South African Airways

A STAR ALLIANCE MEMBER

2015 INTEGRATED REPORT

ABOUT THIS REPORT

Scope and framework

This integrated report is published in line with the King Code on Corporate Governance (King III of 2009), and with reference to the frameworks defined by the International Integrated Reporting Council (IIRC) and the Global Reporting Institute, as well as the regulations prescribed by the Companies Act No 71 of 2008 (Companies Act) and the Public Finance Management Act No. 1 of 1999 (PFMA).

Our second integrated report, it reviews the economic, social and environmental performance of South African Airways for the period between 1 April 2014 and 31 March 2015.

The report combines the framework elements of a sustainability report with those of a conventional financial report, with the aim of providing sufficient insight to enable stakeholders to form a broad 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

02

ABOUT SAA

08

GOVERNANCE

15

STRATEGY

28

OUR BUSINESS

HIGHLIGHTS OF 2015

R30 billion
Total annual revenue

9,2 million
Passengers carried

ABOUT SAA

OUR MANDATE

The SAA mandate as defined in the SAA Act, No 5 of 2007 was included in the company's 2013 Long-Term Turnaround Strategy (LTTS). The mandate requires the airline to 'engage in passenger airline and cargo transport services, air charter services and other related services' in support of the state's desire 'to promote air links with the Republic's main business, trading and tourism markets within the African continent and internationally'. The airline is required to pursue this mandate in a manner that is financially sustainable, while being compliant with applicable operational regulations and legislation in the country, inclusive of laws and regulations aimed at transformation, skills development and employment equity.

South Africa, the African continent, and the wider world are thus all defined as the scope of the airline's operations in the interests of promoting both the trade and leisure segments of the aviation industry.

This mandate, with its commercial and developmental imperatives, serves as the basis for SAA's vision and mission, and the values which underpin the company's structure and operations.

MISSION

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

VISION

"Africa's leading world-class airline."

R790
million
Cost compression savings

Awards
8

90-Day
Action Plan
Successful implementation

New
route to Abu Dhabi launched

R9
billion
Annual contribution to country's GDP

OUR 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.

HISTORY, STRUCTURE AND STRATEGY

SAA operations commenced in February 1934 after the South African Government took over the assets and liabilities of Union Airways. Since then, SAA has remained 100 percent state-owned except between 1999 and 2002, when Swissair held 20 percent of the equity in the company.

Today SAA has a highly vertically integrated Business Model, with SAA (SOC) Ltd as the parent company holding 100 percent of the equity in four subsidiaries:

4 Subsidiaries

Mango

Mango, a global best-practice low cost carrier (LCC) primarily operating in the South African domestic market, also progressively performing a role as a feeder airline to SAA.

SAA Technical (SAAT)

SAA Technical (SAAT), Africa's largest aircraft maintenance, repair and overhaul (MRO) business.

Air Chefs

Air Chefs, a catering business operating in Johannesburg, Cape Town and Durban.

South African Travel Centre (SATC)

South African Travel Centre (SATC), a retail travel business with franchises in South Africa and other African states. A strategic decision has been taken to divest from this business.

2 Major business units

The airline has two major business units within the group:

SAA Cargo

SAA Cargo, a cargo air transportation business with capacity primarily sourced from the belly-space of SAA's passenger aircraft fleet.

Voyager

Voyager, Africa's strongest airline revenue-based loyalty programme.

RECOGNITION OF EXCELLENCE

SAA is recognised globally for its quality customer service, security and safety record, and the airline received a number of awards during the year under review.

2014

MAY

Voted the Coolest Domestic Airline in the Sunday Times Generation Next Awards.

JULY

Selected among the top ten in the World's Best Business Class Airline Catering category at the 2014 World Airline Awards.

Best Airline Staff Service Africa award for the third time at the Skytrax World Airline Awards ceremony in London.

AUGUST

First place in the Domestic Airline category in the Sunday Times Top Brands 2014 awards.

SEPTEMBER

First place in both the African Long-Haul Airline and African Regional Short-Haul Airline categories at the 2014 Business Traveller Africa Awards.

2015

JANUARY

Best Airline in Africa and Best Business Class to Africa awards from top US travel magazine Business Traveller.

FEBRUARY

Four-star rating by Skytrax, the independent global airline rating organisation, for the thirteenth consecutive year.

MARCH

African Cargo Airline of the Year award at the STAT Times International Awards for Excellence in Air Cargo.

SAA AT A GLANCE

R30 billion total annual revenue,
with the airline ranked thirty-eighth globally, and second in Africa.

65 aircraft
SAA 52, Mango 10, and SAA Cargo 3.

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

131 000 tonnes of cargo carried annually by SAA Cargo
8,43 percent of the company's revenue for the year under review.

9 international destinations
served by SAA.

25 regional destinations
SAA 24, Mango 1.

11 476 staff employed by the group
33 percent of staff are represented in labour groups at SAA and 25 percent at SAA Technical.

11 million meals prepared annually by Air Chefs.

1 million air-frame maintenance man hours per annum at SAA Technical.

2,49 million Voyager members.

9,2 million passengers carried annually
SAA 6,7 million, Mango 2,5 million.

THE AVIATION OPERATING CONTEXT

Aviation is a highly-complex capital-intensive industry, prone to periodic external shocks such as civil unrest, war, volcanic ash clouds, security breaches and epidemics, and has been operating on historically low revenue margins of three percent.

SAA and its subsidiaries operate in highly competitive global markets with the core airline market rapidly liberalising and consolidating resulting in growing levels of competition. The airline is also facing strong competition in a steadily commoditising domestic market, an increasing level of competition in the regional African market and intense competition in the international market. Mid-hemisphere airlines are capitalising on African market liberalisation and anticipating above global average GDP growth for the continent, so they continue to build capacity and network reach aggressively.

Historically, SAA has been highly exposed to fluctuating oil prices and a weakening currency. Approximately 60 percent of the company's

operating expenditure is foreign currency-denominated, with only 40 percent of revenue in strong foreign currencies. As a result, any weakening of the rand against major currencies has a significant impact on the group's cost base. It is significant that a mere five percent weakening in the rand-dollar exchange rate has a R320 million impact on SAA's bottom line. **[Read more about currency and the operating environment under Materiality, on page 29, and the business and the business model, on page 28]**

To quantify and measure the relevant developmental impact, SAA engaged the services of Oxford Economics, who performed this exercise on SAA's international routes for the most recently audited financial period. These were the key findings:

- On its international routes in FY2015 SAA contributed R 6,3 billion in Gross Value Add (GVA) to the South African economy and supported more than 34 000 jobs within SAA's supply-chain and within the local tourism industry
- SAA's activities on these routes contributed R800 million in direct and indirect taxes, expanded South Africa's air connectivity by 15 percent, thereby adding 0,3 percent in long-term GDP growth, and supported the transport of 46 000 tonnes in air cargo in FY2015.

WHERE WE FLY

With a well-established international, regional and domestic network, SAA, together with its low cost airline brand Mango, serves both global and local destinations, either directly, or through its Star Alliance partners. With the loss-making international routes to Mumbai and Beijing having been terminated at the end of the year under review, and the imminent launch of the new African hub, the airline's network is now leaner and more cost-effective. **[Read more about routes and the network plan under Commercial, on page 48]**

CHAIRPERSON'S MESSAGE

> In our commitment to fulfil our mission, we anticipate that the establishment of our hub in Accra, Ghana, will bring benefits that will be felt well beyond the functionalities of the routes flown.

The end of the 2014/15 financial year marked a moment where SAA, after immense effort by everyone associated with the airline – leadership, stakeholders and in particular, employees – was able to view with a careful sense of confidence that the not insignificant problems we had faced over the year were being successfully contained and methodically dealt with.

At the heart of the issues with which the company had been grappling was the atmosphere of uncertainty engendered by some important leadership and shareholding changes that had taken place, and some very real concerns about the financial position of the airline.

With some far-reaching changes in the composition of the Board, and the move to the shareholder oversight of National Treasury from our previous Shareholder, the Department of Public Enterprises (DPE), came a renewed sense of purpose and determination to stabilise the company and proactively demonstrate the commitment to good, productive and stringent governance that was required to set the tone and standards for the on-going effort to put the airline back on track towards its achievable commercial goals.

While the membership of the Board was much reduced, processes, frameworks and structures were put in place to ensure that continuity and effectiveness were prioritised, and that adequate human and financial resources were allocated to provide the support to sustain this effort.

SETTING THE STANDARDS

Every financial year the performance of the Board and individual directors is evaluated with the assistance of an independent organisation, and this year, the evaluation was facilitated by Statucor (Pty) Ltd.

The areas that were assessed in the period under review ranged from Board composition, independence, responsibilities and committees, to strategy and company performance, compliance with laws and regulations, corporate culture, succession planning, and the relationship between Board and management and key corporate governance role players.

It was gratifying to see that the outcome of this objective assessment indicated that the Board was a well-functioning professional unit with high ethics and a strong regard for governance. While no areas of concern were identified, a remedial action plan was developed with a view to addressing areas for improvement. Its implementation will be overseen by the Social, Ethics, Governance and Nominations Committee (SEGNCO) to which quarterly progress reports will be made.

The Board continues to meet regularly, with its agenda designed in a manner that enables it to focus on policies, strategy, performance monitoring, governance and all matters related to these critical areas for the company. In discharging its duties in this way, and with these imperatives, the directors have access to all the information, records and documents that they require to take informed decisions.

To ensure maximum co-operation and collaboration in the interests of executing effective direction for the company, the executive directors and members of the executive management team have a standing invitation to attend meetings of the various committees, although in November 2014, because of the significant reduction in the number of directors, a decision was taken to dissolve some of the committees, and to retain and maintain only the statutory ones such as the Audit and Risk Committee and the SEGNCO and others recommended by King III, such as the Remuneration and Human Resources Committee.

I am pleased to note that this leaner structure has been operating extremely efficiently and effectively, and, together with the executive-led efforts associated with and arising from the 90-Day Action Plan, is working well in guiding the company back on its strategic path.

RESTORING STABILITY

There were various successful outcomes of the 90-Day Action Plan, among them a number that will help facilitate on-going stability. As part of the implementation of the plan, the Board investigated several future funding models for the company, and will table recommendations to National Treasury, as well as an implementation of an overhaul of governance structures, which has seen the airline place a substantial focus on accountability. Added to this was the implementation of effective communication, with the company making positive inroads into repairing its relationship with the media, and ensuring the constant flow of information, proactive initiatives and co-operation with journalists.

EXPANDING HORIZONS

The inception of the year under review saw remaining material issues outlined in our Long-Term Turnaround Strategy (LTTS) and critical to the forward path of the company, still unresolved. Two important aspects of strategic importance included the unprofitability of certain long-haul routes and the concept of the whole-of-state-aviation policy.

However, with the full support and co-operation of our Shareholder, two routes – to Beijing and Mumbai – were indeed terminated, with the results anticipated to be fully felt during the coming financial year. The significant savings will add not only to the restabilising of the airline, but to the morale and agility required to approach the execution of the further on-going LTTS measures and the cementing of the successful outcomes of the 90-Day Action Plan.

The whole-of-state-aviation policy, aspects of which would certainly add to the company's offering and operations, and would assist greatly with its competitiveness and flexibility in the global industry context, still requires deliberations and co-ordination at Shareholder and governmental level.

WORKING WITH GEOGRAPHY

The imperative to consolidate our African presence competitively, and which is outlined not only in the LTTS, but also as part of the Shareholder Compact arising from our dual mandate, has moved forward with some real achievements having been attained.

In our commitment to fulfil our mission to deliver commercially sustainable world-class air passenger and aviation services in South Africa, on the African continent and to our tourism and trading partners, we anticipate that the establishment of our hub in Accra, Ghana, will bring benefits that will be felt well beyond the functionalities of the routes flown.

WORKING FOR CHANGE

SAA is an asset whose economic benefit is realised daily in diverse and productive ways across all the socio-economic strata of our country. The airline connects South Africa to its major trade and tourism partners, and in doing so supports 34 000 jobs in South Africa, contributing R9,2 billion to the country's GDP every year, a sum that amounts to approximately 0,3 percent of the fiscus. Approximately 40 percent of all passengers, and more than 50 percent of all air cargo both within and from beyond our borders, was carried last year by the SAA Group or under the SAA code. No South African airline trains more pilots and technicians, procures more from local suppliers or has taken more steps to protect the environment than SAA.

With its dual mandate requiring it to function sustainably in both the commercial and developmental arenas, the company has shown its commitment once again during the past financial year.

In the sphere of transformation, while much still remains to be done, strides have nonetheless been taken, and with the appointment of the airline's first black Chief Pilot in June 2014, a significant milestone was reached. We are extremely proud of this and are pleased to be able to count it, along with our on-going determination to foster opportunity and success, as a quantifiable step in fulfilling our obligations and willingness to comply with the developmental terms as outlined in our LTTS and Shareholder Compact.

PREFERENTIAL PROCUREMENT

Although the setting of an ambitious preferential procurement target was also very much on the agenda for the year under review, an opportunity exists for SAA to strive for an even more challenging annual target for the spend on B-BBEE-compliant suppliers. To this end the Global Supply Management (GSM) and transformation business units, as well as the Bid Adjudication Committee (BAC), will continue to work collectively on improving the level of procurement spend on businesses owned by black women.

The company will also be focusing on, and bringing about, improvements in preferential procurement, supplier and enterprise development, increasing the likelihood of enhancing the overall B-BBEE level.

SUPPLIER DEVELOPMENT

In addition to an improved performance on procurement spend on small and medium enterprises (SMMEs), the early payment arrangement, which is one of the airline's supplier development initiatives, has also shown a sustained improvement. At the end of the March 2015 quarter, SAA posted a 48 percent and nine percent improvement respectively in comparison with the August 2014 and December 2014 quarters. This early payment mechanism, provided for in the B-BBEE codes, is specifically aimed at supporting SMME suppliers who are already in our supply chain.

90-Day
action plan
facilitates stability

In another demonstration of our commitment to driving meaningful and productive change, the company's procurement and transformation units staged and hosted a Suppliers Day on 25 March 2015 at Airways Park, in partnership with the Department of Trade and Industry (DTI) and the South African Bureau of Standards (SABS). This event was the second in as many quarters to be hosted by SAA and is part of a supplier development programme that is intended to educate suppliers on how to access and participate effectively in SAA's supply chain.

TECHNOLOGY AND THE ENVIRONMENT

With the launch of our massive biofuels Project Solaris, we saw our first crops produced, and plans drawn up to expand nationally on this success. The development of locally produced biofuels not only answers the airline's pursuit to seek more environmentally friendly energy solutions but also supports both the commercial and developmental elements of our mandate with the promise of future savings in addition to the demonstrable social development.

The on-going commitment, dedication, drive and determination of all our employees, the co-operation of our stakeholders, and, most critically, the support of our Shareholder, all proven in the successful conclusion of our 90-Day Action Plan, also all promise to bode well for the company as we strive to deliver on all the elements of our mandate and strategy, and cement the return of the airline to its pride of place as South Africa's national carrier.

Duduzile Myeni
Chairperson

18 September 2016

BOARD

The year under review was characterised by a number of material changes affecting governance at SAA with key changes in the composition and landscape of the key bodies, including that of the company's oversight ministry, when the National Treasury became the Shareholder, taking over from the Department of Public Enterprises (DPE) with effect from 12 December 2014.

COMPOSITION OF THE BOARD

In other important developments, a new Board was appointed on 23 October 2014, following the resignation and removal of seven Board members, with two members confirmed as remaining in their roles.

On 28 March 2015, the Minister extended the appointments of all four non-executive directors for a period of six months to 30 September 2015, or until such time as a permanent Board was appointed. This was to ensure that the Board continues its business without compromising its quorums and its decision-making capacity, while allowing the minister an opportunity to finalise the cabinet approval process regarding appointments and reappointments of non-executive directors.

At 31 March 2015, the SAA Board consists of six members: four independent non-executive directors and two executive directors. The Acting SAA Chief Executive Officer has not been appointed to the Board.

BOARD EFFECTIVENESS

Through its changes, the Board has remained committed to full co-operation between itself, the Shareholder and the company's various stakeholders, guided by the principles of the King Report on Corporate Governance for South Africa, 2009 (King III), and the terms of the Companies Act and the Public Finance Management Act (PFMA). To this end the Board, through its various committees and as well as SAA's internal and external audit functions, maintains oversight of the approach, execution and activities of the company.

1 DUDUZILE MYENI (52)

CHAIRPERSON

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

Ms Myeni was appointed to the Board of SAA in September 2009 and to the Board of Air Chefs in April 2010. She is the current President of AfricaWater Association (AfWA), Chairperson of South African Association of Water Utilities (SAAWU), Mhlathuze Water Board and the Executive Chairperson of the Jacob G Zuma Foundation.

A seasoned business woman, an entrepreneur 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 has previously served on the Board of Absa Bank, was a board member of Trade and Investment KwaZulu-Natal, a South African trade and inward investment promotion agency 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 was also the first woman to win the prestigious South African Philanthropist Award in 2007.

In 2009, she was nominated as 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.

2 YAKHE KWINANA (51)

NON-EXECUTIVE DIRECTOR

CA(SA), BCompt (Hons) (Unisa), BCom (Hons) (University of Transkei), Diploma in Banking, (Institute of Banking), Higher Diploma in Computer Auditing (Wits University)

Appointed to the Board in December 2009, Ms Kwinana is Chairperson of SAA's Audit and Risk 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 and Risk Committee. She is currently Managing Director of Kwinana & Associates.

3 **DR JOHN TAMBI (60)**

NON-EXECUTIVE DIRECTOR

PhD Transportation Planning & Engineering (Polytechnic Institute of New York University), Specialisation: the planning and design of airports and other transport facilities, MSc Transportation Planning and Engineering (Polytechnic Institute of New York University), MBA (Embry-Riddle Aeronautical University); MAS (Master of Aeronautical Science) (Embry-Riddle Aeronautical University), BSc Aerospace Technology (Indiana State University), CPL/IR: Commercial Pilot's Licence, Instrument and Multi-Engine Ratings, (Oxford Air Training School) Fellow of the African Scientific Institute (ASI)

Dr Tambi is a transport infrastructure expert with more than 30 years of project management, planning, engineering, training, policy development, and economic analysis experience, with specialisation in air, road, sea and rail transport modes. He is currently the Transport Infrastructure Expert for the NEPAD Planning and Coordinating Agency, responsible for regional and continental transport programmes and projects, as well as the co-ordinator for the Presidential Infrastructure Champion Initiative (PICI). He has served in senior and executive positions in the management of airports, ports, rail and transportation facilities, including the Port Authority of New York and New Jersey, and in major international consulting firms. He has also served as an independent consultant to national governments, the United Nations and international lending institutions. Dr Tambi was the Chairman and Transport Expert for the United Nations Monitoring Group for Somalia and the UN Panel of Experts for Somalia respectively (United Nations Security Council Resolutions: 1519, 1558 and 1474). He is a registered aviation and transportation expert with the African Development Bank, the International Civil Aviation Organisation, the United Nations Economic Commission for Africa, and the United Nations headquarters in New York.

He also has operational experience as an airline pilot and has acted as a consultant to several airlines. He has over 30 professional publications on the aviation and transport infrastructure sectors and is a key resource person in the African aviation field.

4 **ANTHONY DIXON (69)**

NON-EXECUTIVE DIRECTOR

CA(SA), CTA (University of Natal), Executive Development Programme (Wits Business School)

Mr Dixon has extensive work experience spanning almost five decades in key positions such as CEO, CFO and Business Development manager of companies such as Coopers and Lybrand (CEO – KZN), Megacor Holdings (CEO), Guardian National Insurance Company Limited (Group Financial Director), Santam (Head: Business Development) and Alacrity Financial Services Limited. He joined the Institute of Directors as Executive Director from 2003 to 2008 and besides being a non-executive director of SAA, is currently also a non-executive director of the Board of Consolidated Infrastructure Group (CIG), Santova Limited and The Pivotal Fund Limited. He has in the past held directorships in a number of blue chip companies. Mr Dixon was a member of the King Committee on Corporate Governance (2003 to 2013) and has fulfilled a number of other professional functions.

5 **WOLF MEYER (54)**

CHIEF FINANCIAL OFFICER

BPL (University of the Free State), BCompt (Hons) (Unisa), CA(SA)

Mr Meyer was appointed Chief Financial Officer of the SAA Group in June 2011. Prior to that, he was Chief Financial Officer at the Land and Agricultural Development Bank of South Africa and part of the team 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 financial background and extensive local and international listing experience. His career began in 1987 when he commenced his articles with Ernst & Young.

BOARD COMMITTEES

AUDIT AND RISK COMMITTEE	SOCIAL, ETHICS, GOVERNANCE AND NOMINATIONS COMMITTEE	REMUNERATION AND HUMAN RESOURCES COMMITTEE
Ms Kwinana (Chairperson)	Ms Myeni (Chairperson)	Dr Tambi (Chairperson)
Mr Dixon	Mr Dixon	Ms Myeni
Dr Tambi	Ms Kwinana	Mr Dixon

MEETINGS AND RELATED MATTERS

The Board meets regularly and retains full and effective management and control over the company. Among its other duties, it approves and monitors the development and implementation of policies, strategies and the annual Board Work Plan.

The Board agenda is designed in a manner that enables the Board to focus on policies, strategy, performance monitoring, governance and related matters.

TERMS OF REFERENCE

In order to assist the Board and directors in discharging their duties, specific responsibilities have been allocated to the board committees which 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.

Due to the significant reduction in the number of directors, the Board took a decision in November 2014 to dissolve some of the Board committees and maintain only statutory committees such as the Audit and Risk Committee and the Social and Ethics Committee as well as committees recommended by King III, such as the Remuneration Committee.

AUDIT AND RISK COMMITTEE

This is a statutory committee. It 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 as outlined in its terms of reference.

The CEO, CFO, representatives of the external auditors, internal audit, risk management team, CFOs of subsidiaries 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. After every meeting of the committee it always met separately with the external auditors, internal audit and management to discuss any matters of concern.

The committee held four scheduled meetings during the year under review.

FINANCE, INVESTMENT AND PROCUREMENT COMMITTEE

During the first quarter of the year under review, this committee, previously known as the Procurement and Tender Processes Committee, had its mandate extended to include financial planning and investment functions in addition to its role of procurement oversight.

This committee is responsible for seeing that there are systems and procedures in place to ensure that goods and services are procured in a manner that is cost-effective, equitable, transparent and fair. It further ensures that financial planning and investment decisions are effective, efficient and in accordance with the strategic objectives of the company.

The committee's terms of reference set out its functions, and during the year under review it discharged all its duties in accordance with these terms of reference.

The committee held two scheduled meetings during the year under review, and was dissolved in November 2014.

AD HOC COMMITTEE ON LITIGATION

This is an ad hoc committee that was established to serve as the principal conduit of instruction and contact with the attorneys acting for SAA in the matter between SAA and its erstwhile CEO, K Ngqula. It monitors and reports to the Board on progress in the litigation and advises the Board on strategic decisions to be made by the Board on the matter.

This committee has terms of reference which are reviewed annually. All its duties as set out in the terms of reference were performed during the year under review.

The committee held no meetings during the year under review, and was dissolved in November 2014.

REMUNERATION AND HUMAN RESOURCES COMMITTEE

This committee has terms of reference which are reviewed annually. Its main duties include formulation, development and implementation of remuneration and human capital strategies, and policies, plans and programmes for the entire SAA Group, excluding Mango.

All its duties as set out in the terms of reference were discharged, with the committee holding three scheduled meetings during the year under review.

LONG-TERM TURNAROUND STRATEGY (LTTS) COMMITTEE

The key functions of this committee include overseeing the development and implementation of the LTTS and ensuring its successful implementation in accordance with the approved implementation plan.

After approval of the LTTS by the Board during March 2013, the focus of the committee shifted to overseeing effective implementation of the strategy.

The committee held four meetings and one ad hoc meeting during the year under review, and was dissolved in November 2014.

SOCIAL, ETHICS, GOVERNANCE AND NOMINATIONS COMMITTEE

The primary responsibility of this committee is to perform the statutory functions of the social ethics committee in terms of the Companies Act and to assist the Board with the appointment, induction and development of directors and other governance-related matters.

This committee's terms of reference, with all its duties as set out in the terms of reference, were discharged during the year under review.

The committee held three scheduled meetings during the year under review.

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 made up solely of a monthly retainer which is paid to the Board members for the services rendered to the company.

The details of the Board members' remuneration for the year under review are stated in **[Note 37 to the Annual Financial Statements (AFS) on pages 129 to 130.]**

INDEPENDENCE OF THE BOARD

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

- Retainer-only remuneration. This policy discourages the members from having numerous meetings which might in the end compromise their independence;
- Separation of the positions of the CEO and that of the Chairperson;
- The Board committees being chaired by non-executive directors with only one committee, SEGNCO, being chaired by the Chairperson of the Board, in accordance with King III;
- The Board having access to independent external advice at the cost of the company;
- The Board members being appointed for a term of three years, which is reviewable annually, but limited to three terms. This period is not regarded as too long to impact on their independence.

INTERNAL AUDIT

SAA has an in-house internal audit function reporting to the Board through the Audit and Risk Committee which approves its Internal Audit Plan and monitors performance against the three-year rolling plan.

Internal Audit has an approved charter which was developed in accordance with the International Standards for the Professional Practice of Internal Auditing. The Internal Audit Charter is reviewed annually and was reviewed by the Audit and Risk Committee during the year under review.

PROVIDING ASSURANCE

The primary function of Internal Audit is to provide reasonable assurance on internal controls, governance, efficiencies, effectiveness and performance against strategic objectives. The function follows a systematic and disciplined approach to evaluating and improving the effectiveness of risk management, internal control, and governance processes, and accordingly forms a critical 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, Internal Audit maintained a risk-based audit approach through the implementation of the 2014/15 Annual Internal Audit Plan.

The specific areas of focus for Internal Audit during the year under review included:

- Developing internal information technology audit skills capacity;
- Follow-up audits on audit findings that had been open for a long period;
- A trend analysis of the cross-cutting root causes, repetitive findings, process/control failures and owners;
- Increasing the audit focus on strategic risks;
- Implementation of the combined assurance model and plan;
- Implementation of the fraud prevention plan;
- Improving internal audit process efficiencies;
- Creating awareness of the role of Internal Audit.

The year under review was the third year in which SAA has exercised its own in-house internal audit function. While the annual Internal Audit Plan was developed and approved by the Audit and Risk Committee before the beginning of the financial year, the following were highlights:

- Of the 19 positions proposed in line with the structure, 17 vacant postitions were filled;
- The performance contracts, training programme and coaching and mentorship programme for all those 17 staff members were developed and implemented;
- Service level agreements (SLAs) with all the stakeholders were developed and implemented;
- Over and above conducting numerous ad-hoc audits requested by executive management and the Board, Internal Audit conducted approximately 95 percent of 2014/15 planned audits;
- The implementation of the combined fraud prevention and combined assurance plans was achieved.

IMPACT ON THE ORGANISATION

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

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

In response to its inherent exposure to fraud and corruption, SAA has adopted an aggressive anti-corruption position. Internal Audit is one of the divisions that is playing a critical role in the prevention, detection and reporting of fraud.

SAA Technical, Africa's largest aircraft maintenance, repair and overhaul business

COMPANY SECRETARY

The Company Secretary, inter alia, plays a significant role in:

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

The directors have unrestricted access to the advice and services of the Company Secretary, who ensured that all reports and returns to relevant supervisory institutions were submitted during the year under review.

COMPLIANCE

KING CODE OF GOVERNANCE PRINCIPLES FOR SOUTH AFRICA

The company acknowledges that each principle recommended in King III is of equal importance. In line with this acknowledgement, SAA's Governance Unit applied its mind to all principles with a view to integrating each one of them into the operations of the company. To this end, an integration action plan was developed in which all principles were analysed and checked to see if, given SAA's operating environment, they could be applied within the company.

The principles which are to be applied are systemically integrated into the company's operations, while explanations are recorded for those which are less frequently applied. These are available in the governance register which can be viewed on the company's website. SAA is in the process of acquiring a governance assessment tool which will enable it to assess compliance with both the King III principles and the PFMA and to take corrective measures where necessary.

COMPLIANCE WITH OTHER LEGISLATION

SAA is also required to comply with the Companies Act, Act 71 of 2008 (as amended) (The Act). During the year under review, the Companies and Intellectual Property Commission (CIPC) notified SAA that it had contravened Section 45 of The Act, in that SAA failed to comply fully with the provisions of The Act in relation to obtaining shareholder approval prior to extending financial assistance to its subsidiaries.

The company has taken appropriate measures to ensure that this does not recur.

COMPLIANCE MANAGEMENT PROGRAMME

In accordance with the governance and applicable regulatory prescripts, such as King III, SAA has developed a robust Compliance Framework and Programme aimed at ensuring that the organisation effectively manages and mitigates its compliance risks.

A dedicated Group Compliance function has been mandated to develop, implement and monitor the Compliance Programme within the group by working closely with business units including subsidiaries and international outstations. Key features of the programme include compliance risk assessments, training on new regulatory requirements, compliance monitoring and audits, managing relationship with the regulators and reporting.

Also crucial to the improvement of the governance and the control environment within SAA is the compliance with internal policies and procedures. A policy governance framework is in place and a policy universe is maintained on the shared folder which is regularly monitored by the Compliance function. The policies are also reviewed on a regular basis to ensure harmony with the legislative and regulatory prescripts.

A compliance software solution is being procured to further embed the compliance culture and improve the compliance maturity level.

PUBLIC FINANCE MANAGEMENT ACT 1 OF 1999, AS AMENDED (PFMA)

SAA has seen an increase in PFMA non-compliance over the 2014/15 financial year as compared to the 2013/14 financial year, with the details of this increase indicated in the table.

The irregular spend increase during the year under review is due to contracts not being renewed timeously. A number of interactions have been implemented during FY2015 such as the following, with the impact to be realised in FY2016:

- A Contract Management department, established to implement the contract management process and system and to monitor contracts, was moved from Legal, Risk and Compliance to the Supply Chain Management Department;
- The SAP Module for contract management was implemented;
- Training was provided in the African regional and domestic stations.

As part of mitigating PFMA non-compliance, management has instituted control measures such as disciplinary procedures in certain cases where there have been reportable PFMA contravention cases.

CODE OF ETHICS

The company has a Code of Ethics by which all employees and Board members are bound. The company's Code of Ethics is underpinned by the company values.

Business class travel on SAA offers comfort and style

Category of PFMA non-compliance	2014/2015 Rm	2013/2014 Rm
Irregular spend without loss	**68,5**	28,4
Fruitless and wasteful expenditure	**52,7**	19,2
Loss due to criminal conduct	**–**	5,8
Recoveries	**7,4**	–

STRATEGY

COST COMPRESSION: THE HISTORY OF THE PROGRAMME

In 2012, the Board identified the reduction of SAA's high unit cost as a key strategic pillar that required urgent attention.

A Cost Compression Programme was created, under the executive sponsorship of the CFO, to address the fundamental cost drivers of the business and compress unit costs in order to help sustain the airline in the face of rising fuel prices and other competitive disadvantages.

The objective was to achieve significant cost savings without negatively affecting the company's other strategic initiatives or negatively impacting the demand side of the passenger airline business, revenue per available seat kilometre (RASK).

COST COMPRESSION PROGRAMME

On top of baseline savings of just under R1 billion in the 2012/13 financial year and savings of R453 million in 2013/14, additional savings of R790 million have been achieved for the financial year ended 31 March 2015. This brings cumulative sustainable savings since inception of the programme in 2012 to just over R2,2 billion.

During this period average non-fuel cost per available seat kilometre (CASK) reduced from 7,00 USc to an average of 5,75 USc, just three percent short of the group's three-year target of 5,6 USc.

Cost savings this past year include benefits from the discontinuance of the Sydney code share with Qantas, reduced aircraft lease rates and reduction of associated maintenance reserve and return condition provisions, other maintenance cost savings and more favourable negotiated procurement contract re-pricing.

Focus over this period has also been on improving the aircraft utilisation, which is another leg of cost-compression and relates largely to improved scheduling by better matching inbound and outbound traffic.

Unfortunately there were other adverse pressures which partly negated the successes described above.

These include new entrants and reduced fares, health scares in Africa and certain aircraft ownership legacy issues.

Nevertheless, SAA remains resolute, in conjunction with other strategic interventions, to continue the momentum of cost-compression in order to contribute towards the airline's longer-term sustainability.

Various internal and external benchmarking exercises have been conducted over the years to evaluate the group's costs relative to its closest competitors. SAA is an active participant in IATA Airline Cost Management Group (ACMG).

In the past, the Group has adopted a programme-driven approach under the executive sponsorship of the Chief Financial Officer, involving the establishment of a Cost Compression Steering Committee and various cross functional forums. Although this structure will continue in a monitoring role, future emphasis will be the embedding of a cost-compression culture throughout the company, in order to make cost-consciousness a systemic cultural element within the business.

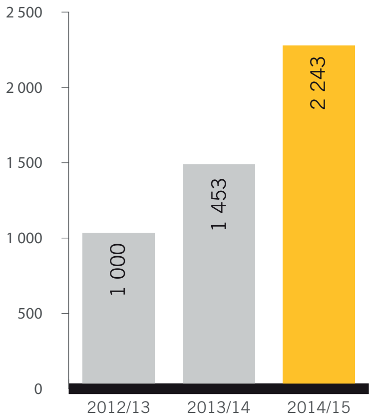
R790
million
additional savings
for FY2015

FY2015:

Beyond baseline savings of approximately R1 billion in FY2012/13 and savings of R453 million in FY2013/14, additional savings of R790 million have been achieved in FY2014/15 with average non-fuel CASK reduced by a further 0,27 US cents to 5,75 US cents (USc).

The ZAR equivalent however increased from 60,2 to 63,01 cents due to a further adverse exchange rate impact.

CUMULATIVE SUSTAINABLE COSTS SAVINGS IN R'm



THE LONG-TERM TURNAROUND STRATEGY (LTTS)

Developed in 2013, the LTTS translated the Shareholder rationale for the existence of SAA, as defined in the referenced legislative instruments, into an organisational vision and mission as well as five strategic objectives:

- Support South Africa's National Developmental Agenda;
- Achieve and maintain commercial sustainability;
- Provide excellent customer service;
- Achieve consistent, efficient and effective operations; and
- Foster performance excellence.

Management and the Board hold the view that these five strategic objectives remain relevant today, two years after development of the LTTS, and support the fulfilment of SAA's reconfirmed Shareholder Mandate. However, management and the Board, informed by a diagnostic review of LTTS implementation concluded during the 90-Day Action Plan period, believe that corrective measures are required to address certain implementation failures and that some of the initiatives contained within the LTTS require clarification and/or refinement.

The 90-Day Action Plan represents the start of the effort to introduce corrective measures.

THE 90-DAY ACTION PLAN

In October 2014, SAA was in crisis and the Minister intervened. The Board was reconstituted and the SAA Chief Executive Officer suspended, pending an independent investigation into matters of serious misconduct. Together with the Minister of Finance, as part of a joint ministerial team, the newly constituted Board proposed a 90-Day Action Plan to return the company to relative stability and to an implementation critical path for a refined LTTS. The plan was accepted by both ministers and implementation commenced in mid-November.

With the major commercial challenges facing the airline, the urgency of instituting the plan was a priority on the agenda of the newly-constituted Board and the SAA executive.

The plan comprised six critical areas of focus in what were viewed as six pillars supporting the action approved by the Board. These six pillars tasked the plan with addressing:

- Business liquidity and on-going solvency immediately;
- Future funding of the business;
- The correction of governance defects;
- A review of the legal and high-level governance framework;
- The reorganisation of assets;
- The implementation of an effective 90-Day communication plan.

The Board and management worked very closely during the 90 days with National Treasury also allocating considerable resources and time to ensuring there was the effective Shareholder oversight expected by the Presidency and Minister of Finance.

Formal weekly meetings took place between an executive team and a National Treasury Task Team, with participation by representatives from the Presidency. Thirteen weekly reports on implementation progress were also provided to the Minister and Ministry officials. These reports delineated the opportunity for engagement on every aspect of the plan and the LTTS refinement.

The 90-Day Action Plan was concluded on 24 March 2015 with the Acting CEO thanking staff for their individual contributions towards its successful implementation. In that communication, he was able to elaborate on the execution of the six pillars, indicating delivery against the stated tasks:

SAA maintenance work is done following strict quality control measures

Six pillars

1. **Business liquidity and on-going solvency:** With the 90-Day Action Plan the airline received a going-concern guarantee from National Treasury on 22 December 2014. This enabled the company to finalise its 2014 annual financial statements and hold its annual general meeting.

2. **Future funding of the business:** The Board investigated several future funding models and will table recommendations to National Treasury. Steps were taken to change the debt profile of the business.

3. **Correction of governance defects:** The airline completed all identified contract renegotiations, an intervention that contributed to a strengthening of governance controls in procurement and a re-focus on cost-compression. **[Read more on cost-compression under Cost-Compression on page 15.]**

   With a key component of the 90-Day Action Plan including a revisiting of the airline's network structure, fleet solution and financial forecasting and planning in terms of the LTTS. The overhaul of governance structures saw the airline place a substantial emphasis on accountability, with regard to both the 90-Day Action Plan, as well as the full implementation, going forward, of the LTTS.

4. **Review of high legal level governance framework:** Onerous agreements were identified with lease extensions on three of its eight Airbus A340 aircraft renegotiated. This success represents a positive impact of R112 million annually. Further aircraft lease extensions and renegotiations were successfully concluded and expected to yield additional savings in excess of R150 million during FY2016.

   The airline's position vis-à-vis all long-term contractual engagements, procurement governance and other legal positions was examined, with recommendations submitted to the Board for approval and for subsequent action by SAA management.

5. **Reorganisation of assets:** SAA reviewed and optimised its Network and Fleet Plan to ensure commercial sustainability. Network reconfigurations arising from the closure of loss-making direct flights between Johannesburg and Beijing and Johannesburg and Mumbai stand to positively impact the airline in the region of R440 million per annum. This was achieved without the sacrifice of connectivity, as a result of deepened commercial relationships with a number of Gulf-state and other carriers.

   The airline launched its first direct flight between Johannesburg and Abu Dhabi on 29 March – a route that will enable further network growth, particularly to China and India, through end-point code-sharing with Etihad Airways. The airline has also grown its sub-Saharan African network due to strong commercial demand, with, among others, frequency additions between Johannesburg and Maputo, Harare and Mauritius.

   The airline furthermore embarked on a process of right-sizing its human capital through a natural attrition process.

6. **Implementation of effective communication:** SAA has made positive inroads into repairing its relationship with the media, ensuring a constant flow of information, a proactive approach and co-operation with journalists.

Offering Africa's warmest hospitality

Outlook emanating from the 90-Day Action Plan

Total annualised EBITDA improvement from the commencement of SAA's new financial year on 1 April 2015, and realised through the 90-Day Action Plan, will amount to R1,25 billion as per the initial target agreed in November 2014. This improvement consists of:

R440 million
through network changes

R290 million
relating to fleet financing/composition changes

R100 million
in the recovery of stalled LTTS implementation measures

R425 million
from the review of onerous agreements, including over 150 procurement contracts

While these figures indicate the realisation of the airline's targets set for the 90-day period, in the view of the executive leadership, they represent only a part of the full potential of what SAA can achieve as it continues to review every aspect of its business as a national asset whose economic benefit is realised daily in many diverse ways across every socio-economic stratum of the country.

After years of SAA's challenging performance, the 90-Day Action Plan, conceived as a rapid intervention designed to return the airline to commercial sustainability, has proved to provide, in terms of the airline's developmental mandate, an even greater support for the national developmental agenda.

ACTING CHIEF EXECUTIVE OFFICER'S MESSAGE

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

The year in review again showed, in particular, the impact that external factors such as the Ebola outbreak in West Africa could have on an airline while it also demonstrated the positives possible when strong strategic impetus provides a road map to move forward toward business recovery. Despite the first three quarters being highly challenging, the 90-Day Action Plan implemented in the fourth quarter showed just how impactful a strategic step change could be for a business.

As SAA Acting CEO during the drafting of the SAA Annual Report for the financial year 2014/15, I laud the team that drew a line in the sand and returned the airline to stability. It is a platform, a springboard so to speak, that will allow SAA to fully return to implementation of the Long-Term Turnaround Strategy.

By the time of the conclusion of the 90-Day Action Plan period, South Africans now have a national aviation asset that is well on its way to relative stability. There is no doubt that while we have achieved significant milestones during the 90 Day period in review, the real task of full implementation of a refined Long-Term Turnaround Strategy (LTTS) remains. A full review of the LTTS formed part of the 90-Day Action Plan wherein SAA and its Shareholding Ministry adapted and amended the strategy's currency, taking into account current macro-economic influences both domestically and globally. The intent and core strategic impetus remains a constant; the Board and management of SAA remain unyielding in their resolve to fuel SAA's future success and short to medium-term stability.

During the 90-Day Action Plan period, SAA was tasked and delivered against:

1. **Business liquidity and on-going solvency:** SAA received a going-concern guarantee from National Treasury on 22 December 2014 with the 90-Day Action Plan as instrument to restore relative stability with full implementation of a refined LTTS to follow.
2. **Future funding of the business:** The Board has researched and submitted several options to the Shareholding Ministry, which includes several commercial and other options currently under review. This includes the possibility of a strategic equity partner. However, there have been no decisions taken or final proposals received.
3. **Correction of governance defects:** SAA has completed all identified contract renegotiations, which forms part of a strengthening of governance controls within the procurement area and re-focus

on cost-compression. This has resulted in annualised savings of more than R150 million.

Implementation of an overhaul of governance structures has seen the airline place a substantial focus on accountability, particularly in terms of implementation of the 90-Day Action Plan as well as, moving forward, the refined LTTS.

A key component of the 90-Day Action Plan was a revalidation of the LTTS, taking into account underlying macro-economic and capital structure assumptions and their impact on SAA's strategy. When the LTTS was developed in 2013, the Rand was 40 percent stronger than it is today and oil cost more than double the current and forecast trading price of Brent Crude today. This fundamentally impacts on aircraft economics and demand patterns. Thus a review of SAA's overall response was required, culminating in amendments to SAA's network structure, fleet solution and financial forecasting and planning.

4 Review of high-level Governance Framework

Onerous agreements were identified and renegotiated. Among them SAA renegotiated fleet lease re-extensions of three of its fleet of eight Airbus A340 aircraft, representing a positive impact of R112 million annually. Further aircraft lease extensions and renegotiations currently in play are expected to yield additional savings in excess of R150 million later in the year. Total savings are expected to number R262 million.

The airline's position vis-à-vis all long-term contractual engagements, procurement governance and other legal positions were examined with recommendations submitted to the Board for approval and, subsequent action by SAA management.

5 Reorganisation of assets

SAA has reviewed and optimised its Network and Fleet Plan to ensure commercial sustainability. Recent network reconfigurations stand to positively impact SAA in the region of R600 million per annum, the genesis, being the culling of loss-making direct flights between Johannesburg and Beijing and Johannesburg and Mumbai without sacrificing connectivity through deepened commercial relationships with a number of Gulf-state and other carriers. SAA launched its first direct flight between Johannesburg and Abu Dhabi on 29 March that enabled further network growth through end-point code-sharing with Etihad, particularly to China and India. SAA has also grown its sub-Saharan African network due to strong commercial demand with frequency additions between Johannesburg and Maputo, Harare and Mauritius among others.

Network harmony is well underway in terms of appropriate asset service on appropriate routes. Previously, disharmony and commercial disability was caused due to the incorrect deployment of assets on various network points.

SAA has also embarked on a process to right-size its human capital through an accelerated natural attrition process.

6 Implementation of effective communication

SAA has made positive inroads into repairing its relationship with the media, ensuring the constant flow of information, proactivity and co-operation with journalists.

Total annualised EBITDA improvement, from the commencement of our new financial year on 1 April 2015, realised through the 90-Day Action Plan, will amount to R1,25 billion as per the initial target as agreed in November 2014.

This consists of:

R440 million
through network changes;

R290 million
relating to fleet financing/composition changes;

R100 million
recovering stalled LTTS implementation measures; and

R425 million
from reviewing onerous agreements, including over 150 procurement contracts.

As noted, the 90-Day Action Plan represents a new beginning. The signs in the new fiscal are already encouraging. Our new route between Accra, Ghana and Washington DC is performing beyond expectation and our Africa strategy was further realised with the launch of the Voyager Credit Card with issuing bank Ecobank in Ghana. Plans are afoot to further expand the Voyager product in Africa. Our partnership with Africa World Airlines also augurs well for the medium to long-term – in particular considering that forecasts indicate that passenger growth in Africa would increase between five to six percent by 2016/17. The African Development Bank forecasts an aggregate GDP growth for Africa, annualised at around five percent for the next two to five years. Airlines will power African economic growth, employment, trade links, tourism and also support sustainable development through Air Transport.

SAA has reviewed its Fleet plan for commercial sustainability

Well-groomed, friendly and efficient cabin crew

In South Africa alone the direct and indirect economic impact of the SAA Group amounts to several billion US dollars while the catalytic impact on tourism is immense. Domestically the SAA Group's contribution to national GDP stands at R9,2 billion, an approximate 0,3 percent with an additional R12,4 billion in terms of the catalytic impact on tourism.

Beyond business commercials, as a corporate citizen of South Africa and a State Owned Company (SOC), SAA has its focus firmly set on transformation. During the current financial year the business is realising its ambition, set last year, to attract and develop black industrialists through opening up existing opportunities to a wider, and more transformed, supplier base. As national carrier SAA intends to lead transformation in South African aviation supplier development

In May SAA signed a Memorandum of Understanding (MOU) with the Department of Trade and Industry (DTI) in a commitment to develop and support inclusive supplier sourcing and procurement. Successful implementation of the new three-year SAA Supplier Development Programme will see up to 50 percent of all consumable supplies sourced from empowered enterprises by end 2018.

In undertaking this signing of the MOU, South African Airways correctly asserts its developmental mandate as a public entity. Our principles of consolidating a developmental state oblige us to establish a culture of socially responsive public institutions that act to promote the productivity of society. This combines the functions of institutions serving their direct mandates as well as helping various social groupings to benefit from the resources that public institutions have at their disposal.

Counting the successes, planned commercial and social interventions as well as the continued effort to rebuild our business; SAA's sights remain firmly set not only on recovery, but on absolute success.

Musa Zwane
Acting CEO

18 September 2016

RECONSTITUTED GROUP EXECUTIVE COMMITTEE (EXCO)

as at 31 March 2015

SAA BOARD

AUDIT AND RISK COMMITTEE

ACTING SAA CEO
Nico Bezuidenhout

CHIEF AUDIT OFFICER
Siyakhula Vilakazi

GM HR
Thuli Mpshe

Chief Strategy Officer
Barry Parsons

GM Operations
Zukisa Ramasia

Chief Commercial Officer
Sylvain Bosc

GM Legal, Risk and Compliance
Ursula Fikelepi

HOD Project Management Office
Josua du Plessis

Chief Financial Officer
Wolf Meyer

GM Shareholder and Stakeholder Relations
Lusanda Jiya

Acting CEO Mango
Nic Vlok

CEO SAA Technical
Musa Zwane

Acting CEO Air Chefs
Martin Kemp

1 **NICO BEZUIDENHOUT (37)**

ACTING SAA CHIEF EXECUTIVE OFFICER

Mr Bezuidenhout joined Mango as one of the architects of its business case 12 months before the airline took to the skies. Appointed as CEO in 2006, he launched the airline into an unstable market, weathered the impact of the global financial crisis two years into its operation and achieved profitability in the majority of its completed full fiscals with an aggregate balance sheet over time indicating continued cash positivity and profitability. Mr Bezuidenhout led the creation and transformation of South Africa's youngest airline into one of the market's most recognised brands.

Recognised as a subject matter expert, Mr Bezuidenhout regularly speaks at conferences and seminars around the world, while continually driving innovation at home. Under his leadership Mango not only achieved profitability in record time, but also doubled its fleet and route network, grew market share, and established the most extensive distribution and payment method acceptance system in the industry with Mango continuing to occupy pole position in reputation, transformation and active social participation.

Prior to his engagement at Mango, Mr Bezuidenhout launched SAA's first e-commerce platform following a successful career in the music industry, first as tour financial manager for Big Concerts and later as founding member and Managing Director of ticketing business Ticketweb.

2 **THULI MPSHE (55)**

GENERAL MANAGER: HUMAN RESOURCES

BCom (Unisa), Postgraduate Certificate in Business Management (Warwick University), Board Leadership Programme (GIBS), Executive Women's Development Programme (GIBS), International Licentiate Diploma (Institute of Bankers in South Africa), Associate Banking Diploma (Institute of Bankers in South Africa)

Ms Mpshe started her career in banking and worked at two of the three top banks in South Africa. 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 rejoined SAA in September 2010 in her current role. She served as 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 **BARRY PARSONS (56)**

CHIEF STRATEGY OFFICER

BEc (Accounting) (La Trobe University), Graduate Diploma in Arts (Russian Studies) (University of Melbourne), Member of the Project Management Institute (USA)

Mr Parsons took up his current role in July 2011, although his relationship with SAA goes back to 2005, with his involvement in the design and establishment of Mango, where he was appointed Head of Commercial at the airline's launch in 2006, and served in that position until 2008.

From 2008 to 2010 he worked on assignments for the Centre for Asia Pacific Aviation, involving aviation policy development and state-owned airlines in developed and emerging markets.

In 2013 he and the then SAA Acting CEO led the Executive Task Team in the development of the Group's Long-Term Turnaround Strategy and was appointed to the SAA Technical Board in November 2014.

He has previously held executive commercial and major project management positions with Air New Zealand and Ansett Australia and, prior to entering the aviation industry in 1997, he held various internal audit and information technology management roles with the Australia and New Zealand Banking Group.

4 **ZUKISA RAMASIA (52)**

GENERAL MANAGER: OPERATIONS

BA (English and Psychology) (Walter Sisulu University), Honours in Human Resources Development (RAU), IATA Diploma in Airline Operations, Leadership Development Programme (GIBS)

Ms Ramasia has had an illustrious career of more than 20 years in airline operations in roles 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.

Since 2014, Ms Ramasia has been responsible for SAA's overall global operations portfolio, which comprises SAA's flight and cabin operations, airport operations, ground handling, lounges, on-board logistics and inventory, aviation safety and security, as well as SAA's Global Operations Control Centre. She currently serves on the Board of Directors of Aviation Coordination Services (ACS).

5 **SYLVAIN BOSC (44)**

CHIEF COMMERCIAL OFFICER

Mr Bosc took up his position on 20 June 2014. A graduate of HEC in Paris, Europe's most prestigious management school, Mr Bosc took up his position on 20 June 2014, as South African Airways' Chief Commercial Officer, and is responsible for the revenue side of the SAA business, covering Worldwide Sales, Marketing, Revenue Management and Pricing, Network Planning, Scheduling, and Fleet Planning. He is also in charge of the Voyager Frequent Flyer Programme, and brings with him a significant amount of airline business experience, particularly in turnaround situations.

Mr Bosc spent 13 years at Air France where he actively participated in the reform of the then state-owned company in the USA, in France, Spain and Japan. His last assignment at that company was to oversee the Air France KLM Group strategic planning function, at a time when the group was the largest airline in the world.

Mr Bosc has been credited with the successful restructuring of Corsair, France's second carrier and a subsidiary of TUI Travel PLC, where as Chief Commercial Officer, he took the company from very deep operating losses to break even in just four years, with successful commercial inroads into West Africa.

6 **URSULA FIKELEPI (41)**

GM LEGAL, RISK AND COMPLIANCE

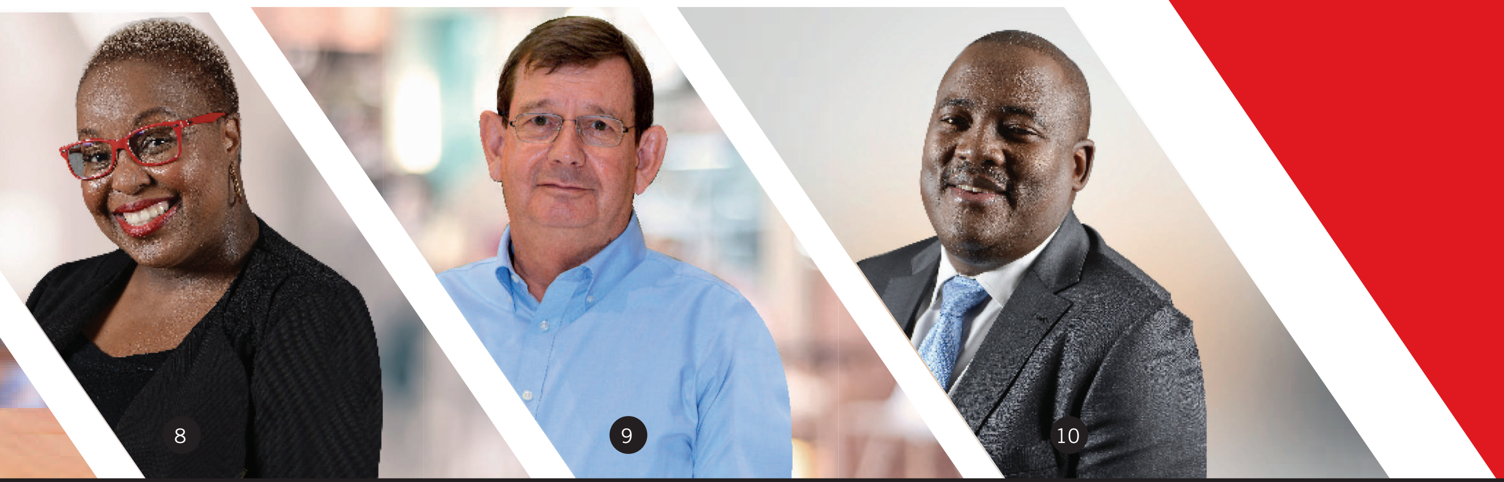
BA (Rhodes University), LLB (University of Cape Town), Fulbright Scholar, LLM in Intellectual Property Law (University of New Hampshire), MBA (GIBS), fellow of the Cyrus Vance Fellowship of the Bar Association of New York

An admitted attorney, Ms Fikelepi completed her articles with Webber Wentzel, remaining at the firm until appointed a Senior Associate. She spent time as a visiting lawyer at Sullivan & Cromwell LLP and Goldman Sachs & Co in New York City where she worked on corporate finance transactions, mergers and acquisitions and intellectual property law contracts.

In 2005 Ms Fikelepi joined the Department of Public Enterprises as Director: Corporate Finance Legal Advisor, in which role, among other responsibilities, she advised on various corporate finance transactions, including the unbundling of non-core SOC assets, and the ultimate establishment of SAA and Infraco as stand-alone SOCs.

After her promotion to Deputy Director-General: Legal, Governance and Risk, she led and participated in the governance and oversight of SOC Boards.

Prior to her present position at SAA, she joined Absa Bank in 2011 as Chief Operations Officer: Group Legal, where she focused on establishing, and implementing governance processes, legal management information, legal financial management, legal risk management, legal strategy and operations for Absa Legal. Ms Fikelepi has held board membership both in the public and private sector.



7 **WOLF MEYER**

CHIEF FINANCIAL OFFICER

[For Mr Meyer's profile please see under Board and leadership, on page 11]

8 **LUSANDA JIYA (49)**

GM SHAREHOLDER & STAKEHOLDER RELATIONS

BA, HDE (Rhodes), BEd, MA (KZN), MBA (GIBS Pretoria)

Ms Jiya leads the Stakeholder Relations, Communication and Transformation functions at SAA. An experienced stakeholder relations and communication professional, she joined the SAA Group in October 2014, bringing her experience from both government and the corporate sector. She is also a Director of SchoolNet South Africa.

9 **NIC VLOK (67)**

ACTING CEO MANGO

BSc Eng (Elec) (UP), MBL (Unisa)

Mr Vlok has been the General Manager Operations for low cost airline Mango since its launch in November 2006. His responsibilities cover Airport and Flight Operations as well as Engineering and Maintenance. The Safety, Security and Quality Management Systems also form part of his responsibilities. He is also the Chairman of Air Chefs, the South African Airways catering subsidiary.

Prior to this assignment he was contracted to a number of South African and African airlines developing and implementing expansion strategies including specific commercial aspects such as the development of network strategies and short-term demand stimulation and capacity management, as well as maintaining an on-going involvement in the identification and development of management capacity within a broad range of major South African companies.

Before pursuing a consulting career he was Director of Airline Operations, Service Delivery Director and Technical and Information Technology Director at Comair Limited. In these roles he implemented a British Airways franchise, managed significant route and capacity expansion and project-managed the introduction of a successful low cost airline with web-based distribution.

Prior to his tenure with Comair he was a Senior General Manager with SAA. During this phase of his career he served in a number of management positions in Technical, Finance and Marketing. He project-managed the SAA part of the transition to Transnet (Pty) Ltd and led a privatisation task team. During the latter part of his career with SAA he implemented a passenger marketing strategy that repositioned the airline in response to the deregulation of the domestic and international aviation markets in South Africa.

He served on the Boards of South African Express Airways, the Aerospace Industries Federation and Air Chefs and was Chairman of the Board of Fabtravel, an early attempt at black economic empowerment in the travel trade.

He served on the South African Government Advisory Board for Domestic and International Aviation Policy and the Policy Review Forum for Aircraft Noise and Emissions.

10 **MUSA ZWANE (51)**

CEO SAA TECHNICAL

MBA (University of Pretoria), MAP (Wits University), MSc (Industrial Chemistry) (Shippensburgh University, USA)

Mr Zwane was appointed CEO of SAA Technical in November 2010. Prior to this, after joining Sasol in 1996, he spent 14 years with that company, most recently holding the position of Managing Director of Sasol Gas and serving on various boards within the Sasol Group. He also held a range of other posts in the Group, among them, 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, Mr Zwane was Chemical Services Manager with Eskom and a Senior Research Scientist with AECI. He is also a director of iGas (CEF Group of companies), ROMPCO and Airlink.

SAA (AIRLINE) MANAGEMENT COMMITTEE (MANCO)

11 **MARTIN KEMP (46)**

ACTING CEO AIR CHEFS

BCom (Unisa)

Mr Kemp started his career at Transnet, working for the Spoornet and Autonet divisions. He subsequently joined SAA where he has filled various roles in the Human Resources and Operations fields over a period of 22 years. As an HR practitioner he has worked in general HR management and employee relations. In operations he has been responsible for cabin crew operations, operations training and in-flight services. While assisting at Air Chefs, the position he currently holds at SAA is HOD In-flight Services.

12 **TLELI MAKHETHA (55)**

GENERAL MANAGER: CARGO

BCom (Unisa), LLB (Wits), Advanced Executive Programme (Unisa), Wolfson Programme (Cambridge)

An admitted attorney, Mr Makhetha was appointed GM of SAA Cargo in December 2010. He was previously with SAA Cargo as Executive Manager: Networks and Alliances and later Executive Vice-President from 2001 to 2004. Prior to that, he has at various times served as Legal Advisor at JCI, Executive Manager: Fuel (Coal) Procurement at Eskom, Executive Director at Safair and Divisional Secretary (Aviation Division) at Imperial Holdings. Before re-joining SAA, he consulted to a number of organisations as a business coach. He currently also serves on IATA's Cargo Committee.

13 ***SANDILE DLAMINI (55)**

COMPANY SECRETARY

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

Mr Dlamini provides company secretarial 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. 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.

**Resigned 28 February 2015*

14 **PHINDA NCALA (53)**

CHIEF INFORMATION OFFICER

BSc (Management Information Systems) (Bridgewater State University, Massachusetts USA)

Mr Ncala was appointed Chief Information Officer of SAA in December 2013. Prior to that, he spent three years as CIO at Neotel (2010), where he was a member of the executive team. Before joining Neotel, he worked at the MTN Group which he joined through one of the operations at its start-up phase, remaining with the company as it grew into a well-established and profitable business.

Beginning with the company in Swaziland, he worked at various operations in Africa as CIO, serving as a member of the executive team and on a number of committees. In 2005, Mr Ncala was seconded to MTN Uganda as CIO for a period of six years. Prior to 1998, he worked for various banks at management level within their information technology divisions.

15 **BULELWA KOYANA (45)**

CHIEF EXECUTIVE OFFICER SA TRAVEL CENTRE

B Social Science (Rhodes University), B Social Science Honours in Psychology (Unisa), Postgraduate Certificate in Airline Management (Henley Management College), Transnet Executive Development Programme (GIBS)

Ms Koyana took up her position as CEO of South African Travel Centre in September 2011, thereby joining the Group Executive Committee 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) with Lufthansa City Centre on behalf of South African Airways.

Prior to joining SATC she was the CEO of Business Process enabling South Africa (BPeSA), an industry association that was responsible for promoting business process outsourcing and offshore activities in South Africa in collaboration with the Department of Trade and Industry (DTI) and the Business Trust.

Prior to that role, and having completed a number of coaching courses with I-Coach Academy; Wits University and The People Business, Ms Koyana practised as an executive coach. She serves on various subsidiary boards of Adcorp, a listed company on the JSE, and was the Chairperson of Paracon. She is an honorary member of the Golden Key International Honour Society through Pretoria University.

THE BUSINESS AND THE BUSINESS MODEL

SAA can be said to operate a vertically integrated corporate structure that has evolved over time from a relatively simple network carrier into a diversified aviation group, with interests at various levels within the aviation value chain and active across an array of market segments.

OVERVIEW

The airline's business faced a number of challenges during the year under review, emanating both from on-going risk factors such as fuel price, and the currency exchange rate, and more current issues such as the Ebola outbreak, xenophobic unrest and the proposed stringent visa requirements. Impairment caused by the long-delayed delivery of aircraft resulting in outmoded design also added to the impact on revenue. Hedging on fuel price on the one hand, and on currency on the other, produced mixed results, with an overall neutral outcome in which the success of the currency hedging and the less positive fuel price hedging balanced each other out.

SUCCESSES

There were significant successes gained through procurement contracts being renegotiated resulting in some R200 million being factored into the 90-Day Action Plan, and the cost-compression programme continuing to deliver results, with R790 million saved in the year under review, yielding a landmark R2,2 billion saving since the programme's inception.

There were also notable successes in negotiating lease extensions on some of the airline's wide-body aircraft, which constituted a significant part of the quoted savings on the 90-Day Action Plan. **[Read more about the 90-Day Action Plan on page 16].**

EXTERNAL PRESSURES

Revenue, cash flow and market share remained key issues, with increased competition both internationally and locally, domestic supply exceeding demand, and an economy generally under pressure contributing to the complex operating environment.

FUEL PRICE

The sharp rise in the fuel price in 2012 demanded a response from the airline, whose revenues were still relatively strong at that point. The net impact of that price increase at the time was around R650 million, a factor without which an operational profit would have been reflected.

The airline then embarked on its cost-compression programme, resulting in sustainable savings over the next three years, and up to the end of the year under review, of R2,2 billion **[Read more on savings under Cost compression, on page 15]**.

EXCHANGE RATE

Concomitant to this was the significant weakening of the rand that also began in 2012, which has lost, up to the end of the year under review, 50 percent of its value. With about 60 percent of its operating expenses dollar- or strong currency-denominated, the exchange rate has had a massive impact on the airline's operating results. With only 40 percent of revenue being strong currency-denominated, there is a net exposure gap of approximately 20 percent.

Aside from having to absorb these costs as well as the fact that SAA's pricing needs to take cognisance of its major global competitors, the 10 percent weakening of the rand in the year under review alone impacted the airline's bottom line by an amount of R845 million.

OTHER ABNORMAL ITEMS

- **Ebola** impacted revenue, with about 40-50 percent of Asian, and about 30 percent of American traffic lost as a result of the scare, and despite the fact that South Africa and the airline remained totally untouched by the disease.
- **Shareholder guarantees** to the extent of R6,5 billion that were granted in December 2014 increased the guarantees on which the airline is dependent to an amount in excess of R14 billion. While these are perpetual going-concern guarantees, and the airline benefits from a lower interest rate as a result of them, the interest, and therefore the cost, still affects the bottom line, with the finance

The Sheikh Zayed Grand Mosque in Abu Dhabi, the capital city of the United Arab Emirates

Currency, fuel and capital remain the main risk areas for the airline.

costs on the income statement increasing by 86 percent, and interest costs alone of just under R500 million.

- **New assets** in the form of the delivery in FY2015 of six A320 aircraft. The airline entered into the Airbus acquisition contract in 2002, with the contract renegotiated in 2009. Over the period between 2002 and 2013 the escalation clauses resulted in the contract price continually moving higher, exceeding the market price of the A320 classic engine option which came under pressure from the launch of the A320 neo, the new engine option. Even as the airline took delivery of them, the new aircraft had to be impaired.

  Sale and leaseback transactions were entered into with the impaired aircraft sold off and then leased back. The impairment of the six A320 aircraft delivered during the year under review thus resulted in an impact of R681 million.
- **The phasing out** of the airline's A340 aircraft is being examined, in addition to the replacement of the wide-body fleet over the next few years. This has meant that the useful life of these aircraft has been shortened, which means in turn significant impairments and write-offs on the wide-body aircraft to the extent of around R827 million.
- **Impairment of stock** relating to the old aircraft was also required, to the extent of around R277 million.

FUEL PRICE HEDGING

The value of the success of this policy remains open to question. Hedging is effective in smoothing prices in volatile markets. With the oil price beginning to decline in October 2014, the airline could not obtain the full benefit because it hedges about 40 percent of its fuel exposure. Hedge positions that still needed to run out remained in place, and were revalued, with the result that the negative value of the hedging also had to be factored into the annual financial statements.

CURRENCY HEDGING

Although on-going hedging on a continually weakening underlying cannot generally produce satisfactory results, the airline was able to roll its positions and make money on the rollovers, which yielded positive results in this area.

The overall outcome was that the negative fuel hedging results and the positive ones arising from the currency hedging, offset each other, so that there were very few net hedging losses.

MARKET PRESSURES

The year under review also saw increased competition on the domestic market with supply exceeding demand, and an economy still under pressure. Internationally competitor airlines have increased their capacity and market share. SAA's old generation four-engined aircraft by their very nature increase maintenance and fuel costs, with previously negotiated lease agreements also much higher than they should be for these aircraft.

LEASE EXTENSIONS

The airline was able to extend leases on three A340-600s, thereby reducing the lease rates on the aircraft by more than 50 percent, although the benefit will only be felt in FY2016.

Since 2012, the airline has gone out on tenders to replace its wide-bodied aircraft, with the process in each case halted by the Shareholder. As a result the lease terms on the current aircraft are approaching their expiry dates, which means that there is not sufficient lead time to go out on new tenders, and place orders before the leases expire. The operations were:

- Allow the leases to expire and hand back the aircraft, with an inability to service the network;
- Renegotiate leases, allowing the airline to achieve significant lower lease rates and more favourable maintenance reserves and return conditions. A large part of the quoted savings on the 90-Day Action Plan stems from the fact that leases will be renegotiated. **[Read more about the 90-Day Action Plan on page 16.]**

PROCUREMENT

The Procurement department has a mandate to achieve a 10 to 15 percent saving on renewal of contracts. **[Read more on Procurement on page 39]**. This has allowed around R200 million to be factored into the 90-Day Action Plan. **[Read more about the 90-Day Action Plan on page 16.]**

COST COMPRESSION

The airline has passed the R2 billion mark, with R790 million saved in the year under review. **[Read more about cost-compression on page 16.]**

CHALLENGES

- **Revenue** remains the major challenge for the airline. With the cost base being increasingly reduced SAA's cost per available seat kilometre (CASK) is moving closer to industry norms. With lower oil prices, competing global airlines which do not have to contend with the unique problems facing SAA have been able to reduce their air fares – something that SAA cannot do to the same extent because of inherent local currency weakness.
- **Market share** and revenue base therefore need to be increased through innovative forms of ancillary revenue, and methods of reducing frequencies to various destinations, or terminating unprofitable destinations, so that break-even can be achieved on an operating level before aircraft ownership costs, on which operating costs exclude the lease costs.
- **Cash flow** remains a material issue. The airline's going-concern calculation normally examines the cash flow and solvency requirements for 18 months after year end. However, for the year under review, the guarantee only became available in September 2016, a delay related to Board changes, and covers the period for 12 months from date of signature.

LEGAL, RISK AND COMPLIANCE

The Legal, Risk and Compliance department follows a risk management approach for the overall strategic and operational risk of the business, with monthly reports submitted to the airline Exco. On matters that have a group impact such as policies, reporting is done to Group Exco, with quarterly reports and monitoring directed to the Group Audit and Risk Committee, and the boards of SAAT and Air Chefs. Within the department there are teams working on risk, compliance and legal matters in support of the entire group.

The annual risk plan is included in the Corporate Plan and is used for monitoring.

Compliance focuses on regulatory risks, which are primarily the failure to comply with any applicable laws, on the external side, both domestically and internationally, and internally on policies derived from those laws.

Legal manages legal risk either through contractual terms and conditions, and preparing them so that they adequately protect the airline, and performing an advisory role relating to any legal issue arising from case law and legislation.

RISK AND COMPLIANCE

RISK GOVERNANCE

The Board has assigned the oversight of the Group's risk management function to the Audit and Risk Committee. The committee fulfils an oversight function regarding risks in all areas of the Group including operations, finance, fraud, information technology and ethics. **[Read more about management and regulatory compliance under Governance on page 14.]**

An assessment of the effectiveness of the Group's internal controls system was conducted by Internal Audit during the 2014/15 financial year. Based on this assessment and the on-going oversight of the committee nothing came to the attention of the committee and the Board that would suggest that the prevailing system of risk management is not in all material respects effective.

OVERVIEW

A key highlight of the year under review was an enterprise risk management policy and framework which cuts across the entire group, including three of the subsidiaries, with the exception of Mango. In an important step in the efforts to embed a risk and compliance culture within the airline, this policy and framework was approved by the Board and published. A level of awareness has been successfully achieved, particularly with regard to compliance with the PFMA, the Consumer Protection Act and other legislation, as well as the level of disclosure in the business.

METHODOLOGY

After a gap analysis was conducted to enable the identification of areas that required improved implementation of the Act, and policies that required amendment reviewing and publishing, a consumer forum was established, and was directed at the implementation of the Consumer Protection Act throughout SAA.

This exercise involved bringing in those customer-facing elements of the airline that are affected by the Act such as Operations, Commercial and Voyager. As part of the process, areas requiring improvement within these businesses were identified.

All of these activities involved a large degree of training, engagement with the relevant departments, and visiting outstations on the continent. The objective is to reach a point where online training can be undertaken, particularly as it pertains to induction procedures.

The group regulatory universe was also reviewed and updated, an exercise that had not been done for a number of years. This included looking at the laws that apply to the various parts of the business. This is also achieved through engagement with relevant managers to elicit an understanding of the business and the areas that are affected by regulation.

This allows a list of the applicable laws to be drawn up, and an impact and likelihood assessment to be completed. Advice can then be given as to which legislation is critical to functioning, and thus requires comprehensive policies to be compiled in order to ensure compliance in those areas. Monitoring can then be instituted on the basis of the policies. This approach allows issues such as fines to be adequately addressed, with all the concerted effort in addition facilitating the embedding of good governance.

Root causes of non-compliance, particularly with regard to the PFMA, can also be addressed and identified through this methodology. Incidences of non-compliance were also picked up outside of Africa, where in certain countries things were being done differently, either because of local laws or the interpretation of those laws. Where this occurred, processes at the Head Office were adjusted to contain the anomalies.

Comparison through access to IATA data allows a degree of benchmarking to be undertaken, particularly with regard to consumer protection issues, which have become an important area of focus globally. With South African legislators tending to follow Europe and the UK, there is a primary interest in regulatory and compliance developments there. By virtue of maintaining global operations, the airline is impacted by what happens abroad, something that demands compliance at home with the highest standards.

STRATEGIC RISK

The strategic risks facing the company relate to the company's business model and structure, the aviation policy framework in which it operates, funding, and the continued pressure from increasing competition, particularly from major Middle Eastern and African airlines.

The major strategic risks are:

- A highly vertically integrated Business Model;
- The absence of a whole-of-state-aviation policy framework;
- A weak capital base, with equity destroyed and the business funded on debt.

A Boeing 737-800 flying over Madagascar en route to Mauritius

RISK AND COMPLIANCE ACHIEVEMENTS IN FY2015

- The Risk and Compliance team reviewed and revised the Compliance Policy, Compliance Manual and Compliance Framework;
- The Group Policy was adapted for and adopted by the subsidiary Boards;
- The team updated the regulatory universe for the SAA Group, including subsidiaries, locally and internationally;
- Compliance risk assessments on Consumer Protection Act exposure for highly impacted business units were conducted;
- The team updated Group Risk Policy and Framework which were approved by the Board and implemented by management;
- The Business Continuity Management Policy and Framework were approved by the Board;
- The Risk and Compliance team successfully closed all internal and external audit findings save for two findings relating to implementing automated risk management tools and systems and procuring additional resources.

OPERATIONAL RISK

SAA has adopted a risk-based compliance programme. The Compliance Risk Framework has been defined to specifically address the material regulatory risks which embody the risk of not complying with applicable regulatory requirements.

Operational risk also includes the inherent risks of operating airlines, such as the industry's exposure to external shocks like civil unrest, war and natural disasters.

Operational risk registers relating to SAA businesses and subsidiaries have been developed and monitored in accordance with policy through a quarterly reporting cycle. Major project risk registers are also drawn up as and when major projects are undertaken. These are normally managed and monitored by the project team.

FINANCIAL RISK

Financial risks are those risks that can cause financial downside, such as major spikes in Brent oil price, adverse exchange rate movements and contingent liabilities, arising, for example, from litigation. The Strategic Risk Register therefore includes, as a pre-risk treatment, the catastrophic risk of an insolvency event.

SAA cockpit crew – highly regarded across the globe

LEGAL

Achievements by the legal department

The renegotiating of contracts, an imperative of the 90-Day Action Plan, while led by Procurement, received support from Legal. Also Commercial and Strategic restructuring was assisted by Legal in which the focus was on optimising the airline's group structure to gain more efficiencies.

During the year under review, there were a number of matters in which SAA Legal led and supported the business. The team were successful in:

- Obtaining anti-trust immunity from the Competition Commission for the Etihad partnership;
- Initiating a claim with the British Domain Registry to have the flysaa.co.uk domain transferred to SAA from a private individual who had registered it in his own name;
- Engaging with the Competition Commission and successfully changing SAA's incentive agreement scheme with travel agents in SAA's regional and international operations to a growth-based model;
- Filing an application to extend the exemption granted to SAA to continue participating in the Star Alliance;
- Providing key support to the airline with regard to a price anomaly experienced on the Johannesburg to Abu Dhabi route in respect of which clients threatened to sue the airline;
- Increasing the airline's use of B-BBEE legal firms.

In the sphere of legal action, SAA Legal was able to settle two important matters:

- A US anti-trust class action for US$1,2 million in which the legal spend could have amounted to approximately US$2 to 2,3 million;
- The team also reached an amicable settlement with ACSA on a matter where there had been on-going arbitration, thus bringing to an end a protracted case without further risk or expenses.

All litigious matters, and particularly high-value litigation matters, are being evaluated to ensure that there is no unnecessary legal expense incurred through defending claims that are to the financial detriment of the airline. The Legal department has also taken over labour litigation matters from the Employee Relations division.

The department has also established legal advisors as business partners contributing to the integration of the organisation and the development of business enablement through more effective stakeholder relationship management. **[Read more about Stakeholder Relationship Management on page 32.]**

There has been a move towards including some legal advisors within the airline's management and decision-making structures. With this support, the department is making a productive contribution towards integrated thinking, adding value to the business through a proactive rather than a reactive approach to the areas of legal, risk and compliance.

Providing excellent customer service is a strategic objective

SHAREHOLDER AND STAKEHOLDER RELATIONS

Shareholder and Stakeholder Relations has the overall responsibility for stakeholder relations, communication, CSI, Transformation and Environmental Sustainability programmes at SAA. It is headed by a general manager who reports to the CEO and is a member of the SAA Airline Management Committee and Manco as well as the Group Executive Committee.

STAKEHOLDER RELATIONS

The Stakeholder relations unit embraces all the airline's relationships, with the major role of providing strategic counsel to the business and facilitating implementation of stakeholder engagements. This role forms part of the value chain for managing business risk in the organisation.

Reputation risk remains an area that should enjoy attention as failure to deliver on stakeholders' expectations on the key attributes poses a serious threat to the company's reputation and whether or not stakeholders are willing to behave supportively towards the company. It is recommended that the company identify and include reputation risks into its corporate risk register to ensure that the risks are managed proactively.

The Stakeholder Relations unit, anticipated by the LTTS, has now been established within Group Corporate Affairs. With reference to both the LTTS and the 90-Day Action Plan, the unit is geared to help the airline systematically identify reputation risk, working from the understanding that reputation is about perceptions which ultimately drive behaviour which in turn impacts on the business. Policy, procedures and implementation frameworks are consequently being developed in order to accomplish this objective. A new GM Shareholder and Stakeholder Relations was appointed in October 2014 with this express purpose in mind, with the unit still in the early stages of realising its mandate.

The unit has therefore been tasked to put in place systems that can provide assurance to both Exco and the Board that relationships and their resulting impact are being well managed in terms of King III corporate governance principles which stipulate that accountability for reputation and relationships resides with the Board.

In all its efforts and initiatives the unit sees itself functioning as a strategic support in terms of imperatives outlined in the LTTS, and both the developmental and commercial mandate, as well as the whole-of-state-aviation policy. **[Read more about LTTS imperatives on page 16.]**

One of the challenges facing Shareholder Relations is that while National Treasury is the airline's Shareholder, government as a whole, with all the overlapping interests of many of its diverse ministries and departments, remains a central stakeholder. It is meeting and managing these multiple interests that thus comprise a primary focus of SAA's Stakeholder Relations.

COMMUNICATIONS

The biggest achievement of internal and external communication during the year under review has been in dealing with the widespread and probing media and public interest in the leadership changes at the airline, as well as the dissemination of information concerning the devising, implementation and achievements of the 90-Day Action Plan.

With internal communications, the focus was on keeping the airline's employees informed and engaged, external communication continued to manage the airline's reputation. The launch of the 90-Day Action Plan provided key content, with the airline also redirecting media focus to its core business with an emphasis of products and services, such as route changes and the addition of flights to Africa. **[Read more about route changes under Commercial, on page 48.]**

SHARE OF VOICE

A programme to actively manage communication was put in place to direct a good-news media campaign in order to facilitate a share of voice for SAA that allows people to hear directly from the airline about important matters. This campaign has enabled a more balanced picture to be presented in the media, a picture that reinforces positives such as the fact that among other things, SAA is still Africa's most awarded airline. The year under review also saw a growth in social media use and coverage.

By March 2015, SAA's share of voice at 32 percent was close to reaching the 35 percent threshold recommended by Media Tenor, the airline's media monitoring company.

Share of voice: Q4

SAA	32%
Journalists	53%
Government	4%
Other	11%

TRANSFORMATION

The areas of transformation and B-BBEE reporting as well as Corporate Social Investment (CSI) all fall within the ambit of Shareholder and Stakeholder Relations. **[Read more about CSI projects on page 34.]**

Responsibility for the procurement component of transformation lies with the Chief Procurement Officer **[read more about procurement on page 39]**, while the employment equity component resides with Human Resources (HR). **[Read more about HR under Human Resources, on page 36.]**

The financial year under review ushered in an unprecedented period of increased focus on transformation at SAA marked particularly by the installation of a dedicated Group Transformation team, a key step towards the institutionalisation, co-ordination and harmonisation of SAA's group-wide transformation endeavours with that of its key partners for more sustainable socio-economic impact. This development, not only symbolic in meaning but reflective also of SAA's strategic intent in view particularly of the airline's developmental mandate, coincided with the DTI led transitioning from the old B-BBEE Codes of Good Practice (COGP) to the amended Codes.

Chief amongst the notable milestones in the period under review is the attainment of the goal of 92 percent procurement from BEE compliant suppliers, which compares well with the shareholder's minimum threshold of 83 percent After starting off as a Level Five contributor in its first annual BEE audit, SAA achieved a Level Four BEE rating in the verification of the year under review, thus maintaining its BEE Level from the previous verification period, notwithstanding the airline's stringent but necessary cost containment focus. SAA has also played a very active role together with the aviation industry and the Department of Transport in the development of a new set of Aviation sub-sector BEE Codes ("Industry Charter") which are envisaged for gazetting during calendar year 2015.

Having regard to the amended BEE Codes and inspired by its MoU with DTI, going forward, the airline has set out to make a much greater aggregate positive impact on its socio-economic environment by driving harder its share of procurement spend mainly on Exempted Micro Enterprises (EMEs) and Qualified Small Enterprises (QSEs) owned by "Designated Groups" (comprising black women, black youth, black rural people, people with disabilities) and "Empowering Suppliers" and in the process contributing towards the development of a major black industrialist, particularly in the industries that supply the commodities that comprise a large portion of SAA's total procurement spend. Pursuit of these goals will also be supported by installation of a reliable group-wide BEE reporting capability and increased focus on skills development which over time would enhance the measurability and sustainability of the airline's transformation efforts.

EVENTS

The management and execution of events – predominantly for Commercial when new routes are launched or milestones are reached – is handled by a team of three people within Shareholder and Stakeholder Relations. **[Read more about Commercial on page 48.]**

[Read more about awards on page 5.]

CORPORATE SOCIAL INVESTMENT (CSI)

Socio-economic performance

SAA's CSI activities remain focused on contributing towards the developmental agenda in providing career and aviation awareness among young learners.
An important pillar of CSI at SAA is the strengthening of quality education in the fields of maths, science and technology to support transformation and assist the airline in feeding into its talent pipeline.

Aviation awareness

The year under review commenced on a positive note, with SAA CSI, supported by SAAT, SAA Training and Development, SAA Cargo and Mango participating in several career days and air shows around the country, and reaching over 60 000 scholars.

September 2014 saw the launch of our flagship project SiVulindlela. Targeted at grade 8 to 11 learners, the programme aims to expose them to the aviation industry and the career opportunities that exist. For many in this sector the experience is far removed from their day-to-day reality as a result of their socio-economic circumstances. The attractive features of the aviation awareness truck were also demonstrated to the National Council of Provinces (NCOPs) Parliamentary Select Committee on Communications and Public Enterprises during their site visit to SAA on 24 October 2014.

Nal'ibali – the power of storytelling and reading

During the year under review, the team participated at a number of Aviation Awareness platforms and events:

2014

APRIL

- Zebula Career and Airshow (Limpopo)
- Rand Easter Show Career Exhibition (Gauteng)

MAY

- Africa Day Kara Heritage Institute in Pretoria (Gauteng)
- Take a Girl Child to Work (Head Office Airways Park)
- Sandton Career Indaba (Gauteng)

JUNE

- Ekurhuleni Metropolitan Municipality job summit and career expo (Gauteng)

JULY

- A career exhibition held at Thanga Village, near Butterworth (Eastern Cape)

SEPTEMBER

- Africa Aerospace Defence Show (AAD), where SAA partnered with other state-owned entities at the AAD Youth Development Programme Expo (Gauteng)
- The Career Expo (Gugulethu, Cape Town)

OCTOBER

- Career Day in Klerksdorp (Gauteng)
- National Tourism Career Day (Eastern Cape)
- The Joint Aviation Awareness Project (JAAP) Career Expo (Umtata)

DECEMBER

- International Civil Aviation Day (ICAD) (Kimberley, Northern Cape)

2015

MARCH

- The first Denel Career Day (Centurion, Gauteng). This inaugural Career Day was attended by 1 000 Grade 8 to Grade 12 learners.

Introducing young people to aviation

The US Trade and Development Agency (USTDA)/SAA Aviation Awareness and Skills Development Study Tour

This tour, in which USTDA funded 12 South African educators and airline officials to the US, was conducted from 15 to 21 September 2014, in Seattle, Washington, and Cincinnati, Ohio. The week-long programme aimed at fostering ideas and relationships for the development of aviation awareness and training. Fully supported by The National Department of Basic Education (DBE) in SA, the programme focused on human capacity development, technology innovations and capabilities within the US, and how the two come together.

The programme included tours of two different Boeing factories in the Seattle area, meetings with educators from Raisbeck High School, which has a co-operative relationship with Boeing, presentations covering GE's education programmes at Aiken High School in Cincinnati, tours of the GE Aviation Learning Centre and GE's Additive Manufacturing Lab, and meetings with professors from the University of Cincinnati, the University of North Dakota and Utah Valley University.

In addition to the goal of furthering aviation awareness and training, other stated goals for the study tour were:

- Providing hands-on, show and tell exposure at aviation factories, and interaction with factory human resources departments to help delegates understand education and talent requirements;
- Providing an understanding of and insight into partnering on curriculum development for different educational levels;
- Showing e-learning platforms in action;
- Aiding in developing an institutional plan comprising a holistic, multi-institutional strategy for the promotion of aviation awareness and training;
- Featuring emerging technological trends in aviation;
- Establishing plans of action for the next phase of the study tour and additional programming (whether USTDA-supported or not).

The visit was successful in building confidence in the partnership between educational institutions and industry, in identifying new avenues, opportunities and partners for collaboration, and in providing insight into the composition of future delegations on the subject.

CSI SPONSORSHIPS OF AIRLINE TICKETS AND CARGO SPACE

FREEDOM FLYERS PROJECT (FFP)

In line with its CSI objectives, SAA sponsored nine international (to Sao Paulo) and five domestic flight tickets for the FFP. This project was in support of SAA's 80 years of existence and 20 years of democracy celebration. Nine youth, one from each province, who had never flown before won a competition to fly to the Soccer World Cup in Brazil to watch the match between Iran and Nigeria on 16 June 2014, which coincided with Youth Day.

THE DIVERSE PEOPLE UNITE (DPU) PROJECT

An online campaign aligned with the 80/20 years celebration and freedom campaign solicited more than 200 short video clips of people all around the world telling SAA what freedom means for them. The winning video was made by four female Masters students studying at a university close to Washington DC, and who happened to be from four different countries: Colombia, South Korea, India and Canada. The four girls were flown to South Africa with their tickets sponsored for the campaign by SAA Marketing and their accommodation and tours sponsored by SAA CSI.

The campaign concluded well within budget, with only 50 percent of the forecast cost spent. The winning team members visited Robben Island, Table Mountain, Khayelitsha Informal Settlement and schools in the Western Cape Area, while tweeting and Facebooking their experience, and having their tweets re-tweeted by SAA New Media. Additional value was created through channelling web traffic to the SAA ticket sales website. More than 80 000 individual visitors were recorded.

Both the FFP and DPU projects created countless internet interest and really showed SAA's commitment to "Taking Africa to the World and Bringing the World to Africa".

SOMAFCO TRUST AND EDU TOUR

Five return economy tickets from Johannesburg to Dar es Salaam were provided to the SOMAFCO Trust for winners in a competition to participate in the OR Tambo Edu Tour in Tanzania. This trust's request was granted in line with SAA's youth development mandate.

TETA'S "AFTER-EXAM" TOUR

In October sixteen flight tickets were sponsored for TETA's "after-exam tour" for learners from various provinces travelling to Johannesburg.

FOOD 4 AFRICA UK

SAA Cargo transported a consignment of learning material weighing one and half tons from London to Johannesburg free of charge. The shipment consisted of donated learning material and books to help orphans in South Africa, through a joint initiative between Food 4 Africa UK and three primary schools based in Glasgow, Scotland.

PHILANTHROPY AND VOLUNTEERISM: MANDELA MONTH PROJECT

KHAYA FM RELAY

As part of Mandela Month Activations, SAA staff participated in the 67 km relay. SAA participants came first in the transport category. The SAA Events team hosted participants in a hospitality marquee and lunch was provided.

OLD UNIFORM PROJECT (CAPE TOWN, WESTERN CAPE)

SAA staff assisted with the cutting up of old uniforms. These uniforms were sent to the Etafeni Project in Cape Town to support enterprise development in producing bags from these fabrics. SAA CSI also provided 200 blankets to this community project.

NELSON MANDELA DAY

Collection of non-perishable food, clothes and toys were donated by SAA employees and all items were distributed by staff to the Soweto Crèche and the Tembisa Old Age Home.

NAL'IBALI

SAA collaborated with Nal'ibali to bring home the power of storytelling and reading, partnering with that organisation in a national reading-for-enjoyment campaign to help children soar to greater heights through storytelling and reading.

During December 2014 and January 2015, passengers travelling with children, and unaccompanied minors, were offered a specially-developed magazine containing two children's stories written by local authors, fun literacy activities, and a holiday 'reading passport' with challenges to keep them mentally stimulated and entertained throughout the summer school break. There were also ideas for parents to help them ensure their children persist with reading and writing over the holiday period.

Captain Eric Manentsa, SAA's Chief Pilot, shared his own success story with the children, explaining how reading and writing helped him along his journey to where he is today. **[Read more about Captain Manentsa on page 38.]** Renowned poet and literacy activist, Lebogang Mashile, further inspired the children on their holiday reading adventure by giving a reading of King of the Birds, a folktale featured in the magazine.

SAA's Corporate Social Investment (CSI) initiatives are anchored on education and development by focusing on children and younger learners through initiatives of this nature, and encouraging them to read more and write as often – something that plays a critical role in equipping them with the fundamentals of learning and development.

For SAA CSI, young people are the foundation of a talent pipeline the company is building for the future, to benefit not only SAA, but the entire country. The airline sees its partnership with Nal'ibali as on-going, and supports their call to all South African adults to read to, and with, their children for emotional and educational success.

Showing youngsters the inside of an aircraft

HUMAN RESOURCES

The focus of the year under review in Human Resources was on performance management, and changing the culture to accountability and consequence management, and the Key Performance Indicators (KPIs) point to a substantial improvement year-on-year.

PERFORMANCE MANAGEMENT

Where in the prior year, when the submission rate for performance management was around 50 percent, in the year under review it has been around 95 percent. The culture has been internalised by managers, who understand that this approach is now fundamental and on-going. There is also a focus on ensuring that there is complete alignment to KPIs and the LTTS.

Valuing our people, one of SAA's six values

SUCCESSION PLANNING

A great deal of work was dedicated to putting credible processes in place with external service providers who could deliver independent assessments and evaluations. The succession policy was approved and has been implemented.

Process, policy and structures were set up with successful training of General Managers (GMs). A successful process of nomination was established, with the introduction of what is known as the Succession Plan Programme 2 (SPP2), a credible and rigorous 36-month process devised within the department for the preparation of candidates to become level 2 managers.

LEARNING AND DEVELOPMENT

The New Growth Path (NGP) target, set at three percent of the labour bill for training spend by the Department of Public Enterprises (DPE), was exceeded, at 3,4 percent. This target was achieved within the context of cost-compression, which demanded that HR was managing its training prudently.

QUALITY OF TRAINING

The training academy launched in the prior financial year saw its second graduation during the year under review. The graduation was far larger, year-on-year, conferring more than 200 qualifications, including those that were awarded for external academic programmes. The recipients of the qualifications awarded in the graduation came from diverse levels across the organisation, the majority of them from previously disadvantaged backgrounds engaged in pursuing self-development, with most also having received bursaries from the airline.

The bursary policy ensures that people are trained on specific work functions at the level of undergraduate qualification. Those who are not yet qualified enrol for the undergraduate training, while those who have already reached this level, undergo the functional training.

Because the airline does not sponsor Masters programmes, some of those who graduated at this level in 2014 paid for their programmes themselves, displaying a sense of motivation underscored by the encouragement and facilitation of the airline in their desire to improve on their prior achievements.

ABET

The department, in facilitating ABET training in basic literacy and numeracy, has seen a nearly 50 percent increase year-on-year in qualifications in this category, with the majority of the graduates coming from Air Chefs, and many of the remainder being drivers, cleaners and people employed at lower levels at Airways Park. All participation is voluntary, with participants gratified that they have increased their capacity, not only at work, but at home with regard to a new-found ability to supervise their children's education, and in the wider world. These successful achievements demonstrate the airline's willing compliance with its developmental mandate.

Many of those who have completed the first level of ABET, progress to ABET Level 2 which can provide NQF 4, and which is the equivalent of matric, thereby greatly improving their employability and functional capacity, enabling them to apply for posts that require this as a minimum educational qualification.

CADET PILOT TRAINING PROGRAMME

Bursaries were awarded to four SAA employees who had aspirations to become pilots. The training was successfully included for these individuals, who were then in possession of a frozen ATPL, with 250 hours. A memorandum of understanding (MoU) has been concluded with SA Express, whereby these candidates can increase their hours with that airline to reach the 1 500 hours required to return to SAA.

A number of other successful cadet pilots have found jobs in the market with feeder airlines, where they are also increasing their hours. The hope is that these pilots will also return to SAA, because it is an aspiration of any South African pilot to work for the national carrier.

The airline is therefore contributing to building scarce aviation skills, in particular those of pilots, and in doing so, is also contributing to the NGP framework and youth skills development.

	African		Coloured		Indian		White		
	Male	Female	Male	Female	Male	Female	Male	Female	Total
Selected for training 2012/13 and 2013/14	20	12	12	2	14	2	0	15	77
Training completed to date	5	3	7	1	7	1	0	9	33
Training still in progress	8	6	4	1	6	0	0	6	31
Cadets unsuccessful with training to date	7	3	1	0	1	1	0	0	13

IATA COURSES

The airline has also received accreditation to conduct certain IATA courses. This means that SAA can offer courses to some of the airlines in SADC. This has now become a target for SAA who can offer candidates from those airlines the chance to undergo their IATA training at SAA, rather than having to go overseas, with all the concomitant costs, to do so. This will also constitute a contribution to revenue to SAA in terms of the LTTS. While HR is not a profit centre, its revenue has grown by more than 50 percent year-on-year.

MEDICAL EXAMINATIONS

The airline's Medical Centre is staffed by two permanent doctors and six others on rotation, as well as by professional nurses. In the highly regulated aviation environment, SAA pilots and crew can therefore undergo their medical examination in-house.

However, during the year under review, the Medical Centre, which reports to HR, at the request of third parties has been approached to extend its scope.

As a result, the centre has also begun conducting required pilot, cabin crew and other medicals for other, mostly African, airlines, a capacity which also generates additional revenue. Services such as these are advertised at industry and IATA meetings and conferences.

CABIN CREW TRAINING

Cabin crew for SAA receive their training under the auspices of HR, as do cabin crew at Mango. Other airlines have also requested this service, which in being supplied also contributes to third-party revenue for SAA. These programmes are supplied as needed, and when economies of scale make it practicable and profitable.

APPRENTICESHIPS

With a target of 140 set for the training of technician apprentices at SAA, 160 were trained in the year under review. Work is also undertaken with Further Education and Training (FET) colleges. This programme has shown significant success, with some of the graduates being employed at SAA.

COST COMPRESSION AND THE 90-DAY ACTION PLAN

The problem statement number three defined in the LTTS concerns the headcount at the airline, and sub-optimal productivity. The 90-Day Action Plan looked at rationalisation of the headcount, with HR presenting the business case during the term of the plan during the year under review, and which will see implementation during the course of 2015.

LABOUR

During the year under review, the bargaining forum was reconstituted with new recognised unions being brought in. New labour entrants, not present before the year under review, are thus now functioning within the bargaining forum at the airline, with all participants having signed the new constitution. This means that there is now one regulating agreement for everyone, finally dispensing with the historical legacy of the old dispensation where separate agreements had been concluded for different sectors based on background.

Ensuring customers are comfortable for their flying pleasure

EMPLOYMENT EQUITY

The Employment Equity (EE) policy was approved to ensure compliance to the amendments that came into effect on 1 August 2014. The process also involved the engagement with the Central Employment Equity Committee on the changes necessitated by the amendment Act.

The table illustrates SAA's actual performance against targets per occupational level.

	South Africans								Foreign nationals		Total
	Males				Females						
DOL categories	Africans	Coloureds	Indians	Whites	Africans	Coloureds	Indians	Whites	Male	Female	
Top management	3	–	–	1	3	–	–	–	2	–	9
Actual targets	3	–	–	1	3	–	–	–	–	–	7
Senior management	24	1	3	20	10	5	2	7	1	1	74
Actual targets	27	2	5	16	19	5	2	7	–	–	83
Professionally qualified	129	41	70	664	92	19	26	133	2	1	1 177
Actual targets	281	54	44	659	188	26	26	70	–	–	1 348
Skilled technical	141	49	33	104	172	52	42	116	–	1	710
Actual targets	284	45	23	43	274	50	33	47	–	–	799
Semi skilled	1 059	211	74	205	1 472	310	143	348	11	17	3 850
Actual targets	1 374	230	68	209	1 485	322	145	348	–	–	4 181
Unskilled	8	1	–	–	9	1	–	–	–	–	19
Actual targets	10	1	–	–	9	2	–	–	–	–	22

DEMOGRAPHICS

SAA AND DEPARTMENT OF TRANSPORT (DoT) TARGETS AND ACHIEVEMENTS

The Company aligns itself to both DoT and SAA targets. It should be noted though that the DoT focuses only on African targets.

Top management		
SAA status	SAA target	DoT target
66,6% (Four female, four male)	72%	43%

As per the table below, the DoT's target has been exceeded and SAA's target not met.

Senior management		
SAA status	SAA target	DoT target
43,3% (11 female, 27 male)	72%	43%

As per the table below, the DoT's target has been exceeded and SAA's target not met.

Pilots		
SAA status	SAA target	DoT target
17,1% (10 female, 122 male)	22,8%	5%

As per the table below, the DoT's target has been exceeded and SAA's target met.

Technicians		
SAA status	SAA target	DoT target
45,4% (88 female, 648 male)	43,6%	6%

TRANSFORMATION

A major step forward in transformation was achieved during the year under review when Captain Eric Manentsa was appointed Chief Pilot on 1 June 2014. Captain Manentsa has been flying for SAA for over 20 years. Among his other achievements, Captain Manentsa played a key role in the formation of the original SAA Cadet Pilot Programme, and has served as an executive member of the South African Airline Pilots Association (SAAPA) and the Airline Pilots Association of South Africa.

As Chief Pilot he is responsible for the airline's 770 pilots as well as for ensuring that the company remains compliant with local and international regulations, and supporting SAA in the fulfilment of its mandate.

In addition to this important appointment, SAA has also appointed the first black Chief Standards Pilot, Senior Captain Themba McLean.

The post of Deputy Fleet Manager has also been created, so that when the position becomes available, a black Senior First Officer can be promoted to fill it. This forms part of a succession plan so that black pilots can in turn be promoted to Fleet Captains.

SAA has 770 pilots and complies to local and international regulations

TRANSFORMATION: INITIATIVES ADDRESSING CHALLENGES AT VARIOUS LEVELS IN THE DIVISION

Initiative	Initiative description	Status	Comments
Restructured Pilot Recruitment Selection Board	Reconstitute and bring more diversity on the Selection Board		Newly constituted Selection Board started operating in December 2014
Pilot Instructor Development Programme	Upgrade PDI pilots with current/lapsed Grade 3 to Grade 2 instructor rating		Trained three instructors out of 14 and the programme is being assessed at the CEO office considering the financial situation of SAA
Deputy Fleet Manager Programme	Develop a talent pipeline for transforming the line operations management		Appointing three PDI to be allocated to each of the three fleets as understudies to the Fleet Captains
Internship Programme	Place agreed number of interns in the division		Programme suspended due to headcount freeze
Flight Technical Programme	Develop a talent pipeline for critical positions within Flight Technical		Developed and busy implementing a replacement programme for an understudy for the position of a Specialist Automation
Pilot Recruitment	Appointment of pilots as First Officer		Appointed 12 PDI pilots to replace the 12 that retired

ORGANISATIONAL HEALTH INDEX (OHI)

Throughout 2014 action plans were developed and implemented to improve the OHI from its relatively low 43 percent. With the priority of the 90-Day Action Plan and the headcount rationalisation, no dipstick analysis was conducted in the year under review to establish the effect of these plans, although the expectation is that morale will still be low.

TECHNOLOGY

HR depends on efficient administration, and technology is key in helping to facilitate this. The department has initiated a project called SAP optimisation, which seeks to facilitate an interface with SAP for its equipment, and to place its succession plan, training and performance management on new platforms. The administrative burden, however, is alleviated through recruitment, employee relations and shared services. Although the blueprint was developed during the year under review, the project is still in its elementary stages, with the collaboration with SAA IT and SAP on-going.

EMPLOYEE WELLNESS

SAA recognises that employee engagement and mitigation of chronic lifestyle diseases are key differentiators for modern organisations.

SAA continues to ensure that the wellbeing offering to employees keeps up with the continually changing workplace, and provides all its employees and their dependants a fully-funded personal support programme, through the company's "Heartbeat" Employee Assistance Programme (EAP).

The Heartbeat Programme has seen a steady increase in usage since it was introduced in 2011. The total engagement rate on the programme increased from 2 037 the previous year to 2 627 for the year under review.

The purpose of the programme is to improve the psychological health of the airline's employees. Administered by Healthi Choices (Pty) Ltd which took over the service from ICAS Southern Africa following a competitive tender process, the programme helps staff develop coping skills and accept a greater degree of personal responsibility for their health and wellness.

All employees and their immediate family members have access to the programme which helps in resolving marital, family and job performance problems, through a point of contact via a confidential toll-free number operational 24 hours a day, 365 days a year.

In assisting with the management of personal and professional lives, the programme includes services relating to legal advice, stress, relationships, trauma, family matters, work, substance abuse, health and finances.

HR – LOOKING FORWARD

Performance management, succession planning, productivity and the improvement of the Organisation Health Index (OHI) have all been approved for KPIs by the Remuneration and Human Resources Committee (Remco) for FY15/16. The focus on these four key areas will continue to be conducted in line with the LTTS and the Corporate Plan.

PROCUREMENT

RESTRUCTURING

During the year under review, the department underwent a process of restructuring, to better align itself towards delivery of the LTTS. Gaps were identified in terms of desired actions and desirable achievement and initiatives put in place to address any shortcomings.

DEPARTMENTAL APPROACH

The function was viewed as critical because although the contractual process ideally takes around three or four months, the business is not assisted in terms of the actual performance of the contract from the time it is awarded to the time it is terminated, a period which can be anything from one to five years. Without a robust contract management function in place value is lost because suppliers are encouraged to cut corners and under-deliver. The newly-introduced function now has the responsibility of monitoring supply performance.

Contracts across the business now reside in one place, with a dedicated team under a senior manager managing their performance.

PROCUREMENT AND PERFORMANCE

Performance of contracts is a function of the nature of the relationships the airline maintains with its suppliers. The dedicated unit is therefore also responsible for managing supplier relationships. The process also ensures that suppliers are fully apprised of, and share the same values and vision as the airline, and that conflicts are eliminated, so that the airline is able to deliver efficiently on its objectives. This approach also has the advantage of addressing the airline's developmental mandate, insofar as it pertains to small and medium size enterprises (SMMEs).

ENSURING VALUE

A phenomenon of value-destruction was observed in the fact that documents and processes were continually moving back and forth between departments, as approvals were being sought, with this movement reflecting the issue of document quality. This was a result of there being no dedicated resource looking at the quality of documents and ensuring, as they were being circulated for approvals, that they made full business and risk sense. A senior manager was therefore appointed to check all such documents that go to the Bid Adjudication Committee (BAC) for approvals.

PROCUREMENT GOVERNANCE

CONTRACTING STRATEGY AND PROCESS CHANGES

In the past it was the cross-functional sourcing teams and the bid adjudication committees which oversaw the tender process. This gave rise to a number of challenges to the business:

- **Contracts not being finalised**
  While a tender may have been completed and awarded, a contract may still not be signed off with the supplier, with up to 400 such unsigned contracts reflecting the situation and exposing the airline to unnecessary risk.
- **Prolonged tender processes**
  There have been tenders that have gone far beyond the normal time-span of three to four months, with some continuing to run for up to 10 months and even two years in some instances. The risk of such circumstances is that by the time the tender is awarded, prices and environments may have changed. Without checks and balances in place to regulate relationships, suppliers protect their interests as things change. As a result, the department has approached the Board to ensure and approve changes to the entire procurement governance framework.
- **Month-to-month contract awards**
  Splitting the spend in this way impacted on value and tended to work against the LTTS imperative of the need to leverage on total spend.
- **Associated risks**
  With extended timelines, tender processes are also exposed to other risks. The airline has now moved from the traditional two-tier system to one of three tiers, a structure that is common in public sector organisations globally.
- **Credible tender committees**
  The composition of the current Cross Functional Sourcing Teams had been ad hoc with regard to the credibility of those involved with the tender process. Previously there had been a lack of independence and effective control of the tender process.

THE LAUNCH OF THE THREE-TIER TENDER COMMITTEES

To strengthen the current procurement governance, a three-tier tender committee framework comprised of the Bid Specification Committee (BSC), the Bid Evaluation Committee (BEC) and the Bid Adjudication Committee (BAC) was approved by the SAA Board in line with its 90-Day Action Plan. The change led to robust tender processes, better control of the tender process by management, efficient and quicker contracting practices and leverage on total spend.

TRAINING OF PROCUREMENT STAFF

With procurement having been placed on a new footing, the training of staff for what is a specialist area became necessary, with new skills and approaches having to be taught and instilled. A skills gap analysis was conducted during the period under review, and procurement strategy, strategic sourcing and the understanding of the airline's two mandates are now being communicated to staff in an 18-month training programme, with the 22 managers in the procurement area enrolled.

Reasons giving rise to the changes:	Benefits arising from the changes:
• Tenders taking between six and 18 months from start to completion • High risk of collusion or information leaks during the tender process • Poor contracting with suppliers with contracts taking between 12 and 24 months to be signed off by both parties • Lack of effective management control of the procurement process • High risk of corruption	• Effective management control of the tender process • Establishment of credible tender committees • Effective contracting and contract negotiations • Effective cost- and quality time-management • Robust management of procurement-related risk • Effective segregation of duties and independence

INTERVENTIONS

A number of interventions were considered to ensure smooth implementation of the changes to the procurement governance framework including training of members of the three tender committees.

RENEGOTIATION OF CONTRACTS

In line with the 90-Day Action Plan imperatives to facilitate full implementation of the LTTS, selected contracts were renegotiated, with a significant number of companies showing themselves to be very supportive of the process, the initiative resulted in savings of R206 million.

EMBEDDING CULTURE

The mind-set of cost-compression and the achieving of efficiencies have now become inculcated as part of the procurement culture, and on-going effort will ensure that this approach of managing supplier performance is maximised as the way in which the airline now conducts its business.

PROCUREMENT AND TECHNOLOGY

With the transformation of the department's structure, a function was established within the contracts management unit to deal with SAP optimisation. This involved a dedicated team engaged in uploading of contracts on to Contract Lifecycle Management (CLM).

This has added a further control so that only suppliers who are on the system can be paid, and allowing audit findings that identified payments going astray to be adequately addressed. With staff being redeployed into this project, the process has also proactively created new jobs for the team.

The programme for managers comprises on-the-job training. Chosen specifically to increase the return on investment, the programme allows for periods of formal training in a course environment.

Bursaries have been awarded to staff members at lower levels, who are being trained towards certification with the aim of becoming suitable replacements for more senior staff as they leave through natural attrition.

Training has been made mandatory in order to bring about a unified vision that will enable the department to align itself to the overall business objective, which in turn will enable it to provide dependable business support to the airline.

It is envisaged that the entire project will help bring uniformity in terms of methodology and process, with the goal of the department becoming a centre of excellence and a valued adviser to the business by 2018.

INFORMATION TECHNOLOGY SERVICES

STRUCTURE, SERVICES AND REPORTING

Information Technology (IT) Services is a business unit which supports the Group by taking care of all back-end technology, as well as all the front-end user applications. The unit also supports the desktop computers, and the communications network globally in addition to the infrastructure and the airline's data centres. The team comprises around 115 people, with duties that include supporting a number of discrete departments within the unit:

- Passenger solutions;
- Airport solutions;
- IT governance and security;
- Security operations;
- Enterprise Resource Planning (ERP) financial systems;
- Project Management Office (PMO);
- IT Strategy and Enterprise Architecture.

Services are also provided to the subsidiaries Air Chefs, SAAT as well as to the partner airline SA Express for some of the applications they use such as the SAP ERP solution and passenger solution system which permit mutual access to flights for the facilitation of code share agreements. These entities also fall under the SAA IT global communications umbrella in order to be linked to airports, and while their PC support was also provided by the IT unit, since the start of 2015, that functionality has now been moved internally within those businesses.

The unit's operating model has been in a mode of transition since the appointment in January 2014 of a new GM, with the new model being developed on an imperative defined as *"Plan. Build. Operate."* That appointment also marked the move of the unit from the area of Finance to its new status as a business unit reporting directly to the CEO through Manco to ensure that IT is providing the desired strategic support to the airline.

PARTNERS FOR PERFORMANCE

The unit also outsources partners who provide some services such as desktop and PC support delivered by European company SITA Aero, who in turn maintain a partnership with South African company BCX which also provides some resource support in the airline's Data Centre. HP, under a five-year agreement, is responsible for the infrastructure of the Data Centre.

Well-groomed and confident crew

KPIs

While there are many on-going IT assignments undertaken to enhance the practices and effectiveness of the airline's business, there are a number of core projects with broad impact that have been initiated during the period under review.

- **IT transformation**

  IT transformation has been one of the most important achievements during the year under review because of the savings generated and the enablement created for the organisation.

– **Transformation, Phase 1**

  The need had been identified to transform the function of the unit at the level of technology and enterprise to enable the business in terms of turn-around times and the capacity to respond to requests and demands. To reduce costs and transform IT, a transformation plan was developed and implemented together with SITA and HP. The first phase of the plan was to move all applications into a private cloud. This exercise was successfully concluded in November.

  The plan involved moving from a mainframe to a server environment, but in such a way as to utilise a private cloud. Infrastructure was reduced with one server case with different servers within it operating the private cloud. Operating system licensing and maintenance costs have thus been reduced. Savings of around US$2,8 million were achieved. Including the associated initiatives undertaken to permit the use of the private cloud, the total savings for the year under review amounted to around R48 million.

– **Transformation, Phase 2**

  With a large amount of in-house development having been done over the course of the airline's existence, not everything was moved from the mainframe during phase one of the transformation exercise.

  Those in-house developments are in the process of being examined to determine how they can best be brought into the core systems that have now been developed. This is a project earmarked for completion in FY2016.

- **Revenue accounting application**

  A new revenue accounting application needed to be assimilated to replace the old one that did not possess the functionality and reconciliation capabilities required for the volumes that the airline is now running. Significant resources had to be utilised to manage the reconciliation required by the outmoded manual operation that was in use. This application facilitates more accurate reporting.

  Despite all the groundwork having been initiated during FY2015, the implementation of this major project was, however, delayed from March to May 2015, outside of the year under review.

- **SAP optimisation**

  There was an understanding that SAP was being under-utilised, with significant associated costs and a concomitant proliferation of spreadsheets. The management team initiated an investigation, to fall within the LTTS dashboard, as to why this was occurring.

  The first phase of the SAP Optimisation Project was thus introduced in partnership with KPMG who performed a technical assessment for the airline. This first phase of the project was completed during the year under review, with a report having been produced analysing the current situation, where the organisation should be, and where the challenges lie. Phase 2, indicating the required steps for full optimisation, was begun to provide a functional upgrade.

  In parallel with this a team examined the airline's business processes with the aim of aligning them for optimum effectiveness and the reduction of risk and exposure incurred through the elimination of gaps between framework and practice. This is a key initiative for the airline because it cuts across the entire organisation, with progress being reported to the Audit and Risk Committee quarterly.

- **Voyager application**

  The move to rewarding customers with Voyager miles, based on spend, rather than distance travelled, involved a conceptual shift in approach which required innovative technological input and support. This was duly developed, supplied and implemented during the course of the year under review, resulting in perceptible improvement in revenue and customer value. **[Read more about Voyager on page 51 and under Commercial, on page 48.]**

- **Web booking engine**

  Functional gaps that were apparent in the older version of the booking engine were corrected through its replacement with the new off-the-shelf engine provided by Amadeus who also provide the passenger booking solution. **[Read more about ticket distribution under Commercial, on page 48.]**

- **Website upgrade**

  The execution of an upgrade for the airline website, while begun during the year under review, was not completed in the period, and will be on-going into FY2016.

- **SAA Technical application**

  This is a large project designed to facilitate more efficient controls in maintenance and repair. The application in use for a number of years was in need of replacement and the implementation of this is on-going with 1 April 2016 set as the target date for completion. The application governs every aspect of maintenance for all aircraft entering SAAT, and is core to SAAT business including the management of all the compliance and regulatory requirements. **[Read more about SAAT on page 58.]**

SAA won the Best Airline Staff Service Award for the third time

With significant innovation having been introduced at the back end of the airline's IT systems, there has been a focus on providing services to enhance the customer facing experience at the front end.

At your service, SAA cabin crew stepping out in style

INNOVATION

The introduction of an enterprise architect at the unit has facilitated a focus on integration with the objective of bringing in middleware to fully accomplish this.

- **Electronic flight bags**
  In an innovative development, electronic flight bags have been introduced for the airline's pilots and crew, with the introduction of iPads in place of the bulky and heavy flight bag. **[Read more about crew iPads under Operations, on page 45.]**
- **Mobility**
  Two bespoke mobile phone apps have been developed in partnership with Microsoft to provide customers with access to view their bookings, tickets and flight details wherever they are. The next phase, undergoing testing, is a functionality that will allow bookings to be made using the mobile phone platform.
- **Customer service application**
  A new Customer Relationship Management (CRM) system was developed in place of two disparate platforms that were in use by Customer Service and by cabin crew.

  Salesforce.com was acquired to remedy this, and the application is being used for customer service, and is being introduced as a tool also for the sales team to improve their understanding of individual customer needs and preferences.

  Salesforce is an integrated Customer Relationship Management (CRM) solution that spans Sales, Marketing and Customer Service needs. Salesforce-Service Cloud offers an on-demand customer service product that helps service agents manage and resolve customer feedback efficiently across multiple communication channels such as email, web and phone. **[Read more about Customer Service innovations on page 47.]**

ENVIRONMENTAL GAINS

Energy savings have been accomplished by consolidating and rationalising computer use.

- A system has been introduced whereby if a lack of activity is perceived on any individual laptop after hours, the programme will shut it down remotely.
- The move into the private cloud has drastically reduced power requirements with the introduction of a single server case in place of the mainframe-based system previously in use. Microsoft has approached the airline to make use of the achievements in this area as a published case study.

[Read more about Environmental issues on page 62.]

INTEGRATED COMPLAINTS MANAGEMENT SYSTEM

Well-managed complaints handling and subsequent service recovery has an extensive and positive impact on customer satisfaction and repurchase decisions. Managing complaints well and recovering customers through effective service recovery are the cornerstone of customer service strategy.

In the quest to consistently improve customer service recovery and utilise technology to enhance customer engagement, Salesforce.com, a new integrated complaints management system, was implemented to maximise the efficiencies and effectiveness of service recovery, ensuring a positive influence on customers' experiences and satisfaction.

Salesforce.com was successfully implemented at Customer Service in November 2014 and at Baggage Services in February 2015. This application has also been integrated into SAA's electronic data warehouse (EDW) for flight and customer information, into FlySAA.com to enable customers to log a complaint or compliment via the website, and into SAP for the electronic processing of expense authorisations. Integration into SAP is particularly important to SAA so that potential fraud risk in terms of compensation payments can be mitigated.

OPERATIONS

Operations has overall responsibility for the way in which the airline is run on a day-to-day basis, and determines the procedures, technology, training, services and safety measures and practices that ensure that the airline meets its operational targets and standards.

Operations discharge this responsibility across the following departments:

SAA Flight Operations:

Including SAA pilots, training, standards, maintenance standards and flight planning/ navigation

SAA In-flight Services:

Including SAA cabin crew and in-flight inventory provisioning of all on-board logistics

SAA Airport Operations:

Including airport ticket sales, passenger check-in, boarding, lounges, arrivals and baggage handling

Global Operations Control Centre:

Including operations control, crew movement, flight dispatch, departure control, ground handling, ramp and logistics and ZUR, SAA's aircraft operations radio communication centre

Group Security Services:

Including corporate, aviation security, security risk management and investigations

Group Safety, Quality and Regulatory Standards

The functioning of Operations during the year under review has shown improved synchronisation and smooth operations with synergistic communications and an increased integration in approach and management.

FLIGHT OPERATIONS

Safety at SAA has always been and continues to be non-negotiable, and in the year under review, in which the global industry has been under pressure with the occurrence of major safety incidents, flight operations has been a catalyst in dealing with the following material issues:

EVIDENCE-BASED TRAINING

SAA has always thrived on presenting proof-of-concept initiatives at meetings of international aviation bodies such as the International Civil Aviation Organisation (ICAO) and the International Air Transport Association (IATA). All training has been changed to be geared to incorporate experience with regard to scenarios that are likely to occur. Learning from actual flying is now embraced within the training environment, with the airline having now become a leader in this approach.

OPERATING PROCEDURE

This has now been aligned with Airbus parameters to incorporate a cohesive, consistent and standardised approach.

UPSET PREVENTION AND RECOVERY TRAINING (UPRT)

SAA plays a leading role in UPRT. During July 2013 SAA Senior Pilot management participated in a “Train-the-Trainer” programme at Aviation Performance Solutions (APS) in Mesa, Arizona. APS is the world leader in providing integrated training solutions incorporating theory and practical skills in both simulators and aerobatic-capable aircraft. The course focused on the training of instructors to give proper simulator-based training while being alert to the potentially negative training that can occur. The airline is extremely grateful, and indebted to its insurance underwriters for funding the research and development of UPRT for SAA.

Early in August ICAO circulated for comment the proposed Standard and Recommended Practice document (SARP) which will make UPRT compulsory with the expectation that it will be implemented in 2016. The fact that the training will be mandated indicates that such expertise could well become profit-making through third party income or at least self-financing for SAA.

A project manager with extensive ‘unusual attitude’ experience has been appointed. The airline’s simulators have been evaluated and profiles developed for them that will allow the startle factor to be as realistic as possible. Ten instructors have been selected and trained. The training of the line crew began in 2015. It has been extremely well received and has established the airline among the technological leaders in this discipline.

EXPANSION OF REQUIRED NAVIGATION PERFORMANCE – AUTHORISATION REQUIRED (RNP-AR) PROCEDURES

With the Cape Town project completed and in operation, the only remaining matter to be completed at that airport is the fairly simple process of accelerating the number of procedures flown and obtaining certification for the final step from RNP 0.3 to RNP 0.1. The airline is now turning its attention to Durban and Port Elizabeth.

SAA has entered into an agreement with JetBlue Airlines for the use of their procedures at JFK Airport in New York. This entails obtaining US FAA Approval for RNP-AR in the USA – an administrative although complex process.

Blantyre Airport in Malawi presents a significant safety challenge. This airport represents a definitive project as the airline implements RNP-AR in a foreign African country for the first time. Once achieved, this implementation will open the door for further projects, as other African regulatory authorities and airport operators see that this advanced technology can be implemented in Africa where it will constitute the most appropriate safety enhancement for many years. SAA has identified a potential service provider at a lower cost base that might allow the airline to expand this programme further.

CROSS QUALIFICATION: A330 AND A340

There are routes on which the company operates two different aircraft types. On certain days, A330s and A340s are interchanged on flights to Sao Paulo, Accra and London. If the crew cross-qualification were not undertaken by the airline, crew and pilots operating one type would need to return to Johannesburg as passengers as they would not be qualified to operate the alternate aircraft. Crew cost and headcount on such destinations would double with the added disadvantage that revenue would be lost with pilots occupying passenger seats. In addition, the cross-qualifying of crew also reduces standby requirements as only one pilot need be on standby for both A330 and A340 flights. The company is busy with a risk analysis to evaluate the operation of the A320 and A330 as a common fleet.

AIRPORT STAFF AND CABIN CREW COLLABORATION

Leadership training in the form of procedures, directives and methodologies have been framed as mutually beneficial actions which, if correctly and diligently carried out by any one person, will be seen as raising the standards and capacity of all. This collaborative approach encourages an integrated method of working towards greater productivity across the areas of airport staff and crew, and promotes a unified view of the airline.

GROUP SECURITY SERVICES (GSS)

Group security has created a Security Operations Centre (SOC) facility at Airways Park which is able to conduct and coordinate all surveillance, across the SAA Campus and now with the ability to integrate domestic airports. This 24-hour, 365-days a year capacity enables what is a world-class security function to be proactive in real time rather than reactive as in the past.

GSS also developed and implemented a SeMS (Security Management On-Line System) where pertinent security-related information and requests can now flow globally from any station to the central point, with reports being speedily acted upon. This is a ground breaking methodology for Airline Security as a whole and SAA is in fact leading this initiative.

Security Risk Management now also tracks all international “hot spots” network wide, against the airline routings to ensure that the proper pro-active response reaches stakeholders expeditiously and an effective mitigation to such threat takes place.

Costs are also reduced with the optimisation of contracted resources to mission-critical and regulatory essential positions that have resulted in significant savings to date.

iPADS FOR SENIOR PURSERS AND PURSERS

In an initiative aimed at facilitating and maximising in-flight information and reporting in real-time, iPads have been issued to Senior Pursers and Pursers among cabin crew. Under the previous manual process of reporting, information coming from international flights and stations could take up to two days to be absorbed in the system, whereas with this cutting-edge digital technology, it can now be immediately conveyed as it is entered onto the iPad. The system facilitates, among other things, live passenger information, which enables cabin crew to accommodate to last-minute changes, or important notifications regarding any particular passenger. Customer service is thus also improved in that any complaint or request can be conveyed instantly to station managers, and promptly resolved. SAA was also the first airline to introduce this system, although the launch was not publicised.

LOUNGE IMPROVEMENTS

Operations is in the process of revamping the airline's domestic lounge at ORTIA, which has necessitated that a temporary lounge be put in place. The process will be extended to the SAA domestic lounges at the other South African airports used by the airline.

GROUND SERVICES

We are constantly inculcating a culture of service excellence across all the customer service touch points at all our airports through customer service touch point training and customer satisfaction surveys that we conduct with outside specialist companies. Our aim is to maintain a consistent customer service delivery and experience irrespective of which airport the customer is transacting with us. To also shorten the time it takes to find a solution for a customer we are ensuring that our ground services employees are multiskilled and therefore empowered to unostentatiously deliver a customer service solution that meets our customers' expectations. As a result productivity has increased, through multiskilling, giving opportunity to review the need to replace staff who leave through natural attrition.

CENTRALISED DEPARTURE CONTROL

Departure control was traditionally conducted at every station, but in a new initiative, the processes are being centralised, with five African stations and one international station already converted to the new system, controlled from Johannesburg. This initiative will be rolled out to the international stations and will ultimately result in further productivity improvements and an increase in automation.

ENHANCED IATA OPERATIONAL SAFETY AUDIT

An Enhanced IATA Operational Safety (E-IOSA) audit was completed in 2015. While the E-IOSA audit will become mandatory from 2016, the airline voluntarily undertook to undergo the process in order to familiarise itself with the stringent requirements and make whatever adjustments and refinements might be necessary before the audit becomes mandatory.

Maintaining consistent customer service delivery

KEY PERFORMANCE INDICATORS

- On-time performance: This was met with the target of 86 percent being narrowly achieved with the figure for the year under review standing at 86,15 percent;
- Safety: The introduction of an ICAO-approved Safety Management System (SMS) has enabled all processes and systems to be monitored and managed applying a risk-based approach in a highly complex aviation environment.

COST COMPRESSION

Monetary savings have been accomplished in a number of areas, including international and domestic airport operations, the global operations control centre, flight operations and in-flight services, with the division contributing materially to the on-going cost-compression imperative in general, and the demands of the 90-Day Action Plan in particular. **[Read more on cost-compression on page 15.]**

CUSTOMER SERVICE

As part of the airline's customer service strategy of creating a competitive advantage through service differentiation, a number of service improvement initiatives to improve service delivery and increase customer satisfaction were introduced, including:

PASSENGER SMS NOTIFICATION

A critical factor detracting from customer satisfaction is the interruption of travel plans from within or beyond the control of the airline. SAA is cognisant of the importance of keeping passengers informed in the event of any interruption and as such implemented an SMS notification process that informs customers in advance if there has been a change to their scheduled flight. The notification applies when there are flight delays longer than 30 minutes from the original scheduled time, and is designed to aid passengers arriving at the airport too early or too late. Because the process is dependent on SAA having access to customer contact details the airline embarked on a communication campaign with its trade partners to ensure customer contacts are provided at the time of booking.

INTERRUPTED TRAVEL BROCHURES

When travel interruptions occur, passengers are often unaware of their rights and the airline's obligations in terms of care and compensation. Interrupted Travel brochures were therefore developed to inform customers of their rights as well as the airline's obligations in the event of travel interruptions caused by lengthy tarmac delays, flight delays, cancellations, denied boarding or involuntary downgrading.

PROJECT "SITSHAYEL'INKUNKUMA"

This initiative, previously developed as a campaign to counter pilferage has become a part of normal operations, and has been wound down as a stand-alone project.

SUSTAINABILITY

Sustainability has also been subsumed throughout Operations as an aspect of culture, and where all efforts are undertaken as a matter of course across daily operations activities to improve the sustainability of the airline.

AWARDS

Awards and industry acknowledgements are achieved as a result of the continued and dedicated efforts of Operations front-line staff. **[Read more about awards on page 5.]**

Customer service means lending a helping hand

STRATEGIC ALIGNMENT

Some of the deliverables achieved in support of the customer benefits required by the LTTS are:

- The introduction of the SMS notification for flight delays in excess of 30 minutes from the original departure time;
- The development and implementation of the Flight Interruption brochures for customers, aligned with ensuring that passengers are kept informed;
- The implementation of the integrated complaints management system Salesforce.com, with the service platform introduced for Baggage Services and Customer Service.

The implementation of Salesforce.com is a significant achievement for SAA as the system supports the airline in developing a baseline support for CRM and in gaining valuable insight to customer feedback as a tool to aid improvement in customer retention and sales. **[Read more on Salesforce.com on page 43.]**

The security operations centre

COMMERCIAL

OVERVIEW

SAA Commercial, under the leadership of the Chief Commercial Officer, is responsible for the revenue of the airline, concerned with filling aircraft, and profitability. In fulfilling this role, there are a number of components to its scope of activities:

- **Network Plan**
  This plan takes into account the air travel market in general – global traffic flows, and which parts of these flows the airline is able to capture, within bilateral and geographic constraints limiting options to flights in the airline's vicinity, and where it holds rights of access. Adjusting the network needs to take into account opportunities as well as those areas where the business is not performing adequately.
- **Fleet Plan**
  The Fleet Plan is informed by the Network Plan, and assesses the numbers and type of aircraft required to meet the demand identified by the Network Plan. This analysis also includes the question of how those aircraft should ideally be equipped. Quality is weighed against quantity, with regard to what the passenger market is prepared to accommodate. The number of seats are thus balanced against comfort, a consideration that applies equally to business class and economy class.
- **Sales**
  Once the network and fleet plan analyses have been completed, the next component is sales. A schedule needs to be devised that takes into account sufficient connections to meet the demands of the airline as a hub-and-spoke carrier, serving passengers who need to be conveyed not only directly between points, but to points beyond the Johannesburg hub. Mango, which is a point-to-point carrier, need only ensure that it utilises its assets as efficiently and frequently as possible, with the volume being the main consideration to reduce the cost per seat.

  The situation with SAA is more complicated in that ideally as many seats as possible can be provided within a certain time window, so that multiple flights can arrive and distribute their passengers across the airport, so that a new set of flights can then depart.

  The complexity is increased by having to work across three very different markets:
  - **Domestic market**: This is a mature, commoditised, low-fare and high volume market;
  - **Regional market**: In many respects this market is the opposite of the domestic market with premium fares, small volumes and low frequencies;
  - **Intercontinental market**: This market is serviced by long-haul flights utilising wide-body aircraft, with significant competition in the form of wealthy and powerful mid-hemisphere carriers who are capturing much of the traffic.

SCHEDULING FOR COMPLEXITY

Scheduling for these three markets represents a challenge because the assets need to be configured in opposing ways with regard to volume versus comfort. It is of critical importance that the schedule takes into account this complexity in optimising assets and maximising connections.

ALLIANCES

Other airlines need to be approached to provide interesting inventory at attractive fares, so that particular demand has access to SAA flights. This requires an understanding not only of the SAA market, but that of the partner airlines and their willingness to provide access at any given time. SAA therefore strives to maintain as many partnerships as it can, even if it means, as is often the case, that partner airlines are also competitors.

OPERATING CONTEXT

The appointment of a new Chief Commercial Officer in June 2014 filled a post that had been vacant for one and a half years, with not only the key role, but several at levels below it, filled by acting incumbents. This structural disorganisation was to a degree responsible for some of the operating losses that the airline has been incurring. Efforts have therefore been made to reconstruct the division in the most seamless way possible, and which have required an intense recruiting and staffing initiative, with complement increases required mainly in the intellectual arena consisting of the network planning, revenue management and pricing strategies. Changes in sales staff have revolved mainly around reorganising the existing staff complement and the positions in which they are employed.

In February and March of 2015, a massive revising of the entire Network Plan took place to reassess the airline's fleet needs, with the resulting new network route map beginning to be implemented at the start of FY2016. This initiative will permit the deployment of the airline's assets where they will generate the most profit.

STRATEGY

The strategy devised and employed to maximise profit is fundamentally simple, and consists of:

- Cutting those unprofitable intercontinental routes in which there is no discernible future hope;
- Gradual reduction of capacity on domestic routes where the SAA premium product is essentially no longer appreciated by customers, who while perhaps preferring to fly SAA, are fundamentally interested in price, on-time performance and frequency: while the two latter requirements are indeed met by the airline, the issue of price is not readily solvable;
- The profitable re-injecting into Africa of narrow-body capacity saved on domestic reductions;
- Entry into more alliances in an effort to obtain more traffic.

NEW ASSETS

As part of the new Fleet Plan, and subject to approval by the Shareholder, new aircraft units will be coming in, especially in the wide-body category. These new aircraft will provide the opportunity to reassess the on-board product. While already good, this on-board product was designed in the early 2000s, in the interim standards have improved, particularly in business class, which is today more like the first class of the previous decade. The airline was a leader in introducing the first fully flat bed in business class 15 years ago.

This advantage has been steadily clawed back by competitors, particularly from the Middle East, with the result that it is now a little old-fashioned. Product that will carry the airline forward for the next 15 years is now being defined for business class with the emphasis on increasing privacy in the most cost-effective way.

In economy class it is in the area of in-seat entertainment that improvements will be made, in keeping with this having become the differentiating factor for this class of travel, with final decisions on all these proposed upgrades scheduled for by mid-June of FY2016.

REVENUE MANAGEMENT, SALES AND MARKETING SHORTFALLS

During the year under review, a gap analysis was conducted to establish what was required to change and improve the methodology and effectiveness of these departmental functionalities.

CONCLUSIONS AND OUTLOOK

Because of the lack of leadership, a silo-based mode of action was in operation with these disparate aspects significantly separated. The commercial function has been undergoing reorganisation so that attitudes are more results-orientated, with accountability a fundamental principle. This requires a very different approach to working together, with silos being broken down and departments being redefined and recombined.

Providing excellent customer service

PROJECTS

WEST AFRICAN PRESENCE

There has always been a plan, in line with the LTTS, to establish a West African hub to facilitate access to this region and provide feed on onward routes. Significant progress was made on this during the year under review, with a lot of work having been accomplished in Ghana and Cote d'Ivoire. All the groundwork accomplished at the political and business levels in 2014 will bear fruit in FY2016.

The two hubs will work together synergistically in that Ghana is an Anglophone base while Cote d'Ivoire is Francophone. These two language blocs are very separate in many respects, including in their travel patterns. As a result, strategically taking this into account, Ghana is linked to Freetown and Monrovia and points in Nigeria, while Abidjan will be linked to Ouagadougou, Ndjamena, Cotonou and Niamey, among others, pending agreements with the local carrier.

VOYAGER RE-LAUNCH

The Voyager programme was changed entirely with the offering being taken to the next level and passengers now rewarded on the basis of spend rather than distance travelled, and reshaped as a cutting-edge tool to aid in the retention of the airline's top clientele.

RESTRUCTURING OF LEGACY DEALS

Significant effort has been put into investigating means to solve and resolve errors made in the past by restructuring key deals regarding fleet composition and assets, with approval and implementation anticipated during the course of FY2016.

DIGITAL ADVANCE

During the year under review, a digital division was established, with the creation of a separate department called Digital. The aim of the business is to compete against the existing sales channels. The intention is to emphasise the importance to the airline of the new channel which is also far cheaper to operate than third party channels and more reactive in the corporate accounts and travel agency sectors. An added advantage is that every time a contract or a transaction is concluded, the airline is able to glean a significant amount of knowledge about the customer, something that facilitates the development of a commercial relationship, which can be further built on to create loyalty and repeat purchases.

NEW PLATFORMS

A new booking engine, more efficient than its predecessor was launched with substantial foundational work having been completed, and investments made in determining the character and functionalities of a new website, to be launched in FY2016.

RELATIONSHIPS RATIONALISED

During the year under review, the relationship between SAA, SA Airlink and SA Express was examined. The relationship had suffered in the past, with the two franchisees competing against each other with SAA product. A reassessment of the way in which SAA IP was deployed in the affected domestic market was completed, with the relationship with the two airlines successfully redefined and rationalised.

CANCELLATION OF UNPROFITABLE ROUTES

Two routes that had been losing money for the airline – in the case of Mumbai for 10 years, and Beijing for three – were successfully terminated. The affected passengers are now being flown via the Middle East, in an acceptance of the fact that the competitors can be viewed and utilised as partners rather than taken on as commercial rivals.

All the loss-making routes will be examined in the same light, with the clear aim of restoring commercial success.

SAA Commercial remains firm in its belief that if all the steps, from the reconfiguring of the network and fleet plans to sales, marketing and logistics change, are rolled out and implemented methodically, the airline can indeed be returned to commercial viability, once other material issues are addressed in tandem.

TALENT GAP

There has been significant attrition of talented individuals who have been trained by the airline, and who have left to ply their trade in a global market with remuneration levels available that cannot necessarily be matched in South Africa. This is a function of geography as much as it is one of economics, relative currency values and development, and is difficult to counter, as attractive and realistic packages cannot always be offered to prospective replacements, either from South Africa or abroad.

GLOBAL AVIATION – THE CHALLENGES

HEALTH

One of the most significant challenges to revenue during the year under review has been the Ebola scare.

CAPACITY INCREASES

With the introduction of a seventh daily flight by Emirates into South Africa, together with one additional Qatar Airways flight, the influx of capacity has also placed a strain on SAA's intercontinental flights.

On the domestic side there have been three new entrants into a market that has been showing a decline because of an economic situation in which the GDP has not been growing at the usual pace, with a concomitant lack of growth in air traffic. Both government and corporates have been radically cutting their travel budgets, and with SAA being a large recipient of government-related traffic, there has been a perceptible drop in passenger numbers across all SAA markets.

FUEL COSTS

While there was a drop in oil price, the airline's hedging policy meant that higher fuel prices continued to be paid with the effect of the lower cost only becoming apparent in the last two months during the year under review. **[Read more about hedging under Risks and Opportunities, on page 29.]**

WHOLE-OF STATE-AVIATION POLICY

The continued lack of co-ordination in this area – an important feature of the LTTS – is exemplified in various forms, with insufficient attention still producing challenges. **[Read more about the LTTS on page 16.]**

LOOKING FORWARD

There is a real prospect for growth with South Africa in general and Johannesburg in particular well-established as the economic capital of the continent. If the revenue can be generated in terms of the plans, policies and strategies being put in place, there is formidable potential, with a great deal of regional, continental and domestic traffic that can be captured.

With the rest of the continent likely to take more than two generations to reach the level of infrastructure already apparent in South Africa, there is a long-term economic advantage that can be maximised. There is thus a way forward through growth, and without having to undergo the difficult path of shrinking. This will require a strong focus on methods of dealing with current realities, and empowerment from the Shareholder to take full advantage of the opportunities.

VOYAGER

THE VOYAGER VISION
To be Africa's leading world-class loyalty programme

OVERVIEW

Voyager is a loyalty programme owned by SAA (SOC) Limited and serves as the frequent flyer programme for SAA, SA Express and Airlink. Mango, SAA's wholly-owned low cost carrier, is a high customer value ranked redemption partner of the programme.

Launched during 1994, the programme offers its members earning and spending of miles (the programme's reward currency) from 55 programme partners. The programme boasts more than 35 airline partnerships, including the Star Alliance global network, which gives members access to more than 1 300 destinations in 190 countries. Since 1 February 2015, SAA Voyager is the first revenue-based Frequent Flyer Programme (FFP) on the African continent.

STRATEGIC FIT

SAA Voyager is a key element of SAA's Customer Value Proposition (CVP) and has provided one of the greatest competitive edges in aiding SAA to retain market share.

High-value and high-yield customers are attracted and retained through a recognition-value model, by the opportunity to earn and spend on air and limited non-air aspects of the programme, thereby driving loyalty to SAA and the feeder models of Mango, SA Express and Airlink.

OPERATING CONTEXT AND EVOLUTION

Since 1981, when the first FFP was launched in the United States, there has been a steady evolution in the choice and offerings of these loyalty programmes. Partnerships and alliances with both travel and non-traditional partners in spheres such as credit cards, retail and lifestyle have become ubiquitous.

There has, however, been a growing awareness of the limitations of this model, with the proliferation of partners and greater customer participation placing ever more pressure on seat inventory by programmes that were initially designed to fill otherwise empty seats. By 2005 mileage accrual was growing ten times as fast as airline capacity. SAA Voyager, although the strongest FFP in Africa, has not been sufficiently competitive globally to support the strengthening of the SAA brand and its growth in Africa and beyond.

In an initiative to address this shortcoming, during the year under review, the methodology and application of Voyager rewards has undergone a major conceptual change, one which has taken the programme to a leading and innovative position among FFPs globally.

LOYALTY ENHANCEMENT AND ASSET VALUE-CREATION

The programme changes that became effective 1 February 2015 were aimed at revitalising the programme for customer retention purposes and to unlock asset value for the company. These changes were implemented as LTTS short-term deliverables and already greater asset value creation, via SAA and Mango, is being achieved in SAA Voyager's current form as a 'division' of SAA. Adjustments to the relationship between SAA Voyager and SA Express are also underway, to ensure alignment with these changes.

A CHANGE IN BUSINESS MODEL

The loyalty miles awarded by FFPs have traditionally been calculated according to the number of miles travelled, on the principle of the further the distance travelled, the more miles are earned. Voyager's new concept involves rewarding customers with miles based on the amount of money spent.

REAL VALUE FOR REAL LOYALTY

The change, implemented in two phases in January and February 2015, therefore involves moving from a mileage-based model to one based on revenue – making SAA Voyager one of only six FFPs in the world, and the first in Africa, to operate on this basis. Moreover, at the rate of one mile awarded for every R1,60 spent, the return is 5 percent, with customers now able to trade with the cash value of their miles for redemptions on SAA-operated flights. This means that miles have a real and attractive and competitive commercial value exceeding that offered in loyalty programmes running in other sectors like banking.

The change was advertised in a campaign called the RE5 campaign, with the communication elaborating on the value for customers in terms of:

- **Receipt** of one mile for every R1,60 spent
- **Return** of a real cash value of 5 percent
- **Redemption** inclusive of fuel levies
- **Removal** of seat complexities, regardless of class with rand values used for purchase
- **Recognition** of loyalty

The success of the SAA Voyager phase 1 implementation has already been discernible in the year under review. Year-on-year, an additional 186,4 million miles were redeemed during February and March 2015, a figure which confirms an improved asset value. In addition, the projected closing deferred revenue (frequent flyer contingent mileage liability) is R1 324 million, representing a decrease in mileage liability which in turn has a significant impact on the overall solvency of the company.

CARGO

THE SAA CARGO VISION
To be Africa's leading air cargo services provider

SAA Cargo is a division of the airline whose business is the movement of airfreight, with the GM reporting directly to the airline's CEO.

OVERVIEW

Because SAA Cargo deals fundamentally with imports and exports, the key driver of the business has been the performance of the economy. With the South African export market not having performed to expectations during the year under review, pressure was exerted on the division's outbound business. The typical outcome of a weakening currency is better opportunities for exports. However, for reasons yet to be definitively described, as the rand lost its value against overseas currencies, there was no concomitant rise in SAA Cargo's export volumes. On the inbound side, Europe proved to be an exceptional contributor to volumes, with volumes originating in Europe significantly increasing.

OPERATING CONTEXT

IATA's last global industry forecast in December 2014 expected cargo volumes to grow by 4,5 percent in 2015, slightly ahead of the 4,3 percent growth expected to be recorded for 2014. While 2015 cargo revenues are expected to rise, they would still be five percent lower than 2010 revenue.

With Africa only accounting for 1,6 percent of cargo freight tonnes carried in 2013, the 5,2 percent growth in African freight volumes was a solid achievement even with major economies under-performing and the trade impacts of Ebola lingering. Based on the last available data in 2013, five African freight hubs lead the market: Johannesburg, Cairo, Nairobi, Addis Ababa and Lagos, with Ethiopia growing rapidly.

MARKET CHANGES

A fundamental change in the cargo market appears to be underway, influenced by factors such as:

- Increased lower-cost cargo capacity in the belly-space of the large number of new-generation fuel-efficient wide-body passenger aircraft;
- More origin and destination (O&D) pairs as cargo route options become more aligned with passenger routes;
- Concentration of supply through major hubs such as Dubai;
- Lower yields, being influenced by the first three of these factors and by increased competition from sea, rail and road freight.

PROFITABILITY

While SAA Cargo's contribution of eight percent to the airline's revenue during the year under review was relatively small, its running costs are comparatively low, enabling it to make a proportionately higher contribution to the airline's profitability.

Payments to SAA for belly-space that were initiated in FY2014 were fully implemented during the year under review.

MARKET BREAKDOWN

- **Asia**
  The inbound Asian market has not been as strong in terms of yields as in the past, with an impact on revenue rather than on volumes, with rates being under downward pressure.
- **The Americas**
  This geographical area, while still positive, has shown only modest performance, mostly due to capacity constraints on inbound freight, particularly from North America.
- **Africa**
  From Cargo's standpoint, the continent has disappointed, with trade between African countries not having grown to the extent anticipated. In addition, with Middle Eastern airlines now flying directly into a number of African countries such as Angola, Zimbabwe, Zambia and Maputo, competition has increased where previously cargo destined for Africa would be routed through Johannesburg. SAA's position as a hub servicing Africa directly has consequently deteriorated.

AFRICAN OUTLOOK

Accra is one of the African destinations where the airline is doing exceptionally well, and with the development of that city as the airline's African hub, the prospects would appear to be promising.

NORTHBOUND

The challenge will be to manage the capacity from Johannesburg and to balance it by determining the ratio of traffic allocated to Accra to that allocated to the USA. The USA provides a good yield, but in some cases, for cargo terminating in Accra the revenue per tonne kilometre is more attractive. The key will be the extent to which the airline is able to generate US-bound cargo out of Accra.

SOUTHBOUND

While this sector will also require some balancing, there is nonetheless a positive opportunity. Although non-stop flights do not work well for Cargo because of the heavy fuel load that needs to be carried, stop-over flights allow for the maximisation of the uplift out of the USA, which remains a good market.

- **Domestic**
  The South African market has been flat, as a result of significant on-going competition from road transport, with the large transport companies continually refining their costs logistics, and an improving roads infrastructure making this option an attractive one for producers and distributors.

  One development on the domestic market that had a significant impact on Cargo was the Post Office strike. Postal services has always been a key customer of Cargo's overnight courier service, and once their operations came to a halt, the airline's domestic cargo performance was drastically affected.

PRODUCTIVITY

Kilogram per man-hour indicators have not shown any marked difference from FY2014, although in one area – flying hours per aircraft – there was an increase.

PROCESSES

A consultant was commissioned to conduct a process mapping study, identifying areas where improvements could be achieved. As some of the recommendations presented in November 2014 arising out of the study are implemented, it is envisaged that the benefits in productivity, market share and customer segmentation will make themselves felt in FY2016.

GLOBAL TRENDS

Volumes into Africa increased, although SAA Cargo did not feel the benefit because of the competition from Middle Eastern airlines developing direct routes into the continent.

STRATEGIC YIELDS

With Johannesburg being over-traded to the degree that it is, the South African originating exports market for airfreight is not a lucrative one. SAA Cargo's increase in yields was thus primarily achieved through strategic effort. The airline has sustained, among other things, a focus on Namibian fish which has proved to be better business than cargo originating in South Africa. In addition, perishables such as flowers originating in Lusaka and Harare are brought into Johannesburg to fill the London flights. Competitors are not able to compete on these regionally originating connections, which has enabled SAA Cargo to create and maintain a relatively exclusive hold on these markets.

SECURITY

The year under review showed an extremely low rate of pilferage, enabling the airline to see its systems and approach continuing to bear fruit positively.

HIGHLIGHTS

Revenue:

While overall volumes were flat, revenue at SAA Cargo increased by seven percent year-on-year. Despite the fact that global yields continued to decline, with IATA noting a decline of 16 percent in global air cargo yields since 2011, yields at SAA Cargo showed an improvement.

Performance:

Europe to South Africa services showed a significant improvement of 30 percent on volume year-on-year.

E-Freight implementation:

E-Freight is a functionality that has made SAA Cargo one of the leading airlines. Placed 28th on the global list of E-Freight Airlines, penetration increased from 13 to 33 percent during the year under review.

Security:

SAA Cargo became the first African airline to be awarded green status as defined in the European Union's ACC3 regulations (Air Cargo/Mail Carrier operating to the EU from a Third Country). This status means that cargo carried on SAA Cargo services from South Africa is not subjected to additional security requirements on entry into the EU.

Compliance:

SAA Cargo's compliance was demonstrated during the various audits conducted by European and American authorities who found the levels of safety compliance acceptable.

Awards:

For the second year in succession, SAA Cargo was awarded the African Cargo Airline of the Year at the Air Cargo Africa event held in Johannesburg in February 2015.

SAA Cargo – filling the belly-space of passenger aircraft

SUBSIDIARIES

MANGO

BRIEF HISTORY

Mango has become one of South Africa's favourite airline brands and is recognised as one of the most innovative low cost airlines globally. The airline first took to the skies on 15 November 2006 following a record breaking on-line launch event at the time that saw more than 10 000 fare queries per minute in the period directly after its on-sale date of 29 October that year. Mango began with a fleet of four new generation Boeing 737-800 aircraft; since then the airline has added six more 737-800s to its 10 – with additional aircraft expected over the next 18 months as the business grows.

Mango operates all major South African domestic trunk routes as well as its first, and highly successful, African route between Johannesburg and Zanzibar. This year Mango carried its 4 789 463 guest to Cape Town. Since 2006, the airline has carried 4 700 474 travellers between Johannesburg and Cape Town, just over 3 011 858 guests between Cape Town and Durban and 136 194 guests on its younger route between Port Elizabeth and Cape Town. In total, the airline has carried over 14 205 285 guests on more than 96 184 flights since first taking to the skies. Mango flies in excess of 1 500 sectors every month.

CULTURE AND ACCOLADES

There is no other domestic airline that has developed and sustained a culture of innovation, entrepreneurial spirit and camaraderie as actively as Mango has. For nearly a decade the airline has nurtured its fundamental values of Friendliness, On-Time Performance across all aspects of the business, Professionalism, Efficiency and Consistency in the application thereof.

The results are evident in the airline's consistently positive reputation amongst all stakeholders, a can-do approach to every task set to individuals or project target aspired to by the business. It is this single-minded pursuit of constant and never ending improvement that has led to frequent accolades and industry awards.

Mango has been recognised for its customer service excellence by the ACSA Feather Awards in all ACSA airports that it operates from as well as for Mango's ground handling capacity at Bram Fischer airport in Bloemfontein on more than a few occasions. In addition, in-flight magazine Mango Juice has scooped several PRISM Awards and Publisher's Awards, while for corporate communication and for social investment Mango has received in excess of 20 PRISM awards in eight years.

Mango won its first award for the airline's launch marketing campaign. The globally sought after Budgie Award recognised Mango in 2007. Other milestone accolades include the World Travel Awards 2008 Best Low Cost Airline in Africa award and 2014's Skytrax World Airline Awards Best African Low Cost Airline Award.

CREATING VALUE

Mango continues to contribute to the SAA Group value chain. Innovation drives its business fundamentals along with sound commercial principles and a prudent management approach.

Operationally, the airline continues to lead the domestic market. For example, turn-around times along with its cost saving implications have been reduced to 25 – 35 minutes through Mango's processes, aiding in greatly reducing the full service carrier's on-the-ground times and increasing bottom line value gains.

On average, Mango's assets have been utilised by up to nine block hours per aircraft per day. This is more than that of the Domestic Market aggregate and, along with its reduced turn-around times, the return on capital has been substantial.

Mango's distribution platforms and focus on innovation, automated or electronic processes has seen people productivity and its relation to bottom line accessibility and sales deliver positive results. This while the business actively pursues cost-containment and a stern focus on good governance.

Mango also continues to count among the top airlines globally for its asset utilisation. Its turn-around times, crucial to return on capital, also leads the sector.

In addition Mango operates with the lowest cost base in the domestic market; its independence allowing the airline to procure on its own terms and establish a beneficial low cost base. Mango also still leads the market with its distribution and payment method strategy making air travel more accessible.

In terms of measured reputation Mango has led its peers across the sector for seven out of nine years and effectively positioned itself as an airline "for all the people" of South Africa through a balanced approach to its public persona. This has not only created substantial value, through reputational equity to its Shareholder as a successful and highly visible State Owned Company, but consistent reputational gains impact very favourably on short-, medium- and long-term commercial gain.

Mango is also the most transformed airline in domestic skies achieving Level 3, the most empowered domestic airline. Mango continually over-achieves against its strategic objectives across the business with targets again raising the transformation bar for its peers, whilst making positive gains in ensuring transformation amongst its pilot body.

Toward the end of the 2014/15 financial year, Mango welcomed its first 42 interns as part of a greater effort to create training and opportunity for, in this instance, previously disadvantaged and unemployed black South African females.

PAINTING SOUTH AFRICA ORANGE

Innovation lies at the airline's core and it pursues innovation at every turn. Mango's business model is reliant on a wide distribution strategy and a multiple-payment method acceptance principle. Consequently the carrier has cast its net very wide through realising these ideals early on in its operations. Within the first two years of Mango's existence it became the first airline in the world to accept payment against store charge cards and, at this time, still remains the only airline to do so. Acceptance of Edgars, Jet, CNA and other Edcon Group charge cards has made air travel accessible to millions of South Africans who may not have access to credit cards.

Mango also became the first airline in South Africa to retail flights through supermarkets at Shoprite Checkers Money Market counters, was the first airline to leverage FNB's Cell Pay Point and Nedbank's N-Pay secure payment options and in 2013 became the first African airline to offer a mobi-site and apps across major mobile phone operating systems that allow for bookings, payment, flight management and check-in facilities on the go.

Mango will continue to live its message of affordability and accessibility beyond its shop window. In fact, the airline has embraced the principle of commoditisation of air travel to its furthest extent, not only through taking the brand to the people, per se, but also actively engaging with its market and growing closed user groups, leveraged for commercial and reputational purpose, across all its platforms.

In an African first, Mango continues at pole position in terms of mobility. Its newly redeveloped app for Windows 8.1 joins its stable of innovative products for Android, Apple and Blackberry 10 platforms. It not only provides for commercial engagement on the go, but effectively has created an additional closed user group that may be leveraged for a range of activities and commercial incentives. In addition, social media as a means of engaging its market has not only shown substantial reputational and customer service gains but has been successfully used commercially time and again. Mango's Facebook presence leads the industry 10:1 in terms of engagement while its Twitter presence continues to climb. Presently the combined social network presence includes 600 000 individuals.

During the period in review Mango has also been the most visibly marketed airline in the country while its news cycle and share of voice through corporate communication is unrivalled in the sector. Media research analysts Media Tenor consistently rank Mango as the most positively reported on airline in the country.

Connectivity in the sky seamlessly connects guests to business, friends and family through G-Connect In-Flight Wi-Fi on six of Mango's fleet of 10 Boeing 737-800 aircraft. Mango is the only airline in Africa to offer this service and plans are afoot to fit the balance of the fleet during the next financial year.

Mango's culture: innovation, entrepreneurial spirit and camaraderie

MARKETING

The journey to build a strong, consistent and trusted South African brand continued in the 2014/15 fiscal. This strategic focus enabled marketing efforts to be more effective, the marketing goals more ambitious and our tactical communications more vibrant and energetic.

Central to the marketing strategy is the need to express the Mango brand personality and, in doing so, to strengthen the bond between brand and consumer. The brand personality is well defined and ingrained in multichannel campaigns. Across the brand, tactical and retail campaigns, the Mango messaging remains consistent and talks to the brand's acknowledged strengths. These include a compelling value proposition for budget-conscious South Africans, our best-of-breed operational performance or the unique "Mango speak" which is sincere, inspirational, fresh and youthful. All advertising is always signed off by the brand mantra, which simply asks the question and poses the challenge: "Why Not Today?"

Objectives were:

- Strengthen the Mango brand by communicating a consistent and highly recognisable, trusted brand that is synonymous with real value and service;
- A strategy of aggressive market share growth in the Low-Cost Airline sector;
- Ensuring to maximise the brand 's visibility and accessibility by keeping Mango "top of mind" within a very competitive industry.

Key campaigns:

- Signature Happy Day Sale promotions offered the market very competitive fares to major urban destinations. We also expanded our Happy Day Sale offering to include Travel Packages.
- The extensive retail campaigns were supported by a brand-building campaign to reinforce the brand character and provide a positive affiliation with the Mango brand.
- Key Partner campaigns were stepped up to add consumer benefits, and included brands such as Edcon, Checkers, SAA Voyager, Sanlam and Momentum.
- Marketing also provided important support for our on-going innovations, such as the slick Mango mobi-app, which has tested and performed extremely well in the market.
- We continue to invest in new media, including social media and achieved significant industry-leading milestones, including:
  - Mango Facebook and Twitter communities grew by 380 percent and 130 percent;
  - Mango commanded the highest engagement within the airline category, in terms of online communities "liking", "sharing", "retweeting" and "commenting" on branded messages;
  - Our social media presence was expanded to LinkedIn, Youtube, MXIT and Instagram.
- Measurement tools put in place have allowed the business to track and report on social commerce and the 2014/15 fiscal saw a marked increase in direct sales from social media advertising.

As a brand with a clear and focused growth strategy in play, the business has to continually evolve to keep pace with both our own targets as well as changing market and consumer trends. We continue to ensure that the Mango brand remains at the heart of the company's business strategy.

Mango's journey continues as it evolves and expands the brand across South Africa and further afield in Africa.

COMMUNICATION

Mango has, over the past eight years, enjoyed consistent and strong growth in its reputation across all stakeholder groups. The airline, now approaching a decade of operation, has been at the leading edge of domestic aviation for the same period. Over time, Mango has managed to shed its subsidisation reputational burden; this while independently building a credible reputation for itself. Mango has consistently led the aviation industry through its exceptionally high share of voice in the media as well as the consistently positive and key progressive influence and leadership. This has secured Mango its number one position amongst its peers in the reputational chart for eight successive years.

Communication and Stakeholder Relations objectives are consistent:

- Sustained and positive growth of Mango's reputation:
  - Continue to be the leading voice in the sector;
  - Maintain high levels of share of voice;
  - Lead the sector in terms of sustained positive reputation;
  - Drive commercial gain over time through continued awareness, knowledge, trust and reinforcement of a loyalty continuum.
- Mitigation of any negative perceptions/ crisis internally and externally:
  - Solid internal communication.
- Continued implementation of a single-minded messaging framework.
- Sustaining narrative ownership.

Mango's news cycle has been accelerated taking into account timing and landscape impacts, and continues to outperform competitors significantly. Vis-à-vis Stakeholder Relations, the airline through its communication peers at the Shareholder enjoys a positive and mutually constructive relationship.

SOCIALLY ACTIVE

Mango is passionate about South Africans with a cultural fundamental that inspires the business; the airline believes that while not all South Africans may elect to travel with Mango, there is no reason why the brand should not touch the lives of every citizen.

As a State Owned Company, it fulfils its social development mandate with vigour. Since 2006 the airline has been active in communities across the country and engaged in the Dreamfields Soccer Programme, various educational initiatives and continues to partner with UNICEF to raise funds for township youth and sport development. Mango has assumed leadership in the aviation sector through its highly impactful and socially visible programmes in support and development of objectives as underlined in the National Development Plan and the National Youth Accord among others.

Beyond fulfilling the objectives and mandates of the National Development Plan, the National Youth Accord and Social Development requirements, Mango is compelled through its culture to contribute to South Africa. Its social credo "We all live for one another" along with "Trade – Not Aid" is founded in an ambition of seeding sustainable growth across society, particularly in less-privileged communities. As a condition of employment and fundamental cornerstone of its culture, employees are all required to participate in CSI activities.

Mango works closely with stakeholders and while it supports various NGOs and NPOs in line with its ideas, most initiatives are self-created based on national objectives and community needs. Mango is proactive.

During the period under review Mango has reached out to thousands of South Africans across the country and created sustainable value.

The company's focus lies in the following areas:

- Health and wellness;
- Youth education, skills development and guidance;
- Entrepreneurship, social enterprise and micro-enterprise development;
- The Arts.

MEDIA INCUBATION PROGRAMME

Mango's profitable in-flight magazine *Mango Juice* is published by a black female owned business and has been for the past three years. In 2013, Mikateko Media and Mango partnered to create a Media Incubation Programme, now in its second year, whereby previously disadvantaged young South Africans were provided employment opportunities as well as the chance to develop within a business environment and enjoy skills transfer from seasoned media professionals.

The programme encompasses the entire media industry including design, copywriting, journalism and sales.

PERI-URBAN AND URBAN SOCIAL ENTREPRENEURSHIP

Answering the National Development Plan's call for food security as well as its intent to develop and grow urban and peri-urban entrepreneurs, Mango's Vegetable Garden project has seen hundreds of people benefit in communities across the country over the past 30 months.

Hydroponic, mostly organic vegetable tunnels are installed in partnership with communities where each tunnel not only provides employment opportunities and allows business ownership but the gardens also provide nutrition and food security wherever they are installed. In fact, some agri-entrepreneurs are presently profiting up to R5 000 per month from well managed installations.

Mango has installed gardens in KwaZulu-Natal, the Western Cape, Mangaung, Gauteng and Nelson Mandela Bay.

Mango operates a comfortable fleet

JOBURG BALLET COMPANY

Mango is an ardent supporter of the arts and the contribution that they make to human development. The airline's sponsorship of the Joburg Ballet Company (formerly the South African Ballet Theatre) is testament to one of the most fruitful Social Responsibility partnerships ever forged in South Africa.

Mango's support reaches out to the development dance schools in Tembisa, Soweto, Alexandra and other disadvantaged communities. However, the airline has also collaborated with the ballet to provide opportunities for promoting the art form as well as exposing ballet to its largest audiences in South African history.

ENTERPRISE AND SKILLS DEVELOPMENT

Mango's leverage of its social and enterprise development programmes also includes the growth of business intelligence agency Ndiza Solutions. The consultancy is contracted to the business with analysis, business intelligence services and the development of tools used for revenue management and commercial advantage while Mango in turn supports its development and funds skills transfer and acquisition programmes at Ndiza Solutions.

Testament to diversity, Mango also partnered with the Department of Women, Children and People With Disabilities (now incorporated with the Department of Social Development) to assist a community co-operative in Zastron, Free State to construct and stock a local chicken farming business as well as assisting with training in basic business skills.

HEALTH AND WELLNESS

Health and wellness support of HIV Aids prevention initiatives through annual support of the Johns Hopkins Health and Wellness in South Africa programmes to prevent HIV Aids infection including Mother to Child Transmission.

In addition the company supports Afrika Tikkun whose health clinics across the country fulfil essential needs in informal settlements.

MANGO CAREER DAYS

Mango has become well known for its Career Days, hosted around the country, and reaching out to learners not only to encourage interest in potential careers within the aviation sector but also to engender inspiration and provide counsel to South African youth to pursue education, an interest in mathematics and science as well as showcase opportunity.

To date the airline has touched the lives of more than 55 000 learners across seven of the nine provinces with plans afoot to reach thousands more learners by the end of the next financial year.

COMFORTABLE, GREEN AND A COMPETITIVE ADVANTAGE

The period in review saw Mango complete the majority of its seat replacement project. Newly installed seats provide some of the best economy class legroom in the domestic market with up to an additional 6,5cm in space. The seats also save up to 820kg per aircraft, translating not only into substantial fuel savings but also a significant reduction in burn emissions. The seat replacement forms part of a "whole of business" approach to effect positive environmental benefit while simultaneously creating commercial opportunity.

During the period under review Mango also became the first low cost airline in the world and non-member to join IATA's carbon offset programme;

In addition, over the past eight years, Mango has reduced aircraft weight by an additional 270kg through removal of headphone wiring and jack-sets, excess galley ovens and measured potable water carriage. Short sectors and associated fuel tanking have also reduced carry-weight to a large degree.

A POSITIVE RESULT DURING CHALLENGING TIMES

The 2014/15 financial year proved more challenging than the prior period, evidend in an unstable currency, high fuel prices for the majority of the fiscal as well as the market entrance of two new competitors.

Despite on-going economic challenges and new market entrants, Mango delivered a solid performance. Revenue has grown seven percent above CPI at 11 percent and, while not at the record levels noted during the previous period, costs have remained well controlled. The company delivered a pre-tax profit of R49,5 million. Mango continues to lead industry metrics as it relates to people and aircraft productivity and unit costs. On-time performance has remained consistent.

Guest Service has also made positive gains with a marked reduction in the turn-around time of resolution through to a substantial increase in compliments.

Governance was a primary focus of the Board and the airline management team during 2014 and reports that significant strides have been made in streamlining as well as tightening Mango's already exemplary corporate governance. The Board will continue to support the executive team in its pursuit of all-round excellence.

SAA TECHNICAL

THE SAAT VISION
To be "Africa's leading world-class MRO"

South African Airways Technical (SOC) Ltd (SAAT) is a full-service maintenance, repair and overhaul (MRO), organisation, the largest in Africa. SAA Technical has held full and uninterrupted US Federal Aviation Authority certification since the late nineteen eighties, serving a range of local and international airlines. With its own board which is composed of executive and non-executive members drawn from a pool of SAA Group Board members, SAAT is a wholly-owned subsidiary of SAA (SOC) Ltd.

SAAT Technical is the sole provider of aircraft maintenance to South Africa's premier carriers: SAA, Mango and the Comair airlines British Airways and Kulula. SAAT also provides MRO services to a variety of regional and other airlines such as Air Namibia, RwandAir and other third party ad hoc customers such as Air France, Air Mauritius, Air Madagascar, Trans Air Congo and Arik Air.

The company's services include major airframe checks, engine overhaul, mechanical components, avionics and line maintenance.

Johannesburg is SAAT's main operational base, with the company offering similar services in Cape Town and Durban as well as line maintenance provided to SAA aircraft and other airlines in regional airports such as Windhoek and Luanda.

OVERVIEW

The year under review was a challenging one, despite the full hangars attesting to work volumes and output. Margins were tight, with the biggest challenge having to provide for inventory obsolescence, and resolve labour, systems and process issues. Cost compression was an on-going focus, and where contracts were reaching term the company approached suppliers for more favourable terms, or went out on tender to test the market, an approach which has produced meaningful savings. This alone is not sufficient to return the company to profitability, with prudence required in approaching labour and other resources, and in the way budgets are managed.

OPERATIONAL PERFORMANCE

The Operations Strategy is designed to ensure that the heartbeat of the organisation is performing strongly. Consistent with operational excellence, the main areas of focus are turn-around time and dispatch reliability. The success in those areas is based on solid safety and quality management.

SAAT has achieved world class dispatch reliability of 98,5 percent, which is consistent with global standards. It is envisaged that SAAT will continue to attain such impressive performances over the long term.

This consistent achievement in delivering outstanding dispatch reliability has resulted in the company being shortlisted in the category Best Line Maintenance Provider, as part of the annual Aircraft Technology Engineering & Maintenance (ATE&M) Awards. **[Read more about awards on page 5.]**

LINE MAINTENANCE

SAAT has visibly grown line maintenance capability. A 24-hour Maintenance Control Centre provides full co-ordination of customer schedule recovery resulting from any technical reasons. This includes engine health monitoring, airframe performance and in-flight entertainment (IFE) support. SAAT also contributes positively to the economic growth of the African continent by investing in the people of this region through the transfer of skills and knowledge.

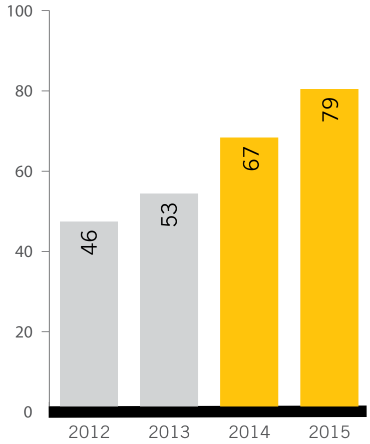
BOEING 787 LINE EXCHANGE PROGRAMME

SAAT is now contracted by the Boeing Company to participate in the Boeing Line Exchange Programme. The first in Africa it is one of 19 Line Exchange Programme stations worldwide in support of B787 customers. SAAT has also acquired technical line maintenance capability for the B787 and supports approximately 25 weekly flights into South Africa.

BASE MAINTENANCE

One of the principal competitive advantages in the MRO industry is turn-around time. With the increasing number of third party customers there has been an associated increase in the number of heavy maintenance checks executed by SAAT over the year, with an outstanding 79 checks completed by the company. SAAT notched up further successes with the provision of Phase Checks and winglet modifications.

HEAVY MAINTENANCE CHECKS



Annual Heavy Maintenance Checks

JET SHOP REVIVAL PROJECT

This project is on-going, and aims to recover the fully functional engine overhaul skills and capacity that were in place before being halted by legacy strategic decisions dating back to around the turn of the millennium. With engine maintenance offering attractive margins, the company is focused on restoring the necessary competencies, with the on-going work being conducted with the assistance of Lufthansa Technik. The project reached its halfway stage during the year under review, with full implementation envisaged within FY2017.

PARTNERSHIPS

In line with LTTS imperatives, the company has been actively cultivating strategic partnerships in the market in a number of areas such as in engine maintenance, wheels and brakes, and landing gears. In looking at what will yield the most value for the company, further partnerships with original equipment manufacturers (OEMs), with other MROs are being scrutinised, with SAAT taking the view that long-term success is dependent on the correct choices.

TRAINING SCHOOL

During the year under review the school employed a total of 160 students, exceeding its target by 20.

In November 2014, a proposal by the school for support was accepted by the National Skills Fund (NSF) who will fund the school's growth strategy to the value of R23,7 million to assist in growing the student intake further through an investment in equipment.

AIR CHEFS

THE AIR CHEFS' VISION
To be Africa's leading world-class catering company

OVERVIEW

Air Chefs is a wholly-owned subsidiary of South African Airways Group, and as such has its own board, comprising four members (two non-executive directors, members – one from the SAA Board and one appointed from one of SAA's subsidiaries) and two executive directors in the persons of the CEO and CFO.

The company's main business is producing and supplying food and beverages to SAA and other airlines. While much of Air Chefs' commercial activities are labour-intensive, the major part of its business is logistics, although in sectors outside of aviation into which the company would like to diversify, such as catering for hospitals, mines or educational institutes, the company is more focused on catering.

THE OPERATING CONTEXT

Globally, with specialist knowledge and systems and the ability to operate in a volatile produce market, a few other major airlines support their own catering arms.

The SAA Board has reviewed its strategy regarding the retention of Air Chefs, and has approved an initiative to test the market with an Request For Interest (RFI) to gauge commercial interest in the company, with completion of the project due late in FY2016.

PROFITABILITY

The year under review has seen a concerted effort to restore the company to profitability. For the business to grow it is essential for it to explore non-traditional opportunities.

FINANCIAL PERFORMANCE

Year-on-year, the company has shown an improvement. Passenger numbers have proved to be lower than budget estimates, and increases from airlines as well as the acquisition of additional business has lagged, with the reduction on meal specifications by both SAA and SAX also having had an impact.

EXPENSES

Initiatives to reduce the cost of sales have been introduced, including:

- Stringent controls in purchases and production with par levels now in place;
- Regular stock counts to identify issues timeously;
- The recording of wastage and monitoring in SAP so that it does not exceed one percent of purchases;
- Labour restructuring.

KEY PERFORMANCE INDICATORS

Although the company made a profit for two consecutive months, customer satisfaction, training spend and procurement KPIs were not met, with the accumulated losses to October reported by the company putting the business on the back foot also with regard to the financial KPI. The reduction in the domestic meal offering to bought-in dry snacks by SAA in February, as well as the reduced offering by SAX only placed further financial strain on the business.

With the instruction at SAA to curb all training expenditure also adopted by Air Chefs, this KPI was also not achieved, and while an end-of-year customer satisfaction survey was not conducted by SAA, the results reflected in the half-year survey indicated that the final targets in this area would indeed have been met.

CUSTOMER SERVICE AND ON-TIME PERFORMANCE

There was a noticeable advance in customer service year-on-year, while on-time performance showed a significant improvement. There was a focus on reducing penalties through communications and on-the-job training designed to impress on employees the impact of their decisions and the cost to the company of shortcomings. To this end, consequence management was also introduced where employee actions did result in penalties. Other initiatives were undertaken to:

- Revisit supplier contracts;
- Provide alternative products to clients;
- Invest in equipment where required;
- Work closely with SAA OCC to reduce delays.

HEALTH AND SAFETY COMPLIANCE

The company has met its compliance commitments for the year ending March 2015.

HAZARD ANALYSIS OF CRITICAL CONTROL POINTS (HACCP)

Critical to the procurement, preparation and supply of food is the question of food safety, and it is in this area that the company continues to make every effort to inculcate the international standards to which it must adhere at every stage of its processes through the HACCP principles.

A number of initiatives were undertaken in this regard during the year under review, including:

- The establishment of a food safety committee;
- The implementation of ISO 22000;
- The implementation of training aligned to the skills and audit results;
- The development of a maintenance plan;
- The alignment of HACCP training to literacy levels;
- The implementation of consequences for non-compliance.

The result was that a significant improvement has been noticed in this area.

PROCUREMENT AND THE DEVELOPMENTAL MANDATE

Preferential procurement has over the past decade been utilised as an important micro-economic tool to help bring historically disadvantaged South Africans into the mainstream of the South African economy.

In line with the BEE Act in 2003 the regularising Broad Based Black Economic Empowerment Codes of Good Practice in 2007 and the current draft of B-BBEE Codes of Good Practice, Air Chefs employs a focused approach in terms of enterprise and supplier development, while constantly seeking out initiatives to remain competitive in the market, and continuing to procure several products on behalf of airline clients.

The financing of this process is strategically important to ensure the improvement of the company's B-BBEE score card. Although the Air Chefs targets have not been achieved, the DPE targets have been achieved, Air Chefs has complied 100 percent with the B-BBEE legislation and has received full score for the procurement elements.

While a net loss has been made in five of the last six years, a significant improvement in the company's performance is evident for the year under review. This has been an outcome of the major reduction in the cost of sales as a percentage of revenue (from 61 percent in FY2013/14 to 54 percent in FY2014/15, as well as the correction in the billing of meals.

Tasty and healthy meals, accompanied by the best SA wines

OUTLOOK AND OPPORTUNITIES

In line with the LTTS, the company is looking to expand its services into other African countries to supply not only airline meals, but to become a caterer for schools and healthcare facilities as well. The company is also responding to tenders to deliver catering services for other airlines, in addition to domestic institutions such as universities, hospitals and prisons. With its ability, developed over the past two years, to rein in costs, the company is able to offer government-run facilities services at a lower than current market cost.

SOUTH AFRICAN TRAVEL CENTRE (SATC)

SATC is a wholly-owned subsidiary of the South African Airways Group, and functions as a consortium of independently owned and operated travel management companies and agencies with a nationwide presence in South Africa as well as in selected countries in Africa.

We were pleased to learn that SATC has been ranked in the top 100 organisations of the Top Gender Empowered Companies Project. During the project, more than 3 500 of South Africa's leading companies are evaluated on a key 20 point criteria formulated by the University of Cape Town Graduate School of Business, and SATC has been ranked among the elite. This achievement follows on SATC's recognition in the 2014 Top 500 South Africa's Best Managed Companies list under the Travel and Tourism category. It is indeed an honour and a privilege for SATC to be recognised by these reputable and influential institutions.

SATC has been subject to on-going strategic efforts on the part of the group to divest itself of the company. This has resulted, among other things, in the employee complement having been reduced to seven during the year under review.

As a result of the widespread knowledge of the decision of the group to divest, there has also been a reduction in the number of franchisees associated with the company.

SAA has many strengths and prides itself in easing the travel experience throughout the cabin

ENVIRONMENT AND SUSTAINABILITY

The less fuel used, the less carbon emitted into the atmosphere.

As the national carrier, SAA willingly and innovatively takes on its responsibility to promote conservation and protection of the environment through a number of on-going initiatives which have now been subsumed under the ultimate responsibility of Group Corporate Affairs. **[Read more about environment under Shareholder and Stakeholder Relations on page 32.]**

IATA ENVIRONMENTAL ASSESSMENT PROGRAMME (IENVA)

IEnvA has been developed in conjunction with airlines so that it addresses industry needs and specific concerns.

This stringent environmental assessment programme is based on recognised international environmental management systems such as ISO 14001, and was developed jointly by leading airlines and environmental consultants, to help simplify regulatory compliance, demonstrate good governance and achieve financial savings from the better use of resources. SAA has been part of this process from its genesis and currently chairs the IEnvA Oversight Working Group.

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

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

- **Stage 1**
  Stage 1 ensures an airline has developed the foundation and framework for its environmental management system. Stage 1 also certifies an airline has identified and complied with its environmental legal requirements.
- **Stage 2**
  Stage 2, the highest level of IEnvA assessment, ensures that an airline has implemented all of the IEnvA programme standards, identified and mitigated its significant environmental impacts and has set performance targets. Stage 2 also certifies that an airline has developed processes for monitoring and reviewing its performance against its targets and objectives, thus driving environmental efficiency.

In January 2015 SAA became one of only two global carriers to achieve Stage 2 status on the programme.

The assessment was completed by six months within the two-year deadline, an achievement that affirms SAA's commitment to answering its dual mandate as a leading African and global airline. The IEnvA standards set down will serve as a guideline for 240 other airlines around the world.

WEIGHT AND FUEL-BURN REDUCTION

With the airline continuing to experience sustained financial pressures, efforts are being made on an on-going basis to find ways of reducing cost throughout the company, without compromising quality of product and service delivery. As part of these efforts, in February 2015 the airline tested an initiative aimed at reducing possible unnecessary weight on its long-haul flights.

With every kilogramme of additional weight carried on board, approximately 270g additional fuel is burned on long-haul flights. The Fuel Forum of the airline's Cost Compression Programme has been tasked to save fuel by, amongst other initiatives, coming up with innovative weight reductions of items carried on board. **[Read more on cost-compression on page 15.]**

In an exercise initiated by the forum, all on-board items, including those used in the cockpit and in catering, and which add to aircraft weight and the resultant fuel burnt, were closely scrutinised as they were removed from an A340 on landing from Munich. Of course the less fuel used the less carbon emitted into the atmosphere.

FUEL SAVINGS AND REQUIRED NAVIGATIONAL PERFORMANCE, AUTHORISATION REQUIRED (RNP-AR)

The IEnvA initiative was followed by the introduction of the new fuel-efficient navigation approaches (RNP-AR). The fuel conserved through the utilisation of enhanced aircraft approaches provides immediate bankable fuel savings, and assists in the on-going drive to embed a culture of environmental sustainability within the organisation, with policy directing the airline toward leadership in emission reduction in both continental and global aviation. **[Read more on RNP-AR under Operations on page 45.]**

PROJECT SOLARIS – A FOCUS ON THE FUTURE

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

With its seed oils processed into jet fuel, the biofuel offers a possible lifecycle reduction of up to 50 percent in carbon emissions. Beyond this advantage, an optimised supply chain could reduce overall emission by up to 75 percent. The new technology also has a broader social benefit by supporting skills transfer, job creation and the expansion of opportunities for South Africans in the agro-innovation sector, thereby playing a role in fulfilling the airline's developmental mandate. **[Read more about community and skills development under Corporate Social Investment on page 34.]**

More than 1 600 passenger flights all over the world have taken place using biofuel since its approval in 2011, and SAA has plans to use fuel from the first few Project Solaris crops that are certified by the Roundtable to power a domestic flight. Aside from the benefits to SAA in reduced emissions, the social and economic benefits to South Africa are simply astounding.

Project Solaris: turning tobacco plantations into jet fuel

OUTLOOK

African opportunities

SAA has shown during the year under review, and in the success and immediate effect of the 90-Day Action Plan, that with application, leadership and the willing and committed input and collaboration of all its stakeholders, it can effect the change of attitude and practice that is necessary to fully restore the airline's commercial viability. With this conviction, the African continent is viewed as a key focus of development.

Based on industry estimates, the third-fastest pace of growth in the aviation industry will occur in Africa. In accordance with this estimate, and despite the fact that SAA is already operating in more than half of the African Union states, the airline firmly believes that African growth is commercially sustainable.

Decisions in this regard have already been taken. Subsequent to year-end, in partnership with Africa World Airlines of Ghana, and in line with its belief in the prospects of the African market, the company has redirected some of its North American services from Senegal to Ghana with the ultimate aim of establishing a West African hub.

In addition to the opportunities for SAA, the Mango brand also sees the potential for further regional market exploitation, beyond its existing Johannesburg-Zanzibar service.

A SUSTAINABLE FUTURE

While the challenges facing SAA today are broadly similar to those the company was encountering in 2013 when the LTTS was developed to meet them, there are now two additional complicating factors: The competitive landscape is even tougher, and the airline's financial performance and position have further deteriorated.

Nevertheless, the airline has responded to the factors affecting it with the development of a three-year corporate plan to support the achievement of its strategic objectives.

KEY INITIATIVES

A number of key initiatives have been identified to facilitate this overarching aim:

1. **The implementation of a new network and fleet plan** that will contribute to annualised earnings from network, airline brand and capacity changes
2. The resolution of **the airline feeder model**
3. The resolution of the **2002 Airbus A320 order**
4. The achievement of more than **R1 billion in additional cost savings**
5. A focus on **performance management and accountability**

A MANDATE FOR SUCCESS

SAA's already strong contribution to the South African economy is fully aligned to the airline's mandate, vision and mission – all of which are well-defined in legislation and the airline's foundation legal instruments.

There is thus a strong belief within SAA, that with a continuing emphasis on cost-compression and organisational restructuring, coupled with optimised network fleet plans, a focus on African expansion, supply chain negotiations and procurement savings, the airline can navigate towards commercial stability.

With solid and definable initiatives and goals outlined in its three-year corporate plan, SAA is committed to making its consolidated efforts, initiatives and vision work together towards a future in which both the commercial and developmental aspects of its mandate will deliver the success required by the Shareholder, the interests of all its stakeholders, and the importance of its brands as the national carrier.

Annual Financial Statements

CONTENTS

STATEMENT BY THE COMPANY SECRETARY

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

Ruth Kibuuka
Company Secretary

18 September 2016

Name:	Ms R Kibuuka
Business address:	Airways Park, Jones Road OR Tambo International Airport Kempton Park, 1619
Postal address:	Private Bag x 13 OR Tambo International Airport Kempton Park, 1627

DIRECTORS' REPORT

INTRODUCTION

The directors have pleasure in presenting their report, which forms part of the annual financial statements of South African Airways SOC Limited (SAA) and its subsidiaries – "the Group" – for the year ended 31 March 2015.

The financial statements set out in this report have been prepared by management in accordance with International Financial Reporting Standards (IFRS), and are based on appropriate accounting policies adopted in terms of IFRS, as detailed in Note 1 to the annual financial statements. 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 2015.

NATURE OF THE BUSINESS AND COMPANY SHAREHOLDING

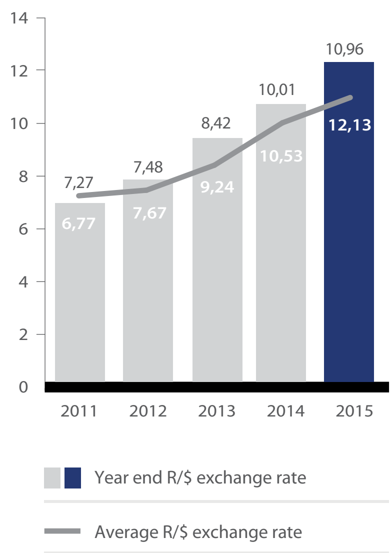
SAA is a state-owned company, incorporated in terms of the South African Airways Act No 5 of 2007. SAA has previously reported to the Minister of Public Enterprises, as supported by the Department of Public Enterprises (DPE). However, effective 12 December 2014, Shareholder oversight was moved to the Minister of Finance as supported by National Treasury. The airline's principal activities include providing scheduled air services for the transportation of passengers, freight and mail to international, regional and domestic destinations. In fulfilling its mission to deliver commercially sustainable world-class air passenger and aviation services in South Africa, the African continent and our tourism and trading partners, SAA proudly operates to 34 destinations across the continent and provides a competitive, quality air transport service within South Africa and to major cities worldwide.

OVERVIEW OF OPERATING AND FINANCIAL RESULTS

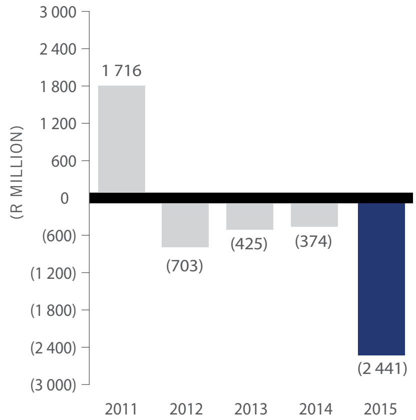
Aviation in Africa has been affected by a number of factors, including political instability and the effects of Ebola, resulting in the passenger growth in the region remaining flat despite growth elsewhere in the world. SAA and its subsidiaries operate in highly competitive global markets, which have rapidly liberalised and consolidated in recent years, resulting in growing levels of competition, both in domestic and the regional (African) markets. Mid-hemisphere airlines are anticipating above average GDP growth for the continent and are aggressively building capacity and extending network reach. In addition, capacity within the intercontinental arena has increased, applying pressure on average fares. The outbreak of Ebola in West Africa during the year had a major negative impact on traffic to South Africa from the Americas, India and Asia.

The rand continued to weaken against all major currencies during the year. The decline in the rand against the dollar was 10 percent for the year, while the cumulative effect over the past five years is a decline of 51 percent. This continues to have a significant impact on SAA, where approximately 60 percent of the Group's costs are foreign currency denominated whereas only 40 percent of revenues are earned in strong currencies. While fuel prices declined during the latter half of the year, the weakening rand negatively impacted on the operating expenses and the ultimate benefit to the airline. The negative net impact of the weaker currency on the operating result was approximately R0,8 billion (2014: R0,6 billion).

The graph below depicts the movement in the rand/dollar exchange rate over the past five years:



The challenging and competitive operating environment, coupled with the ever weakening rand, resulted in the Group delivering an operating loss before interest, tax, depreciation and amortisation of R2,4 billion which is significantly greater than the R374 million reported in the previous financial year. The primary source of this decline in profitability, in addition to the impact of the weaker currency mentioned above and an additional provision made for legal actions brought against the airline (refer to page 75 for more detail as to the nature of this provision), relates to pressures on revenue experienced during the current financial year. The graph below depicts the Group's operating result over the past five years.



The Group furthermore was required to recognise impairments to owned aircraft and aircraft inventory to the value of R1,9 billion. These impairments are primarily as a result of adjustments required to their estimated recoverable amounts.

Finance costs increased by 86 percent from R263 million in 2014 to R490 million in the current year. The increase is directly attributable to the increased reliance on Shareholder guaranteed loan funding in the absence of any equity support by the Shareholder. It is anticipated that this charge will continue to increase until the airline achieves a turnaround in its operating result.

After depreciation and impairments, finance costs, tax and items reflected in other comprehensive income the total comprehensive loss for the year is R5,6 billion compared to the prior year loss of R2,6 billion.

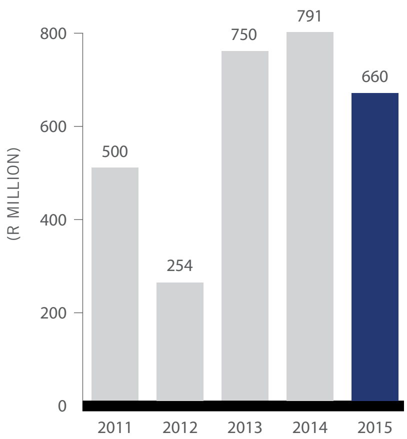
OPERATING PERFORMANCE

As mentioned above, the Group's operational result continues to suffer significantly as a result of the weakening rand. As a partial offset, the Group's cost compression efforts produced additional savings of R790 million during the financial year. Over the past three years this project has yielded sustainable cost savings in excess of R2,2 billion.

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

1. DOMESTIC CONTRIBUTION

The graph below depicts the contribution from the Group's domestic operations over the past five financial years:



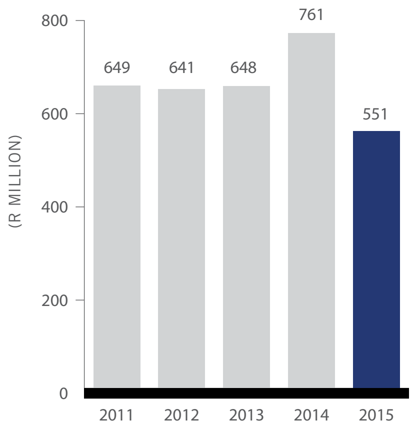
Domestic profit contribution reduced by 17 percent from R791 million in the previous financial year to R660 million in the current financial year.

During 2015 competition on SAA's domestic operations intensified with the market entry of two new low cost carriers on the Cape Town – Johannesburg route being of particular significance.

In addition, SAA experienced a marked decrease in connecting passenger numbers originating from intercontinental source markets as a consequence of the Ebola outbreak. This notwithstanding, SAA counteracted the full effect of these reductions with a strategic move to focus on growing its low cost capacity domestically and to further redeploy capacity into regional operations with stronger growth prospects. This move stemmed additional losses in a mature and increasingly price-sensitive market.

2. REGIONAL CONTRIBUTION

The graph below depicts the contribution from the Group's regional operations over the past five financial years:

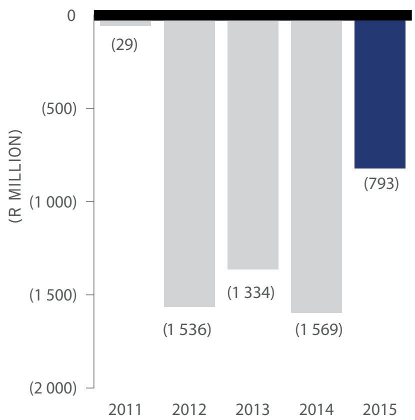


Despite a 28 percent decrease in contribution from the previous financial year, African flights remained profitable and healthy with a contribution of R551 million to the Group's operating results (2014: R761 million). However, increased pressure from new low cost entrants (coupled with the detrimental effect of the Ebola outbreak on passenger traffic) negatively impacted profit margins.

A number of African routes experienced excess capacity in relation to demand and increasing competition (in particular from Gulf and East African carriers) threatens Johannesburg's continued standing as a regional hub. Johannesburg is a regional gateway with a high proportion of origin-destination traffic as well as a sizeable base of connecting traffic (almost all of which is transfer traffic involving SAA). A sizeable reduction in passenger traffic affects the entire South African aviation supply chain and it is imperative that immigration regulations (such as the requirement for transit visas) are formulated to facilitate the continued growth and competitiveness of SAA and the Johannesburg hub in an increasingly competitive environment.

3. INTERNATIONAL CONTRIBUTION

The graph below depicts the contribution from the Group's international operations over the past five financial years:



International operations' contribution significantly improved by 49 percent to a loss of R793 million from a loss of R1 569 billion in the previous financial year. This improvement can mainly be attributed to the drop in SAA's jet fuel expenditure during the latter part of the year as well as a marginal increase in average fares as the US dollar continued to strengthen against the South African rand. Typically, the downward adjustment in average fares paid by passengers takes place after a few months' delay, given the average lead time of long-haul ticket purchases. Load factors and unit fares were growing healthily for the first five months of the fiscal year, after which the Ebola outbreak unfortunately severely impacted inbound tourism. Significant reductions in traffic and average fares were experienced, particularly out of the Americas and Australasia which was reflected in reductions in load factors on a year-on-year basis.

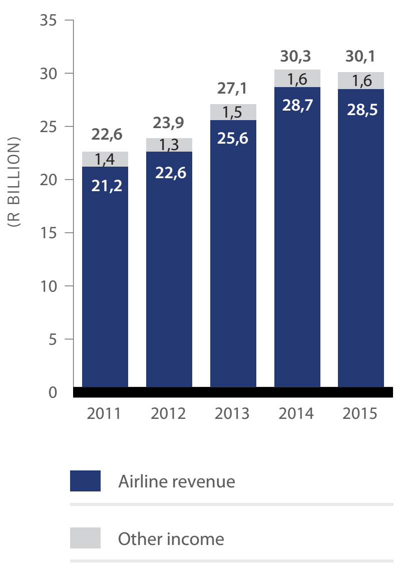
REVENUE

Total revenue remained flat, in line with that of the previous financial year. Passenger revenue, the largest single component of revenue, declined by four percent (R0,7 billion) as a result of a decline in passenger numbers and a reduction in load factors. As mentioned above, passenger numbers were severely impacted by external factors such as the Ebola outbreak. The estimated revenue impact of Ebola on SAA's revenue for the year under review was approximately R0,5 billion. The negative impact of the reduced passenger numbers and load factors was partially offset by an increase in average fares, boosted by the weakening rand.

Revenue from SAAT reflected an increase of 10 percent for the year as the company, in line with its strategy, managed to source additional third party work.

The graph below depicts the Group revenue trend over the past five financial years:

TOTAL INCOME



OPERATING COSTS

Operating costs over the past financial year continued to be well controlled. However, as in the previous financial year, the weakening rand/dollar exchange rate has, once again, had a severe impact on the Group's operating costs. Despite the negative impact of the weakening exchange rate, if the impact of additional legal provisions is removed, total operating expenses increased by a below inflation rate of three percent year-on-year which was positively assisted by lower fuel costs. In real terms, should these operating costs be adjusted to eliminate the negative currency movements, the airline actually reduced its operating costs from the previous year by three percent which is further testimony to the successes of the cost compression programme.

COST COMPRESSION PROGRAMME

It is pleasing to note that, over and above baseline savings of just under R1 billion in the 2012/13 financial year and savings of R453 million in 2013/14, additional savings of R790 million have been achieved for the current financial year under review. This brings the cumulative sustainable savings since inception of the programme in 2012 to in excess of R2,2 billion.

During this period average non-fuel CASK reduced from 7,00 USc to an average of 5,75 USc, marginally three percent short of SAA's three-year target of 5,6 USc.

Cost savings this past year included benefits from the discontinuance of the Sydney code share with Qantas, reduced aircraft lease rates and reductions in associated maintenance reserves and return condition provisions, other maintenance cost savings and more favourable negotiated procurement contract re-pricing.

Focus over this period has also been on improving the airline's aircraft utilisation, which is another leg of cost compression and relates largely to improved scheduling by better matching inbound and outbound traffic.

Unfortunately there were some other adverse pressures which partly negated the successes achieved as mentioned above. Some of these are, as mentioned previously in the report, increased competition, both from new entrants and reduced fares, health scares in Africa and certain legacy aircraft ownership issues.

Nevertheless, SAA remains resolute with various other strategic interventions to continue the momentum of cost compression in order to contribute towards SAA's longer term financial sustainability.

Key to the identification of cost saving opportunities is the ongoing role of independent benchmarking exercises conducted to evaluate SAA's costs relative to its closest competitors. These include annual participation in the IATA Airline Cost Management Group (ACMG) benchmarking exercise conducted amongst its members, as well as a recent benchmarking project undertaken by jcba, a UK based aviation expert consultancy firm, focusing on major saving areas already identified by management where costs appear to be excessive.

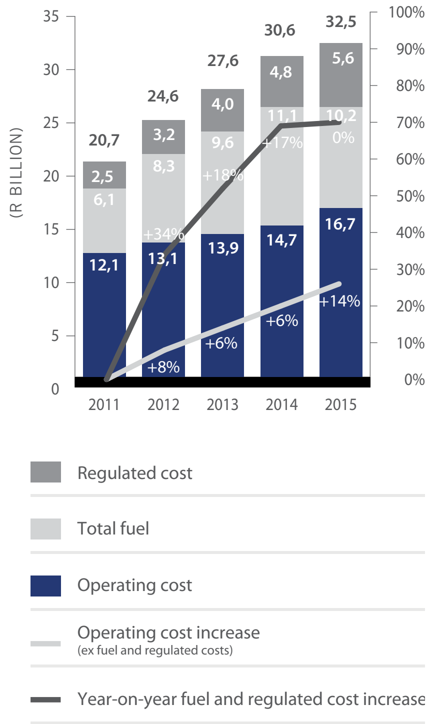
In the past SAA has adopted a programme-driven approach under the executive sponsorship of the Chief Financial Officer, involving the establishment of a Cost Compression Steering Committee and various cross functional forums. Although this structure will continue in a monitoring role, future emphasis will be the embedding of a cost compression culture throughout the company, in order to make cost-consciousness a systemic cultural element within the business.

OPERATING COSTS ANALYSIS

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

FUEL AND REGULATED COSTS

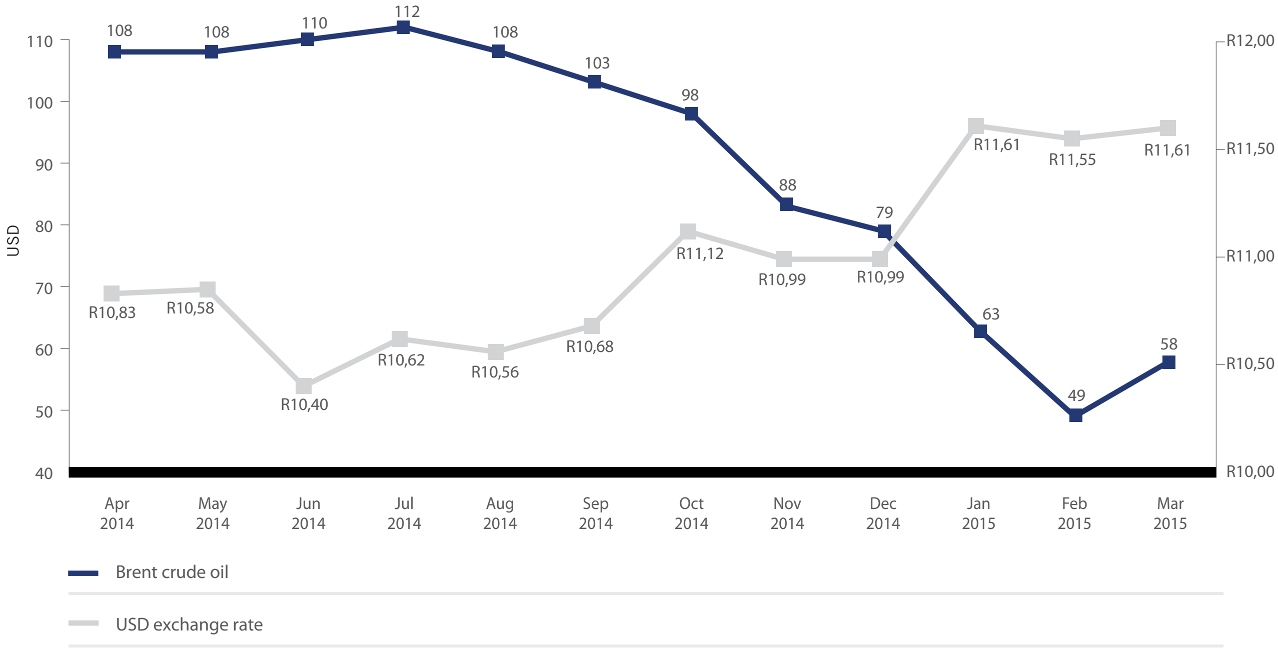
While fuel and regulated costs have increased significantly year-on-year for all except the 2014/15 year, the increase in operating costs, which are costs over which management has influence to control, have only increased by six percent on an annual basis if the impact of additional legal provisions is removed.



While the Group has benefited from the lower fuel prices during the latter half of the current financial year, fuel costs still remain the single biggest cost contributor to the Group at 31 percent (2014: 36 percent) of total operating expenses. Despite the 16 percent decrease in the average Brent crude oil price for the financial year, total fuel costs only decreased by eight percent (R0,9 billion). As a result of the weaker rand and certain longer term hedge positions locked in at higher fuel prices, SAA was unable to take full advantage of the decline in fuel prices. Should the full impact of the exchange rate be eliminated the cost would, in fact, reflect a decrease of R1,7 billion (15 percent) over the previous financial year.

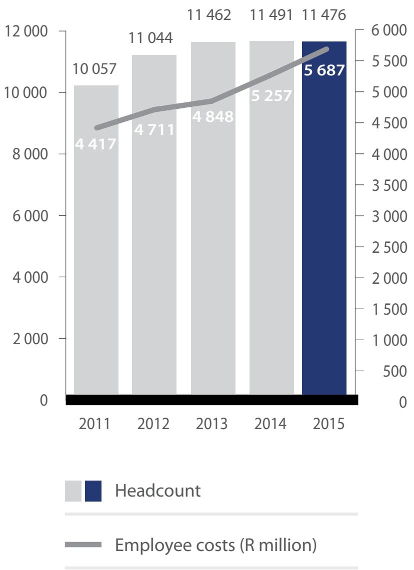
The graph below reflects the movement in the average dollar price of Brent crude oil and the average rand dollar exchange rate over the past 12 months. It is clear in this graph that SAA has not been able to fully benefit from sharply declining fuel prices due to the steady weakening of the rand.

BRENT CRUDE OIL PRICE PER BARREL AND ZAR USD EXCHANGE RATE FOR THE PAST 12 MONTHS



EMPLOYEE COSTS

The graph below illustrates the trend in headcount and employee costs over the past five years:



Employee costs, which represent the second largest contributor to operating costs, increased by eight percent to R5,7 billion. The effective increase for all staff at SAA was six and a half percent and headcount, which has remained relatively constant over the past three years, reduced marginally. The employment moratorium remained in place for the year under review and only critical vacancies were allowed to be filled. The weaker currency also negatively impacted employee costs paid to staff abroad as well as subsistence allowances denominated in hard currency. In addition, overtime at SAAT was higher than the previous year due to increased third party workload, while a reduction in recoveries from the TETA in the case of training led to higher overall training expenses.

MAINTENANCE COSTS

Maintenance costs reflect an increase of R0,8 billion (32 percent) to R3,4 billion from R2,6 billion in the previous financial year. The majority of these costs are contract driven and, once again, impacted by the weaker rand. Should the impact of the exchange rate be eliminated, the increase translates to a 17 percent increase year-on-year. Costs have also increased as SAA's wide-body aircraft are ageing and are more costly to maintain. Furthermore, as certain aircraft have been returned to their lessors, the return costs were higher than anticipated. Cognisance of this has been taken in reviewing the provision for lease liabilities required going forward. In addition, as tabled below, the Group's fleet increased by two aircraft, accordingly impacting maintenance provisions for the year.

The maintenance cost furthermore includes increased maintenance costs relating to third parties which, in turn, delivered increased revenue to SAAT.

AIRCRAFT LEASE COSTS

Aircraft lease costs have increased by 11 percent from R2,5 billion in the previous financial year to R2,8 billion in the current financial year, primarily due to the impact of the weaker rand and the six additional A320 aircraft that were delivered during the financial year, as well as the full annual impact of the four A320 aircraft that were delivered in the previous financial year. While SAA took delivery of six A320 aircraft during the year, four aircraft were returned to the lessors and two aircraft were sub-leased to Mango. The total fleet therefore also increased by two aircraft with its consequential impact on the lease and maintenance costs.

Leased fleet	2015	2014	Change
A330	6	6	–
B737	12	14	(2)
A319	8	11	(3)
A320	12	6	6
A340	10	11	(1)
Total SAA	48	48	–
B737	10	8	2
Total Mango	10	8	2
Total Group	58	56	2

NAVIGATION, LANDING AND PARKING FEES

Regulatory costs (which comprise navigation, landing and parking fees) have increased by seven percent from R2,1 billion in the previous year to R2,2 billion in the current financial year. The weaker currency once again has had an impact in this charge as a large portion of the costs are being charged in hard currency.

OTHER OPERATING COSTS

Commissions and network charges have decreased by nine percent from the previous financial year. This can be directly attributed to the decline in passenger revenue as well as a reduction in agent sales during the year.

Electronic data costs of R543 million are marginally lower than those of the previous financial year (R549 million). Significant savings were realised on the re-negotiation of IT desktop, network and facilities contracts, effectively offsetting increases in licence and network costs.

Excluding the impact of energy, regulatory, maintenance costs and the additional legal provision which are, to a large extent, out of the direct influence of management, the Group's operating costs increased by six percent. This is inclusive of the impact of the weakening rand which emphasises the continued tight cost control maintained over controllable costs. Should the impact of currency be eliminated from these costs, the increase is only one percent.

IMPAIRMENTS

WIDE-BODY FLEET

A deliverable of the 90-Day Action Plan was the revision of SAA's Network and Fleet Plan. The plan was approved by the Board and included the planned replacement of the Group's owned A340 fleet. The useful lives and residual values of these aircraft were reassessed at year end and the resulting depreciation charge recognised. The remaining carrying value exceeded the recoverable amount of these aircraft and an impairment of R0,8 billion (2014: R0,7 billion) was recognised.

NARROW-BODY FLEET

During the current financial year the airline took delivery of six new A320 aircraft. The agreement for the outright purchase of 20 aircraft, which was originally entered into in 2002 and later re-negotiated in 2009, provided for annual escalations which resulted in the actual purchase price exceeding the recoverable amount, which was the market value of these aircraft, at the date of delivery. The financing of these aircraft was facilitated by way of sale and leaseback transactions, which necessitated the impairment of each aircraft to its recoverable amount on the delivery date. As a result, impairments of R0,7 billion (2014: R0,4 billion) were recognised during the current financial year.

INVENTORY

SAAT reviewed its inventory in the light of the new Fleet Plan and its third party work requirements. This review resulted in an impairment of R0,3 billion during the current financial year (2014: R0,2 billion), primarily in relation to spares for the ageing A340 wide-body fleet.

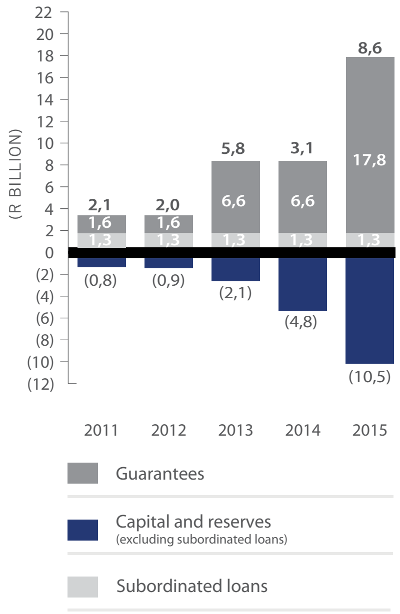
STATEMENT OF FINANCIAL POSITION

EQUITY

Historically SAA had to operate with a weak balance sheet which, together with its operating losses incurred during the past four years, required additional assistance from its Shareholder. In October 2012, the Group was granted a R5,1 billion Shareholder guarantee to secure its continued operations until alternative forms of Shareholder support were received to restore the airline's capital and reserves position. During the 2014 financial year this guarantee was converted to a perpetual guarantee and thereafter, in December 2014, increased by an additional R6,5 billion.

Subsequent to the current financial year the Shareholder has approved a further perpetual guarantee of R4,7 billion to ensure that SAA remains solvent and has access to sufficient working capital to continue operating as a going concern. While this ensures there are sufficient guarantees to ensure SAA remains both liquid and solvent, the impact of the cost of increased borrowings on future profitability is significant. Total Shareholder guarantees amount to R19,1 billion.

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



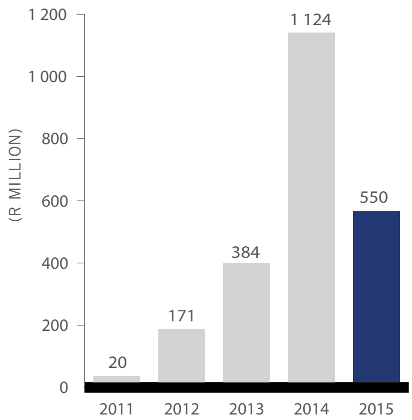
CASH FLOW

Cash and cash equivalents at the end of the financial year reduced by R47 million to a net overdraft position of R126 million (2014: R79 million).

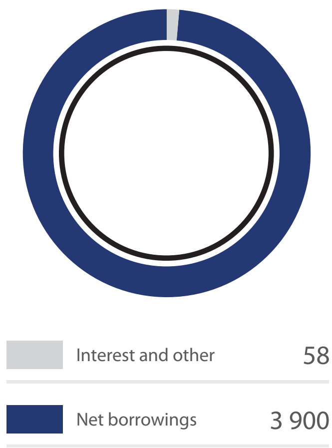
SAA's cash position remained under pressure and, as a result, SAA was required to draw down R2,15 billion against government guaranteed loans to meet its working capital and capital expenditure requirements. Cash outflows from operating activities increased from R0,4 billion to R2,3 billion in the current financial year which was largely due to the increased operating losses and higher interest charge due to increased loan funding.

It can further be noted that, over a period of five years, SAA has repaid loans to the value of R2,6 billion and paid R2,2 billion on aircraft PDPs (refer graphs below) which has further contributed to the erosion of the cash reserves over the period.

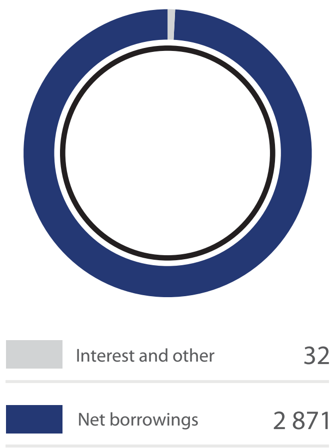
PDP SPEND TREND



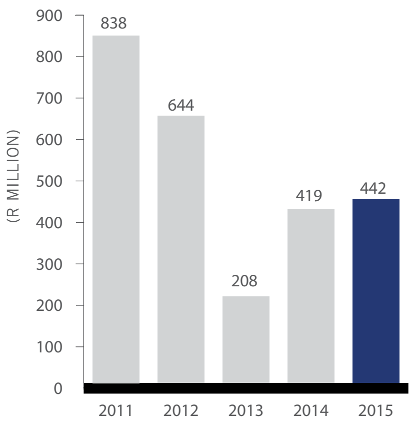
2015 CASH INFLOW – R3 958M



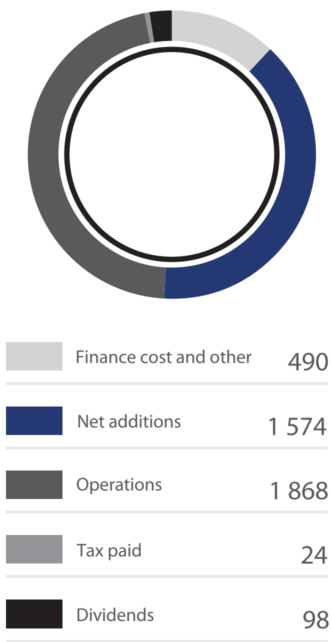
2014 CASH INFLOW – R2 903M



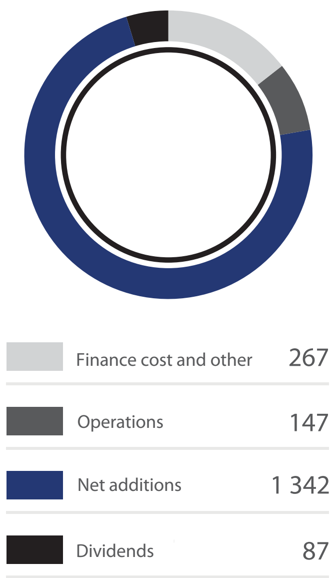
LOANS REPAID TREND



2015 CASH OUTFLOW – R4 054M



2014 CASH OUTFLOW – R1 843M



LONG-TERM LOANS

The increase in long-term loans of R3,0 billion compared to the previous financial year reflects SAA's efforts to manage its debt maturity profile. SAA's strategy is to consolidate its debt going forward and improve the maturity profile of its debt by obtaining funding with repayment terms at staggered intervals over the medium- to long-term.

PROVISIONS

The increase in both the current and long-term portion of provisions year-on-year relates primarily to movements in the provision for lease liabilities relating to leased aircraft and the provision for legal actions.

DERIVATIVES

The current liability of R346 million (2014: R3 million) relates to unrealised mark-to-market losses on fuel options at year-end.

DEFERRED REVENUE ON TICKET SALES

The reduction of R0,6 billion in this balance, which represents the unrealised income resulting from tickets sold but not utilised, is directly linked to the reduction in forward sales bookings following the recent legislation relating to visas (eg the unabridged birth certificate).

NON-CURRENT PREPAYMENTS

The increase in non-current prepayments of R0,8 billion relates to increases in PDPs (R0,2 billion) and maintenance reserve balances (R0,6 billion).

PDPs that were paid in respect of the A320 aircraft acquisition transaction were reflected in capital work in progress. As a decision has been taken not to purchase the aircraft outright, in terms of SAA's accounting policies, the balance paid has been transferred to prepayments.

These balances relate to the non-current portion of these PDPs. In the prior year all the PDPs were reflected as current assets as they related to the aircraft delivered during 2014/15.

The maintenance reserve receivable increased by R0,6 billion due to the weakening rand and the fact that, due to the extension of the leases on the A340-600 aircraft, maintenance reserves of R0,2 billion previously expensed, could now be utilised at a future date.

PROPERTY, AIRCRAFT AND EQUIPMENT

The balance has reduced compared to the previous year due to the impairment of the A340 owned fleet, coupled with accelerated depreciation on this fleet and the transfer of the remaining PDPs from capital work in progress to receivables.

ECONOMIC VALUE ADDED

The table below clearly depicts the wealth created by SAA's activities during the year and how it was distributed. It also reflects the Group's contribution to the fiscus by way of the collection of indirect taxes.

GROUP ECONOMIC VALUE ADDED STATEMENT

for the year ended 31 March 2015

R MILLION	2015	2014
Total income	30 105	30 266
Cost of services	(26 859)	(25 383)
Value added	3 246	4 883
Income from investments	26	32
Wealth created by operations	3 272	4 915
Distribution of wealth		
Employees (salaries, wages and other benefits)	5 687	5 257
Government (income tax)	20	8
Providers of capital (interest)	588	350
Total wealth distributed	6 295	5 615
Wealth distribution funded through debt	(3 023)	(700)
Wealth created by operations	3 272	4 915
Dealings with government		
Gross contributions to government		
Company taxes	20	8
Rates and taxes	4	5
Customs and excise duties	37	37
	61	50
Other government grants	(7)	(4)
Charged against group income	54	46
Collected on behalf of government	2 833	2 756

GROUP OPERATING DATA

	2015	2014	2013	2012	2011
Capacity					
Available seat kilometres (ASKs) (millions)	**33 562**	33 999	33 441	32 423	32 378
Traffic					
Revenue passenger kilometres (RPKs) (millions)	**24 523**	25 606	24 880	23 217	22 661
SAA	**21 814**	23 124	22 901	21 509	21 181
Mango	**2 709**	2 482	1 979	1 708	1 480
Revenue passengers (thousands)	**9 181**	9 332	8 846	8 087	8 053
SAA	**6 700**	7 071	7 009	6 480	6 630
Mango	**2 481**	2 261	1 837	1 607	1 423
Cargo – tonnes flown (thousands)	**131**	132	133	142	129
Utilisation					
Revenue passenger load factor (%)	**73**	75	74	72	70
Yield (passenger revenue/RPKs) – passenger	**0,77**	0,77	0,71	0,69	0,68
Passenger revenue (R million)	**18 978**	19 706	17 716	15 908	15 443
Yield (revenue/ASKs) – airline revenue	**0,85**	0,84	0,76	0,70	0,65
Yield (total income/ASKs) – total income	**0,90**	0,89	0,81	0,74	0,70
Unit cost (cost per available seat kilometre)	**0,97**	0,90	0,82	0,76	0,64
Labour cost	**0,17**	0,15	0,14	0,15	0,14
Energy	**0,30**	0,33	0,29	0,26	0,19
Maintenance cost	**0,10**	0,08	0,07	0,05	0,04
Other operating costs	**0,40**	0,34	0,32	0,30	0,27

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 National Treasury. The Group reported on these issues in its 2014 Integrated Report with progress highlighted below.

Cash flow will remain a critical issue until such time as the airline receives an equity injection to reduce its expensive reliance on debt funding. This has already been addressed in the LTTS and engagements are continuing with the Shareholder in this regard.

AIRCRAFT ORDERS AND FLEET MODERNISATION

Critical to the success of the implementation of the LTTS 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 will, however, be subject to a phase-in period, driven by the expiry of current leases and the availability of new generation aircraft. The process to acquire new wide-body aircraft requires at least a lead time of approximately 18 months to two years. Over the past three years two tender attempts had been cancelled by the Shareholder. As a result, with certain lease agreements nearing their expiry dates, SAA had no choice other than to consider extending these leases to ensure sufficient aircraft availability to meet its network requirements. Fortunately, with the significant reduction in fuel cost and the fact that the aircraft are nearing their end of economic life, SAA could leverage on that and was able to re-negotiate significant reductions in lease rates and related maintenance reserves and return conditions by extending these leases.

As reported previously, SAA has entered into an agreement with Airbus for the delivery of 20 A320 aircraft, with deliveries scheduled from 2013 through to 2017. Delivery of the first 10 aircraft has been taken and approval has been received from the Shareholder to re-negotiate the contract to replace the remaining 10 aircraft with five new A330 aircraft on operating lease, which are better suited to delivering the approved Network and Fleet Plan produced during the 90-Day Action Plan period. The restructuring of the contract will ensure that SAA avoids further impairment costs related to the A320 aircraft of R1,4 billion in 2016 and 2017.

COMPETITION MATTERS

The company was defending three actions brought against it by Comair and the liquidators of Nationwide. The claims arose from the ruling of the Competition Tribunal that SAA contravened sections of the Competition Act No 89 of 1998 in regard to the provisions of its agreements with travel agents between October 1999 and May 2001 ("the first period") and between 1 June 2001 and 31 March 2005 ("the second period"). Comair's claims, which have since been consolidated into a single action, relate to both the first and the second period, while the Nationwide claim related to the second period only. The Comair matters were originally set down for trial on 18 April 2016. On 22 August 2016, the Heads of Argument were presented to the Court and the ruling on the Comair actions is outstanding.

SAA extensively engaged its legal and financial economic experts in assessing its exposure and an appropriate provision has been made in its financial statements.

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

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), the SAA Board as the accounting authority, has the responsibility of ensuring that SAA has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The design and implementation of effective controls has been delegated to the SAA executive management.

SAA has experienced an increase in PFMA non-compliance over the 2014/15 financial year compared to the 2013/14 financial year specifically as it relates to "Irregular spend without loss" and this is illustrated in the table below:

Category of PFMA non-compliance	2015	2014
Irregular spend without loss	**R68,5m**	R28,4m
Fruitless and wasteful expenditure	**R52,7m**	R19,2m
Loss due to criminal conduct	**–**	R5,8m
Recoveries	**R7,4m**	–

The irregular spend increase in the 2014/15 financial year is primarily due to expired contracts that have not been timeously renewed and/or extended. A number of interventions have been implemented in the 2014/15 financial year such as detailed below, with the impact to be realised in the 2015/16 financial year:

- The Contract Management department was moved to report into the Supply Chain Management Department to implement the contract management process/system and to monitor contacts.
- Implementation of the SAP Module for contract management.
- Provision of training in the African Regional stations and Domestic stations.

Fruitless and wasteful expenditure reflects R26,9 million in relation to penalties paid by SAAT in terms of the Tax Administration Act, which was the subject of an unsuccessful appeal, while R8,2 million arose from penalties for late PAYE, UIF and SDL payments by SAAT.

Management has instituted control measures such as disciplinary actions in all cases where there have been reportable PFMA contravention cases as part of mitigating PFMA non-compliance.

INTERNAL CONTROL

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

GOING CONCERN

As with previous years, SAA remains undercapitalised. Four 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 fuel efficient aircraft and left the company less able to cope with the significant volatility in foreign exchange rates and the price of jet fuel.

On the 8th of September 2016, a perpetual guarantee of R4,7 billion was approved by the Shareholder. This guarantee has certain conditions over and above those attached to the existing guarantees, these conditions relate to actions required to stabilise the airline and ensure that it returns to profitability in line with its approved Corporate Plan and includes the following key deliverables:

- The primary focus of the Board must be to return the airline to financial sustainability;
- SAA must implement more aggressive cost-cutting initiatives;
- The Board is required to appoint a permanent CEO, CFO and other key executives in consultation with the Minister of Finance; and
- Funding must be secured to meet the airline's liquidity requirements.

The total of these guarantees amounts to R19,1 billion and provides reasonable comfort that SAA will have the ability to continue as a going concern in the foreseeable future.

The directors are of the view that the guarantee support by its Shareholder would be adequate for the going concern requirement in the foreseeable future, being 12 months from the date of approval of these annual financial statements. The company is in the process of restructuring its existing short-term facilities, which include the repayment of facilities due in the next six months of R4,5 billion. The process of engaging with the institutions to refinance the facilities that are maturing in the next six months has been initiated and is, at the time of finalising the annual financial statements, ongoing.

In the absence of the timing and extent of the expected Shareholder support in the form of a capital injection, these guarantees provide reasonable comfort that SAA would have the ability to continue operating as a going concern. The directors, however, remain of the view that a more permanent appropriate capital structure is required for the airline.

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 which 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.

SHAREHOLDER'S COMPACT

Key Performance Indicators (KPIs) have been created to monitor SAA's performance against the pre-determined objectives as agreed upon between the airline and the Shareholder. These KPIs are reported on a monthly and quarterly basis, with regular feedback sessions held with the Shareholder. The Net Retained Earnings of the SAA Group was the main performance indicator for the 2014/15 financial year. Other supporting KPIs have been formulated to support the main KPI and are consistent with SAA's 2014 – 2017 Corporate Plan.

Key performance area	Key performance indicator by 31 March 2015	FY2015 Target	FY2015 Actual	Explanations
Financial value creation	Net operating profit/(loss) (Excluding aircraft impairment)	R(1 156)m	R(3 269)m	KPI not achieved
	Net retained earnings movement	R(1 599)m	R(5 737)m	KPI not achieved
	Net cash flow from operating activities	R(43)m	R(2 324)m	KPI not achieved
	Cargo revenue as a percentage of operating revenue	5%	8%	KPI achieved
Customer service	Customer satisfaction	84%	85%	KPI achieved
Fleet utilisation	Daily block hours	10.7	10.29	KPI not achieved SAA did not achieve the target utilisation of its aircraft. This is mainly as a result of unplanned maintenance on aircraft as well as flight schedule changes to optimise route profitability.
On-time performance	On-time performance	86%	86%	KPI achieved
Safety	Implementation of Safety Management System as per CAA and ICAO requirements	70%	43%	KPI not achieved A safety system was acquired in March 2014 and the rollout thereof was slightly deferred.
Skills development	Training spend	3% of personnel costs	3.11%	KPI achieved
	Cadets	30	4	KPI not achieved
	Technician trainees	140	160	KPI achieved
	Sector specific interns	60	41	KPI not achieved
Education/aviation awareness/other CSI initiatives	Total CSI budget	R7m	R3.75m	KPI not achieved This KPI was not achieved as a result of re-prioritising SAA's cash flow allocation.
Procurement	% spend locally	75%	77%	KPI achieved
	Spend on BBBEE compliant companies as a % of local eligible spend	83%	94%	KPI achieved
	% of local spend on black owned entities	15%	7%	KPI not achieved Although it was a focus for SAA to increase its spend on black owned entities, the development of the supplier database was protracted.

Key performance area	Key performance indicator by 31 March 2015	FY2015 Target	FY2015 Actual	Explanations
Energy efficiency	Provide a plan relating to the Energy Self-sufficiency Programme delivering clean energy to the SAA Johannesburg campus through energy interventions such as hydrogen fuel cells, photo voltaic panels and gas turbines to be housed in the SAA Technical area by 31 March 2015.			KPI not achieved SAA is still in the process of selecting and appointing a panel of companies to provide the required energy efficiency and energy generation technologies and solutions to meet the needs of SAA. Once the panel is appointed four projects will immediately be released and implemented.
	Provide a plan for the supplementary clean energy and bio-fuels to Air Chefs through an anaerobic digestion or gasification plant utilising airport organic and other waste and waste from surrounding locations and properties (eg Pick 'n Pay) by 31 March 2015.			SAA and the World Wildlife Fund (WWF)-SA developed a contract to enable multiple programmes including the supplementary energy programme to be developed and discussed between SAA and the WWF. This contract is still subject to the finalisation of payment mechanisms.

EVENTS SUBSEQUENT TO THE STATEMENT REPORTING DATE

Subsequent to the 2015 financial year the following directors resigned: Monwabisi Kalawe (22 April 2015), Tony Dixon (30 October 2015), Wolf Meyer (16 November 2015), Yakhe Kwinana (23 August 2016). Dr John Tambi was removed as a director on 1 September 2016. On 1 September 2016 the Shareholder announced the appointment of the following Board members, Dudu Myeni (Chairperson), Tryphosa Ramano (Deputy Chairperson), Swazi Tshabalala, Thandeka Mgoduso, Akhter Hoosen Moosa, Gugu Sepamla, Siphile Buthelezi, Peter Maluleka, Mzimkulu Malunga, Martha Mbatha, Peter Tshisevhe and Nazmeera Moola.

Nico Bezuidenhout was replaced by Thuli Mpshe as Acting CEO on 29 July 2015 and on 14 November 2015, Thuli Mpshe was replaced by Musa Zwane as Acting CEO. Musa Zwane was appointed to the Board on 4 March 2016. Phumeza Nhantsi was appointed as Interim CFO on 25 November 2015 and to the Board on 4 March 2016.

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 Note 37 of these financial statements titled "Related Parties".

The performance information as envisaged in Subsection 55(2)(a) of the PFMA and Section 28(I)(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 fully 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.

SPECIAL RESOLUTIONS PASSED DURING THE 2014/15 FINANCIAL YEAR

There was one special resolution taken during the 2014/15 financial year. The Shareholder was requested to approve the granting of financial assistance to subsidiaries in terms of Section 45 of the Companies Act.

APPOINTMENT OF AUDITORS

At the Annual General Meeting held on 30 January 2015, the Company reappointed Nkonki Inc and PricewaterhouseCoopers Inc as joint auditors for the 2014/15 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 39 and the terms of the guarantee conditions. Accordingly, any interest which SAA has paid on this loan has been classified as dividends. For the current year, SAA paid interest, classified as dividends, of R98 million (2014: R87 million).

SHARE CAPITAL

Details of the share capital of the Group and company are set out in Note 27 to the annual financial statements.

BOARD COMPOSITION

At 31 March 2015 the Board consisted of six members, four independent non-executive directors and two executive directors. This Board came into office on 23 October 2014 following the resignation and/or removal of seven members of the previous Board.

BOARD EFFECTIVENESS

South African Airways (the company) 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 human resources and finances have been allocated to provide sustainable support to the Board.

Every financial year the performance of the Board and individual directors is evaluated with the assistance of an independent organisation. During the year under review, the evaluation was facilitated by Statucor (Proprietary) Limited. The outcome of the assessment indicated that the Board was a well functioning professional unit with high ethics and a strong regard for governance. Although no areas of concern were identified, a remedial action plan was developed with a view to addressing areas for improvement. Its implementation will be overseen by the Social, Ethics, Governance and Nominations Committee (SEGNCO) to which quarterly progress reports would be made.

The areas that were assessed in the period under review included the following:

- Board independence
- Strategy and company performance
- Compliance with laws and regulations
- Board responsibilities
- Board meetings
- Corporate culture
- Committees of the Board
- Key Corporate Governance role players
- Relationship between Board and management
- Succession planning
- Board composition

MEETINGS AND RELATED MATTERS

The Board meets regularly and retains full and effective management and control over the company. It, inter alia, approves and monitors the development and implementation of policies, strategies and the annual Board Work Plan.

The Board agenda is designed in a manner that enables the Board to focus on policies, strategy, performance monitoring, governance 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 to take informed decisions.

The Board had three scheduled and eight ad hoc meetings during the year under review. Information regarding the attendance of the meetings can be found on page 81.

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 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 various committees is outlined on page 12 of this Integrated Report.

Due to the significant reduction in the number of directors, the Board took a decision in November 2014 to dissolve some of the Board committees and maintain only statutory committees such as the Audit and Risk Committee and the Social, Ethics, Governance and Nominations Committee as well as committees recommended by the King Report on Corporate Governance (King III), such as the Remuneration and Human Resources Committee and the Finance, Investment and Procurement Committee.

AUDIT AND RISK COMMITTEE

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.

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 audit and management after every meeting of the committee to discuss various matters of concern, if any.

The committee had four scheduled meetings during the year under review. Information regarding the attendance of the meetings can be found on page 81.

FINANCE, INVESTMENT AND PROCUREMENT COMMITTEE

During the first quarter of the financial year, the mandate of this committee (previously known as the Procurement and Tender Processes Committee) was extended to include financial planning and investment functions in addition to its procurement oversight role.

This committee is responsible for ensuring that there are systems and procedures in place to ensure that goods and services are procured in a manner that is cost-effective, equitable, transparent and fair. It further ensures that financial planning and investment decisions are effective, efficient and in accordance with the strategic objectives of the company.

The committee has Terms of Reference which sets out its functions and discharged all its duties in accordance with its Terms of Reference during the year under review. The committee had two scheduled meetings during the year under review. The information regarding the attendance of the meetings can be found on page 81.

This committee was dissolved in November 2014, but was reinstated again in August 2015.

AD HOC COMMITTEE ON LITIGATION

This is an ad hoc committee that was established to serve as the principal conduit of instruction and contact with the attorneys acting for SAA in the matter between SAA and its erstwhile CEO, Dr K Ngqula. It monitors and reports to the Board on progress in the litigation and advises the Board on strategic decisions to be made by the Board on the matter.

This committee has its Terms of Reference which are reviewed annually. All its duties as set out in the Terms of Reference were performed during the year under review.

The committee had no meetings during the year under review.

This committee was dissolved in November 2014.

REMUNERATION AND HUMAN RESOURCES COMMITTEE

The Remuneration and Human Resources Committee has Terms of Reference which 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 three scheduled meetings during the year under review. The information regarding the attendance of the meetings can be found on page 81.

LONG-TERM TURNAROUND STRATEGY COMMITTEE

The key functions of this committee included overseeing the development and implementation of the Long-Term Turnaround Strategy and ensuring the successful implementation of the Long-Term Turnaround Strategy in accordance with the approved implementation plan.

Post approval of the Long-Term Turnaround Strategy by the Board during March 2013, the focus of the committee shifted to overseeing effective implementation of the Strategy.

The committee had four scheduled meetings and one ad hoc meeting during the year under review. The information regarding the attendance of the meetings can be found on page 81.

This committee was dissolved in November 2014.

SOCIAL, ETHICS, GOVERNANCE AND NOMINATIONS COMMITTEE

The primary responsibility of this committee is to perform the statutory functions of the social and ethics committee in terms of the Companies Act and to assist the Board with the appointment, induction and development of directors and other governance related matters.

This 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 three scheduled meetings during the year under review. The information regarding the attendance of the meetings can be found on page 81.

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 which is paid to the Board members for the services rendered to the company.

The details of the Board members' remuneration for the year under review are stated in Note 37 to the Integrated Report.

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 being remunerated by paying them a retainer only. This discourages the members from having numerous meetings which may end up compromising their independence;
- Separation of the positions of the Chief Executive Officer and that of the Chairperson;
- The Board committees being 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 having access to independent external advice at the cost of the company;
- The Board members being appointed for a period of three years, reviewable annually. The terms are limited to three terms of three years each which period is not regarded as too long to impact on their independence.

KING CODE OF GOVERNANCE PRINCIPLES FOR SOUTH AFRICA (KING III)

The company acknowledges that each principle recommended in the King III is of equal importance. In line with this acknowledgement, the governance unit of the company applied its mind to all principles with a view to integrating each one of them into the operations of the company. To this end, an integration action plan was developed wherein all principles were analysed and checked if they could be applied in the company given its operating environment.

The principles which are to be applied are systemically integrated into the company's operations, while explanations are recorded for those which can hardly be applied and these are available in the governance register which can be viewed on the company's website. The company has also acquired a governance tool which will enable it to assess compliance with the King III principles and PFMA and take corrective measures where necessary.

PUBLIC FINANCE MANAGEMENT ACT NO 1 OF 1999, AS AMENDED (PFMA)

The company has systems in place to ensure that it complies with this legislation. Its policies and procedures are responsive to the requirements of the PFMA and its regulations. With effect from 12 December 2014, the company reports to National Treasury on compliance with the PFMA and the Treasury Regulations on a quarterly basis. During the period under review the company complied with the requirements.

COMPANIES ACT NO 71 OF 2008, AS AMENDED (COMPANIES ACT)

SAA is also required to comply with the Companies Act. During the year under review, the Companies and Intellectual Property Commission notified SAA that it had contravened Section 45 of the Act, in that SAA failed to comply fully with the provisions of the Act in that SAA did not obtain Shareholder approval prior to the extending of financial assistance to two of its subsidiaries. The company is taking appropriate measures to ensure that this does not reoccur.

The Companies Act requires companies to prepare annual financial statements within six months of year end. SAA failed to comply due to not having obtained a going concern guarantee from its Shareholder.

CODE OF ETHICS

The company has a Code of Ethics by which all employees and Board members are bound. The company's Code of Ethics is underpinned by the company values.

COMPANY SECRETARY

The Company Secretary, inter alia, plays a significant role in providing strategic support and guidance to the Board; conducting induction of new directors; providing the Board with relevant information on regulatory and legislative changes; providing guidance to directors individually and collectively on their duties and responsibilities to the company; providing guidance and advice to the Board on matters of ethics and good governance; facilitating and managing communication with the Shareholder and stakeholders; facilitating and ensuring compliance with the Memorandum of Incorporation, King III, Companies Act, PFMA and other relevant legislation.

The directors have unrestricted access to the advice and services of the Company Secretary.

The Company Secretary ensured that all reports and returns to relevant supervisory institutions were submitted during the year under review.

DIRECTORS' MEETINGS

The following table sets out the composition of the Board committees and the number of directors' meetings (including meetings of committees) held during the year, together with the number of meetings attended by each director.

SAA Board of Directors at 31 March 2015	Date of appointment (A)/ resignation (R)	Board	ARC	FIPCO[1]	REMCO	SEGNCO	AD HOC[1]	LTTSC[1]
Total number of meetings held		11	4	2	3	3	0	5
Ms DC Myeni N (Chairperson)	28 September 2009 (A)	7			1	1		
Ms Y Kwinana N	2 December 2009 (A)	8	3	0		0		0
Mr A Mabizela N	22 October 2014 (R)	4			2	2		5
Mr A Khumalo N	16 October 2014 (R)	5	2				0	5
Dr R Naithani ** N	23 October 2014 (R)	3		2	2			2
Ms C Roskruge N	22 October 2014 (R)	5	2	2				
Ms B Mpondo N	17 October 2014 (R)	5		2	2		0	5
Ms R Lepule N	17 October 2014 (R)	5	2			2		4
Ms N Kubeka N	22 October 2014 (R)	4	1			2		
Mr AD Dixon N	23 October 2014 (A)	6	2		1	1		
Dr JE Tambi *** N	23 October 2014 (A)	6	2		1			
Mr M Kalawe E (CEO)	1 June 2013 (A)	6	1*	1*	1*	1*	0*	4*
Mr WH Meyer E (CFO)	13 June 2011 (A)	7	4*					

Legend

N = Non-executive director
E = Executive director
REMCO = Remuneration and Human Resources Committee
SEGNCO = Social, Ethics, Governance and Nominations Committee
ARC = Audit and Risk Committee
FIPCO = Finance, Investment and Procurement Committee
AD HOC = Ad hoc Committee on Litigation
LTTSC = Long-term Turnaround Strategy Committee
CEO = Chief Executive Officer
CFO = Chief Financial Officer

Footnote

* *Attendance by invitation*
** *Indian national*
*** *Sierra Leonean national*
[1] *Committee disbanded effective 3 November 2014*

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 Group and the company at 31 March 2015, 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.

The directors have every reason to believe that the Group and the company 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 76 of the Directors' report and Note 44 to 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. Their report on the annual financial statements is in accordance with the terms of the Companies Act and the PFMA and appears on page 86.

In preparing the Group and company annual financial statements set out on pages 88 to 146, unless otherwise disclosed, the Group and company have complied with International Financial Reporting Standards, the Companies Act and the reporting requirements of the PFMA and have 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 Group and the company at 31 March 2015, and the results of their operations and cash flows for the year then ended.

These annual financial statements were prepared by management and the previous Board. The Audit and Risk Committee recommended these annual financial statements to be approved by the Board on the 24th of August 2015. The Board reviewed the annual financial statements for the 2014/15 financial year on the 26th of August 2015 and considered the recommendation from the Audit and Risk Committee but resolved to approve the annual financial statements by round-robin once the going concern guarantee had been received from the Shareholder. The guarantee was subsequently received on the 8th of September 2016, after the appointment of the new Board. The new Board has placed reliance on management, the previous Audit and Risk Committee and the previous Board's consideration in approving the annual financial statements. As a result, the newly appointed directors have recommended the annual financial statements for signature based on the resolutions of both the Audit and Risk Committee and the Board. Except for an adjustment to the level of provisions there were no changes to the financial statements that were approved by the previous Audit and Risk Committee and Board of Directors.

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

Duduzile Myeni
Chairperson

18 September 2016

Musa Zwane
Acting Chief Executive Officer

18 September 2016

REPORT OF THE AUDIT AND RISK COMMITTEE

The Audit and Risk Committee (the committee) is pleased to present its report in respect of the financial year ended 31 March 2015 in terms of its obligations according to Paragraph 3.1.13 of the Treasury Regulations issued in terms of section 51(1)(a)(ii) of the Public Finance Management Act, Act No 1 of 1999, as amended by Act No 29 of 1999 (PFMA).

The committee is independent and was appointed by the Shareholder at the annual general meeting (AGM) held on 30 January 2015 in line with the legislative requirements.

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

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

COMMITTEE MEMBERS AND ATTENDANCE AT MEETINGS

The composition of the committee complies with the requirements of section 77 of the PFMA. The committee consists of three independent, non-executive directors and meets quarterly as per its Terms of Reference. The Group's Chief Executive Officer, Chief Financial Officer and Legal Counsel attend committee meetings by invitation. Furthermore Internal Audit, the external auditors and other assurance providers of the Group are invited to every meeting. Details on the number of meetings held for the year and members attendances are set out on page 81. Biographical details of members are provided on pages 10 to 11 of this Integrated Report.

ROLE AND RESPONSIBILITIES

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

The committee has conducted its affairs in compliance with these Terms of Reference for the year ended 31 March 2015 and has discharged its responsibilities contained therein. The Terms of Reference are available on request from the Group Company Secretary whose contact details are provided on page 67 of this Integrated Report.

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

STATUTORY DUTIES

The committee has performed the following statutory duties:

EXTERNAL AUDITORS

The committee has satisfied itself that the external auditors, PricewaterhouseCoopers Inc in joint venture with Nkonki Inc, were independent of the Group as set out in the PFMA, section 90(2)(c) of the Companies Act 2008 as amended, which includes consideration of compliance with criteria relating to independence or conflicts of interest as prescribed by the Independent Regulatory Board for Auditors. Requisite assurance was sought and provided by the external auditors that internal governance processes within PricewaterhouseCoopers Inc and Nkonki Inc support and demonstrate their claim to independence.

The committee, in consultation with executive management, agreed to the engagement letter, terms, audit plan and budgeted audit fees for the 2014/15 financial year. The committee approved a written policy for the provision of non-audit services by the external auditors. The committee is not aware of any significant non-audit service that the external auditors provided during the 2014/15 financial year.

The committee will consider the reappointment of the current external auditors at the AGM in line with the legislative requirements. If the current external auditors are not reappointed at the AGM, a formal procurement process for the external audit function will be embarked upon immediately thereafter.

INTERNAL FINANCIAL CONTROLS

An assessment of the effectiveness of the Group's system of internal controls, which includes internal financial controls, was conducted by Internal Audit during the 2014/15 financial year. The committee has observed that the overall control environment, including financial controls, has continued to improve during the year under review, in line with the trend observed in the previous reporting period. Based on the results of the internal audit assessments, the information and the explanations provided by management and discussions held with external audit on the results of the external audit, the committee concluded and advised the Board that nothing has come to its attention that would suggest that the Group's system of internal financial controls is not effective to form a basis for the preparation of reliable financial statements.

However, there are still some concerns with the level of internal controls within the operations where evidence of lapses of effective monitoring and enforcement by management were observed. 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 be in a constant state of improvement. Where irregular expenditure and fruitless and wasteful expenditure have occurred, this has been mainly a consequence 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 being eliminated towards full compliance. The committee has resolved to ensure that the comprehensive implementation of and the adherence to the internal control environment reforms be expedited.

The 2014/15 audits of SAA's Information Technology (IT) environment has highlighted significant improvements compared to the previous reporting period. The committee is satisfied that the Internal Audit Plan provides for sufficient IT audit coverage in the next three years.

The audits of SAA international outstations have also highlighted some improvements compared to the previous reporting periods.

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 to previous periods. However, there were reported areas that still need further improvement to ensure baggage pilferage is eradicated completely.

The audit of predetermined objectives is a specific focus area for the Auditor General and the committee. The audits in this area indicated that there are effective internal controls. The committee is satisfied that the Internal Audit Plan provides for sufficient audit coverage of this area in the next three years.

FINANCIAL STATEMENTS AND ACCOUNTING PRACTICES

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

GOING CONCERN

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

EXPERTISE AND EXPERIENCE OF THE CHIEF FINANCIAL OFFICER AND FINANCE FUNCTION

The committee has satisfied itself that the Group Chief Financial Officer has appropriate expertise and experience to fulfil his role. The committee is further satisfied with the appropriateness of the expertise and the adequacy of resources of the Group's finance function and the experience of senior members of the finance function.

DUTIES ASSIGNED BY THE BOARD

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

INTERNAL AUDIT

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

The 2014/15 financial year was the third year of the SAA in-house internal audit function after many years of an outsourced internal audit function. The committee is satisfied with the progress made in building an effective in-house internal audit function. The committee will continue working closely with the Chief Audit Executive to ensure that the momentum is not lost.

The 2014/15 Internal Audit Plan and budget were approved by the committee timeously before the start of the financial year. Approximately 95 percent of planned audits were executed successfully. The very few internal audits not conducted were due to management not being ready for audits. These audits have been rolled over to the 2015/16 financial year. Over and above the 95 percent 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 and maintaining the necessary capacity.

RISK GOVERNANCE

The Board has assigned the oversight of the Group's risk management function to the committee. The committee fulfils an oversight function regarding risks in all areas of the Group including operations, finance, fraud, information technology and ethics. For more detail on risk management and regulatory compliance refer to pages 30 to 31 of this Integrated Report. An assessment of the effectiveness of the Group's internal controls system was conducted by Internal Audit during the 2014/15 financial year. Based on this assessment and the ongoing oversight of the committee nothing came to the attention of the committee and the Board that would suggest that the prevailing system of risk management is not in all material respects effective.

WHISTLEBLOWING AND ETHICS

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

INTEGRATED REPORTING

The committee considered the disclosures in the Integrated Report. It performed an oversight function of the integrated reporting process and recommended it to the Board for approval.

The committee considered the Group's combined assurance framework to the integrated reporting process. As the combined assurance framework is still in the process of being formalised and recognising that it is a work in progress, the committee concluded that additional external assurance on the sustainability disclosures contained in the 2014/15 Integrated Report would not be appropriate until such time as the process has been embedded.

THE QUALITY OF IN-YEAR MANAGEMENT AND MONTHLY REPORTS/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.

SPECIFIC FOCUS AREAS FOR THE 2015/16 FINANCIAL YEAR

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

- The implementation of the Long-Term Turnaround Strategy (LTTS);
- Audit of predetermined objectives, ie areas where performance is not meeting targets;
- Information Technology control environment;
- Baggage handling processes;
- Anti-corruption and fraudulent activities and feedback on investigations;
- Compliance with the SAA Supply Chain Management Policy;
- Automation of manual operational and financial controls;
- Implementation of the combined assurance framework;
- Alignment of internal audit and risk management efforts.

MEETING WITH INTERNAL AND EXTERNAL AUDIT

During the year under review, the committee met with external audit and Internal Audit without management being present on a number of occasions. The committee also met with executive management without Internal Audit or external audit. The committee also performed a performance review on itself, Internal Audit and external audit.

DISCHARGE OF RESPONSIBILITIES

The committee agrees that the adoption of the going concern premise is appropriate in preparing the 2014/15 Group and company annual financial statements, pending the issue of the government guarantee that has been applied for. The committee has therefore recommended the adoption of the annual financial statements by the Board of Directors on 24 August 2015.

On behalf of the Audit and Risk Committee

Y Kwinana
Chairperson

South African Airways SOC Limited Audit and Risk Committee

24 August 2015

INDEPENDENT AUDITORS' REPORT TO PARLIAMENT AND THE SHAREHOLDER OF SOUTH AFRICAN AIRWAYS SOC LIMITED

REPORT ON THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

INTRODUCTION

We have audited the consolidated and separate financial statements of South African Airways (SOC) Limited and its subsidiaries set out on pages 88 to 146, which comprise the consolidated and separate statement of financial position as at 31 March 2015, the consolidated and separate statement of profit or loss and other comprehensive income, statements of changes in equity, and statements of cash flows for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information to the financial statements.

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 (IFRS), the requirements of the Public Finance Management Act of South Africa (PFMA) 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.

AUDITOR'S 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, 2004 (Act No 25 of 2004) (PAA), 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 judgment, 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 the South African Airways SOC Limited and its subsidiaries as at 31 March 2015 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.

OTHER REPORTS AS REQUIRED BY THE COMPANIES ACT

As part of our audit of the consolidated and separate financial statements for the year ended 31 March 2015, we have read the Directors' report, the report of the Audit and Risk Committee 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 of South Africa, 2004 (Act No 25 of 2004) and the general notice issued in terms thereof, we have a responsibility to report findings on the reported performance information against predetermined objectives for the selected objectives presented in the Integrated annual report, non-compliance with legislation and internal control. We performed tests to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, we do not express an opinion or conclusion on these matters.

PREDETERMINED OBJECTIVES

We performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the directors' report for the year ended 31 March 2015:

- Objective 1: Financial value creation on page 77
- Objective 2: Safety on page 77
- Objective 3: Skills development on page 77
- Objective 4: Procurement on page 77

We evaluated the reported performance information against the overall criteria of usefulness and reliability.

We evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. We further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).

We assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

We did not identify any material findings on the usefulness and reliability of the reported performance information for the selected objectives.

ADDITIONAL MATTER

Although we raised no material findings on the usefulness and reliability of the reported performance information for the selected objectives, we draw attention to the following matter:

ACHIEVEMENT OF PLANNED TARGETS

Refer to the directors' report on pages 77 to 78 for information on the achievement of the planned targets for the year.

COMPLIANCE WITH LEGISLATION

We performed procedures to obtain evidence that the public 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 Public Audit Act of South Africa, 2004 (Act No 25 of 2004).

IRREGULAR EXPENDITURE AND FRUITLESS AND WASTEFUL EXPENDITURE

Without raising a material finding we draw attention to the disclosure in Note 45 to the financial statements on page 146, irregular expenditure to the value of R68,5 million and fruitless and wasteful expenditure to the value of R52,7 million that have been identified and reported in terms of section 55(2)(b)(i) of the Public Finance Management Act.

INTERNAL CONTROL

We considered internal control relevant to our audit of the consolidated and separate financial statements, 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.

OTHER REPORTS

We draw attention to the following engagements that could potentially impact on the public entity's financial, performance and compliance related matters. Our opinion is not modified in respect of these engagements that are either in progress or have been completed.

INVESTIGATIONS

During the financial year under review the Group employed the services of an independent consulting firm to conduct an investigation into alleged irregularities and fraud. At the reporting date, these investigations are still ongoing.

AUDIT RELATED SERVICES

The following Factual Findings engagements were conducted:

- National Treasury Public Entities Consolidation Template. The factual findings report covered the period 1 April 2014 to 31 March 2015, and was issued to the entity and National Treasury on 31 July 2015.
- The establishment of the Domestic Medium Term Note Programme. The factual findings report covered the period 1 April 2013 to 18 July 2014, and was issued to the entity and Nedbank Capital, a division of Nedbank Limited on 22 July 2014.

nkonki
Experience Ingenuity

Nkonki Inc.

Nkonki Inc.
T Masasa
Registered Auditor
Johannesburg

27 September 2016

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Executive Management: Mzi Nkonki CA(SA) Executive Chairman, Sindi Zilwa CA(SA) Chief Executive Officer, DZ Nkonki FIBSA,FCIS, MBA Chief Operating Officer, Mitesh Patel CA(SA) Managing Partner

A detailed list of Registered Auditors and Directors is available from website www.nkonki.com

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

pwc

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
P Mothibe
Registered Auditor
Johannesburg

27 September 2016

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Chief Executive Officer: TD Shango

Management committee: S N Madikane, J S Masondo, P J Mothibe, C Richardson, F Tonelli, C Volschenk

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

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

for the year ended 31 March 2015

		GROUP		COMPANY	
R MILLION	Notes	2015	2014	2015	2014
Total income		**30 105**	30 266	**27 831**	28 105
Airline revenue	5	**28 513**	28 702	**26 127**	26 459
Other income	6	**1 592**	1 564	**1 704**	1 646
Operating costs		**32 546**	30 640	**30 278**	28 733
Aircraft lease costs	7	**2 840**	2 548	**2 795**	2 498
Accommodation and refreshments		**1 040**	1 006	**1 416**	1 391
Commissions and network charges		**1 461**	1 606	**1 375**	1 529
Electronic data costs		**543**	549	**530**	536
Fuel and other energy costs		**10 217**	11 108	**9 449**	10 356
Employee benefit expenses	10	**5 687**	5 257	**3 747**	3 496
Maintenance costs		**3 412**	2 593	**4 491**	3 821
Navigation, landing and parking fees		**2 207**	2 067	**1 980**	1 878
Fair value and translation movements	12	**25**	(691)	**11**	(730)
Other operating costs		**5 114**	4 597	**4 484**	3 958
Operating loss before interest, tax, depreciation and amortisation	7	**(2 441)**	(374)	**(2 447)**	(628)
Depreciation and amortisation	8	**(819)**	(603)	**(748)**	(532)
Impairments	11	**(1 894)**	(1 375)	**(1 635)**	(1 286)
Net (loss)/gain on disposal of property, aircraft and equipment	9	**(9)**	40	**(3)**	33
Operating loss		**(5 163)**	(2 312)	**(4 833)**	(2 413)
Finance costs	13	**(490)**	(263)	**(523)**	(296)
Interest income	14	**26**	32	**16**	30
Loss before taxation		**(5 627)**	(2 543)	**(5 340)**	(2 679)
Taxation	15	**(12)**	(16)	**–**	–
Loss for the year		**(5 639)**	(2 559)	**(5 340)**	(2 679)
Other comprehensive income/(loss):					
Remeasurements of defined benefit plans*		**(6)**	(23)	**(6)**	(23)
Gains/(impairments) on property revaluations*		**48**	(13)	**(47)**	–
Change in value of available-for-sale financial asset**		**3**	5	**3**	5
Taxation related to components of other comprehensive income	15	**(25)**	–	**–**	–
Other comprehensive income/(loss) for the year net of taxation	16	**20**	(31)	**(50)**	(18)
Total comprehensive loss		**(5 619)**	(2 590)	**(5 390)**	(2 697)
Total comprehensive loss attributable to:					
Owners of the parent		**(5 619)**	(2 590)	**(5 390)**	(2 697)
		(5 619)	(2 590)	**(5 390)**	(2 697)

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

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

GROUP AND COMPANY STATEMENT OF FINANCIAL POSITION

as at 31 March 2015

		GROUP		COMPANY	
R MILLION	Notes	2015	2014	2015	2014
Assets					
Non-current assets					
Property, aircraft and equipment	17	4 623	6 371	3 269	5 136
Intangible assets	18	86	95	70	78
Investments in subsidiaries	19	–	–	1 122	1 122
Deferred tax asset	20	380	398	–	–
Amounts receivable from subsidiaries	22	–	–	1 440	1 347
Non-current prepayments	24	2 184	1 380	2 184	1 380
Retirement benefit asset	30	38	29	38	29
		7 311	8 273	8 123	9 092
Current assets					
Inventories	21	725	808	121	109
Derivatives	23	171	227	171	227
Trade and other receivables	24	4 842	4 883	4 551	4 594
Investments	25	18	15	18	15
Cash and cash equivalents	26	1 266	1 853	1 212	1 189
		7 022	7 786	6 073	6 134
Non-current assets classified as held-for-sale and assets of disposal groups	17	63	63	63	63
Total assets		14 396	16 122	14 259	15 289
Equity and liabilities					
Equity					
Equity attributable to equity holders of parent					
Share capital	27	12 892	12 892	13 126	13 126
Reserves		917	897	493	543
Accumulated loss		(24 352)	(18 615)	(24 246)	(18 808)
		(10 543)	(4 826)	(10 627)	(5 139)
Subordinated loan guaranteed by government	28	1 300	1 300	1 300	1 300
		(9 243)	(3 526)	(9 327)	(3 839)
Liabilities					
Non-current liabilities					
Long-term loans	29	3 684	649	3 669	627
Retirement benefit obligation	30	91	73	91	73
Provisions	31	2 202	1 471	2 194	1 462
Deferred revenue on ticket sales	33	715	845	715	845
		6 692	3 038	6 669	3 007
Current liabilities					
Derivatives	23	346	3	346	3
Current tax payable	39	3	8	–	–
Trade and other payables	34	6 583	6 498	6 291	6 260
Provisions	31	332	176	332	176
Other short-term liabilities	32	63	63	–	–
Current portion of long-term loans	29	4 638	3 721	4 634	3 721
Deferred revenue on ticket sales	33	3 590	4 209	3 415	4 044
Bank overdraft	26	1 392	1 932	1 899	1 917
		16 947	16 610	16 917	16 121
Total liabilities		23 639	19 648	23 586	19 128
Total equity and liabilities		14 396	16 122	14 259	15 289

GROUP AND COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2015

R MILLION	Share capital	Other reserves	Revaluation reserve
GROUP			
Balance at 1 April 2013	12 892	(76)	811
Total comprehensive income for the year	–	(18)	(13)
Dividends paid on government subordinated loan classified as an equity instrument	–	–	–
Balance at 1 April 2014	12 892	(94)	798
Total comprehensive income for the year	**–**	**(3)**	**23**
Dividends paid on government subordinated loan classified as an equity instrument	**–**	**–**	**–**
Balance at 31 March 2015	**12 892**	**(97)**	**821**
COMPANY			
Balance at 1 April 2013	13 126	(76)	444
Total comprehensive income for the year	–	(18)	–
Dividends paid on government subordinated loan classified as an equity instrument	–	–	–
Balance at 1 April 2014	13 126	(94)	444
Total comprehensive income for the year	**–**	**(3)**	**(47)**
Dividends paid on government subordinated loan classified as an equity instrument	**–**	**–**	**–**
Balance at 31 March 2015	**13 126**	**(97)**	**397**

Shareholder restructuring fund	Total share capital and reserves	Accumulated loss	Shareholder's interest	Subordinated loan guaranteed by government	Total equity
193	13 820	(15 969)	(2 149)	1 300	(849)
–	(31)	(2 559)	(2 590)	–	(2 590)
–	–	(87)	(87)	–	(87)
193	13 789	(18 615)	(4 826)	1 300	(3 526)
–	**20**	**(5 639)**	**(5 619)**	**–**	**(5 619)**
–	**–**	**(98)**	**(98)**	**–**	**(98)**
193	**13 809**	**(24 352)**	**(10 543)**	**1 300**	**(9 243)**
193	13 687	(16 042)	(2 355)	1 300	(1 055)
–	(18)	(2 679)	(2 697)	–	(2 697)
–	–	(87)	(87)	–	(87)
193	13 669	(18 808)	(5 139)	1 300	(3 839)
–	**(50)**	**(5 340)**	**(5 390)**	**–**	**(5 390)**
–	**–**	**(98)**	**(98)**	**–**	**(98)**
193	**13 619**	**(24 246)**	**(10 627)**	**1 300**	**(9 327)**

GROUP AND COMPANY STATEMENT OF CASH FLOWS

for the year ended 31 March 2015

		GROUP		COMPANY	
R MILLION	Notes	2015	2014	2015	2014
Cash flows from operating activities					
Cash used in operations	38	**(1 868)**	(147)	**(1 865)**	(416)
Interest income		**26**	32	**16**	30
Finance costs		**(490)**	(263)	**(523)**	(296)
Realised gains from derivative financial instruments		**205**	316	**205**	316
Currency and jet fuel option premium spend		**(173)**	(320)	**(173)**	(320)
Tax paid	39	**(24)**	–	**–**	–
Net cash outflow from operating activities		**(2 324)**	(382)	**(2 340)**	(686)
Cash flows from investing activities					
Additions to property, aircraft and equipment	17	**(4 323)**	(3 129)	**(4 232)**	(3 058)
Proceeds on disposal of property, aircraft, equipment and intangible assets	17, 18	**2 781**	1 808	**2 784**	1 794
Additions to intangible assets	18	**(32)**	(21)	**(26)**	(11)
Net cash outflow from investing activities		**(1 574)**	(1 342)	**(1 474)**	(1 275)
Cash flows from financing activities					
External borrowings raised		**4 342**	3 290	**4 341**	3 289
External borrowings repaid		**(442)**	(419)	**(438)**	(416)
Dividends paid		**(98)**	(87)	**(98)**	(87)
Net cash inflow from financing activities		**3 802**	2 784	**3 805**	2 786
Net (decrease)/increase in cash and cash equivalents		**(96)**	1 060	**(9)**	825
Cash and cash equivalents at the beginning of the year		**(79)**	(1 100)	**(728)**	(1 511)
Foreign exchange effect on cash and cash equivalents		**49**	(39)	**50**	(42)
Cash and cash equivalents at the end of the year	26	**(126)**	(79)	**(687)**	(728)

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2015

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

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

The financial statements are prepared on the basis of the accounting policies applicable to a going concern. This basis presumes that the company will continue to receive the support of its Shareholder and that the realisation of assets and settlement of liabilities will occur in the ordinary course of business. Full disclosure relating to the directors' going concern assessment can be found in Note 44.

These accounting policies are consistent with the previous period.

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

BASIS OF CONSOLIDATION

SUBSIDIARIES

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

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

GOODWILL

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

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

FOREIGN CURRENCY TRANSACTIONS

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

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

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

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

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

REVENUE

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

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

RENDERING OF SERVICES

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

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

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

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

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

FREQUENT FLYER PROGRAMME

SAA operates a frequent flyer programme, SAA Voyager, which provides a variety of awards to programme members based on a mileage credit for flights on SAA and other airlines that participate in the programme. Members can also accrue and redeem miles with non-airline programme partners. Cargo users accumulate equivalent awards relating to freight transported.

Consideration for the provision of Voyager awards consists of annual participation fees, service fees and the sale of miles to Voyager airline and non-airline partners, as well as a portion of the ticket price of SAA flights sold to Voyager members. The participation fees and service fees are recognised as revenue immediately when they become due and payable. The deferred revenue method has been adopted for revenue recognition relating to the sale of airline miles to airline and non-airline partners. Income arising from the sale of miles to airline and non-airline partners is accounted for as deferred revenue in the statement of financial position and only recognised as revenue when SAA fulfils its obligations by supplying free or discounted goods or services on redemption of the accrued miles.

SAA accounts for award credits issued on SAA flights as a separately identifiable component of the sales transaction in which they are earned. The consideration in respect of the initial sale is allocated to award credits based on their fair value and is accounted for as a liability (deferred revenue) in the Group and company statement of financial position. The fair value is determined with reference to the value of the awards for which miles have been redeemed during the last 12 months and is not adjusted for future changes in fair value. Revenue is recognised on unredeemed miles when they expire.

TECHNICAL MAINTENANCE

Revenue from maintenance services rendered external to the Group on a power by the hour basis is recognised as revenue when services are rendered based on maintenance events. Revenue is deferred until the maintenance event takes place. Other maintenance services rendered on a time and material basis are recognised as revenue when services are rendered by reference to the stage of completion of the transaction.

COMMISSION RECEIVED

SAA provides a ticketing service to other airlines. Commission is earned on interline transactions but is only recognised as revenue when the passenger utilises the ticket.

INTEREST INCOME

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

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 AND COMPANY AS LESSEE

Maintenance reserves are payments made to certain lessors in terms of the aircraft lease contract. The lessors are contractually obligated to reimburse the Group and company for the qualifying maintenance expenditure incurred on aircraft if the Group and company has a maintenance reserves credit. Maintenance reserves are recognised as an asset. The recoverability of the asset is assessed annually against the entity's ability to claim against future maintenance events. Where it is deemed that the entity will be unable to claim for a future maintenance event, the maintenance reserve payments are expensed accordingly.

Reimbursement amounts are only recognised as assets in respect of maintenance costs to be reimbursed if the work has been performed and it is probable that the amounts claimed are recoverable in terms of the aircraft lease contract and based on the available balance in the maintenance reserve account.

The reimbursement amounts claimed from lessors in respect of qualifying maintenance are transferred to receivables until actually received.

MAINTENANCE RESERVE: COMPANY AS LESSOR

Where the company leases aircraft to a subsidiary company, appropriate maintenance payments are included in the lease agreements. The maintenance amounts received by the company are recognised as revenue as and when they become due from the lessee.

The provision for maintenance claim liability, limited to the maintenance reserves credits, is raised by the company on receipt of a valid claim for reimbursement in respect of qualifying maintenance costs by the lessee.

TAXATION

Income tax expense represents the sum of the current tax and deferred tax.

CURRENT TAX

The current tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the Group and company statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

DEFERRED TAX

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Group and company financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises on the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

TAXATION (CONTINUED)

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 standby equipment to the extent that SAA is expected to use them in more than one accounting period.

DEPRECIATION

Depreciation is not provided on assets in the course of construction or on land. All other property and equipment are depreciated by recording a charge to profit or loss, computed on a straight-line basis so as to write off the cost of the assets less the anticipated residual value over their estimated useful lives.

When parts of an item of property, aircraft and equipment have different useful lives, those components are identified and the useful lives and residual values are estimated for each component. Where the useful lives for the identified components are similar, those are aggregated and depreciated as one component by applying the useful life relevant to that significant component.

The residual value, depreciation method and the useful life of each asset or component thereof is reviewed at least at each financial year-end and any difference is treated as a change in accounting estimate in accordance with IAS 8.

The following annual rates are applicable:

Asset class	Useful lives
Aircraft and simulators	5 to 20 years
Buildings and structures	10 to 50 years
Furniture	10 years
Office equipment	5 to 10 years
Computer equipment	3 to 5 years
Light motor vehicles	5 years
General purpose vehicles	10 years
Containers	5 years
Machinery	15 to 20 years
Cabin loaders	10 to 20 years
Leased assets	Shorter period of lease or useful life.

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. Residual values of all asset classes are reviewed annually.

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.

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 Group and company statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Manufacturers' credits that represent a portion of manufacturers' cash incentives which have not been taken into account in determining the lease rentals payable on operating leased aircraft are initially recognised as liabilities and are amortised on a straight-line basis over the lease term to reduce the net rental expense payable.

Initial rentals represent amounts paid to the lessor in advance. These are recognised as prepaid lease payments at the commencement of the lease and are amortised on a straight-line basis over the lease term.

GROUP AS LESSOR

Amounts due from lessees under finance leases are recognised as receivables at the amount of the company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the company's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

NON-CURRENT ASSETS HELD-FOR-SALE

Non-current assets and disposal groups are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held-for-sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

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

NON-CURRENT ASSETS HELD-FOR-SALE (CONTINUED)

Non-current assets (and disposal groups) classified as held-for-sale are measured at the lower of their previous carrying amount and fair value less cost of disposal.

INTANGIBLE ASSETS

INTANGIBLE ASSETS ACQUIRED SEPARATELY

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

INTANGIBLE ASSETS ACQUIRED IN A BUSINESS COMBINATION

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

AMORTISATION

Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets assessed to have indefinite useful lives and goodwill are not amortised but are tested for impairment at each reporting period.

The intangible assets with finite useful lives are amortised from the date they are available for use applying the following rates:

Intangible asset class	Useful lives
Application software	3 to 5 years
Internet booking site	5 years

DERECOGNITION OF INTANGIBLE ASSETS

An intangible asset is derecognised on disposal or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Any subsequent expenditure on capitalised intangible assets is capitalised only when it meets the recognition criteria of an intangible asset. All other expenditure is expensed as incurred.

IMPAIRMENTS

INTANGIBLE ASSETS

Intangible assets are tested for impairment whenever there are circumstances that indicate that the carrying value may not be recoverable. Intangible assets that have not yet been brought into use or have an indefinite useful life, including goodwill, will be reviewed for impairment at least on an annual basis.

TANGIBLE ASSETS

The carrying amounts of the Group's tangible assets, which mainly consist of property, aircraft and equipment, are reviewed at each statement of financial position date to determine whether there is any indication that those assets have been impaired. If there is any indication that an asset may be impaired, its recoverable amount is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

CALCULATION OF RECOVERABLE AMOUNT

The recoverable amount is the higher of the asset's fair value less cost of disposal and its value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

REVERSAL OF IMPAIRMENTS

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount. The increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately. An impairment loss in respect of goodwill is not reversed in subsequent periods.

PRE-DELIVERY PAYMENTS (PDPs) AND OTHER AIRCRAFT DEPOSITS

PDPs paid to the manufacturers of aircraft in terms of the contractual arrangements governing the purchase of aircraft are initially recognised as part of capital work in progress at the cost of the consideration delivered. In the event that a decision is taken that it is likely that the underlying aircraft will not be purchased at the expected delivery date, but will be leased under an operating lease, then the related PDPs will be remeasured to the present value of the consideration expected to be received from the ultimate lessor.

This consideration will, if it is denominated in a foreign currency, be translated to the measurement currency by applying the exchange rate ruling at the reporting date.

In calculating the value of the future consideration receivable, any benefit or loss that will result as a consequence of the Group having secured the aircraft at the original contractual price as against the fair value of the aircraft at the date of delivery to the lessor, which is taken into consideration if the future operating lease payments form part of the consideration receivable. Any loss arising on remeasurement is classified as an impairment.

Once the operating lease agreement related to the aircraft has been formally concluded, the receivable amount so arising is transferred from capital work in progress to refundable deposits.

Where an aircraft is delivered under short-term bridging finance, pending the finalisation of an operating lease, the related PDPs and the final instalment paid to the manufacturer are again remeasured at the present value of the expected consideration from the lessor in the same manner as outlined above. Under these circumstances the full consideration receivable is classified under refundable amounts.

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised when a Group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

FINANCIAL ASSETS

Financial assets are classified into the following specified categories: financial assets “at fair value through profit or loss” (FVTPL), “held-to-maturity” investments, “available-for-sale” (AFS) financial assets and “loans and receivables”. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

LOANS AND RECEIVABLES

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, such as trade receivables, loans originated by the Group, fixed deposits and defeasance deposits.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment. Interest income is recognised by applying the effective interest rate method, except for trade and other receivables when the recognition of interest would be immaterial.

AVAILABLE-FOR-SALE FINANCIAL ASSETS

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or that are not classified as at fair value through profit or loss, loans and receivables or held-to-maturity investments.

This category includes listed and unlisted investments, except for investments in subsidiaries.

After initial recognition, available-for-sale financial assets are measured at fair value with unrealised gains or losses being recognised directly in other comprehensive income.

With disposal of financial assets, the accumulated gains and losses recognised in other comprehensive income resulting from measurement at fair value are recognised in profit or loss. If a reliable estimate of the fair value of an unquoted equity instrument cannot be made, this instrument is measured at cost less any impairment losses.

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

FINANCIAL INSTRUMENTS (CONTINUED)

AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

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 42.1.

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 42.1.

DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses derivative financial instruments, such as foreign currency contracts, currency options, commodity derivative swaps, options and collars, to manage its risks associated with foreign currency fluctuations and underlying commodity fluctuations. The Group does not hold or issue derivative financial instruments for trading purposes. Derivative financial instruments are classified as held-for-trading financial assets or financial liabilities.

The Group's derivatives normally have a maturity period of 12 months or less and are therefore presented as current assets or current liabilities.

Embedded derivatives in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

INVESTMENTS

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

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of cash on hand, cash in banks, short-term deposits, bank overdrafts and highly liquid investments and are initially measured at fair value and subsequently measured at amortised cost.

HEDGE ACCOUNTING

The Group does not hedge account as its hedging activities do not meet the criteria for hedge accounting as set out in IAS 39.

EFFECTIVE INTEREST RATE METHOD

The effective interest rate method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest rate method basis for debt instruments other than those financial assets classified as at FVTPL.

IMPAIRMENT OF FINANCIAL ASSETS

Financial assets, other than those at FVTPL are assessed for indicators of impairment at each statement of financial position date. Financial assets are impaired where there is objective evidence that, because of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For categories of financial assets, such as trade receivables, impairment is assessed on an individual basis. Any assets that are assessed not to be impaired on an individual basis are subsequently assessed for impairment on a portfolio basis. The assets are grouped in a portfolio, taking into consideration similar credit risk characteristics. The objective evidence of impairment for a portfolio of receivables normally includes the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of between 60 to 90 days, depending on the defined credit risk assessment for each type of debtor. Any dispute of amount receivable from the debtor is also considered as part of impairment indicators. For more details refer to Note 24.

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 of substantially all the risks and rewards of ownership and the Group retains control), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

FINANCIAL LIABILITIES AND EQUITY INSTRUMENTS

Debt and equity instruments are classified either as financial liabilities or as equity in accordance with the substance of the contractual arrangement.

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 42.1.

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

FINANCIAL INSTRUMENTS (CONTINUED)

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.

RESTRUCTURING PROVISION

A restructuring provision is recognised when the Group has a present obligation (legal or constructive) because of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The obligation to restructure arises when management has made a decision to restructure and a detailed formal plan for restructuring is put in place, an announcement to stakeholders is made and valid expectation to those affected has been raised that it will be carried out or has started to be implemented before the statement of financial position date.

PROVISION FOR LEASE LIABILITIES

For aircraft held under operating lease agreements, SAA is contractually committed to either return the aircraft in a certain condition or to compensate the lessor based on the actual condition of the airframe, engines and life-limited parts upon return. In order to fulfil such conditions of the lease, maintenance in the form of major airframe overhaul, engine maintenance checks, and restitution of major life-limited parts is required to be performed during the period of the lease and upon return of the aircraft to the lessor. The estimated airframe and engine maintenance costs and the costs associated with the restitution of major life-limited parts are accrued and charged to profit or loss over the lease term for this contractual obligation.

EMPLOYEE BENEFITS

PENSION BENEFITS

The Group operates two defined benefit funds as well as various defined contribution funds. The assets of each scheme are held separately from those of the Group and are administered by the schemes' trustees. The funds are actuarially valued by professional independent consulting actuaries.

The Group's contributions to the defined contribution fund are charged to profit or loss during the year in which they relate.

The benefit costs and obligations under the defined benefit fund are determined separately for each fund using the projected unit credit method. The benefit costs are recognised in profit or loss. Remeasurements of defined benefit plans are recognised in the period in which they occur outside of profit or loss in other comprehensive income.

Past service costs are recognised immediately in profit or loss.

When the benefits of a plan are improved, the portion of the increased benefit relating to past services by the employees is recognised as an expense immediately in profit or loss. The amount recognised in the statement of financial position represents the present value of the defined benefit obligation reduced by the fair value of plan assets.

POST-RETIREMENT MEDICAL BENEFITS

Post-retirement medical benefits are provided by the Group to qualifying employees and pensioners. The benefit medical costs are determined through annual actuarial valuations by independent consulting actuaries using the projected unit credit method.

SHORT AND LONG-TERM BENEFITS

The cost of all short-term employee benefits, such as salaries, bonuses, housing allowances, medical and other contributions, is recognised during the period in which the employee renders the related service.

The Group's net obligation in respect of long-term service benefits, other than pension plans, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. This obligation is calculated using the projected unit credit method and is discounted to its present value and the fair value of any related assets is deducted.

TERMINATION BENEFITS

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it has demonstrated its commitment either to terminate the employment of current employees according to a detailed formal plan without the possibility of withdrawal or to provide termination benefits because of an offer made to encourage voluntary redundancy.

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 entity has adopted the following new standards and interpretations that are effective for the current financial year.

Standard/interpretation	Effective date: years beginning on or after	Summary of changes
Amendments to IAS 32 – *Financial instruments: Presentation*, on financial instruments asset and liability offsetting	1 January 2014	The amendment enhances clarity on the offsetting of financial assets and liabilities on the statement of financial position.
Amendments to IFRS 10 – *Consolidated financial statements*, IFRS 12 and IAS 27 for investment entities	1 January 2014	The amendment results in many funds and similar entities being exempted from consolidating most of their subsidiaries in favour of measuring them at fair value through profit and loss. IFRS 12 amendment introduces disclosures that an investment entity needs to make.
IASB issues narrow-scope amendments to IAS 36 – *Impairment of assets* on recoverable amount disclosures	1 January 2014	The amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less cost of disposal.
Amendment to IAS 39 – *Financial instruments: Recognition and measurement*, on novation of derivatives and hedge accounting	1 January 2014	The IASB has amended IAS 39 to provide relief from discontinuing hedge accounting when novation of a hedging instrument to a CCP meets specified criteria. Similar relief will be included in IFRS 9 – *Financial instruments*.
Amendment to IFRS 3 – *Business combinations*	Transactions occurring after 1 July 2014	The amendment is aimed at clarifying the contingent liability in terms of the definition of a financial instrument.
IFRIC 21 – *Levies*	1 January 2014	IFRIC 21 – *Levies*, sets out the accounting for an obligation to pay a levy that is not income tax.

2.2 STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE

The Group has chosen not to early adopt the following standards and interpretations which have been published and are only mandatory for the Group's accounting periods beginning on or after 1 April 2015. The standards and interpretations included below only include those that the directors believe may have an impact on the Group, the quantum of which can not be reliably estimated.

Standard/interpretation	Effective date: years beginning on or after
Amendment to IAS 19 – *Employee benefits*, on defined benefit plans	1 July 2014
IFRS 14 – *Regulatory deferral accounts*	1 January 2016
Amendments to IAS 1 – *Presentation of financial statements,* disclosure initiative	1 January 2016
Amendment to IAS 16 – *Property, plant and equipment* and IAS 38 – *Intangible assets*, on depreciation and amortisation	1 January 2016
Amendments to IAS 27 – *Separate financial statements* on equity accounting	1 January 2016
IFRS 15 – *Revenue from contracts with customers*	1 January 2017
IFRS 9 – *Financial instruments (2009 and 2010)* • Financial liabilities • Derecognition of financial instruments • Financial assets • General hedge accounting	1 January 2018
Amendment to IFRS 9 – *Financial instruments*, on general hedge accounting	1 January 2018
IFRS 16 – *Leases*	1 January 2019
Amendment to IFRS 13 – *Fair value measurement*	1 July 2014

Standard/interpretation	Effective date: years beginning on or after
IFRS 16 – *Leases*	1 January 2019
IAS 16 – *Property, plant and equipment*, and IAS 38 – *Intangible assets*	1 July 2014
IAS 24 – *Related party disclosures*	1 July 2014
IFRS 5 – *Non-current assets held-for-sale and discontinued operations*	1 January 2016
IFRS 7 – *Financial instruments: disclosures*	1 January 2016
IAS 19 – *Employee benefits*	1 January 2016

3. CRITICAL JUDGEMENTS IN APPLYING THE ENTITY'S ACCOUNTING POLICIES

USEFUL LIVES, DEPRECIATION METHOD AND RESIDUAL VALUES OF PROPERTY, AIRCRAFT AND EQUIPMENT

The Group assesses the useful lives, depreciation method and residual values of property, aircraft and equipment at each reporting date. During the year it was determined that the remaining useful lives and residual values of owned aircraft be amended as detailed below. The useful lives, residual values and the depreciation method of all other classes of assets remained unchanged as they were deemed to be appropriate.

CHANGE IN ESTIMATE

Included in the loss before tax is a change in estimate regarding the depreciation charge. The useful lives and the residual values of aircraft were reassessed during the current year and it was determined that there was only a maximum of six years remaining. The effect of the change in estimate is an increase in the loss before tax of R234 million. The carrying value of these aircraft would have been R1 678 million using the original estimate, the current carrying value of these aircraft using the amended estimate is now R1 444 million at year-end. The cumulative effect of the change on the future periods will be an increase in the depreciation charge of R234 million.

MAINTENANCE RESERVES EXPENSED

Maintenance reserves prepayments unutilised at the expiry of the lease term are not refundable. The Group estimates the unutilised balance that is likely to remain at the end of the lease term based on planned events and assumed consumed life of leased aircraft and their components between year-end and the lease expiry date and uses this estimate as the basis for expensing maintenance reserve payments. The recognition of the maintenance reserves assets and values thereof are subject to critical judgements followed by management.

VALUATION OF PROPERTIES

During the year, land and buildings were revalued, further details of the relevant critical judgements can be found in Note 17.

IMPAIRMENT OF ASSETS

Detail of the critical judgements made to determine the extent of impairment of assets required for the period under review can be found in Note 11.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below:

FREQUENT FLYER PROGRAMME

SAA accounts for award credits as a separately identifiable component of the sales transaction in which they are granted. The consideration in respect of the initial sale is allocated to award credits based on their fair value and is accounted for as a liability (deferred revenue) in the Group and company statement of financial position.

Estimation techniques are used to determine the fair value of award credits. The estimation technique applied considers the fair value of a range of different redemption options by reference to their cash selling prices, such as airfares on different routes and in different classes of travel as well as flight upgrades and partner rewards. A weighted average value per mile is derived based on past experience of the mix of rewards selected by Voyager members. A 12-month historical trend forms the basis of the calculations. The number of award credits not expected to be redeemed by members is also factored into the estimation of the fair value.

Professional judgement is exercised by management due to the diversity of inputs that go into determining the fair value of the award credits and due to the possibility that the trend may change over time.

The carrying amount of long-term frequent flyer deferred revenue at year-end was R715 million (2014: R845 million) and the carrying amount of short-term frequent flyer deferred revenue was R609 million (2014: R602 million). Please refer to Note 33 for more details regarding the frequent flyer deferred revenue.

			GROUP		COMPANY	
	R MILLION	Notes	2015	2014	2015	2014
5.	**AIRLINE REVENUE**					
	The analysis of airline revenue for the year is as follows:					
	Passenger revenue		**18 978**	19 706	**17 119**	17 962
	Freight and mail		**1 744**	1 601	**1 742**	1 600
	Technical services		**701**	637	**188**	147
	Voyager income	33	**771**	859	**771**	859
	Commission received		**86**	100	**74**	92
	Release from prescribed tickets		**372**	366	**372**	366
	Release from prescribed air waybills		**28**	–	**28**	–
	Fuel levies		**5 833**	5 433	**5 833**	5 433
			28 513	28 702	**26 127**	26 459
6.	**OTHER INCOME**					
	Other income is made up of the following items:					
	Handling revenue		**134**	121	**58**	60
	Income from leased assets		**69**	64	**305**	238
	Other recoveries*		**1 389**	1 379	**1 341**	1 348
			1 592	1 564	**1 704**	1 646
	* *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 among others, the following:					
	Operating lease payments					
	Aircraft		**2 840**	2 548	**2 795**	2 498
	Buildings		**111**	98	**94**	81
	Equipment and vehicles		**54**	34	**43**	27
	Total operating lease payments		**3 005**	2 680	**2 932**	2 606
	Auditors' remuneration					
	Audit fees – current year		**13**	15	**9**	10
	Other regulatory audit services		**1**	1	**1**	1
	Non-audit services		**2**	3	**2**	3
	Total auditors' remuneration		**16**	19	**12**	14
	Directors' emoluments and executive management emoluments are disclosed in Note 37.					
8.	**DEPRECIATION AND AMORTISATION**					
	Aircraft and simulators		**(628)**	(414)	**(621)**	(409)
	Buildings and structures		**(64)**	(65)	**(40)**	(41)
	Machinery, equipment and furniture		**(72)**	(75)	**(49)**	(46)
	Vehicles and cabin loaders		**(14)**	(12)	**(4)**	(4)
	Total depreciation	17	**(778)**	(566)	**(714)**	(500)
	Amortisation of intangible assets	18	**(41)**	(37)	**(34)**	(32)
	Total depreciation and amortisation		**(819)**	(603)	**(748)**	(532)

	R MILLION	Notes	GROUP 2015	GROUP 2014	COMPANY 2015	COMPANY 2014
9.	**NET (LOSS)/GAIN ON DISPOSAL OF PROPERTY, AIRCRAFT AND EQUIPMENT**					
	Net (loss)/gain on disposal of property, aircraft and equipment comprises the following:					
	Profit on disposal of property, aircraft and equipment		**–**	208	**–**	190
	Loss on disposal of property, aircraft and equipment		**(9)**	(168)	**(3)**	(157)
			(9)	40	**(3)**	33
10.	**EMPLOYEE BENEFIT EXPENSES**					
10.1	**SHORT-TERM EMPLOYEE BENEFIT EXPENSES**					
	Personnel and labour costs		**5 203**	4 776	**3 409**	3 153
	Contribution to medical funds		**66**	61	**45**	40
			5 269	4 837	**3 454**	3 193
10.2	**POST-EMPLOYMENT BENEFIT EXPENSES***					
	Contribution to pension funds		**394**	379	**269**	262
	Contribution to provident funds		**57**	50	**57**	50
	Current-service cost		**18**	18	**18**	18
	Interest cost		**124**	107	**124**	107
	Return on plan assets		**(175)**	(134)	**(175)**	(134)
			418	420	**293**	303
	Total employee benefit expenses		**5 687**	5 257	**3 747**	3 496
11.	**IMPAIRMENTS**					
	Impairment of loans and receivables held at amortised cost					
	Reversal of impairment/(impairment) of accounts receivable		**12**	(32)	**(3)**	2
	Impairment of other assets					
	Impairment of investments in subsidiaries	19	**–**	–	**–**	(122)
	Impairment of loans to subsidiaries	22	**–**	–	**(3)**	(15)
	Impairment of PDPs		**(121)**	–	**(121)**	–
	Impairment of aircraft		**(1 508)**	(1 151)	**(1 508)**	(1 151)
	Impairment arising from write-down of Inventory to NRV		**(277)**	(192)	**–**	–
			(1 894)	(1 375)	**(1 635)**	(1 286)

** 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 36.*

IMPAIRMENT OF AIRCRAFT

WIDE-BODY FLEET

A deliverable of the 90-Day Action Plan was the revision of SAA's Network and Fleet Plan. The plan was approved by the Board and included the planned replacement of the Group's owned A340 fleet. The useful lives and residual values of these aircraft were reassessed at year end and the resulting depreciation charge recognised. The remaining carrying value exceeded the recoverable amount of these aircraft and an impairment of R827 million (2014: R782 million) was recognised.

The recoverable amount of these aircraft, was determined to be the value in use, as its fair value less costs of disposal are negligible. In assessing the value in use, the estimated future cash flows relating to these aircraft, based on the revised useful lives, were discounted to its present value using a pre-tax discount rate of 16,2 percent (2014: 17,4 percent), which is the Group's adjusted weighted average cost of capital (WACC). This rate best reflects current market assessments of the time value of money and the risks specific to these assets.

11. IMPAIRMENTS (CONTINUED)

NARROW-BODY FLEET

During the current financial year the airline took delivery of six new A320 aircraft. The agreement for the outright purchase of 20 aircraft, which was originally entered into in 2002 and later re-negotiated in 2009, provided for annual escalations which resulted in the actual purchase price exceeding the recoverable amount, which was the market value of these aircraft, at the date of delivery. The financing of these aircraft was facilitated by way of sale and leaseback transactions, which necessitated the impairment of each aircraft to its recoverable amount on the delivery date. As a result, impairments of R681 million (2014: R369 million) were recognised during the current financial year.

IMPAIRMENT OF INVENTORY

As a result of the decision to replace the Group's wide-body fleet, and in addition to the required impairment on its wide-body fleet, an impairment of R277 million (2014: R192 million) was recognised during the financial year on all inventory related items as a result of their write-down to their net realisable value.

IMPAIRMENT OF PDPs

To the extent that SAA may not fully recover all PDPs paid in respect of the 10 A320 aircraft that will be substituted by five A330 aircraft, an impairment of R121 million has been made.

	GROUP		COMPANY	
R MILLION	2015	2014	2015	2014
12. FAIR VALUE AND TRANSLATION MOVEMENTS				
Foreign exchange (gain)/loss on translation of:				
Foreign cash balances	**(49)**	39	**(50)**	42
Foreign currency denominated net receivables	**(82)**	(419)	**(91)**	(475)
Net monetary assets and liabilities	**(211)**	(235)	**(215)**	(221)
Translation of foreign assets and liabilities	**(342)**	(615)	**(356)**	(654)
Fair value loss/(gain) on derivative instruments held-for-trading:				
Realised gain on derivatives	**(205)**	(316)	**(205)**	(316)
Fair value loss on derivative financial instruments	**572**	240	**572**	240
Net fair value loss/(gain) on derivative instruments held-for-trading	**367**	(76)	**367**	(76)
Total fair value and translation movements	**25**	(691)	**11**	(730)
13. FINANCE COSTS				
The interest paid related to financial liabilities held at amortised cost is detailed below:				
Interest paid on long-term borrowings	**(404)**	(176)	**(404)**	(176)
Interest paid on overdraft	**(86)**	(87)	**(81)**	(84)
Other interest paid	**–**	–	**(38)**	(36)
	(490)	(263)	**(523)**	(296)
Recognised directly in equity				
Interest paid on subordinated loan guaranteed by government classified as a dividend	**98**	87	**98**	87
14. INTEREST INCOME				
Interest received was derived from:				
Cash and bank balances	**24**	29	**14**	27
Loans and receivables	**2**	3	**2**	3
	26	32	**16**	30

R MILLION	GROUP 2015	GROUP 2014	COMPANY 2015	COMPANY 2014
15. TAXATION				
Major components of the tax expense				
Current				
Local income tax – current year	**(20)**	(8)	**–**	–
Deferred				
Deferred tax – current year	**8**	(8)	**–**	–
Deferred tax recognised on components of other comprehensive income – current year	**(25)**	–	**–**	–
	(37)	(16)	**–**	–
Reconciliation of the tax expense				
Reconciliation between accounting loss and tax expense:				
Accounting loss	**5 627**	2 543	**5 340**	2 679
Tax at the applicable tax rate of 28% (2014: 28%)	**1 576**	712	**1 495**	750
Tax effect of adjustments on taxable income				
Tax effect of non-taxable income	**–**	35	**–**	–
Tax effect of non-deductible expenses	**(336)**	(328)	**(300)**	(328)
Current year temporary differences for which no deferred income tax asset was recognised	**(526)**	(248)	**(339)**	(204)
Tax losses for which no deferred income tax asset was recognised	**(778)**	(211)	**(883)**	(242)
Interest classified as a dividend – tax deductible	**27**	24	**27**	24
	(37)	(16)	**–**	–
Estimated tax losses available to be utilised against future taxable income	**16 608**	14 231	**15 487**	12 339

R MILLION	Gross	Tax	Net
16. OTHER COMPREHENSIVE INCOME/(LOSS)			
COMPONENTS OF OTHER COMPREHENSIVE INCOME/(LOSS)			
GROUP – 2015			
Movements in other reserves			
Remeasurement of SAA German Pension Fund	**(24)**	**–**	**(24)**
Remeasurement of SAA subfund of Transport Pension Fund	**12**	**–**	**12**
Remeasurement of post-retirement medical benefits	**6**	**–**	**6**
Change in value of available-for-sale financial asset	**3**	**–**	**3**
	(3)	**–**	**(3)**
Movements in revaluation reserve			
Gain on property revaluations	**48**	**(25)**	**23**
Total	**45**	**(25)**	**20**
COMPONENTS OF OTHER COMPREHENSIVE INCOME/(LOSS)			
GROUP – 2014			
Movements in other reserves			
Remeasurement of SAA German Pension Fund	(19)	–	(19)
Remeasurement of SAA subfund of Transport Pension Fund	(16)	–	(16)
Remeasurement of post-retirement medical benefits	12	–	12
Change in value of available-for-sale financial asset	5	–	5
	(18)	–	(18)
Movements in revaluation reserve			
Impairment on property revaluations	(13)	–	(13)
Total	(31)	–	(31)

16. OTHER COMPREHENSIVE INCOME/(LOSS) (CONTINUED)

COMPONENTS OF OTHER COMPREHENSIVE INCOME/(LOSS)

R MILLION	Gross	Tax	Net
COMPANY – 2015			
Movements in other reserves			
Remeasurement of SAA German Pension Fund	(24)	–	(24)
Remeasurement of SAA subfund of Transport Pension Fund	12	–	12
Remeasurement of post-retirement medical benefits	6	–	6
Change in value of available-for-sale financial asset	3	–	3
	(3)	–	(3)
Movements in revaluation reserve			
Impairment on property revaluations	(47)	–	(47)
Total	(50)	–	(50)

COMPONENTS OF OTHER COMPREHENSIVE INCOME/(LOSS)

R MILLION	Gross	Tax	Net
COMPANY – 2014			
Movements in other reserves			
Remeasurement of SAA German Pension Fund	(19)	–	(19)
Remeasurement of SAA subfund of Transport Pension Fund	(16)	–	(16)
Remeasurement of post-retirement medical benefits	12	–	12
Change in value of available-for-sale financial asset	5	–	5
	(18)	–	(18)

17. PROPERTY, AIRCRAFT AND EQUIPMENT

	2015			2014		
R MILLION	Cost/ valuation	Accumulated depreciation	Carrying value	Cost/ valuation	Accumulated depreciation	Carrying value
GROUP						
Land	437	–	437	397	–	397
Buildings and structures	1 774	(300)	1 474	1 777	(236)	1 541
Machinery, equipment and furniture	894	(592)	302	872	(568)	304
Vehicles and cabin loaders	157	(82)	75	144	(69)	75
Aircraft and simulators	10 125	(7 972)	2 153	10 015	(6 619)	3 396
Containers	30	(30)	–	29	(29)	–
Capital work in progress	182	–	182	658	–	658
Total	13 599	(8 976)	4 623	13 892	(7 521)	6 371
COMPANY						
Land	48	–	48	55	–	55
Buildings and structures	1 016	(224)	792	1 070	(185)	885
Machinery, equipment and furniture	486	(309)	177	469	(296)	173
Vehicles and cabin loaders	46	(25)	21	44	(22)	22
Aircraft and simulators	10 027	(7 953)	2 074	9 942	(6 605)	3 337
Containers	29	(29)	–	29	(29)	–
Capital work in progress	157	–	157	664	–	664
Total	11 809	(8 540)	3 269	12 273	(7 137)	5 136

R MILLION	Opening balance	Additions	Disposals	Transfers	Revaluations	Depreciation	Impairment loss	Total
GROUP – 2015								
Reconciliation								
Land	397	–	–	–	40	–	–	437
Buildings and structures	1 541	7	(20)	2	8	(64)	–	1 474
Machinery, equipment and furniture	304	47	–	23	–	(72)	–	302
Vehicles and cabin loaders	75	14	–	–	–	(14)	–	75
Aircraft and simulators	3 396	3 658	(2 770)	5	–	(628)	(1 508)	2 153
Containers	–	–	–	–	–	–	–	–
Capital work in progress	658	597	–	(1 073)	–	–	–	182
	6 371	4 323	(2 790)	(1 043)*	48	(778)	(1 508)	4 623

R MILLION	Opening balance	Additions	Disposals	Classified as held-for-sale	Transfers	Revaluations of PDPs	Depreciation	Impairment loss	Total
GROUP – 2014									
Reconciliation									
Land	453	–	–	(56)	–	–	–	–	397
Buildings and structures	1 584	22	(3)	(7)	10	–	(65)	–	1 541
Machinery, equipment and furniture	307	47	(6)	–	31	–	(75)	–	304
Vehicles and cabin loaders	50	38	(1)	–	–	–	(12)	–	75
Aircraft and simulators	4 059	2 278	(1 695)	–	319	–	(414)	(1 151)	3 396
Containers	–	–	–	–	–	–	–	–	–
Capital work in progress	1 129	744	–	–	(1 337)	122	–	–	658
	7 582	3 129	(1 705)	(63)	(977)*	122	(566)	(1 151)	6 371

R MILLION	Opening balance	Additions	Disposals	Transfers	Revaluations	Depreciation	Impairment loss	Total
COMPANY – 2015								
Reconciliation								
Land	55	–	–	–	(7)	–	–	48
Buildings and structures	885	5	(20)	2	(40)	(40)	–	792
Machinery, equipment and furniture	173	30	–	23	–	(49)	–	177
Vehicles and cabin loaders	22	3	–	–	–	(4)	–	21
Aircraft and simulators	3 337	3 628	(2 767)	5	–	(621)	(1 508)	2 074
Containers	–	–	–	–	–	–	–	–
Capital work in progress	664	566	–	(1 073)	–	–	–	157
	5 136	4 232	(2 787)	(1 043)*	(47)	(714)	(1 508)	3 269

** This amount represents the balance of PDPs transferred to prepayments.*

17. PROPERTY, AIRCRAFT AND EQUIPMENT (CONTINUED)

COMPANY – 2014

Reconciliation

R MILLION	Opening balance	Additions	Disposals	Classified as held-for-sale	Transfers	Revaluations of PDPs	Depreciation	Impairment loss	Total
Land	111	–	–	(56)	–	–	–	–	55
Buildings and structures	912	15	(2)	(7)	8	–	(41)	–	885
Machinery, equipment and furniture	171	21	(2)	–	29	–	(46)	–	173
Vehicles and cabin loaders	7	19	–	–	–	–	(4)	–	22
Aircraft and simulators	4 019	2 253	(1 694)	–	319	–	(409)	(1 151)	3 337
Containers	–	–	–	–	–	–	–	–	–
Capital work in progress	1 125	750	–	–	(1 333)	122	–	–	664
	6 345	3 058	(1 698)	(63)	(977)*	122	(500)	(1 151)	5 136

** This amount represents the balance of PDPs transferred to prepayments.*

A register of land and buildings 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 R1,4 billion (2014: R1,6 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. For more information regarding the impairment of aircraft, refer to Note 11.

For both (a) land and buildings held using the revaluation approach and (b) the non-current asset held-for-sale, the fair value was determined by an independent external valuation expert during the first quarter of the financial year, using the income capitalisation method of valuation. The utilisation of the property in terms of its industrial use is considered to be its highest and best use. A capitalisation rate of 12 percent was used in the valuation with comparative rentals in the area being applied in the model. As the valuation includes significant unobservable inputs, it is classified as level 3 in the fair value hierarchy.

Asset and disposal groups held-for-sale are as follows:

NON-CURRENT ASSETS HELD-FOR-SALE

	GROUP		COMPANY	
R MILLION	**2015**	2014	**2015**	2014
Carrying value of land and buildings held-for-sale	**63**	63	**63**	63
	63	63	**63**	63

18. INTANGIBLE ASSETS

	2015			2014		
R MILLION	**Cost/ valuation**	**Accumulated amortisation/ impairment**	**Carrying value**	Cost/ valuation	Accumulated amortisation/ impairment	Carrying value
GROUP						
Software development	**557**	**(474)**	**83**	525	(433)	92
Internet booking site	**39**	**(36)**	**3**	39	(36)	3
Goodwill*	**35**	**(35)**	**–**	35	(35)	–
Total	**631**	**(545)**	**86**	599	(504)	95

R MILLION	2015 Cost/ valuation	2015 Accumulated amortisation/ impairment	2015 Carrying value	2014 Cost/ valuation	2014 Accumulated amortisation/ impairment	2014 Carrying value
COMPANY						
Software development	517	(450)	67	491	(416)	75
Internet booking site	39	(36)	3	39	(36)	3
Total	556	(486)	70	530	(452)	78

R MILLION	Opening balance	Additions	Amortisation	Total
GROUP – 2015				
Reconciliation				
Software development	92	32	(41)	83
Internet booking site	3	–	–	3
Goodwill*	–	–	–	–
	95	32	(41)	86
GROUP – 2014				
Reconciliation				
Software development	108	21	(37)	92
Internet booking site	3	–	–	3
Goodwill*	–	–	–	–
	111	21	(37)	95
COMPANY – 2015				
Reconciliation				
Software development	75	26	(34)	67
Internet booking site	3	–	–	3
	78	26	(34)	70
COMPANY – 2014				
Reconciliation				
Software development	96	11	(32)	75
Internet booking site	3	–	–	3
	99	11	(32)	78

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

R MILLION	COMPANY 2015	COMPANY 2014
19. INVESTMENTS IN SUBSIDIARIES		
Shares at cost	2 404	2 404
Impairment of investments in subsidiaries	(1 282)	(1 282)
	1 122	1 122

Subsidiary	Place of incorporation	Nature of business
19. INVESTMENTS IN SUBSIDIARIES (CONTINUED)		
Mango Airlines SOC Limited	South Africa	Airline business
SAA Technical SOC Limited	South Africa	Maintenance of aircraft
Air Chefs SOC Limited	South Africa	Airline catering
South African Airways City Center SOC Limited	South Africa	Travel agency

		PERCENTAGE HOLDING		R MILLION SHARES AT COST	
Name of company	Shares	2015	2014	2015	2014
Mango Airlines SOC Limited	1 120	**100**	100	**336**	336
SAA Technical SOC Limited	200	**100**	100	**1 960**	1 960
Air Chefs SOC Limited	100	**100**	100	**106**	106
South African Airways City Center SOC Limited	1 000	**100**	100	**2**	2
				2 404	2 404
Impairment of investments in subsidiaries				**(1 282)**	(1 282)
				1 122	1 122

All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from the proportion of ordinary shares held. The parent company does not have any shareholdings in the preference shares of subsidiary undertakings included in the Group. The net aggregate losses in subsidiaries for the year amounted to R214 million (2014: R132 million).

	GROUP		COMPANY	
R MILLION	2015	2014	2015	2014
20. DEFERRED TAX ASSET				
Temporary differences in respect of property, aircraft and equipment	**(1 015)**	(1 286)	**(830)**	(1 090)
Doubtful debts	**29**	38	**25**	28
Air traffic liability and other deferred income	**839**	1 085	**799**	973
Provisions	**1 370**	1 258	**1 097**	1 120
Prepayments	**(38)**	(67)	**(36)**	(41)
Differences due to changes in fair value of financial instruments	**(51)**	(63)	**(51)**	(63)
Leased assets	**4**	6	**–**	–
Computed tax loss	**4 650**	3 985	**4 336**	3 455
	5 788	4 956	**5 340**	4 382
Deferred tax asset not recognised	**(5 408)**	(4 558)	**(5 340)**	(4 382)
Deferred tax asset recognised	**380**	398	**–**	–

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 R5,4 billion (2014: R4,6 billion) in respect of losses amounting to R16,6 billion (2014: R14,2 billion) that can be carried forward against future taxable income. It is anticipated that there will be sufficient taxable income in future periods to support the recognition of the deferred tax asset reflected above.

R MILLION	GROUP 2015	GROUP 2014	COMPANY 2015	COMPANY 2014
21. INVENTORIES				
Maintenance inventories	**1 178**	1 092	**–**	–
Work in progress	**61**	19	**–**	–
Consumables	**178**	165	**121**	109
	1 417	1 276	**121**	109
Impairment of Inventories	**(692)**	(468)	**–**	–
	725	808	**121**	109
Reconciliation of impairment of inventories				
Opening balance	**(468)**	(289)	**–**	–
Reversal of previous write-downs to NRV	**53**	13	**–**	–
Write-down of Inventories recognised as an expense during the year	**(277)**	(192)	**–**	–
Closing balance	**(692)**	(468)	**–**	–

The write-down of inventories in the current and prior year relates to the impairment of obsolete aircraft spares. This stock has been impaired to its net realisable value. The reversal of write-down of inventories in the current and prior year relates to obsolete aircraft spares that were written down to their net realisable value and have now subsequently been sold.

R MILLION	COMPANY 2015	COMPANY 2014
22. AMOUNTS RECEIVABLE FROM SUBSIDIARIES		
SUBSIDIARIES		
SAA Technical SOC Limited	**1 262**	1 169
Air Chefs SOC Limited	**178**	178
South African Airways City Center SOC Limited	**18**	15
	1 458	1 362
Impairment of loans to subsidiaries	**(18)**	(15)
	1 440	1 347

The amounts receivable from the subsidiaries are interest free. These balances fluctuate in line with the financing requirements of the subsidiaries and there are no fixed terms of repayment.

R MILLION	Jet fuel options	Currency derivatives	Jet fuel forward exchange contracts and swaps	Total
23. DERIVATIVES				
GROUP AND COMPANY				
Fair value at 1 April 2014	79	125	20	224
Assets	79	128	20	227
Liabilities	–	(3)	–	(3)
Amounts spent on premiums	70	103	–	173
Fair value movements for the year ended 31 March 2015	(94)	(112)	(366)	(572)
Fair value at 31 March 2015	**55**	**116**	**(346)**	**(175)**
Assets	**55**	**116**	**–**	**171**
Liabilities	**–**	**–**	**(346)**	**(346)**

	GROUP		COMPANY	
R MILLION	2015	2014	2015	2014
24. TRADE AND OTHER RECEIVABLES				
Gross accounts receivable	2 200	2 487	2 034	2 340
Allowance for impairment	(98)	(125)	(81)	(90)
	2 102	2 362	1 953	2 250
Prepayments	2 110	2 112	1 990	1 946
Other receivables	630	409	608	398
	4 842	4 883	4 551	4 594
Reconciliation of impairment of trade and other receivables				
Opening balance	(125)	(128)	(90)	(125)
Reversal of Impairments/(impairments)	12	(32)	(3)	2
Amounts utilised for write-offs	15	35	12	33
Closing balance	(98)	(125)	(81)	(90)

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.

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
GROUP – 2015				
BSP	945	924	12	9
Credit card	208	186	16	6
GSA	105	92	9	4
Stations	19	13	–	6
Cargo freight and mail	342	165	152	25
Airline catering	4	3	–	1
Travel services	5	2	3	–
Technical maintenance	204	133	56	15
Alliance partners	235	127	108	–
Voyager	71	39	32	–
Default debtors	31	–	–	31
Other trade debtors	31	–	30	1
	2 200	1 684	418	98
COMPANY – 2015				
BSP	945	924	12	9
Credit card	208	186	16	6
GSA	105	92	9	4
Stations	19	13	–	6
Cargo freight and mail	342	165	152	25
Alliance partners	235	127	108	–
Voyager	71	39	32	–
Default debtors	31	–	–	31
Other trade debtors	78	47	31	–
	2 034	1 593	360	81

R MILLION	Gross amount	Current not yet past due	Past due but not impaired	Impaired amount
GROUP – 2014				
BSP	1 057	1 044	7	6
Credit card	260	250	5	5
GSA	96	95	(2)	3
Stations	5	2	–	3
Cargo freight and mail	111	53	26	32
Airline catering	15	8	7	–
Travel services	3	3	–	–
Technical maintenance	182	117	30	35
Alliance partners	373	230	143	–
Voyager	93	47	46	–
Default debtors	40	–	–	40
Other trade debtors	252	221	30	1
	2 487	2 070	292	125
COMPANY – 2014				
BSP	1 057	1 044	7	6
Credit card	260	250	5	5
GSA	96	95	(2)	3
Stations	5	2	–	3
Cargo freight and mail	111	53	26	32
Alliance partners	373	230	143	–
Voyager	93	47	46	–
Default debtors	40	–	–	40
Other trade debtors	305	274	30	1
	2 340	1 995	255	90

	GROUP		COMPANY	
R MILLION	2015	2014	2015	2014
Past due but not impaired can be analysed further in terms of ageing as follows:				
30 to 60 days	**228**	–	**208**	–
61 to 90 days	**19**	114	**6**	95
91 to 120 days	**63**	37	**38**	37
+120 days	**108**	141	**108**	123
	418	292	**360**	255
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	**1 576**	1 947	**1 485**	1 872
Trade debtors where there have been isolated instances of default but no loss suffered	**108**	123	**108**	123
	1 684	2 070	**1 593**	1 995

Collateral held

BSP debtors are credit-vetted by IATA, which holds a guarantee appropriate to the level of risk identified. Should an agent be in default with IATA, the guarantee is encashed and apportioned between the creditor airlines. SAA holds additional guarantees of R66 million in respect of local GSA debtors and R118 million in respect of Cargo debtors and Cargo GSAs.

		GROUP		COMPANY	
	R MILLION	2015	2014	2015	2014
24.	**TRADE AND OTHER RECEIVABLES (CONTINUED)**				
	NON-CURRENT PREPAYMENTS				
	Pre-delivery payments (PDPs)	217	–	217	–
	Non-current portion of maintenance reserve receivable	1 967	1 380	1 967	1 380
		2 184	1 380	2 184	1 380
	In accordance with the accounting policy, in the event that it is unlikely that the underlying aircraft will be purchased at the expected delivery date, but will be leased under an operating lease, the related PDPs will be transferred to receivables. The amount above represents the long-term portion of such PDPs. Maintenance reserves receivable represent amounts that will be received in a period exceeding 12 months.				
	Included in non-current prepayments are amounts in respect of maintenance payments made to lessors. Refer to the accounting policies section for details of the treatment of these claims.				
	Maintenance reserve receivable	3 996	3 555	3 996	3 555
	Maintenance reserve payments expensed	(2 029)	(2 175)	(2 029)	(2 175)
		1 967	1 380	1 967	1 380
25.	**INVESTMENTS**				
	Investment in unlisted shares				
	SA Airlink (Proprietary) Limited	35	35	35	35
	Impairment of unlisted investment	(17)	(20)	(17)	(20)
		18	15	18	15
	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)
		–	–	–	–
26.	**CASH AND CASH EQUIVALENTS**				
	Cash and cash equivalents consist of:				
	Foreign bank accounts	1 043	861	1 044	865
	Domestic bank accounts	(1 290)	(1 140)	(1 852)	(1 793)
	Short-term investments – call deposits (US$ and EURO denominated)	121	200	121	200
	Total cash and cash equivalents	(126)	(79)	(687)	(728)
	Current assets	1 266	1 853	1 212	1 189
	Current liabilities	(1 392)	(1 932)	(1 899)	(1 917)
		(126)	(79)	(687)	(728)
	Cash and cash equivalents consist of cash on hand, balances with banks and short-term deposits which can be accessed within three months at most. Cash and cash equivalents included in the cash flow statement are as detailed above.				
27.	**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

R MILLION	GROUP 2015	GROUP 2014	COMPANY 2015	COMPANY 2014
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	**(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 Finance, and enjoy the same rights. The E class shares are held by the South African Airways Employee Share Trust.

28. SUBORDINATED LOAN GUARANTEED BY GOVERNMENT

R MILLION	GROUP 2015	GROUP 2014	COMPANY 2015	COMPANY 2014
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.

29. LONG-TERM LOANS

R MILLION	GROUP 2015	GROUP 2014	COMPANY 2015	COMPANY 2014
Secured loans				
External loans	**8 322**	4 370	**8 303**	4 348
The loans are repayable as follows:				
On demand or within one year	**4 638**	3 721	**4 634**	3 721
Two to five years	**169**	648	**154**	627
Later than five years	**3 515**	1	**3 515**	–
	8 322	4 370	**8 303**	4 348
Less: Current portion	**(4 638)**	(3 721)	**(4 634)**	(3 721)
	3 684	649	**3 669**	627
The carrying amounts of long-term loans are denominated in the following currencies:				
Rand denominated domestic loans*	**7 991**	3 831	**7 972**	3 809
US$ denominated foreign loans**	**331**	539	**331**	539
	8 322	4 370	**8 303**	4 348

* *Domestic secured loans bear interest at JIBAR plus a margin ranging from 0,60% to 3,50% and are secured over aircraft (Note 17).*

** *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 17).*

R MILLION	GROUP 2015	GROUP 2014	COMPANY 2015	COMPANY 2014
30. RETIREMENT BENEFITS				
Post-retirement medical benefits	**(29)**	(33)	**(29)**	(33)
Retirement benefit obligation	**(62)**	(40)	**(62)**	(40)
Retirement benefit asset	**38**	29	**38**	29
	(53)	(44)	**(53)**	(44)
Non-current assets	**38**	29	**38**	29
Non-current liabilities	**(91)**	(73)	**(91)**	(73)
	(53)	(44)	**(53)**	(44)

31. PROVISIONS

R MILLION	Opening balance	Additions	Utilised during the year	Reversed during the year	Currency revaluation	Total	Current portion	Non-current portion
GROUP – 2015								
Reconciliation								
Provision for lease liabilities(1)	**1 387**	**413**	**(534)**	**–**	**110**	**1 376**	**332**	**1 044**
Other provisions(2)	**260**	**968**	**(12)**	**(58)**	**–**	**1 158**	**–**	**1 158**
	1 647	**1 381**	**(546)**	**(58)**	**110**	**2 534**	**332**	**2 202**

R MILLION	Opening balance	Additions	Utilised during the year	Currency revaluation	Total	Current portion	Non-current portion
GROUP – 2014							
Reconciliation							
Provision for lease liabilities(1)	1 261	280	(325)	171	1 387	176	1 211
Other provisions(2)	192	68	–	–	260	–	260
	1 453	348	(325)	171	1 647	176	1 471

R MILLION	Opening balance	Additions	Utilised during the year	Reversed during the year	Currency revaluation	Total	Current portion	Non-current portion
COMPANY – 2015								
Reconciliation								
Provision for lease liabilities(1)	**1 378**	**413**	**(533)**	**–**	**110**	**1 368**	**332**	**1 036**
Other provisions(2)	**260**	**968**	**(12)**	**(58)**	**–**	**1 158**	**–**	**1 158**
	1 638	**1 381**	**(545)**	**(58)**	**110**	**2 526**	**332**	**2 194**

R MILLION	Opening balance	Additions	Utilised during the year	Currency revaluation	Total	Current portion	Non-current portion
COMPANY – 2014							
Reconciliation							
Provision for lease liabilities(1)	1 252	280	(325)	171	1 378	176	1 202
Other provisions(2)	192	68	–	–	260	–	260
	1 444	348	(325)	171	1 638	176	1 462

(1) For aircraft held under operating lease agreements, SAA is contractually committed either to return the aircraft in a certain condition or to compensate the lessor based on the actual condition of the airframe, engines and life-limited parts upon return. In order to 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. Further information regarding individual claim amounts has not been provided as this may prejudice the Group/company in its ongoing litigation. Further information has been disclosed in the Directors' report.

R MILLION	GROUP 2015	GROUP 2014	COMPANY 2015	COMPANY 2014
32. OTHER SHORT-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. SAA has started the process to wind up the South African Airways Employee Share Trust and the process is expected to be completed during the 2015/16 financial year and therefore has been classified as short-term.

R MILLION	GROUP 2015	GROUP 2014	COMPANY 2015	COMPANY 2014
33. DEFERRED REVENUE ON TICKET SALES				
Frequent flyer deferred revenue – long-term	**715**	845	**715**	845
Net air traffic liability – short-term	**2 981**	3 607	**2 806**	3 442
Frequent flyer deferred revenue – short-term	**609**	602	**609**	602
	3 590	4 209	**3 415**	4 044

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.

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 2015	GROUP 2014	COMPANY 2015	COMPANY 2014
34. TRADE AND OTHER PAYABLES				
Trade payables	**1 378**	1 280	**1 574**	1 404
Other payables*	**5 205**	5 218	**4 717**	4 856
	6 583	6 498	**6 291**	6 260

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

R MILLION	GROUP 2015	GROUP 2014	COMPANY 2015	COMPANY 2014
35. COMMITMENTS				
AUTHORISED CAPITAL EXPENDITURE				
Already contracted for but not provided for				
Capital commitments – contracted in US$	**969**	822	**969**	822
	969	822	**969**	822
Capital commitments relate to the Airbus A320 orders and the amount disclosed includes escalations to the 2018 financial year.				
Operating leases – as lessee (expense)				
Operating lease commitments for property, aircraft, equipment and vehicles are expected to be incurred as follows:				
– within one year	**2 746**	2 261	**2 746**	2 261
– in second to fifth year inclusive	**6 260**	4 451	**6 260**	4 451
– later than five years	**4 144**	1 275	**4 144**	1 275
	13 150	7 987	**13 150**	7 987

	GROUP		COMPANY	
R MILLION	2015	2014	2015	2014
35. COMMITMENTS (CONTINUED)				
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	**212**	196	**212**	196
– in second to fifth year inclusive	**488**	372	**488**	372
– later than five years	**342**	121	**342**	121
	1 042	689	**1 042**	689

36. EMPLOYEE BENEFIT INFORMATION

36.1 SAA GROUP PENSION BENEFITS

The Group offers pension benefits through two defined benefit pension funds and various defined contribution funds. The Transport Pension Fund was previously known as the Transnet Pension Fund, the name was amended in November 2005. The Transnet Pension Fund Amendment Act restructured the Transport Pension Fund into a multi-employer pension fund. From the date this Act came into operation, all existing members, pensioners, dependant pensioners, liabilities, assets, rights and obligations of the Transport Pension Fund are attributable to a subfund, with Transnet as the principal employer.

The amended Rules of the Fund establish a subfund in the name of South African Airways SOC Limited (SAA Group) from 1 April 2006. A further subfund in the name of South African Rail Commuter Corporation Limited was established with effect from 1 May 2006. The third subfund currently in existence is the Transnet subfund.

The SAA Group also offers post-retirement medical benefits to its employees through various funds of its own.

EXPOSURE TO RISKS

The risks faced by the Group as a result of the post-employment benefit obligation can be summarised as follows:

- **Inflation:** The risk that future CPI inflation is higher than expected and uncontrolled;
- **Longevity:** The risk that pensioners live longer than expected and thus their pension benefit is payable for longer than expected;
- **Open-ended, long-term liability:** The risk that the liability may be volatile in the future and uncertain;
- **Future changes in legislation:** The risk that changes to legislation with respect to the post-employment liability may increase the liability for the Group;
- **Future changes in the tax environment:** The risk that changes in the tax legislation governing employee benefits may increase the liability for the Group;
- **Administration:** Administration of this liability poses a burden to the Group.

36.1.1 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 5 200 members (2014: 5 449) at 31 March 2015. Actuarial valuations are done, at intervals not exceeding three years, to determine its financial position. The last actuarial valuation was performed at 31 March 2015. The actuaries were satisfied with the status of the members' credit account then. The Group's contributions for the period to 31 March 2015 amounted to R424 million (2014: R402 million).

36.1.2 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 83 active members (2014: 99) and 300 pensioners (2014: 296) at 31 March 2015. An actuarial valuation was done as at 31 March 2015 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.

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in each territory. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 63.

The Group expects to make a contribution of R6,7 million (2015: R7,3 million) to the defined benefit plan during the next financial year.

PERCENT	2015	2014
Principal actuarial assumptions used:		
Discount rate	7,75	8,65
Inflation	5,47	6,37
Salary increases		
Inflation	6,47	7,37
Pension increases		
First three years	4,10	2,99
After three years	4,10	2,99

R MILLION	2015	2014
Benefit asset		
Present value of obligation	(1 625)	(1 365)
Fair value of plan assets	2 132	2 001
Surplus	507	636
Asset not recognised	(469)	(607)
Net asset per the statement of financial position	38	29
Reconciliation of movement in present value of obligation		
Opening benefit liability at the beginning of the year	(1 365)	(1 380)
Service cost	(10)	(12)
Interest cost	(111)	(94)
Remeasurement	(319)	(39)
Benefits paid	184	165
Member contributions	(4)	(5)
Closing present value of obligation	(1 625)	(1 365)
Reconciliation of fair value of plan assets		
Opening fair value of plan assets	2 001	1 827
Return on plan assets	166	124
Remeasurement	139	203
Employer's contributions	6	7
Benefits paid	(184)	(165)
Member contributions	4	5
Closing fair value of plan assets	2 132	2 001

PERCENT	2015	2014
The major categories of plan assets as a percentage of total plan assets are:		
Equity	36	34
Property	9	7
Bonds	26	27
Cash	6	5
International	23	27
Total	100	100

R MILLION	2015	2014
Current-service cost	10	12
Interest on obligation	111	94
Return on plan assets	(166)	(124)
	(45)	(18)

The plan has a surplus that is not recognised on the basis that future economic benefits are not available to the Group in the form of a reduction in future contributions or a cash refund.

The net remeasurement gain on this defined benefit plan of R12 million (2014: loss R16 million) per Note 16 is arrived at by reducing the net remeasurement loss of R180 million (2014: gain R164 million) above by R192 million (2014: R180 million), which is the net change in the surplus asset that may not be recognised per the actuarial valuation.

36. EMPLOYEE BENEFIT INFORMATION (CONTINUED)

36.1 SAA GROUP PENSION BENEFITS (CONTINUED)

36.1.2 SAA SUBFUND OF THE TRANSPORT PENSION FUND (CONTINUED)

As at the last valuation date, the present value of the defined benefit obligation was comprised of approximately R476 million (2014: R451 million) relating to active employees, R20 million (2014: RNil) relating to deferred members and R1 129 million (2014: R914 million) relating to members in retirement.

The plan assets are primarily invested in equities and bonds (with a majority in equities). This exposes the Fund to a slight concentration of market risk. If the plan assets are not adequate or suitable to fund the liabilities of the fund (and the nature thereof) the Group will be required to fund the balance, hence exposing the Group to risks on the investment return.

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	IMPACT ON DEFINED BENEFIT OBLIGATION		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1%	Decrease by 8,9%	Increase by 10,5%
Inflation rate	1%	Increase by 8,2%	Decrease by 7,3%
Pension increase rate increased to 5,5%	1,4%	Decrease by 15,7%	N/A

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

36.2 MEDICAL BENEFITS

36.2.1 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.

There were 412 continuation members (2014: 702) and 5 255 in-service members (2014: 5 574) at 31 March 2015. The expected retirement age is 63 years and there is no allowance for early retirement. The average age of the continuation members was 69,4 years (2014: 69,6 years) and the average age of the in-service members was 41,9 years (2014: 41,2 years) at 31 March 2015. The Group expects to make a contribution of R1,1 million (2015: R1,9 million) to the defined benefit plan during the next financial year.

	2015	2014
Eligible in-service members:		
Male	2 914	2 985
Female	2 341	2 589
Average age (years)	41,9	41,2
Average past service (years)	15,2	14,4
Eligible continuation members:		
Male	363	563
Female	49	139
Average age (years)	69,4	69,6

SAA subsidises continuation and in-service members with a fixed amount of R213 (2014: R213) per month in retirement. The amount is fixed irrespective of the number of dependants on the medical scheme. Dependants of members who die while in-service continue to receive this amount. To enable the SAA Group to fully provide for such post-retirement medical aid liabilities, since April 2000 actuarial valuations are obtained annually, as required by IAS 19 – *Employee benefits*. There are no assets held to fund the obligation.

Risks involved in maintaining the post-employment healthcare obligation

The risks faced by SAA as a result of the post-employment healthcare obligation can be summarised as follows:

- **Longevity:** The risk that pensioners live longer than expected and thus their healthcare benefit is payable for longer than expected;
- **Open-ended, long-term liability:** The risk that the liability may be volatile in the future and uncertain;
- **Future changes in legislation:** The risk that changes to legislation with respect to the post-employment healthcare liability may increase the liability for SAA;
- **Future changes in the tax environment:** The risk that changes in the tax legislation governing employee benefits may increase the liability for SAA;

- **Perceived inequality by non-eligible employees:** The risk of dissatisfaction of employees who are not eligible for a post-employment healthcare subsidy;
- **Administration:** Administration of this liability poses a burden to SAA;
- **Enforcement of eligibility criteria and rules:** The risk that eligibility criteria and rules are not strictly or consistently enforced.

Allocation of liability to SAA Group

The net benefit costs are allocated to subsidiaries of Transnet based on the demographic distribution of the Transnet Medical Scheme members across units.

Any deficit or liability for post-retirement medical benefits, incurred prior to 31 March 1999, is by agreement between Transnet Limited and SAA, for the account of Transnet Limited. Any liability directly attributable to the airline after 1 April 1999 will be for SAA's account.

The economic assumptions have been set in relation to the duration of the liability as at 31 March 2014 of 13,4 years. The duration of the liability as at 31 March 2015 is 15,5 years.

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in each territory. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 63.

The projected unit credit method has been used for the purposes of determining an actuarial valuation of post-retirement medical benefits as at 31 March 2015.

The table below summarises the components of net benefit expense recognised in both the statement of profit or loss and other comprehensive income and the statement of financial position for the SAA Group as at 31 March 2015 for SAA Group employees.

The principal actuarial assumptions used were as follows:

PERCENT	2015	2014
Discount rate	**8,37**	8,94

R MILLION	2015	2014
Net benefit liability		
Present value of unfunded benefit obligations	**29**	33
Changes in the present value of defined benefit obligations are as follows:		
Opening liability	**33**	43
Service cost	**1**	1
Interest cost	**3**	3
Remeasurement	**(6)**	(12)
Benefits paid	**(2)**	(2)
Benefit liability at year-end	**29**	33
Amounts recognised in the statement of profit or loss and other comprehensive income		
Current-service cost	**1**	1
Interest on obligation	**3**	3
	4	4

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	IMPACT ON DEFINED BENEFIT OBLIGATION		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	**1%**	**Decrease by 12,4%**	**Increase by 15,5%**
Discount rate	**2%**	**Decrease by 22,5%**	**Increase by 35%**
Expected retirement age	**1 year**	**Decrease by 6,2%**	**Increase by 6,8%**
Expected retirement at 60 years of age	**3 years**	**N/A**	**Increase by 21,9%**

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the medical liability recognised within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

36. EMPLOYEE BENEFIT INFORMATION (CONTINUED)

36.3 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 R2,6 million (2015: R3,1 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 2015 using the projected unit credit method.

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in each territory. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 63.

PERCENT	2015	2014
Principal actuarial assumptions used:		
Discount rate	**1,68**	3,3
Salary increases	**1,0**	2,0
Pension increases per three years	**3,0**	4,5

R MILLION	2015	2014
Benefit liability		
Present value of obligation	**(338)**	(325)
Fair value of plan assets	**276**	285
Net liability per the statement of financial position	**(62)**	(40)
Reconciliation of movement in present value of obligation		
Opening benefit liability at the beginning of the year	**325**	246
Service cost	**7**	5
Interest cost	**10**	10
Exchange differences on foreign plans	**(39)**	58
Benefits paid	**(13)**	(15)
Remeasurement	**48**	21
Closing present value of obligation	**338**	325
Reconciliation of fair value of plan assets		
Opening fair value of plan assets	**285**	234
Exchange differences on foreign plans	**(31)**	52
Return on plan assets	**9**	10
Remeasurement	**24**	2
Benefits paid	**(14)**	(16)
Employer's contribution	**3**	3
Closing fair value of plan assets	**276**	285

PERCENT	2015	2014
The major categories of plan assets as a percentage of total plan assets are:		
Equity	28	26
Cash	49	50
Other	23	24
Total	100	100

R MILLION	2015	2014
Current-service cost	7	5
Interest on obligation	10	10
Return on plan assets	(9)	(10)
	8	5

As at the last valuation date, the present value of the defined benefit obligation was comprised of approximately R111 million (2014: R106 million) relating to active employees, R21 million (2014: R25 million) relating to deferred members and R206 million (2014: R194 million) relating to members in retirement.

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	IMPACT ON DEFINED BENEFIT OBLIGATION		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0,5%	Decrease by 7,4%	Increase by 8,4%
Salary increase rate	0,5%	Increase by 1,9%	Decrease by 1,7%
Pension increase rate	0,5%	Increase by 1,9%	Decrease by 1,9%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

36.4 FLIGHT DECK CREW (FDC) DISABILITY BENEFIT

SAA has an agreement with FDC members who are on permanent employment to top up the disability benefits payable by the Transnet Retirement Fund and the SAA Retirement Fund. In terms of the rules of the Transnet Retirement Fund all employees are entitled to 75 percent of the members' pensionable salary payable when a member becomes disabled before the normal retirement age of 63. The agreement with FDC members is for SAA to pay a further 25 percent in addition to what the member would receive from the pension fund in the case of disability. The members or SAA make no additional contribution towards these benefits, and these benefits are therefore unfunded.

In the past, SAA has recognised the full obligation in the financial statements as there were no plan assets or insurance cover in place of these promised benefits. In 2007, SAA took an insurance policy to cover the 25 percent additional benefit to pilots, which resulted in SAA no longer having a legal or constructive obligation to fund the disability benefit.

	NUMBER OF SHARES	
	2015	2014
36.5 SHARE-BASED PAYMENTS		
36.5.1 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

	NUMBER OF SHARES	
	2015	2014

36. EMPLOYEE BENEFIT INFORMATION (CONTINUED)

36.5 SHARE-BASED PAYMENTS (CONTINUED)

36.5.2 SHARE INCENTIVE SCHEME

	NUMBER OF SHARES 2015	NUMBER OF SHARES 2014
The scheme granted two types of shares, ie joining and promotional shares to management. The promotional shares had a 12-month vesting period and the joining shares had a 24-month vesting period. Vesting was calculated from 1 April 1999 or when the employee joined the company. The employees could exercise these options at 25 percent per annum after vesting took place. These shares are held as follows:		
South African Airways Employee Share Trust	**23 005 660**	23 005 660
	23 005 660	23 005 660

36.5.3 EMPLOYEE SHARE OWNERSHIP PROGRAMME (ESOP)

	NUMBER OF SHARES 2015	NUMBER OF SHARES 2014
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

36.6 EMPLOYEE WELLNESS PROGRAMME

The Group offers employees and their immediate families access to an holistic health and wellness programme, providing life skills, awareness, counselling and education programmes to promote healthy lifestyles and coping skills. The programme is aimed at providing support covering a whole range of health and medical conditions, including HIV and Aids.

36.7 TRAVEL BENEFITS

The Group offers certain air travel benefits to both current employees and retirees. A percentage of the face value of the air ticket is normally paid in respect of the benefit (with such percentage exceeding the marginal cost of supplying the service) and the ticket is only issued on a “standby” basis, with fare paying passengers always having preference. Employees and retirees may only fly if there is available space on the flight.

37. RELATED PARTIES

The SAA Group has applied the exemption under paragraph 25 of IAS 24 to government related entities. South African Airways SOC Limited (SAA) is owned by the Department of Finance, a South African Government National Department. SAA is a Schedule 2 Public Entity in terms of the Public Finance Management Act No 1 of 1999 (as amended) (PFMA). Its related parties therefore constitute the Department of Finance, its subsidiaries, some major public entities falling under Schedule 2 of the PFMA and key management personnel.

Public entities that are classified as Schedule 2 major public entities are omitted from detailed disclosure as per paragraphs 25 and 26 of IAS 24. The exemption also applies to the Department of Finance. The only significant transaction that was entered into with the Department of Finance was a R1,3 billion subordinated loan guaranteed by government. Refer to Note 28 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 R248 million (2014: R187 million) relating to leases entered into with a subsidiary of SAA.

The Group and its subsidiaries, in the ordinary course of business, enter into various other sales, purchase and service agreements with other parties within the SAA Group. The transactions entered into by entities within the Group are eliminated on consolidation.

	GROUP		COMPANY	
R THOUSAND	**2015**	2014	**2015**	2014
RELATED PARTY BALANCES				
Amounts receivable from related parties*				
Subsidiaries	**–**	–	**1 440 357**	1 347 219
Public entities	**27**	8	**27**	8
	27	8	**1 440 384**	1 347 227

R THOUSAND	GROUP 2015	GROUP 2014	COMPANY 2015	COMPANY 2014
Amounts payable to related parties**				
Subsidiaries	–	–	374 732	579 981
Public entities	52 154	56	50 998	32
	52 154	56	425 730	580 013

* *Amounts receivable represent short- and long-term amounts receivable.*
** *Amounts payable represent short- and long-term amounts payable.*

RELATED PARTY TRANSACTIONS

R THOUSAND	GROUP 2015	GROUP 2014	COMPANY 2015	COMPANY 2014
Sales of goods/services				
Subsidiaries	–	–	510 558	402 868
Public entities	116	98	116	98
	116	98	510 674	402 966
Purchases of goods/services				
Subsidiaries	–	–	3 143 302	4 207 968
Public entities	1 369 870	1 140 708	762 448	668 269
	1 369 870	1 140 708	3 905 750	4 876 237
Other transactions				
Shareholder*	97 766	87 231	97 766	87 231
Subsidiaries	–	–	37 713	35 707
Key management personnel**	44 040	39 222	27 039	20 659
	141 806	126 453	162 518	143 597

* *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 the SAA Group Executive Committee are disclosed in Note 43. The short-term employee benefits reflected below refer to members of the SAA company who are also members of the SAA Group Executive Committee.*

	DIRECTORS' FEES AND TRAVEL BENEFITS 2015				DIRECTORS' FEES AND TRAVEL BENEFITS 2014			
	FEES R'000	NUMBER OF FLIGHTS International	Domestic	Regional	FEES R'000	NUMBER OF FLIGHTS International	Domestic	Regional
Key management personnel compensation is set out below:								
Board of Directors								
Non-executive								
L Nkosi-Thomas[1]	–	–	–	–	417	1	13	1
DC Myeni	846	–	2	–	828	1	5	–
Y Kwinana	463	–	12	4	510	–	10	6
A Khumalo[2]	206	–	18	–	396	–	20	2
R Lepule[3]	221	–	2	–	405	–	–	–
B Mpondo[3]	225	–	9	–	461	–	9	–
N Kubeka[4]	195	–	2	–	349	–	12	–
A Mabizela[4]	213	–	3	–	382	–	2	–
C Roskruge[4]	220	6	15	–	349	–	17	–
R Naithani[5]	240	–	–	–	382	–	–	–
AD Dixon[6]	171	–	–	–	–	–	–	–
JE Tambi[6]	181	1	–	–	–	–	–	–
	3 181	7	63	4	4 479	2	88	9

1. Resigned 23 February 2014.
2. Resigned 16 October 2014.
3. Resigned 17 October 2014.
4. Resigned 22 October 2014.
5. Removed 23 October 2014.
6. Appointed 23 October 2014.

37. RELATED PARTIES (CONTINUED)

In terms of the Group's travel benefits policy as referred to in Note 36.7, 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. This benefit ceased for Board members effective from the date of the AGM held on 30 January 2015.

R THOUSAND	Salaries	Allowances	Fund contributions	Total
Short-term employee benefits 2015				
Executive directors[1]				
M Kalawe	4 553	–	–	4 553
WH Meyer	3 661	–	–	3 661
	8 214	–	–	8 214
Executive Committee				
N Bezuidenhout[2]	1 280	–	–	1 280
BK Parsons[3]	264	–	–	264
ME Mpshe	2 368	–	217	2 585
TP Makhetha	2 669	–	–	2 669
Z Ramasia	2 320	–	167	2 487
K Phohleli[4]	255	–	–	255
U Fikelepi	2 000	–	–	2 000
P Ncala	2 845	–	–	2 845
S Bosc[5]	2 409	956	–	3 365
L Jiya[6]	1 075	–	–	1 075
	17 485	956	384	18 825

1. Executive directors of the Board are also members of the Executive Committee.
2. Appointed as Acting CEO effective 30 October 2014.
3. Removed 30 April 2014 due to change in Executive Committee structure.
4. Appointed to the Executive Committee in an acting capacity until 30 June 2014.
5. Appointed 1 July 2014.
6. Appointed 1 October 2014.

R THOUSAND	Salaries	Allowances	Fund contributions	Other	Total
Short-term employee benefits 2014					
Executive directors[1]					
M Kalawe[2]	3 794	–	–	–	3 794
N Bezuidenhout[3]	106	–	–	–	106
WH Meyer	3 464	–	–	–	3 464
	7 364	–	–	–	7 364
Executive Committee					
BK Parsons	1 749	–	–	–	1 749
ME Mpshe	2 240	–	205	–	2 445
TP Makheta	2 525	–	–	–	2 525
F Thabethe[4]	789	137	77	–	1 003
M Papa[5]	1 038	144	87	–	1 269
Z Ramasia	1 618	–	120	–	1 738
K Phohleli[6]	451	–	–	–	451
U Fikelepi[7]	667	–	–	–	667
P Ncala[8]	948	–	–	500[9]	1 448
	12 025	281	489	500	13 295

1. Executive directors of the Board are also members of the Executive Committee.
2. Appointed 1 June 2013.
3. Appointed as Acting CEO until 31 May 2013.
4. Appointed to the Executive Committee in an acting capacity until 31 October 2013.
5. Appointed to the Executive Committee in an acting capacity until 22 October 2013.
6. Appointed to the Executive Committee in an acting capacity effective 23 October 2013.
7. Appointed 1 November 2013.
8. Appointed 1 December 2013.
9. This payment relates to a sign-on bonus received at commencement of employment.

	TRAVEL BENEFITS 2015 NUMBER OF FLIGHTS			TRAVEL BENEFITS 2014 NUMBER OF FLIGHTS		
	International	Domestic	Regional	International	Domestic	Regional
Executive directors						
M Kalawe[1]	2	62	–	1	54	2
N Bezuidenhout[2]	–	–	–	–	5	–
WH Meyer	5	20	–	9	16	–
	7	82	–	10	75	2
Executive Committee						
N Bezuidenhout[2]	3	–	4	–	–	–
BK Parsons[3]	–	–	–	10	4	2
ME Mpshe	5	16	–	5	15	–
TP Makhetha	4	–	–	4	9	–
F Thabethe[4]	–	–	–	–	8	4
M Papa[5]	–	–	–	1	7	–
Z Ramasia	13	35	10	19	23	3
K Phohleli[6]	3	16	–	–	1	–
U Fikelepi[7]	1	16	–	–	9	–
P Ncala[8]	7	–	–	2	–	–
S Bosc[9]	3	4	–	–	–	–
L Jiya[10]	–	13	2	–	–	–
	39	100	16	41	76	9

1. *Appointed 1 June 2013.*
2. *Appointed as Acting CEO effective 12 February 2013 until 31 May 2013 and then appointed again in an acting capacity effective 30 October 2014.*
3. *Removed 30 April 2014 due to change in Executive Committee structure.*
4. *Appointed to the Executive Committee in an acting capacity until 31 October 2013.*
5. *Appointed to the Executive Committee in an acting capacity until 22 October 2013.*
6. *Appointed to the Executive Committee in an acting capacity effective 23 October 2013 until 30 June 2014.*
7. *Appointed 1 November 2013.*
8. *Appointed 1 December 2013.*
9. *Appointed 1 July 2014.*
10. *Appointed 1 October 2014.*

38. CASH USED IN OPERATIONS

R MILLION	GROUP 2015	GROUP 2014	COMPANY 2015	COMPANY 2014
Loss before taxation	(5 627)	(2 543)	(5 340)	(2 679)
Adjustments for:				
Depreciation and amortisation on property, aircraft and equipment	778	566	714	500
Net loss/(gain) on disposal of property, aircraft and equipment	9	(40)	3	(33)
Amortisation of intangible assets	41	37	34	32
Impairment of aircraft	1 508	1 151	1 508	1 151
Impairment of loans to subsidiaries	–	–	3	15
Derivative market movements	367	(76)	367	(76)
Impairment of investments in subsidiaries	–	–	–	122
Interest income	(26)	(32)	(16)	(30)
Finance costs	490	263	523	296
Release from air traffic liability	(400)	(366)	(400)	(366)
Movement in employee benefit obligations	18	30	18	30
(Reversal of impairment)/impairment of accounts receivables	(12)	32	3	(2)
Non-cash movement on retirement benefit plans	(6)	(23)	(6)	(23)
Movement in non-current assets classified as held-for-sale	–	(57)	–	(63)
Release from passenger tax levies	(301)	(412)	(301)	(412)
Unrealised foreign exchange gain on PDPs	–	(122)	–	(122)
Unrealised foreign exchange loss on revaluation of loans	52	76	52	76
Unrealised foreign exchange (gain)/loss on cash and cash equivalents	(49)	39	(50)	42
Movement in retirement benefit asset	(9)	6	(9)	6
Transfer of PDPs from Capital WIP to current prepayments	826	977	826	977
Movement in non-current portion of maintenance reserve receivable	(587)	(523)	(587)	(523)
Changes in working capital:				
Inventories	83	123	(12)	10
Trade and other receivables	53	(1 292)	(56)	(1 098)
Trade and other payables	386	1 099	332	889
Air traffic liability	(226)	966	(236)	891
Frequent flyer deferred revenue	(123)	(220)	(123)	(220)
Provisions	887	194	888	194
	(1 868)	(147)	(1 865)	(416)

		GROUP		COMPANY	
	R MILLION	2015	2014	2015	2014
39.	**TAX PAID**				
	Movement in the deferred tax balance in the current year	**18**	–	**–**	–
	Movement in the current tax payable balance in the current year	**(5)**	–	**–**	–
	Current tax recognised for the year	**(37)**	–	**–**	–
		(24)	–	**–**	–

	R MILLION	Notes	Financial liabilities at amortised cost	Fair value through profit or loss held-for-trading*	Total
40.	**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 – 2015				
	Long- and short-term liabilities	29	**8 322**	**–**	**8 322**
	Shareholder loan to share trust	32	**63**	**–**	**63**
	Trade and other payables	34	**3 021**	**–**	**3 021**
	Bank overdraft	26	**1 392**	**–**	**1 392**
	Jet fuel forward exchange contracts and swaps	23	**–**	**346**	**346**
			12 798	**346**	**13 144**
	GROUP – 2014				
	Long- and short-term liabilities	29	4 370	–	4 370
	Shareholder loan to share trust	32	63	–	63
	Trade and other payables	34	3 211	–	3 211
	Bank overdraft	26	1 932	–	1 932
	Currency derivatives	23	–	3	3
			9 576	3	9 579

* *Financial instruments held at fair value are level two instruments. A separate analysis has not been provided for the company, as the numbers do not differ significantly from the Group numbers.*

	R MILLION	Notes	Loans and receivables	Fair value through profit or loss held-for-trading*	Available-for-sale	Total
41.	**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 – 2015					
	Currency derivatives	23	**–**	**116**	**–**	**116**
	Jet fuel options	23	**–**	**55**	**–**	**55**
	Trade and other receivables	24	**4 767**	**–**	**–**	**4 767**
	Cash and cash equivalents	26	**1 266**	**–**	**–**	**1 266**
	Investment in SA Airlink (Proprietary) Limited	25	**–**	**–**	**18**	**18**
	Maintenance reserve receivable	24	**1 967**	**–**	**–**	**1 967**
			8 000	**171**	**18**	**8 189**

R MILLION	Notes	Loans and receivables	Fair value through profit or loss held-for-trading*	Available-for-sale	Total
GROUP – 2014					
Jet fuel forward exchange contracts and swaps	23	–	20	–	20
Currency derivatives	23	–	128	–	128
Jet fuel options	23	–	79	–	79
Trade and other receivables	24	4 772	–	–	4 772
Cash and cash equivalents	26	1 853	–	–	1 853
Investment in SA Airlink (Proprietary) Limited	25	–	–	15	15
Maintenance reserve receivable	24	1 380	–	–	1 380
		8 005	227	15	8 247

* *Financial instruments held at fair value are level two instruments. A separate analysis has not been provided for the company, as the numbers do not differ significantly from the Group numbers.*

42. RISK MANAGEMENT

42.1 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 three financial years the impairment was reversed by a total of R15 million. There was a further reversal of R3 million in the current financial year. The investment is classified as a level 3 financial instrument. A valuation of the investment was conducted during the year on the net asset value and based on the results of SA Airlink's latest audited financial statements. The impairment has been reversed limited to SAA's 2,95 percent shareholding in SA Airlink.

Derivative assets and liabilities

The derivative assets and liabilities are entered into to manage Group exposure to foreign currency, interest rates and jet fuel price risks. The Group derivatives include fixed contracts, vanilla European and Asian options, swaps, call spreads and collars, which are entered into mainly to manage foreign currency exchange risk and jet fuel price risk. The fair values of the derivative instruments are determined based on observable inputs into valuation models.

Foreign currency forward contracts are mainly entered into to manage foreign currency exchange risk and are measured using the quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

All other financial assets and liabilities are measured at amortised cost.

Fixed swaps are valued using a simple discounted cash flow calculation. Asian options are valued using a combination of the Black Scholes and Black 76 formulas, where the inputs into the pricing model are the expected arithmetic average and the variance of the expected arithmetic average of the underlying. The treasury system used for the foreign currency hedges is SunGard Quantum and SunGard Kiodex for the Fuel commodity derivatives.

42.2 GOVERNANCE STRUCTURE

The SAA Board is charged with the responsibility of managing the airline's financial risks. It is assisted by the Audit and Risk Committee, which reviews all the financial risks of the organisation, as well as key financial decisions. The Audit and Risk Committee is a committee of the Board and it meets at least once per quarter and is supported by the Financial Risk Subcommittee (FRSC) which meets on a monthly basis. The FRSC is chaired by the Chief Financial Officer and its membership is made up of key representatives: Chief Risk Officer, Group Treasurer, Corporate Finance, Head Cash Management, Chief Dealer, Risk Manager, Financial Risk Manager, Fuel Management, Head Financial Accounting and CFOs of all the subsidiaries.

RISK MANAGEMENT SYSTEMS

SAA has implemented a Treasury risk analytical system with advanced analytics to assist SAA's Front Office in the hedging decisions in the hedging portfolios. The key for this tool is its ability to handle jet fuel price risk exposures using commodity pricing models and the aggregation of all the other risks to enable SAA to have a view of its financial risks in the treasury environment.

The capital risk and financial risk management is described below.

42.3 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.

42. RISK MANAGEMENT (CONTINUED)

42.3 CAPITAL RISK MANAGEMENT (CONTINUED)

AIRCRAFT AND ENGINE FINANCING

Recent aircraft financing has been conducted using a sale and leaseback mechanism as a financing transaction. This type of structure is able to limit on balance sheet debt whilst acquiring much needed assets.

42.4 FINANCIAL RISK MANAGEMENT

The fundamental objective of financial risk management at SAA is to protect and, where possible, improve on future budgeted and forecast cash flows, and the financial performance and financial position of the Group, by:

- Protecting the Group from adverse market movements that manifest as financial downside for the business and endanger stakeholders (Shareholder, employees and the community), and threaten the sustainability and competitive position and reputational risk of the SAA Group in the market;
- Reducing the volatility and resultant uncertainty of operating revenues and cash flows that result from financial market volatility;
- Providing some price stability through improving the transparency of price mechanisms.

The main financial market risks faced by the Group are liquidity risk, credit risk and market risk which consist of interest rate risk, currency risk and commodity price risk.

The Board has a 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 through the normal tendering process within SAA and the Board will give final approval;
- All requests for the opening and closing of bank accounts and the management of bank account signatories are to be reviewed and approved by the Chief Financial Officer and the Group Treasurer;
- Prudent cash management practices must be implemented, including the use of a centralised pooled cash management bank account structure and systems, and the maintenance of minimum cash balances at operational level.

All companies within the Group are included in the cash management structure and form part of the cash and liquidity management practices of the Group.

COMMITTED FUNDING FACILITIES

SAA is dependent on funding in the form of operating leases and loans in foreign currency and local currency, mainly for the purchase of aircraft and aircraft components and for funding SAA's operations. The volatility of the financial markets, SAA's financial standing and the difficulties experienced by the airline industry in general affect the availability of funding to airlines. Funding can sometimes be constrained to a limited number of counterparties at any given time. The underlying risk manifests in three forms:

- SAA loses committed funding from a particular counterparty due to that counterparty defaulting on an existing funding arrangement;
- SAA is unable to secure new funding at a particular time;
- SAA loses assets deposited as security deposits, defeasance deposits, or cash collateral on funding structures.

Cash and liquidity management takes into account the medium- to long-term funding plans of SAA as developed by the Funding Committee.

The following are the contractual maturities of financial liabilities based on undiscounted cash flows, excluding the impact of netting agreements and the derivative financial instruments that are out of the money at year-end. The derivative financial instruments that are in the money are reflected as financial assets.

R MILLION	Carrying principal amount*	Contractual amount*	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years
GROUP – 31 MARCH 2015**								
Non-derivative financial liabilities								
US$ denominated secured loans (in ZAR)	331	337	–	150	–	187	–	–
Total US$ denominated loans (in ZAR)	331	337	–	150	–	187	–	–
ZAR denominated secured loans	7 991	8 051	–	60	43	4 230	3 718	–
Accounts payable	6 583	6 583	–	6 583	–	–	–	–
Shareholder loan to share trust	63	63	–	–	–	63	–	–
Total	14 637	14 697	–	6 643	43	4 293	3 718	–
Derivative financial instruments								
Fuel – Asian options	55	55	20	–	31	4	–	–
FX – currency options	81	81	18	9	33	21	–	–
Forward exchange contracts – assets	35	35	5	24	5	1	–	–
Fuel – swap liabilities	(346)	(346)	(137)	(18)	(191)	–	–	–
Total	(175)	(175)	(94)	15	(122)	26	–	–
GROUP – 31 MARCH 2014**								
Non-derivative financial liabilities								
US$ denominated secured loans (in ZAR)	539	554	–	134	–	130	290	–
Total US$ denominated loans (in ZAR)	539	554	–	134	–	130	290	–
ZAR denominated secured loans	3 831	3 887	–	62	39	3 428	358	–
Accounts payable	6 498	6 498	–	6 498	–	–	–	–
Shareholder loan to share trust	63	63	–	–	–	63	–	–
Total	10 392	10 448	–	6 560	39	3 491	358	–
Derivative financial instruments								
Fuel – Asian options	79	79	6	20	18	35	–	–
FX – currency options	97	97	10	17	47	23	–	–
Forward exchange contracts – assets	28	28	7	20	3	(2)	–	–
Fuel – swap assets	20	20	5	4	7	4	–	–
Total	224	224	28	61	75	60	–	–

* *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.*

42. RISK MANAGEMENT (CONTINUED)

42.4 FINANCIAL RISK MANAGEMENT (CONTINUED)

OTHER RISKS

Interest rate risk

Interest rate risk is the risk of increased financing cost due to adverse movements in market interest rates. Interest rate risk impacts SAA in the following forms:

- Increased cash costs in an increasing interest rate environment due to the Group's floating aircraft funding structures;
- The opportunity cost of funding at a higher rate in a declining interest rate environment due to the Group's fixed funding structures;
- The bulk of the Group's interest rate exposure is as a result of US$ denominated aircraft financing structures.

This portfolio is made up of operating leases and loans. The portfolio is highly sensitive to the movement of US interest rates. The Group is continually monitoring and adjusting its fixed/floating ratio to adapt to the changing dynamics of its business operations and to protect its statement of profit or loss and other comprehensive income and statement of financial position.

The objectives of managing interest rate risk are to:

- Design appropriate funding structures (fixed versus floating, and local versus foreign currency) through the Treasury and Finance departments;
- Reduce the cost of capital;
- Minimise the effect of interest rate volatility on the Group's financing expenditure;
- Manage the ratio of floating rate exposures to fixed rate exposures;
- Obtain optimal investment returns on surplus cash, while ensuring that credit risk is managed;
- Ensure that appropriate levels of liquidity are maintained, while remaining within the guidelines set by this policy;
- Ensure efficiency by restructuring interest rate exposure as and when necessary.

The Group is exposed to changes in interest rates on floating rate debt and cash deposits. Interest rate risk on borrowings and leases is managed through determining the right balance of fixed and floating debt within the financing structure. To manage the interest rate exposure, the Group Treasury keeps a reasonable amount of foreign cash deposits to offset to some degree the finance charges. The current SAA Group policy limits the maximum interest rate exposure to fixed debt at 75 percent and floating debt at 50 percent. As at 31 March 2015, the current interest rate exposure to fixed debt is 53 percent and 47 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.

42.5 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 manageing counterparty risk are to avoid contracting with any party that is not of an acceptable credit standing, formulate evaluation criteria of potential counterparties and implement monitoring measures and control processes for counterparty risk.

The Group is exposed to a number of types of counterparty risk as part of its normal business operations as described below:

INVESTMENT RISK

Cash balances and investments held in a range of local and offshore bank accounts, in a range of currencies, which form part of SAA's cash management and revenue collection infrastructure.

MARGINAL RISK

The Group makes use of derivative instruments in the foreign exchange, interest rate and commodity markets to mitigate the risk of adverse changes in cash flow and earnings that result from fluctuations in the financial markets. Counterparty risk arises on these derivative instruments when the hedging positions with counterparties have a positive net present value to SAA and are providing SAA with protection against adverse market movements in future. In this scenario SAA would lose the protection if the counterparty defaults on its obligation and SAA will have to replace this protection with similar hedging transactions at a higher cost. It is also important to note that, in the event that a counterparty goes into liquidation and its marginal risk position (net present value) is positive (an asset to the counterparty) with SAA, the company may be called on by the creditors of the counterparty to crystallise and settle the positions in question earlier than anticipated.

Counterparties are grouped in two major groups from a credit risk perspective:

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.

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.

MAXIMUM EXPOSURE TO CREDIT RISK

The carrying amount of financial assets represents the maximum credit risk exposure. The maximum exposure to credit risk at the reporting date was as follows:

	GROUP		COMPANY	
R MILLION	2015	2014	2015	2014
Financial instruments				
Cash and cash equivalents	1 266	1 853	1 212	1 189
Amounts receivable from subsidiaries*	–	–	1 440	1 347
Derivative assets held-for-trading	171	227	171	227
Trade and other receivables	4 767	4 772	4 531	4 508
Investments	18	15	18	15
Maintenance reserve receivable	1 967	1 380	1 967	1 380

** These amounts are not past due or impaired.*

			IMPACT ON OTHER COMPONENTS OF EQUITY IN RAND*		
	Foreign currency amount '000	Carrying amount R'000	+25%* -25% US$ R'000	+16%* -16% EUR R'000	+14%* -14% GBP R'000
Financial instruments					
Accounts receivable					
31 MARCH 2015					
US$ denominated	233 623	2 834 343	708 586	–	–
EUR denominated	22 134	288 159	–	46 105	–
GBP denominated	6 010	108 037	–	–	15 125
		3 230 539	708 586	46 105	15 125

			IMPACT ON OTHER COMPONENTS OF EQUITY IN RAND*		
	Foreign currency amount '000	Carrying amount R'000	+28%* -28% US$ R'000	+17%* -17% EUR R'000	+14%* -14% GBP R'000
Financial instruments					
Accounts receivable					
31 MARCH 2014					
US$ denominated	264 919	2 790 256	781 272	–	–
EUR denominated	17 272	250 497	–	42 584	–
GBP denominated	7 452	130 783	–	–	18 310
		3 171 536	781 272	42 584	18 310

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

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

42. RISK MANAGEMENT (CONTINUED)

42.6 MARKET RISK MANAGEMENT

Market risk comprises currency risk, interest rate risk and price risk.

Set out below is the impact of market risk on the Group's annual financial statements:

CURRENCY RISK

Foreign exchange risk is the risk of loss as a result of adverse movements in currency exchange rates. The biggest contributors to currency risk for the Group are foreign revenues earned at operating unit level, aircraft financing transactions and the covariance risks inherent in the Group's revenue and cost streams. The Group's approach to foreign currency risk management is to protect itself against exchange rate volatility and adverse movements in the exchange rate of the rand in relation to other currencies that the Group is exposed to. The Board made a decision to manage its foreign exchange risk exposures on a net exposure basis, ie taking into account the different currencies it receives in its revenue stream, the different currencies in which its cost base is denominated, and the underlying natural hedges that exist in its business operations. Foreign exchange risk is managed through the use of cash collection and conversion strategies and approved derivative financial instruments which are marked to market on a daily basis. The Group's policy on foreign exchange risk management is to hedge between 50 percent and 75 percent of its exposure on an 18-month rolling basis.

The Group's currency risk is represented by the increased financial cost and/or cash requirements due to the net exposure between foreign revenue generated, foreign expenditure commitments and domestic revenues and expenditure commitments. The main objective of the currency risk management policy is to mitigate the potential for financial loss arising through unfavourable movements in exchange rates relative to the budget.

Foreign exchange risk will be managed on a net basis, including operating and capital exposures after taking the following into consideration:

- Source currencies for revenue and costs (US$, GBP and EUR);
- Both direct and indirect foreign exposure. Indirect foreign exposure is where SAA pays in ZAR, but the exposure is determined by using a US$ price, for example jet fuel uplifted in South Africa;
- Volatility of the rand versus US$, GBP and EUR and the correlation between these currencies;
- Foreign currency exposures are determined from the 18-month rolling ZAR and foreign cash budget. Foreign currency risk will be monitored and managed under the following principles:
  - The net foreign currency position will be monitored on a monthly basis by obtaining the net foreign currency position in all currencies from the 18-month rolling cash budget, including forecast foreign cash balances;
  - The accuracy of forecast revenues and costs are of critical importance when determining net foreign currency exposure. Management should take care to establish the levels of confidence in achieving forecast revenues and costs on an ongoing basis when designing hedging strategies;
  - The foreign versus domestic currency funding decision (loans/leases) should always consider current foreign currency risk management position and practices, since these decisions are a significant source of foreign currency exposure for the Group.

The decision to manage capital foreign currency exposures (such as leases and loans) should be combined with the business strategy, route planning and funding decisions (as appropriate), to ensure that funding and foreign currency risk management strategies are complementary to the business strategy and present the most relevant overall solution to the Group.

FOREIGN EXCHANGE RISK

The Group collects revenues in approximately 30 currencies other than ZAR, EUR, GBP and US$. The foreign risk of exotic currencies cannot be practically managed at the local currency level, therefore the cash management structure rolls local currency balances up into hard currency pool accounts on a weekly basis. Currency risk exposures are managed at the hard currency level, ie in US$, GBP and EUR versus ZAR.

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

The year-end exchange rates applied in the translation of the Group's foreign monetary assets and liabilities are as follows:

	2015	2014
Exchange rates used expressed in the number of rands per unit of foreign currency:		
United States dollar (US$)	**12,13**	10,53
Euro (EUR)	**13,02**	14,50
Pounds sterling (GBP)	**17,98**	17,55

FIGURES IN MILLION	FOREIGN AMOUNT 2015	FOREIGN AMOUNT 2014	RAND AMOUNT 2015	RAND AMOUNT 2014
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 dollar	**234**	265	**2 834**	2 790
Euro	**22**	17	**288**	250
UK pound	**6**	7	**108**	131
Hong Kong dollar	**11**	17	**17**	23
Danish krone	**2**	2	**3**	4
Swiss franc	**1**	1	**15**	16
Australian dollar	**4**	4	**38**	35
Brazilian real	**24**	23	**90**	105
Thai baht	**4**	3	**1**	1
Malawian kwacha	**413**	491	**11**	13
Other	**–**	–	**457**	420
			3 862	3 788
Accounts payable				
US dollar	**48**	60	**584**	634
Euro	**19**	15	**246**	214
UK pound	**2**	3	**43**	44
Australian dollar	**4**	4	**36**	37
Benin CFA Franc BCEAO	**19**	10	**–**	–
Other	**–**	–	**182**	162
			(1 091)	(1 091)
Accounts receivable as above			**3 862**	3 788
Net exposure			**2 771**	2 697

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

PRICE RISK ASSOCIATED WITH COMMODITIES

Jet fuel consumption is SAA's biggest cost contributor, representing approximately 31 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 107 million litres (2014: 108 million litres) of jet fuel per month. This means that any change in price will have a significant impact on the Group's performance.

The objectives of managing jet fuel price risk are to:

- Reduce the volatility of jet fuel costs and the effect of this volatility on cash flows and earnings, ie price stability;
- Limit the impact of derivative instruments on the Group's financial position and performance;
- Occupy a competitive position in the airline industry in terms of jet fuel price risk management, negating the competitive advantage that competitors derive from their jet fuel risk management strategies;
- Utilise any backwardation in the energy forward curves to reduce future jet fuel costs;
- Provide a protection buffer during times of elevated jet fuel prices;
- Continually and dynamically transact a minimum amount of hedging in the financial markets;
- Ensure that hedging prices are averaged into the market and that large hedges are not transacted at single points in time, which may represent the peak of the market.

The Group manages its jet fuel price risk exposures using derivative financial instruments. All derivative contracts are marked to market and are cash settled. The Group's risk policy permits the organisation to manage its jet fuel price risk exposures using the underlying products such as International Crude Exchange (ICE), Brent Crude Oil, ICE Gas Oil 0,5 percent, Gas Oil, Western Texas Intermediate (WTI), FOB ARAB Gulf 0,5 percent and Jet Kerosene, (North West Europe) NWE. It is SAA's policy to hedge a maximum of 60 percent of its jet fuel price risk exposures on an 18-month rolling basis with no minimum hedge percentage.

42. RISK MANAGEMENT (CONTINUED)

42.6 MARKET RISK MANAGEMENT (CONTINUED)

SENSITIVITY ANALYSIS

The Group sensitivity analysis would include the sensitivity of annual financial statements to currency risk based on US$, which carries a greater impact on the Group, the interest rate risk sensitivity to LIBOR and JIBAR, the other price risk sensitivity mainly driven by the price per barrel of oil based commodity derivatives.

The following sensitivity analysis was determined based on the 12-month horizon with reasonable possible change at year-end. Management has determined the reasonable possible change using market input and historical data. The 12 months was considered appropriate as the Group only publishes its results annually and has reasonable expectations for uncertainties in the 12-month horizon. For internal reporting to the Audit and Risk Committee, a one-month horizon is utilised.

			CURRENCY*		COMMODITY PRICE DERIVATIVES*	
	Foreign currency amount '000	Carrying amount R'000	Profit/(loss) impact -25% US$ R'000	Profit/(loss) impact +25% US$ R'000	Loss impact -13% Brent -24% WTI -27% gas oil -23% jet fuel R'000	Profit impact +13% Brent +24% WTI +27% gas oil +23% jet fuel R'000
GROUP AND COMPANY**						
Derivative financial instruments						
31 MARCH 2015						
ICE Brent commodity derivatives						
Fixed swaps – liabilities	**(9 181)**	**(111 379)**	**27 845**	**(27 845)**	**111 379**	**(111 379)**
Asian floor	**1 108**	**13 439**	**(3 360)**	**3 360**	**(13 439)**	**13 439**
Call spreads	**345**	**4 184**	**(1 046)**	**1 046**	**(2 234)**	**2 118**
NYMEX WTI commodity derivatives						
Fixed swaps – liabilities	**(19 371)**	**(235 008)**	**58 752**	**(58 752)**	**25 877**	**(12 869)**
Asian put option	**3 033**	**36 793**	**(9 198)**	**9 198**	**(4 716)**	**1 816**
US$ foreign exchange derivatives						
Forward exchange contracts – assets	**–**	**35 296**	**(115 885)**	**115 885**	**–**	**–**
European options	**–**	**81 179**	**(131 486)**	**263 230**	**–**	**–**
		(175 496)	**(174 378)**	**306 122**	**116 867**	**(106 875)**

			CURRENCY*		COMMODITY PRICE DERIVATIVES*	
	Foreign currency amount '000	Carrying amount R'000	Profit/(loss) impact -28% US$ R'000	Profit/(loss) impact +28% US$ R'000	Loss impact -19% Brent -23% WTI -17% gas oil -18% jet fuel R'000	Profit impact +19% Brent +23% WTI +17% gas oil +18% jet fuel R'000
GROUP AND COMPANY**						
Derivative financial instruments						
31 MARCH 2014						
ICE Brent commodity derivatives						
Fixed swaps	1 865	19 646	(5 501)	5 501	(85 974)	85 974
Asian cap	1 135	11 958	(3 348)	3 348	(6 054)	47 375
Collars	149	1 569	(439)	439	(6 296)	10 610
Call spreads	6 189	65 188	(18 253)	18 253	(63 130)	89 209
US$ foreign exchange derivatives						
Forward exchange contracts – assets	–	28 594	(17 612)	17 612	–	–
European call options	–	96 752	(33 081)	40 034	–	–
		223 707	(78 234)	85 187	(161 454)	233 168

* *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.*

R MILLION	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
Fair value hierarchy and fair value measurements of all financial assets and liabilities held at fair value:				
GROUP AND COMPANY				
31 MARCH 2015				
Assets				
Jet fuel options	–	55	–	55
Currency derivatives	–	116	–	116
Liabilities				
Jet fuel forward exchange contracts and swaps	–	346	–	346
31 MARCH 2014				
Assets				
Jet fuel options	–	79	–	79
Currency derivatives	–	128	–	128
Jet fuel forward exchange contracts and swaps	–	20	–	20
Liabilities				
Currency derivatives	–	3	–	3

FAIR VALUE MEASUREMENTS

The fair values of jet fuel options, currency derivatives and jet fuel forward exchange contracts and swaps are valued using a market approach. Inputs into the fair value measurement, include interest rates and yield curves at commodity quoted intervals, interest rates and applied volatilities. There was no change in the fair value measurement during the current financial year.

FAIR VALUE HIERARCHY

The table above analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identifiable assets and liabilities;
- Level 2: Inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (ie from prices) or indirectly (ie derived from prices);
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

			CURRENCY[1]		INTEREST RATE[1]	
	Foreign currency amount '000	Carrying amount R'000	Profit/(loss) impact -25% US$ R'000	Profit/(loss) impact +25% US$ R'000	Profit/(loss) impact -14 BPS US$ -60 BPS ZAR R'000	Profit/(loss) impact +14 BPS US$ +60 BPS ZAR R'000
GROUP AND COMPANY						
Non-derivative financial instruments						
31 MARCH 2015						
Secured borrowing – LIBOR floating debt (US$ denominated)	27 307	331 289	82 822	(82 822)	464	(464)
Secured borrowing – JIBAR floating debt (ZAR denominated)	–	7 990 186	–	–	47 941	(47 941)
ZAR based cash and cash equivalents (net overdraft)	–	1 289 854	–	–	7 739	(7 739)
Accounts payable (US$ denominated)	48 170	584 405	146 101	(146 101)	–	–
Total financial liabilities		10 195 734	228 923	(228 923)	56 144	(56 144)
Foreign cash and cash equivalents (Favourable cash – US$ equivalent)	95 986	1 164 508	(291 127)	291 127	(1 630)	1 630
Total financial assets		1 164 508	(291 127)	291 127	(1 630)	1 630

42. RISK MANAGEMENT (CONTINUED)

42.6 MARKET RISK MANAGEMENT (CONTINUED)

GROUP AND COMPANY

Non-derivative financial instruments

31 MARCH 2014

	Foreign currency amount '000	Carrying amount R'000	CURRENCY[1] Profit/(loss) impact -28% US$ R'000	CURRENCY[1] Profit/(loss) impact +28% US$ R'000	INTEREST RATE[1] Profit/(loss) impact -11 BPS US$ -56 BPS ZAR R'000	INTEREST RATE[1] Profit/(loss) impact +11 BPS US$ +56 BPS ZAR R'000
Secured borrowing – LIBOR floating debt (US$ denominated)	51 158	538 692	150 834	(150 834)	593	(593)
Secured borrowing – JIBAR floating debt (ZAR denominated)	–	3 815 489	–	–	21 367	(21 367)
ZAR based cash and cash equivalents (net overdraft)	–	1 139 758	–	–	6 383	(6 383)
Accounts payable (US$ denominated)	60 204	634 095	177 547	(177 547)	–	–
Total financial liabilities		6 128 034	328 381	(328 381)	28 343	(28 343)
Foreign cash and cash equivalents (Favourable cash – US$ equivalent)	100 776	1 061 169	(297 127)	297 127	(1 167)	1 167
Total financial assets		1 061 169	(297 127)	297 127	(1 167)	1 167

	Foreign currency amount '000	Carrying amount R'000	IMPACT ON OTHER COMPONENTS OF EQUITY IN RAND[1] +16% -16% EUR/US$ R'000	IMPACT ON OTHER COMPONENTS OF EQUITY IN RAND[1] +14% -14% GBP/US$ R'000
GROUP AND COMPANY				
Non-derivative financial instruments				
31 MARCH 2015				
Denominated in EUR and GBP[2]				
Accounts payable – EUR	**18 867**	**245 625**	**39 300**	**–**
Accounts payable – GBP	**2 390**	**42 966**	**–**	**6 015**
		288 591	**39 300**	**6 015**

	Foreign currency amount '000	Carrying amount R'000	IMPACT ON OTHER COMPONENTS OF EQUITY IN RAND[1] +17% -17% EUR/US$ R'000	IMPACT ON OTHER COMPONENTS OF EQUITY IN RAND[1] +14% -14% GBP/US$ R'000
GROUP AND COMPANY				
Non-derivative financial instruments				
31 MARCH 2014				
Denominated in EUR and GBP[2]				
Accounts payable – EUR	14 731	213 643	36 319	–
Accounts payable – GBP	2 488	43 665	–	6 113
		257 308	36 319	6 113

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

2. The Group does not incur any interest on accounts payable.

LEASE COMMITMENTS

The Group lease commitments are mainly denominated in US$. Some of these commitments are fixed while some have a floating LIBOR rate linked component. SAA is therefore through its lease commitments exposed to both interest rate risk and foreign currency risk. Interest rates on these leases are linked to one, three and six months LIBOR rates. These are not specifically hedged but are considered part of the net exposure for hedging purposes on foreign exchange.

FOREIGN DEFINED BENEFIT OBLIGATIONS

The Group is also exposed to foreign currency risk relating to its foreign defined benefit obligations. The German Pension Fund obligation is denominated in Euro. Any movement is currency based on this fund and reasonable possible changes in the Euro would further impact the Group exposure to foreign currency risk and SAA hedges this exposure on a net portfolio hedge basis.

R THOUSAND	2015	2014
43. DIRECTORS' EMOLUMENTS FOR SAA SUBSIDIARIES		
Executive directors' emoluments		
Mango Airlines SOC Limited		
Mr N Bezuidenhout		
Salary	**1 653**	2 630
Variable pay	**2 766**	2 845
	4 419	5 475
Ms M Ebersohn[1]		
Salary	**–**	928
Variable pay	**454**	458
	454	1 386
Ms P Luhabe[2]		
Salary	**1 184**	–
Variable pay	**1 091**	–
	2 275	–
Ms M Labuschagne[3]		
Salary	**1 224**	–
Variable pay	**439**	–
	1 663	–
SAA Technical SOC Limited		
Mr M Zwane		
Salary	**3 325**	3 126
Allowance	**360**	360
	3 685	3 486
Mr S Zulu[4]		
Salary	**–**	930
Termination benefits	**–**	895
Retirement fund contributions	**–**	46
	–	1 871
Mr D Erriah[5]		
Salary	**705**	–
	705	–
Air Chefs SOC Limited		
Ms A Crooks[6]		
Salary	**–**	954
Leave pay paid out	**–**	92
Termination benefits	**–**	1 914
	–	2 960

R THOUSAND	2015	2014
43. DIRECTORS' EMOLUMENTS FOR SAA SUBSIDIARIES (CONTINUED)		
Air Chefs SOC Limited (continued)		
Mr M Muller[7]		
Salary	–	943
Retirement fund contributions	–	84
Leave pay paid out	–	166
Allowance	–	38
	–	1 231
Mr M Kemp[8]		
Salary	1 222	482
Retirement fund contributions	122	44
Allowance	621	85
	1 965	611
Mr L Hudson[9]		
Salary	950	–
South African Airways City Center SOC Limited		
Ms GB Koyana		
Salary	852	1 434
Allowance	33	109
	885	1 543

1. *Resigned 14 January 2014.*
2. *Appointed 28 March 2014.*
3. *Appointed 26 August 2014.*
4. *Resigned 23 October 2013.*
5. *Appointed 6 November 2014.*
6. *Resigned 30 September 2013.*
7. *Resigned 24 January 2014.*
8. *Appointed as Acting CEO effective 1 November 2013.*
9. *Appointed 13 August 2014.*

R THOUSAND	2015	2014
Non-executive directors' emoluments		
Mango Airlines SOC Limited		
Mr P Krusche[10]	–	54
Mr R Wally	514	485
Mr T Adams	158	142
Mr A Khumalo[11]	77	145
Dr R Naithani[12]	58	112
Ms L Barnard[13]	54	–
	861	938
SAA Technical SOC Limited		
Mr M Kalawe[14]	–	–
Ms Y Kwinana	281	128
Mr B Mpondo[15]	328	601
Mr A Mabizela[16]	72	128
Mr BK Parsons[17]	–	–
Dr JE Tambi[18]	19	–
	700	857

R THOUSAND	2015	2014
Air Chefs SOC Limited		
Mr M Kalawe[14]	–	–
Ms N Kubeka[16]	249	445
Mr A Mabizela[19]	–	26
Adv L Nkosi-Thomas[19]	–	26
Ms C Roskruge[16]	48	8
Mr N Vlok[20]	–	–
	297	505
South African Airways City Center SOC Limited		
Mr M Kalawe[14]	–	–
Ms C Roskruge[16]	160	320
Dr R Naithani[12]	33	65
Ms N Kubeka[16]	36	65
Ms Y Kwinana[21]	10	–
Mr T Lehasa[22]	–	–
	239	450

10. Resigned 23 October 2013.
11. Resigned 16 October 2014.
12. Removed 23 October 2014.
13. Appointed 15 September 2014.
14. Appointed 1 June 2013.
15. Resigned 17 October 2014.
16. Resigned 22 October 2014.
17. Appointed 2 December 2014.
18. Appointed 6 February 2015.
19. Resigned 8 July 2013.
20. Appointed 7 January 2015.
21. Appointed 4 December 2014.
22. Appointed 6 January 2015.

44. GOING CONCERN

As with previous years, SAA remains undercapitalised. Four 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 fuel efficient aircraft and left the company less able to cope with the significant volatility in foreign exchange rates and the price of jet fuel.

On the 8th of September 2016, a perpetual guarantee of R4,7 billion was approved by the Shareholder. This guarantee has certain conditions over and above those attached to the existing guarantees, these conditions relate to actions required to stabilise the airline and ensure that it returns to profitability in line with its approved Corporate Plan and includes the following key deliverables:

- The primary focus of the Board must be to return the airline to financial sustainability;
- SAA must implement more aggressive cost-cutting initiatives;
- The Board is required to appoint a permanent CEO, CFO and other key executives in consultation with the Minister of Finance; and
- Funding must be secured to meet the airline's liquidity requirements.

The total of these guarantees amounts to R19,1 billion and are providing reasonable comfort that SAA will have the ability to continue as a going concern in the foreseeable future.

The directors are of the view that the guarantee support by its Shareholder would be adequate for the going concern requirement in the foreseeable future, being 12 months from the date of approval of these annual financial statements. The company is in the process of restructuring its existing short-term facilities, which include the repayment of facilities due in the next six months of R4,5 billion. The process of engaging with the institutions to refinance the facilities that are maturing in the next six months has been initiated and is, at the time of finalising the annual financial statements, ongoing.

In the absence of the timing and extent of the expected Shareholder support in the form of a capital injection, these guarantees provide reasonable comfort that SAA would have the ability to continue operating as a going concern. The directors, however, remain of the view that a more permanent appropriate capital structure is required for the airline.

45. INFORMATION REQUIRED BY THE PUBLIC FINANCE MANAGEMENT ACT

SAA as a state owned company and listed as Schedule 2 Major Public Entity in terms of the PFMA (Act No 1 of 1999), the SAA Board as the accounting authority, has the responsibility of ensuring that SAA has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The design and implementation of effective controls has been delegated to the SAA executive management.

SAA has experienced an increase in PFMA non-compliance over the 2014/15 financial year compared to the 2013/14 financial year specifically as it relates to “Irregular spend without loss” and this is illustrated in the table below:

Category of PFMA non-compliance	2015	2014
Irregular spend without loss	**R68,5m**	R28,4m
Fruitless and wasteful expenditure	**R52,7m**	R19,2m
Loss due to criminal conduct	**–**	R5,8m
Recoveries	**R7,4m**	–

The irregular spend increase in the 2014/15 financial year is primarily due to expired contracts that have not been timeously renewed and/or extended. A number of interventions have been implemented in the 2014/15 financial year such as detailed below, with the impact to be realised in the 2015/16 financial year:

- The Contract Management department was moved to report into the Supply Chain Management Department to implement the contract management process/system and to monitor contacts.
- Implementation of the SAP Module for contract management.
- Provision of training in the African Regional stations and Domestic stations.

Fruitless and wasteful expenditure reflects R26,9 million in relation to penalties paid by SAAT in terms of the Tax Administration Act, which was the subject of an unsuccessful appeal, while R8,2 million arose from penalties for late PAYE, UIF and SDL payments by SAAT.

Management has instituted control measures such as disciplinary actions in all cases where there have been reportable PFMA contravention cases as part of mitigating PFMA non-compliance.

CORPORATE INFORMATION

Country of incorporation and domicile
The Republic of South Africa

Company registration number
1997/022444/30

Directors
Resigned
Seven resignations from the Board in 2014/15

Directors during the reporting period
DC Myeni
Y Kwinana
WH Meyer
B Mpondo*
C Roskruge*
R Lepule*
A Khumalo*
R Naithani**
A Mabizela*
N Kubeka*
M Kalawe
AD Dixon
JE Tambi

* *Resigned 2014/15*
** *Removed 2014/15*

Company Secretary
R Kibuuka

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

Auditors
PricewaterhouseCoopers Inc
Private Bag x 36
Sunninghill, 2157

Nkonki Inc
PO Box 1503
Saxonwold, 2132

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

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