SOUTH AFRICAN AIRWAYS GROUP

SOUTH AFRICAN AIRWAYS
ANNUAL REPORT 2012

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SOUTH AFRICAN AIRWAYS

A STAR ALLIANCE MEMBER

ABOUT SAA

MISSION

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

VISION

AN AFRICAN AIRLINE WITH GLOBAL REACH

CORE BUSINESS

THE MOVEMENT OF PEOPLE AND GOODS BY AIR

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 OUR CUSTOMERS (INTERNAL AND EXTERNAL) BY TAILORING EACH INTERACTION TO SUIT THEIR SPECIFIC NEEDS.

INTEGRITY

PRACTISING THE HIGHEST STANDARDS OF ETHICAL BEHAVIOUR IN ALL OUR LINES OF WORK AND MAINTAINING CREDIBILITY BY MAKING CERTAIN THAT OUR ACTIONS CONSISTENTLY MATCH OUR WORDS.

VALUING OUR PEOPLE

COMMITTING 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 OUR PROGRESS AGAINST THEM.

EXCELLENCE IN PERFORMANCE

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

SCOPE OF THIS REPORT

In line with the recommendations of the King Code on Corporate Governance (King III of 2009), South African Airways presents its second step towards an 'integrated annual report', combining elements of a sustainability report with a conventional financial report. Widely practised around the world, sustainability reporting seeks to present the corporate record in terms of the triple bottom line – economic, environmental and social performance – rather than focusing solely on financial performance. The aim is to provide sufficient insight to enable stakeholders to form a comprehensive picture of the organisation's performance and its ability to create and sustain value, especially in the context of growing environmental, social and economic challenges.

CONTENTS

HIGHLIGHTS 2011-2012

STRATEGIC

- Revalidation of the Group Corporate Strategy by the SAA Board
- Continued realignment of the Group's network to focus on its Africa Growth Strategy
- Further strengthening of the CEO's Project Management Office
- Initiation of major strategic projects such as the Environment Programme and SAA Flight Academy
- B-BBEE rating improvements in all four SAA subsidiaries through stronger preferential procurement, enterprise development and socio-economic development

COMMERCIAL

- Four new African routes and one to China (Beijing) launched by SAA
- Revenue Passenger Kilometres up two percent
- Skytrax Award for Best Airline in Africa for the ninth consecutive year (SAA)
- Four-star Skytrax rating reconfirmed (SAA)
- Mango celebrated five years of operation and commenced Lanseria to Cape Town route

OPERATIONAL

- The sixth and final Airbus A330-200 aircraft ordered commenced operations
- Passenger load factor up two percent
- Cargo tonnes flown up 10 percent
- SAA and Mango continue to alternate as the most on-time airlines in South Africa

FINANCIAL

- Total revenue up six percent despite persisting market pressure
- Controllable costs up five percent
- Revised accounting policies adopted in line with industry best practice
- R935 million gain on revaluation of Group property

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

DOMESTIC

SAA and Mango have the most extensive domestic schedule, which is enhanced by their partnerships with state-owned regional carrier South African Express and the privately owned SA Airlink, which operates as a feeder network linking smaller towns and regional centres to the main hubs in the country. Additionally, SAA moves 60 percent of all air cargo in South Africa.

REGIONAL/AFRICA

SAA is one of the leading carriers in Africa, offering 25 routes across the continent.

INTERNATIONAL

SAA's international network creates links to all major continents from South Africa through 10 direct routes and 19 code shares. SAA accounts for approximately 38 percent of all international arrivals to South Africa and through its Star Alliance membership offers 19 700 daily flights serving 1 077 airports in 157 countries.

ABOUT SAA

SOUTH AFRICAN AIRWAYS (SAA), ESTABLISHED AS THE COUNTRY'S NATIONAL CARRIER 78 YEARS AGO, HAS GROWN INTO AN INTERNATIONALLY RESPECTED WORLD-CLASS AIRLINE AND IS THE MOST TRUSTED AVIATION SERVICE PROVIDER ON THE AFRICAN CONTINENT.

A consolidated airline group, SAA's core business is the movement of people and goods by air, which it delivers in a highly competitive global market domestically, regionally and internationally. The Group's premium four-star-rated airline connects 30 countries across the world as well as major destinations within South Africa from its Johannesburg hub.

The Group operates a dual-brand airline model, with SAA as its premium brand and Mango targeting the price-sensitive market. It also operates a cargo division (SAA Cargo) and has three other subsidiaries specifically focusing on:

- Aircraft maintenance, repair and overhaul (SAA Technical);
- In-flight catering (Air Chefs); and
- Retail travel franchises in southern Africa (SA Travel Centre).

This report highlights SAA's performance for the year ended 31 March 2012 and details the Group's delivery on its sustainability objective.

Shareholding

SAA is a wholly state-owned company reporting to the Department of Public Enterprises (DPE). In addition to fulfilling its role as the national carrier and a strategic state asset, as stated in the South African Airways Act No 5 of 2007 (SAA Act), the Group has a long-term role in supporting the South African Government's developmental-state policy objectives in areas including, but not limited to:

- Operating and growing new air links between South Africa and its major trade and tourism partners (policies include the South African Airlift Strategy); and
- Transformation, skills development and job creation (policies include the South African National Development Plan and New Growth Path).

Mandate and strategic objectives

SAA's mandate is derived from the SAA Act and reinforced in an annual Shareholder's Compact concluded between DPE and SAA. It outlines SAA's national carrier/strategic asset role, with a further mandate for SAA to be 'an African airline with a global reach'. The Shareholder's Compact also outlines six strategic objectives which, unlike the objectives of primarily commercially-focused airlines, are informed by and act in support of South Africa's state policy objectives.

Further guidance on the Group's strategic objectives is provided through SAA's Memorandum of Association, Ministerial Statements and ongoing contact with the DPE.

The Group's strategic objectives are as follows:

1. Strategic role for South Africa (the airline's role as an economic enabler);
2. Capital base and financial efficiency (establishing and maintaining a sufficient capital base and efficiencies to ensure that SAA can deliver on its mandate);
3. Commercial and operational efficiency and effectiveness;
4. Co-operation and consolidation (with South African and foreign airlines);
5. Capital expenditure and new route development; and
6. Developmental objectives (supporting developmental-state policy goals).

SAA's contribution to the country

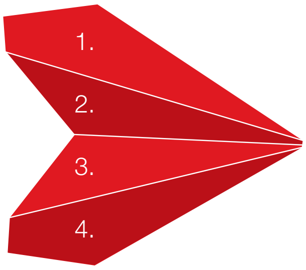
State-owned airlines worldwide generally support state policy objectives, and few have genuine commercial viability and an appropriate return on capital to their shareholder(s) as their primary objective. SAA already makes a major contribution to the South African economy. Various models of aviation catalytic demand have been developed to measure this, with those of the International Civil Aviation Organisation, the US Department of Transport and Oxford Economics among the most notable.

They have the same base principles, modelling the impacts of aviation activity in terms of:

- Direct impacts (employment and activity in the aviation sector);
- Indirect impacts (employment and activity down the aviation supply chain);
- Induced impacts (employment and activity supported by the spending of those directly or indirectly employed in the aviation sector); and
- Consumer welfare impacts (as individuals benefit from the increased availability of travel).

In June 2012, Oxford Economics published a quantification of SAA's catalytic impact on the South African economy, which calculated that the Group's annual GDP contribution is R8,6 billion, with 35 000 jobs supported – with the Group making an additional contribution of R11 billion in tourism, with 44 000 additional jobs supported in this sector. This demonstrates that the SAA Group is a major driver of economic activity for South Africa and is firmly focused on delivering on its mandate and strategic objectives, and ensuring that its economic and social contribution increases as its growth plans are achieved.

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



MANGO

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

SAA TECHNICAL

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

AIR CHEFS

Air Chefs, SAA's in-flight catering subsidiary, is one of the largest catering and in-flight service providers in South Africa. It has nine airline customers, a skilled workforce of more than 1 400 employees, and produces over 32 000 meals a day.

SOUTH AFRICAN TRAVEL CENTRE

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

OPERATIONAL OVERVIEW

AS AT 31 MARCH 2012

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30
COUNTRIES

43
DESTINATIONS

720
STAR ALLIANCE DESTINATIONS

24
INTRA-AFRICAN ROUTES

50
FLIGHTS A DAY BETWEEN JOHANNESBURG AND CAPE TOWN (37 SAA, 14 MANGO)

8,5
MILLION PASSENGERS

11 044
EMPLOYEES WORLDWIDE

142 000
TONNES OF CARGO FLOWN

SOUTH AFRICAN AIRWAYS FLEET

MANGO

5
B737-800s

SAA

6
A330-200s

14
B737-800s

11
A319-100s

2
A320-200s

9
A340-600s

8
A340-300s

1
A340-200

4
B737 FREIGHTERS

SKYTRAX AWARD BEST AIRLINE AFRICA FOR NINTH CONSECUTIVE YEAR

BUSINESS CLASS LOUNGE OR TAMBO INTERNATIONAL – JOHANNESBURG

SKYTRAX AWARD CEREMONY – PARIS AIR SHOW JUNE 2011


ONE OF OUR DEDICATED CREW

AWARDS

SAA was the proud winner of two major Skytrax Awards in the year under review:

- Best Airline (Africa) for the ninth consecutive year; and
- Service Excellence (Africa) for the second time in this award's two-year history.

Skytrax surveyed more than 200 airlines, with 18,8 million airline customers from around the world participating.

LEADERSHIP
BOARD OF DIRECTORS

NON-EXECUTIVE DIRECTORS

1. MS CHERYL CAROLUS
Non-Executive Chairperson

BA (Law), BA (Education)

Ms Carolus was elected as Chairperson of SAA in 2009, and also chairs the Group's Social and Ethics, Governance and Nominations Committee. She is a director of several listed and unlisted companies and has played a prominent role in public life. As Deputy Secretary General of the ANC under Nelson Mandela, she was an integral part of the negotiating team during the Convention for a Democratic South Africa (CODESA) negotiations that shaped the constitution for a Democratic South Africa and the preceding multi-party negotiations.

She served as South Africa's High Commissioner to the United Kingdom from 1998 to 2001, and as CEO of SA Tourism from 2001 to 2004. She was Chairperson of the South African National Parks Board for six years and currently serves on the boards of the World Wildlife Fund (WWF) SA, WWF International and the WWF International Crisis Group. In the business sector, she serves on the boards of, among others, De Beers Consolidated Mines Ltd, Fenner Conveyor Belting SA (Pty) Ltd, Macsteel Service Centres SA, IQ Business Group, Investec Ltd and Investec PLC, Gold Fields Ltd, and the Technology Innovation Agency (Department of Science and Technology).

2. MR BONANG MOHALE

Chartered Marketer (SA), various post-graduate diplomas and certificates in marketing and sales management, Executive Development Programme (USA), IMD (Switzerland and Spain)

Appointed to the Board in September 2009, Mr Mohale is a member of SAA's Audit Committee and Chairperson of SA Travel Centre (Pty) Ltd. He is currently Chairperson and Vice President: Sales and Operations at Shell South Africa (Pty) Ltd, where he is Chairperson of the boards of Shell South Africa Holdings (Pty) Ltd, South African Petroleum Refinery (SAPREF), Shell South Africa Marketing (Pty) Ltd and Shell South Africa Refinery (Pty) Ltd. Before joining the Shell group he was the CEO of Drake & Scull FM SA (Pty) Ltd, CE of Shared Services and Associated Companies of Sanlam, an alternate director on the Board of Sanlam Ltd, Chairperson of the Board of TASC, and a director of Innofin, Gensec Property Services and Fundamo. He was formerly SAA's Executive Vice President for Alliances, Network Management and Global Sales, and is a former Managing Director of Otis Elevators.

3. PROFESSOR DAVID H LEWIS

BCom (Economics and Law), BA (Hons), MA (Economics)

Appointed in May 2010, Professor Lewis is a member of SAA's Audit Committee as well as its Remuneration and Human Resources Committee. Since December 2011, Mr Lewis has been Executive Director of Corruption Watch. In October 2009, he was appointed as Extraordinary Professor at the Gordon Institute of Business Science, Pretoria University. Prior to that, he was the Chairperson of the Competition Tribunal (1999 to 2009) and Chairperson of the International Competition Network. He has held positions at the Ministry of Labour, the University of Cape Town and the Institute of African Studies at Columbia University, New York. Previously he was General Secretary of the General Workers' Union. He has served on the boards of the Industrial Development Corporation, the National Research Foundation and the Johannesburg Development Agency. He has published extensively on trade union history, industrial relations, industrial policy and competition policy.

4. MS DUDUZILE MYENI

BAdmin (two majors outstanding), Secondary Teachers' Diploma (Commerce), Business Skills for South Africa, Advanced Business Management Diploma, 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. A philanthropist and entrepreneur, she is the CEO of Skills Dynamics, consulting for various blue-chip companies. She is Chairperson of the Mhlathuze Water Board, Chairperson of the South African Association of Water Utilities, and President of the African Water Association. She is also a member of the Provincial Board of Absa Bank, Deputy President of the Zululand Chamber of Commerce and Industry, and Executive Chairperson of the Jacob Zuma Foundation. In her spare time, she gives inspirational talks to the youth, women and community groups on various business and leadership topics.

5. MR JABULANI NDHLOVU

BAdmin (Hons) (Industrial Psychology), Oxford Advanced Management Programme

Appointed in February 2010, Mr Ndhlovu is Group Human Resources Executive at Hans Merensky Holdings, a diversified agricultural and agri-processing business. Previously Human Resources Director at Microsoft South Africa, Jabu's career extends from management consulting to HR operations and business leadership. He has worked for a number of multinational businesses, including Accenture (formerly Andersen Consulting, where he worked in a number of consulting assignments in various industries). He has also held a number of strategic and senior management positions within HR at BP Southern Africa and Barloworld Logistics.

6. ADVOCATE LINDIWE NKOSI-THOMAS SC

BJuris; LLB

Appointed to the Board in September 2009, Advocate Nkosi-Thomas is a member of the Audit Committee and the Social and Ethics, Governance and Nominations Committee, and Chairperson of the Ad Hoc Committee on Litigation. She also serves on the Mango Board of Directors and is a member of the Mango Audit Committee. Admitted as an advocate of the High Court of South Africa in 1994, she had the status of Silk conferred upon her by the President of the Republic of South Africa in 2009. She has been in active practice as a member of the Bar since 1995, and has served as an Acting Judge of the High Court of South Africa – South Gauteng High Court and North West High Court – (for a period of approximately a month at a time) on several occasions.

Advocate Nkosi-Thomas serves as the Chairperson of the Appeals Board of the Financial Services Board (the regulator of financial services providers within the Republic of South Africa). She also serves as a member of the Board of Trustees of Government Employees Medical Scheme, and is Chairperson of its Governance and Nominations Committee. In 2008, she served as a Non-Executive Director of Soul City Broad-Based Empowerment (Pty) Ltd, and was Vice Chairperson of the Advertising Standards Authority Tribunal of South Africa in 2007 and 2008.

7. MR LOUIS RABBETS

BBusSc (Actuarial Science), Fellow of the Institute of Financial Markets (FIFM)

Appointed in December 2009, Mr Rabbets is Chairperson of SAA's Procurement and Tender Processes Committee and a member of SAA's Audit Committee. He was a member of SAA's Finance, Financial Risk and Investment Committee prior to the merging of this committee with that of SAA's Audit Committee in early 2011. Mr Rabbets is Executive Chairperson of Quant Capital. He previously held positions in the investments division of Sanlam, the Treasury Division of Standard Bank and the Asset and Liability Management Division of the National Treasury. While at the National Treasury, he conducted comprehensive best-practice reviews of the treasury operations of several major state-owned companies. He has extensive experience in financial markets, treasury and risk management.

8. MS MARGARET WHITEHOUSE

BA (Business Science); (Hons) (Marketing)

Appointed in October 2006, Ms Whitehouse is a member of SAA's Procurement and Tender Processes Committee, and Ad Hoc Litigation Committee, and is Chairperson of Air Chefs (Pty) Ltd. She has worked for multinationals such as Unilever and also has experience in the retail fashion world and manufacturing. She has done extensive work within the South African Government. She has experience in developing brand strategy, corporate culture and identity, with a passion for building world-class African brands.

LEADERSHIP
BOARD OF DIRECTORS CONTINUED

NON-EXECUTIVE DIRECTORS

9. MR TEDDY DAKA

BA (Hons) (Business Management), MBA, Executive Programmes at several institutions

Mr Daka was appointed to the Board in September 2009, and is Chairperson of SAA Technical (SOC) Ltd. He is the founder, owner and Chairman of Tedaka Investments (Pty) Ltd. Formerly a Senior Manager at the Phalaborwa Foundation and a Senior Executive at Telkom SA Ltd. He has served as a member of the State Information Technology Agency (SITA) Tender Board, Chairman of the South African Airways Tender Board, Chairman of Government Advisory Committee at the Department of Public Works, member of the Ministerial Advisory Committee at the Department of Home Affairs as well as Ministerial Task Team member on SITA at the Department of Public Service and Administration. He is a director at Aurecon Pte Ltd (Singapore), Chairman of Ansys Ltd, Executive Chairman of Tedaka Technologies (Pty) Ltd and is a trustee of the Aurecon Africa Trust. From time to time, he advises state organs and blue chip companies in the areas of strategy, state-owned companies management, BEE and supply chain management. A leading thinker on BEE and Preferential Procurement, Teddy has been passionately involved in the crafting of South Africa's empowerment policies. His current interest is developing sustainable state-owned companies within the context of emerging markets.

10. MR RUSSELL LOUBSER

CA(SA); MCom in Statistics

Appointed to the Board in September 2009, and a member of the Social and Ethics, Governance and Nominations Committee, Mr Loubser is former CEO of the Johannesburg Stock Exchange (from January 1997 to his retirement in December 2011). Prior to joining the JSE, he was Executive Director of Financial Markets at Rand Merchant Bank Ltd (RMB), during which he was Chairperson of Safex for two years and Deputy Chairperson for one. Prior to RMB, he spent 16 months at Finansbank Ltd and three years at Arthur Andersen & Co.

He was a member of the King Committee on Corporate Governance for 15 years, a member of the Securities Regulation Panel in SA for 15 years, and served on the Board of the World Federation of Exchanges (WFE) for approximately 13 years, chairing its Working Committee for two years. Mr Loubser is currently a director of Strate Ltd, Rand Merchant Bank (Divisional Board), Afrika Tikkun, Council Member of the University of Pretoria (since 2007) and Extraordinary Professor in Mercantile Law at the University of Pretoria.

11. MR TUKELA CYRIL JANTJIES

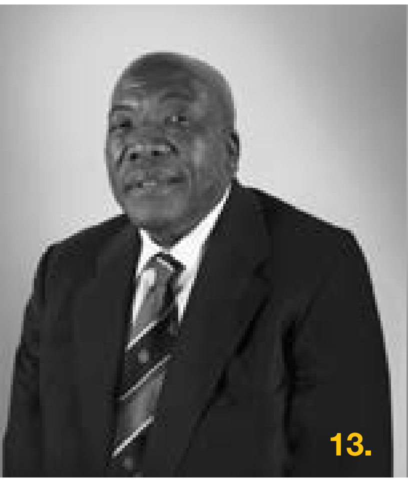
Diploma in Personnel Management, Management Development Programme and Personnel Management Programme

Appointed to the Board in September 2009, Mr Jantjies is a member of SAA's Remuneration and Human Resources Committee and a Director of SA Travel Centre (Pty) Ltd. He is Director and Chairperson of Middledrift Dairy (Pty) Ltd, and Chairperson of the Community Trust. His previous posts include CEO of King Sandile Development Trust, Director of Management Services Boksburg TLC and Provincial Treasurer of the ANC Veterans' League. He was formerly Human Resources Director and later an Area General Manager at Nampak Ltd.

12. MS YAKHE KWINANA

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

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



13.

14.

15.

13. MR ZAKHELE SITHOLE

CA(SA); Certified Fraud Examiner; Higher Diploma (Company Law); Higher Diploma (Tax Law); BAcc; BCom

Appointed to the Board in December 2009, Mr Sithole is Chairperson of SAA's Audit Committee and a member of the Procurement and Tender Processes Committee as well as the Ad Hoc Committee on Litigation. A specialist in finance, corporate law and governance, he is Executive Chairperson at Sithole Inc. His current directorships include Command Holdings Ltd (Chairperson), Allied Technologies Ltd (Board Member and Chairperson of the Audit Committee), Public Investment Corporation (Board Member, Member of the Audit and Risk Committee, and Chairperson of the Human Resources and Remuneration Committee) and the University of Zululand (Member of the Board of Governors and Chairperson of the Audit Committee). He is also Chairperson of Afrisam; Chairperson of Tanga Ltd (Tanzania); a Trustee of the Government Employee Pension Fund; and a Director and member of the Audit and Risk Committee at Growth Point Properties Ltd. His previous directorships include SA National Parks Board (Legal Resources, Finance and Corporate Governance Committee); Xstrata South Africa Ltd; South African Bureau of Standards; Department of Trade and Industry; South African Police Service; Johannesburg Metropolitan Council; the Department of Transport; Ntsika Enterprise Promotion Agency; Isset Seta and St Matthew's Catholic Church.

EXECUTIVE DIRECTORS

14. MS SIZAKELE MZIMELA
Chief Executive Officer

BA (Economics and Statistics), Executive Programmes at several institutions

Ms Mzimela was appointed to the Board of SAA in April 2010, the Board of the International Air Transport Association (IATA) in June 2011, and the Board of South African Tourism effective October 2007. She has also served on the Board of Cargo Carriers since October 2008.

Ms Mzimela's aviation experience spans 16 years. She joined SAA in 1996 as a Research Analyst, was soon promoted to Manager, Market Development, and later became Senior Manager, Alliances. At the end of 2000, she was appointed Regional General Manager for Africa and the Middle East; in November 2001, she was named Executive Vice President of Global Passenger Services; and in May 2002, she took over the Global Sales and Voyager portfolio. Before entering aviation, she held a Corporate Planning Analyst position at Standard Bank and a tenure managing capital projects at Total SA.

In October 2003, she was appointed Chief Executive Officer of SA Express Airways. The company registered substantial growth under her leadership and established itself as the fastest growing feeder airline in Southern Africa. Her experience, intensive knowledge of the aviation industry and business acumen culminated in her appointment as Chief Executive Officer of the SAA Group in April 2010.

15. MR WOLF MEYER
Chief Financial Officer

B.PL; BCompt (Hons); CA(SA)

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

LEADERSHIP

GROUP EXECUTIVE COMMITTEE

1. MS ZUKISA RAMASIA
General Manager, Operations

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

Ms Ramasia has had an illustrious 20-year career in airline operations in such roles 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, and identifying bottlenecks and providing optimum solutions.

2. ADVOCATE SANDRA COETZEE
General Manager: Legal, Risk and Compliance

Bachelor of Civil Law; LLB; Advanced Negotiation Skills Certificate, Commission for Administration; Advocate of the High Court of South Africa; Member of the Chartered Institute of Transport (UK)

Advocate Coetzee joined SAA in May 2010 and was appointed to her current position in September 2010. She previously held various posts in the Department of Public Enterprises, including Deputy Director-General: Legal, Risk and Compliance; Chief Portfolio and Investment Manager; and Acting Director-General. Prior to that, she had been in private practice for 21 years, specialising in regulation and commercial transactions, mainly in the transport sector, serving clients in all regions of the African continent and South East Asia. She won the American Biographical Institute Woman of the Year 2000 Award for significant career achievements and contributions to civil society.

3. MS THULI MPSHE
General Manager, Human Resources

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

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

4. MR BARRY PARSONS
Executive in the CEO's Office: Strategy, Planning & Project Management

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

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

5. MR THEUNIS POTGIETER
General Manager, Commercial

BCom (Economics); MCom in International Business

Mr Potgieter rejoined SAA in November 2010 after seven years with Emirates Airline, based in Dubai, as Vice-President in the Passenger Sales Development unit. In this role, he was responsible for the development of channel-specific sales, product development and marketing activities across more than 60 countries. Before joining Emirates, Mr Potgieter had worked for SAA in a variety of senior commercial roles in the Voyager Frequent Flyer Programme, e-commerce, planning and alliances. He is currently responsible for SAA's global sales, marketing, network planning, alliances, revenue optimisation and product development functions.

6. MR TLELI MAKHETHA
General Manager, Cargo

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

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

7. MS DILESENG KOETLE
Acting Head of Group Corporate Affairs and ex-officio member of Exco

BA (Journalism), Advanced Diploma (Brand Innovation) (currently completing)

A well-rounded communicator and strategist, Ms Koetle has 10 years' experience in the aviation and media industries. She joined SAA in February 2011, having worked at SA Express Airways from 2006, where she made an invaluable contribution to the airline's reputation. Ms Koetle previously held crucial roles in broadcasting, within the brand communication and public relations disciplines at the SABC and MultiChoice. Areas in which she is a key influencer include corporate communication, reputation management, stakeholder relations, publishing, corporate social investment, sponsorship and event management.

8. MS RUTH KIBUUKA
Company Secretary and ex-officio member of Exco

BA (Hons) (Economics and Social Administration), CIS Diploma, Fellow of the SA Institute of Chartered Secretaries and Administrators, Fellow of the Chartered Institute of Business Management

Ms Kibuuka provides company secretarial services to the Board of Directors and committees of the Board of SAA, the boards of SAA's subsidiaries (excluding Mango), as well as the SAA Executive and other governance forums. She joined SAA in February 2009 from Export Credit Insurance Corporation of South Africa, where she was Financial Controller. She was formerly Group Accountant at Fedics Group Services.

9. MR NICO BEZUIDENHOUT
Chief Executive Officer, Mango

BCom (Transport Economics and Industrial Psychology), MBA

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

10. MR MUSA ZWANE
Chief Executive Officer, SAA Technical

MBA, MAP (Management Advancement Programme), MSc (Industrial Chemistry)

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

11. MS ALISON CROOKS
Chief Executive Officer, Air Chefs

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

Ms Crooks was appointed CEO of Air Chefs in November 2010. She initially joined the SAA Group in 2008 and has held a number of positions including Financial Controller (Commercial), Group Financial Controller (Group Reporting) and Head of Procurement and Petroleum Affairs. Before joining SAA she held a number of financial and operational positions, including Financial Director of Network Logistics at Tibbett and Britten plc; executive roles with Avon Cosmetics in South Africa and the UK, including Vice President of Operations (SA); and Divisional Accountant for the Volkswagen Audi Group (UK).

12. MS BULELWA KOYANA
Chief Executive Officer, SA Travel Centre

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

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

EXECUTIVE STATEMENTS AND CORPORATE GOVERNANCE

CHAIRPERSON'S REPORT

CHERYL
CAROLUS
CHAIRPERSON

SOUTH AFRICA'S ECONOMIC GROWTH AND JOB CREATION ARE LARGELY DEPENDENT ON OUR ABILITY TO CONNECT WITH THE REST OF AFRICA AND THE WORLD, AND THIS IS DEPENDENT ON THE SAA GROUP'S ABILITY TO GROW AND EFFICIENTLY OPERATE ITS BUSINESS.

Air transport is a vital driver of economic growth, opening the door to opportunities, facilitating access to global markets, and spreading wealth and prosperity. Countries that have made substantial investments in their aviation infrastructure are seeing the benefits. China, as an example, has made co-ordinated airline and airport investments a priority and the benefits are evident in its economic strength and growth record. As the International Air Transport Association (IATA) has stated, where governments are focused on jobs and growth, the need to meet the increasing demand for connectivity is clear: "You cannot unleash the power of an industry to drive economic benefits unless it has the capacity to grow profitably." For this reason, IATA believes airlines and governments should be very strong partners.

SAA, as a state-owned company, has such a partnership with the South African Government. In terms of this partnership, the SAA Group has a dual mandate:

- It needs to be successful as a business, with revenues ahead of costs and the ability to make investments to support its growth objectives; and
- It has a responsibility to be an enabler for policies and projects, which have been designed to transform the political and socio-economic landscape of our nation and continent.

The Group's performance as a commercially viable business must therefore be considered in parallel with its role and contribution as an economic enabler.

A 2011 report by leading economic forecaster Oxford Economics demonstrated the importance of the aviation sector in supporting and driving economic growth in South Africa. SAA, wanting to assess its own specific contribution, commissioned a similar but more focused report in early 2012.

The report showed that the SAA Group contributes R8,6 billion to South African GDP and is a major employer, supporting 35 000 jobs – over 11 000 direct jobs, with another 17 000 supported through its supply chain and a further 7 000 through spending by employees and suppliers.

Unlike most other companies, however, SAA is also an important infrastructural asset, enabling foreign direct investment, business clusters, tourism and impacts positively on the country's productive capacity in a number of ways. SAA is also an important catalyst in terms of tourism, with Oxford Economics measuring its catalytic benefits to this sector at R11 billion annually, with an additional 44 000 people employed indirectly. The report concluded that SAA provides significant economic benefits to the South African economy that go well beyond the metrics contained within a profit and loss account. Some of these benefits are unique and essential to modern economies – as demonstrated when volcanic ash closed European airspace for a week in early 2010. Globalised supply chains were interrupted and many just-in-time manufacturing processes came to a halt; economic activity was severely affected.

In addition, unlike most of South Africa's state-owned companies, SAA operates in a highly competitive global market – and the market is undergoing unprecedented challenges and change. Factors such as market liberalisation and consolidation, the shifting of global air traffic to mid-hemisphere hubs, and the commoditisation of short-haul travel are serving to intensify the competitive nature of the industry.

Airlines are also highly capital intensive and complex businesses. They operate on historically thin revenue margins of two to three percent, and are subject to external shocks such as political upheavals, natural disaster events such as volcanic ash clouds and spikes in jet fuel prices (with fuel typically accounting for a full one-third of operating costs). The ongoing volatility of the rand and of the dollar over the recent period has also been challenging.

Keeping revenues ahead of costs is a never-ending challenge. Globally, the industry is in a fragile state. The financial crisis and high oil prices of 2008/09 weakened airline balance sheets, and the recent economic downturn and renewed high oil prices have hit the industry hard. Numerous airlines have ceased to operate, while others have merged, announced major restructuring and cost compression programmes, issued major profit downgrades, or become loss-making. SAA did not escape the effects and, although the efforts and focus of recent years have positioned us well from a long-term perspective, our financial performance for the year to March 2012 is evidence of these effects. It also strengthens our resolve to continue to strengthen and grow the business and deliver on our mandate for South Africa.

SAA has made great strides in a relatively short timeframe under our young democracy. From its rebranding in 1997 and transfer to Department of Public Enterprises control from then parent company Transnet in 2007, to the restructuring programme of 2007/08 and the concerted cost-cutting measures of 2009, to the current highly competitive and challenging market conditions. The Group has made exceptional progress in the past three years, and remains well-positioned for growth. For this, I extend particular thanks to our entire workforce; the women and men who wake up every morning and do their work with the pride and joy that earned SAA a number of international airline awards yet again. I thank our executive team, management, staff and our board of directors for making SAA a worldclass business. The board also thanks government for their support as a shareholder and the DPE for a good working relationship.

We are proud of our CEO who has been elected as the first African Woman to serve on the board of IATA. Her election has seen her secure Cape Town as the venue for the prestigious IATA AGM in 2013. Through SAA's achievements our country's stature as a major aviation player continues to grow.

SAA operates under the Public Finance Management Act (PFMA), in terms of which, as recommended by the King Code on Corporate Governance, Board members are appointed for a maximum of three years. While they may be re-appointed for a second three-year term subject to their performance and skills continuing to be relevant to the business, it is likely that there will be changes to the SAA Board of Directors in the coming year.

SAA would like to pay tribute to Mr Zakhele Johannes Sithole who passed away on 18 August 2012. Mr Sithole was not only a valued member of the Board, but he also made a significant contribution to the Group especially in improving the governance processes and driving transformation, as: Chairperson of the Audit Committee; member of the Procurement and Tender Processes Committee; and member of the ad hoc Committee on Litigation. Mr Sithole's dedicated service and commitment to SAA will always be cherished.

The quality and strategic detail of the 2012 – 2015 Corporate Plan created by the CEO and her team, with the guidance and support of the Board, bodes well for SAA and its stakeholders. The Group's commitment to growth, and its investments in opening up new passenger and cargo routes, particularly in Africa, will have a powerful influence on South Africa continuing to be the gateway to the continent. The Plan outlines a range of strategic initiatives which address systemic competitive or structural issues, and these are being implemented with the support of the Shareholder.

The Corporate Plan also outlines two other major strategic initiatives. The first is the establishment of the SAA Flight Academy, which will train pilots for both the aviation industry generally and for SAA's own future requirements. We see this as a key element of our support for the state's transformational policy objectives and a major contribution to skills development and job creation. The second initiative is the continued strengthening of the Group's Environment Programme, to address the challenges and opportunities relating to our carbon emissions and waste produced from operations. SAA is a key member of the IATA Environmental Committee and is working closely with the Shareholder and other state-owned companies to deliver a comprehensive environmental response.

SAA also takes its corporate social responsibility role very seriously and is implementing a bold new policy and range of initiatives focused on youth and education in the most deserving parts of the South African population. This is an exciting renewed focus for SAA. SAA is committed to playing its part in making our country a better, more caring society. This is another key element of SAA delivering on our mandate and to the already-significant contribution we are making to GDP and job creation, a primary differentiator. A strong SAA is key to the future of our country and our continent.

Cheryl Carolus
Chairperson

EXECUTIVE STATEMENTS AND CORPORATE GOVERNANCE

CHIEF EXECUTIVE OFFICER'S REPORT

MS SIZA MZIMELA
CHIEF EXECUTIVE OFFICER

IT HAS BEEN AN INCREDIBLE EXPERIENCE TO SEE THE PEOPLE OF SAA PULL TOGETHER IN A TOUGH YEAR MARKED BY EXTREME COMPETITION AND HIGH FUEL PRICES TO DELIVER AN ENHANCED PRODUCT OFFERING AND REFINED LEVELS OF SERVICE.

We came down from the high of the FIFA Soccer World Cup to enter a financial year that would be somewhat less jubilant – but the collective energy of the country that made the World Cup such a resounding success resonated within SAA, and has taken us to the end of a challenging year with optimism and confidence.

Operating landscape

The effects of the global financial crisis continued to make themselves felt. South Africa remains somewhat protected from the worst of the fallout – indeed, to many, our market is seen as a favourable place to do business – but low GDP growth continued to restrict demand for passenger travel.

Gross average fares experienced strong growth of 19 percent, achieved partly by fuel levy increases necessitated by the effects of unrest in the Middle East on the oil price. However, this growth was insufficient to counter the impact of exceptionally high fuel prices (Brent crude averaged US$114 per barrel during the financial year, compared to US$84 in the 2011 financial year).

Regionally, our strength on the African continent was boosted by the addition of four new regional routes. SAA achieved healthy increases in passenger numbers, load factors and gross average fares. However, the high oil price, contracting market and highly competitive landscape had an adverse effect on the performance of our international and domestic routes.

The effects of the oil price are felt most severely on our international network. Our strong Business Class product remains well supported, but Economy Class passenger numbers dropped – largely as a result of excess capacity on the routes we serve and aggressive discounting by Middle Eastern carriers. However, a targeted marketing campaign designed to boost international Economy Class passenger numbers resulted in an additional R21,7 million in income in February 2012 alone.

SAA operates in one of the most competitive environments in South Africa. Approximately 50 different airlines fly into SAA's hub in Johannesburg every week. There are more than 20 direct and indirect competitors on London routes alone. In the face of this competition, price erosion is a constant threat and increases the importance of SAA's ongoing product, aircraft and quality improvements.

While a strong year is forecast for the regional market and the domestic market shows signs of recovery, competitor airlines continue to put pressure on our international routes. As a result, SAA will halt its direct services between Cape Town and London from 15 August 2012. Passengers to and from Cape Town will be re-routed via Johannesburg.

Route network

In line with the Group's stated growth strategy, SAA introduced a direct flight to New York in May 2011 (our first ultra-long-range route) and a direct flight to Beijing (China) in January 2012. Domestically, June 2011 saw Mango commence operations from Lanseria Airport in Johannesburg to Cape Town.

Regionally, four new African routes were launched – Ndola (Zambia), Kigali (Rwanda), Bujumbura (Burundi) and Pointe Noire (Republic of the Congo). By year-end, approval had been received from our Shareholder to launch a fifth new route to Cotonou (Benin), which commenced operation in May 2012.

With these new routes, we now fly to 25 destinations across the African continent. This is big news. The Oxford Economics exercise mentioned elsewhere in this report highlights the fact that SAA is a major driver of economic activity in and for South Africa. It doesn't take into account the impact that we as a Group are having on the greater African continent. As much as our increased presence across Africa benefits us, it also benefits each of those destination countries in terms of business connectivity, tourism and job creation. When you consider that those engaged in business, visiting as tourists or employed through new opportunities have an increased ability to contribute to the economic development of those countries – through spending – you realise that Africa is awakening, and that SAA is playing a direct and invaluable role. These are exciting times for the continent, and SAA is at the forefront.

Operations

SAA and Mango continue to be known for and supported because of their reliable on-time departure reputation and high levels of safety. SAA achieved its best on-time performance in five years, exceeding its target, and enjoyed its safest year ever – with flight data exceedances at an all-time low. The airline also came through its annual Civil Aviation Authority audit, with both the fewest findings since inception and no major findings and also achieved IATA Operational Safety Audit re-accreditation with the fewest findings to date. To further enhance safety, a fatigue risk management system was introduced for flight crew, and the fuselage of an Airbus A340-200 has been acquired for safety training.

Implementation of the performance-based navigation (PBN) project, which will revolutionise air navigation in Africa in terms of safety and efficiency while enabling savings to be achieved, is well advanced.

The use of self-service, online and mobile check-in options has increased, and marketing of the use of home-printed boarding passes and mobile check-in is to be intensified. Further increases are expected once international flights are included for check-in. Trials of a new hosted check-in desk offering one-to-one engagement with customers have started in London, while automated self-boarding trials will begin in London in October 2012, and automated bag drop trials in both London and Frankfurt at the end of 2012.

Financial performance

The year under review was fraught with challenges for airlines across the world. Brent crude averaged US$114 a barrel in the year under review, compared to US$84 the previous year – a staggering 34 percent increase. This had a substantial weakening on profit margins globally. SAA was not left unscathed. Fuel accounted for 33 percent of the Group's operating expenditure, up from 28 percent in the previous financial year (a R2,2 billion increase). Aircraft maintenance costs were also higher than target.

Revenue increased from R22,6 billion to R23,8 billion (six percent). However, operating costs went up from R21,6 billion to R25,1 billion (17 percent). The Group thus recorded an operating loss of R1,3 billion. After the recognition of a deferred tax asset of R514 million and a net revaluation gain of R823 million, the Group was able to record a total comprehensive income of R60 million for the financial year (R747 million in 2011).

The revenue increase was predominantly a result of the 16 percent increase in fuel levy recoveries driven by the increase in fuel expenses. Passenger revenue increased by 3 percent whereas Voyager income recorded a significant increase of 48 percent. Regulatory costs, which includes navigation, landing and parking fees, increased by 18 percent, while maintenance costs increased by 32 percent.

Excluding the uncontrollable energy, regulatory and maintenance costs, the Group's operating costs increased by five percent – underlining the tight control maintained over controllable costs. I am pleased to report that the year saw a tremendous effort and great improvement in manual and electronic systems maintained by the Group to prevent, identify, collate, monitor and report on irregular and fruitless and wasteful expenditures.

SAA's capital and reserves are currently at R443 million (nine percent lower than the restated R475 million of the previous financial year). This is after the introduction of a provision for lease liabilities (R1,8 billion; previously R1,9 billion).

Voyager

Voyager, SAA's frequent flyer programme, remains one of the best customer loyalty programmes in Africa and continues to grow – largely through the recruitment of new members in South Africa and from other African countries – and achieved revenue of R419 million for the year.

SAA people

Whether it is the natural excitement the aviation industry evokes in people, the strength of our brand, the skill and enthusiasm of our management team, or a combination of these factors, one thing is certain – the people of SAA have enormous passion, energy and pride. As demanding as our high-tech, safety-critical, time-sensitive and highly customer-interactive environment is, most of us love working here. This is a key differentiator, and it gives us a competitive advantage.

Our collective awareness – we could even call it an inherent instinct – that every single SAA employee must, and invariably does, strive to go the extra mile to deliver if not exceed customer expectations, in areas ranging from reliability and safety to a friendly smile, is an invaluable asset.

And it's an asset that is not taken for granted, but is invested in each and every day – from improved operational efficiencies that make the work day less challenging and more fulfilling to training and development, and the freedom we all have to give back to the community.

A total of 172 employees successfully completed Leadership, Management and Supervisory Development Programmes run in partnership with the Gordon Institute of Business and the University of Stellenbosch, while new development opportunities as well as a Management Development Support Framework have been introduced.

The CEO road-show employee engagement initiative has been extremely rewarding and insightful for me personally, and has contributed to a better understanding and greater support of Group objectives.

In line with the Group's strong commitment to economic empowerment, the airline employed 27 new black pilots in the period under review. A further 10 are currently in training, and bursaries were given to 11 student pilots to enable them to qualify and to enter the industry within the next year. In addition, internal training initiatives helped bridge a gap in the training of 30 new pilots who were all subsequently employed by SAA.

The pilot training process will be significantly streamlined following the establishment of the SAA Flight Academy, which the Board approved in October 2011. The academy will employ global best-practice training methods and will significantly streamline the pilot training process. Its goal is to be the primary vehicle for transformation of the pilot cadre from 2015.

We continue to train, engage and motivate staff so that we can all work together towards developing SAA into a self-sustaining and profitable business.

Greener skies

SAA is an active supporter of carbon offset initiatives, and has implemented numerous fuel and emissions saving initiatives.

The direct environmental impact of our activities comes from the CO_2 emissions and waste produced from our operations. Our fleet is

CHIEF EXECUTIVE'S REPORT CONTINUED

among the youngest and most fuel-efficient in the sky, but we have a responsibility to do what we can to minimise our carbon footprint. Our goal is to become one of the world's leading green airlines through recycling, intensive carbon trading and offsetting, the reduction of emissions, investigations into the use of bio-fuels and fuel additive – all based on a holistic and comprehensive Group Environmental Policy.

Regrettably, in order to comply with the European Union's Emissions Trading Scheme, SAA had no option but to raise its fuel surcharge on flights to and from Europe booked from 1 July 2012. Under the scheme, airlines are allotted a quota of carbon credits, which they use to offset the emission charges. But with the allotted credits only covering about 80 percent of all airlines' emissions claims, airlines need to purchase additional credits to cover the balance of the emissions charges they will incur.

South Africa was one of several countries that opposed the scheme and urged the EU to negotiate changes that would make the scheme more fair and transparent. In its current form, the EU effectively charges airlines on their emissions over the entire distance of any flight to or from the EU. In flights linking South Africa and Europe, only about 15 percent of the journey takes place in EU airspace – but the entire flight from Johannesburg will be taxed.

As a responsible airline, we are taking steps to comply, but we are doing this under protest to ensure that we can continue to provide air services without disruption. However, we fully support government's proposal that the EU suspend the scheme for two years so that a better solution can be negotiated. The Group is seeking to mitigate the impact of such taxes on its customers through the vigorous implementation of fuel-saving and carbon-emission reduction initiatives – with no initiative seen as too big or too small.

An example of 'big' is the environmentally friendly demonstration flight between Perth and Johannesburg, in which SAA managed to achieve a 400kg fuel saving and 1 300kg carbon emission reduction. A smaller example is that SAA's new menu is served using re-usable or biodegradable bamboo packaging – a move implemented specifically in line with the airline's carbon offsetting programme.

On a final green note, SAA was proud to be the official airline of the COP17 – the 17th Conference of Parties to the United Nations Framework Convention on Climate Change, which took place in Durban in November and December 2011. The final outcome of COP17 was historic and precedent setting, ranking with the 1997 conference where the Kyoto Protocol was adopted.

Alliances

SAA's Star Alliance membership, which allows us to offer passengers safe, competitive and customer-focused air travel virtually anywhere in the world, is of immense value. SAA joined the alliance in 2006 and currently has a 97,2 percent Star Alliance standards compliance level – a proud achievement as the minimum requirement is 80 percent. Another notable point is that SAA is the first African airline to be voted to serve on the Star Alliance Airline Management Board. The Group continues to invest in its alliance service offering, and responded with alacrity when Star Alliance identified OR Tambo International Airport as a potential move-under-one-roof airport with one common-baggage-drop facility for alliance carriers; this facility will be implemented in the third quarter of 2013.

Star Alliance membership is not conferred easily. Stringent criteria must be met. SAA is more than happy to comply since such initiatives strengthen our overall product offering to the benefit of all customers.

In our ongoing quest to give our customers access to even more destinations, SAA strengthened its bilateral alliance relationships with TAP Portugal, Emirates (Dubai) and United Airlines of the US. It also entered into an alliance with Air China in support of its new Beijing route and signed an expanded agreement with Mango, meaning SAA now has a market presence at Lanseria Airport in Johannesburg.

Fleet

SAA plans to take its current long-haul fleet of 24 aircraft to up to 31 in the next five years. In the same period, the airline will renew its short-haul fleet entirely, replacing the current Boeing 737-800 aircraft with more fuel-efficient Airbus A320 aircraft. The A320 offers further efficiencies by having a common cockpit with the existing A319 and A340 fleet. Eight new Airbuses (six A330s and two A320s) were introduced into the fleet in the year under review.

Brand SAA

To meet the needs of the globalised market more effectively, SAA's print, radio and television media campaigns are now offered in English, French and Portuguese translations. However, the quality and consistency of service offered to customers is the pivotal factor in creating and strengthening brand loyalty and advocacy. To reinforce the quality and reliability SAA is known for, a brand refresh project has been initiated. A global branding agency was commissioned in early 2012, a customer touch-point audit has been conducted, and upgrades of airport branding, on-board products and in-flight safety videos are in progress.

SAA's on-board product offering has improved substantially. Many are excited that the in-flight use of cell phones in flight mode is now allowed – SAA and Mango are the first airlines in South Africa to be granted approval for this by the Civil Aviation Authority. In-flight entertainment content has increased in terms of both quality and volume, while tablet-driven in-flight entertainment is in the process of being introduced on the longer African routes.

New in-flight menus were introduced in May 2011. Taking global trends into account, the airline now offers a healthier and more tantalising menu on all flights, while international long-haul Business Class passengers can avail themselves of the convenience of an express service on request.

Ahead of the much-anticipated arrival in 2013 of the first of 20 Airbus A320 replacements for outgoing aircraft, and with two A320s having been delivered in the year under review, the look and feel of the cabin interiors of these new aircraft is being given a high level of attention. The final design will be the platform for future cabin interiors.

It is critical that OR Tambo International Airport retain premier status as one of the southern hemisphere's largest air traffic hubs. It is a world-class facility, but its attractiveness to passengers is diminished by baggage theft. Security has been enhanced, with the Project Zero initiative aimed at reducing baggage irregularities and incidents proving extremely successful: SAA has achieved its lowest pilferage rates in recent years. In addition, a collaborative forum has been established with other airlines and the Airports Company of South Africa (ACSA) to resolve all baggage-related problems. SAA will continue to investigate and implement innovative solutions to minimise this issue, working hand-in-hand with all aviation stakeholders.

Lounges continue to be a key differentiator, and all SAA lounges have achieved 100 percent Star Alliance compliance. Several major refurbishments are being executed and service improvement strategies are constantly employed.

Governance

SAA executes its compliance obligations within an integrated framework towards combined assurance, and with a keen eye on current trends in the global regulatory environment in which it operates. The activities of the compliance, legal, risk and internal audit functions are synthesised through cross-departmental compliance forums (designed to support awareness building and compliance training), ongoing review of internal policies and procedures, and the detection, reporting and remediation of non-compliance. The tone from the top has been embodied in the updated Compliance Policy approved by the Board in January 2012, and the update of the Group's Competition, Consumer Protection and PFMA policies and operating procedures. These are supported by the development of electronic compliance tracking systems linked to key controls. The year also saw a new Enterprise Risk Management Policy developed and approved by the Board, and the delivery of strategic and operational risk registers for all divisions and subsidiaries.

Sponsorships

In May 2011, a Group Executive Committee Sponsorship Panel was established to oversee the Group's sponsorship portfolio. A new Sponsorship Policy was quickly developed and approved. A fundamental change has been made in that SAA no longer provides cash sponsorships. The Group has a necessary and desirable product, and our principal method of sponsorship is now value-in-kind travel. All major sponsorship proposals are first considered by the panel and, if they have commercial merit (principally a positive commercial return on investment), a business case is developed and referred to the Board for approval.

In broad terms, SAA will now only consider organisations, events or activities where its association will resonate with our target market's perception of SAA and have a positive impact on the positioning of the brand and its overall business strategy.

The sponsorship portfolio has been rationalised, and the panel has been identifying new suitable properties for potential sponsorship. The first of these, the South African Sports Confederation and Olympic Committee (SASCOC), was approved in February 2012, with SAA proudly flying Team SA to the Olympics in London in July. Another is our sponsorship of the South African Rugby Union.

Looking forward

The Group will continue to focus on growing its core passenger and cargo business, with a particular focus on Africa while not ignoring the long-haul international market critical for feed/de-feed to regional and domestic routes. We are also focused on growing our business in the aircraft maintenance, repair and overhaul market, as well as the in-flight catering and retail travel markets, via our relevant subsidiaries.

We are committed to delivering on our mandate and strategic objectives, by:

- Responding strongly to our systemic competitive or structural challenges, outlined in the Chairperson's Report, via the strategic initiatives in our 2012-15 Corporate Plan (this is being strongly supported by the Shareholder);
- Generating a sustainable profit by:
  - Increasing our already strong market presence in Africa
  - Investing in fleet and new product; and
- Continuing to improve our already highly regarded and awarded customer service.

Finally, it is with great pride that SAA looks forward to hosting the 69th International Air Transport Association (IATA) Annual General Meeting and World Air Transport Summit in Cape Town in June 2013. Being invited to do so reinforces our confidence in ourselves and in South Africa's future.

Siza Mzimela
Chief Executive Officer

SAA was delighted to be presented with several awards in the last year

- Skytrax – Best Airline (Africa)
- Skytrax – Service Excellence (Africa)
- ACSA Feather Award – Best Full Service Airline at OR Tambo International Airport
- ACSA Feather Award – Best Full Service Domestic Carrier at Port Elizabeth Airport
- *Air Cargo News* – Best African Cargo Airline
- South Africa's 2011 Tourism Indaba – Platinum Award
- SAA was named Coolest Domestic Airline in the *Sunday Times* Generation Next 2011 Survey. Mango took second place, giving the Group a one-two win in this category.

EXECUTIVE STATEMENTS AND CORPORATE GOVERNANCE

GOVERNANCE SYSTEMS THAT DRIVE ACCOUNTABILITY

THE SOUTH AFRICAN AIRWAYS GROUP IS A STATE-OWNED COMPANY COMMITTED TO CONDUCTING BUSINESS IN A TOTALLY FAIR AND TRANSPARENT MANNER. THE COMPANY IS STRICTLY ACCOUNTABLE FOR ALL OF ITS ACTIONS AND OPERATES IN A **HIGHLY** REGULATED ENVIRONMENT.

SAA is closely reviewed and monitored by a number of independent bodies, including the South African Civil Aviation Authority and the US Federal Aviation Administration. A strict ethical framework and fierce commitment to impeccable corporate governance underpin the organisation and its objectives. Benefiting the society in which SAA operates and diligently serving the Shareholder's interests are key. The Board has numerous policies, including meaningful conflict-of-interest policies, which directly address the unique challenges faced in this particular business environment.

The pivotal aspect of aviation safety compliance is assured through unquestioning commitment to all requirements, while ongoing improvements to the Group's customer care policies and procedures includes such aspects as zero tolerance on baggage pilferage.

SAA seeks to adhere strictly to the King Code on Corporate Governance (King III of 2009), acknowledging that effective corporate governance involves a set of relationships between management, the Board, the Shareholder and all other stakeholders.
A structure is provided in which the objectives of the organisation are set, and in which performance against the set target is monitored.

Board of Directors

The Board of SAA consists of 13 non-executive directors and two executive directors. All non-executive directors, including the Chairperson of the Board, are appointed by the Shareholder. The appointment of non-executive directors is aligned to the Companies Act No 71 of 2008. Drawn from diverse backgrounds both locally and internationally, these directors provide a wealth of experience and professional expertise.

The Board's responsibilities are clearly articulated in the company's Articles of Association, Board Charter, Companies Act and in the approved Delegation of Authority Framework. These include the review and approval of strategic direction, annual budgets, and the Corporate Plan of SAA and its subsidiaries. The Board is further required to approve all major capital expenditure and monitor SAA Group performance against financial objectives and approved detailed budgets.

The Board, through the Group Executive Committee, is required to ensure the implementation of processes designed to ensure that the Group's key performance indicators are achieved.

The Group Executive Committee, led by the CEO, meets monthly to ensure that the strategy of the organisation is being delivered in terms of the Board-approved Corporate Plan. This group is responsible for the company in the absence of the Board, subject to statutory limits.

Board committees

For the Board to effectively discharge its responsibilities, five Board committees are in place, each chaired by a non-executive director who reports directly to the Chairperson of the Board:

- Audit Committee
- Procurement and Tender Processes Committee
- Social and Ethics, Governance and Nominations Committee
- Remuneration and Human Resources Committee
- Ad Hoc Committee on Litigation

All committees have been established in line with approved terms of reference and the Board Charter, with the terms of reference reviewed on a regular basis. The terms of reference indicate that the Board and its committees have the authority to source external advice when required.

The Board and its committees meet at least quarterly to discharge their responsibilities, and all Board members have unrestricted access to the Company Secretary for any information required in the discharging of their duties. Further details of the Board and Committees' membership, attendance, powers and duties are provided in the Directors' Report.

The statutory responsibilities related to social and ethical matters have been assigned to both the Social and Ethics, Governance and Nominations Committee; and the Remuneration and Human Resources Committee.

Compliance

As a state-owned company operating in terms of the Public Finance Management Act, No 1 of 1999 (PFMA), the Group executes its compliance obligations with a keen eye on current trends in the global regulatory environment in which SAA operates. In light of this, the Group reviewed and updated its compliance policy, which the Board approved in January 2012.

Management constantly monitors all high-impact regulations such as the Competition Act, the Consumer Protection Act and the PFMA, as well as all other relevant statutes and rules. A training and awareness plan has been put in place to inform the organisation on compliance issues. The Compliance and Legal departments strive to provide timely advice to business units, assisting them in achieving their objectives within a compliant framework.

The Compliance Department has adopted a holistic Group-wide approach as it works to achieve an effective combined assurance model. Steps taken to date include identifying all assurance providers, establishing a Combined Assurance Forum and drafting the Forum's terms of reference.

In terms of the PFMA, the 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 related internal controls. The year under review has seen a substantial improvement in manual and electronic systems employed by the company to prevent, identify, collate, monitor and report on irregular, fruitless, and wasteful expenditure. The Procure-to-Pay system ensures that the correct sequence of procurement approvals is followed. The PFMA tracking system enables paperless and integrated reporting to ensure accountability, as well as the monitoring of disciplinary and corrective actions regarding non-compliance. Training and awareness programmes on supply chain management will be instituted in the coming year to promote a culture of compliance and openness.

SAA will continuously strive to improve the organisation's maturity level regarding all relevant governance, legal, and regulatory environments. This will be achieved through ongoing innovation, training and awareness, and the streamlining of organisational processes.

Enterprise risk management

The Board is responsible for all aspects of the governance of risk management. The risk management methodology employed by the Group is aligned to ISO31000 and the Aviation Safety Risk Management model. SAA completed its Airline Operating Certificate audit, and the certificate has been renewed. During the year, the Compliance Department developed a self-audit checklist for outstations. The results are consolidated and the risks prioritised to ensure that the necessary resources are allocated to those outstations for further assessment and the implementation of corrective action.

The Executive Management Committee and the Board approved the Enterprise Risk Management Policy and associated guidelines. All operational risk assessments were completed and the final approved Strategic Risk Management Plan was included in the 2012-15 Corporate Plan, with the key risks identified relating to SAA's very challenging competitive environment and market dynamics. The embedding of the enterprise risk management process within the organisation is ongoing. Efforts are being focused on the development of a reporting dashboard for the organisation. This will assist management and the Board in making timely decisions based on the sound information and intelligence provided. It will also improve the monitoring of the effectiveness of any controls that have been implemented.

The key focus for the next financial year is to develop and integrate Business Continuity Management in the organisation, one of the key elements of a sound and effective enterprise risk management plan.

SAA Internal Audit (SAAIA)

SAA commenced the re-establishment of its own in-house internal audit capability, after its long-term outsourcing to Ernst & Young. The Legal, Risk & Compliance Department managed the fully outsourced internal audit function until a Chief Audit Officer (CAO) was recruited in late 2011. The CAO has a dual reporting line to the SAA Board Audit Committee Chairperson and the SAA CEO, and the immediate task has been building in-house internal audit capability.

SAAIA is an independent and objective assurance and consulting function, designed to add value and improve the Group's operations. It helps the organisation accomplish its objectives by bringing a systematic and disciplined approach to evaluating and improving the effectiveness of risk management, internal control, and governance processes. Its primary function is to provide reasonable assurance on internal controls, governance, risk management and performance against strategic objectives. Accordingly, it forms a critical part of the Group's Governance framework. In order to provide the SAA Board (via the Audit Committee) and management with the necessary assurance and early warning alerts on control weaknesses, SAAIA maintains a risk-based audit approach through the implementation of an Annual Internal Audit Plan. SAAIA aims to provide a full range of internal audit services to SAA and its subsidiaries, excluding Mango (which has its own internal audit service provider).

Whistleblower Policy

SAA has implemented a Whistleblower Policy, with guidance for staff on anonymous reporting on the SAA intranet site's home page. Reporting can be done via dedicated South African and international telephone numbers, email or post, with the Chief Audit Officer as the principal contact. The policy and operation of the hotline is administered by SAAIA.

STRATEGIC NETWORK GROWTH

New routes launched in the year under review

BEIJING LAUNCH GALA DINNER

SAA IN AFRICA

SAA is delivering on its Vision and Shareholder's Mandate to be 'An African airline with global reach', by focusing its route network growth activity on Africa and the other BRICS member states (primarily Brazil, India and China).

SAA's OPERATIONS
SAA COMMERCIAL

SAA COMMERCIAL IS RESPONSIBLE FOR THE GROUP'S PREMIUM AIRLINE BRAND IN TERMS OF: GLOBAL SALES; MARKETING; PRODUCT; DISTRIBUTION; NETWORK AND FLEET PLANNING; ALLIANCES; REVENUE MANAGEMENT; AND THE VOYAGER FREQUENT FLYER PROGRAMME.

The year under review saw a very challenging global market, as outlined in the CEO's Report. Increased levels of competition and either low growth or recessionary economic conditions in many key markets saw severe pressure on revenue. However, significant changes made to our global sales team and our network, schedule, product and customer service saw good revenue growth of six percent on the prior year. Capacity increased only marginally as older, less fuel-efficient fleet units were replaced, rather than additional aircraft added. The lack of capital to fund additional aircraft presents a major challenge for SAA, as our major African competitors continue to acquire substantial capacity and Middle Eastern airlines continue to concentrate their considerable market power onto South Africa and, increasingly, regional markets.

The SAA Commercial team responded well to these challenges and has built on the solid foundation established in the prior year.

The South African domestic market is substantially over-traded and the economy is experiencing a prolonged period of relatively low growth. In response, SAA made a broad range of capacity changes on all routes, with additional capacity focused on the Johannesburg-Cape Town route. The airline maintained the highest level of schedule integrity. Business Class passenger numbers and revenue grew strongly as a result of sales and marketing initiatives, together with stronger pricing and revenue management systems and discipline, supported by the airline's Voyager customer base. However, Economy Class passenger numbers declined overall, although the successful code-share with Mango on the Durban-Cape Town route was enhanced by an additional code-share with Mango on its new Lanseria-Cape Town route.

As part of the Group's ongoing Africa growth strategy, SAA launched four new regional routes – from its Johannesburg hub to Ndola (Zambia), Pointe Noire (Republic of the Congo), Bujumbura (Burundi) and Kigali (Rwanda). These routes are performing according to expectations, except for Bujumbura-Kigali due to unfavourable slot times at Kigali International Airport. The connecting revenue from these new routes complements the broader SAA route network strategy. SAA withdrew from one unprofitable route, Johannesburg-Gaborone (Botswana) in August 2011.

With all these changes, Africa capacity was still static, due to other schedule and aircraft gauge changes. However, there was an 11 percent increase in total passenger numbers: 17 percent in Business Class, and 10 percent in Economy Class. This resulted in a seven percent jump in overall load factors to over 68 percent. This is attributed to SAA's strength on the African continent, and the growing demand in Africa for air services in the mining and infrastructure development sectors.

SAA enjoys good results from its African routes. Southern African routes such as Harare (Zimbabwe), Maputo (Mozambique), and Lilongwe and Blantyre (Malawi) continue to perform well. Accra (Ghana), Luanda (Angola), Dar es Salaam (Tanzania) and Lagos (Nigeria) are extremely important routes strategically and all continue to perform well. SAA would like to operate far more flights into its regional network, however the market is only liberalising slowly and obtaining improved Bilateral Air Service Agreement rights continues to be a major challenge for South Africa and SAA.

SAA's overall (non-African) international capacity was largely unchanged, although major improvements were made in fleet and product with the final deliveries of the six new Airbus A330s. The only new international route launched was a direct flight to Beijing (China) in January. SAA continued to enjoy robust revenue streams from its strong Business Class product, and saw passenger numbers in this market segment grow almost five percent. Economy Class passenger numbers dropped by two percent, primarily caused by aggressive price discounting by Middle Eastern airlines and over-capacity to and from South Africa, which is still a relatively small market by global standards.

The Fleet Committee established in early 2011 and chaired by the General Manager Commercial continues to focus on its mandate to design and plan the acquisition of the SAA Group's long-term fleet requirements. Ahead of the much-anticipated arrival in 2013 of the first of 20 Airbus A320 replacements for outgoing Airbus A319 and Boeing 737-800s, the Group took delivery of two A320-200s. These aircraft entered service in February and March 2012, and the product on board these aircraft will be reviewed in 2013 as part of the main A320 fleet replacement programme. Delivery of the first new A320 is scheduled for May 2013.

SAA is also in the final stages of analysis relating to the development of a wide-body fleet plan. The Group issued requests for proposals (RFPs) to both Airbus and Boeing in June 2012, with a view to finding both a short and long-term wide-body fleet solution.

SAA's membership of the Star Alliance greatly extends its global network reach, offering passengers air transport that is safe, global, competitive and seamlessly customer-focused virtually wherever they want to travel. Member carriers undertake a wide range of service and quality programmes to ensure the strength of the combined offering while enabling member airlines to derive maximum value from their participation.

The Group also continues to develop additional alliance relationships outside of the Star Alliance.

SAA and Air China negotiated a code-share agreement to support SAA's Beijing route launch, with Air China code-sharing on SAA's Johannesburg-Beijing services and SAA code-sharing on Air China's Beijing-Shanghai service. SAA also revised and enhanced its existing code-share agreements with TAP Portugal, Emirates, United Continental and Mango, and terminated its code-share agreements with Saudi Arabian Airlines and Malaysia Airlines.

The corporate sales team's vigorous efforts to increase sales paid off, with the financial year closing positively at six percent revenue growth year-on-year. The Group pursued the sale of its Galileo (Southern Africa) global distribution system (GDS) franchise back to Travelport International; this was completed in April 2012. The business was sold as a going concern, although SAA retained some of the staff from the operation and signed a long-term full-content agreement with Galileo to maintain the integrity of its global distribution channels. Similar full-content agreements were signed with other major GDS service providers.

Voyager, SAA's frequent flyer programme, remains one of the best customer loyalty programmes in Africa and continues to grow, largely through the recruitment of new members in South Africa and from other African countries. It strives to present ever-more innovative products and features, and to reward its members with attractive redemption opportunities. A ring-fenced business unit within SAA, Voyager accounts for its mileage liability in terms of the International Financial Reporting Interpretations Committee (IFRIC) 13.

Marketing continues with consistent tactical and promotional through-the-line campaigns promoting price, inventory sales, specials, new routes, and product and frequency adjustments. Further co-ordination between inbound and outbound destination marketing on a regional level began in line with the many route commencements and adjustments this year.

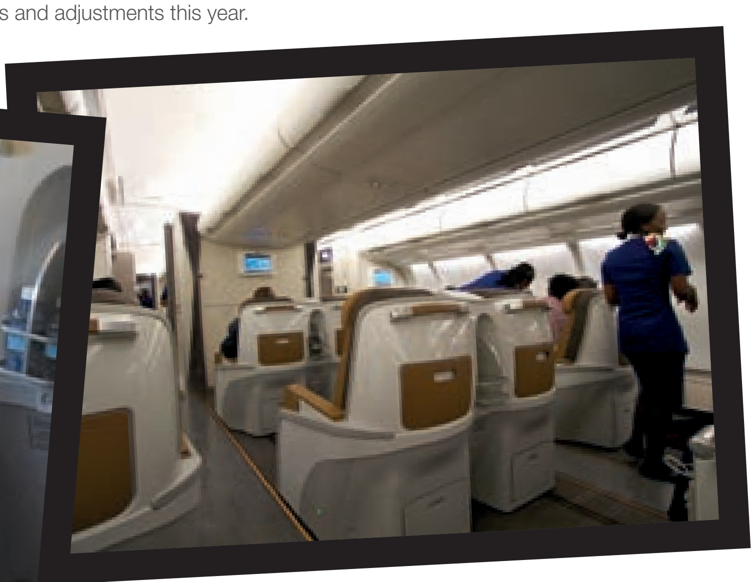
Campaigns highlighting the success of SAA's on-time departure performance and the launch of the Beijing and new African routes were also implemented. Other campaigns included in-store activation at South African retailer Pick 'n Pay stores and the launch of a new SAA Holidays product. Phase One of SAA Holidays will include 15 authorised point-of-sale countries being named throughout Africa.

A Social Media Steering Committee has been established, and a Social Media Policy has been developed. A global Facebook and Twitter consolidation strategy is in progress, with the Group intending to be more proactive in the new media space.

In early 2012, SAA commissioned global branding agency The Brand Union to refresh its brand identity and consolidate the findings of a customer touch-point audit. The global roll-out of the brand refresh is planned for the third quarter of 2012 calendar year.

Major content improvements were made to in-flight entertainment on all markets, and SAA is introducing tablet-driven in-flight entertainment on its longer African routes.

SAA introduced new in-flight menus in May 2011 to further enhance its on-board product offering, and menus for the Beijing route were designed by renowned local chef Song Lee Chong of Tsogo Sun Hotels. SAA will continue to focus on improving the comfort levels of all its passengers.



SAA's OPERATIONS

SAA CARGO

SAA CARGO DELIVERED BETTER-THAN-EXPECTED RESULTS IN THE YEAR TO MARCH 2012, WITH REVENUES UP 14 PERCENT YEAR-ON-YEAR AND PROFIT COMING IN 7 PERCENT AHEAD OF TARGET.

SAA Cargo is a critical part of the Group's key mandate to transport goods domestically, within the region and across the globe. Its core business is to provide reliable air transportation of time-sensitive freight. It moved 142 000 tonnes of cargo in the year under review – from perishables and livestock to automobiles and dangerous goods – and has established itself as one of the most profitable divisions of SAA.

In addition to using the belly space of SAA's passenger aircraft and its own four aircraft – two Boeing 737-300Fs and two Boeing 737-200Fs – SAA Cargo leverages interlines and partnerships in accessing key markets to provide customers with extensive reach and seamless connectivity worldwide.

Operating landscape

Despite the uncertainty resulting from many international political and economic events – including the Arab Spring, fluctuating exchange rates and the Euro crisis – the airfreight market remained stable.

Demand into and out of Africa changed, with an increase in airfreight capacity by Middle Eastern and European carriers into South Africa putting yield pressure on traditional export products, such as automotive and perishables, from South Africa into Europe.

As expected, South Africa's admittance to the emerging-economies association BRICS (Brazil, Russia, India, China and South Africa) in December 2010 had a positive impact on demand to South America in 2011. The subsequent withdrawal of Air Malaysia from the Buenos Aires route contributed to SAA Cargo's good performance.

The economic slowdown in China towards the end of the financial year had a negative impact on annual performance. The slowdown resulted in huge over-capacity, which in turn led to downward pressure on yields.

Operating landscape and performance

The division's performance in the year under review was better than expected, with revenue

four percent above budget and 14 percent above the previous year. Actual tonnage rose by 10 percent, after rising 8,4 percent from 2010, which continued SAA Cargo's strong growth record under the strengthened management team. This was part of the ongoing drive to increase yields and tonnages, which was rewarded with an annual profit seven percent above budget.

Load factors remained in line with the previous year, however SAA Cargo remains committed to continued growth in support of South Africa's developmental state policy objectives and the SAA Group's mandate to grow trade links with South Africa's major trading partners. New cargo routes are developed as SAA grows its passenger network – principally in the year under review to four other African states and China – and as SAA increases the utilisation of its four freighters. Africa faces infrastructure challenges in road and rail transport, and SAA Cargo sees considerable opportunity for further airfreight market growth. It continues to seek both new market opportunities and growth in existing markets.

Operational highlights

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

- An increase in freighter utilisation was achieved with the introduction of additional routes to Dar es Salaam (Tanzania) and Entebbe (Uganda), as well as increased frequency on three existing freighter routes – Maputo (Mozambique), Harare (Zimbabwe) and Lusaka (Zambia).
- The division was able to retain a profit margin of 20 percent in its purchase of capacity out of Europe by changing suppliers.
- Revised commercial agreements were reached with partner airlines Mango and SA Express, resulting in an increase in cargo performance on these airlines.
- The launch of four additional SAA passenger regional routes – Ndola (Zambia), Kigali (Rwanda), Bujumbura (Burundi) and Pointe Noire (Republic of the Congo) – enhanced the division's African market reach.
- The sponsorship of Team South Africa in the Dakar Rally held in Peru in January 2012 showcased SAA Cargo's capability and delivered valuable marketing exposure. Team SA took three of the top 11 spots in the gruelling, logistics-intense, time-sensitive event.

Achievements

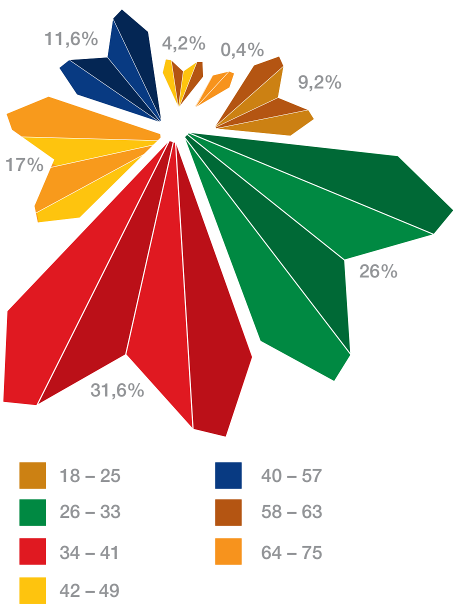
SAA Cargo was named Best African Cargo Airline 2011 for the fourth consecutive year in April 2011. Freight forwarders from around the world were surveyed by *Air Cargo News* magazine, with their votes audited by an independent organisation and overseen by the British Institute of Freight Forwarders.

SAA's OPERATIONS
HUMAN RESOURCES

PEOPLE ARE THE PULSE-POINT OF THE AIRLINE'S STRATEGY AND BRAND PROMISE, AND THE HUMAN RESOURCES FUNCTION WENT INTO THE YEAR WITH THE BOARD HAVING APPROVED A NEW STRATEGY CENTRED ON THE CREATION OF A HIGH-PERFORMANCE VALUES-BASED ORGANISATIONAL CULTURE.

SAA has a young, skilled workforce, and significant progress was made in refocusing the organisation towards a high-performance values-based organisational culture. The Group ended the year with 11 044 employees, most of whom are employed within SAA's Airline Operations and SAA Technical.

SAA's age profile



The above is for the entire SAA Group, including permanent and fixed-term contractors.

Climate survey

A survey conducted in June 2011 to test the organisational climate at SAA provided valuable insights. While some findings provided confirmation of known aspects, others were learned findings which provided deeper insights into the organisational culture. All departments and subsidiaries were tasked to develop action plans aimed at improving the organisational culture, with the implementation of actions being monitored and supported.

Performance culture

Performance management is critical for the long-term retention of employees and crucial for succession planning in a high performance organisation. Training, mentoring, coaching and building on individual strengths is key, and must be done in a deliberate, planned manner. SAA's performance management systems – which cover the setting of targets and standards, employee development and periodic competency-based appraisals – were implemented for management and non-management employees.

Job creation

In support of the country's New Growth Path, SAA set as a target the creation of 529 direct jobs. The Group achieved 82 percent of its target and met, if not exceeded, targets related to the development of appropriate industry-specific skills that will support its job creation goals in the longer term.

	Target	Achievement
Direct jobs	529	434
Interns	86	88
Apprentices	105	105
Cadet pilots	47	47

Transformation

SAA's commitment to transformation remains unquestionably strong. The Group subscribes to an employee value proposition that attracts, retains and engages employees. Diversity in the workplace will assist in addressing the wide-ranging needs and preferences of current and future generations.

The Group has met or exceeded most of its employment equity targets, which are aligned to the sector codes as specified in the Aviation Sub-Sector Scorecard of the Integrated Transport Sector B-BBEE Charter issued by the Department of Transport (DoT). In addition, the past year saw Employment Equity Forums established at departmental and subsidiary level, and a Central Employment Equity Committee constituted to drive the achievement of targets.

It is important to note that the DoT sector code defines blacks as 'Africans, Coloureds, Indians and Chinese'.

Management

SAA has exceeded the top management targets and met the senior management targets as set by the DoT.

	DoT Target	SAA Target	SAA Achievement
Top management	43%	72%	50%
Senior management	62%	62%	67%

Pilots and technicians

It's clear that progress has been made towards transformation in both the professional and technical areas. The DoT targets were comfortably met, with the exception of the black female pilot category. A concerted effort is being made to attract and train black female pilots through the reinvigorated Cadet Pilot Programme and other initiatives, including opportunity-awareness marketing.

	Male	
	Target	Achievement
Pilots	5%	13,3%
Technicians	5%	40,6%
	Female	
Pilots	3%	1,2%
Technicians	3%	4,8%

People living with disabilities

Against the target of two percent in all categories of people living with disabilities, SAA presently has 0,6 percent. The Group is committed to meeting the two percent target across the board and is continuing with its campaign to recruit and retain people with disabilities. It has also implemented a campaign to encourage disclosure from people living with disabilities, and has enhanced its systems to improve reporting.

Learning and development

SAA has a proud history of recruiting, training and developing, and continues to strengthen its various programmes and initiatives. A notable highlight for the year was that a total of 172 employees successfully completed leadership, management and supervisory development programmes.

Leadership, management and supervisory development

- Leadership Development Programme: conducted in partnership with the Gordon Institute of Business Science, this programme was targeted at employees in senior and executive management, and saw 29 delegates graduate.
- Management Development Programme: targeted at employees in junior and middle management, and run in partnership with Stellenbosch University, this programme was completed by 99 delegates.
- Supervisory Development Programme: presented in partnership with the HR Practice and targeted at employees at supervisory and team leader levels, this programme was completed by 44 delegates.
- The SAA Way of Managing: a new programme designed to ensure that all team leaders and managers have the full range of core management competencies. On successful completion of this programme, employees become eligible to participate in the Management Development or Supervisory Development Programmes.
- Management Development Support Framework: this framework has been developed to identify competency gaps with the aim of optimising current levels of performance and ensuring that future development is needs-driven. Development programmes are then customised to help managers develop the required competencies.

Operational skills development

- A Cabin Crew Skills Programme was introduced to train previously disadvantaged individuals, specifically unemployed youth, with the aim of helping them to become employable. Of 79 trainees taken on, 69 completed the training and will be used as a feeder pool when there are vacancies.
- A Flight Dispatcher Training Programme, also aimed at previously disadvantaged and unemployed youth, was introduced as a result of Discretionary Grant funding awarded by the Transport Education and Training Authority (TETA). It has given SAA the opportunity to address these scarce and critical skills for its own benefit as well as that of the industry. The programme began on 20 February 2012 with four candidates, which is the maximum number of candidates the training school can accommodate at any given time.
- Recurrent operational training for cabin crew, pilots, airport operations, cargo staff and technicians is provided.
- A customer service training curriculum has been developed for generic training of all employees on the Group's Service Values as a first phase and will be implemented in the coming financial year. Furthermore, a customer training curriculum has been developed for all customer touch points.

Employee engagement

A key strategic initiative within SAA is to strengthen relationships with labour. Engagement structures were refined during the year through the new SAA Engagement Framework. This framework enables the Group to regularly communicate and engage with labour and employees on all business and people focused initiatives. At the same time, it has the potential to give managers legitimacy and credibility at operational level.

Health and wellness

SAA promotes a safe and healthy environment, providing on-site occupational, aviation and travel medicine services. Medical surveillance programmes are in place to manage various occupational health exposures. Health risk is mitigated from becoming an aviation safety risk through medical examination of those in safety-sensitive positions, such as flight deck and cabin crew. Legislated medical requirements are strictly adhered to.

From a wellness and healthy lifestyle management perspective, the organisation provides chronic disease screening and a 24-hour employee assistance programme. This ensures that employees are supported in adopting a preventative approach to illness, and their psychological well-being is ensured.

The 'Heartbeat' Employee Assistance Programme

September 2011 saw the implementation of Heartbeat – SAA's new Employee Assistance Programme administered by ICAS Southern Africa, a leading provider of behavioural risk management services. Heartbeat services are offered to all employees within the Group and their immediate families.

SUBSIDIARY REPORTS
MANGO

SOUTH AFRICA'S MOST ON-TIME LOW-COST CARRIER BUCKED NEGATIVE TRENDS TO ACHIEVE MARKET SHARE GAINS IN A STAGNANT OVER-TRADED DOMESTIC MARKET, REMAINS HIGHLY CASH POSITIVE AND HAS SECURED AN INTERNATIONAL LICENCE FOR SCHEDULED AND CHARTER OPERATIONS.

Mango celebrated its fifth birthday on 15 November 2011, geared for achievement in one of aviation's toughest periods to date. Margins were squeezed beyond recognition and an entire industry hovered above redlining. Mango was no exception, and although it posted a loss during the period in review, its strong cash-positive position as well as encouraging growth in both revenue and guest (passenger) numbers has geared it for further growth in 2012.

Mango launched a new port in 2011 and introduced a fifth aircraft to its fleet, initiating a frequency between Lanseria in Johannesburg and Cape Town in June and giving the Group a presence at what is now the fourth busiest South African airport.

The airline continued to focus on innovation with the development of its Travel Management System, designed to deliver seamless corporate and trade inventory distribution. It also initiated the process of equipping its fleet of new-generation Boeing 737-800 aircraft with Wi-Fi in 2012 – a first for the African continent. Mango continues to be the only carrier globally to accept store charge cards as tender online and, through its call centre (Edcon), offers the widest distribution channel and greatest number of payment options in the domestic market.

Guest service has always been a priority at Mango and the launch of its internal Culture Campaign, reminding colleagues of the airline's values and service proposition, delivered exceptional results.

The airline also continued its focus on on-time performance and baggage delays/incidents, in support of Mango's established reputation as South Africa's most punctual low-cost carrier.

Recognised for its pursuit of constant and never ending excellence, Mango took the honours as Coolest Low Cost Airline in the Sunday Times Generation Next Brand Survey for the third successive year and received Feather Awards from the Airports Company of South Africa (ACSA) for service excellence at OR Tambo International Airport in Johannesburg as well as Bloemfontein Airport and King Shaka International Airport in Durban. The carrier also received five Prism Awards from the Public Relations Institute of South Africa for, among others, in-flight magazine *Mango Juice*, its social media activity, and sponsorship leverage.

Mango performance

Mango's financial performance was significantly influenced by the continued adverse effects of global uncertainty and a recessionary hangover coupled to rocketing fuel prices, currency instability and sharp increases in regulatory charges. Increasing marketplace competition, notably in the form of a new entrant to the low-cost carrier sector, simultaneously further increased market supply in a saturated market, negatively impacting fare and/or occupancy levels, resulting in the majority of the local industry reporting year-on-year revenue declines and deep losses.

Mango bucked negative trends though, with encouraging increases in the number of guests travelling on the airline, reflecting market share gains in a stagnant overall market. During the period in review, Mango saw an increase of 12,9 percent in the number of guests flown while recording revenue growth of 22,2 percent. This gain in revenue was achieved while maintaining the company's cost leadership position through continued excellence in capital productivity (human and aircraft) and governance (including supply-chain management and procurement discipline).

Though the business operated at a loss for the full year, it is encouraging to note that Mango, subsequent to bearing route start-up losses associated with the Lanseria port launch earlier in the fiscal year, returned to profitability in the final quarter.

The airline remains highly cash positive, with cash holdings materially exceeding customer forward receipts (in addition to passenger forward receipts being secured by bank guarantee), no long-term gearing and comfortable levels of solvency. Year-end financial procedures performed by newly-appointed external auditors KPMG culminated in the fifth successive unqualified audit opinion.

Mango also secured an international scheduled and charter operation licence, and is well positioned to expand its operations beyond South Africa's borders.

Social participation

Mango improved its B-BBEE rating to that of a Level 4 Contributor and continues to be very active in the communities it serves, beyond its direct and indirect socio-economic roles as employer, customer and economic enabler through the cost-effective transportation of people and products.

Highlights include:

- The airline renewed its fundraising partnership with Unicef, which gives South African youth life-changing opportunities through development in sport while simultaneously implementing a community-driven sustainability programme;
- Mango initiated a national programme where community feeding, opportunity creation and environmental educational schemes are supported through the construction of fully sustainable vegetable gardens at community centres and schools;
- Mango also turned its attention to arts and culture, partnering with Mzansi Productions, a Johannesburg-based dance company, in the development of formerly disadvantaged talent, and supporting the Vryfees Arts Festival in Bloemfontein among others.

The airline also participated in several smaller community-driven projects, supported the Reach For A Dream Foundation, and launched a cabin crew community outreach programme.

As a responsible corporate and environmental citizen that is cognisant of its own environmental impact, Mango will continue to invest in youth development and the enabling of self-sufficiency as a means of investing in the future of South Africa.

Business sustainability

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

Mango believes that, with the growing demand for cost-effective air travel and consumers' increasing willingness to move to brands that offer the best value, the low cost model will continue to be the fastest growing and most profitable airline model. Mango further believes that the company's strong cash reserves and gearing position, operational unit-cost leadership and growing brand strength position it well for a 2012-13 that will continue to see relatively low levels of GDP growth.

Consolidation of routes, planned added capacity and scheduling optimisation will see Mango secure additional market share on routes that it operates, while differentiating products, such as the recently launched G-Connect In-Flight Wi-Fi service and premium products Mango Plus and Mango Flex, should continue to deliver a competitive edge.

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

SUBSIDIARY REPORTS
SAA TECHNICAL

SAA TECHNICAL ACHIEVED TOTAL COMPREHENSIVE INCOME OF R1 BILLION AND A REALISED OPERATING PROFIT OF R161 MILLION – UP FROM THE R40 MILLION ACHIEVED IN THE PREVIOUS FINANCIAL YEAR.

SOUTH AFRICAN AIRWAYS TECHNICAL

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

Operating landscape

Although the period under review was expected to be a strong year for aircraft maintenance, spurred by deferred maintenance from previous years, the reality on the ground was different.

Suppressed market conditions as a result of high oil prices saw SAA Technical experience a slight drop in its maintenance activities from both its anchor customer SAA and its third-party businesses.

Growth in the MRO business was limited largely as a result of effective capacity management in the airline sector. The industry was able to adjust to changing market conditions more swiftly than maintenance repair operations. This resulted in idle capacity that could not be adjusted quickly enough to match the declining demand. Thus, the impact of changing market circumstances was felt most severely at shop-floor level.

Air transport remains the single largest driver of MRO demand. The experience in 2010 showed that a one percent decline in available seat kilometres (ASKs) resulted in a 7,5 percent decline in the MRO market, mostly in the long-haul wide-body traffic sector. Consequently, when airlines experience a decline in growth rates, the MRO business is negatively affected.

Performance

In the year to 31 March 2012, SAA Technical achieved total comprehensive income of R1,025 billion – reflecting a realised operating profit of R161 million (up from a restated operating profit of R40 million in the previous financial year). In addition, a net deferred tax asset of R382 million and a gain on the revaluation of land and buildings of R482 million was recorded.

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

Recommendations identified as part of the process led to the conceptualisation of Project THRUST, appropriately referring to the power an engine generates to achieve take-off speed, but with THRUST as an acronym summarising the areas requiring attention for the long-term sustainability of the business to be assured:

- Teamwork – a given in any organisational endeavour;
- Holistic approach – essential for such an ambitious plan;
- Reliability – SAA Technical's major sales proposition, the integrity of which can never be compromised;
- Unit cost – reductions in unit cost being absolutely pivotal to competitiveness;
- Safety – reinforcing the fact that safety standards must be observed in all operations at all times; and
- Turnaround time – which must be improved if the operation is to keep more of its clients' aircraft in the sky (where they make money).

Project THRUST aimed to achieve a bottom-line improvement of R100 million during the year under review.

Its implementation has largely delivered in three key areas: cost containment; business efficiency improvements, especially in base maintenance; and alignment of the structure to the organisational strategy.

Cost-containment initiatives focused largely on the two most high-cost items – labour and materials. The reduction of overtime and non-renewal of fixed-term contracts contributed positively to the improvement of SAA Technical's bottom line. Coupled to this was a reduction in spend on consumable materials, achieved as a result of changes in the manner in which bins are replenished.

The overall reduction of our turnaround time, achieved through the application of lean principles, ensured that customers received their aircraft within the budgeted timelines – a remarkable improvement over the performance achieved in the previous financial year. In fact, almost 30 percent of major maintenance checks conducted in our hangar were completed a day earlier than the budgeted turnaround time.

Although major changes were effected in SAA Technical's organisational structure, there are areas that still need attention. Our major goal of establishing SAA Technical as a multi-airline-focused African maintenance hub is largely dependent on an effective market capturing approach. The areas of marketing and finance require additional capacity if they are to deliver on expected revenue growth going forward, and will be supported by a sharpened policy of price competitiveness.

Skills development

As a full-service maintenance repair organisation, skilled technicians are the lifeblood of SAA Technical. The company's workforce has a well-deserved reputation for being skilled and dedicated to the point of passion. Transferring this passion to a new generation of skilled technicians is an ongoing priority.

The technical school that is part of the company's ongoing operation is a productive utility but has a high impact on the overall budget of the company. It is one of several in the environs of OR Tambo International Airport; similar facilities are operated on a smaller scale by South African Express, Denel and the South African Air Force. It is envisaged that a more concerted effort is needed to co-ordinate the training to harness synergies and expand the output.

A Memorandum of Understanding (MoU) between Ekurhuleni West College and SAA Technical – signed in the presence of the Minister of Public Enterprises as well as the Minister of Education – was a highlight of the past year.

The MoU is a notable development in that it:

- Creates an opportunity for the company to participate in grant-funded projects specifically to address the needs of the industry;
- Will allow development of a talent pool of workers for industry-specific recruitment;
- Allows ongoing engagement in learning and sharing of best practices;
- Creates opportunities to develop stronger relationships with public sector partners; and
- Provides access to workforce and economic data analysis relating to businesses and industries in the region.

Looking forward

SAA Technical has substantial third-party contracts with local and regional airlines, and is working to increase the attractiveness of its business proposition in order to contribute to the growth of the SAA Group. It aims to grow alongside its parent, extending its influence into the same territories.


SAA TECHNICAL HANGAR


SAA TECHNICAL APPRENTICES

SUBSIDIARY REPORTS

AIR CHEFS

THE REBRANDING OF AIR CHEFS AS A FRESH NEW FOOD-LOVING ORGANISATION HAS INJECTED NEW LIFE INTO THE BUSINESS, WHICH HAS MADE SIGNIFICANT PROGRESS IN ALL AREAS OF ITS TURNAROUND STRATEGY.

Air Chefs is one of the largest catering and in-flight service providers in South Africa. It handles the catering for nine airlines, has a skilled workforce of 1 472 employees and produces over 32 000 meals a day. The company has been in business since 1986.

In 2008, the SAA Group had considered selling Air Chefs as part of its restructuring programme. A period of uncertainty ensued, and this had some adverse affects on the business. A lack of infrastructure investment resulted in ageing facilities, technology, machinery and vehicles. This had a resultant effect on morale, and made for a tired brand and diluted value proposition disconnected from its target market. This resulted in a loss of competitive position and market share.

In September 2009, the National Treasury approved the granting of funding to SAA based on cost-saving and revenue enhancement initiatives intended to improve its profitability. This commitment included a decision to retain and rebuild Air Chefs, developing it into a world-class catering organisation within two years.

One year into its two-year turnaround strategy, which is seen as key to its long-term retention as a strategic asset of SAA, Air Chefs has made significant progress in all areas.

Operating landscape

There are four airline catering service providers in South Africa – Air Chefs, LSG Sky Chefs (part of the Lufthansa group), First Catering (through its 50/50 joint venture with the Newrest Group) and Wings Inflight Services. The latter had been privately owned until December 2011, when the Emirates-owned dnata announced its acquisition of 50 percent of the operation.

With four major in-flight catering service providers competing for business, the South African market is becoming over-traded. It is becoming increasingly difficult to secure additional airline business at profitable prices.

There has also been a significant shift in airline clients – with British Airways, Singapore Airlines and Emirates moving from LSG Sky Chefs to Wings. In addition, Kulula and Comair have taken all their domestic and regional catering inhouse, which has contracted the South African market.

Turnaround triumphs

Air Chefs' growth-focused corporate strategy, as approved by the SAA Board in September 2010, contained three key strategic thrusts:

Generating increased revenues and profits through increased market share

The focus here was to grow local market share specifically targeting regional carriers such as Precision Air in Tanzania and TAAG Angola Airlines, and to target low-cost carriers such as 1time with logistics-supply propositions.

Air Chefs successfully secured the SA Express business in May 2011, which will deliver incremental revenues of around R55 million per annum. It also secured the catering contract for Precision Air in Tanzania in August 2011.

Leveraging non-airline business opportunities

Air Chefs has successfully grown its event catering business, and has taken on the canteen business of SAA Technical and SAA Cargo.

Investing in the business to facilitate growth

In support of its take-on of the SA Express business, Air Chefs has re-opened its Durban and Bloemfontein facilities. It has also consolidated its two Johannesburg facilities into one unit, which will result in cost savings estimated at approximately R15 million per annum through labour optimisation, cost efficiencies and maintenance savings.

In addition, the ageing Air Chefs vehicle fleet has been replaced with 25 light delivery vehicles and eight specialised high-loader vehicles for wide-body aircraft loading.

Another milestone was the rebranding exercise. Positioning Air Chefs as a fresh new food-loving organisation was well received externally and had a positive effect on staff morale.

A key area of focus has been to improve the quality of the food offering to all clients, which is a key component of the travellers' lounge and in-flight experience – and thus a direct contributor to the greater SAA travel experience.

Performance

Air Chefs generated a loss of R70,4 million in the year under review, compared to a loss of R2 million the previous year. Year on year, revenue increased by R49 million (13 percent) to R426 million. Material costs increased by R60 million (29 percent) due to significant increases in food inflation and pricing discounts granted to SAA on all domestic meal offerings. The resultant gross profit of R164 million compares to R175 million for the prior year, a decrease of R11 million (6,3 percent).

Going forward

Air Chefs' mandate is to pursue the application of global best practice to provide an affordable and high quality catering and related service to SAA and the broader aviation industry.

The company has a solid reputation as a respected airline caterer, and its reinvigorated approach and the investments made in the year under review will provide it with the leverage to continue to attract more customers. The business will continue to focus on aggressive procurement activity, productivity targeting and realignment of business processes to restore the company to profitability.

Air Chefs has facilities in Johannesburg, Cape Town, Durban and Bloemfontein, with all units located less than 2km from the ramp.

SUBSIDIARY REPORTS
SOUTH AFRICAN TRAVEL CENTRE

SOUTH AFRICAN TRAVEL CENTRE ADDED 12 NEW OPERATIONS TO ITS NETWORK IN THE YEAR UNDER REVIEW – A NOTABLE ACHIEVEMENT IN A COMPETITIVE ENVIRONMENT THAT ADDS STRENGTH TO THE GROUP'S RETAIL SALES OBJECTIVE.

South African Travel Centre (SATC), a wholly-owned subsidiary of SAA, was established in 1997 and is part of the Group's sales channel network. It operates as a retail consortium representing a network of independently-owned travel-agent franchises.

This business model gives SATC a dedicated network of skilled travel agents who provide SAA customers with high levels of personal service and value for money – while providing travel entrepreneurs with the opportunity for ownership under an established brand name. SATC's franchisees enjoy the benefits of marketing and advertising exposure, access to technology, business development support, a centralised ticketing operation, bulk purchasing power, and a favourable incentive payout structure.

The company boasts an extensive footprint, with 74 South African Travel Centre agencies located in the major centres around South Africa, as well as Maseru (Lesotho), Maputo (Mozambique) and Gaborone (Botswana).

Through these branches, SATC provides corporate and leisure travellers with competitive pricing on air travel, car rental, travel insurance, foreign exchange, global tour products, cruise holidays, package tours, assistance with visa applications and hotel accommodation worldwide.

SATC contributes to SAA's expanding distribution reach by making the purchase of SAA tickets more convenient, contributing to the Group's overall value proposition and competitiveness. Each SATC agency is run by experienced travel agents who share the common goal of promoting SAA in a mutually beneficial manner.

Operating landscape

The competitiveness of the industry is reflected in the fact that SATC franchisee numbers have declined since 2005, causing supplier performance to drop significantly and drastically reducing the target-based incentive payments received. The market remains in a state of flux following the global economic downturn. Corporate clients and travel companies are cutting costs, while mergers and consolidative practices are becoming common place.

However, the year under review saw a definite shift towards a positive, stable SATC with a noteworthy increase in franchisee acquisitions.

In addition, the Centralised Ticketing Unit (CTU) implemented in late 2010 will soon break even. The CTU provides a ticketing solution for those agencies who choose not to apply for IATA accreditation or who voluntarily relinquish their accreditation.

While the strategy for expansion into Africa has been developed, there are a number of challenges in refining this model. It is not possible to negotiate blanket supplier agreements for the entire African continent; it is necessary to negotiate a separate set of products specific to each African country recruited. Foreign exchange pressures as well as political, cultural and other obstacles frequently arise, and are addressed as necessary. Time is required for lengthy discussions with potential new partners in order to gain and win trust and build relationships.

The revised franchisee fee structure introduced in response to franchisee calls for assistance in coping with the difficult state of the market in the previous financial year continued to be felt. However, the revised fee structure has made the cost of belonging to SATC more affordable and has thus improved its value proposition in an increasingly competitive market.

Performance

SATC realised a net loss for the year, mainly as a result of budgeted revenue not being realised.

The revenue shortfall is primarily a function of income streams that failed to materialise, specifically the expected income from sales of SAA Holiday Packages – a result of the packages business being relinquished by SATC to SAA Commercial. In addition, average customer acquisition rates (new business secured by franchisees and independent travel consultants) were lower than expected, and the desired improved override income from key preferred partners did not materialise following the loss of a sizeable franchisee, which opted to reposition itself as an independent travel management company.

SATC successfully recruited 12 new franchisees in the past financial year. This is a notable achievement in an environment that is highly competitive, with all major travel retail brands vying for a limited number of high quality members. By growing its footprint, SATC is able to further strengthen its support towards SAA from a sales perspective.

In line with the Shareholder's strategy, SATC is positioned for growth.

Such growth will be achieved through a range of strategic initiatives, namely:

- Organic growth through the acquisition of new travel management companies (TMCs) and independent travel consultants (ITCs) in South Africa;
- Geographical expansion into other parts of Africa;
- Acquisition of corporate clients through collaboration between SATC head office and franchisees;
- Positioning SATC for the acquisition of public sector accounts;
- Delivering an improved return on investment to franchisees; and
- Growing the level of SAA support within the SATC group.

Although SATC franchisees sell all airlines, the company continues to motivate its franchised travel agencies to maximise their revenue contribution to SAA.

Highlights

- A new Chief Executive Officer, Bulelwa Koyana – who previously spent 10 years at SAA and was formerly CEO of Business Process Enabling South Africa (BPeSA) – was tasked to turn the organisation around, and took up her new appointment in September 2011.
- In addition to successfully recruiting 12 new member agencies, SATC continues to actively stimulate franchisee uptake through its entrepreneurial spirit and vision.
- To attract a broader spectrum of member agencies, SATC's product offering to franchisees has been expanded from only three categories (branded travel management companies, independent travel consultants, and strategic procurement partners) to six – IATA-accredited and non-IATA-accredited branded and unbranded travel management companies, co-branded African travel management companies, and home-based independent travel consultants. This will enable the company to engage with more agencies and allow for greater flexibility with regards to the terms of engagement.
- As part of its cost-reduction initiatives, SATC relocated to new offices at 24 St Andrews Road in Parktown, Johannesburg in June 2012 sharing a building with the SAA Call Centre.
- In support of SAA's Internship Programme, SATC appointed two interns on 1 March 2012. The interns will spend six months with the company.

SUSTAINABILITY REPORTS
GROUP ENVIRONMENTAL AFFAIRS

SAA IS COMMITTED TO BECOMING ONE OF THE WORLD'S LEADING GREEN AIRLINES THROUGH A RANGE OF MEASURES BASED ON A HOLISTIC AND COMPREHENSIVE GROUP ENVIRONMENTAL POLICY.

July 2011 saw the formalisation of SAA's comprehensive Group-wide environmental programme, with two specialists in environmental management and compliance brought on board. Regarded as a major strategic initiative, the Group Environmental Affairs function is housed in the Strategy, Planning and Project Management area of the CEO's office.

In addition to all relevant local and global industry standards and programmes, as a state-owned company, SAA is bound by the state's developmental policy framework and the Department of Public Enterprise's Climate Change Framework for State-Owned Companies.

However, the Group has approached the environmental question not as an obligation but as an opportunity to enhance every area of operation for the benefit of all stakeholders. All activity is based on the understanding that being at the forefront of the green economy will deliver considerable benefits and create scope for a real competitive advantage to be created in support of the Group's expansion and growth plans.

The year saw a Group Environmental Policy Statement drawn up and adopted, and a Group Environmental Strategy developed. A three-tiered strategy has been adopted to ensure SAA's strength and responsiveness in relation to changing environmental legislation while enhancing its capacity to identify opportunities for enhanced operational and cost efficiency, and possible revenue creation from waste.

The strategy is supported by a focused but constantly evolving strategic plan with specific two-, five- and 10-year goals that have been developed to support SAA's intention of becoming one of the world's most environmentally sustainable airlines by 2022.

Broadly speaking, the strategy has been designed to:

- Comprehensively address current and future sustainability matters;
- Allow the business to obtain a competitive advantage;
- Ensure the best possible corporate image is portrayed to support continued sales and support from corporate customers and consumers; and
- Ensure that SAA is in compliance with all relevant legislation and guidelines.

Initiatives

All projects being embarked upon offer real and tangible benefits in terms of their environmental impact, direct cost savings or reputational and brand improvements that will lead to continued support from conscientious consumers and other stakeholders.

Initiatives formulated during the period under review and currently being implemented include:

- A voluntary Carbon Offset Programme that allows SAA passengers to offset carbon emissions from their travel and direct the funds to a targeted African environmental project will be launched in August 2012;
- Completion of a carbon footprint baseline – based on emissions recorded in 2010, this baseline will be used to measure the success of all environmental initiatives from July 2012;
- A range of energy-efficiency initiatives such as changing light bulbs, putting boilers on timers and switching off geysers will be implemented in August 2012;
- Phased implementation of a comprehensive Environmental Management System for the Group is scheduled for completion in 2013.

In addition, a number of projects aimed at incentivising staff to reduce their personal carbon emissions have been developed. From September 2012 to August 2013, solar water heaters will be provided to staff at reduced rates to enable them to reduce their electricity consumption and create carbon credits. A similar initiative to be launched in September 2012 will see additional free electricity-saving measures made available to staff, including the distribution of energy-efficient light bulbs, geyser blankets and timers for use in their homes.

SAA has been a full member of, and active participant in, the Environmental Committee of the International Air Transport Association (IATA) since October 2011. This 12-member committee executes and sets policy on behalf of all IATA member airlines.

SAA Group Environmental Policy Statement

SAA is committed to being a leader in the pursuit of sustainable environmental practices in the aviation field, by minimising the impact of its activities on the environment by continually:

- Striving for the most efficient operations;
- Working towards reducing its carbon footprint;
- Minimising waste;
- Improving recycling initiatives at facilities and on its aircraft;
- Integrating environmental concerns with all planning and decision-making processes by implementing effective environmental management systems;
- Operating using the most energy- and water-efficient practices;
- Encouraging improvement in the environmental performance of its suppliers through the development of environmental criteria within the framework of its procurement policy;
- Increasing environmental awareness among employees by proactively communicating and promoting environmental issues and best practices that affect the company;
- Working towards industry goals of:
  - A cap on aviation CO_2 emissions from 2020 (carbon neutral growth);
  - An average improvement in fuel efficiency of 1,5 percent per year from 2009 to 2020; and
  - A reduction in CO_2 emissions of 50 percent by 2050, relative to the 2005 level.

FLYING SHOULD NOT COST US THE EARTH … this is the tagline in a series of striking print advertisements developed to announce the launch of SAA's Carbon Offset Programme. The initiative has been designed to help passengers reduce their carbon footprint: by selecting the 'Carbon Offset Programme' checkbox when booking, their carbon emissions for the upcoming flight is calculated and a small charge added to the ticket price. The money is used to purchase carbon credits through IATA for use in Africa and around the world. Many months in the planning, the initiative was launched in August 2012.

SUSTAINABILITY REPORTS
CORPORATE SOCIAL RESPONSIBILITY

THE GROUP ACHIEVED A PERFECT SCORE OF 100 PERCENT IN THE SOCIO-ECONOMIC DEVELOPMENT SEGMENT OF ITS B-BBEE SCORECARD, AN EXCEPTIONAL ACHIEVEMENT AND WELCOME ACKNOWLEDGEMENT OF THE ORGANISATION'S PERFORMANCE IN THIS AREA – BUT NOT THE REASON FOR IT.

SAA's corporate social investment (CSI) activity is the main contributor to the socio-economic development segment of its Broad-Based Black Economic Empowerment Scorecard – and performed exceptionally well, scoring of 100 percent in the year under review, helping the Group maintain its Level 1 B-BBEE status.

Community outreach

The Group promotes the participation of all stakeholders in its community outreach programmes, even customers.

SAA Giving Back Campaign

This is an ad hoc community outreach campaign whereby staff are encouraged and permitted to donate time, expertise, clothing, non-perishable food items and blankets to those in need.

SAA Feeding Programme

SAA provides high-nutritional-value food items to five homes where Aids orphans and children with disabilities are being brought up – three in Cape Town (Sherwood Park Day Care Centre in Grassy Park, Etafeni Day Care Centre in Nyanga and Vukani Centre for Children with Intellectual Disabilities in Khayelitsha), and two in Gauteng (the Siyazigabisa Home of Hope for Children, Youth and Community Organisation in Tembisa and The Sithabile Child and Youth Care Centre in Benoni).

Take a Girl Child to Work Day

SAA again supported Cell C's Take a Girl Child to Work Day, which aims to expose girls in Grades 10 to 12 to the world of work, positive role models and insights that will help them to make informed career choices. Highlights included a visit to SAA's headquarters in Johannesburg on 19 May 2011, with six girls from other provinces flown in to Johannesburg for the day. The girls were given an insight into the operations of the airline and tried their hand at flying the flight simulators.

Reach for a Dream collaboration with Voyager

SAA's collaboration with the Reach for a Dream Foundation through its frequent flyer programme Voyager remains popular. Voyager members are given the option of donating some or all of their Voyager miles to the Foundation, which uses them to fulfil the dreams of children between the ages of three and 18 who have been diagnosed with life-threatening illnesses.

Mandela Day

SAA's Mandela Day activities are planned and rolled out in partnership with The Nelson Mandela Centre of Memory – and 18 July 2011 saw the Group fly 93 children from 10 schools across South Africa to Johannesburg. Staff also got into the spirit of Mandela Day, visiting the Oncology Clinic at the Charlotte Maxeke Johannesburg Academic Hospital armed with food items and gift packs.

The Mandela Day Libraries

The Mandela Day Libraries continue to spread the Mandela Day message about people's capacity to bring about positive change when working together. The official opening of another two Mandela Day Libraries in 2011 has taken the total to 13. The libraries are housed in refurbished container units sponsored by SAA. The new libraries were presented to two schools in the Eastern Cape: Qunu Junior Secondary School, the first school Mandela attended and where he first came to be known as 'Nelson', and Nkwenkwezi Junior Secondary School in nearby Mvezo.

Wings of Mercy

SAA also provided emergency airline tickets in unique cases of disadvantaged children requiring flights for medical assistance.

Education and aviation awareness

Vulindlela Aviation Awareness Programme

SAA prides itself on its Aviation Career Awareness Programme, Vulindlela (a Zulu word meaning 'to open the way'), which sees rotating teams of SAA pilots, cabin crew and aircraft technicians visiting rural areas across the country. It has been designed to encourage youngsters – particularly Grade 11 and 12s learners who are studying mathematics, physical science and computer science – to look at pursuing careers as pilots, engineers and technicians.

Joint Aviation Awareness Programme

SAA also makes use of its partnership with other industry players through the Joint Aviation Awareness Programme to raise knowledge and understanding of the training opportunities offered by SAA and the aviation industry. Its partners in this programme include the South African Civil Aviation Authority, Air Traffic and Navigation Services, the Airports Company of South Africa, the South African Air Force, the South African Police Service Air Wing and the Department of Transport. Numerous career awareness exhibitions, open days and aviation expos were held during the year.

International Civil Aviation Day

International Civil Aviation Day – celebrated around the world on 7 December since 1996 following a proclamation by the UN General Assembly – aims to build global awareness of the importance of aviation to social and economic development. South Africa's 2011 commemoration took place at Bisho Airport in the Eastern Cape with a three-day international aviation expo.

ANNUAL FINANCIAL STATEMENTS

INVESTING IN SOUTH AFRICA'S FUTURE

SAA's operations have a major positive effect on economic activity, job creation and transformational skills development South Africa.

CONTENTS

STATEMENT BY THE COMPANY SECRETARY

In accordance with the provisions of the Companies Act, I certify that, in respect of the year ended 31 March 2012, the Company has lodged with the Commissioner of the Companies and Intellectual Property Commission, all returns and notices prescribed by the Act and that all such returns and notices are true, correct and up to date.

Sandile Dlamini

Company Secretary

28 September 2012

Secretary

Name	Mr CS Dlamini		
Business address	Airways Park Jones Road OR Tambo International Airport Kempton Park 1619	**Postal address**	Private Bag X13 OR Tambo International Airport Kempton Park 1627

DIRECTORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2012

Introduction

The directors have pleasure in presenting their report, which forms part of the audited annual financial statements of South African Airways (SOC) Limited (SAA) and its subsidiaries – 'the Group' – for the year ended 31 March 2012.

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. The accounting policies are supported by reasonable and prudent judgements and estimates as detailed in Notes 3 and 4 to the annual financial statements. 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 2012.

During the year under review a comprehensive review of the existing accounting policies was undertaken. The purpose of the review was to ensure that the policies adopted were aligned with industry best practise. As a result, certain accounting policies were changed to ensure better alignment with international best practice, remove all unintended volatility in accounting for certain transactions, and ensure fair and consistent presentation of the financial results over time.

Changes were made to the accounting treatment of maintenance costs, the recognition of Voyager revenue, and the revaluation of land and buildings. As a result of these changes, the profit for the previous financial year was restated to R779 million (R3 million lower than the R782 million originally reported). The cumulative adjustment to retained earnings in prior years was R2,5 billion.

Comprehensive details of the changes made and their impact on the annual financial statements are disclosed in Note 5.

SAA continues to make significant progress in addressing all major risk areas raised by the previous external auditors in 2011. Structural improvements in processes that have already contributed financially will continue to yield dividends in the years ahead.

Nature of the business and company shareholding

SAA is a state-owned company, incorporated in terms of the South African Airways Act, No 5 of 2007, reporting to the Minister of Public Enterprises as supported by the Department of Public Enterprises (DPE). The airline's principal activities include providing scheduled air services for the transportation of passengers, freight and mail to international, regional and domestic destinations. In fulfilling its mission to be an African airline with global reach, SAA proudly operates to 24 destinations across the continent and provides a competitive, quality air transport service within South Africa and to major cities worldwide.

Review of operating and financial results

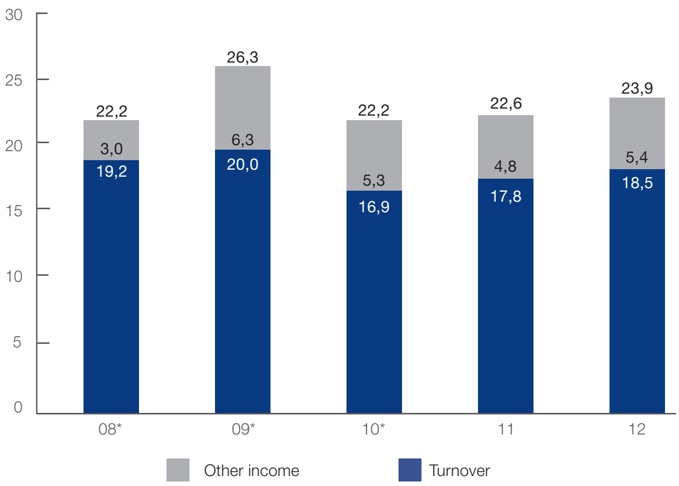
The year under review was fraught with challenges for airlines across the globe. The continued and deepening European debt crisis has caused markets to deteriorate and damaged economic growth. As a direct result, the year saw the closure of a number of airlines while others reported losses and announced restructurings and job cuts.

SAA did not escape the sluggish economic recovery and Eurozone crisis, and its performance for the year is testimony to the difficult challenges facing the global airline industry – the persistently high fuel price in particular. The Group recorded an operating loss of R1,3 billion (2011 restated profit: R1 billion). After the recognition of a deferred tax asset of R514 million (2011: nil) and a net revaluation gain of R823 million (2011: nil), the Group was able to record a total comprehensive income of R60 million for the financial year (2011: R747 million). Cash and cash equivalents reduced to a net overdraft of R33 million, a reduction of R2,4 billion during the year.

Operating results before finance costs

Revenue increased by six percent from R22,6 billion in the previous financial year to R23,9 billion. This was predominantly as a result of the 16 percent increase in fuel levy recoveries which was driven by the increase in fuel expenses. Passenger revenue increased by 3 percent, whereas Voyager income recorded a significant increase of 48 percent. The graph below depicts the revenue trend over the past five financial years.

Income
(R billion)



* *These amounts have not been adjusted for the restatement as reflected in note 5 to the annual financial statements.*

Operating costs reflect an increase of 17 percent over the previous financial year, driven largely by increases in energy costs and other regulatory costs over which an airline has little or no control. The major driver affecting operating costs was a R2,2 billion increase in fuel costs on the back of a 34 percent increase in Brent crude oil prices.

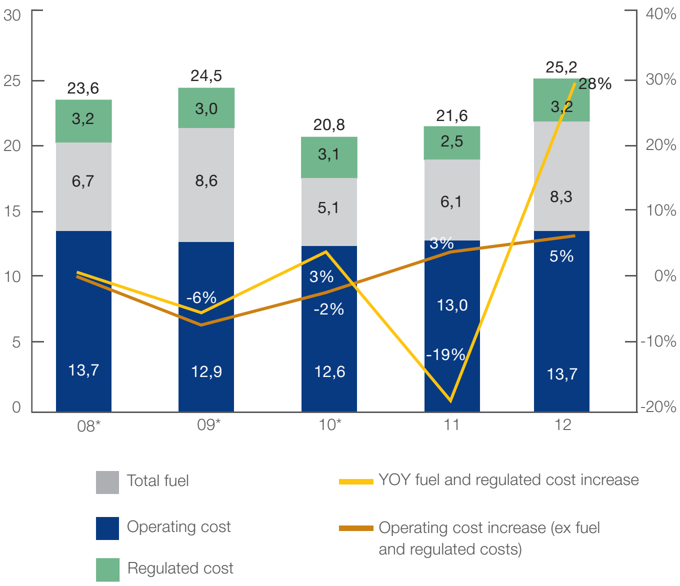
In addition, regulatory costs (which include navigation, landing and parking fees) have increased by 18 percent. Maintenance costs reflect an increase of 32 percent over the prior year. However, if one removes the impact of the exchange rate on this cost, the increase reduces to six percent.

If one excludes the impact of the uncontrollable energy, regulatory and maintenance costs, the Group's operating costs increased by only five percent – underlining the tight control maintained over controllable costs.

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

Fuel costs and regulated costs vs operating cost

(R billion)

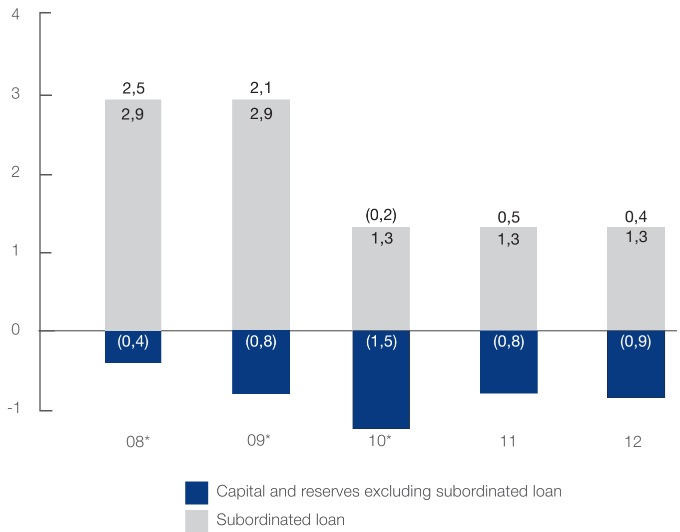


* *These amounts have not been adjusted for the restatement as reflected in note 5 to the annual financial statements.*

SAA's capital and reserves, including a subordinated shareholder loan of R1,3 billion, are currently at R443 million, seven percent lower than the restated R475 million of the previous financial year. This is after the introduction of a provision for lease liabilities (currently at R1,854 billion, 2011: R1,944 billion). The graph below depicts the capital and reserves trend over the past five financial years. During the 2010 financial year, a government loan of R1,5 billion was converted into equity.

Capital and reserves

(R billion)



* *These amounts have not been adjusted for the restatement as reflected in note 5 to the annual financial statements.*

Cash and cash equivalents reduced by R2,4 billion during the year (2011: R1,1 billion) – of which R1,1 billion was utilised in operating activities during the financial year (2011: R525 million cash generated from operating activities).

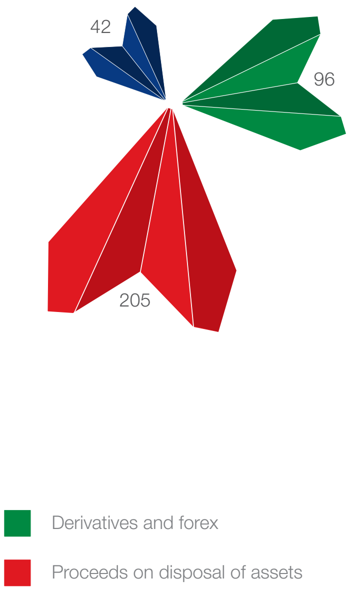
The operational cash outflow is mainly attributable to an increased fuel bill of R1,6 billion (net of R0,6 billion increase in fuel levies), while the outflow from investing activities reflects net fleet additions of R536 million during the year (2011: R590 million). In addition, R644 million of long-term borrowings were repaid during the year (2011: R838 million). Dividends paid (interest on the subordinated loan) was R92 million and reduced from R101 million in the previous financial year.

Review of operating and financial results (continued)

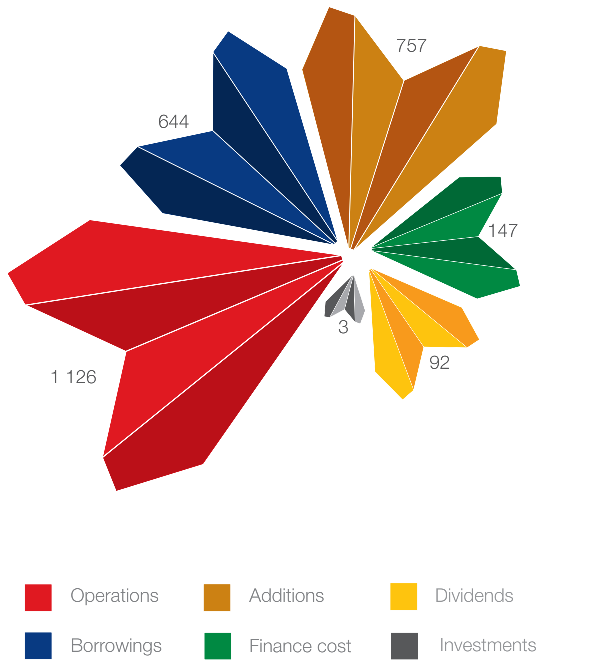
The graphs below analyse the sources of cash flows and how the cash was generated and applied.

2012

CASH INFLOW – R343 MILLION

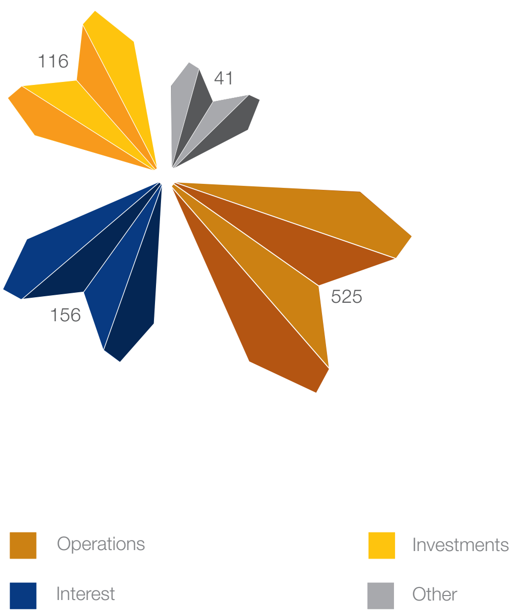


CASH OUTFLOW – R2 769 MILLION

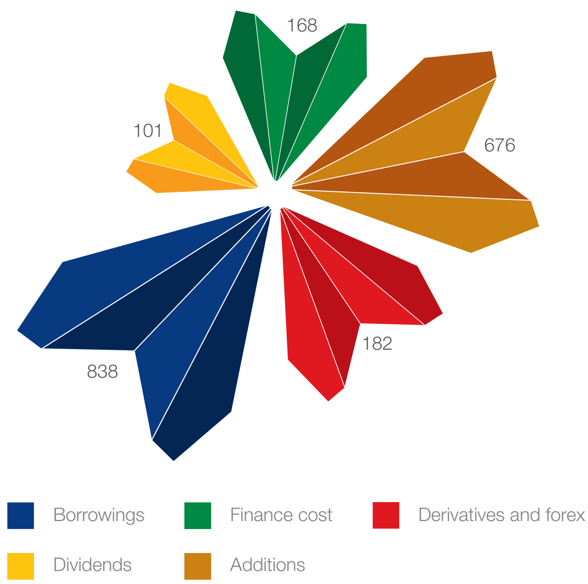


2011

CASH INFLOW – R838 MILLION



CASH OUTFLOW – R1 965 MILLION



Group operating data

	2008	2009	2010	2011	**2012**
Capacity – (million)					
Available-seat kilometres (ASKs)	34 570	31 718	31 543	32 378	**32 423**
Traffic					
Revenue passenger kilometres (RPKs) (million)	26 131	23 328	22 413	22 661	**23 217**
SAA*	24 619	21 935	21 081	21 181	**21 509**
Mango*	1 512	1 393	1 332	1 480	**1 708**
Revenue passengers (thousands)	8 906	8 230	8 023	8 053	**8 087**
SAA*	7 444	6 898	6 735	6 630	**6 480**
Mango*	1 462	1 332	1 288	1 423	**1 607**
Cargo – tonnes flown (thousands)	186	138	119	129	**142**
Utilisation					
Passenger load factor (%)	76	74	71	70	**72**
Yield (RPK) – Passenger*	0,63	0,74	0,65	0,68	**0,69**
Passenger revenue (R million)**	16 527	17 343	14 598	15 443	**15 907**
Yield (revenue/available-seat kilometre) – Turnover*	0,56	0,67	0,54	0,55	**0,57**
Yield (revenue/available-seat kilometre) – Total airline income*	0,64	0,83	0,71	0,70	**0,74**
Unit cost (cost per available-seat kilometre)**	0,75	0,78	0,66	0,67	**0,78**
Labour cost	0,10	0,11	0,13	0,14	**0,15**
Energy	0,21	0,27	0,16	0,19	**0,26**
Material cost*	0,07	0,06	0,06	0,04	**0,05**
Depreciation and amortisation*	0,03	0,02	0,02	0,03	**0,02**
Other operating costs**	0,34	0,32	0,29	0,27	**0,30**

* *The 2008, 2009 and 2010 amounts have not been adjusted for the restatement as reflected in Note 5.*
** *Before restructuring costs and exceptional items.*

Fleet modernisation
During the year under review, SAA took delivery of eight new Airbus aircraft – six A330s and two A320s – all under operating lease agreements as a continuance of its fleet modernisation plan.

Critical issues facing the airlines

SAA has continued to deal with a number of critical issues which are elaborated on below. These include strategic and policy issues, in respect of which the directors wish to acknowledge the support received from the DPE. The Group reported on these issues in its 2011 Annual Report, with progress highlighted below.

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

The order's total capital commitment of US$910 million is contained in Note 35 to the annual financial statements.

Proposals have been received from various potential funders/lessors for the financing of the aircraft. These proposals are in the process of being evaluated.

Competition matters
In previous financial years, various local and foreign jurisdiction regulatory investigations and civil claims were reported. Most of these matters have been resolved. On 6 June 2012, the South African Competition Tribunal granted a consent order in respect of the basket settlement agreement with the Competition Commission covering all pending matters related to SAA and/or its subsidiaries. This includes the Air Cargo, Far East Asia and FIFA 2010 World Cup matters reported in previous financial years. Regarding matters in foreign jurisdictions, regulatory authorities in the European Union, United States of America and Australia did not include SAA in prosecutions following the close of investigations. Although the Swiss Competition Commission commenced similar investigations in 2008, the Commission has not yet communicated any intent to prosecute SAA. Civil claims in the UK and US emanating from these regulatory investigations were resolved through a judgement to strike SAA from further proceedings (UK) and a settlement (US).

The Group is currently defending three actions brought by Comair and the liquidators of Nationwide. These arise from findings by the Competition Tribunal that SAA contravened the Competition Act, No 89 of 1998 in agreements between SAA and various travel agents – between October 1999 and May 2001 ('the first period') and between 1 June 2001 and 31 March 2005 ('the second period'). Comair's claims refer to both the first and the second period, while the Nationwide claim refers to the second period only. SAA is not in a position to assess the extent of the exposure that may attach to these claims as a consequence of an order of court.

Compliance with the Public Finance Management Act (PFMA)
In terms of the PFMA, 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.

In the year under review, there was great improvement in manual and electronic systems maintained by the Group to prevent, identify, collate, monitor and report on irregular and fruitless and wasteful expenditure. This included a review and update of the PFMA policy and PFMA Forum terms of reference, the alignment of the delegation of authority framework with SAP, the introduction of effective controls at accounts payable, the development of an electronic PFMA tracking system, and continuous training initiatives.

Procedures and systems remain under constant improvement, and preventative measures are enjoying particular attention through the comprehensive implementation of the Procure-to-Pay system (which addresses the sequence of procurement approvals) as well as the PFMA tracking system, which facilitates a paperless and integrated reporting system to ensure accountability and monitoring of disciplinary actions and/or corrective actions taken against non-compliance. These measures are supported through continuous training and the building of awareness around the supply chain management process.

The total irregular expenditure without loss incurred in the year under review was R128 million (2011: R85 million), being 0,6 percent of operating costs excluding labour and depreciation. Analysis reveals that while this expenditure was incurred for purposes of business continuity, it occurred due to non-adherence with the Procure-to-Pay supply chain management process. To date, the fruitless and wasteful expenditure incurred for the year is R4 million (2011: R2 million), of which R3 million was unavoidable due to baggage claims, penalties, and fines costs inherent in the aviation industry. In relation to avoidable costs, disciplinary and remedial actions have been put in place to mitigate the recurrence of such incidents. In addition, loss due to criminal conduct is estimated at R28 000. Disciplinary action has been taken and the loss has been recovered.

Internal control

Following its inability to fully comply with Section 51(1)(a)(i) and 51(1)(b)(ii) of the PFMA in the previous financial year, SAA has now fully implemented a Critical Financial Reporting Controls project designed to address key financial control deficiencies in core financial processes. As a result, SAA is now fully compliant with these sections of the PFMA.

Air Service Licences: Guarantees

In terms of both the International Air Services Act, No 60 of 1993, and the Domestic Air Services Act, No 115 of 1990, all South African carriers are obliged to have a guarantee in place to cover passengers who have purchased tickets, but have not yet travelled, against non-performance by the airline. Without a guarantee in place, SAA would not be permitted to operate any domestic or international routes. The required liability guarantee amount at the end of the current financial year has been calculated at R388 million (2011: R437 million).

Going concern

SAA remains an undercapitalised business. This has had a significant effect on the ability of the business to operate within the current volatile economic environment. The global airline industry has suffered from declining passenger volumes and yields and increased operating costs, most notably with regards to fuel. The directors have given consideration to the short- to medium-term cash flow requirements of the airline, carefully considering the depressed aviation market, combined with the potential for adverse cash flows to arise from possible market volatility.

In the light of the potential adverse cash flow impact arising from the state of the global airline industry, SAA approached its Shareholder for a guarantee to be made available amounting to R5 billion to provide reasonable comfort that SAA has the ability to continue as a going concern.

The Shareholder has confirmed to the Board of Directors that the Minister of Finance has provided his concurrence for a government guarantee of R5 billion effective from 1 September 2012 to 30 September 2014. This guarantee ensures SAA will continue to operate as a going concern.

The Shareholder has indicated that the capital adequacy and business model of SAA will be assessed in the foreseeable future.

The directors are of the view that the financial support of its shareholder would be adequate for the going concern requirement in the short term, being 12 months from the date of approving these annual financial statements.

The directors, however, remain of the view that a more permanent appropriate capital structure is required for the airline.

Legal and regulatory universe

Section 51(I)(h) of the PFMA requires that SAA complies with the PFMA and any other legislation applicable to the Company.

In the past year, great effort has gone into the development of the organisation-wide Regulatory Universe. The process was 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.

In defining the Regulatory Universe, facilitated sessions with business were conducted and questionnaires were used for stations outside of RSA. Awareness on Compliance risk management within the organisation was also achieved through the process of defining the Regulatory Universe.

It should be noted that the embedding of Compliance Culture within the organisation is not a static process, compliance programmes are put in place to ensure improvement on the level of maturity and status of compliance within the organisation. The risk-based compliance programmes are determined by the risk exposure as defined by the Regulatory Universe document. For the year under review, the focus continues to be on consumer laws, anti-trust laws and PFMA and compliance training and monitoring plans focus on the said legislation.

Shareholder's Compact

Key performance indicators (KPIs) have been created to monitor SAA's performance against the predetermined objectives set out at the beginning of the financial year between the airline and its shareholder. These KPIs are reported on a monthly and quarterly basis, and regular feedback sessions are held with the Shareholder. The net retained earnings of the SAA Group was the main performance indicator for the 2011-2012 financial year.

Other supporting KPIs have been formulated to support the main KPI and are consistent with SAA's 2011-2014 Corporate Plan. Meeting the main KPI may, however, result in SAA having to adjust to unforeseen market conditions in the coming year which may require forfeiting, to a limited extent, delivery against the support KPIs set for the financial year as in the below table:

KEY PERFORMANCE AREA	KEY PERFORMANCE INDICATOR BY 31 MARCH 2012	FY 2012 TARGET	FY 2012 ACTUAL	EXPLANATIONS
Main KPI	Net retained earnings.	R460 million	(R935) million	KPI not achieved. Fuel costs increased by R2,2 billion (36 percent), increasing to 33 percent of operating expenditure (2011: 28 percent), while maintenance costs increased by 32 percent and other regulatory expenditure increased by 18 percent. In addition, passenger revenue was below target for all sectors as expected demand did not materialise.
Profitability KPIs – structural and operational improvements	Net profit of 5 percent of Voyager revenue (before consolidation).	5%	48%	KPI achieved.
	Net profit of 8 percent of SAA Cargo revenue.	8%	60%	KPI achieved.
	Net profit of 5 percent of Air Chefs revenue.	5%	(16%)	KPI not achieved. Revenue was below target as a result of an overall softening in passenger volumes, cost of sales being 29 percent above target due to higher food costs, and efficiency savings which have not yet been fully achieved.
	Net profit of 4,5 percent of SAA Technical revenue.	4,5%	17,8%	KPI achieved.
	Continuous implementing and monitoring of the effectiveness of the hedging policy.			KPI achieved.
	Obtain suitable Airbus financing without government support, at least six months prior to first aircraft delivery.			On track.
	Improving debt:equity ratio to 83 percent.			KPI not achieved. The loss incurred for the year has weakened SAA's equity position to below target. With the exception of overdraft borrowings, which increased beyond target levels, other debt amounts were not materially different to target.
	Reduce the need for Government support in terms of air traffic liability by a least 10 percent per annum.			KPI achieved.
Revenue, traffic and costs	Cargo belly revenue per available tonne kilometre.	118 cents	120 cents	KPI achieved.
	Average passenger fare.	R1 969	R2 148	KPI achieved.
Financial value creation	Profit-before-tax to total income.	2,18%	(5,25%)	KPI not achieved. This KPI was not achieved due to the operating loss incurred as a result of the weak operating conditions in the airline industry.
	Revenue per available seat kilometre (RASK) (total income) – SAA only.	75,2 cents	75,4 cents	KPI achieved.
	RASK (total income) excluding fuel levy.	62,4 cents	64,9 cents	KPI achieved.
	RASK (PAX revenue and fuel levy only).	77,6 cents	71,6 cents	KPI not achieved – 7 percent below target. KPI was not achieved as a result of lower passenger numbers and lower average airfares.
	Cost per available seat kilometre (CASK) (total operating expenses + leases + depreciation) – SAA only.	73,0 cents	79,6 cents	KPI not achieved. Costs were strongly affected by the higher fuel, maintenance and other regulated costs and the weakening of the rand.

KEY PERFORMANCE AREA	KEY PERFORMANCE INDICATOR BY 31 MARCH 2012	FY 2012 TARGET	FY 2012 ACTUAL	EXPLANATIONS
Financial value creation (continued)	CASK (excluding fuel costs).	50,6 cents	53,6 cents	KPI not achieved. Costs were affected by higher maintenance and other regulated costs and the weakening of the rand.
	Return on total assets.	3,24%	(6,3%)	KPI not achieved. Due to the loss incurred, this ratio will be negative.
	Free cash to air traffic liability.	53,73%	28,27%	KPI not achieved. KPI lower as a result of lower year-end cash balances.
Operational efficiency	Passenger load factor (revenue-bearing passengers) (Revpax) – SAA only.	78%	71%	KPI not achieved. KPI not achieved due to the general decline in travel in most markets as a result of the recession.
	Cargo load factor (tonnes carried/ average tonne per kilometre).	73%	66%	KPI not achieved. Air freight travel markets also suffered the effects of the slow-moving economy.
	Daily block hours per aircraft.	11,3	10,07	KPI not achieved. Delays in new route launches, resulting from uncontrollable delays in obtaining approvals for the new routes, led to aircraft utilisation being below target.
	On-time performance (within 15 minutes of scheduled departure time).	85%	85%	KPI achieved.
Human capital	Average seat per kilometre (ASKs) per employee (SAA only).	4,9m	4,3m	KPI not achieved.
	Training spend on total income	3%	3,53%	KPI achieved.
Skills development	Cadet Pilots.	47	47	KPI achieved.
	SAA Technical apprentices.	105	105	KPI achieved.
	Internships.	86	88	KPI achieved.
Safety and maintenance efficiency	Operational reportable incidents.	135	123	KPI achieved.

Corporate Governance and Code of Ethics

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

The SAA's Code of Ethics remains a cornerstone in prescribing the behaviour and conduct of SAA staff in delivering an exceptional service to its customers and other stakeholders.

Events subsequent to the statement reporting date

In September 2012, the Chairperson of the Board, Ms C Carolus, together with Ms M Whitehouse, Mr T Daka, Mr B Mohale, Mr R Loubser, Mr L Rabbets, Prof D Lewis and Mr J Ndhlovu resigned from the Board. However, the resignation did not impact on the minimum number of directors that the Board should always have. Apart from this event, no material fact or circumstance has occurred between the accounting date and the date of the report.

Compliance statement

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

The performance information as envisaged in Subsection 55(2)(a) of the PFMA and Section 28(l)(c) of the Public Audit Act, No 25 of 2004 has been incorporated into this report. By virtue of the matters referred to in this report, the Board considers that the Company has substantially 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 are continuing to take steps to ensure that all areas are compliant in the 2012-2013 financial year.

Special resolutions passed during the 2011-2012 financial year

There were no special resolutions taken at the Annual General Meeting held on 8 September 2011.

Appointment of auditors
At a general meeting held on 21 December 2011, the Company appointed PricewaterhouseCoopers Inc. and Nkonki Incorporated as joint auditors for the 2011-2012 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 dividends of R92 million (2011: R101 million).

Share capital
Details of the share capital of the Group and Company are set out in note 27 to the annual financial statements.

Directors
SAA had a unitary Board comprising 13 non-executive directors and two executive directors. All non-executive directors are appointed by the Minister of Public Enterprises. The directors are drawn from diverse backgrounds (both local and international), and bring a wealth of experience and professional skill to the Board.

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

The Board considers that the balance of executive and non-executive directors is appropriate and effective for the control and direction of the business. The Board is led by a non-executive Chairperson and the executive management of the Company is led by the Chief Executive Officer. There is a division of responsibilities between the Chairperson and the CEO, and their respective roles are described in the Board of Directors' Charter.

When the previous Chief Financial Officer resigned in December 2010, an Acting Chief Financial Officer was appointed internally until a replacement could be appointed. The new Chief Financial Officer took up office on 13 June 2011.

In terms of the Memorandum of Incorporation, the Board is responsible for overall Company strategy, acquisitions and divestments, major capital projects and financial matters. The Board reviews and approves the strategic direction, annual budgets and corporate plans of the Company and its subsidiaries.

The Board is required to approve all major individual items of capital expenditure and monitor the Group's performance against financial objectives and detailed budgets through management's monthly reporting.

All Board members have separate and independent access to the Company Secretary for any information they require. The appointment and removal of the Secretary is a matter for the Board as a whole. Independent professional advice is available to directors, in appropriate circumstances, at the Company's expense. None of the non-executive directors participate in any bonus, share option or pension scheme of the Company.

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

Board committees
Four standing Board committees have been established to assist the Board in discharging its responsibilities. Each committee acts within agreed written terms of reference which are reviewed on a regular basis. The Chairperson of each committee reports at each scheduled meeting of the Board. Each of the committees has authority to take external advice as required.

Delegation of authority to Board committees does not in any way mitigate or dissipate the discharge by the Board of their duties and responsibilities.

The committees are chaired by non-executive directors. The Company Secretary provides secretarial services to all committees. The executive directors attend these meetings by invitation only.

The Board committees established are as follows:
- Audit Committee;
- Procurement and Tender Processes Committee;
- Social, Ethics, Governance and Monitoring Committee; and
- Remuneration and Human Resources Committee.

Audit Committee
This committee comprised the following members:
- Mr ZJ Sithole (Chairperson)
- Mr BF Mohale
- Adv L Nkosi-Thomas
- Mr RM Loubser
- Ms Y Kwinana
- Prof DH Lewis
- Mr LJ Rabbets

The Audit Committee performs the duties prescribed in Section 94(7) of the 2008 Companies Act and Regulation 27 of the Public Finance Management Act in respect of the audit requirements of the Company.

It also provides oversight on behalf of the Board over financial, asset and investment management, as well as the risk management practices of the Company.

Procurement and Tender Processes Committee (PTPC)
The committee comprised the following members:
- Mr LJ Rabbets (Chairperson)
- Mr T Daka
- Ms MM Whitehouse
- Mr ZJ Sithole

The role of this committee is to ensure that systems and procedures are in place to ensure that all procurement is based on legitimate demand for goods and/or services, that goods and services are procured fairly, equitably, transparently, competitively and cost effectively, that tenders and contracts comply with the relevant legislation and best practice, and that legitimate contracts or purchase orders are in place. The committee is responsible for ensuring that the supply chain management process is compliant from start to finish.

Social, Ethics, Governance and Nominations Committee

The committee comprised the following members:

- Ms CA Carolus (Chairperson)
- Mr RM Loubser
- Adv L Nkosi-Thomas

This committee performs the duties prescribed in Section 72(4) and Regulation 43(5) of the 2008 Companies Act pertaining to social and economic development, good corporate citizenship, the environment, health and public safety issues, and consumer relationships, as well as labour and employment issues, transformational and compliance matters. The committee also assists and supports the Board in the implementation of the overall corporate governance of the Group, including ensuring that the Board's composition is appropriate, that directors are appointed through a formal process, that there is a formal induction for new directors as well as ongoing training, and that there is a formal succession plan for the Board and the Chief Executive Officer.

Remuneration and Human Resources Committee (REMCO)

The committee comprised the following members:

- Mr JP Ndhlovu (Chairperson)
- Mr TC Jantjies
- Ms DC Myeni
- Prof DH Lewis

This committee advises the Board on various strategic matters relating to human resources, including conditions of employment and benefits, remuneration, incentives, affirmative action, succession planning and talent management.

Ad Hoc Committee on Litigation

This committee comprised the following members:

- Adv L Nkosi-Thomas (Chairperson)
- Ms MM Whitehouse
- Mr ZJ Sithole

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

Directors' meetings

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

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

SAA Board of Directors at 31 March 2012	Date of appointment	BOARD	AC	PTPC	REMCO	NOMCO	AD HOC
Total number of meetings held		5	8	4	4	3	4
Ms CA Carolus[N] (Chairperson)	28 September 2009	5				3	2*
Mr T Daka[N]	28 September 2009	5		4			
Mr TC Jantjies[N]	28 September 2009	5			3		
Mr RM Loubser[N]	28 September 2009	3	4			2	
Mr BF Mohale[N]	28 September 2009	5	7				
Ms MM Whitehouse[N]	24 October 2006	4		4			4
Ms DC Myeni[N]	28 September 2009	2			2		
Adv L Nkosi-Thomas[N]	28 September 2009	5	3			3	4
Mr ZJ Sithole[N]	2 December 2009	5	7	3			3
Ms Y Kwinana[N]	2 December 2009	4	6				
Mr LJ Rabbets[N]	2 December 2009	4	8	4			
Mr JP Ndhlovu[N]	25 February 2010	5			4		
Prof DH Lewis[N]	3 May 2010	5	6		3		
Ms SP Mzimela[E]	1 April 2010	5	7*	4*	3*	3*	1*
Mr WH Meyer[E]	13 June 2011	5	7*				

Legend

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

Directors' interests in contracts

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

Approval of the annual financial statements

The directors confirm that the annual financial statements present fairly the financial position of the Company and the Group at 31 March 2012, 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 Company and the Group have adequate access to resources to continue its operations 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 52 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 60.

In preparing the Company and Group annual financial statements set out on pages 62 to 124, unless otherwise disclosed, the Company and Group have complied with International Financial Reporting Standards, the Companies Act and the reporting requirements of the PFMA, and have used the appropriate accounting policies supported by reasonable and prudent judgements and estimates. The directors confirm that these annual financial statements present fairly the financial position of the Company and the Group at 31 March 2012, and the results of their operations and cash flows for the year then ended.

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

Duduzile Myeni
Acting Chairperson

28 September 2012

Siza Mzimela
Chief Executive Officer

28 September 2012

REPORT OF THE AUDIT COMMITTEE

FOR THE YEAR ENDED 31 MARCH 2012

Report of the Audit Committee in terms of regulations 27(1)(10)(b) and (c) of the Public Finance Management Act, No 1 of 1999, as amended.

The Audit Committee has adopted appropriate formal terms of reference compliant with the Companies Act, No 71 of 2008, which have been confirmed by the Board, and has performed its responsibilities as set out in the terms of reference.

In executing its duties during the reporting period, the Committee has done the following:

Audit

- Monitored the effectiveness of the scope, plans, budget, coverage, independence, skills, staffing, overall performance and position of the internal audit and compliance functions within the organisation.
- Recommended to the Board the appointment of the internal auditors and the audit fees.
- Monitored the effectiveness of the external auditors – including assessing their skills, independence, audit plan, budget, reporting, overall performance – and approved external audit fees.
- Reviewed audit findings and management's action plans.
- Considered non-audit services to be rendered by the external auditors to avoid material conflicts of interest.
- Reviewed whether the work performed by internal audit and by external audit is appropriate and ensured that no significant gaps in audit assurance exist between internal and external audit.
- Obtained an assessment of the strength and weaknesses of systems, controls and other factors from the auditors and management that might be relevant to the integrity of the financial statements.
- Ensured that the external auditors and internal audit had direct access to either the Audit Committee or Chairperson of the Audit Committee.

Financial

- Reviewed the financial statements and reporting for proper and complete disclosure of timely, reliable and consistent information.
- Evaluated the appropriateness, adequacy and efficiency of the accounting policies and procedures, compliance with overall accounting standards and any changes thereto.
- Reviewed the annual financial statements before submission to the Board for any change in accounting policies and practices, significant areas of judgement, significant audit adjustments, the internal control and going concern statements, the risk management report, the corporate governance report, compliance with accounting and disclosure standards, and compliance with statutory and regulatory requirements.
- Reviewed the recommendations of the external auditor and those of any regulatory authority for significant findings and management's proposed remedial actions.
- Enquired about the existence and substance of significant accounting accruals, impairments or estimates that could have a material impact on the financial statements.
- Reviewed any pending litigation, contingencies, claims and assessments, and the presentation of such matters in the financial statements.
- Considered qualitative judgements by management on the acceptability and appropriateness of current or proposed accounting principles and disclosures.
- Obtained an analysis from management and the auditors of significant financial reporting issues and practices in a timely manner.
- Monitored the Corporate Plan targets and other non-financial reporting requirements.
- Monitored and reviewed the company's liquidity position.
- Monitored and reviewed the company's capitalisation requirements.

Governance

- Provided a channel of communication between the Board and management, the risk department, compliance officers, and the internal and external auditors.
- Received regular reporting from each of the above functions and monitored that issues and concerns raised were resolved by management in a timely manner.
- Liaised with the Board committees and met as required with the regulators and the external auditor.
- Performed other functions from time to time as required by National Treasury in the regulations relating to public entities.
- Monitored the operational status of compliance, risk identification and management functions. Currently implementing procedures for dealing with complaints received by the Company (including receipt, retention, and effective treatment of these complaints) regarding accounting, internal accounting controls, or auditing matters, and submission by employees of the Company, including anonymous submissions, of concerns regarding questionable accounting or auditing matters. All such employee submissions shall be treated as confidential.

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

The Committee is satisfied with improvements in its combined assurance environment, in particular the appointment of a Chief Audit Executive and the progressive in-sourcing of internal audit functions, the review and update of compliance policies and operating procedures coupled with broad-based training Initiatives, most notably in the areas of PFMA, Consumer Protection, Competition Law and Aviation Safety compliance, the review, update and implementation of the SAA Group's ISO 3100 compliant Enterprise Risk Management Framework as well as its fraud prevention policy and whistleblowing mechanism coupled with institutional reforms. Furthermore, the Committee is satisfied that contingent liabilities related to legacy litigation has been drastically reduced and resolved.

Improvements in compliance is an ongoing initiative through regular awareness training and electronic monitoring and reporting. Where irregular and fruitless and wasteful expenditure has occurred this has been mostly due to administrative delays and situations beyond the Company's control and the Committee is satisfied that all irregular spend was required for business continuity. Since none of the individual breaches resulted in expenditure greater than the materiality threshold agreed with the Shareholder, the Committee is confident that areas of non-compliance will be progressively eliminated towards full compliance. The Committee continues with its resolve to ensure expeditious and comprehensive implementation of reforms in the combined assurance and control environment.

The Committee is satisfied that following its inability in the previous year to fully comply with Section 51(1)(a)(i) of the PFMA, SAA has now fully implemented a Critical Financial Reporting Controls project designed to address key financial control deficiencies in core financial processes. SAA is now fully compliant with these sections of the PFMA.

Significant improvement has been made in improving the internal control environment to prevent, collate, detect and report on irregular and fruitless and wasteful expenditure. Procedures and systems are under constant Improvement and preventive measures are given special attention through the comprehensive implementation of the Procure-to-Pay system.

The Committee has concern about the fact that SAA is undercapitalised and recognises that a permanent and appropriate capital structure is required for the airline in order for it to fulfil its mandate.

The Committee Is satisfied that it has complied with section 58 of the PFMA and the Preferential Procurement Act in the appointment of new external auditors for the SAA Group through a competitive tender process.

The Committee is satisfied that the annual financial statements are based on appropriate accounting policies, and are supported by reasonable and prudent judgements and estimates.

The Committee evaluated the SAA's Group annual financial statements for the year ended 31 March 2012 and, based on the information provided therein, believes that the financial statements comply, in all material respects, with the relevant provisions of the PFMA and International Financial Reporting Standards.

Members of the Audit Committee and attendance at meetings

The Committee met eight times during the year. Details of members' attendance can be found on page 56 of this report.

Audit committee members

Mr ZJ Sithole
Mr BF Mohale
Adv L Nkosi-Thomas
Mr RM Loubser
Ms Y Kwinana
Mr LJ Rabbets
Prof DH Lewis

Discharge of responsibilities

The Committee agrees that the adoption of the going-concern premise is appropriate in preparing the annual financial statements, with the consideration of the factors highlighted on page 57 of the Directors' Report. The Audit Committee has therefore recommended the adoption of the annual financial statements by the Board of Directors on 6 August 2012.

On behalf of the Audit Committee

Signed by:

Yakhe Kwinana
Director and member of Audit Committee

28 September 2012

INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED 31 MARCH 2012

Independent auditors' report to the Shareholder of South African Airways SOC Limited

Introduction

We have audited the consolidated and separate financial statements of South African Airways SOC Limited set out on pages 62 to 124, which comprise the statements of financial position as at 31 March 2012, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting authority's responsibility for the financial statements

The board of directors which constitutes the accounting authority is responsible for the preparation and fair presentation of these consolidated and separate annual financial statements in accordance with International Financial Reporting Standards and the requirements of the Public Finance Management Act of South Africa and 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 annual financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated and separate annual financial statements based on our audit. We conducted our audit in accordance with the Public Audit Act of South Africa, the *General Notice* issued in terms thereof and the 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 annual financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the 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 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 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 consolidated and separate financial position of South African Airways SOC Limited as at 31 March 2012, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa and the requirements of the Public Finance Management Act of South Africa.

Emphasis of matter

We draw attention to the matters below. Our opinion is not modified in respect of these matters:

Restatement of corresponding figures

As disclosed in note 5 to the financial statements, the corresponding figures for 31 March 2011 and 31 March 2010 have been restated. The reasons for the restatements have been disclosed in note 5.

Irregular expenditure

As disclosed in the directors' report to financial statements on pages 52 to 57, irregular expenditure to the value of R128 million has been identified and reported in terms of section 40 of Public Finance Management Act. The reason for the irregular expenditure has been fully disclosed in the directors' report.

Other reports required by the Companies Act

As part of our audit of the consolidated and separate financial statements for the year ended 31 March 2012, we have read the Directors' Report, the Report of the Audit 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 and the *General Notice* issued in terms thereof, we report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

We performed procedures to obtain evidence about the usefulness and reliability of the information in the consolidated annual performance reports as set out on pages 52 to 54 of the annual report.

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

The reliability of the information in respect of the selected objectives is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

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

Additional matter

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

Achievement of planned targets

Of the total number of planned targets, 15 of the 29 targets were achieved during the year under review. This represents 52 percent of total planned targets that were achieved during the year under review.

Prior year audited by predecessor auditor

The financial statements of the prior year were audited by a predecessor auditor in terms of section 4(3) of the Public Audit Act on 31 May 2012. An unqualified opinion was issued on those financial statements.

Compliance with laws and regulations

We performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters.

We did not identify any instances of material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA.

Internal control

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

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc
N Mtetwa
Registered Auditor

Johannesburg
28 September 2012

Nkonki Inc
M Patel
Registered Auditor

Johannesburg
28 September 2012

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

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

Africa Senior Partner: S P Kana

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

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

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

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

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

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

Partners: Mitesh Patel – CA (SA), Brian Mungofa– CA (SA), Nyarai Muzarewetu– CA (SA), Prof Steven Firer DSA (SA) IFRS, ACCA RA, Ahmed Pandor – CA (SA), CISA, MBA, Sangeeta Kallen CA (SA), Emma Mashilwane CA (SA)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2012

		GROUP		COMPANY	
R MILLION	Notes	**2012**	2011 RESTATED	**2012**	2011 RESTATED
Revenue		**23 861**	22 608	**22 445**	21 609
Turnover	5 & 6	**18 450**	17 767	**17 031**	16 746
Other income	7	**5 411**	4 841	**5 414**	4 863
Operating costs		**25 176**	21 602	**23 444**	20 652
Aircraft lease costs	8	**1 797**	1 686	**1 795**	1 686
Accommodation and refreshments		**793**	658	**1 114**	970
Depreciation and amortisation	5 & 8	**530**	845	**474**	791
Distribution costs		**1 231**	1 227	**1 178**	1 182
Electronic data costs		**557**	492	**553**	489
Energy		**8 302**	6 086	**7 882**	5 814
Employee benefit expenses	9	**4 711**	4 417	**3 129**	2 972
Material	5	**1 739**	1 316	**2 735**	2 521
Navigation, landing and parking fees		**1 476**	1 248	**1 368**	1 173
Gains on disposal of property, aircraft and equipment	8	**(25)**	(4)	**(25)**	(10)
Net impairment write-off	10	**44**	71	**(228)**	13
Other operating costs	5	**4 021**	3 560	**3 469**	3 051
Operating (loss)/profit before fair value movements and translation profit/(loss)	8	**(1 315)**	1 006	**(999)**	957
Fair value movements and translation profit/(loss)	11	**63**	(202)	**62**	(171)
(Loss)/profit before finance costs and investment income		**(1 252)**	804	**(937)**	786
Finance costs	12	**(147)**	(168)	**(172)**	(200)
Investment income	13	**42**	156	**42**	142
(Loss)/profit before taxation		**(1 357)**	792	**(1 067)**	728
Taxation	14	**514**	(13)	**–**	(13)
(Loss)/profit for the year		**(843)**	779	**(1 067)**	715
Other comprehensive income:					
Actuarial gains and losses on defined benefit plans		**80**	(45)	**80**	(45)
Gains and losses on property revaluations		**935**	–	**433**	–
Taxation related to components of other comprehensive income		**(112)**	13	**–**	13
Other comprehensive income/(loss) for the year net of taxation	16	**903**	(32)	**513**	(32)
Total comprehensive income/(loss)		**60**	747	**(554)**	683
Total comprehensive income/(loss) attributable to:					
Owners of the parent		**(32)**	646	**(646)**	582
Subordinated loan provider		**92**	101	**92**	101
		60	747	**(554)**	683
Basic and diluted earnings per share (cents)	15	**(7)**	6		

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2012

		GROUP			COMPANY		
R MILLION	Notes	**2012**	2011 RESTATED	2010 RESTATED	**2012**	2011 RESTATED	2010 RESTATED
Assets							
Non-current assets							
Property, aircraft and equipment	5 & 17	**7 292**	6 251	6 548	**6 031**	5 502	5 784
Intangible assets	18	**91**	112	90	**83**	107	85
Investments in subsidiaries	19	**–**	–	–	**830**	533	338
Deferred taxation asset	20	**419**	17	18	**–**	–	–
Retirement benefit asset	30	**31**	–	–	**31**	–	–
		7 833	6 380	6 656	**6 975**	6 142	6 207
Current assets							
Inventories	5 & 21	**910**	733	649	**92**	80	57
Investments in subsidiaries	22	**–**	–	–	**1 305**	1 313	1 653
Derivatives	23	**262**	379	76	**262**	379	76
Trade and other receivables	5 & 24	**4 506**	4 394	3 968	**4 355**	4 199	3 796
Investments	25	**9**	6	122	**9**	6	122
Cash and cash equivalents	26	**1 536**	2 252	3 402	**1 139**	1 875	3 111
		7 223	7 764	8 217	**7 162**	7 852	8 815
Non-current assets held-for-sale and assets of disposal groups		**–**	–	10	**–**	–	10
Total assets		**15 056**	14 144	14 883	**14 137**	13 994	15 032
Equity and liabilities							
Equity							
Equity attributable to equity holders of parent							
Share capital	27	**12 892**	12 892	12 892	**13 126**	13 126	13 126
Reserves		**989**	521	553	**599**	521	553
Accumulated loss		**(14 738)**	(14 238)	(14 916)	**(15 190)**	(14 466)	(15 080)
		(857)	(825)	(1 471)	**(1 465)**	(819)	(1 401)
Subordinated loan guaranteed by government	28	**1 300**	1 300	1 300	**1 300**	1 300	1 300
		443	475	(171)	**(165)**	481	(101)
Liabilities							
Non-current liabilities							
Long-term loans	29	**1 305**	1 671	2 139	**1 287**	1 671	2 139
Retirement benefit obligation	30	**46**	39	41	**46**	39	41
Provisions	5 & 31	**1 564**	1 221	1 536	**1 564**	1 221	1 536
Other long-term liabilities	32	**63**	63	63	**–**	–	–
Deferred revenue on ticket sales	5 & 33	**983**	1 188	1 405	**983**	1 188	1 405
		3 961	4 182	5 184	**3 880**	4 119	5 121
Current liabilities							
Derivatives	23	**11**	14	–	**11**	14	–
Finance lease obligation		**–**	–	10	**–**	–	10
Trade and other payables	34	**4 956**	4 893	4 833	**4 833**	4 857	5 003
Provisions	5 & 31	**290**	723	697	**290**	723	727
Current portion of long-term loans	29	**471**	407	553	**471**	407	553
Deferred revenue on ticket sales	5 & 33	**3 355**	3 450	3 777	**3 282**	3 393	3 719
Bank overdraft	26	**1 569**	–	–	**1 535**	–	–
		10 652	9 487	9 870	**10 422**	9 394	10 012
Total liabilities		**14 613**	13 669	15 054	**14 302**	13 513	15 133
Total equity and liabilities		**15 056**	14 144	14 883	**14 137**	13 994	15 032

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2012

R MILLION	Share capital	Non-distributable reserve	Revaluation reserve	Shareholder restructuring fund	Total share capital and reserves	Accumulated loss	Shareholder's interest	Subordinated loan guaranteed by government	Total equity
GROUP									
Opening balance as previously reported	**12 892**	**(100)**	**–**	**653**	**13 445**	**(12 453)**	**992**	**1 300**	**2 292**
Restatement[1]	–	–	–	–	–	(2 463)	(2 463)	–	(2 463)
Balance at 1 April 2010 as restated	**12 892**	**(100)**	**–**	**653**	**13 445**	**(14 916)**	**(1 471)**	**1 300**	**(171)**
Total comprehensive income for the year	–	(32)	–	–	(32)	779	747	–	747
Dividends paid on government subordinated loan classified as an equity instrument	–	–	–	–	–	(101)	(101)	–	(101)
Opening balance as previously reported	**12 892**	**(132)**	**–**	**653**	**13 413**	**(11 772)**	**1 641**	**1 300**	**2 941**
Prior year adjustments	–	–	–	–	–	(2 466)	(2 466)	–	(2 466)
Balance at 1 April 2011 as restated	**12 892**	**(132)**	**–**	**653**	**13 413**	**(14 238)**	**(825)**	**1 300**	**475**
Total comprehensive income for the year	**–**	**80**	**823**	**–**	**903**	**(843)**	**60**	**–**	**60**
Transfer of utilised portion of labour restructuring fund	**–**	**–**	**–**	**(435)**	**(435)**	**435**	**–**	**–**	**–**
Dividends paid on government subordinated loan classified as an equity instrument	**–**	**–**	**–**	**–**	**–**	**(92)**	**(92)**	**–**	**(92)**
Balance at 31 March 2012	**12 892**	**(52)**	**823**	**218**	**13 863**	**(14 738)**	**(857)**	**1 300**	**443**

[1] *Refer to note 5 for details of the restatement.*

R MILLION	Share capital	Non-distributable reserve	Revaluation reserve	Share-holder restruc-turing fund	Total share capital and reserves	Accumu-lated loss	Share-holder's interest	Sub-ordinated loan guaranteed by government	Total equity
COMPANY									
Opening balance as previously reported	**13 126**	**(100)**	**–**	**653**	**13 679**	**(12 884)**	**795**	**1 300**	**2 095**
Restatement[1]	–	–	–	–	–	(2 196)	(2 196)	–	(2 196)
Balance at 1 April 2010 as restated	**13 126**	**(100)**	**–**	**653**	**13 679**	**(15 080)**	**(1 401)**	**1 300**	**(101)**
Total comprehensive income for the year	–	(32)	–	–	(32)	715	683	–	683
Dividends paid on government subordinated loan classified as an equity instrument	–	–	–	–	–	(101)	(101)	–	(101)
Opening balance as previously reported	**13 126**	**(132)**	**–**	**653**	**13 647**	**(12 314)**	**1 333**	**1 300**	**2 633**
Prior year adjustments	–	–	–	–	–	(2 152)	(2 152)	–	(2 152)
Balance at 1 April 2011 as restated	**13 126**	**(132)**	**–**	**653**	**13 647**	**(14 466)**	**(819)**	**1 300**	**481**
Total comprehensive income for the year	**–**	**80**	**433**	**–**	**513**	**(1 067)**	**(554)**	**–**	**(554)**
Transfer of utilised portion of labour restructuring fund	**–**	**–**	**–**	**(435)**	**(435)**	**435**	**–**	**–**	**–**
Dividends paid on government subordinated loan classified as an equity instrument	**–**	**–**	**–**	**–**	**–**	**(92)**	**(92)**	**–**	**(92)**
Balance at 31 March 2012	**13 126**	**(52)**	**433**	**218**	**13 725**	**(15 190)**	**(1 465)**	**1 300**	**(165)**

[1] *Refer to note 5 for details of the restatement.*

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 MARCH 2012

		GROUP		COMPANY	
R MILLION	Notes	**2012**	2011	**2012**	2011
Cash flows from operating activities					
Cash (used in)/generated from operations	39	**(1 126)**	525	**(1 119)**	226
Interest income		**42**	156	**42**	142
Finance costs		**(147)**	(168)	**(172)**	(200)
Realised gains from derivative financial instruments		**96**	(182)	**96**	(182)
Net cash (outflow)/inflow from operating activities		**(1 135)**	331	**(1 153)**	(14)
Cash flows from investing activities					
Additions to property, aircraft and equipment	17	**(741)**	(631)	**(674)**	(586)
Proceeds on disposal of property, aircraft equipment and intangible assets	17 & 18	**205**	41	**201**	39
Additions to intangible assets	18	**(16)**	(45)	**(10)**	(43)
Repayment of loans by subsidiaries		**–**	–	**8**	1 980
(Increase)/decrease in investments		**(3)**	116	**(3)**	116
Acquisition of shares in subsidiary		**–**	–	**(34)**	(1 800)
Net cash outflow from investing activities		**(555)**	(519)	**(512)**	(294)
Cash flows from financing activities					
External borrowings repaid		**(644)**	(838)	**(656)**	(804)
Dividends paid		**(92)**	(101)	**(92)**	(101)
Net cash outflow from financing activities		**(736)**	(939)	**(748)**	(905)
Net decrease in cash and cash equivalents		**(2 426)**	(1 127)	**(2 413)**	(1 213)
Cash and cash equivalents at the beginning of the year		**2 252**	3 402	**1 875**	3 111
Foreign exchange effect on cash and cash equivalents		**141**	(23)	**142**	(23)
Cash and cash equivalents at end of the year	26	**(33)**	2 252	**(396)**	1 875

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2012

1. Basis of preparation and significant accounting policies

Statement of compliance

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

The financial statements are prepared on the basis of the accounting policies applicable to a going concern. This basis presumes that the company will continue to receive the support of its shareholder and that the realisation of assets and settlement of liabilities will occur in the ordinary course of business.

These accounting policies are consistent with the previous period, except for the changes set out in Note 5 – Restatement.

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

Basis of consolidation

Subsidiaries

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

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

The Group applies the purchase method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39, either in profit or loss or as a charge to other comprehensive income. Contingent consideration that is classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Goodwill

Goodwill represents the excess of the cost of acquisition over the net fair value of the identifiable assets, liabilities and contingent liabilities recognised at the acquisition date. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. The goodwill arising on the acquisition of associates is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

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

Foreign currency transactions

The individual annual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated annual financial statements, the results and financial position of each entity are expressed in South African Rand, which is the presentation currency for the consolidated annual financial statements.

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

1. Basis of preparation and significant accounting policies (continued)

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

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

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

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

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

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

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

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

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

Revenue consists of passenger airline revenue, freight and mail revenue, revenue from technical services, Voyager income, commissions received, income from leased assets and the release of unutilised air tickets.

Passenger air ticket and cargo airway bill 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 are released to revenue. The estimate is based on historical statistics and data that takes into account the terms and conditions for various ticket types. Refer to Note 3 – Critical judgements in applying the entity's accounting policies, for more information.

Frequent flyer programme
SAA operates a frequent flyer programme, SAA Voyager, which provides a variety of awards to programme members based on a mileage credit for flights on SAA and other airlines that participate in the programme. Members can also accrue and redeem miles with non-airline programme partners. Cargo users accumulate equivalent awards relating to freight transported.

Consideration for the provision of Voyager awards consists of annual participation fees, service fees and the sale of miles to Voyager airline and non-airline partners, as well as a portion of the ticket price of SAA flights sold to Voyager members. The participation fees and service fees are recognised as revenue immediately when they become due and payable. Income arising from the sale of miles to airline and non-airline partners is accounted for as deferred revenue in the statement of financial position and only recognised as revenue when SAA fulfils its obligations by supplying free or discounted goods or services on redemption of the accrued miles.

SAA accounts for award credits issued on SAA flights as a separately identifiable component of the sales transaction in which they are earned. The consideration in respect of the initial sale is allocated to award credits based on their fair value and is accounted for as a liability (deferred revenue) in the consolidated statement of financial position. The fair value is determined with reference to the value of the awards for which miles have been redeemed during the last 12 months. 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 the stage of completion. Other maintenance services rendered on a time and material basis are recognised as revenue when services are rendered by reference to the stage of completion of the transaction.

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

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 are also included. The actual expenditure of the overhauls is charged against the provision when incurred. Any residual balance is transferred to profit or loss. All other replacement spares and other expenditure relating to maintenance of leased fleet assets is charged to profit or loss on consumption or as incurred.

Power by the hour
Expenditure for engine overhaul costs covered by power by the hour (fixed rate charged per hour) maintenance agreements is charged to profit or loss over the life of the contract.

Maintenance reserve: Group as lessee
Maintenance reserves are payments made to certain lessors in terms of the aircraft lease contract. The lessors are contractually obligated to reimburse the Group for the qualifying maintenance expenditure incurred on aircraft if the Group has a maintenance reserves credit. Maintenance reserves are recognised as an asset. The recoverability of the asset is assessed against the entity's ability to claim against future maintenance events.

The reimbursement amounts claimed from lessors in respect of qualifying maintenance are transferred to trade and other receivables until actually received.

Reimbursement amounts are only recognised as assets in respect of maintenance costs to be reimbursed if the work has been performed and it appears reasonable that the amounts claimed are recoverable in terms of the aircraft lease contract and based on the available balance in the maintenance reserve account.

Maintenance reserve: Group as lessor
The maintenance reserves received 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 on receipt of a valid claim for reimbursement in respect of qualifying maintenance costs.

Borrowing costs
As there are no qualifying assets, borrowing costs are not capitalised, but recognised in profit or loss in the period in which they are incurred.

Taxation
Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax
The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax
Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises on the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year
Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income, in which case, the current and deferred tax are also recognised in other comprehensive income. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, aircraft and equipment
Owned assets
Land and buildings
Land and buildings are shown at fair value based on valuations performed by external independent valuers, less subsequent accumulated depreciation and accumulated impairment losses for buildings. Valuations are performed with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any accumulated depreciation and accumulated impairment losses at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

Aircraft
Aircraft are stated at cost less accumulated depreciation and any recognised impairment losses. Cost includes Buyer Furnished Equipment (BFE) costs and is net of manufacturer's discount/credits, with subsequent additions to or renewal of exchangeable units also stated at cost. Cost includes any fair value gains or losses resulting from hedging instruments used to hedge the acquisition of the underlying asset, which qualify for hedge accounting. Where there are deferred payment terms, the cost is the cash price equivalent.

1. Basis of preparation and significant accounting policies (continued)

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 life and residual values are estimated for each component. Where the useful lives for the identified components are similar, those are aggregated and depreciated as one component by applying the useful life relevant to that significant component.

The residual value, depreciation method and the useful life of each asset or component thereof is reviewed at least at each financial year end and any differences are treated as a change in accounting estimate in accordance with IAS 8.

The following annual rates are applicable:

Asset class	***Useful lives***
Aircraft and simulators	5-20 years
Buildings and structures	10-50 years
Furniture	10 years
Office equipment	5-10 years
Computer equipment	3-5 years
Light motor vehicles	5 years
General purpose vehicles	10 years
Containers	5 years
Machinery	15-20 years
Cabin loaders	10-20 years

Leased assets

Period of lease or shorter as may be appropriate.

Residual values

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

Capital work in progress

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

Exchangeable units

Exchangeable units are high value components that are classified as equipment and are depreciated accordingly. The cost of repairing such units is charged to profit or loss as and when incurred.

Non-current assets held-for-sale

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

Disposal of assets

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss when the risks and rewards related to the assets are transferred to the buyer.

Leasehold improvements

Land and buildings

Improvements to leased premises are recognised as an asset and depreciated over the period of the lease term, or the useful life of the improvements, whichever is shorter.

Aircraft

In cases where the aircraft held under operating leases are fitted with BFE at the cost of the company, the BFE acquired is recognised as an asset (leasehold improvements) and depreciated over its useful life or over the period of the lease term, whichever is shorter.

Accounting for leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Manufacturers' credits that represent a portion of manufacturers' cash incentives which have not been taken into account in determining the lease rentals payable on operating leased aircraft are initially recognised as liabilities and are amortised on a straight-line basis over the lease term to reduce the net rental expense payable.

Initial rentals represent amounts paid to the lessor in advance. These are recognised as prepaid lease payments at the commencement of the lease and are amortised on a straight-line basis over the lease term.

Non-current assets held-for-sale
Non-current assets and disposal groups are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held-for-sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held-for-sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

Discontinued operations
A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held-for-sale, if earlier.

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

Intangible assets
Intangible assets acquired separately
Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Intangible assets acquired in a business combination
Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Amortisation
Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets assessed to have indefinite useful lives and goodwill are not amortised but are tested for impairment at each reporting period.

The intangible assets with finite useful lives are amortised from the date they are available for use applying the following rates:

Intangible asset class	***Useful lives***
Application software	3-5 years
Internet booking site	5 years

Derecognition of intangible assets
An intangible asset is derecognised on disposal or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised. Any subsequent expenditure on capitalised intangible assets is capitalised only when it meets the recognition criteria of an intangible asset. All other expenditure is expensed as incurred.

Impairments
Intangible assets
Intangible assets are tested for impairment wherever there are circumstances that indicate that the carrying value may not be recoverable. Intangible assets that have not yet been brought into use or have an indefinite useful life including goodwill will be reviewed for impairment at least on an annual basis.

Tangible assets
The carrying amounts of the Group's tangible assets, which mainly consist of property, aircraft and equipment, are reviewed at each statement of financial position date to determine whether there is any indication that those assets have been impaired. If there is any indication that an asset may be impaired, its recoverable amount is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Calculation of recoverable amount
The recoverable amount is the higher of the asset's fair value less cost to sell and its value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

1. Basis of preparation and significant accounting policies (continued)

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 income 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, associates and joint ventures.

After initial recognition, available-for-sale financial assets are measured at fair value with unrealised gains or losses being recognised directly in equity in fair value reserves.

With disposal of financial assets, the accumulated gains and losses recognised in equity resulting from measurement at fair value are recognised in profit or loss. If a reliable estimate of the fair value of an unquoted equity instrument cannot be made, this instrument is measured at cost less any impairment losses.

Dividends received from these investments are recognised in profit or loss when the right of payment has been established. Fair value is determined as stated in Note 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, associates and joint ventures are recognised on a trade date basis and are initially recognised at cost. After initial recognition, the company's investment in subsidiaries, associates and joint ventures continue to be held at cost, and are reviewed annually for impairment.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, cash in banks, short-term and long-term deposits, bank overdrafts and highly liquid investments and are initially measured at fair value and subsequently measured at amortised cost.

Gains and losses on subsequent measurement

Gains or losses on investments held-for-trading are recognised in the statement of comprehensive income. Gains or losses on available-for-sale investments are recognised as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised immediately in profit or loss for the period.

For interest-bearing loans and borrowings, gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised or impaired, as well as through the amortisation process.

Hedge accounting

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

Effective interest rate method

The effective interest rate method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest rate method basis for debt instruments other than those financial assets classified as at FVTPL.

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, 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.

1. Basis of preparation and significant accounting policies (continued)

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

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. The Group's equity instruments primarily include a government guaranteed subordinated loan and company shares issued. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

If the entity reacquires its own equity instruments, these instruments are classified as treasury shares and any consideration paid is recognised as a direct reduction from equity. The gains or losses on purchase, sale, issue or cancellation of treasury shares are recognised directly in other comprehensive income.

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

Financial liabilities

Financial liabilities primarily include trade and other payables, bank overdrafts, interest-bearing borrowings from financial institutions denominated in local and foreign currency and other liabilities such as finance lease obligations.

Other financial liabilities are subsequently measured at amortised cost, with the exception of finance lease obligations, which are measured in terms of IAS 17 – *Leases* (refer to "Accounting policy on leases").

Financial liabilities at fair value through profit or loss are classified as held-for-trading. A financial liability is classified as held-for-trading if it is a derivative not designated and effective as a hedging instrument. Financial liabilities held-for-trading are subsequently stated at fair value, with any gains and losses recognised in profit or loss. Fair value is determined in a manner described in Note 42.1.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at fair value, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs and any discount or premium on settlement.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. In general, the basis of determining cost is the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Redundant and slow moving inventories are identified on a regular basis and written down to their realisable values. Consumables are written down with regard to their age, condition and utility.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision will be reassessed at each statement of financial position date taking into account the latest estimates of expenditure required and the probability of the outflows. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability except those that have been taken into account in the estimate of future cash flows. Where discounting is used, the increase in a provision due to the passage of time is recognised as an interest expense.

A provision is used only for the expenditures for which the provision was originally recognised.

Onerous contracts
Present obligations arising under onerous contracts are recognised and measured as a provision. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Reimbursements
Where the Group expects a provision to be reimbursed by a third party, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Provision for lease liabilities
For aircraft held under operating lease agreements, SAA is contractually committed to either return the aircraft in a certain condition or to compensate the lessor based on the actual condition of the airframe, engines and life-limited parts upon return. In order to fulfil such conditions of the lease, maintenance in the form of major airframe overhaul, engine maintenance checks, and restitution of major life-limited parts, is required to be performed during the period of the lease and upon return of the aircraft to the lessor. The estimated airframe and engine maintenance costs and the costs associated with the restitution of major life-limited parts, are accrued and charged to profit or loss over the lease term for this contractual obligation.

Employee benefits

Pension benefits
The Group operates two defined benefit funds as well as various defined contribution funds. The assets of each scheme are held separately from those of the Group and are administered by the schemes' trustees. The funds are actuarially valued by professional independent consulting actuaries.

The Group's contributions to the defined contribution fund are charged to profit or loss during the year in which they relate.

The benefit costs and obligations under the defined benefit fund are determined separately for each fund using the projected unit credit method. The benefit costs are recognised in profit or loss. Actuarial gains and losses are recognised in the period in which they occur outside of profit or loss in other comprehensive income.

Past-service costs are recognised immediately in profit or loss.

When the benefits of a plan are improved, the portion of the increased benefit relating to past services by the employees is recognised as an expense immediately in profit or loss. The amount recognised in the statement of financial position represents the present value of the defined benefit obligation reduced by the fair value of plan assets.

Post-retirement medical benefits
Post retirement medical benefits are provided by the Group to qualifying employees and pensioners. The benefit medical costs are determined through annual actuarial valuations by independent consulting actuaries using the projected unit credit method.

Short and long-term benefits
The cost of all short-term employee benefits, such as salaries, bonuses, housing allowances, medical and other contributions is recognised during the period in which the employee renders the related service.

The Group's net obligation in respect of long-term service benefits, other than pension plans, is the amount of future benefit that employees have earned in return for their service in the current and prior periods. This obligation is calculated using the projected unit credit method and is discounted to its present value and the fair value of any related assets is deducted.

Termination benefits
Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it has demonstrated its commitment either to terminate the employment of current employees according to a detailed formal plan without the possibility of withdrawal or to provide termination benefits because of an offer made to encourage voluntary redundancy.

Related parties
Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party, jointly control or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence.

Related parties also include key management personnel who are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of the Group.

Comparative figures
The comparative information, with the exception of the restatements as detailed in Note 5, is consistent with the prior year.

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the Group has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/interpretation

- IAS 24 – *Related Party Disclosures* (Revised).
- IFRIC 19 – *Extinguishing Financial Liabilities with Equity Instruments.*
- 2010 Annual Improvements Project: Amendments to IFRS 1 – *First-time Adoption of International Financial Reporting Standards.*
- 2010 Annual Improvements Project: Amendments to IFRS 3 – *Business Combinations.*
- 2010 Annual Improvements Project: Amendments to IFRS 7 – *Financial Instruments – Disclosures.*
- 2010 Annual Improvements Project: Amendments to IAS 1 – *Presentation of Financial Statements.*
- 2010 Annual Improvements Project: Amendments to IAS 21 – *The Effects of Changes in Foreign Exchange Rates.*
- 2010 Annual Improvements Project: Amendments to IAS 28 – *Investments in Associates.*
- 2010 Annual Improvements Project: Amendments to IAS 31 – *Interests in Joint Ventures.*
- 2010 Annual Improvements Project: Amendments to IAS 34 – *Interim Financial Reporting.*
- 2010 Annual Improvements Project: Amendments to IFRIC 13 – *Customer Loyalty Programmes.*
- Improvements to IFRIC 14 – IFRS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements* and *Their Interaction.*
- Amendment to IFRS 1 (AC138) – *Limited Exemption from Comparative* IFRS 7 – *Disclosures for First-Time Adopters.*

2.2 Standards and interpretations early adopted

The Group has chosen to early adopt the following standards and interpretations:

Standard/interpretation

- IAS 19 – *Employee Benefits Revised.*

2.3 Standards and interpretations not yet effective

The following standards and interpretations, and amendments to standards are in issue but not yet effective:

Standard/interpretation

- IFRS 9 – *Financial Instruments.*
- IFRS 7 Amendments to IFRS 7 (AC 144) – *Disclosures – Transfers of financial assets.*
- IFRS 10 – *Consolidated Financial Statements.*
- IAS 27 – *Separate Financial Statements.*
- IFRS 11 – *Joint Arrangements.*
- IFRS 12 – *Disclosure of Interests in Other Entities.*
- IFRS 13 – *Fair Value Measurement.*
- IAS 1 – *Presentation of Financial Statements.*
- IAS 12 – *Income Taxes:* Amendment: *Deferred Tax: Recovery of Underlying Assets.*

It is anticipated that none of these standards will have a material impact in future years.

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

Air traffic liability and revenue recognition

The air traffic liability balance represents the proceeds from tickets and air waybills sold but not yet utilised. The balance includes the value of coupons sold by SAA, which will be flown and claimed in future periods by code-share and interline partners. The liability is of a short-term nature and is reflected as a current liability.

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

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

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

The assumptions and judgement in estimating the forward sales liability resulted in the release of R433 million to income in the current year. The amount released to income in 2011 was R560 million.

Useful lives, depreciation method and residual values of property, aircraft and equipment

The Group assesses the useful lives, depreciation method and residual values of property, aircraft and equipment at each reporting date. During the year under review the useful lives of aircraft were extended to 20 years. The useful lives of other assets, all residual values and the depreciation method remained unchanged as they were deemed to be appropriate.

Useful lives and amortisation method of intangible assets

The Group assesses the useful lives and amortisation method of intangible assets at each reporting date. During the year under review the useful lives and amortisation method remained unchanged as they were deemed to be appropriate.

Maintenance reserves impairment provision

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 the valuation of the maintenance reserves impairment provision. The recognition of the maintenance reserves assets and values thereof are subject to critical judgements followed by management.

4. Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Frequent flyer programme
SAA accounts for award credits as a separately identifiable component of the sales transaction in which they are granted. The consideration in respect of the initial sale is allocated to award credits based on their fair value and is accounted for as a liability (deferred revenue) in the consolidated statement of financial position.

Estimation techniques are used to determine the fair value of award credits. The estimation technique applied considers the fair value of a range of different redemption options by reference to their cash selling prices, such as airfares on different routes and in different classes of travel as well as flight upgrades and partner rewards. A weighted average value per mile is derived based on past experience of the mix of rewards selected by Voyager members. A 12-month historical trend forms the basis of the calculations. The number of award credits not expected to be redeemed by members is also factored into the estimation of the fair value.

Professional judgement is exercised by management due to the diversity of inputs that go into determining the fair value of the award credits and due to the possibility that the trend may change over time.

Contingent liabilities and unquantifiable exposures
Refer to Note 36.

5. Changes in accounting policy

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. The basis is consistent with the prior year except for the policies reflected below.

Land and buildings
Previously land and buildings were stated at deemed cost as at 1 April 2004 less accumulated depreciation and accumulated impairment losses. As a result, these values did not reflect the current market values of land and buildings.

With effect from the current financial year all land and buildings are being revalued and disclosed at a value as determined by an independent valuer. Revaluations will be performed at regular intervals to ensure that the carrying value of all land and buildings does not differ materially from market values.

Maintenance
Previously major airframe overhaul expenditure was capitalised and amortised over the expected useful life between major overhauls, irrespective of whether the aircraft were owned or leased. Major overhaul expenditure on engines was expensed as incurred.

In addition, a provision for aircraft return conditions was raised for leased aircraft to cover the estimated costs to reinstate leased aircraft to expected delivery conditions.

SAA's mix of its fleet has changed to a predominantly leased fleet. With the significant improvement in the internal controls and systems related to the operational management and financial accounting of fleet maintenance and maintenance obligations imposed by fleet lessors, SAA was in a position to implement a more prudent approach to account for these maintenance costs. The change in accounting policy will result in the annual financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, performance and cash flows.

For leased aircraft, lessors normally impose an obligation on the lessee to perform specified maintenance events over the lease period. The policy was therefore changed by introducing a provision for scheduled maintenance for major maintenance events and return conditions at the commencement of the lease. The actual cost of the overhauls is charged against the provision as incurred. This policy removes volatility and ensures an equal expensing of maintenance obligations over the term of the lease agreement.

For owned aircraft, the policy was changed by the capitalisation of certain qualifying major maintenance events and the amortisation thereof over their useful lives. This change similarly removes volatility and ensures an equal expensing of maintenance cost over the useful lives or until the next major maintenance event.

Power by the hour (PBTH)
Previously all monthly PBTH payments were recognised as prepayments and only expensed as and when the maintenance event occurred. As the actual cost of the event has no relevance to the expensing of the PBTH payment amounts, a more prudent approach of expensing the monthly PBTH payments was introduced to remove volatility and ensure an equal expensing of these payments over the period of the PBTH agreement.

Voyager revenue
The basis for recognising Voyager income has been revised. Previously, for the purpose of calculating the value of deferred revenue on unredeemed Voyager Miles, all unredeemed miles were revalued based on the value of award redemptions during the past 12 months. Currently, at the end of each financial year, only the unredeemed miles that originated during the current financial year are being revalued. The revaluation is based on the value of award redemptions during the past 12 months.

To ensure compliance with IFRIC 13 Voyager revenue is now being recognised when the airline actually fulfils its obligation by rendering the service, and not on redemption of awards.

5. Changes in accounting policy (continued)

The aggregate effect of the changes in accounting policy on the consolidated financial statements for the year ended 31 March 2011 and 31 March 2010 is as follows:

		GROUP		COMPANY	
R MILLION	Notes	2011	2010	2011	2010
Statement of financial position					
Trade and other receivables	24				
Previously stated		4 706	4 278	4 255	3 796
Expensing of PBTH for engines		(235)	(310)	–	–
Maintenance reserve adjustment		(56)	–	(56)	–
Adjustment to receivable		(21)	–	–	–
Restated balance		4 394	3 968	4 199	3 796
Provisions	31				
Previously stated		555	645	661	675
Increase in provision for lease liabilities		1 283	1 588	1 283	1 588
Reversal of prior year labour cost element		106	–	–	–
Restated balance		1 944	2 233	1 944	2 263
Deferred revenue – long term	33				
Previously stated		832	1 159	832	1 159
Voyager reclassification		356	246	356	246
Restated balance		1 188	1 405	1 188	1 405
Deferred revenue – short term	33				
Previously stated		3 107	3 540	3 050	3 482
Voyager reclassification		343	237	343	237
Restated balance		3 450	3 777	3 393	3 719
Inventory	21				
Previously stated		685	606	80	57
Capitalisation of freight charges		48	43	–	–
Restated balance		733	649	80	57
Aircraft – cost	17				
Previously stated		10 857	10 660	10 812	10 618
Capitalised maintenance costs on leased aircraft reversed		(132)	(169)	(132)	(169)
Restated balance		10 725	10 491	10 680	10 449
Aircraft – accumulated depreciation	17				
Previously stated		6 535	6 004	6 527	6 000
Capitalised maintenance costs on leased aircraft reversed		(18)	(44)	(18)	(44)
		6 517	5 960	6 509	5 956
Profit or loss					
Depreciation and amortisation	8				
Previously stated		819	760	765	709
Depreciation on prior year maintenance costs capitalised		26	12	26	12
Restated balance		845	772	791	721
Material cost					
Previously stated		1 571	1 886	2 807	2 598
Maintenance capitalised		(342)	1 702	(342)	1 702
Expensing of PBTH for engines		(75)	344	–	–
Reversal of prior year labour cost element		106	–	–	–
Maintenance reserve adjustment		56	–	56	–
Restated balance		1 316	3 932	2 521	4 300

R MILLION	Notes	GROUP 2011	GROUP 2010	COMPANY 2011	COMPANY 2010
Passenger revenue	6				
Previously stated		15 659	14 598	15 159	13 950
Voyager reclassification		(216)	(145)	(216)	(145)
Restated balance		15 443	14 453	14 943	13 805
Voyager income	6				
Previously stated		284	362	284	362
Voyager reclassification		–	(337)	–	(337)
Restated balance		284	25	284	25
Other operating costs					
Previously stated		3 565	3 406	3 051	2 780
Capitalisation of freight charges		(5)	(77)	–	–
Restated balance		3 560	3 329	3 051	2 780
Net impairment write-off	10				
Previously stated		50	143	13	286
Adjustment to receivable		21	–	–	–
Restated balance		71	143	13	286
Profit for the year					
Previously stated		782	442	671	655
Net result of above adjustments		(3)	(2 463)	44	(2 196)
Restated balance		779	(2 021)	715	(1 541)

R MILLION	Notes	**2012**	2011	**2012**	2011
Consolidated statement of Comprehensive Income					
Restatement of comparative figures					
Revenue received within the South African Airways Group of companies amounting to R162 million was incorrectly classified as revenue received for technical services rendered to third parties during the previous finanical year. The effect of the reclassification on the individual line items in the financial statements is as follows:					
Passenger revenue		**–**	(162)	**–**	(162)
Technical services		**–**	162	**–**	162

6. Turnover

The analysis of revenue for the year is as follows:					
Passenger revenue	5	**15 907**	15 443	**14 947**	14 943
Freight and mail		**1 388**	1 285	**1 388**	1 285
Technical services		**522**	557	**67**	41
Voyager income	5 & 33	**419**	284	**419**	284
Commission received		**214**	198	**210**	193
		18 450	17 767	**17 031**	16 746

7. Other income

Other income is made up of the following items:					
Handling revenue		**180**	140	**93**	89
Release from prescribed tickets		**433**	554	**433**	554
Release from prescribed air waybills		**–**	6	**–**	6
Income from leased assets		**70**	51	**169**	153
Fuel levies and other recoveries		**4 728**	4 090	**4 719**	4 061
		5 411	4 841	**5 414**	4 863

R MILLION	Notes	GROUP 2012	GROUP 2011 RESTATED	COMPANY 2012	COMPANY 2011 RESTATED
8. Operating (loss)/profit before fair value movements and translation losses					
(Loss)/profit before fair value movements and translation losses is stated after taking into account, among others, the following:					
Depreciation and amortisation					
Aircraft and simulators		**357**	668	**353**	664
Land, buildings and structures		**68**	64	**46**	42
Machinery, equipment and furniture		**57**	61	**37**	41
Vehicles and cabin loaders		**10**	8	**3**	2
Containers		**1**	1	**1**	1
Total depreciation	17	**493**	802	**440**	750
Amortisation of intangible assets	18	**37**	43	**34**	41
Total depreciation and amortisation		**530**	845	**474**	791
Operating lease payments					
Aircraft		**1 797**	1 686	**1 795**	1 686
Buildings		**89**	80	**78**	66
Equipment and vehicles		**22**	26	**13**	9
Total operating lease payments		**1 908**	1 792	**1 886**	1 761
Net gain on disposal of property, aircraft and equipment					
Profit on sale of property, aircraft and equipment		**(286)**	(13)	**(286)**	(13)
Scrapping costs		**261**	9	**261**	3
Net gain on disposal of property, aircraft and equipment		**(25)**	(4)	**(25)**	(10)
Professional fees					
Managerial services		**8**	4	**8**	4
Technical services		**64**	69	**49**	55
Internal audit fees		**17**	17	**15**	15
Total professional fees		**89**	90	**72**	74
Auditors' remuneration					
Audit fees – current year		**16**	20	**14**	17
Directors' emoluments and executive management emoluments are disclosed in Note 38.					
9. Employee benefit expenses					
9.1 Short-term employee benefit expenses					
Personnel and labour costs		**4 209**	4 075	**2 746**	2 741
Contribution to pension funds		**317**	289	**218**	197
Contribution to provident funds		**43**	37	**43**	37
Contribution to post-retirement medical funds		**55**	52	**35**	33
		4 624	4 453	**3 042**	3 008
9.2 Post-employment benefit expenses[1]					
Current-service cost		**8**	9	**8**	9
Interest cost		**113**	107	**113**	107
Expected return on plan assets		**(172)**	(152)	**(172)**	(152)
Past-service cost		**138**	–	**138**	–
		87	(36)	**87**	(36)
Total employee benefit expenses		**4 711**	4 417	**3 129**	2 972

[1] *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 37.*

R MILLION	Note	GROUP 2012	GROUP 2011 RESTATED	COMPANY 2012	COMPANY 2011 RESTATED
10. Net impairment write-off (reversal)					
Impairment of loans and receivables held at amortised cost					
Impairment of accounts receivable		**47**	23	**38**	–
Impairment of other assets					
Net (reversal)/impairment of carrying value of investment in subsidiaries	19	**–**	–	**(263)**	(35)
Impairment of aircraft		**–**	56	**–**	56
Reversal of impairment of investments		**(3)**	(6)	**(3)**	(6)
Reversal of impairment – other		**–**	(2)	**–**	(2)
		44	71	**(228)**	13
11. Fair value movements and translation profit/(losses)					
Foreign exchange gain/(loss) on translation of:					
Foreign cash balances		**141**	(23)	**142**	(23)
Foreign currency-denominated long-term loans		**(125)**	(215)	**(119)**	(180)
Net monetary assets and liabilities		**65**	(71)	**57**	(75)
Translation gain/(loss) of foreign assets and liabilities		**81**	(309)	**80**	(278)
Fair value gain/(loss) on derivative instruments held-for-trading:					
Realised gain/(loss) on derivatives		**96**	(182)	**96**	(182)
Fair value (loss)/gain on derivative financial instruments		**(114)**	289	**(114)**	289
Net fair value (loss)/gain on derivative instruments held-for-trading		**(18)**	107	**(18)**	107
Total fair value movements and translation profit/(losses)		**63**	(202)	**62**	(171)
12. Finance costs					
The interest paid related to financial liabilities held at amortised cost is detailed below:					
Interest paid on long-term borrowings		**122**	168	**122**	168
Interest paid on overdraft		**25**	–	**24**	–
Other interest paid		**–**	–	**26**	32
		147	168	**172**	200
Recognised directly in equity					
Interest paid on subordinated loan guaranteed by government classified as a dividend		**92**	101	**92**	101
13. Investment income					
Interest received was derived from:					
Cash and bank balances		**36**	153	**36**	139
Loans and receivables		**6**	3	**6**	3
		42	156	**42**	142

		GROUP		COMPANY	
	R MILLION	**2012**	2011 RESTATED	**2012**	2011 RESTATED
14.	**Taxation**				
	Major components of the tax (income)/expense				
	Current				
	Local income tax – current period	**–**	–	**–**	–
	Deferred				
	Deferred taxation – current year	**(514)**	–	**–**	–
	Deferred taxation – impairment of net asset raised through other comprehensive income	**–**	13	**–**	13
		(514)	13	**–**	13
	Reconciliation of the tax expense				
	Reconciliation between accounting profit and tax expense:				
	Accounting loss	**(1 357)**	792	**(1 067)**	728
	Tax at the applicable tax rate of 28% (2011: 28%)	**(380)**	222	**(299)**	204
	Tax effect of adjustments on taxable income				
	Tax effect of non-taxable income	**(144)**	(107)	**(72)**	(15)
	Tax effect of non-deductible expenses	**50**	9	**48**	10
	Current year temporary differences not recognised	**(99)**	(271)	**36**	(355)
	Assessed loss raised	**599**	175	**313**	184
	Interest classified as a dividend – tax deductible	**(26)**	(28)	**(26)**	(28)
	Release of deferred tax raised in equity	**–**	13	**–**	13
		–	13	**–**	13
	Estimated tax losses available to be utilised against future taxable income	**13 194**	11 512	**11 340**	10 209

		GROUP	
		2012	2011 RESTATED
15.	**Basic and diluted earnings per share (cents)**		
	Weighted average number of ordinary shares in issue (millions)	**12 056**	12 056
	(Loss)/profit for the year (Rand million)	**(843)**	779
	Basic and diluted (loss)/earnings per share (cents)	**(7)**	6[1]
	Weighted average number of shares		
	Ordinary shares at the beginning of the year	**12 056**	12 056
	Ordinary shares issued during the year	**–**	–
	Ordinary shares at the end of the year	**12 056**	12 056

[1] *Prior to the restatement in 2011, basic and diluted EPS was 6 cents per share.*

	R MILLION	Gross	Tax	Net
16.	**Other comprehensive income**			
	Components of other comprehensive income			
	Group – 2012			
	Actuarial (losses)/gains on defined benefit plans			
	Gain on Frankfurt Pension Fund	**13**	**–**	**13**
	Gain on SAA subfund of Transport Pension Fund	**72**	**–**	**72**
	Loss on post-retirement medical benefits	**(5)**	**–**	**(5)**
		80	**–**	**80**
	Movements on revaluation			
	Gains on property revaluations	**935**	**(112)**	**823**
	Total	**1 015**	**(112)**	**903**
	Group – 2011			
	Actuarial (losses)/gains on defined benefit plans			
	Gain on Frankfurt Pension Fund	1	–	1
	Loss on SAA subfund of Transport Pension Fund	(50)	14	(36)
	Gain on post-retirement medical benefits	4	(1)	3
		(45)	13	(32)

R MILLION	Gross	Tax	Net
Company – 2012			
Actuarial (losses)/gains on defined benefit plans			
Gain on Frankfurt Pension Fund	**13**	**–**	**13**
Gain on SAA subfund of Transport Pension Fund	**72**	**–**	**72**
Loss on post-retirement medical benefits	**(5)**	**–**	**(5)**
	80	**–**	**80**
Movements on revaluation			
Gains on property revaluations	**433**	**–**	**433**
Total	**513**	**–**	**513**
Company – 2011			
Actuarial (losses)/gains on defined benefit plans			
Gain on Frankfurt Pension Fund	1	–	1
Loss on SAA subfund of Transport Pension Fund	(50)	14	(36)
Gain on post-retirement medical benefits	4	(1)	3
	(45)	13	(32)

17. Property, aircraft and equipment

R MILLION	**2012** Cost/ Valuation	**2012** Accumulated depreciation	**2012** Carrying value	2011 Cost/ Valuation	2011 Accumulated depreciation	2011 Carrying value	2010 Cost/ Valuation	2010 Accumulated depreciation	2010 Carrying value
Group									
Land, buildings and structures	**2 209**	**(76)**	**2 133**	1 535	(281)	1 254	1 425	(218)	1 207
Machinery, equipment and furniture	**728**	**(466)**	**262**	691	(423)	268	598	(372)	226
Vehicles and cabin loaders	**100**	**(58)**	**42**	80	(52)	28	68	(53)	15
Aircraft and simulators	**9 584**	**(5 379)**	**4 205**	10 725	(6 517)	4 208	10 491	(5 960)	4 531
Containers	**35**	**(35)**	**–**	35	(34)	1	35	(33)	2
Capital work in progress	**650**	**–**	**650**	492	–	492	567	–	567
Total	**13 306**	**(6 014)**	**7 292**	13 558	(7 307)	6 251	13 184	(6 636)	6 548
Company									
Land, buildings and structures	**1 151**	**(73)**	**1 078**	818	(131)	687	709	(90)	619
Machinery, equipment and furniture	**364**	**(228)**	**136**	347	(201)	146	270	(167)	103
Vehicles and cabin loaders	**28**	**(19)**	**9**	31	(21)	10	28	(21)	7
Aircraft and simulators	**9 537**	**(5 368)**	**4 169**	10 680	(6 509)	4 171	10 449	(5 956)	4 493
Containers	**35**	**(35)**	**–**	35	(34)	1	35	(33)	2
Capital work in progress	**639**	**–**	**639**	487	–	487	560	–	560
Total	**11 754**	**(5 723)**	**6 031**	12 398	(6 896)	5 502	12 051	(6 267)	5 784

17. Property, aircraft and equipment (continued)

R MILLION	Opening balance	Additions	Revaluations	Disposals	Transfers	Revaluations of PDPs	Total
GROUP – 2012							
Reconciliation – Cost							
Land, buildings and structures	1 535	6	666	(11)	13	–	2 209
Machinery, equipment and furniture	691	48	–	(14)	3	–	728
Vehicles and cabin loaders	80	27	–	(7)	–	–	100
Aircraft and simulators	10 725	491	–	(1 665)	33	–	9 584
Containers	35	–	–	–	–	–	35
Capital work in progress	492	131	–	–	(11)	38	650
	13 558	703	666	(1 697)	38	38	13 306

R MILLION	Opening balance	Disposals	Revaluations	Depreciation	Total
GROUP – 2012					
Reconciliation					
Accumulated depreciation and impairment					
Land, buildings and structures	(281)	4	269	(68)	(76)
Machinery, equipment and furniture	(423)	14	–	(57)	(466)
Vehicles and cabin loaders	(52)	4	–	(10)	(58)
Aircraft and simulators	(6 517)	1 495	–	(357)	(5 379)
Containers	(34)	–	–	(1)	(35)
	(7 307)	1 517	269	(493)	(6 014)

R MILLION	Opening balance	Additions	Disposals	Classified as held-for-sale	Transfers	Revaluations of PDPs	Total
GROUP – 2011							
Reconciliation – Cost							
Land, buildings and structures	1 425	55	(14)	10	59	–	1 535
Machinery, equipment and furniture	598	79	(11)	–	25	–	691
Vehicles and cabin loaders	68	22	(10)	–	–	–	80
Aircraft and simulators	10 491	394	(188)	–	28	–	10 725
Containers	35	–	–	–	–	–	35
Capital work in progress	567	81	–	–	(134)	(22)	492
	13 184	631	(223)	10	(22)	(22)	13 558

R MILLION	Opening balance	Disposals	Depreciation	Impairment	Total
GROUP – 2011					
Reconciliation					
Accumulated depreciation and impairment					
Land, buildings and structures	(218)	1	(64)	–	(281)
Machinery, equipment and furniture	(372)	10	(61)	–	(423)
Vehicles and cabin loaders	(53)	9	(8)	–	(52)
Aircraft and simulators	(5 960)	167	(668)	(56)	(6 517)
Containers	(33)	–	(1)	–	(34)
	(6 636)	187	(802)	(56)	(7 307)

R MILLION	Opening balance	Additions	Disposals	Transfers from disposal group held-for-sale	Revaluations of PDPs	Total
GROUP – 2010						
Reconciliation – Cost						
Land, buildings and structures	1 385	17	(14)	37	–	1 425
Machinery, equipment and furniture	509	75	(11)	25	–	598
Vehicles and cabin loaders	57	11	(14)	14	–	68
Aircraft and simulators	10 277	235	(21)	–	–	10 491
Containers	34	1	–	–	–	35
Capital work in progress	487	174	–	5	(99)	567
	12 749	513	(60)	81	(99)	13 184

R MILLION	Opening balance	Disposals	Transfers from disposal group held-for-sale	Depreciation	Impairment	Total
GROUP – 2010						
Reconciliation						
Accumulated depreciation and impairment						
Land, buildings and structures	(173)	–	(4)	(41)	–	(218)
Machinery, equipment and furniture	(310)	10	(21)	(51)	–	(372)
Vehicles and cabin loaders	(42)	13	(18)	(6)	–	(53)
Aircraft and simulators	(5 229)	21	–	(642)	(110)	(5 960)
Containers	(31)	–	–	(2)	–	(33)
	(5 785)	44	(43)	(742)	(110)	(6 636)

R MILLION	**Opening balance**	**Additions**	**Revaluations**	**Disposals**	**Transfers**	**Revaluations of PDPs**	**Total**
COMPANY – **2012**							
Reconciliation – Cost							
Land, buildings and structures	**818**	**5**	**332**	**(12)**	**8**	**–**	**1 151**
Machinery, equipment and furniture	**347**	**26**	**–**	**(10)**	**1**	**–**	**364**
Vehicles and cabin loaders	**31**	**2**	**–**	**(5)**	**–**	**–**	**28**
Aircraft and simulators	**10 680**	**485**	**–**	**(1 661)**	**33**	**–**	**9 537**
Containers	**35**	**–**	**–**	**–**	**–**	**–**	**35**
Capital work in progress	**487**	**118**	**–**	**–**	**(4)**	**38**	**639**
	12 398	**636**	**332**	**(1 688)**	**38**	**38**	**11 754**

R MILLION	**Opening balance**	**Disposals**	**Revaluations**	**Depreciation**	**Total**
COMPANY – **2012**					
Reconciliation					
Accumulated depreciation and impairment					
Land, buildings and structures	**(131)**	**3**	**101**	**(46)**	**(73)**
Machinery, equipment and furniture	**(201)**	**10**	**–**	**(37)**	**(228)**
Vehicles and cabin loaders	**(21)**	**5**	**–**	**(3)**	**(19)**
Aircraft and simulators	**(6 509)**	**1 494**	**–**	**(353)**	**(5 368)**
Containers	**(34)**	**–**	**–**	**(1)**	**(35)**
	(6 896)	**1 512**	**101**	**(440)**	**(5 723)**

R MILLION	Opening balance	Additions	Disposals	Classified as held-for-sale	Transfers	Revaluations of PDPs	Total
17. Property, aircraft and equipment (continued)							
COMPANY – 2011							
Reconciliation – Cost							
Land, buildings and structures	709	47	(7)	10	59	–	818
Machinery, equipment and furniture	270	65	(8)	–	20	–	347
Vehicles and cabin loaders	28	6	(3)	–	–	–	31
Aircraft and simulators	10 449	390	(187)	–	28	–	10 680
Containers	35	–	–	–	–	–	35
Capital work in progress	560	78	–	–	(129)	(22)	487
	12 051	586	(205)	10	(22)	(22)	12 398

R MILLION	Opening balance	Disposals	Depreciation	Impairment	Total
COMPANY – 2011					
Reconciliation					
Accumulated depreciation and impairment					
Land, buildings and structures	(90)	1	(42)	–	(131)
Machinery, equipment and furniture	(167)	7	(41)	–	(201)
Vehicles and cabin loaders	(21)	2	(2)	–	(21)
Aircraft and simulators	(5 956)	167	(664)	(56)	(6 509)
Containers	(33)	–	(1)	–	(34)
	(6 267)	177	(750)	(56)	(6 896)

R MILLION	Opening balance	Additions	Disposals	Revaluations of PDPs	Total
COMPANY – 2010					
Reconciliation					
Cost					
Land, buildings and structures	706	17	(14)	–	709
Machinery, equipment and furniture	229	51	(10)	–	270
Vehicles and cabin loaders	28	8	(8)	–	28
Aircraft and simulators	10 236	233	(20)	–	10 449
Containers	34	1	–	–	35
Capital work in progress	486	173	–	(99)	560
	11 719	483	(52)	(99)	12 051

R MILLION	Opening balance	Disposals	Depreciation	Impairment	Total
COMPANY – 2010					
Reconciliation					
Accumulated depreciation and impairment					
Land, buildings and structures	(71)	–	(19)	–	(90)
Machinery, equipment and furniture	(144)	9	(32)	–	(167)
Vehicles and cabin loaders	(27)	8	(2)	–	(21)
Aircraft and simulators	(5 228)	20	(638)	(110)	(5 956)
Containers	(31)	–	(2)	–	(33)
	(5 501)	37	(693)	(110)	(6 267)

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

Certain aircraft are encumbered as security for the financing thereof. The net book value of capitalised aircraft encumbered in respect of financing raised by the Group amounts to R2,8 billion (2011: R2,9 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.

18. Intangible assets

R MILLION	2012 Cost/ Valuation	2012 Accu-mulated amortisation	2012 Carrying value	2011 Cost/ Valuation	2011 Accu-mulated amortisation	2011 Carrying value
GROUP						
Software development	**449**	**(361)**	**88**	433	(324)	109
Internet booking site	**39**	**(36)**	**3**	39	(36)	3
Goodwill[1]	**35**	**(35)**	**–**	35	(35)	–
Total	**523**	**(432)**	**91**	507	(395)	112
COMPANY						
Software development	**433**	**(353)**	**80**	423	(319)	104
Internet booking site	**39**	**(36)**	**3**	39	(36)	3
Total	**472**	**(389)**	**83**	462	(355)	107

R MILLION	Opening balance	Additions	Total
GROUP – 2012			
Reconciliation			
Cost			
Software development	**433**	**16**	**449**
Internet booking site	**39**	**–**	**39**
Goodwill[1]	**35**	**–**	**35**
	507	**16**	**523**

R MILLION	Opening balance	Amortisation	Total
GROUP – 2012			
Reconciliation			
Accumulated amortisation and impairment			
Software development	**(324)**	**(37)**	**(361)**
Internet booking site	**(36)**	**–**	**(36)**
Goodwill[1]	**(35)**	**–**	**(35)**
	(395)	**(37)**	**(432)**

[1] *The goodwill arose from the acquisition of Air Chefs (SOC) Limited and has been impaired in full.*

18. Intangible assets (continued)

R MILLION	Opening balance	Additions	Disposals	Transfers from capital WIP	Total
GROUP – 2011					
Reconciliation					
Cost					
Software development	366	45	–	22	433
Internet booking site	42	–	(3)	–	39
Goodwill[1]	35	–	–	–	35
	443	45	(3)	22	507

R MILLION	Opening balance	Disposals	Amortisation	Total
GROUP – 2011				
Reconciliation				
Accumulated amortisation and impairment				
Software development	(281)	–	(43)	(324)
Internet booking site	(37)	1	–	(36)
Goodwill[1]	(35)	–	–	(35)
	(353)	1	(43)	(395)

R MILLION	**Opening balance**	**Additions**	**Total**
COMPANY – **2012**			
Reconciliation			
Cost			
Software development	**423**	**10**	**433**
Internet booking site	**39**	**–**	**39**
	462	**10**	**472**

R MILLION	**Opening balance**	**Amortisation**	**Total**
COMPANY – **2012**			
Reconciliation			
Accumulated amortisation and impairment			
Software development	**(319)**	**(34)**	**(353)**
Internet booking site	**(36)**	**–**	**(36)**
	(355)	**(34)**	**(389)**

R MILLION	Opening balance	Additions	Disposals	Transfers from capital WIP	Total
COMPANY – 2011					
Reconciliation					
Cost					
Software development	358	43	–	22	423
Internet booking site	42	–	(3)	–	39
	400	43	(3)	22	462

R MILLION	Opening balance	Disposals	Amortisation	Total
COMPANY – 2011				
Reconciliation				
Accumulated amortisation and impairment				
Software development	(278)	–	(41)	(319)
Internet booking site	(37)	1	–	(36)
	(315)	1	(41)	(355)

[1] *The goodwill arose from the acquisition of Air Chefs (SOC) Limited and has been impaired in full.*

R MILLION	COMPANY 2012	2011

19. Investments in subsidiaries

Total investment in subsidiaries		
Shares at cost	**2 404**	2 370
Net amounts owing by subsidiaries	**1 305**	1 313
	3 709	3 683
Impairment of investments in subsidiaries	**(1 574)**	(1 837)
	2 135	1 846
Presented as part of non-current assets	**830**	533
Presented as part of current assets	**1 305**	1 313
	2 135	1 846

Subsidiary	Place of incorporation	Nature of business
Air Chefs (SOC) Limited	South Africa	Airline catering
SAA City Centre (SOC) Limited	South Africa	Travel agency
SAA Technical (SOC) Limited	South Africa	Maintenance of aircraft
Mango Airlines (SOC) Limited	South Africa	Airline business

		Percentage holding		R MILLION Shares at cost	
Name of company	Shares million	**2012**	2011	**2012**	2011
Air Chefs (SOC) Limited	100	**100**	100	**106**	72
SAA City Centre (SOC) Limited	1 000	**100**	100	**2**	2
SAA Technical (SOC) Limited	200	**100**	100	**1 960**	1 960
Mango Airlines (SOC) Limited	1 120	**100**	100	**336**	336
				2 404	2 370
Impairment of investments in subsidiaries				**(1 574)**	(1 837)
				830	533

The share of the net aggregate profits of the subsidiaries for the year amounted to R485 million (2011: R110 million).

R MILLION	GROUP 2012	GROUP 2011 RESTATED	COMPANY 2012	COMPANY 2011 RESTATED
20. Deferred taxation asset				
Temporary differences in respect of property, aircraft and equipment	**(957)**	(1 143)	**(883)**	(1 062)
Doubtful debts	**48**	298	**36**	294
Air traffic liability and other deferred income	**699**	867	**650**	708
Provisions	**1 330**	1 120	**1 271**	1 019
Prepayments	**(46)**	–	**(46)**	–
Maintenance reserve payments	**101**	191	**101**	191
Differences due to mark-to-market of financial instruments	**(70)**	(102)	**(70)**	(102)
Assessed loss	**3 689**	3 223	**3 175**	2 858
	4 794	4 454	**4 234**	3 906
Deferred tax asset not recognised	**(4 375)**	(4 437)	**(4 234)**	(3 906)
Deferred tax asset recognised	**419**	17	**–**	–

R MILLION	GROUP 2012	GROUP 2011 RESTATED	GROUP 2010	COMPANY 2012	COMPANY 2011 RESTATED	COMPANY 2010
21. Inventories						
Maintenance inventories	**1 024**	994	912	**–**	–	3
Capital work in progress	**38**	26	40	**–**	–	–
Consumables	**149**	130	118	**92**	80	55
	1 211	1 150	1 070	**92**	80	58
Provision for obsolescence	**(301)**	(417)	(421)	**–**	–	(1)
	910	733	649	**92**	80	57

R MILLION	COMPANY 2012	COMPANY 2011
22. Amounts owing by subsidiaries		
Subsidiaries		
SAA Technical (SOC) Limited	**1 228**	1 275
SAA City Centre (SOC) Limited	**3**	4
Air Chefs (SOC) Limited	**74**	34
	1 305	1 313

The loans to subsidiaries are interest-free loans. The balances on the loan accounts fluctuate in line with the financing requirements of the subsidiaries and are repayable on demand. The loans have, therefore, been classified as current assets in accordance with IAS 1 – *Presentation of Financial Statements*.

R MILLION	Jet fuel commodity derivatives	Currency options	Forward exchange contracts and swaps	Total

23. Derivatives

GROUP AND COMPANY				
Fair value at 1 April 2010	65	11	–	76
Assets	65	11	–	76
Liabilities	–	–	–	–
Fair value movements for the year ended 31 March 2011	306	(3)	(14)	289
Fair value at 1 April 2011	371	8	(14)	365
Assets	371	8	–	379
Liabilities	–	–	(14)	(14)
Fair value movements for the year ended 31 March 2012	(292)	24	154	(114)
Fair value at 31 March 2012	**79**	**32**	**140**	**251**
Assets	**79**	**32**	**151**	**262**
Liabilities	**–**	**–**	**(11)**	**(11)**

	GROUP			COMPANY		
R MILLION	**2012**	2011 RESTATED	2010	**2012**	2011 RESTATED	2010

24. Trade and other receivables

Gross accounts receivable	**1 914**	1 940	1 853	**1 804**	1 907	1 788
Allowance for impairment	**(197)**	(226)	(218)	**(153)**	(189)	(204)
	1 717	1 714	1 635	**1 651**	1 718	1 584
Prepayments	**2 789**	2 680	2 333	**2 704**	2 481	2 212
	4 506	4 394	3 968	**4 355**	4 199	3 796
Reconciliation of impairment of trade and other receivables						
Opening balance	**(226)**	(218)	(226)	**(189)**	(204)	(209)
Trade and other receivables (impairments)	**(47)**	(23)	(33)	**(38)**	–	(30)
Amounts utilised for write-offs	**76**	15	41	**74**	15	35
Closing balance	**(197)**	(226)	(218)	**(153)**	(189)	(204)

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
- omissions and errors due to differences identified when capturing the 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
24. Trade and other receivables (continued)				
GROUP – **2012**				
BSP	**798**	**783**	**11**	**4**
Credit card	**219**	**219**	**–**	**–**
GSA	**51**	**42**	**–**	**9**
Stations	**5**	**4**	**–**	**1**
Cargo freight and mail	**337**	**302**	**–**	**35**
Airline catering	**19**	**19**	**–**	**–**
Travel services	**1**	**1**	**–**	**–**
Technical maintenance	**108**	**66**	**–**	**42**
Alliance partners	**99**	**79**	**–**	**20**
Voyager and Galileo	**76**	**76**	**–**	**–**
Default debtors	**86**	**–**	**–**	**86**
Other trade debtors	**115**	**115**	**–**	**–**
	1 914	**1 706**	**11**	**197**
COMPANY – **2012**				
BSP	**798**	**783**	**11**	**4**
Credit card	**219**	**219**	**–**	**–**
GSA	**51**	**42**	**–**	**9**
Stations	**5**	**4**	**–**	**1**
Cargo freight and mail	**337**	**302**	**–**	**35**
Alliance partners	**99**	**79**	**–**	**20**
Voyager and Galileo	**78**	**78**	**–**	**–**
Default debtors	**84**	**–**	**–**	**84**
Other trade debtors	**133**	**133**	**–**	**–**
	1 804	**1 640**	**11**	**153**
GROUP – **2011**				
BSP	740	695	23	22
Credit card	204	201	–	3
GSA	84	73	4	7
Stations	5	2	–	3
Cargo freight and mail	304	253	–	51
Airline catering	5	3	–	2
Travel services	8	8	–	–
Technical maintenance	76	43	–	33
Alliance partners	94	74	–	20
Voyager and Galileo	99	99	–	–
Default debtors	85	–	–	85
Other trade debtors	236	236	–	–
	1 940	1 687	27	226

R MILLION	Gross amount	Current not yet past due	Past due but not impaired	Impaired amount
COMPANY – 2011				
BSP	740	695	23	22
Credit card	204	201	–	3
GSA	84	73	4	7
Stations	5	2	–	3
Cargo freight and mail	304	253	–	51
Alliance partners	94	74	–	20
Voyager and Galileo	99	99	–	–
Default debtors	83	–	–	83
Other trade debtors	294	294	–	–
	1 907	1 691	27	189
GROUP – 2010				
BSP	836	618	197	21
Credit card	186	180	–	6
GSA	129	72	47	10
Stations	7	3	–	4
Cargo freight and mail	243	118	74	51
Airline catering	2	1	–	1
Travel services	2	–	–	2
Technical maintenance	67	56	–	11
Alliance partners	79	79	–	–
Voyager and Galileo	100	100	–	–
Other trade debtors	202	90	–	112
	1 853	1 317	318	218
COMPANY – 2010				
BSP	836	618	197	21
Credit card	186	180	–	6
GSA	129	72	47	10
Stations	7	3	–	4
Cargo freight and mail	243	118	74	51
Alliance partners	79	79	–	–
Voyager and Galileo	100	100	–	–
Other trade debtors	208	96	–	112
	1 788	1 266	318	204

	GROUP			COMPANY		
R MILLION	2012	2011	2010	2012	2011	2010
24. Trade and other receivables						
(continued)						
Past due but not impaired can be analysed further in terms of aging as follows:						
30-60 days	**–**	–	200	**–**	–	200
61-90 days	**–**	–	103	**–**	–	103
91-120 days	**–**	1	11	**–**	1	11
+120 days	**11**	26	4	**11**	26	4
	11	27	318	**11**	27	318
Included in other receivables are amounts in respect of maintenance payments made to lessors. Refer to the accounting policies section for details of the treatment of these claims.						
Maintenance reserve receivable	**1 770**	2 001	1 551	**1 770**	2 001	1 551
Impairment provision	**(361)**	(682)	(438)	**(361)**	(682)	(438)
	1 409	1 319	1 113	**1 409**	1 319	1 113
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	**1 569**	1 539	1 228	**1 503**	1 543	1 177
Trade debtors where there have been isolated instances of default but no loss suffered	**137**	148	89	**137**	148	89
	1 706	1 687	1 317	**1 640**	1 691	1 266

Collateral held

BSP debtors are credit-vetted by IATA, which holds a guarantee appropriate to the level of risk identified. Should an agent be in default with IATA, the guarantee is encashed and apportioned between the creditor airlines. SAA holds guarantees of R30 million in respect of GSA debtors and R111 million in respect of Cargo GSAs.

	GROUP		COMPANY	
R MILLION	2012	2011	2012	2011
25. Investments				
Investment in unlisted shares at cost				
SA Airlink (Proprietary) Limited	**35**	35	**35**	35
Impairment of unlisted investment	**(26)**	(29)	**(26)**	(29)
Directors' valuation of unlisted investment[1]	**9**	6	**9**	6
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)
	–	–	**–**	–

[1] *The valuation was conducted 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 percentage shareholding in SA Airlink.*

R MILLION	GROUP 2012	GROUP 2011	COMPANY 2012	COMPANY 2011

26. Cash and cash equivalents

Cash and cash equivalents consist of:				
Foreign bank accounts	**627**	757	**627**	763
Domestic bank accounts	**(1 098)**	793	**(1 461)**	410
Short-term investments – call deposits (US$ and Euro denominated)	**438**	702	**438**	702
Total cash and cash equivalents	**(33)**	2 252	**(396)**	1 875
Current assets	**1 536**	2 252	**1 139**	1 875
Current liabilities	**(1 569)**	–	**(1 535)**	–
	(33)	2 252	**(396)**	1 875

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
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
117 578 795 Class E ordinary shares of R1 each	**117**	117	**117**	117
Less: Treasury shares held in Employee Share Trust	**(234)**	(234)	**–**	–
	12 892	12 892	**13 126**	13 126

All shares in the classes A to D are held by the South African Government, represented by the Department of Public Enterprises, and enjoy the same rights. The E class shares are held by the South African Airways Employee Share Trust.

	GROUP		COMPANY	
R MILLION	2012	2011	2012	2011

28. Subordinated loan guaranteed by government

Balance at the beginning of the year	**1 300**	1 300	**1 300**	1 300
Repaid during the year	**–**	–	**–**	–
Balance at the end of the year	**1 300**	1 300	**1 300**	1 300

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

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.

	GROUP		COMPANY	
R MILLION	2012	2011	2012	2011

29. Long-term loans

Secured loans				
External loans	**1 776**	2 078	**1 758**	2 078
The loans are repayable as follows:				
On demand or within one year	**471**	407	**471**	407
Two to five years	**1 305**	1 511	**1 287**	1 511
Later than five years	**–**	160	**–**	160
	1 776	2 078	**1 758**	2 078
Less: Current portion repayable on demand	**(471)**	(407)	**(471)**	(407)
	1 305	1 671	**1 287**	1 671
The carrying amounts of long-term loans are denominated in the following currencies:				
Rand-denominated domestic loans*	**1 025**	1 273	**1 007**	1 273
US$-denominated foreign loans**	**751**	805	**751**	805
	1 776	2 078	**1 758**	2 078

* *Domestic secured loans amounting to R114 million (2011: R215 million) bear a fixed interest rate of 11,85% (2011: 11,85%), and represent loans secured over aircraft (Note 17). The balance of the loans bear interest at JIBAR plus a margin ranging from 1,48% to 2,44%.*

** *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).*

30. Retirement benefits

Post-retirement medical benefits	**(46)**	(39)	**(46)**	(39)
Retirement benefit asset	**31**	–	**31**	–
	(15)	(39)	**(15)**	(39)
Non-current assets	**31**	–	**31**	–
Non-current liabilities	**(46)**	(39)	**(46)**	(39)
	(15)	(39)	**(15)**	(39)

R MILLION	Opening balance	Additions	Utilised during the year	Currency revaluation	Total	Current portion	Non-current portion

31. Provisions

Reconciliation of provisions

R MILLION	Opening balance	Additions	Utilised during the year	Currency revaluation	Total	Current portion	Non-current portion
GROUP – **2012**							
Provision for lease liabilities[2]	**1 944**	**504**	**(802)**	**208**	**1 854**	**(290)**	**1 564**
GROUP – 2011							
Provision for onerous contracts[1]	36	–	(36)	–	–	–	–
Provision for lease liabilities[2]	2 197	614	(636)	(231)	1 944	(723)	1 221
	2 233	614	(672)	(231)	1 944	(723)	1 221

R MILLION	Opening balance	Additions	Utilised during the year	Reversed during the year	Total	Current portion	Non-current portion
GROUP – 2010							
Provision for onerous contracts[1]	367	–	(165)	(166)	36	(36)	–
Provision for lease liabilities[2]	2 158	39	–	–	2 197	(661)	1 536
	2 525	39	(165)	(166)	2 233	(697)	1 536

R MILLION	Opening balance	Additions	Utilised during the year	Currency revaluation	Total	Current portion	Non-current portion
COMPANY – **2012**							
Provision for lease liabilities[2]	**1 944**	**504**	**(802)**	**208**	**1 854**	**(290)**	**1 564**

	Opening balance	Additions	Utilised during the year	Reversed during the year	Currency revaluation	Total	Current portion	Non-current portion
COMPANY – 2011								
Provision for onerous contracts[1]	66	–	(36)	(30)	–	–	–	–
Provision for lease liabilities[2]	2 197	508	(636)	–	(125)	1 944	(723)	1 221
	2 263	508	(672)	(30)	(125)	1 944	(723)	1 221

R MILLION	Opening balance	Additions	Utilised during the year	Currency revaluation	Total	Current portion	Non-current portion
COMPANY – 2010							
Provision for onerous contracts[1]	508	–	(165)	(277)	66	(66)	–
Provision for lease liabilities[2]	2 158	39	–	–	2 197	(661)	1 536
	2 666	39	(165)	(277)	2 263	(727)	1 536

[1] *The onerous contract raised during the 2008 year related to the early termination of the operating leases on the Boeing 747s, due to the management decision to ground these aircraft in November 2007. Management took a decision to return these aircraft earlier than per the lease contract term. The onerous lease was determined as the lower of the net costs for fulfilling the lease contract and the termination costs. The lease asset due to lease smoothing was also reversed. The onerous lease contract also included a provision raised, relating to leases between SAA and its subsidiary. The amounts receivable were onerous due to the currency and interest rate impact. As at 31 March 2011 the onerous lease on the 747s was nil as the two remaining aircraft had been returned. In addition the onerous contract relating to the lease between SAA and its subsidiary is also nil due to currency impact and the leases nearing termination.*

[2] *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.*

	GROUP		COMPANY	
R MILLION	**2012**	2011	**2012**	2011
32. Other long-term liabilities				
Shareholder loan to South African Airways Employee Share Trust	**63**	63	**–**	–

The Shareholder loan to the South African Airways Employee Share Trust was created when the E class shares were transferred into the South African Airways Employee Share Trust from the Shareholder. The loan is interest free and is repayable on the winding up of the South African Airways Employee Share Trust. The intention is to wind up the South African Airways Employee Share Trust and the process is expected to take longer than 12 months with the result that it has been classified as long term.

	GROUP			COMPANY		
R MILLION	**2012**	2011 RESTATED	2010 RESTATED	**2012**	2011 RESTATED	2010 RESTATED
33. Deferred revenue on ticket sales						
Frequent flyer deferred revenue – long term	**983**	1 188	1 405	**983**	1 188	1 405
Net air traffic liability – short term	**2 409**	2 438	2 771	**2 336**	2 381	2 713
Frequent flyer deferred revenue – short term	**946**	1 012	1 006	**946**	1 012	1 006
	3 355	3 450	3 777	**3 282**	3 393	3 719

Air traffic liability

This balance represents the unrealised income resulting from tickets and air waybills sold, but not yet utilised. The balance includes the value of coupons sold by SAA, which will be flown and claimed in future periods by code-share and interline partners. The liability is of a short-term nature and is reflected as a current liability. Refer to Note 3 for the critical judgements applied by management to the value and recognition of this liability.

Frequent flyer deferred revenue

Deferred revenue relates to the frequent flyer programme and represents the fair value of the outstanding credits. Revenue is recognised when SAA fulfils its obligations by supplying free or discounted goods or services on the redemption of award credits. Refer to Notes 1 and 4 for more information.

	GROUP		COMPANY	
R MILLION	**2012**	2011	**2012**	2011
34. Trade and other payables				
Trade payables	**1 121**	896	**1 211**	1 100
Other payables	**3 736**	3 725	**3 603**	3 732
Accruals	**99**	272	**19**	25
Interest accruals	**19**	25	**19**	25
Power plant accrual	**80**	247	**–**	–
	4 956	4 893	**4 833**	4 857

R MILLION	GROUP 2012	GROUP 2011	COMPANY 2012	COMPANY 2011
35. Commitments				
Authorised capital expenditure				
Already contracted for but not provided for:				
Capital commitments – contracted in US$	**910**	886	**910**	886
	910	886	**910**	886
Capital commitments relate to the Airbus A320 orders and the amount disclosed includes escalations to the 2018 financial year. The first delivery is expected during the first quarter of the 2014 financial year.				
Operating leases – as lessee (expense) (Rand million)				
Operating lease commitments for property, aircraft, equipment and vehicles are expected to be incurred as follows:				
– within one year	**1 835**	1 728	**1 835**	1 728
– in second to fifth year inclusive	**5 721**	5 291	**5 721**	5 291
– later than five years	**2 096**	2 491	**2 096**	2 491
	9 652	9 510	**9 652**	9 510
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	**198**	193	**198**	193
– in second to fifth year inclusive	**628**	667	**628**	667
– later than five years	**241**	317	**241**	317
	1 067	1 177	**1 067**	1 177

36. Contingent liabilities and unquantifiable exposures

Competition matters

In previous financial years various local and foreign jurisdiction regulatory investigations and civil claims were reported. Most of these matters have been resolved. On 6 June 2012, the South African Competition Tribunal granted a consent order in respect of the basket settlement agreement with the Competition Commission covering all pending matters of SAA and/or its subsidiaries, this includes the Air Cargo, Far East Asia and FIFA 2010 World Cup matters reported in previous financial years. Regarding matters in foreign jurisdictions, regulatory authorities in the EU, US and Australia did not include SAA in prosecutions following the close of investigations. Although the Swiss Competition Commission commenced similar investigations in 2008, the Commission has not yet communicated intent to prosecute SAA. Civil claims in the UK and US emanating from these regulatory investigations were resolved through a judgement to strike SAA from further proceedings (UK) and a settlement (US).

The Group is currently defending three actions brought by Comair and the liquidators of Nationwide which arise from findings by the Competition Tribunal that SAA contravened the Competition Act, 89 of 1998, in agreements between SAA and various travel agents between October 1999 and May 2001 (“the first period”) and between SAA and various travel agents between 1 June 2001 and 31 March 2005 (“the second period”). Comair’s claims refer to both the first and the second period while the Nationwide claim refers to the second period only.
SAA is not in a position to assess the full extent of the exposure that may attach to these claims as a consequence of an order of court but has made an appropriate estimate of all necessary costs in the current year’s annual financial statements based on legal advice received.

37. Employee benefit information

37.1 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.

37.1.1 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 5 872 members (2011: 6 301) at 31 March 2012. Actuarial valuations are done, at intervals not exceeding three years, to determine its financial position. The last actuarial valuation was performed at 31 October 2010. The actuaries were satisfied with the status of the members' credit account then. The Group's contributions for the period to 31 March 2012 amounted to R358 million (2011: R329 million).

37.1.2 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 126 active members (2011: 144) and 274 pensioners (2011: 263) at 31 March 2012. An actuarial valuation was done as at 31 March 2012 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 one-third of annual pension multiplied by gratuity factor. A member with less than 10 years of pensionable service is entitled to a gratuity equal to twice the member's own contributions without interest on attaining the age limit.

The asset splits between the three subfunds were calculated, based on the proportional allocation of benefit liabilities to be transferred to each subfund, and presented to the Board of the fund. The physical split has been agreed by the principal employers and the subfunds' Boards.

PERCENT	2012	2011
Principal actuarial assumptions used:		
Discount rate	**8,28**	9,16
Inflation	**5,62**	5,98
Salary increases		
Inflation	**6,62**	6,98
Pension increases		
First three years	**2,64**	2,00
After three years	**2,64**	2,00
Expected return on assets	**9,00**	10,22

R MILLION	2012	2011
Benefit asset/(liability)		
Present value of obligation	**(1 296)**	(1 119)
Fair value of plan assets	**1 598**	1 610
Surplus	**302**	491
Asset not recognised	**(277)**	(491)
Net asset per the statement of financial position	**25**	–

R MILLION	2012	2011
Reconciliation of movement in present value of obligation		
Opening benefit liability at the beginning of the year	**(1 119)**	(1 067)
Service cost	**(4)**	(5)
Interest cost	**(101)**	(96)
Actuarial loss	**(71)**	(14)
Benefits paid	**142**	69
Past-service cost	**(138)**	–
Member contributions	**(5)**	(6)
Closing present value of obligation	**(1 296)**	(1 119)
Reconciliation of fair value of plan assets		
Opening fair value of plan assets	**1 610**	1 399
Expected return	**163**	142
Actuarial (loss)/gain	**(45)**	123
Employer's contributions	**7**	9
Benefits paid	**(142)**	(69)
Member contributions	**5**	6
Closing fair value of plan assets	**1 598**	1 610

PERCENT	2012	2011
The major categories of plan assets as a percentage of total plan assets are:		
Equity	**37**	53
Property	**5**	4
Bonds	**37**	20
Cash	**2**	9
International	**19**	14
Total	**100**	100

R MILLION	2012	2011
Current-service cost	**4**	5
Interest on obligation	**101**	96
Past-service cost	**138**	–
Expected return on plan assets	**(163)**	(142)
	80	(41)

37.2 Medical benefits

37.2.1 SAA Group employees' post-retirement medical benefits

The Group has an arrangement with its employees whereby SAA subsidises its members for post-retirement medical benefits.

The post-retirement medical benefits obligation relates to SAA Group continuation and in-service members who are members of Transnet, and who retired after 31 March 1990 or are still employees of SAA; employees who participate in the Discovery Health Medical Scheme; and those who do not belong to a medical scheme.

SAA subsidises continuation and in-service members with a fixed amount of R213 (2011: 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.

37. Employee benefit information (continued)

37.2 Medical benefits (continued)

Allocation of liability to SAA Group

The net benefit costs are allocated to subsidiaries of Transnet based on the demographic distribution of the Transnet Medical Scheme members across units.

Any deficit or liability for post-retirement medical benefits, incurred prior to 31 March 1999, is by agreement between Transnet Limited and SAA, for the account of Transnet Limited. Any liability directly attributable to the airline after 1 April 1999 will be for SAA's account.

The projected unit credit method has been used for the purposes of determining an actuarial valuation of post-retirement medical benefits as at 31 March 2012.

The table below summarises the components of net benefit expense recognised in both the statement of comprehensive income and the statement of financial position for SAA Group as at 31 March 2012 for SAA Group employees.

PERCENT	2012	2011
The principal actuarial assumptions used were as follows:		
Discount rate	**8,28**	9,16

R MILLION	2012	2011
Net benefit liability		
Present value of unfunded benefit obligations	**46**	39
Changes in the present value of defined benefit obligations are as follows:		
Opening liability	**39**	41
Service cost	**1**	1
Interest cost	**3**	3
Actuarial loss/(gain)	**5**	(4)
Benefits paid	**(2)**	(2)
Benefit liability at year-end	**46**	39
Amounts recognised in the statement of comprehensive income		
Current-service cost	**1**	1
Interest on obligation	**3**	3
	4	4

37.3 SAA (UK) Pension Fund benefits

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

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

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

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

Actuarial valuations

Actuarial valuations were carried out, at intervals not exceeding three years, to determine the financial position of the final salary section. The fund was valued using the projected unit credit method as required by IAS 19 – *Employee Benefits* in March 2009, but has not been valued at 31 March 2012 due to it being bought out.

37.4 SAA (German) Pension Fund benefits

SAA operates a retirement plan for its German-based permanent employees. 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.

During 2010 the Protector Committee of the German Pension Scheme, with Board approval, entered into agreement with the German Group Trust company, Mercer. This Contractual Trust Agreement (CTA) that was set up qualified for set-off in terms of IAS 19 as all assets transferred to the CTA were ring-fenced for the members. The value of the life insurance policies, the fixed deposit and the balance of the deficit were then transferred to the CTA.

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 2012 using the projected unit credit method.

	VALUATION	
PERCENT	**2012**	2011
Principal actuarial assumptions used:		
Discount rate	**4,7**	5,3
Inflation	**1,5**	1,5
Salary increases	**2,0**	2,0
Pension increases per three years	**4,5**	4,5
Expected return on assets	**3,8**	5,3

R MILLION	**2012**	2011
Benefit asset/(liability)		
Present value of obligation	**(185)**	(159)
Fair value of plan assets	**191**	176
Surplus	**6**	17
Asset not recognised	**–**	(17)
Net asset per the statement of financial position	**6**	–
Reconciliation of movement in present value of obligation		
Opening benefit liability at the beginning of the year	**159**	159
Service cost	**3**	3
Interest cost	**9**	8
Exchange differences on foreign plans	**11**	(3)
Benefits paid	**(9)**	(7)
Actuarial (gain)/loss	**12**	(1)
Closing present value of obligation	**185**	159

R MILLION	2012	2011
37. Employee benefit information (continued)		
37.4 SAA (German) Pension Fund benefits (continued)		
Reconciliation of fair value of plan assets		
Opening fair value of plan assets	**176**	176
Exchange differences on foreign plans	**11**	(4)
Expected return	**10**	10
Benefits paid	**(8)**	(8)
Members contribution	**2**	2
Closing fair value of plan assets	**191**	176
The major categories of plan assets as a percentage of total plan assets are:		
Equity	**27**	31
Bonds	**43**	40
Other	**30**	29
Total	**100**	100
Current-service cost	**3**	3
Interest on obligation	**9**	8
Expected return on plan assets	**(10)**	(10)
	2	1

An insurance policy was taken to finance a portion of the benefit obligations at retirement age. When each employee covered by the insurance policy retires, the proceeds of these funds are used to fund a portion of the pension benefits. The balance is transferred to the Contractual Trust Arrangement (CTA).

Fixed deposit
An investment raised from the proceeds paid by the insurer to fund pensioners' benefit obligations has been offset against the pension fund liability. The cash available did not qualify as plan assets in terms of IAS 19. This cash amounted to R27,2 million at the end of 2012 (2011: R42,6 million).

37.5 Flight deck crew (FDC) disability benefit

SAA has an agreement with flight deck crew (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 funds all employees are entitled to 75 percent of the members' pensionable salary payable when a member becomes disabled before the normal retirement age of 63. The agreement with FDC members is for SAA to pay a further 25 percent in addition to what the member would receive from the pension fund in the case of disability. The members or SAA make no additional contribution towards these benefits, and these benefits are therefore unfunded.

In the past, SAA has recognised the full obligation in the financial statements as there were no plan assets or an insurance cover in place of these promised benefits. In 2007, SAA took an insurance policy to cover the 25 percent additional benefit to FDC, which resulted in SAA no longer having a legal or constructive obligation to fund the disability benefit.

SAA derecognised the full disability obligation during the 2007 financial year.

37.6 Share-based payments

	NUMBER OF SHARES 2012	2011
37.6.1 FDC Share Scheme		
The FDC Share Scheme was created for flight deck crew members and Transnet Limited allocated 40 150 000 E class ordinary R1,00 shares of SAA to the scheme. These shares are held as follows:		
South African Airways Share Trust	**40 150 000**	40 150 000
	40 150 000	40 150 000

	NUMBER OF SHARES	
	2012	2011
37.6.2 Share incentive scheme		
The scheme granted two types of shares, ie. joining and promotional shares to management. The promotional shares had a 12-month vesting period and the joining shares had a 24-month vesting period. Vesting was calculated from 1 April 1999 or when the employee joined the company. The employees could exercise these options at 25 percent per annum after vesting took place. These shares are held as follows:		
South African Airways Share Trust	**58 018 060**	58 018 060
	58 018 060	58 018 060
37.6.3 Employee Share Ownership Programme (ESOP)		
This scheme was implemented in March 2001, granting employees in service of SAA on or before 1 April 1999 options to purchase shares at R1,00 per share. These shares vested over a three-year period and were fully vested as at 31 March 2004. These shares are held as follows:		
South African Airways Share Trust	**93 168 060**	93 168 060
	93 168 060	93 168 060

37.7 HIV/Aids benefits

The Group offers certain assistance to employees diagnosed with Aids. As this programme is in its infancy, the related data is not sufficient to actuarially value any liability the company may have in this regard.

37.8 Travel benefits

The Group offers certain air travel benefits to both current employees and retirees. A percentage of the face value of the air ticket is normally paid in respect of the benefit (with such percentage exceeding the marginal cost of supplying the service) and the ticket is only issued on a “standby” basis, with fare-paying passengers always having preference. Employees or retirees may only fly if there is available space on the flight.

38. Related parties

The SAA Group early adopted IAS 24 in the prior year, which was effective for financial periods beginning 1 January 2011. It has applied the exemption under paragraph 25 of IAS 24 to government related entities. SAA (SOC) Limited is wholly owned by the Department of Public Enterprises (DPE), a South African Government National Department. SAA (SOC) Limited is a Schedule 2 Public Entity in terms of the Public Finance Management Act, No 1 of 1999 (as amended) (PFMA). Its related parties therefore constitute DPE, it subsidiaries, some major public entities falling under Schedule 2 of the PFMA and key management personnel.

Public entities that are classified as major public entities which fall under DPE are omitted from detailed disclosure as per paragraphs 25 and 26 of IAS 24. The exemption also applies to DPE. The only significant transaction that was entered with DPE was a R1,3 billion subordinated loan guaranteed by government. Refer to Note 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 similar benefits to 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 R118 million (2011: R75 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	**2012**	2011	**2012**	2011
38. Related parties (continued)				
Related party balances				
Amounts receivable from related parties*				
Subsidiaries	**–**	–	**1 305 194**	1 313 000
Public entities	**20**	26	**20**	26
	20	26	**1 305 214**	1 313 026
Amounts payable to related parties**				
Subsidiaries	**–**	–	**584 705**	1 245 355
Public entities	**46 131**	1 459	**46 110**	1 358
	46 131	1 459	**630 815**	1 246 713

* *Amounts receivable represent short- and long-term amounts receivable.*
** *Amounts payable represent short- and long-term amounts payable.*

	GROUP		COMPANY	
R THOUSAND	**2012**	2011	**2012**	2011
Sales of goods/services				
Subsidiaries	**–**	–	**247 053**	216 810
Public entities	**94**	409	**94**	409
	94	409	**247 147**	217 219
Purchases of goods/services				
Subsidiaries	**–**	–	**3 273 896**	3 232 154
Public entities	**738 677**	465 687	**510 255**	299 124
	738 677	465 687	**3 784 151**	3 531 278
Other transactions				
Shareholder*	**91 796**	100 868	**91 796**	100 868
Subsidiaries	**–**	–	**26 376**	31 774
Key management personnel**	**29 677**	47 420	**20 579**	37 150
	121 473	148 288	**138 751**	169 792

* *Interest paid on government subordinated loan classified as a dividend.*
** *Long- and short-term employee benefits paid to executive members. Executive members' emoluments of subsidiaries that form part of SAA Group Executive Committee are disclosed in Note 43. The short-term employee benefits reflected below refer to employees of SAA who are also members of the SAA Group Executive Committee.*

R THOUSAND	**2012** **Fees**	2011 Fees
Key management personnel compensation is set out below:		
Board of Directors		
Non-executive		
Whitehouse MM	**733**	714
Loubser RM	**349**	349
Nkosi-Thomas L	**368**	335
Myeni DC	**365**	365
Jantjies TC	**334**	334
Mohale BF	**612**	612
Daka T	**870**	870
Carolus CA	**828**	828
Kwinana Y	**421**	509
Rabbets LJ	**380**	356
Sithole ZJ	**416**	453
Ndhlovu J	**429**	429
Bouchon AI[1]	**–**	93
Lewis DH	**349**	298
	6 454	6 545

[1] *Resigned 31 October 2010.*

In terms of the Group's travel benefits policy as referred to in note 37.8 above, key management personnel and board members are entitled to utilise surplus capacity on flights at a nominal cost to the beneficiaries and at no loss of revenue to the Group.

R THOUSAND	Salaries	Allow-ances	Fund contri-butions	Perfor-mance gratuity/ other	Total
Short-term employee benefits 2012					
Executive directors[1]					
Mzimela SP	**4 010**	**–**	**372**	**257**	**4 639**
Meyer WH[2]	**2 639**	**–**	**–**	**400**	**3 039**
Total	**6 649**	**–**	**372**	**657**	**7 678**
Executive committee					
Parsons BK[3]	**1 944**	**–**	**–**	**–**	**1 944**
Coetzee SJH	**2 629**	**–**	**241**	**154**	**3 024**
Mpshe ME	**2 042**	**–**	**254**	**78**	**2 374**
Potgieter TG	**2 480**	**–**	**265**	**68**	**2 813**
Makhetha TP	**2 357**	**–**	**–**	**45**	**2 402**
Mellett GE[4]	**259**	**63**	**22**	**–**	**344**
Total	**11 711**	**63**	**782**	**345**	**12 901**

1 *Executive directors of the Board are also members of the Executive Committee.*
2 *Appointed 13 June 2011.*
3 *Appointed 1 July 2011.*
4 *Appointed as Acting CFO until 12 June 2011.*

R THOUSAND	Salaries	Allow-ances	Fund contri-butions	Termi-nation benefits	Retention premium[2]	Perfor-mance gratuity/ other	Total
Short-term employee benefits 2011							
Executive directors[1]							
Mzimela SP	3 756	–	344	–	–	–	4 100
Patel KR[3]	2 271	780	341	2 346	–	800	6 538
Total	6 027	780	685	2 346	–	800	10 638
Executive committee							
Blake J[4]	891	–	–	8 115[9]	–	125	9 131
Nkabinde JN[5]	1 343	–	174	1 511	84	136	3 248
Smyth FC[6]	2 081	114	293	273	–	182	2 943
Zondo LB[7]	762	65	–	1 595	101	139	2 662
Coetzee SJH[10]	2 251	1	186	–	–	–	2 438
Mpshe ME[11]	1 078	500	141	–	–	–	1 719
Potgieter TG[12]	930	–	102	–	–	274	1 306
Zulu WF[8]	1 536	–	154	–	–	64	1 754
Makhetha TP[13]	709	–	–	–	–	–	709
Augustine SL[14]	131	–	–	–	–	–	131
Mellett GE[15]	346	92	33	–	–	–	471
Total	12 058	772	1 083	11 494	185	920	26 512

1 *Executive directors of the Board are also members of the Executive Committee.*
2 *Retention premiums were approved by the former Remuneration Committee and were payable over a three-year period.*
3 *Resigned 15 December 2010.*
4 *Resigned 30 September 2010.*
5 *Resigned 10 January 2011.*
6 *Resigned 15 March 2011.*
7 *Resigned 31 August 2010.*
8 *Ex-officio member of the Executive Committee, resigned 30 June 2011.*
9 *This amount includes a restraint of trade payment amounting to R4,5 million.*
10 *Appointed 1 May 2010.*
11 *Appointed 1 September 2010.*
12 *Appointed 27 October 2010.*
13 *Appointed 1 December 2010.*
14 *Appointed 1 March 2011 and Ex-officio member of the Executive Committee.*
15 *Appointed as Acting CFO effective 15 December 2010.*

	GROUP		COMPANY	
R MILLION	**2012**	2011	**2012**	2011
39. Cash (utilised in)/generated from operations				
(Loss)/profit before taxation	**(1 357)**	792	**(1 067)**	728
Adjustments for:				
Depreciation and amortisation on property, aircraft and equipment	**493**	802	**440**	750
Profit on sale and scrapping of property, aircraft and equipment	**(25)**	(4)	**(25)**	(10)
Amortisation of intangible assets	**37**	43	**34**	41
Impairment of aircraft	**–**	56	**–**	56
Impairment of subsidiaries	**–**	–	**2**	–
Derivative market movements	**18**	(107)	**18**	(107)
Reversal of impairment of subsidiaries	**–**	–	**(263)**	(35)
Investment income	**(42)**	(156)	**(42)**	(142)
Finance costs	**147**	168	**172**	200
Impairment of assets less maintenance reserve written back	**–**	2	**–**	–
Movement in onerous contract provision	**–**	(36)	**–**	(66)
Release from air traffic liability	**(433)**	(560)	**(433)**	(560)
Movement in employee benefit obligations	**7**	(2)	**7**	(2)
Impairment of accounts receivables	**47**	36	**38**	15
Non-cash movement on retirement benefit plans	**80**	(45)	**80**	(45)
Release from passenger tax levies	**(237)**	(292)	**(237)**	(292)
Unrealised foreign exchange (loss)/gain on PDPs	**(38)**	22	**(38)**	22
Unrealised foreign exchange loss on revaluation of loans	**342**	215	**336**	180
Unrealised foreign exchange (gain)/loss on cash and cash equivalents	**(141)**	23	**(142)**	23
Movement in retirement benefit asset	**(31)**	–	**(31)**	–
Changes in working capital:				
Inventories	**(177)**	(84)	**(12)**	(23)
Trade and other receivables	**(159)**	(463)	**(196)**	(417)
Trade and other payables	**300**	352	**213**	146
Air traffic liability	**404**	227	**388**	228
Frequent flyer deferred revenue	**(271)**	(211)	**(271)**	(211)
Provisions	**(90)**	(253)	**(90)**	(253)
	(1 126)	525	**(1 119)**	226

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:

R MILLION	Notes	Financial liabilities at amortised cost	Fair value through profit or loss – held-for-trading[1]	Total
GROUP – **2012**				
Long- and short-term liabilities	29	**1 776**	**–**	**1 776**
Shareholder loan to share trust	32	**63**	**–**	**63**
Trade and other payables	34	**4 956**	**–**	**4 956**
Forward exchange contracts	23	**–**	**11**	**11**
Bank overdraft	26	**1 569**	**–**	**1 569**
		8 364	**11**	**8 375**
GROUP – 2011 RESTATED				
Long- and short-term liabilities	29	2 078	–	2 078
Shareholder loan to share trust	32	63	–	63
Trade and other payables	34	4 893	–	4 893
Forward exchange contracts	23	–	14	14
		7 034	14	7 048
GROUP – 2010 RESTATED				
Long- and short-term liabilities		2 692	–	2 692
Finance lease obligation		10	–	10
Shareholder loan to share trust		63	–	63
Trade and other payables		4 833	–	4 833
		7 598	–	7 598

[1] *Financial instruments held at fair value are level two instruments.*

R MILLION	Notes	Loans and receivables	Fair value through profit or loss – held-for-trading[1]	Available for sale	Total
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 – **2012**					
Forward exchange contracts and swaps	23	**–**	**151**	**–**	**151**
Currency options	23	**–**	**32**	**–**	**32**
Jet fuel commodity derivatives	23	**–**	**79**	**–**	**79**
Trade and other receivables	24	**4 506**	**–**	**–**	**4 506**
Cash and cash equivalents	26	**1 536**	**–**	**–**	**1 536**
Investment in SA Airlink (Pty) Limited	25	**–**	**–**	**9**	**9**
		6 042	**262**	**9**	**6 313**
GROUP – 2011 RESTATED					
Currency options	23	–	8	–	8
Jet fuel commodity derivatives	23	–	371	–	371
Trade and other receivables	24	4 394	–	–	4 394
Cash and cash equivalents	26	2 252	–	–	2 252
Investment in SA Airlink (Pty) Limited	25	–	–	6	6
		6 646	379	6	7 031
GROUP – 2010 RESTATED					
Currency options	23	–	11	–	11
Jet fuel commodity derivatives	23	–	65	–	65
Trade and other receivables	24	3 968	–	–	3 968
Cash and cash equivalents		3 402	–	–	3 402
Defeasance deposit		122	–	–	122
		7 492	76	–	7 568

[1] *Financial instruments held at fair value are level two instruments.*

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 in prior years but in the previous financial year, the impairment was reversed by R6 million and by a further R3 million in the current financial year. The Directors' valuation based on the net asset value model was utilised to determine fair value of this investment at the reporting date. This was considered an appropriate valuation basis as the Group holds a minority interest of less than 5 percent and the investment has just returned to profitability.

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 forward contracts and call options, which are entered into mainly to manage 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.

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 Committee, which reviews all the financial risks of the organisation, as well as key financial decisions. The Audit Committee is a committee of the Board and it meets at least once per quarter, and is supported by the Financial Risk Subcommittee (FRSC), which meets on a bi-weekly basis. The FRSC is chaired by the Chief Financial Officer and its membership is made up of key representatives: Chief Risk Officer, Group Treasurer, Corporate Finance, Head Cash Management, Chief Dealer, Risk Manager, Financial Risk Manager, Fuel Management, Head Financial Accounting and CFO – Cargo.

Risk management department

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

Risk management systems

SAA has implemented a Treasury risk management system with advanced analytics to assist SAA's Front Office in the hedging decisions in the hedging portfolios. The key for this tool is its ability to handle jet fuel price risk exposures using commodity pricing models and the aggregation of all the other risks to enable SAA to have a view of its financial risks in the treasury environment.

The capital risk and financial risk management is described below.

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 included long-term interest bearing borrowings and short-term borrowings, including accounts payable and bank overdrafts.

The Group uses short-term investment instruments to ensure continued funding of operations.

Refer to the going concern details as per the Directors' Report, which notes the concern in respect of the risk that SAA is largely undercapitalised.

Aircraft and engine financing

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

Gearing ratio

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

The gearing ratios in 2012 and 2011 respectively were as follows:

R MILLION	Note	**2012**	2011 RESTATED
Debt*		**12 759**	11 725
Less: Cash and cash equivalents	26	**33**	(2 252)
Net debt		**12 792**	9 473
Equity		**443**	475
Net debt to equity ratio		**29:1**	20:1

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

42. Risk management (continued)

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; and
- Providing some price stability through improving the transparency of price mechanisms.

The main financial market risks faced by the Group are liquidity risk, credit risk and market risk which consist of interest rate risk, currency risk and commodity price risk.

The Board has a clear financial risk management policy with clearly defined objectives. This policy presents a framework and control environment that sets the limits within which management can leverage their experience and knowledge of the business together with financial risk management skills and a degree of innovation, to manage and mitigate financial risk on a day to day basis.

Liquidity risk

Liquidity risk is the risk that the Group does not meet its financial obligations on a cost effective and a timeous basis, and could result in reputational damage should a default occur.

The cash management and liquidity risk management processes are aimed at ensuring that the Group is managing its cash resources optimally, has sufficient funds to meet its day to day financial obligations, has established prudent limits on the percentage of debt that can mature in any financial year, is investing any cash surpluses in an appropriate and authorised way and has sufficient facilities in place to provide its relevant forecast liquidity requirement.

The principles for cash and liquidity management at SAA are as follows:

- Transactional banking relationships must be reviewed every five years. SAA Treasury is responsible for the recommendation of bankers, and the Board through the Tender Board and the normal tendering process must approve the appointment of bankers.
- All requests for the opening and closing of bank accounts and the management of bank account signatories are to be reviewed and approved by the Chief Financial Officer and the Group Treasurer.
- Prudent cash management practices must be implemented, including the use of a centralised, pooled cash management bank account structure and systems, and the maintenance of minimum cash balances at operational level.

All companies within the Group are included in the cash management structure and form part of the cash and liquidity management practices of the Group.

Committed funding facilities

SAA is dependent on funding in the form of leases and loans in foreign currency and local currency, mainly for the purchase of aircraft and aircraft components. The volatility of the financial markets, SAA's financial standing and the difficulties experienced by the airline industry in general affect the availability of funding to airlines. Funding can sometimes be constrained to a limited number of counterparties at any given time. The underlying risk manifests in three forms:

- SAA loses committed funding from a particular counterparty due to that counterparty defaulting on an existing funding arrangement.
- SAA is unable to secure new funding at a particular time.
- 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[1]	Contractual amount[1]	Less than 1 month	1-3 months	3-6 months	6-12 months	1-5 years	Over 5 years
GROUP – **31 MARCH 2012**								
Non-derivative financial liabilities								
US$-denominated secured loans (in ZAR)	**751**	**800**	**–**	**103**	**–**	**102**	**595**	**–**
Total US$-denominated loans (in ZAR)	**751**	**800**	**–**	**103**	**–**	**102**	**595**	**–**
ZAR-denominated secured loans	**1 025**	**1 334**	**–**	**123**	**107**	**230**	**874**	**–**
Accounts payable	**4 956**	**4 956**	**–**	**4 856**	**–**	**–**	**100**	**–**
Shareholder loan to share trust	**63**	**63**	**–**	**–**	**–**	**–**	**63**	**–**
Total (ZAR)	**6 044**	**6 353**	**–**	**4 979**	**107**	**230**	**1 037**	**–**
Derivative financial instruments								
Fuel – Asian options	**79**	**147**	**41**	**31**	**55**	**20**	**–**	**–**
FX – Currency options	**32**	**692**	**22**	**189**	**209**	**272**	**–**	**–**
Forward exchange contracts – Assets	**142**	**154**	**40**	**35**	**79**	**–**	**–**	**–**
Forward exchange contracts – Liabilities	**(11)**	**(239)**	**(20)**	**(20)**	**(104)**	**(95)**	**–**	**–**
Fuel – Swap assets	**9**	**19**	**4**	**6**	**5**	**4**	**–**	**–**
Total (ZAR)	**251**	**773**	**87**	**241**	**244**	**201**	**–**	**–**
GROUP – 31 MARCH 2011								
Non-derivative financial liabilities								
US$-denominated secured loans (in ZAR)	805	860	–	81	–	88	691	–
Total US$-denominated loans (in ZAR)	805	860	–	81	–	88	691	–
ZAR-denominated secured loans	1 273	1 606	–	104	85	186	1 071	160
Accounts payable	4 893	4 893	4 893	–	–	–	–	–
Shareholder loan to share trust	63	63	–	–	–	–	63	–
Total (ZAR)	6 229	6 562	4 893	104	85	186	1 134	160
Derivative financial instruments								
Fuel – Asian options	371	371	46	163	104	58	–	–
FX – Currency options	8	8	–	–	–	8	–	–
Forward exchange contracts	(14)	359	–	34	196	129	–	–
Total (ZAR)	365	738	46	197	300	195	–	–

[1] *The carrying principal amount excludes interest while the contractual amount includes interest. This is applicable to non-derivative financial liabilities.*

Other risks

Undrawn commitment

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

Interest rate risk

Interest rate risk is the risk of increased financing cost due to adverse movements in market interest rates. Interest rate risk impacts SAA in the following forms:

- Increased cash costs in an increasing interest rate environment due to the Group's floating aircraft funding structures.
- The opportunity cost of funding at a higher rate in a declining interest rate environment due to the Group's fixed funding structures.
- The bulk of the Group's interest rate exposure is as a result of US$-denominated aircraft financing structures.

42. Risk management (continued)

42.4 Financial risk management (continued)

This portfolio is made up of operating leases, finance leases and loans. The portfolio is highly sensitive to the movement of US interest rates. The Group is continually monitoring and adjusting its fixed/floating ratio to adapt to the changing dynamics of its business operations and to protect its statement of comprehensive income and statement of financial position.

The objectives of managing interest rate risk are to:

- design appropriate funding structures (fixed versus floating, and local versus foreign currency) through the Funding and Capex Committee;
- reduce the cost of capital;
- minimise the effect of interest rate volatility on the Group's financing expenditure;
- manage the ratio of floating rate exposures to fixed rate exposures;
- obtain optimal investment returns on surplus cash, while ensuring that credit risk is managed;
- ensure that appropriate levels of liquidity are maintained, while remaining within the guidelines set by this policy; and
- ensure efficiency by restructuring interest rate exposure as and when necessary.

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 managing counterparty risk are to avoid contracting with any party that is not of an acceptable credit standing, formulate evaluation criteria of potential counterparties and implementing monitoring measures and control processes for counterparty risk.

The Group is exposed to a number of types of counterparty risk as part of its normal business operations as described below:

Investment risk

Cash balances and investments held in a range of local and offshore bank accounts, in a range of currencies, which form part of SAA's cash management and revenue collection infrastructure.

Marginal risk

The Group makes use of derivative instruments in the foreign exchange, interest rate and commodity markets to mitigate the risk of adverse changes in cash flow and earnings that result from fluctuations in the financial markets. Counterparty risk arises on these derivative instruments when the hedging positions with counterparties have a positive net present value to SAA and are providing SAA with protection against adverse market movements in future. In this scenario SAA would lose the protection if the counterparty defaults on its obligation and SAA will have to replace this protection with similar hedging transactions at a higher cost. It is also important to note that, in the event that a counterparty goes into liquidation and its marginal risk position (net present value) is positive (an asset to the counterparty) with SAA, the company may be called on by the creditors of the counterparty to crystallise and settle the positions in question earlier than anticipated.

Counterparties are grouped in two major groups from a credit risk perspective:

Rated counterparties

Local and international banking and financial institutions, which are rated by major ratings agencies, and whose financial information is readily available.

Unrated counterparties

SAA needs to deal with and hold bank accounts in various locations with local banking institutions that may not be rated and for which there is very little or no financial information available. This is typically the case where there is no representation of any of the rated counterparties in such location and SAA has to use an unrated counterparty to fulfil normal operational banking requirements, or where it is agreed by the Board as a prerequisite for specific operating bases. The Group has therefore a very restricted mandate when dealing with any unrated counterparties.

The Group has operating accounts in some African countries which are not rated. The exposure to these banks is kept at a minimum.

Loans and receivables credit risk

The Group is exposed to credit risk relating to the nature of the distribution network for airline operations. The Group airline distribution network includes BSP (these are IATA accredited travel agents), and general sales agents (GSAs), who are used in countries where there are no IATA accredited travel agents. Credit card debtors arise from the customers paying their fares using credit cards and the Group has to recover the money through the credit card financial institutions clearing houses globally.

Other debtors mainly consist of loans receivable and fuel trading debtors. These are classified as other because they do not form part of the Group's normal operating activities. The Group manages its credit risk from trade receivables on the basis of an internally developed credit management policy. This policy sets out the credit limits and requirements for any credit enhancements. The Group holds a guarantee from a GSA as a prerequisite before it can accredit it to be part of its distribution network. The Group also requires some counterparties to provide guarantees in the form of cash and letters of credit as security for exposure. This is prevalent mainly on GSAs. The amount of guarantees is agreed upon based on the risk profile of the counterparty. The guarantees relating to BSP debtors are held directly by IATA for the benefit of all airlines exposed to a particular BSP.

Maximum exposure to credit risk

The carrying amount of financial assets represents the maximum credit risk exposure. The maximum exposure to credit risk at the reporting date was as follows:

	GROUP		COMPANY	
R MILLION	**2012**	2011	**2012**	2011
Financial instruments				
Cash and cash equivalents	**1 536**	2 252	**1 139**	1 875
Loans to subsidiaries	**–**	–	**1 305[1]**	1 313[1]
Derivative assets held-for-trading	**262**	379	**262**	379
Trade and other receivables	**4 506**	4 394	**4 355**	4 199

** These loans are not past due or impaired.*

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

	Foreign currency amount '000	Carrying amount R'000	+19%* -19% US$ R'000	+13%* -13% Euro R'000	+10%* -10% GBP R'000
Financial instruments					
Accounts receivable					
31 March 2011					
US$-denominated	148 053	1 002 901	186 796	–	–
EUR-denominated	12 890	123 627	–	10 937	–
GBP-denominated	9 410	102 158	–	–	6 518
			186 796	10 937	6 518

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

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

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

The Group's currency risk is represented by the increased financial cost and/or cash requirements due to the net exposure between foreign revenue generated, foreign expenditure commitments and domestic revenues and expenditure commitments. The main objective of the currency risk management policy is to mitigate the potential for financial loss arising through unfavourable movements in exchange rates relative to the budget.

Foreign exchange risk will be managed on a net basis, including operating and capital exposures after taking the following into consideration:

- Source currencies for revenue and costs (US$, GBP and EUR).
- Both direct and indirect foreign exposure. Indirect foreign exposure is where SAA pays in ZAR, but the exposure is determined by using a US$ price, for example jet fuel uplifted in South Africa.
- Volatility of the Rand versus US$, GBP and EUR and the correlation between these currencies.
- Foreign currency exposures are determined from the 12-month rolling ZAR and foreign cash budget. Foreign currency risk will be monitored and managed under the following principles:
  - The net foreign currency position will be monitored on a monthly basis, by obtaining the net foreign currency position in all currencies from the 12-month rolling cash budget, including forecast foreign cash balances.
  - The accuracy of forecast revenues and costs are of critical importance when determining net foreign currency exposure. Management should take care to establish the levels of confidence in achieving forecast revenues and costs on an ongoing basis when designing hedging strategies.
  - The foreign versus domestic currency funding decision (loans/leases) should always consider current foreign currency risk management position and practices, since these decisions are a significant source of foreign currency exposure for the Group.

The decision to manage capital foreign currency exposures (such as leases and loans) should be combined with the business strategy, route planning and funding decisions (as appropriate), to ensure that funding and foreign currency risk management strategies are complementary to the business strategy and present the most relevant overall solution to the Group.

The Group collects revenues in approximately 30 currencies other than ZAR, EUR, GBP and US$. The foreign risk of exotic currencies cannot be practically managed at the local currency level, therefore the cash management structure rolls local currency balances up into hard currency pool accounts on a weekly basis. Currency risk exposures are managed at the hard currency level, ie. in US$, GBP and EUR versus ZAR.

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

	2012	2011
The year-end exchange rates applied in the translation of the Group's foreign monetary assets and liabilities are as follows:		
Exchange rates used expressed in the number of Rands per unit of foreign currency:		
United States Dollar (US$)	**7,67**	6,77
Euro	**10,23**	9,59
Pounds Sterling (GBP)	**12,28**	10,86

R MILLION	FOREIGN AMOUNT 2012	FOREIGN AMOUNT 2011	RAND AMOUNT 2012	RAND AMOUNT 2011
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$	**177**	148	**1 355**	1 003
Euro	**13**	13	**133**	124
UK Pound	**8**	9	**96**	102
Hong Kong Dollar	**20**	17	**19**	15
Danish Krone	**3**	3	**4**	4
Canadian Dollar	**–**	1	**–**	2
Swiss Franc	**1**	1	**7**	6
Australian Dollar	**4**	3	**31**	24
Brazilian Real	**16**	10	**68**	41
Thai Baht	**9**	13	**2**	3
Malawian Kwacha	**576**	293	**27**	13
Other	**–**	–	**246**	234
			1 988	1 571
Accounts payable				
US$	**63**	119	**482**	803
Euro	**16**	15	**166**	148
UK Pound	**2**	2	**24**	18
Australian Dollar	**3**	3	**21**	18
Benin CFA Franc BCEAO	**190**	260	**3**	4
Other	**–**	–	**70**	110
			(766)	(1 101)
Accounts receivable as above			**1 988**	1 571
Net exposure			**1 222**	470

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

Price risk associated with commodities

Jet fuel consumption is SAA's biggest cost contributor, representing approximately 36 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 104 million litres (2011: 101 million litres) of jet fuel per month. This means that any change in price will have a significant impact on the Group's performance.

The objectives of managing jet fuel price risk are to:

- reduce the volatility of jet fuel costs and the effect of this volatility on cash flows and earnings, ie. price stability;
- limit the impact of derivative instruments on the Group's financial position and performance;
- occupy a competitive position in the airline industry in terms of jet fuel price risk management, negating the competitive advantage that competitors derive from their jet fuel risk management strategies;
- utilise any backwardation in the energy forward curves to reduce future jet fuel costs;
- provide a protection buffer during times of elevated jet fuel prices; and
- to continually and dynamically transact a minimum amount of hedging in the financial markets, to 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.

42. Risk management (continued)

42.6 Market risk management (continued)

The Group manages its jet fuel price risk exposures using derivative financial instruments. All derivative contracts are mark-to-market and are cash settled. The Group's risk policy permits the organisation to manage its jet fuel price risk exposures using the underlying products such as International Crude Exchange (ICE) Brent Crude Oil, ICE Gas Oil 0,5 percent, Gas Oil, Western Texas Intermediate (WTI), FOB ARAB Gulf 0,5 percent and Jet Kerosene (North West Europe) NWE. It is SAA's policy to hedge a maximum of 60 percent of its jet fuel price risk exposures on a 12-month basis.

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 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. For internal reporting to Audit Committee, a one month horizon is utilised.

			CURRENCY[1]		COMMODITY PRICE DERIVATIVES[1]	
	Foreign currency amount '000	Carrying amount R'000	Profit/(loss) impact -16% US$ R'000	Profit/(loss) impact +16% US$ R'000	Loss impact -23% Brent -26% WTI -22% gas oil -20% jet fuel R'000	Profit impact +23% Brent +26% WTI +22% gas oil +20% jet fuel R'000
GROUP AND COMPANY						
Derivative financial instruments						
31 March 2012						
ICE Brent commodity derivatives						
Fixed swaps	14 902	114 276	(18 386)	18 386	(235 729)	235 726
Asian call options	7 767	59 565	(9 583)	9 583	(41 888)	102 044
Asian put options	1 493	11 452	(1 843)	1 843	40 122	(8 267)
NYMEX WTI commodity derivatives						
Fixed swaps	(306)	(2 345)	377	(377)	(20 620)	20 620
Asian call options	269	2 062	(332)	332	(1 973)	14 651
ICE gas oil commodity derivatives						
Fixed swaps	3 608	27 671	(4 452)	4 452	(22 027)	22 027
Asian call options	780	5 979	(962)	962	(5 966)	20 641
US$ foreign exchange derivatives						
Forward exchange contracts – Assets	–	8 766	(22 825)	22 825	–	–
Forward exchange contracts – Liabilities	–	(8 241)	39 481	(39 481)	–	–
European call options	–	31 567	(55 047)	59 712	–	–
		250 752	(73 572)	78 237	(288 081)	407 442

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

	Foreign currency amount '000	Carrying amount R'000	CURRENCY[1] Loss impact -19% US$ R'000	Profit impact +19% US$ R'000	COMMODITY PRICE DERIVATIVES[1] Loss impact -33% Brent -34% WTI -33% gas oil -33% jet fuel R'000	Profit impact +33% Brent +34% WTI +33% gas oil +33% jet fuel R'000
GROUP AND COMPANY						
Derivative financial instruments						
31 March 2011						
ICE Brent commodity derivatives						
Asian call options	34 579	234 237	(43 627)	43 627	(180 482)	322 318
NYMEX WTI commodity derivatives						
Asian call options	7 570	51 283	(9 552)	9 552	(48 321)	104 058
ICE gas oil commodity derivatives						
Asian call options	10 385	70 349	(13 103)	13 103	(18 099)	20 765
NWE CIF commodity derivatives						
Asian call options	2 277	15 426	(2 873)	2 873	(2 979)	3 746
US$ foreign exchange derivatives						
Forward exchange contracts	–	(13 542)	(67 410)	67 410	–	–
European call options	–	7 394	(7 138)	29 344	–	–
		365 147	(143 703)	165 909	(249 881)	450 887

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

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

R MILLION	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
GROUP AND COMPANY				
At 31 March 2012				
Assets				
Jet fuel derivatives	**–**	**79**	**–**	**79**
Currency options	**–**	**32**	**–**	**32**
Forward exchange contracts	**–**	**151**	**–**	**151**
Liabilities				
Forward exchange contracts	**–**	**11**	**–**	**11**
Group and Company				
At 31 March 2011				
Assets				
Jet fuel derivatives	–	371	–	371
Currency options	–	8	–	8
Liabilities				
Forward exchange contracts	–	14	–	14

42. Risk management (continued)

42.6 Market risk management (continued)

	Foreign currency amount '000	Carrying amount R'000	CURRENCY[1] Profit/(loss) impact -16% US$ R'000	CURRENCY[1] (Loss)/profit impact +16% US$ R'000	INTEREST RATE[1] Profit/(loss) impact -25 BPS US$ R'000	INTEREST RATE[1] (Loss)/profit impact +25 BPS US$ R'000
GROUP AND COMPANY						
Non-derivative financial instruments						
31 March 2012						
US$-denominated financial instruments						
Secured borrowing LIBOR floating debt	**96 330**	**738 723**	**(118 852)**	**118 852**	**–**	**–**
Accounts payable	**62 811**	**481 680**	**(77 497)**	**77 497**	**(1 225)**	**1 225**
Total financial liabilities	**159 141**	**1 220 403**	**(196 349)**	**196 349**	**(1 225)**	**1 225**
Call deposit	**36 000**	**276 071**	**(44 417)**	**44 417**	**(702)**	**702**
Total financial assets	**36 000**	**276 071**	**(44 417)**	**44 417**	**(702)**	**702**

	Foreign currency amount '000	Carrying amount R'000	CURRENCY[1] Profit/(loss) impact -19% US$ R'000	CURRENCY[1] (Loss)/profit impact +19% US$ R'000	INTEREST RATE[1] Profit/(loss) impact -19 BPS US$ R'000	INTEREST RATE[1] (Loss)/profit impact +19 BPS US$ R'000
GROUP AND COMPANY						
Non-derivative financial instruments						
31 March 2011						
US$-denominated financial instruments						
Secured borrowing LIBOR floating debt	118 945	805 732	(150 070)	150 070	31 063	(30 503)
Accounts payable	118 506	802 752	(149 517)	149 517	–	–
Total financial liabilities	237 451	1 608 484	(299 587)	299 587	31 063	(30 503)
Call deposit	93 000	629 977	(117 336)	117 336	(1 218)	1 218
Total financial assets	93 000	629 977	(117 336)	117 336	(1 218)	1 218

	Foreign currency amount '000	Carrying amount R'000	IMPACT ON OTHER COMPONENTS OF EQUITY IN RAND[1] +13% -13% EUR/US$ R'000	IMPACT ON OTHER COMPONENTS OF EQUITY IN RAND[1] +9% -9% GBP/US$ R'000
GROUP AND COMPANY				
Non-derivative financial instruments				
31 March 2012				
Denominated in EUR and GBP[2]				
Accounts payable – EUR	**16 203**	**165 810**	**21 567**	**–**
Accounts payable – GBP	**1 919**	**23 560**	**–**	**2 122**
		189 370	**21 567**	**2 122**

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

	Foreign currency amount '000	Carrying amount R'000	CURRENCY[1] +13% -13% EUR/US$ R'000	+10% -10% GBP/US$ R'000
GROUP AND COMPANY				
Non-derivative financial instruments				
31 March 2011				
Denominated in EUR and GBP[2]				
Accounts payable – EUR	15 453	148 207	13 111	–
Accounts payable – GBP	1 691	18 360	–	1 171
		166 567	13 111	1 171

[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 1,3 and 6 months LIBOR rates. These are not hedged but are considered part of the net hedge.

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.

R THOUSAND	**2012**	2011

43. Directors' emoluments for SAA subsidiaries

Executive directors' emoluments		
Mango Airlines (SOC) Limited		
Mr N Bezuidenhout		
Salary	**1 747**	1 636
Variable pay	**–**	1 990
	1 747	3 626
SAA Technical (SOC) Limited		
Mr M Zwane[2]		
Salary	**2 929**	1 957
Allowance	**360**	150
Performance gratuity/other	**79**	–
	3 368	2 107
Mr SAH Poprawa[1]		
Salary	**–**	760
Allowance	**–**	244
Retirement fund contributions	**–**	103
Retention premium	**–**	183
Performance gratuity/other	**–**	180
	–	1 470

[1] *Appointed as Acting CEO of SAAT until 31 October 2010.*
[2] *Appointed as CEO of SAAT effective 1 November 2010.*

R THOUSAND	2012	2011
43. Directors' emoluments for SAA subsidiaries (continued)		
Executive directors' emoluments (continued)		
Air Chefs (SOC) Limited		
Mr PJ Bekker[3]		
Salary	–	574
Performance gratuity/other	–	76
	–	650
Ms A Crooks[4]		
Salary	1 836	883
Performance gratuity/other	43	–
	1 879	883

[3] *Appointed as Acting CEO of Air Chefs until 30 September 2010.*
[4] *Appointed as CEO of Air Chefs effective 1 October 2010.*

R THOUSAND	2012	2011
SAA City Centre (SOC) Limited		
Ms GB Koyana[6]		
Salary	758	–
Mr F Peer		
Salary	722	221
Allowance	90	32
Retirement fund contributions	64	17
	876	270
Mr TFB Lehasa[5]		
Salary	470	1 045
Allowance	–	31
Retirement fund contributions	–	104
Performance gratuity/other	–	84
	470	1 264

[5] *Appointed as Acting CEO of SATC until 31 August 2011.*
[6] *Appointed as CEO of SATC effective 1 September 2011.*

R THOUSAND	2012	2011
Non-executive directors' emoluments		
Mango Airlines (SOC) Limited		
Dr C Wiese	425	393
Mr P Krusche	105	97
Mr R Wally	146	135
Ms F du Plessis	–	85
Mr T Adams	122	113
Adv L Nkosi-Thomas	24	91
	822	914
SAA Technical (SOC) Limited		
Ms SP Mzimela	–	–
Mr T Daka	601	700
Ms Y Kwinana	128	128
Mr JP Ndhlovu	128	128
	857	956
Air Chefs (SOC) Limited		
Ms SP Mzimela	–	–
Ms MM Whitehouse	445	445
Ms DC Myeni	96	96
	541	541
SAA City Centre (SOC) Limited		
Ms SP Mzimela	–	–
Mr BF Mohale	320	320
Mr TC Jantjies	65	65
	385	385

44. Going concern

The directors have given consideration to the short- to medium-term cash flow requirements of SAA, carefully considering the depressed aviation market, combined with the potential for adverse cash flows to arise from possible market volatility. In light of the potential adverse cash flow impact arising from the state of the global airline industry, SAA approached its Shareholder for a guarantee to be made available amounting to R5 billion to provide reasonable comfort that SAA has the ability to continue as a going concern.

The Shareholder has confirmed to the Board of Directors that the Minister of Finance has provided his concurrence for a government guarantee of R5 billion effective from 1 September 2012 to 30 September 2014 in order to ensure the going concern status.

The Shareholder has indicated that the capital adequacy and business model of SAA will be assessed in the foreseeable future.

CORPORATE INFORMATION

Country of incorporation and domicile

The Republic of South Africa
Company registration number
1997/022444/07

Directors

Resigned
No resignations from the Board in 2011-2012.

Directors during the reporting period
Ms MM Whitehouse
Ms CA Carolus
Mr RM Loubser
Adv L Nkosi-Thomas
Ms DC Myeni
Mr TC Jantjies
Mr BF Mohale
Mr T Daka
Mr LJ Rabbets
Ms Y Kwinana
Mr ZJ Sithole
Mr JP Ndhlovu
Ms SP Mzimela
Mr DH Lewis
Mr WH Meyer

Company Secretary

Mr CS Dlamini (appointed 17 September 2012)

Bankers

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

Auditors

PricewaterhouseCoopers Inc
Private Bag X36
Sunninghill
2157

Nkonki Inc
PO Box 1503
Saxonwold
2132

Registered office

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

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

Website

www.flysaa.com

SOUTH AFRICAN AIRWAYS GROUP

INVESTING IN SOUTH AFRICA'S FUTURE

SOUTH AFRICAN AIRWAYS
AIRWAYS PARK JONES STREET
O.R. TAMBO INTERNATIONAL AIRPORT
JOHANNESBURG 1627
SOUTH AFRICA

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