled and six *ad hoc* meetings during the year under review. Information regarding the attendance of the meetings can be found on page 64.

Board Committees

In order to assist the Board and Directors in discharging their duties and responsibilities, specific responsibilities have been allocated to the Board Committees listed below which each have 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 Executive Directors and members of the Executive Management team have a standing invitation to attend meetings of the various Committees. Membership of the Committees is outlined on pages 62-63 of the Integrated Report.

Audit Committee (AC)

This committee comprises the following members:

- Ms Y Kwinana (Chairperson);
- Mr A Khumalo;
- Adv LG Nkosi-Thomas;
- Ms C Roskrug;
- Ms R Lepule; and
- Ms N Kubeka.

This Committee performs the duties prescribed in Section 94(7) of the 2008 Companies Act and Regulation 27 of the PFMA in respect of the audit requirements of the company.

The Committee meets at least four times a year and is primarily responsible for assisting the Board in carrying out its duties relating to the appointment of auditors, the functions of the auditors, the non-audit services that the auditors may provide, annual financial statements, accounting policies and procedures, internal controls, and the internal audit and risk management functions.

During the period under review, the Committee performed all its duties and responsibilities in terms of its terms of reference.

The Chief Executive Officer, Chief Financial Officer, representatives of the external auditors, internal audit, risk management team and members of the Finance Division attend every meeting of the Committee by invitation.

The external and internal auditors have unrestricted access to the Chairperson of the Committee, the Chairperson of the Board and Non-Executive Directors. The Committee always met separately with the external auditors, the internal auditors and management after every meeting of the Committee to discuss any matters of concern.

The Committee had four scheduled meetings and four *ad hoc* meetings during the year under review. Information regarding the attendance of the meetings can be found on page 64.

Procurement and Tender Processes Committee (PTPC)

This Committee comprises the following members:

- Mr B Mpondo (Chairperson);
- Dr R Naithani;
- Adv LG Nkosi-Thomas;
- Ms Y Kwinana; and
- Ms C Roskrug.

This Committee is responsible for ensuring that there are systems and procedures in place so that goods and services are procured in a manner

that is cost-effective, equitable, transparent and fair. The Committee is responsible for ensuring that the supply chain management process is compliant from start to finish.

The Committee has terms of reference that sets out its functions and discharged all its duties in accordance with its terms of reference during the year under review. The Committee had four scheduled and three *ad hoc* meetings during the year under review. The information regarding the attendance of the meetings can be found on page 64.

Ad Hoc Committee on Litigation (AD HOC)

This Committee comprises the following members:

- Adv LG Nkosi-Thomas (Chairperson);
- Mr A Khumalo; and
- Mr B Mpondo.

This Committee was formed in pursuance of the general responsibilities of accounting authorities under the PFMA to, on behalf of the Board, provide strategic oversight and guidance in respect of civil and criminal proceedings emanating from allegations against a former Chief Executive Officer of the company to ensure that legal proceedings are conducted effectively and efficiently.

The Committee has its terms of reference and all its duties as set out in the terms of reference were performed during the year under review. The Committee had five meetings during the year under review. The information regarding the attendance of the meetings can be found on page 64.

Remuneration and Human Resources Committee (REMCO)

This Committee comprises the following members:

- Adv LG Nkosi-Thomas (Chairperson);
- Mr A Mabizela;
- Dr R Naithani; and
- Mr B Mpondo.

This Committee has terms of reference that are reviewed annually. The main duties of the Committee include formulation, development and implementation of remuneration and human capital strategies, policies, plans and programmes for the entire SAA Group, excluding Mango. All its duties as set out in the terms of reference were discharged.

The Committee had four scheduled meetings and two *ad hoc* meetings during the year under review. The information regarding the attendance of the meetings can be found on page 64.

Long-Term Turnaround Strategy Committee (LTTS)

This Committee comprises the following members:

- Mr A Khumalo (Chairperson);
- Ms Y Kwinana;
- Mr A Mabizela;
- Dr R Naithani;
- Ms R Lepule; and
- Mr B Mpondo.

This Committee is relatively new. It was established during the year under review and has approved Terms of Reference. It is in this Committee that strategic conversation takes place at SAA. The key functions of this Committee include overseeing the development of the Long-Term Turnaround

Strategy (LTTS) and ensuring its successful implementation in accordance with the approved implementation plan.

The Committee was established during the third quarter and managed to facilitate and oversee the development of the LTTS and the approval thereof by the Board during March 2013.

Due to the need to have the strategy developed within very tight timelines, the Committee had its meetings scheduled weekly during the last quarter. The Committee had 10 meetings. The information regarding the attendance of the meetings can be found on page 64.

Social, Ethics, Governance and Nominations Committee (SEGNCO)

This Committee comprises the following members:

- Ms DC Myeni (Chairperson);
- Ms R Lepule;
- Ms N Kubeka;
- Mr A Mabizela; and
- Ms Y Kwinana.

This Committee performs the duties prescribed in Section 72(4) and Regulation 43(5) of the Companies Act No 71 of 2008 pertaining to social and economic development, good corporate citizenship, the environment, health and public safety issues, and consumer relationships, as well as labour and employment issues, transformational and compliance matters. It also assists the Board with the appointment, induction and development of directors and other governance-related matters.

The Committee has terms of reference. All its duties as set out in the terms of reference were discharged during the year under review. It had four scheduled meetings during the year under review. The information regarding the attendance of the meetings can be found on page 64.

Board remuneration

The remuneration of the Board members is determined in accordance with the remuneration guidelines issued by the Minister of Public Enterprises. The remuneration is only made up of a monthly retainer that 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 36 to the annual financial statements on page 109.

Independence of the Board

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

- Board members are remunerated by paying them a retainer only. This discourages the members from having numerous meetings that may compromise their independence;
- Separation of the positions of the Chief Executive Officer and the Chairperson;
- The Board Committees are chaired by Non-Executive Directors with only one committee being chaired by the Chairperson of the Board, namely SEGNCO, in accordance with the King Code of Governance for South Africa;
- The Board has access to independent external advice at the cost of the Company; and
- The Board members are appointed for a period of three years, reviewable annually. The terms are limited to three terms of three years each – which is not regarded as too long to impact on their independence.

Directors' Report (continued)

For the year ended 31 March 2013

Directors' meetings

The following table sets out the number of directors' meetings (including meetings of Committees of directors) held during the year, indicating the number of meetings attended by each director.

Composition of the Board and changes during the year were as follows:

SAA Board of Directors at 31 March 2013	Date of appointment (A)/ Resignation (R)	BOARD	AC	PTPC	REMCO	SEGNCO	AD HOC	LTTS
Total number of meetings held		10	8	7	6	4	5	10
Ms CA Carolus N (Chairperson)	28 September 2012 (R)	3				2	1*	
Ms DC Myeni N (Chairperson)	28 September 2009 (A)	8			2	1		
Mr T Daka N	28 September 2012 (R)	3		3				
Mr TC Jantjies N	29 September 2012 (R)	3			3			
Mr RM Loubser N	26 September 2012 (R)	3	3			2		
Mr BF Mohale N	28 September 2012 (R)	3	2					
Ms MM Whitehouse N	28 September 2012 (R)	2		4			4	
Mr ZJ Sithole N	8 August 2012 (R)	1	4	2			2	
Mr LJ Rabbets N	27 September 2012 (R)	2	3	4				
Mr JP Ndhlovu N	28 September 2012 (R)	2			3			
Prof DH Lewis N	28 September 2012 (R)	3	3		2			
Adv L Nkosi-Thomas N	28 September 2009 (A)	8	5		1	2	5	
Ms Y Kwinana N	2 December 2009 (A)	8	7	3				8
Mr A Mabizela N	28 September 2012 (A)	6		3	3			8
Mr A Khumalo N	28 September 2012 (A)	6	3					9
Dr R Naithani N**	28 September 2012 (A)	3		2	1			4
Ms C Roskruge N	28 September 2012 (A)	6	4	3				
Ms B Mpondo N	28 September 2012 (A)	7			3		1	10
Ms R Lepule N	28 September 2012 (A)	7	4			1		9
Ms N Kubeka N	28 September 2012 (A)	7	4			2		
Ms SP Mzimela E (CEO)	8 October 2012 (R)	2	4*	4*	3*	2*		
Mr V Kona E (Acting CEO)	28 September 2012 (A) 11 March 2013 (Removed)	5	3*	1*	2*	2*		
Mr N Bezuidenhout E (Acting CEO)	11 February 2013 (A)	2	1*					
Mr WH Meyer E (CFO)	13 June 2011 (A)	10	7*					

Legend

N Non-executive Director
 E Executive Director
 REMCO Remuneration and Human Resources Committee
 SEGNCO Social, Ethics, Governance and Nominations Committee
 AC Audit Committee
 PTPC Procurement and Tender Processes Committee
 AD HOC Ad Hoc Committee on Litigation

LTTS Long Term Turnaround Strategy Committee
 CEO Chief Executive Officer
 CFO Chief Financial Officer
 * Attendance by invitation
 ** Indian national

Directors' interests in contracts

Directors' and employees' declarations of interests is a standing item at all meetings of the Board and its Committees. Directors and employees are obliged to submit updated declarations once a year.

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 2013 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 this report with respect to PFMA compliance.

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



Duduzile Myeni
Chairperson
22 January 2014

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 58 of the Director's Report and Note 42 of the annual financial statements).

The joint external auditors, PricewaterhouseCoopers Inc and Nkonki Inc, are responsible for independently auditing and reporting on the annual financial statements in conformity with International Standards on Auditing (ISA). Their report on the annual financial statements is in accordance with the terms of the Companies Act and the PFMA, and appears on page 68.

In preparing the Company and Group annual financial statements set out on pages 70 to 126, 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 as of 31 March 2013, and the results of their operations and cash flows for the year then ended.



Monwabisi Kalawe
Chief Executive Officer
22 January 2014

Report of the Audit Committee

THE AUDIT COMMITTEE IS PLEASED TO PRESENT ITS REPORT IN RESPECT OF THE FINANCIAL YEAR ENDED 31 MARCH 2013 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 (PFMA), ACT 1 OF 1999, AS AMENDED BY ACT 29 OF 1999.

COMMITTEE MEMBERS, MEETINGS AND ATTENDANCE

South African Airways SOC Limited (SAA) established the Committee in accordance with the provisions of section 77 of the PFMA. The Committee is a statutory committee and meets at least four times a year and is primarily responsible for assisting the Board in carrying out its duties relating to appointment of auditors, the functions of the auditors, the non-audit services that the auditors may provide, annual financial statements, accounting policies and procedures, internal controls, and the internal audit and risk management functions.

The Chief Executive Officer, Chief Financial Officer, representatives of the external auditors, internal audit, risk management team and members of the Finance Division attend every meeting of the Committee by invitation.

The external and internal auditors have unrestricted access to the Chairperson of the Committee, the Chairperson of the Board and non-executive directors. The Committee always met separately with the external auditors, the internal audit and management after every meeting to discuss various matters of concern, if any.

The Committee had four scheduled meetings and four *ad hoc* meetings during the year under review. Information regarding the attendance of the meetings can be found on page 64.

The Committee charter requires that the Committee be comprised of a minimum of five members who shall be independent non-executive directors.

The Committee continued to meet with the Chief Executive Officer, senior management and Internal Audit, collectively and individually, to address risks and challenges facing SAA.

THE RESPONSIBILITIES OF THE COMMITTEE

The Committee has a number of responsibilities grouped under four main categories. The four categories are: Audit, Risk, Financial and Governance. The Committee complied with its responsibilities arising from section 51(1)(a)(ii) of the PFMA and Treasury Regulation 3.1.13, and also reports that it operated in terms of the Audit Committee charter read in conjunction with the Internal Audit charter, as its terms of reference in discharging all its responsibilities as regulated therein. SAA has adopted an aggressive anti-corruption position in response to its inherent exposure

to fraud and corruption. While there has been general improvement in the management of corruption and fraud, the Committee is of the opinion that there should be regular feedback on the results of investigations to senior management and the Committee. Furthermore, it is recommended that Internal Audit and Group Security Services should guide senior management on the preventative and detective procedures to curb the financial losses from fraud and corruption. It is essential that prompt and decisive action is taken against offenders to demonstrate a zero-tolerance approach towards fraud and corruption.

EFFECTIVENESS OF INTERNAL CONTROLS

The Committee has observed that the overall control environment has continued to improve during the year under review, in line with the trend observed in the previous reporting period. The Committee's assessment is that the overall control environment of the Group is effective. However, there are still some concerns regarding the level of internal controls within the operations, where evidence of lapses of effective monitoring and enforcement by management was observed.

Any control deficiencies identified by the internal auditors were brought to the attention of the Committee and corrective action was committed to by management. Where internal controls did not operate effectively throughout the year, compensating controls and/or corrective action were implemented to eliminate or reduce the risks. This ensured that the Group's assets were safeguarded and proper accounting records maintained.

The effectiveness of the implemented measures to improve the control environment continues to improve. Where irregular, fruitless or wasteful expenditure has occurred, this has been mainly as a result of legacy tender processes and administrative delays. Since none of the reported breaches resulted in expenditure greater than the materiality threshold agreed with the shareholder, the Committee is confident that legacy areas of non-compliance are progressively eliminated towards full compliance. The Committee has resolved to ensure that the comprehensive implementation of and adherence to the internal control environment reforms be expedited.

The 2012/13 audits of SAA's information technology (IT) environment has highlighted some improvements compared with the previous reporting period. However, there were reported areas that still need further improvement to ensure that governance of IT is strengthened. The

Committee is satisfied that the Internal Audit Plan provides for sufficient IT audit coverage in the next three years. While most of the 2012/13 IT internal audits were outsourced to private audit firms, the SAA Internal Audit function is building its in-house IT audit capacity.

The audits of SAA international outstations have also highlighted some improvements compared with the previous reporting period. The other specific focus area was the control environment in the baggage-handling area.

The internal audits and management reports regarding controls to curb baggage pilferage have highlighted significant improvements compared with the previous period. However, there were reported areas that still need further improvement to ensure baggage pilferage is eradicated.

The audit of pre-determined objectives is a specific focus area for the Auditor-General and the Committee. The audits in this area indicated that there is still a need for improvement. The Committee is satisfied that the Internal Audit Plan provides for sufficient audit coverage of this area in the next three years.

SPECIFIC FOCUS AREAS GOING FORWARD

- The implementation of the Long-Term Turnaround Strategy (LTTS).
- Audit of pre-determined objectives.
- IT control environment.
- Baggage pilferage.
- Anti-corruption activities and feedback on investigations.

THE QUALITY OF IN-YEAR MANAGEMENT AND MONTHLY/ QUARTERLY REPORTS SUBMITTED IN TERMS OF THE PFMA

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

INTERNAL AUDIT FUNCTION

The Committee has an oversight responsibility for the Internal Audit function. This was the first year of the SAA in-house Internal Audit function, after many years of it being outsourced. The Committee is satisfied with the progress made in building an effective in-house internal audit function and will continue working closely with the Chief Audit Executive to ensure that the momentum is not lost.

The 2012/13 Internal Audit plan and the Internal Audit Charter were approved timeously before the start of the financial year. Approximately 90% of planned audits were executed successfully. The very few internal audits not conducted were due to management not being ready for them. These audits have been rolled over to the 2013/14 financial year. Over and above the 90% of planned audits being conducted, a number of special *ad hoc* audit requests were conducted 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, ie risk-based audits, mandatory and follow-up audits. This will,

however, require building the necessary capacity.

RISK MANAGEMENT

The Committee also has an oversight responsibility for the risk management function. The Audit Committee acknowledges the improvement in SAA's risk management; however, going forward, there needs to be more demonstrable evidence that the actual management of the key risks is receiving timely and sufficient attention.

EXTERNAL AUDIT REPORT AND EVALUATION OF ANNUAL FINANCIAL STATEMENTS

The Committee is satisfied that the annual financial statements are based on appropriate accounting policies and are supported by reasonable and prudent judgements and estimates. The Committee evaluated the SAA Group's annual financial statements for the year ended 31 March 2013 and, based on the information provided therein, believes that the financial statements comply, in all material respects, with the relevant provisions of the PFMA and International Financial Reporting Standards.

The Committee has noted the report of the external auditors and appreciates the quality of the audit performed and the management report issued.

DISCHARGE OF RESPONSIBILITIES

The Committee agrees that the adoption of the going-concern premise is appropriate in preparing the annual financial statements, with the consideration of the factors highlighted on page 58 of the Directors' Report. The Committee has therefore recommended the adoption of the annual financial statements by the Board of Directors on 16 August 2013.

On behalf of the Audit Committee



Y Kwinana
Chairperson
22 January 2014

Independent Auditors' Report

For the year ended 31 March 2013

Independent auditors' report to Parliament and the Directors of South African Airways SOC Limited

Introduction

We have audited the consolidated and separate financial statements of South African Airways SOC Limited and its subsidiaries as set out on pages 70-126, which comprise the consolidated and separate statement of financial position as at 31 March 2013, the consolidated and separate statement of comprehensive income, statement of changes in equity and the statement of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting Authority's responsibility for the consolidated and separate financial statements

The board of directors which constitutes the accounting authority is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with International Financial Reporting Standards and the requirements of the Public Finance Management Act of South Africa and the Companies Act of South Africa, 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.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated and separate financial statements based on our audit. We conducted our audit in accordance with the Public Audit Act of South Africa, the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated and separate financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and separate financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated and separate financial statements

present fairly, in all material respects, the financial position of South African Airways SOC Limited and its subsidiaries as at 31 March 2013, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Public Finance Management Act of South Africa and the Companies Act of South Africa.

Emphasis of matter

We draw attention to the matter below. Our opinion is not modified in respect of this matter.

Irregular or fruitless and wasteful expenditure

As disclosed in the Directors' Report to the consolidated and separate financial statements on page 57, irregular expenditure to the value of R33,8 million and fruitless and wasteful expenditure of R19,9 million has been identified and reported in terms of section 40 of the Public Finance Management Act. The reasons for the irregular or fruitless and wasteful expenditure has been fully disclosed in the Directors' Report.

Other reports required by the Companies Act

As part of our audit of the consolidated and separate financial statements for the year ended 31 March 2013, we have read the Directors' Report, the Audit Committee's Report and the Statement by the Company Secretary for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated and separate financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports, we have not identified material inconsistencies between these reports and the audited consolidated and separate financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the Public Audit Act and the General Notice issued in terms thereof, we report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

We performed procedures to obtain evidence about the usefulness and reliability of the information in the consolidated annual performance report as set out on pages 59-61 of the integrated report.

The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury Framework for managing programme performance information.

The reliability of the information in respect of the selected objectives is



JSE Accredited to Audit JSE Listed Companies

assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

There were no material findings on the consolidated annual performance report concerning the usefulness and reliability of the information.

Additional matter

Although no material findings concerning the usefulness and reliability of the performance information was identified in the consolidated annual performance report, we draw attention to the following matter below. This matter does not have an impact on the predetermined objectives audit findings reported above.

Achievement of planned targets

Of the total number of planned targets, 15 of the 25 targets were achieved during the year under review. This represents 60 percent of total planned targets that were achieved during the year under review.

Compliance with laws and regulations

We performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. We did not identify any instances of material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA.

Internal control

We considered internal control relevant to our audit of the financial statements, the consolidated annual performance report and compliance with laws and regulations. We did not identify any deficiencies in internal control that we considered sufficiently significant for inclusion in this report.

PricewaterhouseCoopers Inc
N Mtetwa
Registered Auditor
Johannesburg
3 February 2014

Nkonki Inc
M Patel
Registered Auditor
Johannesburg
3 February 2014

PricewaterhouseCoopers Inc, 2 Eglin Road, Sunninghill 2157,
Private Bag X36, Sunninghill 2157, South Africa

Reg. no. 1998/012055/21, T: +27 (11) 797 4000, F: +27 (11) 797 5800,
www.pwc.com.za

Africa Senior Partner: S P Kana

Management Committee: H Boegman, T P Blandin de Chalain,
B M Deegan, J G Louw, P J Mothibe, N V Mtetwa, T D Shango,
S Subramoney, A R Tilakdari, F Tonelli

The Company's principal place of business is at 2 Eglin Road, Sunninghill
where a list of directors' names is available for inspection.

Reg. no. 1998/012055/21, VAT reg.no. 4950174682

Nkonki, 3 Simba Road, cnr Nanyuki Road, Sunninghill, Johannesburg, 2157,
PO Box 1503, Saxonwold, 2132

T: +27 (11) 517 3000, F: +27 (11) 807 8630,
www.nkonki.com

Directors: Mzi Nkonki CA (SA), Sindi Zilwa CA (SA)

Partners: Mitesh Patel CA (SA), Mvume Sihele MSC Computer Science (US),
Brian Mungofa CA (SA), Nyarai Muzarewetu CA (SA),
Peter K Njinu KPA (K) MBA (Wits), Prof Steven Firer DSA (SA) IFRS,
ACCA RA, Ahmed Pandor CA (SA), CISA, MBA, Sangeeta Kallen CA (SA),
Emma Mashilwane CA (SA), Thuto Masasa CA (SA), Morne Kermis CA (SA)

Reg. no. 2002/017422/21, VAT reg.no. 4850211865

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2013

R MILLION	Notes	GROUP		COMPANY	
		2013	2012	2013	2012
Total income		27 098	23 861	25 389	22 445
Airline revenue	5	25 566	22 593	23 872	21 174
Other income	6	1 532	1 268	1 517	1 271
Operating costs		27 523	24 564	25 886	23 161
Aircraft lease costs	7	2 097	1 797	2 081	1 795
Accommodation and refreshments		878	793	1 233	1 114
Commissions and network charges		1 390	1 231	1 329	1 178
Electronic data costs		495	557	491	553
Fuel and other energy costs		9 579	8 302	9 053	7 882
Employee benefit expenses	9	4 848	4 711	3 242	3 129
Maintenance costs		2 310	1 739	3 387	2 735
Navigation, landing and parking fees		1 748	1 476	1 612	1 368
Fair value and translation movements	11	(95)	(63)	(115)	(62)
Other operating costs		4 273	4 021	3 573	3 469
Operating loss before interest, tax, depreciation and amortisation	7	(425)	(703)	(497)	(716)
Depreciation and amortisation	8	(565)	(530)	(506)	(474)
Net impairment (write-off)/reversal	10	(23)	(44)	391	228
Net gain on disposal of property, aircraft and equipment	7	22	25	24	25
Operating loss		(991)	(1 252)	(588)	(937)
Finance costs	12	(191)	(147)	(212)	(172)
Interest income	13	12	42	11	42
Loss before taxation		(1 170)	(1 357)	(789)	(1 067)
Taxation	14	2	514	-	-
Loss for the year		(1 168)	(843)	(789)	(1 067)
Other comprehensive (loss)/income:					
Actuarial gains and losses on defined benefit plans		(24)	80	(24)	80
Gains and losses on property revaluations		(12)	935	11	433
Taxation related to components of other comprehensive income		-	(112)	-	-
Other comprehensive (loss)/income for the year net of taxation	15	(36)	903	(13)	513
Total comprehensive (loss)/income		(1 204)	60	(802)	(554)
Total comprehensive (loss)/income attributable to:					
Owners of the parent		(1 292)	(32)	(890)	(646)
Subordinated loan provider		88	92	88	92
		(1 204)	60	(802)	(554)

Consolidated Statement of Financial Position

As at 31 March 2013

R MILLION	Notes	GROUP		COMPANY	
		2013	2012	2013	2012
Assets					
Non-current assets					
Property, aircraft and equipment	16	7 582	7 292	6 345	6 031
Intangible assets	17	111	91	99	83
Investments in subsidiaries	18	–	–	1 244	830
Deferred taxation asset	19	417	419	–	–
Retirement benefit asset	29	35	31	35	31
		8 145	7 833	7 723	6 975
Current assets					
Inventories	20	931	910	119	92
Amounts receivable from subsidiaries	21	–	–	1 463	1 305
Derivatives	22	148	262	148	262
Trade and other receivables	23	4 480	4 506	4 250	4 355
Investments	24	10	9	10	9
Cash and cash equivalents	25	1 536	1 536	1 060	1 139
		7 105	7 223	7 050	7 162
Non-current assets held for sale and assets of disposal groups	16	6	–	–	–
Total assets		15 256	15 056	14 773	14 137
Equity and liabilities					
Equity					
Equity attributable to equity holders of parent					
Share capital	26	12 892	12 892	13 126	13 126
Reserves		928	989	561	599
Accumulated loss		(15 969)	(14 738)	(16 042)	(15 190)
		(2 149)	(857)	(2 355)	(1 465)
Subordinated loan guaranteed by government	27	1 300	1 300	1 300	1 300
		(849)	443	(1 055)	(165)
Liabilities					
Non-current liabilities					
Long-term loans	28	1 020	1 305	996	1 287
Retirement benefit obligation	29	43	46	43	46
Provisions	30	1 239	1 682	1 230	1 682
Other long-term liabilities	31	63	63	–	–
Deferred revenue on ticket sales	32	900	983	900	983
		3 265	4 079	3 169	3 998
Current liabilities					
Derivatives	22	4	11	4	11
Trade and other payables	33	5 809	4 819	5 783	4 696
Provisions	30	214	290	214	290
Current portion of long-term loans	28	403	490	403	490
Deferred revenue on ticket sales	32	3 774	3 355	3 684	3 282
Bank overdraft	25	2 636	1 569	2 571	1 535
		12 840	10 534	12 659	10 304
Total liabilities		16 105	14 613	15 828	14 302
Total equity and liabilities		15 256	15 056	14 773	14 137

Consolidated Statement of Changes in Equity

For the year ended 31 March 2013

R MILLION	Share capital	Non-distributable reserve	Revaluation reserve	Shareholder restructuring fund	Total share capital and reserves	Accumulated loss	Shareholder's interest	Subordinated loan guaranteed by government	Total equity
GROUP									
Balance at 1 April 2011	12 892	(132)	–	653	13 413	(14 238)	(825)	1 300	475
Total comprehensive income for the year	–	80	823	–	903	(843)	60	–	60
Transfer of utilised portion of labour restructuring fund	–	–	–	(435)	(435)	435	–	–	–
Dividends paid on government subordinated loan classified as an equity instrument	–	–	–	–	–	(92)	(92)	–	(92)
Balance at 1 April 2012	12 892	(52)	823	218	13 881	(14 738)	(857)	1 300	443
Total comprehensive income for the year	–	(24)	(12)	–	(36)	(1 168)	(1 204)	–	(1 204)
Transfer of utilised portion of labour restructuring fund	–	–	–	(25)	(25)	25	–	–	–
Dividends paid on government subordinated loan classified as an equity instrument	–	–	–	–	–	(88)	(88)	–	(88)
Balance at 31 March 2013	12 892	(76)	811	193	13 820	(15 969)	(2 149)	1 300	(849)

R MILLION	Share capital	Non-distributable reserve	Revaluation reserve	Shareholder restructuring fund	Total share capital and reserves	Accumulated loss	Shareholder's interest	Subordinated loan guaranteed by government	Total equity
COMPANY									
Balance at 1 April 2011	13 126	(132)	–	653	13 647	(14 466)	(819)	1 300	481
Total comprehensive income for the year	–	80	433	–	513	(1 067)	(554)	–	(554)
Transfer of utilised portion of labour restructuring fund	–	–	–	(435)	(435)	435	–	–	–
Dividends paid on government subordinated loan classified as an equity instrument	–	–	–	–	–	(92)	(92)	–	(92)
Balance at 1 April 2012	13 126	(52)	433	218	13 725	(15 190)	(1 465)	1 300	(165)
Total comprehensive income for the year	–	(24)	11	–	(13)	(789)	(802)	–	(802)
Transfer of utilised portion of labour restructuring fund	–	–	–	(25)	(25)	25	–	–	–
Dividends paid on government subordinated loan classified as an equity instrument	–	–	–	–	–	(88)	(88)	–	(88)
Balance at 31 March 2013	13 126	(76)	444	193	13 687	(16 042)	(2 355)	1 300	(1 055)

Consolidated Statement of Cash Flows

For the year ended 31 March 2013

R MILLION	Notes	GROUP		COMPANY	
		2013	2012	2013	2012
Cash flows from operating activities					
Cash generated from/(used in) operations	37	161	(1 126)	231	(1 119)
Interest income		12	42	11	42
Finance costs		(191)	(147)	(212)	(172)
Realised gains from derivative financial instruments		181	211	181	211
Amounts spent on option premiums		(158)	(115)	(158)	(115)
Net cash inflow/(outflow) from operating activities		5	(1 135)	53	(1 153)
Cash flows from investing activities					
Additions to property, aircraft and equipment	16	(1 029)	(741)	(962)	(674)
Proceeds on disposal of property, aircraft, equipment and intangible assets	16 & 17	278	205	245	201
Additions to intangible assets	17	(55)	(16)	(48)	(10)
Loans (advanced)/repaid by subsidiaries		–	–	(158)	8
Increase in investments		(1)	(3)	(1)	(3)
Acquisition of shares in subsidiary		–	–	–	(34)
Net cash outflow from investing activities		(807)	(555)	(924)	(512)
Cash flows from financing activities					
External borrowings repaid		(208)	(644)	(190)	(656)
Dividends paid		(88)	(92)	(88)	(92)
Net cash outflow from financing activities		(296)	(736)	(278)	(748)
Net decrease in cash and cash equivalents		(1 098)	(2 426)	(1 149)	(2 413)
Cash and cash equivalents at the beginning of the year		(33)	2 252	(396)	1 875
Foreign exchange effect on cash and cash equivalents		31	141	34	142
Cash and cash equivalents at end of the year	25	(1 100)	(33)	(1 511)	(396)

Notes to the Financial Statements

For the year ended 31 March 2013

1. Basis of preparation and significant accounting policies

Statement of compliance

The consolidated 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 annual financial statements are presented in South African Rand, which is the Group's reporting currency, rounded to the nearest million. The Group 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 42.

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 special purpose entities) over which the Group has the power to govern their financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50 percent of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where the size of the Group's voting rights relative to the size and dispersion of holdings of other shareholders give the Group power to govern the financial and operating policies, etc.

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. The goodwill arising on the acquisition of associates is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

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

Foreign currency transactions

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

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and

Notes to the Financial Statements (continued)

For the year ended 31 March 2013

- rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Specifically, revenue from the sale of goods is recognised when goods are delivered and legal title has passed.

Rendering of services

Revenue from the rendering of services shall be 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; and
- 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 6 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. Refer to Note 3 - Critical judgements in applying the entity's accounting policies, for more information.

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 consolidated 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.

Interest Income

Interest earned on arrear accounts and bank/other investment balances are accrued on a time-proportionate basis.

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.

Maintenance costs

Owned aircraft:

Major 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.

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 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.

Maintenance reserve: Group 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 for the qualifying maintenance expenditure incurred on aircraft if the Group 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 appears reasonable 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 trade and other 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 tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of 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 consolidated 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 and associates, and interests in joint ventures, 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 and interests 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.

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

Notes to the Financial Statements (continued)

For the year ended 31 March 2013

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 life 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.

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	5-20 years
Buildings and structures	10-50 years
Furniture	10 years
Office equipment	5-10 years
Computer equipment	3-5 years
Light motor vehicles	5 years
General purpose vehicles	10 years
Containers	5 years
Machinery	15-20 years
Cabin loaders	10-20 years
Leased assets	Shorter period of lease or useful life

Residual values

The aircraft and its components have useful lives ranging from five to twenty years, with residual values of 20 percent on structures and engines. All other property and equipment and their components have no residual value.

Capital work in progress

Capital work in progress relates to buyer furnished equipment (BFE) and pre-delivery payments (PDPs) relating to aircraft still being constructed. These amounts are released from capital work in progress and recognised as part of the asset when the construction is complete. For further details on PDPs refer "Pre-delivery payments and other aircraft deposits".

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.

Non-current assets held-for-sale

Disposal or retirement of property, aircraft and equipment which the Group has identified as held-for-sale immediately and in their present condition, subject only to terms that are usual and customary for sales of such assets and where their sale is highly probable, are reclassified as non-current assets held-for-sale.

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.

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 consolidated 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 costs to sell.

Discontinued operations

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held-for-sale, if earlier.

Assets that are to be abandoned are not classified as held-for-sale as they will not be recovered principally through a sale transaction, but may be classified as discontinued operations.

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.

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:

<i>Intangible asset class</i>	<i>Useful lives</i>
Application software	3-5 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 wherever 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 to sell 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.

Notes to the Financial Statements (continued)

For the year ended 31 March 2013

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 installment 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.

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, associates and joint ventures.

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 40.1.

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 40.1.

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, associates and joint ventures are recognised on a trade date basis and are initially recognised at cost. After initial recognition, the company's investment in subsidiaries, associates and joint ventures continue to be held at cost, and are reviewed annually for impairment.

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 did not have any derivatives that qualified for hedge accounting in the current or prior year.

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 23.

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.

For equity instruments held and classified as available-for-sale, a significant or prolonged decline in the fair value is the objective evidence for a possible impairment. Impairment losses previously recognised through profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised directly in other comprehensive income.

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

Notes to the Financial Statements (continued)

For the year ended 31 March 2013

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 as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

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 primarily include a government guaranteed subordinated loan and 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.

Interest associated with liabilities classified as equity instruments, are accounted for as dividends.

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 40.1.

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. 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.

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. Actuarial gains and losses 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.

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

Where necessary, comparative amounts have been adjusted in order to improve comparability. There is no impact on the loss for the year or net liabilities/assets as a result of these adjustments.

2. New Standards and Interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the Group has not adopted any new standards and interpretations that are effective for the current financial year as none of these are considered relevant to its operations.

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 mandatory for the Group's accounting periods beginning on or after 1 April 2013 or later periods. The standards and interpretations included below only include those that the Directors believe may have an impact on the Group:

Standard/Interpretation:	Effective date: Years beginning on or after
• IFRS 9 - Financial Instruments	1 January 2015
• IFRS 10 - Consolidated Financial Statements	1 January 2013
• IAS 27 - Separate Financial Statements	1 January 2013
• IFRS 12 - Disclosure of Interests in Other Entities	1 January 2013
• IFRS 13 - Fair Value Measurement	1 January 2013
• IAS 1 - Presentation of Financial Statements	1 July 2012
• IAS 19 - Employee Benefits Revised	1 January 2013
• Government Loans (Amendment to IFRS 1)	1 January 2013
• Consolidated Financial Statements, Joint Arrangements and Disclosures of Interests in Other Entities: Transition Guidance	1 January 2013
• IFRIC 21 - Levies	1 January 2014

Notes to the Financial Statements (continued)

For the year ended 31 March 2013

3. Critical judgements in applying the entity's accounting policies

Air traffic liability and revenue recognition

The air traffic liability balance represents the proceeds 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 and interline partners. The liability is of a short-term nature and is reflected as a current liability.

SAA is able to accurately compute the forward sales liability on a ticket-for-ticket basis and management is using its revenue accounting system in accounting for tickets sold but not yet flown. The system determines utilised air tickets that are released to income.

Unutilised air tickets and air waybills are released to income over a 12-month rolling period. In making its judgement, management has considered the following:

- The sales-based revenue accounting system that makes it possible to accurately determine what part of this liability could be taken to revenue each financial year has now been in operation for more than seven years.
- The terms and conditions of the air tickets as stipulated in the SAA Conditions of Carriage. In terms of the rules, an air ticket is valid in respect of full fare tickets (no fare conditions) for a period of 12 months from the date of issue in respect of international travel and six months from the date of issue in respect of domestic travel, subject to first travel occurring within 12 months or six months from the date of issue of the ticket then 12 months or six months from the date of first travel. If it is not utilised within this period, it expires.
- Interline settlement and rejections can, however, take longer than 12 months to be processed.

The assumptions and judgement in estimating the forward sales liability resulted in the release of R355 million to income in the current year. The amount released to income in 2012 was R433 million.

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. The useful lives of all assets, all residual values and the depreciation method remained unchanged as they were deemed to be appropriate.

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.

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 consolidated 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.

R MILLION	Note	GROUP		COMPANY	
		2013	2012	2013	2012
5. Airline revenue					
The analysis of airline revenue for the year is as follows:					
Passenger revenue		17 716	15 907	16 480	14 947
Freight and mail		1 484	1 388	1 484	1 388
Technical services		545	522	95	67
Voyager income	32	555	419	555	419
Commission received		85	214	77	210
Release from prescribed tickets		355	433	355	433
Fuel levies		4 826	3 710	4 826	3 710
		25 566	22 593	23 872	21 174
6. Other income					
Other income is made up of the following items:					
Handling revenue		181	180	86	93
Income from leased assets		52	70	164	169
Other recoveries*		1 299	1 018	1 267	1 009
		1 532	1 268	1 517	1 271
* Other recoveries comprise income associated with ticket cancellations, inter-airline processing offsets and other miscellaneous income.					
7. Operating loss before interest, tax, depreciation and amortisation					
Operating loss before interest, tax, depreciation and amortisation is stated after taking into account amongst others, the following:					
Operating lease payments					
Aircraft		2 097	1 797	2 081	1 795
Buildings		84	89	70	78
Equipment and vehicles		25	22	18	13
Total operating lease payments		2 206	1 908	2 169	1 886
Net gain on disposal of property, aircraft and equipment					
Profit on disposal of property, aircraft and equipment		134	286	127	286
Loss on disposal of property, aircraft and equipment		(112)	(261)	(103)	(261)
Net gain on disposal of property, aircraft and equipment		22	25	24	25
Auditors' remuneration					
Audit fees - current year		14	12	9	10
Other regulatory audit services		1	1	1	1
Non-audit services		4	3	4	3
Total auditors' remuneration		19	16	14	14
Directors' emoluments and executive management emoluments are disclosed in Note 36.					

Notes to the Financial Statements (continued)

For the year ended 31 March 2013

R MILLION	Notes	GROUP		COMPANY	
		2013	2012	2013	2012
8. Depreciation and amortisation					
Aircraft and simulators		(392)	(357)	(387)	(353)
Buildings and structures		(71)	(68)	(47)	(46)
Machinery, equipment and furniture		(58)	(57)	(37)	(37)
Vehicles and cabin loaders		(9)	(10)	(3)	(3)
Containers		–	(1)	–	(1)
Total depreciation	16	(530)	(493)	(474)	(440)
Amortisation of intangible assets	17	(35)	(37)	(32)	(34)
Total depreciation and amortisation		(565)	(530)	(506)	(474)
9. Employee benefit expenses					
9.1 Short-term employee benefit expenses					
Personnel and labour costs		4 414	4 209	2 936	2 746
Contribution to medical funds		55	55	35	35
		4 469	4 264	2 971	2 781
9.2 Post-employment benefit expenses*					
Contribution to pension funds		351	317	243	218
Contribution to provident funds		46	43	46	43
Current-service cost		14	8	14	8
Interest cost		117	113	117	113
Expected return on plan assets		(149)	(172)	(149)	(172)
Past-service cost		–	138	–	138
		379	447	271	348
Total employee benefit expenses		4 848	4 711	3 242	3 129
* 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 35.					
10. Net impairment (write-off)/reversal					
Impairment of loans and receivables held at amortised cost					
Impairment of accounts receivable		(4)	(47)	(4)	(38)
Impairment of other assets					
Net reversal of carrying value of investment in subsidiaries	18	–	–	414	263
Impairment of buildings		(20)	–	(20)	–
Reversal of impairment of investments		1	3	1	3
		(23)	(44)	391	228

R MILLION	GROUP		COMPANY	
	2013	2012	2013	2012
11. Fair value and translation movements				
Foreign exchange (gain)/loss on translation of:				
Foreign cash balances	(31)	(141)	(34)	(142)
Foreign currency-denominated net receivables	(164)	125	(188)	119
Net monetary assets and liabilities	16	(65)	23	(57)
Translation of foreign assets and liabilities	(179)	(81)	(199)	(80)
Fair value (gain)/loss on derivative instruments held-for-trading:				
Realised gain on derivatives	(181)	(211)	(181)	(211)
Fair value loss on derivative financial instruments	265	229	265	229
Net fair value loss on derivative instruments held-for-trading	84	18	84	18
Total fair value and translation movements	(95)	(63)	(115)	(62)
12. Finance costs				
The interest paid related to financial liabilities held at amortised cost is detailed below:				
Interest paid on long-term borrowings	(93)	(122)	(93)	(122)
Interest paid on overdraft	(98)	(25)	(96)	(24)
Other interest paid	–	–	(23)	(26)
	(191)	(147)	(212)	(172)
Recognised directly in equity				
Interest paid on subordinated loan guaranteed by government classified as a dividend	88	92	88	92
13. Interest income				
Interest received was derived from:				
Cash and bank balances	8	36	7	36
Loans and receivables	4	6	4	6
	12	42	11	42

Notes to the Financial Statements (continued)

For the year ended 31 March 2013

R MILLION	GROUP		COMPANY	
	2013	2012	2013	2012
14. Taxation				
Major components of the tax income				
Current				
Local income tax - current period	–	–	–	–
Deferred				
Deferred taxation - current year	2	514	–	–
	2	514	–	–
Reconciliation of the tax income				
Reconciliation between accounting loss and tax income.				
Accounting loss	1 170	1 357	789	1 067
Tax at the applicable tax rate of 28% (2012: 28%)	328	380	221	299
Tax effect of adjustments on taxable income				
Tax effect of non-taxable income	102	144	–	72
Tax effect of non-deductible expenses	(101)	(50)	(109)	(48)
Temporary differences not recognised	(352)	14	(137)	(349)
Interest classified as a dividend - tax deductible	25	26	25	26
	2	514	–	–
Estimated tax losses available to be utilised against future taxable income	13 367	13 194	11 432	11 340

R MILLION	Gross	Tax	Net
15. Other comprehensive (loss)/income			
Components of other comprehensive loss			
Group - 2013			
Actuarial (losses)/gains on defined benefit plans			
Loss on SAA German Pension Fund	(17)	–	(17)
Loss on SAA subfund of Transport Pension Fund	(10)	–	(10)
Gain on post-retirement medical benefits	3	–	3
	(24)	–	(24)
Movements on revaluation			
Impairment on property revaluations	(12)	–	(12)
Total	(36)	–	(36)

R MILLION	Gross	Tax	Net
Components of other comprehensive income Group - 2012			
Actuarial (losses)/gains on defined benefit plans			
Gain on SAA German Pension Fund	13	–	13
Gain on SAA subfund of Transport Pension Fund	72	–	72
Loss on post-retirement medical benefits	(5)	–	(5)
	80	–	80
Movements on revaluation			
Gains on property revaluations	935	(112)	823
Total	1 015	(112)	903
Components of other comprehensive loss Company - 2013			
Actuarial (losses)/gains on defined benefit plans			
Loss on SAA German Pension Fund	(17)	–	(17)
Loss on SAA subfund of Transport Pension Fund	(10)	–	(10)
Gain on post-retirement medical benefits	3	–	3
	(24)	–	(24)
Movements on revaluation			
Gains on property revaluations	11	–	11
Total	(13)	–	(13)
Components of other comprehensive income Company - 2012			
Actuarial (losses)/gains on defined benefit plans			
Gain on SAA German Pension Fund	13	–	13
Gain on SAA subfund of Transport Pension Fund	72	–	72
Loss on post-retirement medical benefits	(5)	–	(5)
	80	–	80
Movements on revaluation			
Gains on property revaluations	433	–	433
Total	513	–	513

Notes to the Financial Statements (continued)

For the year ended 31 March 2013

R MILLION	2013			2012		
	Cost / Valuation	Accumulated depreciation	Carrying value	Cost / Valuation	Accumulated depreciation	Carrying value
16. Property, aircraft and equipment						
Group						
Land	453	–	453	453	–	453
Buildings and structures	1 779	(195)	1 584	1 756	(76)	1 680
Machinery, equipment and furniture	817	(510)	307	728	(466)	262
Vehicles and cabin loaders	115	(65)	50	100	(58)	42
Aircraft and simulators	9 523	(5 464)	4 059	9 584	(5 379)	4 205
Containers	31	(31)	–	35	(35)	–
Capital work in progress	1 129	–	1 129	650	–	650
Total	13 847	(6 265)	7 582	13 306	(6 014)	7 292
Company						
Land	111	–	111	111	–	111
Buildings and structures	1 080	(168)	912	1 040	(73)	967
Machinery, equipment and furniture	430	(259)	171	364	(228)	136
Vehicles and cabin loaders	27	(20)	7	28	(19)	9
Aircraft and simulators	9 473	(5 454)	4 019	9 537	(5 368)	4 169
Containers	31	(31)	–	35	(35)	–
Capital work in progress	1 125	–	1 125	639	–	639
Total	12 277	(5 932)	6 345	11 754	(5 723)	6 031

R MILLION	Opening balance	Additions	Disposals	Classified as held-for-sale	Transfers	Revaluations of PDPs	Depreciation	Impairment loss	Total
GROUP - 2013 Reconciliation									
Land	453	–	–	–	–	–	–	–	453
Buildings and structures	1 680	86	(85)	(6)	–	–	(71)	(20)	1 584
Machinery, equipment and furniture	262	32	(2)	–	73	–	(58)	–	307
Vehicles and cabin loaders	42	17	–	–	–	–	(9)	–	50
Aircraft and simulators	4 205	405	(163)	–	4	–	(392)	–	4 059
Containers	–	–	–	–	–	–	–	–	–
Capital work in progress	650	422	–	–	(10)	67	–	–	1 129
	7 292	962	(250)	(6)	67	67	(530)	(20)	7 582

R MILLION	Opening balance	Additions	Disposals	Transfers	Revaluations	Revaluations of PDPs	Depreciation	Total
GROUP - 2012 Reconciliation								
Land	186	–	–	–	267	–	–	453
Buildings and structures	1 068	6	(7)	13	668	–	(68)	1 680
Machinery, equipment and furniture	268	48	–	3	–	–	(57)	262
Vehicles and cabin loaders	28	27	(3)	–	–	–	(10)	42
Aircraft and simulators	4 208	491	(170)	33	–	–	(357)	4 205
Containers	1	–	–	–	–	–	(1)	–
Capital work in progress	492	131	–	(11)	–	38	–	650
	6 251	703	(180)	38	935	38	(493)	7 292

R MILLION	Opening balance	Additions	Disposals	Transfers	Revaluations of PDPs	Depreciation	Impairment loss	Total
16. Property, aircraft and equipment (continued)								
COMPANY - 2013 Reconciliation								
Land	111	–	–	–	–	–	–	111
Buildings and structures	967	78	(66)	–	–	(47)	(20)	912
Machinery, equipment and furniture	136	4	–	68	–	(37)	–	171
Vehicles and cabin loaders	9	1	–	–	–	(3)	–	7
Aircraft and simulators	4 169	387	(155)	5	–	(387)	–	4 019
Containers	–	–	–	–	–	–	–	–
Capital work in progress	639	425	–	(6)	67	–	–	1 125
	6 031	895	(221)	67	67	(474)	(20)	6 345

R MILLION	Opening balance	Additions	Disposals	Transfers	Revaluations	Revaluations of PDPs	Depreciation	Total
COMPANY - 2012 Reconciliation								
Land	8	–	–	–	103	–	–	111
Buildings and structures	679	5	(9)	8	330	–	(46)	967
Machinery, equipment and furniture	146	26	–	1	–	–	(37)	136
Vehicles and cabin loaders	10	2	–	–	–	–	(3)	9
Aircraft and simulators	4 171	485	(167)	33	–	–	(353)	4 169
Containers	1	–	–	–	–	–	(1)	–
Capital work in progress	487	118	–	(4)	–	38	–	639
	5 502	636	(176)	38	433	38	(440)	6 031

A register of land and buildings and of leased assets is available for inspection at the registered office of the Group.

Certain aircraft are encumbered as security for the financing thereof. The carrying value of capitalised aircraft encumbered in respect of financing raised by the Group amounts to R2,7 billion (2012: R2,8 billion).

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.

Asset and disposal groups held for sale are as follows:

R MILLION	GROUP		COMPANY	
	2013	2012	2013	2012
Non-current assets held for sale				
Carrying value of buildings held for sale	6	–	–	–
	6	–	–	–

Notes to the Financial Statements (continued)

For the year ended 31 March 2013

R MILLION	2013			2012		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
17. Intangible assets						
GROUP						
Software development	503	(395)	108	449	(361)	88
Internet booking site	39	(36)	3	39	(36)	3
Goodwill*	35	(35)	–	35	(35)	–
Total	577	(466)	111	523	(432)	91
COMPANY						
Software development	480	(384)	96	433	(353)	80
Internet booking site	39	(36)	3	39	(36)	3
Total	519	(420)	99	472	(389)	83

R MILLION	Opening balance	Additions	Amortisation	Total
GROUP - 2013 Reconciliation				
Software development	88	55	(35)	108
Internet booking site	3	–	–	3
Goodwill*	–	–	–	–
	91	55	(35)	111

R MILLION	Opening balance	Additions	Amortisation	Total
GROUP - 2012 Reconciliation				
Software development	109	16	(37)	88
Internet booking site	3	–	–	3
Goodwill*	–	–	–	–
	112	16	(37)	91

R MILLION	Opening balance	Additions	Amortisation	Total
COMPANY - 2013 Reconciliation				
Software development	80	48	(32)	96
Internet booking site	3	–	–	3
	83	48	(32)	99

R MILLION	Opening balance	Additions	Amortisation	Total
COMPANY - 2012 Reconciliation				
Software development	104	10	(34)	80
Internet booking site	3	–	–	3
	107	10	(34)	83

* The goodwill arose from the acquisition of Air Chefs SOC Limited and has been impaired in full.

R MILLION	COMPANY	
	2013	2012
18. Investments in subsidiaries		
Shares at cost	2 404	2 404
Impairment of investments in subsidiaries	(1 160)	(1 574)
	1 244	830

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
SA City Centre SOC Limited	South Africa	Travel agency

Name of company	Shares	Percentage holding		R MILLION	
		2013	2012	Shares at cost	2012
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
SA City Centre SOC Limited	1 000	100	100	2	2
				2 404	2 404
Impairment of investment in subsidiaries				(1 160)	(1 574)
				1 244	830

The net aggregate losses in subsidiaries for the year amounted to R16 million (2012: profits of R485 million).

Notes to the Financial Statements (continued)

For the year ended 31 March 2013

R MILLION	GROUP		COMPANY	
	2013	2012	2013	2012
19. Deferred taxation asset				
Temporary differences in respect of property, aircraft and equipment	(1 194)	(957)	(1 121)	(883)
Doubtful debts	39	48	39	36
Air traffic liability and other deferred income	863	699	819	650
Provisions	1 207	1 330	1 121	1 271
Prepayments	(56)	(46)	(41)	(46)
Maintenance reserve payments	–	101	–	101
Differences due to changes in fair value of financial instruments	(40)	(70)	(40)	(70)
Leased assets	7	–	–	–
Computed tax loss	3 743	3 689	3 201	3 175
	4 569	4 794	3 978	4 234
Deferred tax asset not recognised	(4 152)	(4 375)	(3 978)	(4 234)
Deferred tax asset recognised	417	419	–	–

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 R4,2 billion (2012: R4,4 billion) in respect of losses amounting to R13,4 billion (2012: 13,2 billion) that can be carried forward against future taxable income.

R MILLION	GROUP		COMPANY	
	2013	2012	2013	2012
20. Inventories				
Maintenance inventories	1 036	1 024	–	–
Work in progress	13	38	–	–
Consumables	171	149	119	92
	1 220	1 211	119	92
Impairment of Inventories	(289)	(301)	–	–
	931	910	119	92
Reconciliation of impairment of inventories				
Opening balance	(301)	(417)	–	–
Reversal of previous write-downs to NRV	51	122	–	–
Write-down of Inventories recognised as an expense during the period	(39)	(6)	–	–
	(289)	(301)	–	–

The reversal of impairment in the current year relates primarily to the consumption of C class consumables previously fully provided for. The write down of inventories in the current year relates to the impairment of obsolete aircraft spares. This stock has been impaired to its net realisable value.

R MILLION	COMPANY	
	2013	2012
21. Amounts receivable from subsidiaries		
Subsidiaries		
SAA Technical SOC Limited	1 306	1 228
Air Chefs SOC Limited	148	74
SA City Centre SOC Limited	9	3
	1 463	1 305

The amounts receivable from subsidiaries are interest free. These balances fluctuate in line with the financing requirements of the subsidiaries and are repayable on demand.

R MILLION	Jet fuel options	Currency derivatives	Forward exchange contracts and swaps	Total
22. Derivatives				
GROUP AND COMPANY				
Fair value at 1 April 2012	79	32	140	251
Assets	79	32	151	262
Liabilities	–	–	(11)	(11)
Amounts spent on premiums	110	48	–	158
Fair value movements for the year ended 31 March 2013	(136)	(8)	(121)	(265)
Fair value at 31 March 2013	53	72	19	144
Assets	53	72	23	148
Liabilities	–	–	(4)	(4)

R MILLION	GROUP		COMPANY	
	2013	2012	2013	2012
23. Trade and other receivables				
Gross accounts receivable	2 666	1 914	2 536	1 804
Allowance for impairment	(128)	(197)	(125)	(153)
	2 538	1 717	2 411	1 651
Prepayments	1 942	2 789	1 839	2 704
	4 480	4 506	4 250	4 355
Reconciliation of impairment of trade and other receivables				
Opening balance	(197)	(226)	(153)	(189)
Trade and other receivables (impairments)	(4)	(47)	(4)	(38)
Amounts utilised for write-offs	73	76	32	74
Closing balance	(128)	(197)	(125)	(153)

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.

Notes to the Financial Statements (continued)

For the year ended 31 March 2013

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
23. Trade and other receivables (continued)				
GROUP - 2013				
BSP	1 004	980	4	20
Credit card	248	245	1	2
GSA	65	49	7	9
Stations	5	3	–	2
Cargo freight and mail	370	306	35	29
Airline catering	19	15	2	2
Travel services	1	1	–	–
Technical maintenance	127	88	38	1
Alliance partners	262	213	36	13
Voyager and Galileo	146	82	64	–
Default debtors	47	–	–	47
Other trade debtors	372	369	–	3
	2 666	2 351	187	128
COMPANY - 2013				
BSP	1 004	980	4	20
Credit card	248	245	1	2
GSA	65	49	7	9
Stations	5	3	–	2
Cargo freight and mail	370	306	35	29
Alliance partners	262	213	36	13
Voyager and Galileo	146	82	64	–
Default debtors	47	–	–	47
Other trade debtors	389	386	–	3
	2 536	2 264	147	125
GROUP - 2012				
BSP	798	783	11	4
Credit card	219	219	–	–
GSA	51	42	–	9
Stations	5	4	–	1
Cargo freight and mail	337	302	–	35
Airline catering	19	19	–	–
Travel services	1	1	–	–
Technical maintenance	108	66	–	42
Alliance partners	99	79	–	20
Voyager and Galileo	76	76	–	–
Default debtors	86	–	–	86
Other trade debtors	115	115	–	–
	1 914	1 706	11	197
COMPANY - 2012				
BSP	798	783	11	4
Credit card	219	219	–	–
GSA	51	42	–	9
Stations	5	4	–	1
Cargo freight and mail	337	302	–	35
Alliance partners	99	79	–	20
Voyager and Galileo	78	78	–	–
Default debtors	84	–	–	84
Other trade debtors	133	133	–	–
	1 804	1 640	11	153

R MILLION	GROUP		COMPANY	
	2013	2012	2013	2012
23. Trade and other receivables (continued)				
Past due but not impaired can be analysed further in terms of aging as follows:				
30-60 days	–	–	–	–
61-90 days	72	–	57	–
91-120 days	38	–	26	–
+ 120 days	77	11	64	11
	187	11	147	11
Included in other receivables are amounts in respect of maintenance payments made to lessors. Refer to the accounting policies section for details of the treatment of these claims.				
Maintenance reserve receivable	2 479	1 770	2 479	1 770
Maintenance reserve payments expensed	(1 866)	(361)	(1 866)	(361)
	613	1 409	613	1 409
Credit quality of trade and other receivables				
Trade receivables can be analysed based on historical collections performance as follows:				
Trade receivables				
Trade debtors with no history of default	2 259	1 569	2 172	1 503
Trade debtors where there have been isolated instances of default but no loss suffered	92	137	92	137
	2 351	1 706	2 264	1 640
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 guarantees of R55 million in respect of local GSA debtors and R111 million in respect of Cargo GSAs.				

Notes to the Financial Statements (continued)

For the year ended 31 March 2013

R MILLION	GROUP		COMPANY	
	2013	2012	2013	2012
24. Investments				
Investment in unlisted shares at cost				
SA Airlink (Pty) Limited	35	35	35	35
Impairment of unlisted investment	(25)	(26)	(25)	(26)
	10	9	10	9
Investment in share trust				
South African Airways Employee Share Trust	–	–	157	157
Impairment of the loan to South African Airways Employee Share Trust	–	–	(157)	(157)
	–	–	–	–
25. Cash and cash equivalents				
Cash and cash equivalents consist of:				
Foreign bank accounts	845	627	899	627
Domestic bank accounts	(1 945)	(1 098)	(2 410)	(1 461)
Short-term investments - call deposits (US\$ and EURO denominated)	–	438	–	438
Total cash and cash equivalents	(1 100)	(33)	(1 511)	(396)
Current assets	1 536	1 536	1 060	1 139
Current liabilities	(2 636)	(1 569)	(2 571)	(1 535)
	(1 100)	(33)	(1 511)	(396)
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.				
26. Share capital				
Authorised				
9 000 000 000 Class A ordinary shares of R1 each	9 000	9 000	9 000	9 000
3 000 000 000 Class B ordinary shares of R1 each	3 000	3 000	3 000	3 000
1 500 000 000 Class C ordinary shares of R1 each	1 500	1 500	1 500	1 500
750 000 000 Class D ordinary shares of R1 each	750	750	750	750
750 000 000 Class E ordinary shares of R1 each	750	750	750	750
	15 000	15 000	15 000	15 000
Reconciliation of number of shares issued:				
Opening balance	12 892	12 892	13 126	13 126
Issued				
8 786 771 465 Class A ordinary shares of R1 each	8 787	8 787	8 787	8 787
2 412 563 822 Class B ordinary shares of R1 each	2 413	2 413	2 413	2 413
1 206 281 911 Class C ordinary shares of R1 each	1 206	1 206	1 206	1 206
603 140 956 Class D ordinary shares of R1 each	603	603	603	603
117 578 806 Class E ordinary shares of R1 each	117	117	117	117
Less: Treasury shares held in Employee Share Trust	(234)	(234)	–	–
	12 892	12 892	13 126	13 126
All shares in the classes A to D are held by the South African Government, represented by the Department of Public Enterprises, and enjoy the same rights. The E class shares are held by the South African Airways Employee Share Trust.				

R MILLION	GROUP		COMPANY	
	2013	2012	2013	2012
27. Subordinated loan guaranteed by government				
Balance at the beginning of the year	1 300	1 300	1 300	1 300
Repaid during the year	–	–	–	–
Balance at the end of the year	1 300	1 300	1 300	1 300

The loan was obtained from a domestic market source and is secured by a government guarantee. This is a perpetual loan repayable only at the issuer's (SAA) option. The Group has no obligation to repay the capital or the interest on the loan except on final liquidation after all the creditors have been paid but ranking prior to the ordinary shareholders' right to participation. Should SAA elect not to make payment, the government guarantee will become effective.

The loan of R1,3 billion bears interest at an aggregate of three months JIBAR plus 150 basis points and is payable quarterly from June 2007 at the sole discretion of the issuer. This loan has been classified as an equity instrument and interest paid accounted for as a dividend.

R MILLION	GROUP		COMPANY	
	2013	2012	2013	2012
28. Long-term loans				
Secured loans				
External loans	1 423	1 795	1 399	1 777
The loans are repayable as follows:				
On demand or within one year	403	490	403	490
Two to five years	1 013	1 305	996	1 287
Later than five years	7	–	–	–
	1 423	1 795	1 399	1 777
Less: current portion repayable on demand	(403)	(490)	(403)	(490)
	1 020	1 305	996	1 287
The carrying amounts of long-term loans are denominated in the following currencies:				
Rand-denominated domestic loans*	737	1 048	713	1 030
US\$-denominated foreign loans**	686	747	686	747
	1 423	1 795	1 399	1 777

* Domestic secured loans bear interest at JIBAR plus a margin ranging from 1.48% to 2.44% and are secured over aircraft (Note 16).

** The foreign secured loans in US\$ bear interest at a fixed interest rate ranging from 4.17% to 4.33% and are secured over aircraft (Note 16).

29. Retirement benefits				
Post-retirement medical benefits	(43)	(46)	(43)	(46)
Retirement benefit asset	35	31	35	31
	(8)	(15)	(8)	(15)
Non-current assets	35	31	35	31
Non-current liabilities	(43)	(46)	(43)	(46)
	(8)	(15)	(8)	(15)

Notes to the Financial Statements (continued)

For the year ended 31 March 2013

R MILLION	Opening Balance	Additions	Utilised during the year	Reversed during the year	Currency revaluation	Total	Current portion	Non-current portion
30. Provisions								
Reconciliation of provisions								
GROUP - 2013								
Provision for lease liabilities ¹	1 854	9	(648)	(318)	364	1 261	214	1 047
Other provisions ²	118	75	–	(1)	–	192	–	192
	1 972	84	(648)	(319)	364	1 453	214	1 239
GROUP - 2012								
Provision for lease liabilities ¹	1 944	504	(802)	–	208	1 854	290	1 564
Other provisions ²	12	108	–	(2)	–	118	–	118
	1 956	612	(802)	(2)	208	1 972	290	1 682
COMPANY - 2013								
Provision for lease liabilities ¹	1 854	–	(648)	(318)	364	1 252	214	1 038
Other provisions ²	118	75	–	(1)	–	192	–	192
	1 972	75	(648)	(319)	364	1 444	214	1 230
COMPANY - 2012								
Provision for lease liabilities ¹	1 944	504	(802)	–	208	1 854	290	1 564
Other provisions ²	12	108	–	(2)	–	118	–	118
	1 956	612	(802)	(2)	208	1 972	290	1 682

¹ 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.

² 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. The amounts provided are unlikely to differ materially from the anticipated final settlement amounts. Further information regarding individual claim amounts have not been provided as they may prejudice the Group / Company in its ongoing litigation.

R MILLION	GROUP		COMPANY	
	2013	2012	2013	2012
31. Other long-term liabilities				
Shareholder loan to South African Airways Employee Share Trust	63	63	–	–

The Shareholder loan to the South African Airways Employee Share Trust was created when the E class 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. The intention is to wind up the South African Airways Employee Share Trust and the process is expected to take longer than 12 months with the result that it has been classified as long term.

R MILLION	GROUP		COMPANY	
	2013	2012	2013	2012
32. Deferred revenue on ticket sales				
Frequent flyer deferred revenue - long term	900	983	900	983
Net air traffic liability - short term	3 007	2 409	2 917	2 336
Frequent flyer deferred revenue - short term	767	946	767	946
	3 774	3 355	3 684	3 282

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 and interline partners. The liability is of a short-term nature and is reflected as a current liability. Refer to Note 3 for the critical judgements applied by management to the value and recognition of this 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.

R MILLION	GROUP		COMPANY	
	2013	2012	2013	2012
33. Trade and other payables				
Trade payables	1 183	1 121	1 442	1 211
Other payables*	4 626	3 698	4 341	3 485
	5 809	4 819	5 783	4 696

* Other payables comprise accruals processed in the normal course of business and ticket taxes received in advance.

R MILLION	GROUP		COMPANY	
	2013	2012	2013	2012
34. Commitments				
Authorised capital expenditure				
Already contracted for but not provided for				
Capital commitments - contracted in US\$	942	910	942	910
	942	910	942	910
Capital commitments relate to the Airbus A320 orders and the amount disclosed includes escalations to the 2018 financial year. The first delivery is expected during the second quarter of the 2014 financial year.				
Operating leases – as lessee (expense) (Rand million)				
Operating lease commitments for property, aircraft, equipment and vehicles are expected to be incurred as follows:				
- within one year	2 119	1 835	2 119	1 835
- in second to fifth year inclusive	5 338	5 721	5 338	5 721
- later than five years	1 594	2 096	1 594	2 096
	9 051	9 652	9 051	9 652
Included in the operating lease commitments 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.				
Uncovered lease commitments (US\$ million)				
- within one year	210	198	210	198
- in second to fifth year inclusive	513	628	513	628
- later than five years	176	241	176	241
	899	1 067	899	1 067

Notes to the Financial Statements (continued)

For the year ended 31 March 2013

35. Employee benefit information

35.1 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.

35.1.1 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 5 702 members (2012: 5 872) at 31 March 2013. Actuarial valuations are done, at intervals not exceeding three years, to determine its financial position. The last actuarial valuation was performed at 31 October 2010. The actuaries were satisfied with the status of the members' credit account then. The Group's contributions for the period to 31 March 2013 amounted to R378 million (2012: R358 million).

35.1.2 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 116 active members (2012: 126) and 281 pensioners (2012: 274) at 31 March 2013. An actuarial valuation was done as at 31 March 2013 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 1/3 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.

The Group expects to make a contribution of R7,8 million (2013: R7,3 million) to the defined benefit plan during the next financial year.

PERCENT	2013	2012
Principal actuarial assumptions used:		
Discount rate	7,19	8,28
Inflation	5,75	5,62
Salary increases		
Inflation	6,75	6,62
Pension increases		
First three years	1,60	2,64
After three years	1,60	2,64
Expected return on assets	8,00	9,00

R MILLION	2013	2012
35. Employee benefit information (continued)		
Benefit asset/(liability)		
Present value of obligation	(1 380)	(1 296)
Fair value of plan assets	1 827	1 598
Surplus	447	302
Asset not recognised	(399)	(277)
Net asset per the statement of financial position	48	25
Reconciliation of movement in present value of obligation		
Opening benefit liability at the beginning of the year	(1 296)	(1 119)
Service cost	(10)	(4)
Interest cost	(105)	(101)
Actuarial loss	(79)	(71)
Benefits paid	115	142
Past-service cost	–	(138)
Member contributions	(5)	(5)
Closing present value of obligation	(1 380)	(1 296)
Reconciliation of fair value of plan assets		
Opening fair value of plan assets	1 598	1 610
Expected return	141	163
Actuarial gain/(loss)	190	(45)
Employer's contributions	7	7
Benefits paid	(114)	(142)
Member contributions	5	5
Closing fair value of plan assets	1 827	1 598

R MILLION	2013	2012
The major categories of plan assets as a percentage of total plan assets are:		
Equity	35	37
Property	8	5
Bonds	32	37
Cash	4	2
International	21	19
Total	100	100

R MILLION	2013	2012
Current-service cost	10	4
Interest on obligation	105	101
Past-service cost	–	138
Expected return on plan assets	(141)	(163)
	(26)	80

Notes to the Financial Statements (continued)

For the year ended 31 March 2013

35. Employee benefit information (continued)

35.2 Medical benefits

35.2.1 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; and those who do not belong to a medical scheme.

SAA subsidises continuation and in-service members with a fixed amount of R213 (2012: R213) per month in retirement. The amount is fixed irrespective of the number of dependents 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.

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 projected unit credit method has been used for the purposes of determining an actuarial valuation of post-retirement medical benefits as at 31 March 2013.

The table below summarises the components of net benefit expense recognised in both the statement of comprehensive income and the statement of financial position for the SAA Group as at 31 March 2013 for SAA Group employees.

The principal actuarial assumptions used were as follows:

PERCENT	2013	2012
Discount rate	8,00	8,28

R MILLION	2013	2012
Net benefit liability		
Present value of unfunded benefit obligations	43	46
Changes in the present value of defined benefit obligations are as follows:		
Opening liability	46	39
Service cost	1	1
Interest cost	3	3
Actuarial (gain)/loss	(4)	5
Benefits paid	(3)	(2)
Benefit liability at year-end	43	46
Amounts recognised in the statement of comprehensive income		
Current-service cost	1	1
Interest on obligation	3	3
	4	4

35. Employee benefit information (continued)

35.3 SAA UK Pension Fund benefits

SAA operates the SAA UK Pension Fund for employees based in the United Kingdom. The fund used to have both a defined benefit (final salary) and defined contribution (money purchase) sections.

In view of the risks associated with defined benefits, at the request of the Company, this section was closed to new members in 1996, to existing members under the age of 53 in 2003 and to the remaining members in December 2009.

The rationale for this was to remove future liabilities from the Company and to reduce annual running costs. The Trustees arranged a buy-out of the liabilities for members (active, deferred and pensioners) and completed the exercise in February 2010.

Benefits for a money purchase member are determined by the contributions paid into a member's pension account, the investment returns on those contributions and the cost of purchasing an annuity at retirement.

Actuarial valuations

Actuarial valuations were carried out, at intervals not exceeding three years, to determine the financial position of the final salary section. The fund was valued using the projected unit credit method as required by IAS 19: Employee Benefits in March 2009, but has not been valued at 31 March 2013 due to it being bought out.

35.4 SAA 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 R2,7 million (2013: R2,5 million) to the defined benefit plan during the next financial year.

Actuarial valuation

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 2013 using the projected unit credit method.

Notes to the Financial Statements (continued)

For the year ended 31 March 2013

	VALUATION	
PERCENT	2013	2012
35. Employee benefit information (continued)		
Principle actuarial assumptions used:		
Discount rate	3,8	4,7
Inflation	1,5	1,5
Salary increases	2,0	2,0
Pension increases per three years	4,5	4,5
Expected return on assets	3,8	3,8
R MILLION	2013	2012
Benefit (liability)/asset		
Present value of obligation	(246)	(185)
Fair value of plan assets	234	191
Net (liability)/asset per the statement of financial position	(12)	6
Reconciliation of movement in present value of obligation		
Opening benefit liability at the beginning of the year	185	159
Service cost	3	3
Interest cost	9	9
Exchange differences on foreign plans	31	11
Benefits paid	(9)	(9)
Actuarial loss	27	12
Closing present value of obligation	246	185
Reconciliation of fair value of plan assets		
Opening fair value of plan assets	191	176
Exchange differences on foreign plans	31	11
Expected return	8	10
Actuarial gain	10	-
Benefits paid	(8)	(8)
Employer's contribution	2	2
Closing fair value of plan assets	234	191
The major categories of plan assets as a percentage of total plan assets are:		
Equity	25	27
Bonds	50	43
Other	25	30
Total	100	100
Current-service cost	3	3
Interest on obligation	9	9
Expected return on plan assets	(8)	(10)
	4	2

35. Employee benefit information (continued)

35.5 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 an 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	
		2013	2012
35.6	Share-based payments		
35.6.1	FDC Share Scheme		
	The FDC Share Scheme was created for flight deck crew members and Transnet Limited allocated 40 150 000 E class 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
		3 431 418	3 431 418
35.6.2	Share incentive scheme		
	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% per annum after vesting took place. These shares are held as follows:		
	South African Airways Employee Share Trust	23 005 660	23 005 660
		23 005 660	23 005 660
35.6.3	Employee Share Ownership Programme (ESOP)		
	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	91 141 728	91 141 728
		91 141 728	91 141 728

35.7 Employee Wellness Programme

The Group offers employees and their immediate families access to a 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.

35.8 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 or retirees may only fly if there is available space on the flight.

Notes to the Financial Statements (continued)

For the year ended 31 March 2013

36. 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 wholly owned by the Department of Public Enterprises (DPE), 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 DPE, its subsidiaries, some major public entities falling under Schedule 2 of the PFMA and key management personnel.

Public entities that are classified as major public entities which fall under DPE are omitted from detailed disclosure as per paragraphs 25 and 26 of IAS 24. The exemption also applies to DPE. The only significant transaction that was entered with DPE was a R1,3 billion subordinated loan guaranteed by government. Refer to Note 27 for more details.

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 R122 million (2012: R118 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.

R THOUSAND	GROUP		COMPANY	
	2013	2012	2013	2012
Related party balances				
Amounts receivable from related parties*				
Subsidiaries	–	–	1 463 182	1 305 194
Public entities	14	20	14	20
	14	20	1 463 196	1 305 214
Amounts payable to related parties**				
Subsidiaries	–	–	757 771	584 705
Public entities	46 054	46 131	46 029	46 110
	46 054	46 131	803 800	630 815
Sales of goods/services				
Subsidiaries	–	–	282 900	247 053
Public entities	14	94	14	94
	14	94	282 914	247 147
Purchases of goods/services				
Subsidiaries	–	–	3 443 855	3 273 896
Public entities	415 526	738 677	92 323	510 255
	415 526	738 677	3 536 178	3 784 151
Other transactions				
Shareholder *	88 280	91 796	88 280	91 796
Subsidiaries	–	–	22 598	26 376
Key management personnel **	40 698	31 525	27 626	20 579
	128 978	123 321	138 504	138 751

* Interest paid on government subordinated loan classified as a dividend.

** Long- and short-term employee benefits paid to executive members. Executive members' emoluments of subsidiaries that form part of SAA Group Executive Committee are disclosed in Note 41. The short-term employee benefits reflected below refer to members of the SAA Company who are also members of the SAA Group Executive Committee.

R THOUSAND	2013 Fees	2012 Fees
Key management personnel compensation is set out below:		
Board of Directors		
<i>Non-executive</i>		
Whitehouse MM ¹	371	733
Loubser RM ²	175	349
Nkosi-Thomas L	402	368
Myeni DC	505	365
Jantjies TC ³	167	334
Mohale BF ¹	306	612
Daka T ¹	435	870
Carolus CA ¹	414	828
Kwinana Y	477	421
Rabbets LJ ⁴	190	380
Sithole ZJ ⁶	175	416
Ndhlovu J ¹	214	429
Lewis DH ¹	175	349
Mabizela A ⁵	250	–
Khumalo A ⁵	205	–
Naithani R ⁵	184	–
Roskruge C ⁵	296	–
Mpondo B ⁵	436	–
Lepule R ⁵	190	–
Kubeka N ⁵	375	–
Kona V ⁷	147	–
	6 089	6 454

¹ Resigned 28 September 2012.

² Resigned 26 September 2012.

³ Resigned 29 September 2012.

⁴ Resigned 27 September 2012.

⁵ Appointed 28 September 2012.

⁶ Deceased 8 August 2012.

⁷ Appointed 28 September 2012, removed 11 March 2013.

In terms of the Group's travel benefits policy as referred to in note 35.8 above, key management personnel and board members are entitled to utilise surplus capacity on flights at a nominal cost to the beneficiaries and at no loss of revenue to the Group.

Notes to the Financial Statements (continued)

For the year ended 31 March 2013

R THOUSAND	Salaries	Allowances	Fund contributions	Other	Total
36. Related parties (continued)					
Short-term employee benefits 2013					
<i>Executive directors¹</i>					
Mzimela SP ²	2 248	90	205	2 418	4 961
Kona V ³	1 521	–	–	–	1 521
Bezuidenhout N ⁴	60	–	–	–	60
Meyer WH	3 271	–	–	–	3 271
Total	7 100	90	205	2 418	9 813
<i>Executive Committee</i>					
Parsons BK	2 713	–	–	–	2 713
Coetzee SJH ²	1 420	–	130	2 056	3 606
Mpshe ME	2 103	–	193	–	2 296
Potgieter TG ²	1 402	–	128	2 047	3 577
Makhetha TP	2 400	–	–	–	2 400
Thabethe F ⁵	677	104	62	–	843
Papa M ⁶	701	106	55	–	862
Ramasia Z ⁷	1 272	–	97	–	1 369
Total	12 688	210	665	4 103	17 666

¹ Executive directors of the Board are also members of the Executive Committee.

² Resigned 8 October 2012.

³ Appointed as Acting CEO effective from 08 October 2012 until 11 February 2013.

⁴ Appointed as Acting CEO effective from 11 February 2013.

⁵ Appointed 1 October 2012.

⁶ Appointed 12 November 2012.

⁷ Appointed 15 May 2012.

R THOUSAND	Salaries	Allowances	Fund contributions	Other	Total
Short-term employee benefits 2012					
<i>Executive directors¹</i>					
Mzimela SP	4 010	–	372	257	4 639
Meyer WH ²	2 639	–	–	400	3 039
Total	6 649	–	372	657	7 678
<i>Executive Committee</i>					
Parsons BK ³	1 944	–	–	–	1 944
Coetzee SJH	2 629	–	241	154	3 024
Mpshe ME	2 042	–	254	78	2 374
Potgieter TG	2 480	–	265	68	2 813
Makheta TP	2 357	–	–	45	2 402
Mellet GE ⁴	259	63	22	–	344
Total	11 711	63	782	345	12 901

¹ Executive directors of the Board are also members of the Executive Committee.

² Appointed 13 June 2011.

³ Appointed 1 July 2011.

⁴ Appointed as Acting CFO until 12 June 2011.

R MILLION	GROUP		COMPANY	
	2013	2012	2013	2012
37. Cash generated from/(used in) operations				
Loss before taxation	(1 170)	(1 357)	(789)	(1 067)
Adjustments for:				
Depreciation and amortisation on property, aircraft and equipment	530	493	474	440
Profit on sale and scrapping of property, aircraft and equipment	(22)	(25)	(24)	(25)
Amortisation of intangible assets	35	37	32	34
Impairment of buildings	20	–	20	–
Impairment of subsidiaries	–	–	–	2
Derivative market movements	84	18	84	18
Reversal of impairment of subsidiaries	–	–	(414)	(263)
Interest income	(12)	(42)	(11)	(42)
Finance costs	191	147	212	172
Release from air traffic liability	(355)	(433)	(355)	(433)
Movement in employee benefit obligations	(3)	7	(3)	7
Impairment of accounts receivables	4	47	4	38
Non-cash movement on retirement benefit plans	(24)	80	(24)	80
Other non-cash movements	(12)	–	11	–
Movement in non-current assets classified as held-for-sale	(6)	–	–	–
Release from passenger tax levies	(133)	(237)	(133)	(237)
Unrealised foreign exchange gain on PDPs	(67)	(38)	(67)	(38)
Unrealised foreign exchange (gain)/loss on revaluation of loans	(164)	342	(188)	336
Unrealised foreign exchange gain on cash and cash equivalents	(31)	(141)	(34)	(142)
Movement in retirement benefit asset	(4)	(31)	(4)	(31)
Changes in working capital:				
Inventories	(21)	(177)	(27)	(12)
Trade and other receivables	22	(159)	101	(196)
Trade and other payables	1 127	300	1 220	213
Air traffic liability	953	404	936	388
Frequent flyer deferred revenue	(262)	(271)	(262)	(271)
Provisions	(519)	(90)	(528)	(90)
	161	(1 126)	231	(1 119)

Notes to the Financial Statements (continued)

For the year ended 31 March 2013

R MILLION	Notes	Financial liabilities at amortised cost	Fair value through profit or loss held-for-trading ¹	Total
38. Financial liabilities by category				
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:				
GROUP - 2013				
Long- and short-term liabilities	28	1 423	–	1 423
Shareholder loan to share trust	31	63	–	63
Trade and other payables	33	5 809	–	5 809
Forward exchange contracts and swaps	22	–	4	4
Bank overdraft	25	2 636	–	2 636
		9 931	4	9 935
GROUP - 2012				
Long- and short-term liabilities	28	1 795	–	1 795
Shareholder loan to share trust	31	63	–	63
Trade and other payables	33	4 819	–	4 819
Forward exchange contracts and swaps	22	–	11	11
Bank overdraft	25	1 569	–	1 569
		8 246	11	8 257

¹ Financial instruments held at fair value are level two instruments.

R MILLION	Notes	Loans and receivables	Fair value through profit or loss held-for-trading ¹	Available-for-sale	Total
39. Financial assets by category					
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:					
GROUP - 2013					
Forward exchange contracts and swaps	22	–	23	–	23
Currency derivatives	22	–	72	–	72
Jet fuel options	22	–	53	–	53
Trade and other receivables	23	4 480	–	–	4 480
Cash and cash equivalents	25	1 536	–	–	1 536
Investment in SA Airlink (Pty) Limited	24	–	–	10	10
		6 016	148	10	6 174
GROUP - 2012					
Forward exchange contracts and swaps	22	–	151	–	151
Currency derivatives	22	–	32	–	32
Jet fuel options	22	–	79	–	79
Trade and other receivables	23	4 506	–	–	4 506
Cash and cash equivalents	25	1 536	–	–	1 536
Investment in SA Airlink (Pty) Limited	24	–	–	9	9
		6 042	262	9	6 313

¹ Financial instruments held at fair value are level two instruments.

40. Risk management

40.1 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 the previous two financial years, the impairment was reversed by R9 million in 2012 and by a further R1 million in the current financial year.

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 the Black-Scholes formula, 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 Kiindex for the Fuel commodity derivatives.

40.2 Governance structure

The SAA Board is charged with the responsibility of managing the airline's financial risks. It is assisted by the Audit Committee, which reviews all the financial risks of the organisation, as well as key financial decisions. The Audit 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, Corporate Finance, Head Cash Management, Chief Dealer, Risk Manager, Financial Risk Manager, Fuel Management, Head Financial Accounting and CFO's of all the subsidiaries.

Risk management department

SAA has established an independent enterprise-wide risk management department. This department is headed by the Chief Risk Officer who also oversees SAA's compliance and internal audit functions. SAA Group Treasury has a separate financial risk management department, which oversees day-to-day risk measurement and monitoring and treasury operations.

Risk management systems

SAA has implemented a Treasury risk management 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.

40.3 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 and a government subordinated guaranteed loan that is classified as an equity instrument. 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 per the Directors' Report, which notes the concern in respect of the risk that SAA is largely undercapitalised.

Aircraft and engine financing

Aircraft financing is typically conducted using specialised finance transactions, which are structured through bankruptcy remote special purpose vehicles (SPVs) that further syndicates the debt to a range of possible lenders. The SPV itself is simply a legal entity with an administrator and a single asset offset by the financing structure. In addition to the above, aircraft financing facilities tend to be concluded a short time before delivery of the aircraft and then become fully drawn when the aircraft is delivered.

Notes to the Financial Statements (continued)

For the year ended 31 March 2013

40. Risk management (continued)

Gearing ratio

The Board, through its Audit Committee is responsible for the capital risk management of the Group. This committee meets regularly to review the capital risks and their review includes considering the cost of capital and the risks associated with each class of capital. This committee sets targets and policies within which the Financial Risk Subcommittee, and the Group Treasury, operates to execute the Board's mandate.

The gearing ratios in 2013 and 2012 respectively were as follows:

R MILLION	Note	2013	2012
Debt*		14 652	12 641
Less: Cash and cash equivalents	25	1 100	33
Net debt		15 752	12 674
Equity		(849)	443
Net debt to equity ratio		(19):1	29:1

* Debt includes all current and non-current liabilities and excludes all provisions.

40.4 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; and
- 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 clear 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, and the Board must through the Bid Adjudication Committee (BAC), the Procurement and Tender Processes Committee (PTPC) and the normal tendering process approve the appointment of bankers;
- 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; and
- 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 leases and loans in foreign currency and local currency, mainly for the purchase of aircraft and aircraft components. 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; and
- 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.

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	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years
GROUP - 31 MARCH 2013**								
Non-derivative financial liabilities								
US\$-denominated secured loans (in ZAR)	686	720	–	121	–	116	483	–
Total US\$-denominated loans (in ZAR)	686	720	–	121	–	116	483	–
ZAR-denominated secured loans	737	746	–	67	38	93	541	7
Accounts payable	5 809	5 809	–	5 709	–	–	100	–
Shareholder loan to share trust	63	63	–	–	–	–	63	–
Total (ZAR)	6 609	6 618	–	5 776	38	93	704	7
Derivative financial instruments								
Fuel - Asian options	53	53	2	22	18	11	–	–
FX - Currency options	57	57	–	44	10	3	–	–
Forward exchange contracts - Assets	15	203	–	83	74	46	–	–
Fuel - Swap Assets	23	23	–	11	6	6	–	–
Fuel - Swap Liabilities	(4)	(4)	(4)	–	–	–	–	–
Total (ZAR)	144	332	(2)	160	108	66	–	–
GROUP - 31 MARCH 2012**								
Non-derivative financial liabilities								
US\$-denominated secured loans (in ZAR)	747	800	–	103	–	102	595	–
Total US\$-denominated loans (in ZAR)	747	800	–	103	–	102	595	–
ZAR-denominated secured loans	1 048	1 334	–	123	107	230	874	–
Accounts payable	4 819	4 819	–	4 719	–	–	100	–
Shareholder loan to share trust	63	63	–	–	–	–	63	–
Total (ZAR)	5 930	6 216	–	4 842	107	230	1 037	–
Derivative financial instruments								
Fuel - Asian options	79	147	41	31	55	20	–	–
FX - Currency options	32	692	22	189	209	272	–	–
Forward exchange contracts - Assets	142	154	40	35	79	–	–	–
Forward exchange contracts - Liabilities	(11)	(239)	(20)	(20)	(104)	(95)	–	–
Fuel - Swap assets	9	19	4	6	5	4	–	–
Total (ZAR)	251	773	87	241	244	201	–	–

* 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.

Notes to the Financial Statements (continued)

For the year ended 31 March 2013

40. Risk management (continued)

Other risks

Undrawn commitment

SAA issued a R100 million debt facility to Mango, a wholly-owned subsidiary, in 2007. This facility remains open for Mango to utilise at its own discretion as and when it needs cash funding. SAA does not expect Mango to utilise this facility within the next 12 months. There were no other undrawn commitments at year end.

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; and
- 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, finance 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 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 Funding and Capex Committee;
- 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; and
- 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 2013, the current interest rate exposure to fixed debt is 64 percent and 36 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.

40.5 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 implementing 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:

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:

R MILLION	GROUP		COMPANY	
	2013	2012	2013	2012
Financial instruments				
Cash and cash equivalents	1 536	1 536	1 060	1 139
Amounts receivable from subsidiaries*	–	–	1 463	1 305
Derivative assets held-for-trading	148	262	148	262
Trade and other receivables	4 480	4 506	4 250	4 355
Investments	10	9	10	9

* These amounts are not past due or impaired.

IMPACT ON OTHER COMPONENTS OF EQUITY IN RAND *

	Foreign currency amount '000	Carrying amount R'000	+33%* -33% US\$ R'000	+22%* -22% Euro R'000	+16%* -16% GBP R'000
Financial instruments					
Accounts receivable					
31 March 2013					
US\$-denominated	189 213	1 747 536	576 686	–	–
EUR-denominated	34 992	414 296	–	91 158	–
GBP-denominated	8 319	116 779	–	–	18 684
			576 686	91 158	18 684

	Foreign currency amount '000	Carrying amount R'000	+16%* -16% US\$ R'000	+13%* -13% Euro R'000	+9%* -9% GBP R'000
Financial instruments					
Accounts receivable					
31 March 2012					
US\$-denominated	176 659	1 354 735	217 962	–	–
EUR-denominated	13 015	133 189	–	17 324	–
GBP-denominated	7 848	96 352	–	–	8 676
			217 962	17 324	8 676

* The percentages used are based on the average movement over the past four years.

The Group does not charge interest on any overdue accounts, therefore the accounts receivable are mainly sensitive to movements in major foreign currencies as detailed above.

Notes to the Financial Statements (continued)

For the year ended 31 March 2013

40. Risk management (continued)

40.6 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 management is managed through the use of cash collection and conversion strategies and approved derivative financial instruments which are mark-to-market on a daily basis. The Group's policy on foreign exchange risk management is to hedge between 50 percent and 75 percent of its exposure on a 12-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; and
- Foreign currency exposures are determined from the 12-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 12-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; and
 - 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.

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.

	2013	2012
The year end exchange rates applied in the translation of the Group's foreign monetary assets and liabilities are as follows:		
Exchange rates used expressed in the number of Rands per unit of foreign currency:		
United States dollar (US\$)	9,24	7,67
Euro	11,84	10,23
Pounds sterling (GBP)	14,04	12,28

R MILLION	FOREIGN AMOUNT		RAND AMOUNT	
	2013	2012	2013	2012
Foreign currency exposure at statement of financial position date				
The following debtors and creditors amounts included in the statement of financial position have not been covered by forward exchange contracts:				
Accounts receivable				
US\$	189	177	1 748	1 355
Euro	35	13	414	133
UK Pound	8	8	117	96
Hong Kong Dollar	18	20	21	19
Danish Krone	4	3	6	4
Swiss Franc	2	1	19	7
Australian Dollar	5	4	45	31
Brazilian Real	24	16	111	68
Thai Baht	7	9	2	2
Malawian Kwacha	705	576	17	27
Other	-	-	449	246
			2 949	1 988
Accounts payable				
US\$	45	63	418	482
Euro	16	16	185	166
UK Pound	2	2	22	24
Australian Dollar	3	3	31	21
Benin CFA Franc BCEAO	293	190	5	3
Other	-	-	127	70
			(788)	(766)
Accounts receivable as above			2 949	1 988
Net exposure			2 161	1 222

The Group reviews its foreign currency exposure, including commitments on an ongoing basis. The Group expects to hedge foreign exchange exposure with foreign exchange contracts and currency options.

Price risk associated with commodities

Jet fuel consumption is SAA's biggest cost contributor, representing approximately 35 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 129 million litres (2012: 126 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; and
- 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.

Notes to the Financial Statements (continued)

For the year ended 31 March 2013

40. Risk management (continued)

40.6 Market risk management (continued)

The Group manages its jet fuel price risk exposures using derivative financial instruments. All derivative contracts are mark-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 a 12-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 Audit Committee, a one month horizon is utilised.

	CURRENCY*		COMMODITY PRICE DERIVATIVES*			
	Foreign currency amount '000	Carrying amount R'000	Profit/(loss) impact -33% US\$ R'000	Profit/(loss) impact +33% US\$ R'000	Loss impact -22% Brent -26%WTI -20%Gas oil -21%Jet fuel R'000	Profit impact +22% Brent +26%WTI +20%Gas oil +21%Jet fuel R'000
GROUP AND COMPANY						
Derivative financial instruments						
31 March 2013**						
ICE Brent commodity derivatives						
Fixed swaps	2 032	18 764	(6 129)	6 129	(162 352)	162 351
Asian call options	406	3 750	(1 225)	1 225	(3 739)	21 993
Collars	482	4 455	(1 455)	1 455	(64 827)	76 002
Call spreads	4 621	42 682	(13 942)	13 942	(42 042)	79 062
ICE gas oil commodity derivatives						
Call spreads	223	2 063	(673)	673	(1 997)	2 253
US\$ foreign exchange derivatives						
Forward exchange contracts - Assets	-	12 905	(66 440)	66 440	-	-
European call options	-	59 245	(59 245)	211 915	-	-
		143 864	(149 109)	301 779	(274 957)	341 661

	CURRENCY*		COMMODITY PRICE DERIVATIVES*			
	Foreign currency amount '000	Carrying amount R'000	Profit/(loss) impact -16% US\$ R'000	Profit/(loss) impact +16% US\$ R'000	Loss impact -23% Brent -26%WTI -22%Gas oil -20%Jet fuel R'000	Profit impact +23% Brent +26%WTI +22%Gas oil +20%Jet fuel R'000
GROUP AND COMPANY						
Derivative financial instruments						
31 March 2012**						
ICE Brent commodity derivatives						
Fixed swaps	14 902	114 276	(18 386)	18 386	(235 729)	235 726
Asian call options	7 767	59 565	(9 583)	9 583	(41 888)	102 044
Asian put options	1 493	11 452	(1 843)	1 843	(40 122)	8 267
NYMEX WTI commodity derivatives						
Fixed swaps	(306)	(2 345)	377	(377)	(20 620)	20 620
Asian call options	269	2 062	(332)	332	(1 973)	14 651
ICE gas oil commodity derivatives						
Fixed swaps	3 608	27 671	(4 452)	4 452	(22 027)	22 027
Asian call options	780	5 979	(962)	962	(5 966)	20 641
US\$ foreign exchange derivatives						
Forward exchange contracts - Assets	-	8 766	(22 825)	22 825	-	-
Forward exchange contracts - Liabilities	-	(8 241)	39 481	(39 481)	-	-
European call options	-	31 567	(55 047)	59 712	-	-
		250 752	(73 572)	78 237	(368 325)	423 976

* The percentages are based on the average movement over the past four years.

** A separate sensitivity analysis has not been provided for the Company, as the numbers do not differ significantly from the Group numbers.

Fair Value hierarchy of all financial assets and liabilities held at fair value:

R MILLION	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
GROUP AND COMPANY				
As at 31 March 2013				
Assets				
Jet fuel options	-	53	-	53
Currency derivatives	-	72	-	72
Forward exchange contracts and swaps	-	23	-	23
Liabilities				
Forward exchange contracts and swaps	-	4	-	4
GROUP AND COMPANY				
As at 31 March 2012				
Assets				
Jet fuel options	-	79	-	79
Currency derivatives	-	32	-	32
Forward exchange contracts and swaps	-	151	-	151
Liabilities				
Forward exchange contracts and swaps	-	11	-	11

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 (i.e. from prices) or indirectly (i.e. derived from prices); and
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Notes to the Financial Statements (continued)

For the year ended 31 March 2013

			CURRENCY*		INTEREST RATE*	
	Foreign currency amount '000	Carrying amount R'000	Profit/(loss) impact -33% US\$ R'000	(Loss)/profit impact +33% US\$ R'000	Profit/(loss) impact -12 BPS US\$ -36 BPS ZAR R'000	(Loss)/profit impact +12 BPS US\$ +36 BPS ZAR R'000
40. Risk management (continued)						
40.6 Market risk management (continued)						
GROUP AND COMPANY Non-derivative financial instruments 31 March 2013						
Secured borrowing - LIBOR floating debt (US\$ denominated)	74 251	685 771	224 006	(224 006)	819	(819)
Secured borrowing - JIBAR floating debt (ZAR denominated)	-	736 979	-	-	2 652	(2 652)
ZAR based cash and cash equivalents (net overdraft)	-	1 945 572	-	-	7 004	(7 004)
Accounts payable (US\$ denominated)	45 260	418 012	137 944	(137 944)	-	-
Total financial liabilities	119 511	3 786 334	361 950	(361 950)	10 475	(10 475)
Foreign cash and cash equivalents (Favourable cash - US\$ equivalent)	91 471	844 806	(278 787)	278 787	(1 014)	1 014
Total financial assets	91 471	844 806	(278 787)	278 787	(1 014)	1 014

			CURRENCY*		INTEREST RATE*	
	Foreign currency amount '000	Carrying amount R'000	Profit/(loss) impact -16% US\$ R'000	(Loss)/profit impact +16% US\$ R'000	Profit/(loss) impact -25 BPS US\$ -48 BPS ZAR R'000	(Loss)/profit impact +25 BPS US\$ +48 BPS ZAR R'000
GROUP AND COMPANY Non-derivative financial instruments 31 March 2012						
Secured borrowing - LIBOR floating debt (US\$ denominated)	96 330	738 723	118 852	(118 852)	1 879	(1 879)
Secured borrowing - JIBAR floating debt (ZAR denominated)	-	1 056 101	-	-	5 089	(5 089)
ZAR based cash and cash equivalents (net overdraft)	-	1 097 961	-	-	4 477	(4 477)
Accounts payable (US\$ denominated)	62 811	481 680	77 497	(77 497)	-	-
Total financial liabilities	159 141	3 374 465	196 349	(196 349)	11 445	(11 445)
Foreign cash and cash equivalents (Favourable cash - US\$ equivalent)	138 812	1 064 510	(171 267)	171 267	(353)	353
Total financial assets	138 812	1 064 510	(171 267)	171 267	(353)	353

IMPACT ON OTHER COMPONENTS
OF EQUITY IN RAND*

	Foreign currency amount '000	Carrying amount R'000	+22% -22% Euro/US\$ R'000	+16% -16% GBP/US\$ R'000
GROUP AND COMPANY				
Non-derivative financial instruments				
31 March 2013				
Denominated in Euro and GBP**				
Accounts payable - EUR	15 590	184 590	40 610	-
Accounts payable - GBP	1 584	22 235	-	3 558
		206 825	40 610	3 558

IMPACT ON OTHER COMPONENTS
OF EQUITY IN RAND*

	Foreign currency amount '000	Carrying amount R'000	+13% -13% Euro/US\$ R'000	+9% -9% GBP/US\$ R'000
GROUP AND COMPANY				
Non-derivative financial instruments				
31 March 2012				
Denominated in Euro and GBP**				
Accounts payable - EUR	16 203	165 810	21 567	-
Accounts payable - GBP	1 919	23 560	-	2 122
		189 370	21 567	2 122

* The percentages used are based on the average movement over the past four years.

** 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 1,3 and 6 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 Financial Statements (continued)

For the year ended 31 March 2013

R THOUSAND	2013	2012
41. Director's emoluments for SAA subsidiaries		
<i>Executive directors' emoluments</i>		
Mango Airlines SOC Limited		
Mr N Bezuidenhout		
Salary	1 893	1 747
Ms M Ebersohn¹		
Salary	1 278	–
¹ Appointed 28 June 2012.		
SAA Technical SOC Limited		
Mr M Zwane		
Salary	2 941	2 929
Allowance	360	360
Performance gratuity/other	146	79
	3 447	3 368
Mr S Zulu²		
Salary	1 558	856
Performance gratuity/other	37	37
Retirement fund contributions	75	–
	1 670	893
² Appointed 1 November 2011.		
Air Chefs SOC Limited		
Ms A Crooks		
Salary	1 907	1 836
Performance gratuity/other	–	43
	1 907	1 879
Mr M Muller³		
Salary	1 049	874
Retirement fund contributions	97	81
	1 146	955
³ Appointed 1 June 2011.		
SA City Centre SOC Limited		
Ms GB Koyana⁴		
Salary	1 300	758
Mr F Peer⁵		
Salary	421	722
Allowance	53	90
Retirement fund contributions	32	64
Leave pay paid out	72	–
	578	876
Mr TFB Lehasa⁶		
Salary	–	470

⁴ Appointed as CEO of SATC effective 1 September 2011.

⁵ Resigned 31 October 2012.

⁶ Appointed as Acting CEO of SATC until 31 August 2011.

R THOUSAND	2013	2012
41. Director's emoluments for SAA subsidiaries (continued)		
<i>Non-executive directors' emoluments</i>		
Mango Airlines SOC Limited		
Dr C Wiese ⁷	–	425
Mr P Krusche	112	105
Mr R Wally	485	146
Mr T Adams	145	122
Adv L Nkosi-Thomas ⁸	49	24
Mr A Khumalo ⁹	34	–
Dr R Naithani ¹⁰	–	–
	825	822
⁷ Resigned 14 March 2012.		
⁸ Resigned 8 March 2013.		
⁹ Appointed 10 October 2012.		
¹⁰ Appointed 8 March 2013.		
SAA Technical SOC Limited		
Ms SP Mzimela ¹³	–	–
Mr T Daka ¹²	300	601
Ms Y Kwinana	118	128
Mr JP Ndhlovu ¹¹	64	128
Mr B Mpondo ¹⁴	250	–
Mr A Mabizela ¹⁴	53	–
	785	857
¹¹ Resigned 27 September 2012.		
¹² Resigned 28 September 2012.		
¹³ Resigned 8 October 2012.		
¹⁴ Appointed 1 November 2012.		
Air Chefs SOC Limited		
Ms SP Mzimela ¹³	–	–
Ms MM Whitehouse ¹²	222	445
Ms DC Myeni ¹⁵	82	96
Ms N Kubeka ¹⁴	185	–
Mr A Mabizela ¹⁶	6	–
Adv L Nkosi-Thomas ¹⁶	6	–
	501	541
¹⁵ Resigned 8 March 2013.		
¹⁶ Appointed 9 March 2013.		
SA City Centre SOC Limited		
Ms SP Mzimela ¹³	–	–
Mr BF Mohale ¹²	160	320
Mr TC Jantjies ¹⁷	32	65
Ms C Roskruge ¹⁴	133	–
Dr R Naithani ¹⁶	4	–
Ms N Kubeka ¹⁴	27	–
	356	385
¹⁷ Resigned 29 September 2012.		

Notes to the Financial Statements (continued)

For the year ended 31 March 2013

42. Going concern

As with previous years, SAA remains undercapitalised. Two 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 Directors' ability to invest in newer and more efficient aircraft and left the company less able to cope with the significant volatility in foreign exchange rates and the price of jet fuel.

During the financial year SAA received a R5 billion guarantee from its Shareholder in terms of which SAA had the right to utilise R1,5 billion for working capital requirements while the remaining R3,5 billion could only be accessed should certain pre-determined critical economic thresholds be met. To assist with its ongoing working capital requirements and to strengthen its balance sheet, the Shareholder gave an assurance to the company on 29 November 2013 that this guarantee, which was previously scheduled to expire on 30 September 2014, has been converted to a perpetual guarantee, which would, in the event of future capitalisation, reduce proportionately. The full terms and conditions of this extension are yet to be finalised, but the Directors believe this process to be perfunctory. This guarantee is in addition to the existing R1,6 billion perpetual guarantee. Any future utilisation against these guarantees is conditional upon the approval of both the Minister of Public Enterprises and the Minister of Finance. These guarantees provide reasonable comfort that SAA will have the ability to continue as a going concern in the foreseeable future.

In addition, certain cost-cutting programmes set out in the Long-Term Turnaround Strategy have already been implemented successfully. The positive impact that these actions have already had on the income statement gives the Directors further comfort over the going concern status.

In their assessment, the Directors have taken the future cash flow requirements of the airline into account and are of the view that the financial support extended by its Shareholder through the two guarantees is adequate for the going concern requirement in the short term, being 12 months from the date of approval of these annual financial statements. The Directors, however, remain of the view that a more permanent appropriate capital structure is required for the airline and set out their proposals to the Shareholder in the Long-Term Turnaround Strategy which was presented in April 2013.

43. Subsequent events

Subsequent to the end of the reporting period, in April 2013, SAA completed its Long-Term Turnaround Strategy and presented its proposals to its Shareholder.

In addition, on 29 November 2013, SAA received an assurance from its Shareholder that the R5 billion financial guarantee, previously due to expire on 30 September 2014, has been converted to a perpetual guarantee. Full terms and conditions associated with this extension are still to be finalised, but the Directors believe this process to be perfunctory.

For a full description of how these events support the going concern status of the company, please refer to note 42.

Corporate Information

COUNTRY OF INCORPORATION AND DOMICILE

The Republic of South Africa
Company registration number
1997/022444/30

DIRECTORS

Resigned

10 resignations from the Board in 2012/13

Directors during the reporting period

MM Whitehouse*
CA Carolus*
RM Loubser*
Adv L Nkosi-Thomas
DC Myeni
TC Jantjies*
BF Mohale*
T Daka*
LJ Rabbets*
Y Kwinana
ZJ Sithole**
JP Ndhlovu*
SP Mzimela*
DH Lewis*
WH Meyer
V Kona***
B Mpondo
C Roskruge
R Lepule
A Khumalo
R Naithani
A Mabizela
N Khubeka
Y Kwinana
N Bezuidenhout

*Resigned 2012

** Deceased 2012

*** Removed 2013

Company Secretary

CS Dlamini

BANKERS

Standard Bank Limited
Nedbank, a division of Nedbank Group Limited
Citibank of South Africa (Pty) Limited

AUDITORS

PricewaterhouseCoopers Inc
Private Bag X36
Sunninghill,
2157

Nkonki Inc
PO Box 1503
Saxonwold,
2132

REGISTERED OFFICE

Airways Park, Jones Road,
OR Tambo International Airport
Kempton Park, 1619

Postal Address
Private Bag X13, OR Tambo International Airport
Kempton Park, 1627

WEBSITE

www.flysaa.com



South African Airways
Airways Park
Jones Road
OR Tambo International Airport
Johannesburg 1627
South Africa