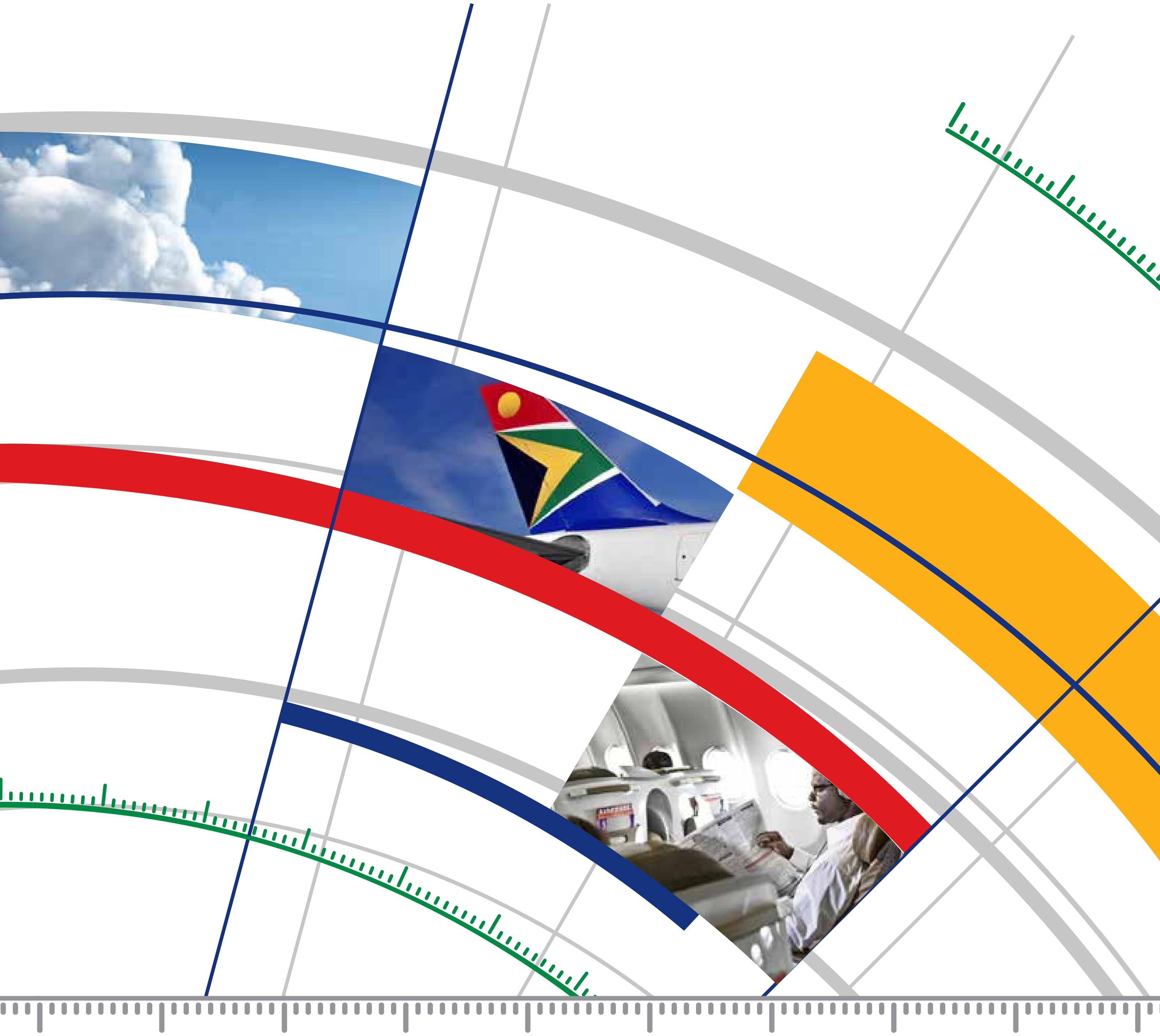
SOUTH AFRICAN AIRWAYS

A STAR ALLIANCE MEMBER

80 YEARS CELEBRATING TOMORROW



INTEGRATED REPORT 2014

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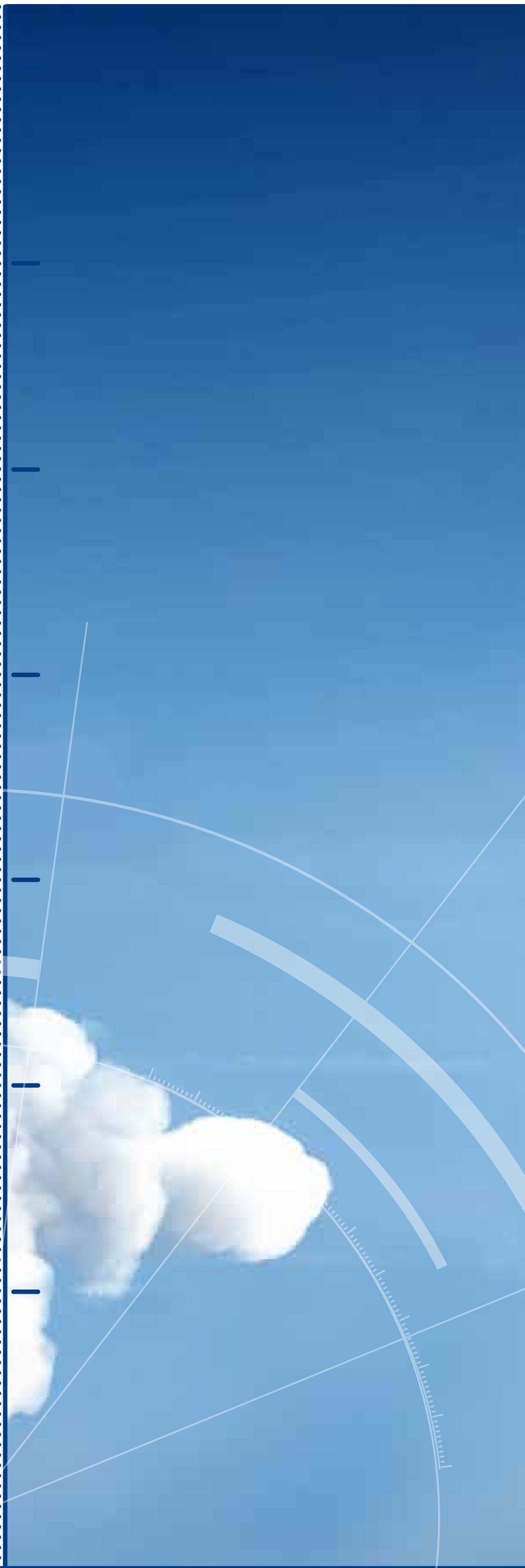


Since its adoption in 2013, the Long-Term Turnaround Strategy or LTTS, has become the basis for the considerable effort being made to turn South African Airways around. It is this strategy, that together with the Shareholder's Compact constitutes the framework against which performance is being measured. To this point progress is being registered, structures have been put in place, and concerted action is being taken to ensure that in the short, medium, and long term the airline will continue to implement the imperatives of its strategy and it will continue to strive for success in its goal of gaining altitude.

MISSION

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

VISION

To be Africa's leading world-class airline.

CORE BUSINESS

The movement of people and goods by air.

CORE VALUES

Safety

Adopting a zero-defect philosophy and striving for zero safety incidents through proper training, work practices, risk management and adherence to safety regulations at all times.

Customer-focused

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

Integrity

Practising the highest standards of ethical behaviour in all lines of work and maintaining credibility by ensuring that SAA's actions consistently match its words.

Valuing its people

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

Accountability

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

Excellence in performance

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

THE SCOPE OF THIS REPORT

This integrated report, published in line with the King Code on Corporate Governance (King III of 2009), reviews South African Airways' (SAA) economic, social and environmental performance for the period between 1 April 2013 and 31 March 2014.
This report combines elements of a sustainability report with a conventional financial report. The aim is to provide sufficient insight to enable stakeholders to form a comprehensive view of the organisation's performance and its ability to create and sustain value, in the context of its environmental, social and economic challenges.

2014 HIGHLIGHTS

- **R453 million** Cost compression savings
- **R25 million** Air Chefs (YoY) improvement
- **R48 million** Closure of Bujumbura/Kigali
- **R69 million** Improvement on domestic operations
- **R113 million** Regional operations improvements
- **R80 million** Qantas code-share renegotiated
- **R9 billion** Contribution of 0,3% of the country's GDP in 2013

SAA STRUCTURE AND OPERATIONS

HOW WE FLY

Through our operations, we facilitate trade and tourism with our major partners and contribute in this way to economic growth in South Africa.

Strategy

The Long-Term Turnaround Strategy (LTTS) developed to turn around commercial performance, fulfil mandates and obligations to the shareholder, and address stakeholder concerns.

Operations

Planning and executing all airline-related logistics.

Commercial

Flying passengers to destinations in South Africa, Africa and around the world. The Group is a major contributor in linking South Africa with the rest of the world, connecting South Africa directly to

38 cities across | **26** countries.

Providing over 47 250 seats each week, equivalent to a third of all international flights arriving and departing South Africa every week.

SAA Cargo

Overseeing and transporting freight domestically and internationally. The Group carried

132 000 tonnes

of freight in the year under review, about one quarter of freight carried by all airlines to, from and within South Africa. Approximately 90% of Group air cargo transfers are delivered as belly-freight on international flights, with the rest delivered by SAA Cargo freighters. Additionally, SAA moves approximately 60% of all air cargo in South Africa.

SAA Technical

Responsible for maintenance, repair and overhaul (MRO) of aircraft and components.

Air Chefs

Preparing and delivering all food and beverage requirements for SAA and Mango as well as for SA Express and other airlines.

Mango

Providing profitable, no-frills, efficient and effective low-cost travel options in South Africa and increasingly in the region, carrying

2,2 million

domestic passengers in the year under review.

SA Travel Centre

A network of franchises responsible for sales, ticket distribution and tourism marketing.

CORE BUSINESS

SAA's core business can be simply stated as the movement of people and goods by air. In realising its mission, and facilitating the Group's core activities, there are various functions and capacities delivered by specialised entities within the Group structure, all falling within four distinct types of activity:

- Airlines and associated functions: SAA and Mango, SA Travel Centre
- Aircraft maintenance, repair and overhaul (MRO): SAA Technical
- Logistics: SAA Cargo, Air Chefs
- Loyalty: SAA Voyager

Within this broad framework, and across its four subsidiaries; Mango, SAA Technical, Air Chefs and SA Travel Centre, the entire Group depends upon a range of critical supporting process areas:

- Finance
- Human capital development
- Sales and distribution
- Information technology
- Environment
- Marketing, communication and customer services
- Procurement
- Corporate social investment
- Legal, risk and compliance

Voyager

Ensuring passengers are well-rewarded for their loyalty to SAA.

Routes

South Africa, Africa and the world brought safely and reliably within reach.

Pilots

World-renowned for their professionalism and high standards of flying skills.

Cabin crew

Highly-trained, a true representation of diversity and transformation within the Group.

Human resources

Proactive, practical, creative and enterprising in leading and implementing transformation, maximising skills and prioritising productivity.

Aircraft

The right aircraft for the right skies: acquisition of modern, fuel efficient aircraft is a fundamental aspect of the strategy to turn commercial performance around.

Procurement

Ensuring that shareholder as well as commercial concerns are addressed through the efficient and transformative development of the supply chain.

Alliance and code-share agreements

SAA is a Star Alliance member and has code-share agreements with nine global airlines. With these and other airline partners, SAA is able to offer 186 destinations in

62 countries

on six continents.

Environment

Moving towards a greener, more efficient and cost effective operating universe.

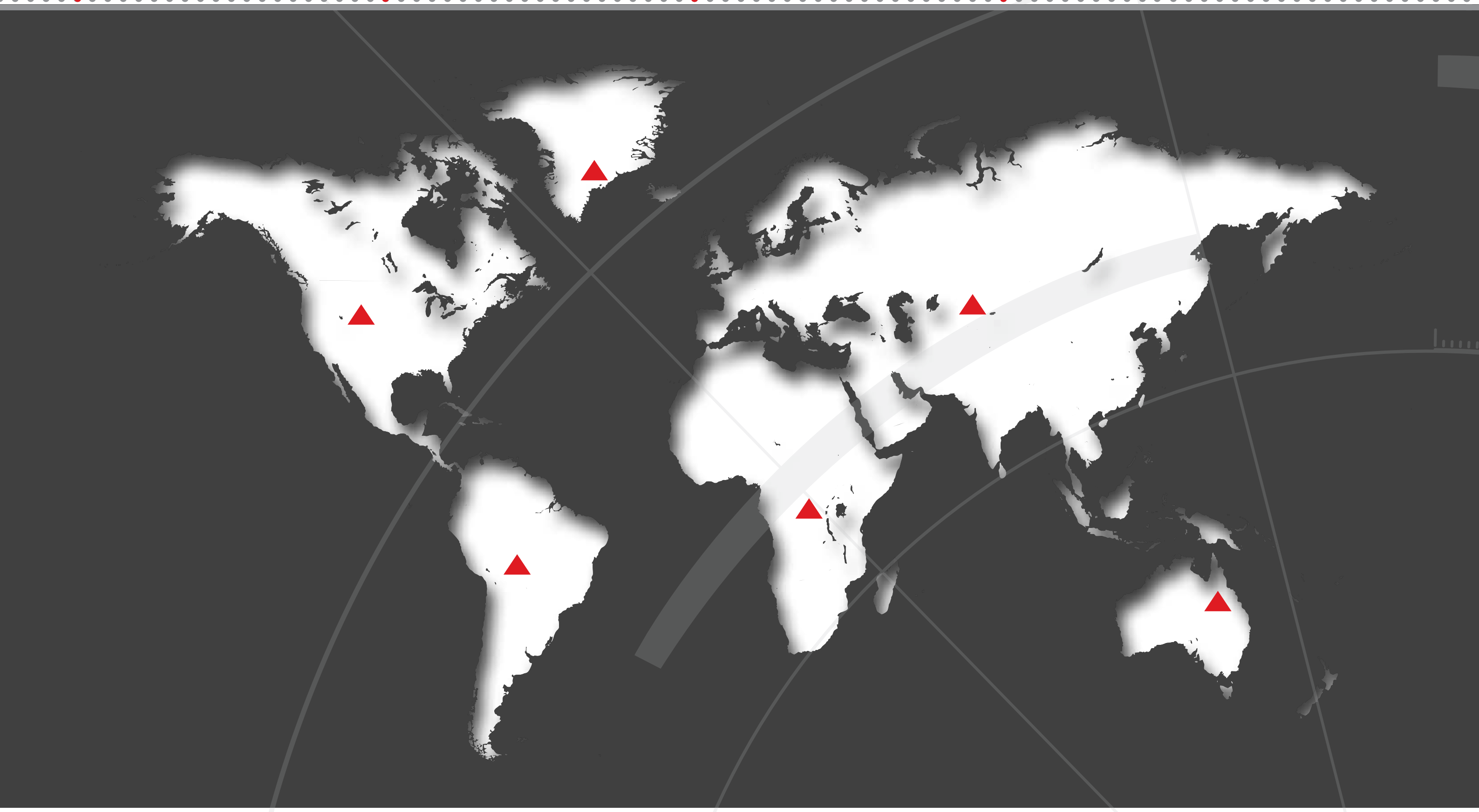
SAA'S OPERATIONS AT A GLANCE

6
CONTINENTS

26
COUNTRIES

38
DESTINATIONS
(inclusive of tag routes)

1 269
STAR ALLIANCE DESTINATIONS



25
INTRA-AFRICAN ROUTES

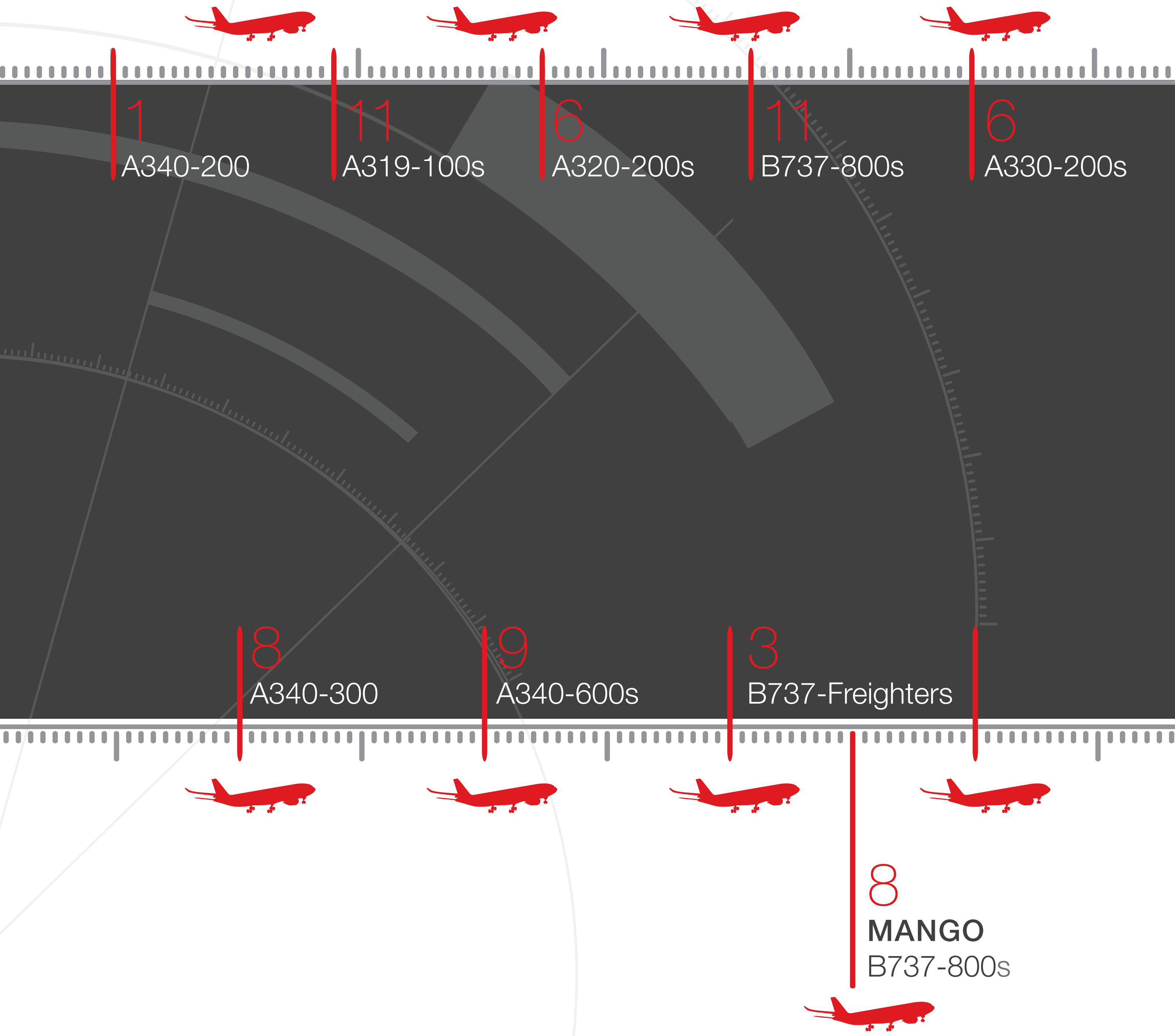
52
FLIGHTS A DAY BETWEEN JOHANNESBURG AND CAPE TOWN (36 SAA, 16 Mango) – inclusive of Lanseria operation

9,3
MILLION PASSENGERS (7,1 million SAA, 2,2 million Mango)

11 491
EMPLOYEES WORLDWIDE

132 000
TONNES OF CARGO FLOWN

SOUTH AFRICAN AIRWAYS FLEET



ABOUT THIS REPORT

Covering the period between 1 April 2013 and 31 March 2014, this report is published in accordance with the King Code on Corporate Governance (King III of 2009) and in line with international frameworks such as those developed for integrated reporting by the IIRC and GRI.

Globally the concept of integrated reporting is taking hold as the norm for disclosing to shareholders and stakeholders the extent and scope of an organisation's approach to its business, and the way in which it deals with the range of material factors that have an impact on its ability to create value.

The fundamental principles of integrated reporting are conciseness, cohesiveness, strategic focus, reliability, comprehensiveness and consistency, and it is in accordance with these principles that this report has been compiled. The report reflects the connectedness and interdependence of the SAA Group's financial reporting with its strategic framework, operations, decision-making, global and local industry contexts that affect it, the risks it faces, the opportunities it discerns and the social investment it undertakes, and presents these factors as a comprehensive whole approached through integrated thinking.

It is the integrated thinking evidenced in the Group's Long-Term Turnaround Strategy (LTTS), as well as its dual Shareholder mandate that form the basis for the content and material aspects of this report. Since its adoption during the year under review, the LTTS has directed the company's determination to respond to its Shareholder's and stakeholders' interests. This response can be seen as much in the initiatives already undertaken by the Group, its subsidiaries and divisions, as in those yet to be applied in the medium- and long-term, and which determine the Group's outlook in regard to the challenges it faces commercially, socially and environmentally.

Compliance Management Programme

Pursuant to the Compliance Policy Statement and recognition of the highly regulated environment within which SAA operates, the Company has developed, and maintains, an integrated compliance management programme. The programme is aimed at high risk legislation, regulations and supervisory requirements as assessed in the regulatory universe.

Compliance with internal policies and procedures is also crucial to the improvement of the governance and control environment within the company. A policy universe is maintained and compliance therewith is monitored on an ongoing basis. The policies are also reviewed on a regular basis to ensure harmony with the legislative and regulatory prescripts.

Public Finance Management Act (PFMA) non-compliance

SAA has seen a continuous decline in PFMA non-compliance over the past three years. In the year under review declines of 14,21 percent in irregular spend and 3,5 percent on losses due to fruitless and wasteful expenditure were further noted.

This notable decline is due to management's ongoing efforts to ensure that PFMA processes and procedures are adhered to and that there is transparency in collation, validation and reporting of PFMA non-compliance within SAA. Attention was also paid to the development of the Contract Management System to assist the organisation in managing and monitoring its existing contracts.

Losses due to criminal conduct are still an area of concern, as these increased by 10,5 percent during the year under review. Management has developed an action plan to reduce transgressions in FY2014/15 and to improve a culture of consequence management.

Internal audit

SAA maintains an in-house internal audit function, which reports to the Board through the Audit and Risk Committee, which in turn approves its Internal Audit Plan and monitors its performance against the three-year rolling plan. Internal Audit has an approved Charter developed in accordance with the Institute of Internal Auditors Guidelines. The Internal Audit Charter is reviewed annually and was reviewed by the Audit Committee during the year under review.

The primary function of South African Airways Internal Audit (SAAIA) is to provide reasonable assurance on internal controls, governance, efficiencies, effectiveness and performance against strategic objectives. It provides a systematic and disciplined approach to evaluating and improving the effectiveness of risk management, internal control, and governance processes. Accordingly it forms a critical part of the Group Risk Management and Combined Assurance Strategies. In order to provide the Board and management with necessary assurance and timely early warning alerts on potential failures, Internal Audit maintained a risk-based audit approach through the implementation of the 2013/14 Annual Internal Audit Plan.

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

- Developing internal information technology audit skills capacity;
- Trend analysis of the cross-cutting root causes, repetitive findings, process/ control failures and owners;
- Creating awareness on the role of Internal Audit;
- Increasing audit focus on strategic risks; and
- Improving Internal Audit process efficiencies.

The financial year 2013/14 was the second year of the in-house internal audit function, and in this second year of its existence, the following were highlights:

- The SAA 2013/14 Internal Audit Plan was developed and approved by the Audit Committee before the beginning of the financial year;
- Vacant positions were filled with highly competent people;
- Performance contracts, a training programme and a coaching and mentorship programme for all 16 staff members who joined the department were developed and implemented. Of the 16 staff members, five were recruited internally. Three of the five internally-recruited staff members had completed their second year of the three-year development programme and were promoted to the next level. The objective is to ensure that these junior auditors become fully-fledged auditors in the near future;
- Service level agreements with all stakeholders were developed and implemented to ensure that expectations are met and exceeded; and
- Internal Audit conducted all 2013/14 planned audits, despite the numerous ad hoc audits requested by executive management and the Board.

Impact on the organisation of SAAIA

SAAIA's assessment is that the overall control environment of the Group is effective. Some concerns with the level of internal controls within the operations still remain where evidence of lapses of effective monitoring and enforcement by management were observed.

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

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

COMPLIANCE POLICY STATEMENT

At SAA, compliance is an ethical imperative and the Company is committed to ensuring compliance with all applicable laws, regulations and supervisory requirements such as standards, codes, rules, directives, and guidance notes.

SAA conducts its operations in accordance with the letter and spirit of applicable regulatory and supervisory requirements in the jurisdictions in which it carries out its operations.

The organisation upholds values of integrity and transparency and maintains the highest ethical standards in dealing with its customers and other stakeholders.

Management and all employees conduct business activities and operations in accordance with SAA's compliance standards in a manner that:

- supports the achievement of SAA's business objectives and financial soundness;
- results in reducing the risk of non-compliance with the letter and spirit of applicable laws, rules and standards;
- ensures that instances of non-compliance, which arise are promptly resolved in a manner that minimises the adverse consequences thereof.

CORPORATE GOVERNANCE AND ACCOUNTABILITY

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

Board of Directors

As of 31 March 2014, SAA's Board comprised of nine Non-Executive Directors and two Executive Directors. All Non-Executive Directors, including the Chairperson of the Board, are appointed by the Shareholder. SAA prides itself on having a Board comprised of individuals hailing from diverse backgrounds which grant them a multi-dimensional view of business issues and challenges. Members possess many years' experience and are considered experts in their respective fields.

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

The Group Executive Committee, a sub-structure of the CEO's delegation from the Board, is responsible for ensuring the implementation of processes guiding operations, so that SAA is able to achieve its key performance indicators (KPIs). It is headed by the CEO and meets monthly to monitor the progress of the strategy implementation, in terms of the LTTS and the annual Corporate Plan.

Board committees

During the year under review, the SAA Group updated its constitution and terms of reference to align with the Companies Act of 2008.

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

The Shareholder's Compact

The Group and its Shareholder are bound by the Shareholder's Compact, which the two parties conclude annually in terms of the Treasury Regulations to record the mandated key performance measures and indicators to be attained by SAA as agreed between the Board and the Shareholder Representative.

The parties are bound by the principles on Corporate Governance in the Public Sector (Protocol), the South African Airways Act, 2007, the Companies Act, the PFMA (Public Finance Management Act, No 1 of 1999) and applicable Treasury regulations in endeavouring to enhance effective business performance and to maintain good corporate governance, including the principles contained in the King III Report, within SAA.

The Shareholder's Compact records the objective of the airline as follows:

SAA shall deliver commercially sustainable world-class air passenger and aviation services in South Africa, the African Continent and South Africa's tourism and trading partners. SAA faces inherent operational challenges within the aviation industry such as:

- The weakening of the Rand against foreign currencies;
- Increased competition in the regional market;
- Operating infrastructure including aircraft; and
- Restrictive Bilateral Air Service Agreements.

The delivery of commercial sustainability is enshrined in the compact, as is delivery on its financial targets as defined in the Long-Term Turnaround Strategy (LTTS), and among its requirements are that SAA:

- Endeavours to identify loss-making routes in the network, and to quantify the value derived from those routes to the broader SA economy, versus the costs associated with operating them;

- Assists in lowering the cost of doing business in South Africa by providing affordable air services within acceptable benchmark standards;
- Supports key South African state policies such as the National Developmental Agenda (NDA), New Growth Path, Airlift Strategy and the Integrated and Sub-Sector B-BBEE Charters of Transport through its strategic and tactical decisions;
- Optimises deployment of the Group's assets in domestic, regional (African) and other international markets to ensure alignment with market demand, maintain a disciplined approach to route network profitability and ensure tolerance levels for losses on specific routes are vigorously managed with high Board visibility;
- Supports new route developments, develop and effectively maintain alliance relationships to broaden network reach;
- Co-operates on network and schedule with Mango;
- Continues to strengthen its time-to-market with new business initiatives, and to optimise passenger and cargo revenue;
- Continues to compress costs;
- Implement risk management strategies;
- Continues to be customer-focused and to meet the unique needs of its customers;
- Achieves consistent, efficient and effective operations; and
- Fosters performance excellence and a culture of accountability.

Strategic initiatives

With regard to reporting, the Shareholder's Compact requires that the Board:

- Reports on the LTTS on a quarterly basis;
- Cooperates and participate with the DPE to review implementation of the LTTS;
- Participates in the 'Whole of State' aviation policy development;
- Ensures migration from yearly to quarterly data where appropriate.

In the compact, the airline undertakes to review the Group's mandate with its service providers, and also concludes Shareholder's Compacts with all its subsidiaries – compacts that are fully compliant with the spirit, rights, obligations and undertakings stipulated in the Shareholder's Compact.

For its part, the Board ensures that SAA complies with the provisions of the Companies Act, the Protocol, the Memorandum of Agreement, the Significance and Materiality Framework (SMF), and any other relevant legislation, regulations and guidelines issued by the National Treasury and or the Shareholder Representative. The SMF is designed to be read together with the Strategic Intent Statement issued by the Minister of Public Enterprises, the Shareholder, and the Memorandum of Incorporation (MOI) of SAA.

The SMF specifies two categories of transactions:

- Those that require ministerial approval; and
- Those that do not, but which must be communicated for information purposes.

The SMF outlines the steps and phases of notifications for the transactions of which the Minister must be notified.

Subject to the Companies Act, intra-Group transactions between wholly-owned local subsidiaries are not significant and are excluded from the provisions of the SMF.

Key performance indicators (KPIs) and evaluation

In the Shareholder's Compact, the parties agree there should be alignment between the achievement of strategic objectives and KPIs, with the compact ensuring that the Minister and SAA are in a position to agree on policy, financial and operational targets as reflected in the LTTS, the Shareholder's Compact and the South African Airways Corporate Plan.

A brief summary of the KPIs as specified in the Shareholder's Compact

KPI	Definition
Net operating profit (loss) (excluding aircraft impairments)	A measurement of operating profit that excludes interest, impairment and income tax expenses
Net retained earnings movement	Total net profit after deduction of interest and taxation expense
Net cash flow from operating activities	Cash resulting from ongoing, regular business activities. Does not include long-term capital or investment costs
Cargo revenue as a % of operating revenue	A measure of Cargo's contribution to SAA Group revenue
Customer satisfaction	The weighted average satisfaction level of standard and premium customers across a number of key touch points
Daily block hour	Block hour of a given flight is the time from the moment the aircraft pushes back from the departure gate until the moment the aircraft arrives at the arrival gate
On-time performance	A flight that operates within 15 minutes of it's schedule
CAA and ICAO requirements	Civil Aviation Authority and International Civil Aviation Organisation
Training spend %	Training expense as a % of the total labour bill (total cost to company)
Cadets	Trainee-pilots to accelerate direct entry to SAA (at flight school and on internship)
Technician training	Trainee artisans
Sector specific interns	Includes workplace experience for graduates and inservice training for under-graduates
% spend locally	Procurement spent on suppliers within South Africa
Spend on B-BBEE compliant companies as a % of local eligible spend	Compliant with the Broad-Based Black Economic Empowerment Act
% of local spend on black-owned entities	Entities owned by a black/person/people as defined
CSI	Corporate Social Investment

LEADERSHIP STATEMENTS

CHAIRPERSON'S MESSAGE

Duduzile Myeni
Chairperson

The end of the 2013/14 financial year falls within the year that marks two remarkable anniversaries – 80 years of South African Airways' existence, and 20 years of our great country's democracy. And just as important for the airline is that, as the national carrier, we are mandated by our Shareholder to reinforce and promote the economic, trade and social agendas of the thriving democracy in which we play such a significant role. Proud of a worldwide reputation built meticulously over its eight decades of operations and proud of its standing among South Africans whose loyalty it works hard to retain, it is in the very necessity of rising to meet its developmental obligation, along with the need to regain full commercial profitability, that the airline finds itself facing some undeniably challenging circumstances.

Subject as much as any other airline to the vagaries of the global economy and its impact on air travel and freight, SAA nevertheless faces some unique challenges. These unique challenges are issues that are addressed by the Long-Term Turnaround Strategy (LTTS) and these solutions were presented to our Shareholder in April 2013 and to Cabinet in July 2013. These challenges include: the state of our balance sheet and the critical need to invest in the business; the critical need for wide-body fleet replacement; the lack of aviation and related policy cohesion; and the ongoing challenge of the weakening rand. Some of these challenges can be addressed at the level of policy, others at the level of management, while one, the value of the rand relative to the dollar – although it can be mitigated to a degree by efforts in other areas – cannot be affected by any strategic intervention.

Operations and the role of the Board

The Board, in accordance with the terms of National Treasury Regulations, submits quarterly reports on performance (including LTTS implementation progress) against the Shareholder's Compact to the Shareholder, and represents the SAA Group annually in engaging with Parliament. Among the important considerations that are being addressed at Board level, with the Shareholder, are the means by which loss-making routes, that support our national developmental agenda can continue to be operated if not commercially sustainable.

When the business is segmented into its three principal components – domestic, regional (African) and international (non-African), it becomes clear that the first two are indeed profitable, and it is the international segment that remains a drain on operating performance. While SAA is proud to be the key instrument of international connectivity and to be an important component of South Africa's international trade and tourism equation, what is required for continued operations is a mechanism to underwrite the cost of operating these routes as occurs in other jurisdictions such as the United Arab Emirates and Australia. This matter is being dealt with by the Board, and possible solutions to this challenge are the subject of an ongoing dialogue between the Board and our Shareholder. Related to this is the question of expediting the required wide-body fleet upgrade.

Another critical strategic issue that requires a solution is SAA's end of hemisphere disadvantage, which we intend to address through the establishment of a hub in a higher hemisphere position than Johannesburg. Such a hub will facilitate tapping into the significant opportunities available to SAA as a world-class airline with the capacity to provide outstanding service across Africa. It will not only provide the basis for optimising the profitability of the airline's regional services, but will serve as a strong foundation enabling it to compete with other global airlines seeking to establish themselves on the continent. Promising engagements have taken place in West Africa, however, we recognise there is no funding to invest equity in any new business venture outside South Africa and we are seeking deep commercial partnerships as the immediate solution.

As mentioned, the policy framework SAA operates in lacks cohesion and there is the need to define a 'Whole of State' aviation policy framework, identified in the LTTS as a critical success factor for a successful State-owned airline and one of the matters designated in the Shareholder's Compact as a strategic initiative. This is a key aspect of the LTTS, and one that requires a great deal of coordination between Board and Shareholder.

National carriers, around the globe, benefit from their respective governments providing a policy framework that works to their advantage in their home skies. South Africa requires a similar policy framework that closely manages foreign airline capacity, establishes a visa regime that permits maximum ease and convenience of travel, ensures airport charges are competitive with adjacent hubs such as Nairobi and a range of other pro-South African initiatives. This will ensure that all South African airlines are given the best opportunity to succeed.

It is the Board's responsibility to convey the interests and concerns of the airline in this complicated arena, and I am pleased to say that cognisance has been taken of the issue and coordination has already begun at Ministerial level.

Governance

Boards are tasked with ensuring an effective governance framework is operating across a company, however, as a State-owned Company (SOC) operating in a strictly regulated industry, the SAA Board has further and very specific governance accountability. The airline is committed to operating with the utmost transparency and in the past few years a number of systems have been implemented as part of the organisation's efforts to achieve greater levels of governance and accountability to the Shareholder.

To ensure that SAA is equipped to meet these challenges in a way that is fair and transparent, the organisation is monitored and regularly reviewed by a number of independent bodies. Key organisations in this regard include the South African Civil Aviation Authority, as well as the US Federal Aviation Administration. In relation to our Government guarantee conditions, SAA is also closely monitored on a monthly basis by the Shareholder and National Treasury in a monthly performance monitoring meeting, where the financial, commercial and operational status of the Group is fully disclosed and reviewed.

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

Attention has been focused on key areas such as aviation safety compliance and customer care. Again, relevant policies and procedures have been put in place to ensure that the Group now adheres strictly to all requirements and is able to address challenges effectively. The Board and management are similarly committed to the acceleration of skills development and transformation in our industry.

With the well-established governance structures for thorough and diligent Board oversight and communication, and with the key strategic issues underlying the operational and logistical steps that need to be taken clearly delineated in the LTTS, I feel that despite the significant challenges that still remain, it is within the power of the airline, its management, Board and Shareholder, all working in partnership, to put in place the necessary requirements that will set the airline on a new footing of both commercial and developmental success.

Our employees

Notwithstanding the current challenges we face, our employees have worked diligently over the past eight decades and deserve a special acknowledgement. We remain indebted to them for the passion they continually display, often during the most trying of times. Over the last 80 years, our employees' collective effort has conquered adversity and showed resilience, resourcefulness and commitment to the business and South Africa and we will continue to display these qualities in the years ahead.

Duduzile Myeni
Chairperson

19 January 2015

LEADERSHIP STATEMENTS

ACTING SAA CHIEF EXECUTIVE OFFICER'S MESSAGE

Nico Bezuidenhout
Acting SAA Chief Executive Officer

There is a fundamental truth behind a thought I often share with friends, colleagues and business associates; a feeling of pride whenever and wherever one spots the SAA tail at airports around the world. It is a sense of undeniable patriotism, a South African spirit that flows through the very fibre of who we are as individuals and as a nation – come what may. Despite the daily challenges we face, the positive has never ceased to outweigh its opposite and it is this view that underpins our philosophy as South Africa's flag carrier; the ideal of consistent, constant and never ending improvement.

However, no simile can cloud the fact that SAA has been chasing its tail over the past decade. Deep losses, instability in leadership and flawed governance at times has resulted in an unending raft of negative sentiment directed at the business from all quarters – in many instances, deservedly so. But conversely the barrage of criticism has also veiled the fact that our business employs some of the most talented, visionary and forward thinking aviation professionals in the world. It should not be the case that a few rotten tomatoes spoil the entire harvest. And it is the input, passion and expertise of some of the very best of SAA's intellectual property that contributed to the development of the Long-Term Turnaround Strategy (LTTS) in 2013.

SAA is not a business with its head buried in the sand. Implementation of the LTTS was well behind schedule by late October 2014 and a date for the Annual General Meeting where this Integrated Report was to be delivered to and accepted by the Board and presented to South Africans, was an unknown. SAA was at risk of repeating its cycle for the umpteenth time; a Groundhog day of sorts where the result at the end of the day just remains the same. This is why the 90-Day Action Plan, and its rapid implementation, was a critical intervention to redirect the business onto the path of LTTS implementation and recovery. It is not a new strategy or a new plan at all. It is simply the acceleration of execution of vital aspects of the LTTS that fell by the wayside. The purpose: Business liquidity and a determined drive in the right direction. SAA akin with every other South African, has tired of chasing its tail.

The 90-Day Action Plan comprises six primary interventions:

1. Immediate address of the airline's liquidity position, ongoing solvency and medium-term funding requirements. Amongst the interventions are:
   a) Addressing the solvency and liquidity of the business and engage with its Shareholder and other stakeholders to ensure going concern status is maintained.
   b) Immediate review of the SAA network to stem losses.
   c) Focusing on working capital optimisation.
   d) Renewing cost compression efforts and expedite LTTS implementation that will immediately impact the income and cash flow statements.
2. Immediate investigation of options to future-fund the business:
   The initiation of a process to investigate and determine options for future-funding the business.
3. Substantial focus on governance defects and remedies:
   Immediate investigation and correction of any governance failures within the business. This includes a wide-ranging review of processes and command and control structures within SAA with particular reference to the implementation of the LTTS.
4. Legal and high-level governance:
   An immediate review of all contractual burdens and governance implications or defects within the legal framework of the company. This includes the review of onerous agreements, correction thereof and other matters that impact the framing of remedial activity; the re-establishment of foundation laying for LTTS implementation within a tight governance environment.
5. Reorganisation and optimisation of assets:
   Examination of all assets in the business and reorganisation thereof in terms of the requirements of the LTTS. This includes the formation of a holding structure within the Group that will incorporate all areas of the current structure within a broader 'Whole of State' approach to State-owned aviation assets. Further optimisation will occur in line with the approved interventions per the LTTS.

6. Improved communication:
   SAA will re-engineer its internal and external communication efforts to effectively communicate with all direct and indirect stakeholders and South African citizens, particularly with reference to the implementation of the 90-Day Action Plan as well as the LTTS.

It is these six factors that are irrevocably important to the relative stability of SAA and the full rollout of the LTTS. Through continued consultation with our new Shareholder, National Treasury, as well as drawing on their financial expertise and depth and breadth of experience, tangible differences will both be observed by South Africans and regularly and transparently communicated.

It's not all bad news though. In the year under review, SAA's cost-compression programme has yielded sustainable savings of R453 million, while a further R1,0 billion in sustainable savings was generated in the previous financial year. Termination of two loss making routes, Buenos Aires and Kigali-Bujumbura, further contributed substantial savings and cessation of flights between Johannesburg and Kigali-Bujumbura alone have banked R48 million in savings. Air Chefs has seen an improvement of R25 million and Mango generated record profits, continuing its profit track record within a highly competitive domestic market. Moving into the current calendar year, some interventions include network optimisation and a full review of every contractual engagement between SAA and its suppliers is expected to yield a further several hundred million Rand in retained funds.

Contextually the South African aviation market is not what it used to be either. The landscape has become highly competitive, and while economic conditions have resulted in declining passenger numbers, capacity has grown significantly over the past few years – domestically and internationally. It is this additional pressure that squeezes margins, requires smart commercial manoeuvring, marketing spend and second-to-second revenue management. It also serves as additional inspiration to make the business work well, and sustainably.

SAA's dual mandate may be summarised as follows: To be commercially sustainable and, as flag carrier, to support trade and economic enablement. It is this balancing act that further drives our resolve to reinstall the pride in our tail; a representation of the ideals of our nation.

Neither the 90-Day Action Plan, nor the LTTS are magic wands. These are roadmap documents that will guide the business' decision making process and commercial impetus for the next two decades. But a strategy is only as influential as an agent of change as the veracity of its implementation. The renewed determination within the ranks of SAA's employee body, the unwavering support of the Board along with the weight of support from our Shareholder, will realise this.

Nico Bezuidenhout
Acting SAA Chief Executive Officer

19 January 2015

LEADERSHIP

BOARD OF DIRECTORS

DUDUZILE MYENI (50)

CHAIRPERSON

Secondary Teachers' Diploma (Commerce), 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. She is the current President of Africa Water Association (AfWA), Chairperson of South African Association of Water Utilities (SAAWU), Mhlathuze Water Board and the Executive Chairperson of Jacob G Zuma Foundation.

An entrepreneur, business woman and a philanthropist, she was the founder and CEO of Skills Dynamics, consulting for various blue-chip companies such as BHP Billiton, RBM and others. She has previously served on the Board of Absa Bank, was a board member of Trade and Investment KwaZulu-Natal, a South African trade and inward investment promotion agency and was a Deputy President of the Zululand Chamber of Commerce and Industry.

In 2001 she was nominated by Investec Private Bank and *Sunday Tribune* for a Woman Entrepreneur award, and was a winner of the SABC 3/Shoprite Checkers Woman of the Year Award in the Education Category. She was also the first woman to win the prestigious South African Philanthropist Award in 2007. In 2009, she was nominated as Businesswoman of the Year by the South African Chamber of Commerce (SACCI). She is one of the founding members and a stalwart of the Black Business Council. Ms Myeni has been an honorary member of Lattice (USA) since 2007 and is a current member of the Institute of Directors.

ANDILE KHUMALO (36)

CA(SA), Bachelor of Commerce (Accounting), Post-Graduate Diploma in Theory of Accounting (University of KwaZulu-Natal)

A Chartered Accountant by profession, Mr Khumalo is the Chief Investment Officer of MSG Afrika, a black-owned media and communications group with interests in PR, eventmanagement, advertising, radio broadcasting, outdoor advertising, TV production, radio production and printing.

Mr Khumalo started his career in auditing and financial management with Deloitte. After spending three years with the Deloitte, Durban office, he was seconded to the Deloitte Houston (US) office, where he served as a senior auditor on the financial and compliance audit of the then largest producer of natural gas liquids in the US reporting to the Securities Exchange Commission (SEC). Thereafter, Mr Khumalo joined Investec Corporate Finance until 2004 when he left Investec to start his own investment company, which held interests in management consulting and logistics. In June 2007, Mr Khumalo joined MSG Afrika.

In addition to serving on the boards of MSG Afrika group companies, Mr Khumalo has also served as a director of Sasol Inzalo Groups Limited, was a member of the Financial Services Board's Directorate of Market Abuse, and is the former Treasurer of the Black Business Council. Mr Khumalo is a former President of The Association for the Advancement of Black Accountants of Southern Africa (ABASA). He is a member of The Takeover Regulations Panel (TRP), appointed by the Minister of Trade and Industry and also serves as Chairman of the Panel's Audit Committee. He is also the founder of MyStartUp, an online platform for entrepreneurs that seeks to find, develop, motivate and support aspiring and existing entrepreneurs.

ANDILE MABIZELA (45)

BSc Economics (Hons) (University of Zimbabwe), LLB (University of KwaZulu-Natal)

Mr Mabizela is a member of the South African Institute of Financial Markets and an attorney admitted under the South Gauteng High Court. His financial services experience includes working at HSBC, Stanlib and Liberty Africa Asset Management where he served on several Liberty Africa Asset Management boards. Mr Mabizela is previous Executive Vice President Commercial at SAA and has served at the airline in other executive positions. He is currently Executive Director responsible for New Business at Afrilog SA, a company specialising in integrated supply chain solutions for mining, oil, gas, and construction and infrastructure sectors.

YAKHE KWINANA (49)

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

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

BONGISIZWE MPONDO (38)

BSc Hons (Town and Regional Planning) (Wits University)

Mr Mpondo, a social entrepreneur, has extensive experience in the fields of transportation planning, development planning, project management and strategy development. Currently Managing Director and founder of SAFIRI (Pty) Ltd, a transportation planning company, he has served in board positions at the Cross-Border Roads Transport Agency, as Freight Transport Expert at the Gauteng Transport Management Agency and at African Tramways. Prior to managing his own businesses, he was employed at the Council for Scientific and Industrial Research (CSIR: Transportek), the Gauteng Provincial Government's Office of the Premier, as Director for Growth and Development and the Road Freight Association as Policy and Regulation Head. Amongst his various activities, he is also a co-founder of the Institute for Transport and Sustainable Development (ITSD) whose major objective is to provide sustainable transport solutions.

His portfolio of projects ranges from freight and public transport plans, freight databanks and freight logistics hubs amongst others. His awards include the 2001 CSIR: Transportek Outstanding Achievers Team Award, the 2002 CSIR: Transportek Young Professional Award and a nomination for the 2003 CSIR Young Professional Award. He is also the co-author of numerous works in the transportation field.

RAJESH NAITHANI (43)

MBA, PhD (Medicinal Chemistry)

Dr Naithani's professional research experience has included extensive stints with the IFIM Business School and the Mukti Mission and Shankracharya Charitable Trust Hospitals in India, where he gained specialised sales and marketing skills by helping to expand and implement various promotional projects, as well as raise funds and increase revenues. His positions included working with the private sector to create jobs for youth, launching a voluntary blood donation project and cleaning the Ganges River and its tributaries. He has worked with the Cancer Research Institute of HIHT University and served as an advisor to the CM Uttarakhand Government in Dehradun. In the USA he was the leading scientist in cancer drug discovery for the Illinois Institute of Technology Research in Chicago, as well as an Assistant Professor at the University of Illinois.

He has in-depth knowledge of synthetic organic and analytical chemistry, modern laboratory techniques, instruments and safety practices, radiation and hazardous materials safety training.

He has been an officer on special duty to the Indian Commerce and Industry Minister and is currently Pro Vice Chancellor of Bharath University. He is a board member of a number of private companies.

LEADERSHIP

BOARD OF DIRECTORS

NONHLANHLA KUBEKA (44)

Secondary Teacher's Diploma, BCom (Accounting) (UJ), MBA (Strategic Marketing) (Milpark Business School), Executive Leadership Diploma

Ms Kubeka has extensive expertise in the areas of strategy, leadership, financial planning and reporting, yield management, brand and marketing, and meetings, incentives, conferences, and exhibitions (MICE). She holds numerous certificates in subjects related to these fields, as well as in promoting South Africa in the tourism industry.

She is a member of numerous local and international professional organisations, including the Southern African Association for Conference Industry (SAACI), Destination Marketing International (DMAI) and Deputy Chairperson of the African Chapter of the International Conference and Convention Association (ICCA). Appointed as Executive: Destination Marketing for Gauteng Tourism, she has a wealth of experience in marketing both 'Brand South Africa' and the country's national carrier to an increasing international tourist trade, as well as in attracting international investors to the country.

Her career began when she served her articles with Grant Thornton and her previous positions include Executive Manager: Commercial for the Cape Town International Convention Centre, Senior Manager: Direct Marketing for Standard Bank (Corporate and Investment) and Investor Relations Manager: Transnet Group. She has also served as a Non-Executive Director of Cape Town Tourism and the Sandton Tourism Association.

CAROL ROSKRUGE (41)

BSc (Hons) (University of KZN), MSc (Biochemical Sciences) (University of KZN), MBL (Leadership and Corporate Governance) (Graduate School of Business Leadership, Unisa)

Ms Roskruge was appointed in September 2012 and serves the SAA Group as a member of the Audit and Risk Committee, Procurement and Tender Processes Committee, Board member of Airchefs and Board Chairperson of South African Travel Centre (SATC). She has 13 years' executive and senior-level experience in general business management, having held various positions in the private (FMCG, food and beverages, oil and gas) and completed consulting projects in the public (health, transport and local government) sectors.

Her work experience is focussed on shareholder value-creation in the areas of supply-chain management, procurement/strategic sourcing, sales and operational planning, marketing/ brand development and commercialisation of products, as well as, management of outsourced operations. She has extensive experience in the development of business strategies and leading cross-functional teams in the implementation of strategy. Her most recent roles have included driving B-BBEE (Preferential Procurement, Enterprise and Supplier Development) scorecard performance through the successful integration of Black Women-owned businesses into SAB's supply chain and contributing to supply chain strategic projects at SAB Ltd. Her achievements include leading Unilever South Africa and Avroy Shlain Cosmetics towards successful ISO 9001 accreditation for quality assurance and the recipient of an Oscar Award from Unilever South Africa for driving cost effectiveness and a Procurement Excellence Award from SAB Ltd for successfully championing B-BBEE.

Ms Roskruge also serves on the Group Performance Audit Committee (GPAC) at the City of Joburg. She also has professional associations with the Institute of Directors of South Africa (IoDSA), Black Management Forum (BMF), Procurement Leaders and South African Production and Inventory Control Society (SAPICS).

RAISIBE LEPULE (37)

BAdmin (Economics and Public Administration) (University of KwaZulu-Natal), BAdmin Economics (Hons) (University of KwaZulu-Natal), MPhil (Maritime Studies) University of Stellenbosch), Certificate in Project Management

Ms Lepule has extensive experience in public governance and administration. She was Business Development Manager at Viamax Logistics, where she led the Zimbabwe relief food (grain) logistics project that won Viamax the coveted Logistics Achiever Award in 2002. She also worked for Bidvest Group's Rennies Cargo Terminals before joining the public sector in 2003. She was previously Deputy Director-General at the Department of Public Enterprises (DPE), responsible for overseeing the DPE's transport enterprises portfolio, including South African Airways' transition into a successful national carrier and the strengthening of South African Express (SAX) as a regional carrier. In 2012 she joined Transnet SOC Ltd as Group Executive: Transnet Property, responsible for the administration and turnaround of the entity's non-core property portfolio of residential, commercial and vacant land.

In her current role as Group Executive: Results Management Office (RMO) she is responsible for strategy execution of Transnet's Market Demand Strategy (MDS) that entails a seven-year capital investment of over R300 billion in transport infrastructure. She also monitors and reports on the Company's performance against Shareholder expectations. Ms Lepule is also a member of the Businesswomen's Association of South Africa.

LINDIWE NKOSI-THOMAS* (43)

BJuris, LLB

Appointed to the Board in September 2009, Advocate Nkosi-Thomas was 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 served on the Mango Board of Directors and was 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.

Adv Nkosi-Thomas serves as Chairperson of the Appeals Board of the Financial Services Board. She also serves as a member of the Board of Trustees of Government Employees' Medical Scheme and is Chairperson of its Governance and Nominations Committee. In 2008 she served as Non-Executive Director of Soul City Broad-Based Empowerment and was Vice-Chairperson of the Advertising Standards Authority Tribunal of South Africa in 2007 and 2008.

MONWABISI KALAWE (53)

CHIEF EXECUTIVE OFFICER

BSc (Elec Eng) (University of KwaZulu-Natal), MBA (UCT Graduate School of Business)

Mr Kalawe is also the Chairman of AFRAA and was elected as a Board Member of South African Tourism. Before taking up his role as Group CEO in June 2013, he had been the Country Managing Director of Compass Group since 2008. A highly-esteemed business mind, Mr Kalawe began his career in 1988 as an engineer-in-training at Eskom, a State-owned Company. In 1994 he joined the FMCG giant, Nestle South Africa, as a factory engineer. No stranger to the aviation industry, Mr. Kalawe joined Airports Company South Africa (ACSA) in 1998 as the executive responsible for Cape Town International Airport. He served in that position for six years before leading the Total Facilities Management Company (TFMC) as Chief Operating Officer in 2004 and Denel Munitions as Chief Executive Officer in 2006.

WOLF MEYER (53)

CHIEF FINANCIAL OFFICER

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

Mr Meyer was appointed Chief Financial Officer of the SAA Group in June 2011. Prior to that, he was Chief Financial Officer at the Land and Agricultural Development Bank of South Africa and part of the team responsible for the successful turnaround of the Land Bank.

He previously served as Chief Financial Officer of private equity company Brait SA for five years and, prior to that, held senior financial positions in several financial institutions. He has a strong background and extensive local and international listing experience.

His career began in 1987 when he commenced his articles with Ernst & Young.

* *Adv Nkosi-Thomas resigned as a member of the Board effective 23 February 2014.*

LEADERSHIP

GROUP EXECUTIVE COMMITTEE

SANDILE DLAMINI (54)
COMPANY SECRETARY

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

Mr Dlamini provides Company Secretariat services to the SAA Group. He is admitted as an Advocate of the High Court of South Africa and a member of the National Bar Council of South Africa.

An experienced legal counsel and company Secretary, he also serves as a member with special expertise on the Audit and Risk Committee of the University of KwaZulu-Natal.

TLELI MAKHETHA (54)
GENERAL MANAGER: CARGO

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

An admitted attorney, Mr Makhetha was appointed GM of SAA Cargo in December 2010. He was previously with SAA Cargo as Executive Manager: Networks and Alliances and later Executive Vice-President from 2001 to 2004.

Prior to that, he has at various times served as Legal Advisor at JCI, Executive Manager: Fuel (Coal) Procurement at Eskom, Executive Director at Safair and Divisional Secretary (Aviation Division) at Imperial Holdings. Before re-joining SAA, he consulted to a number of organisations as a business coach. He currently also serves on IATA's Cargo Committee.

THULI MPSHE (54)
GENERAL MANAGER: HUMAN RESOURCES

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

Ms Mpshe started her career in Banking, and worked at two of the three top Banks in South Africa.

Between 2001 and 2003, she was Executive Manager: Human Resources at SAA Cargo and Executive Manager: Human Resources for SAA's Operations department. From 2003 to 2010, she was Executive Director: Human Resources at Makro, part of Massmart Holdings, and then re-joined SAA in September 2010 in her current role.

She served as a council member of the University of Zululand for seven years and Chairperson of the Board for Kids Haven, a home for street children in Benoni, for seven years.

KENDY PHOHLELI (43)

GENERAL MANAGER COMMERCIAL (ACTING)

Postgraduate Diploma in Business Administration (University of Cape Town, Graduate School of Business), Certificates in Corporate Governance and Board Effectiveness (Institute of Directors Southern Africa), Advanced Leadership and Change Management (Arab Air Carriers Organisation). Holds a Private Pilot Helicopter Licence, and Restricted Flight Radiotelegraph Operators Certificate.

Mr Phohleli joined SAA from being a Senior Aviation Consultant offering consultancy and project management in Africa to the aviation industry, in strategy, distribution, sales, marketing, operations, business finance and talent management. Prior to that, he worked at Qatar Airways for nine and a half years starting as Sales Manager South Africa, and later serving as Corporate Sales Manager in Doha, Qatar, before being appointed Country Manager for Turkey, then Kenya and later Southern Africa. While at Qatar Airways, he was also responsible for internal and external stakeholder engagement, overseeing the launch of numerous new routes, and driving strategic decisions to implement revised schedules which resulted in increased frequencies and yields. Responsible for implementing strategy, his work resulted in the negotiation of numerous bilateral agreements. Prior to working at Qatar Airways, he held positions at SWISS International Airlines, STA Travel, Lufthansa, KLM and at US Airways.

BARRY PARSONS (55)

CHIEF STRATEGY OFFICER

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

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

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

In 2013 he and the then SAA Acting CEO led the executive Task Team in the development of the Group's Long-Term Turnaround Strategy.

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

ZUKISA RAMASIA (52)

GENERAL MANAGER: OPERATIONS

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

Ms Ramasia has had an illustrious career of more than 20 years in airline operations in roles such as Cabin Crew Daily Operations Manager, Senior Manager of Crew Movement and Global Operations Control Centre Head. Her skill lies in ensuring operational efficiency through effective planning for on-time departures and arrivals during normal and irregular operations, identifying bottlenecks and providing optimum solutions.

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

LEADERSHIP

GROUP EXECUTIVE COMMITTEE

URSULA NOBULALI FIKELEPI (41)
GENERAL MANAGER:
LEGAL, RISK AND COMPLIANCE

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

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

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

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

Prior to her present position at SAA, she joined Absa Bank in 2011 as Chief Operations Officer: Group Legal, where she focused on establishing, and implementing governance processes, legal management information, legal financial management, legal risk management, legal strategy and operations for Absa Legal.

BULELWA KOYANA (44)
CHIEF EXECUTIVE OFFICER:
SA TRAVEL CENTRE

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

Ms Koyana took up her position as CEO of South African Travel Centre in September 2011, having spent over 10 years at SAA in various positions, including Regional General Manager: Direct Sales Channels, Executive Manager: SAA Global Call Centres, Senior Manager: Reservations, Manager: Alliance Sales and Manager: Corporate Sales. Her involvement with SATC dates back to 1996, when she was part of the team responsible for implementing the SATC concept (then called SAA City Centre) with Lufthansa City Centre on behalf of South African Airways.

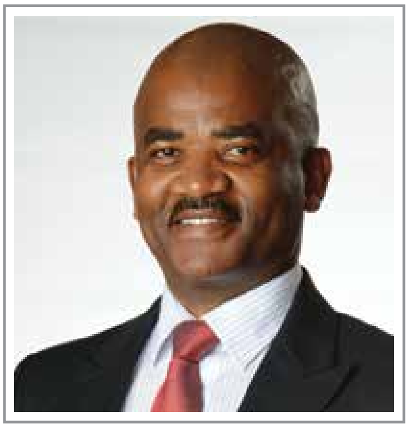
She was previously CEO of Business Process-enabling South Africa (BPeSA), an industry association promoting business process services and offshore activities in South Africa in collaboration with the Department of Trade and Industry and the Business Trust.

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

MUSA ZWANE (51)
CHIEF EXECUTIVE OFFICER:
SAA TECHNICAL

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

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



NICO BEZUIDENHOUT (37)
CHIEF EXECUTIVE OFFICER: MANGO

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

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

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

MARTIN KEMP (45)
CHIEF EXECUTIVE OFFICER (ACTING): AIR CHEFS
BCom (Unisa)

Mr Kemp started his career at Transnet, working for the Spoornet and Autonet divisions. He subsequently joined SAA where he has filled various roles in the Human Resources (HR) and Operations fields over a period of 21 years. As an HR practitioner he has worked in general HR management and employee relations. In operations he has been responsible for cabin crew operations, operations training and in-flight services. While assisting at Air Chefs, the position he currently holds at SAA is HOD In-flight Services.

PHINDA NCALA (52)
CHIEF INFORMATION OFFICER
BSC (Management Information Systems) (Bridgewater State University, Massachusetts USA)

Mr Ncala was appointed Chief Information Officer of SAA in December 2013. Prior to that, he spent three years as CIO at Neotel (2010), where he was a member of the executive team. Before joining Neotel, Mr Ncala worked at the MTN Group which he joined through one of the operations at its start-up phase, remaining with the company as it grew into a well-established and profitable business. Beginning with the company in Swaziland, he worked at various operations in Africa as CIO, serving as a member of the executive team and on a number of committees. In 2005, Mr Ncala was seconded to MTN Uganda as CIO for a period of six years. Prior to 1998, Mr Ncala worked for various banks at management level within their information technology divisions.

MANDATE, STRATEGY, PERFORMANCE

The Long-Term Turnaround Strategy is founded on five strategic pillars, which now form the basis of gauging the Group's performance. The first two of these strategic pillars: to achieve and maintain commercial sustainability and to support South Africa's National Developmental Agenda (NDA) form the dual mandate that the Group is required to fulfil as a State-owned company (SOC) with National Treasury as the Shareholder.

The Long-Term Turnaround Strategy: Introduction

With the difficulties that the SAA Group has been facing for a number of years, the various and frequent senior management changes, and in the light of ongoing poor results, a clear need for a long-term strategy to turn the Group around was identified by the Minister of Public Enterprises.

At a Board meeting in the previous financial year, the Board set out to complete a strategy by March 2013. The development of the document, to be known as the Long-Term Turnaround Strategy (LTTS) began in January 2013, with the formation of an Executive Task Team, established to work directly with the Board LTTS sub-committee.

In February 2013, the Shareholder assigned a representative to join the Executive Task Team, and in March 2013 the final output by staff was received and incorporated into the LTTS. Subsequently, also in March 2013, the Board approved the LTTS and its submission to the Minister.

Finally, in September 2013, the LTTS briefing to the Portfolio Committee on Public Enterprises was held.

These are the key steps in the history of the initiation and development of the LTTS, and the scope of the document encompasses a holistic description of the state of the Group at the time of the document's inception, and the problems engendered by that situation; a thoroughly researched analysis of the external and internal contexts of the industry in which the Group operates; far-reaching proposals for the phased and effective implementation of structure, policy and approach; the risks and opportunities facing the organisation; analyses of indicators to inform action; and practical means of setting and reaching targets over the short, medium and long term to turn the Group into a successful, profitable, and sustainable business.

The LTTS and its initiatives are reported back to the LTTS Board Committee. These initiatives are paramount for the achievement of SAA's strategic objectives.

The LTTS is founded on five strategic pillars, which now form the basis for gauging the Group's performance:

- To achieve and maintain commercial sustainability;
- To support South Africa's National Developmental Agenda (NDA);
- To provide excellent customer service;
- To achieve consistent, efficient and effective operations; and
- To foster performance excellence.

The first two of these strategic pillars also form the dual mandate that the Group is required to fulfil as a SOC.

The developmental mandate: to support South Africa's NDA

The developmental mandate requires the Group to contribute to the South African GDP, and to foster job creation and skills development.

The Group's contribution to GDP is evident in four distinct channels:

- **Direct** – The output and employment of the Group in passenger and cargo services, maintenance, on-board services and the Travel Centre services;
- **Indirect** – The output and employment supported through the Group's South African-based supply chain, including fuel, ground-handling, IT, business services, hotel expenses and facilities;
- **Induced** – Employment and output supported by the spending of those directly or indirectly employed by the

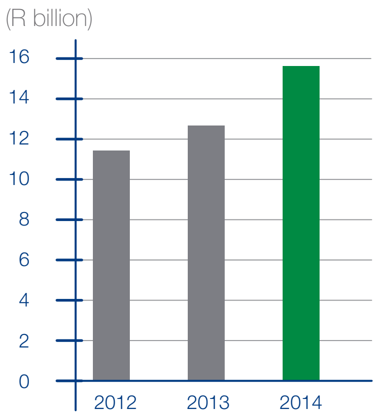
Group's activities, including the areas of food, beverages, recreation and household goods; and

- **Catalytic** – Spill-over benefits associated with the airline sector. Some of these include the activity supported by the spending of foreign visitors travelling to South Africa by air, and the level of trade directly enabled by the transportation of merchandise. This spill-over is reflected in the trade, tourism and connectivity sectors.

Both indirect and direct contributions also embrace a tax component comprising income tax, aviation-related fees and VAT.

The Group has a significant footprint in South Africa's economy, supporting 0,3 percent of South African GDP and 34 000 jobs or 0,3 percent of the South African workforce. When the sector's contribution to the tourism industry is included, these figures rise to 0,7 percent of South African GDP and 85 400 jobs, or 0,6 percent of the workforce. The importance of the economic footprint is set to continue in the future, both directly and through the sector's contribution to the tourism industry. In the longer term, and with the realisation of the LTTS, it is expected that by 2025 the Group will support 107 000 jobs, equivalent to 0,7 percent of the workforce, and 0,7 percent of the nation's GDP.

SOUTH AFRICAN JOBS AND OUTPUT SUPPORTED BY SAA GROUP 2013



Indirect and induced contribution

By bringing foreign visitors to South Africa, the Group enables the tourism industry to contribute towards GDP and support jobs in the industry. In an estimate by Oxford Economics, the travel and tourism industry directly employs 615 000 people, and supported indirectly through its supply chain are a further 451 000 jobs. An additional 312 000 people are supported through the household spending of those people directly and indirectly employed by the travel and tourism sector. Of these jobs, it is estimated that 25 900 (direct), 13 800 (indirect) and 11 500 (induced) are supported through the spending of foreign visitors who travelled by air using SAA Group flights.

The wider context: Catalytic contribution

In the year under review, the travel and tourism industry directly contributed R158 billion to the South African GDP: R125 billion indirectly through the output it supports down its supply chain and a further R73 billion through the induced effects of consumer spending. When considering only the contribution linked to the spending on South African produced goods and services by foreign visitors arriving via SAA flights, the sector contributes a total of R12,4 billion to the South African economy. This breaks down into R6,2 billion directly, R3,7 billion indirectly and a further R2,5 billion through induced effects.

COMMUNICATION OF THE LTTS

Since the finalisation and communication of the LTTS, there has been a number of Executive Briefs to staff on aspects of the strategy. There has also been an average of one related media release every two weeks, along with company-wide communication and implementation of the new Group's vision and mission statements. Stakeholder events have been held where captains of industry and practitioners in the travel trade were addressed.

Direct contribution

The Group carried 9,3 million passengers (approximately 36 percent of all airline travellers) and 132,000 tonnes of freight (approximately 25 percent of all freight) to, from and within South Africa in the year under review.

The Group thus maintains a significant footprint across the South African economy, supporting 0,3 percent of GDP and 34 000 jobs, or 0,3 percent, of the country's workforce. In applying the principles of the LTTS, the Group aims to increase its effectiveness in fulfilling this aspect of its NDA mandate.

The tax contribution

The Group makes a significant contribution to the South African fiscus via income tax generated through employee salaries, VAT, and the aviation sector's indirect and induced impact and passenger taxes, to make a combined total generated through the Group's economic footprint of over R4 billion.[1]

There are other facets of the Shareholder's NDA-focused mandate; fostering job creation and skills development. Initiatives have been put in place across the Group to address these requirements. These initiatives stem not only from the implications of the NDA, but also from the Group's values as articulated in the LTTS.

Safety

SAA conducted the following operational safety and compliance programmes during the year under review in order to provide assurance and continual improvement in operational areas and standards:

- **Internal operational safety audit:** The average rate of 13,1 percent non-conformance to standards and recommended practices reflects a 50 percent improvement on the previous fiscal year;
- **Annual air operator's certificate (AOC) audit:** An AOC certificate is required by law in order to engage in airline operations, and the AOC audit results have consistently improved year-on-year from 2008 to 2013. The 2013 audit was conducted by the South African Civil Aviation Authority (SACAA) from 4 to 7 June with all findings closed and the new AOC issued and remaining valid until 30 June 2014; and
- **IATA operational safety audit (IOSA):** IOSA certification is a prerequisite for both IATA and STAR Alliance Membership, and the fifth SAA IOSA audit, conducted on approximately 930 standards and recommended best-practices, was completed with all findings closed and IOSA recertification, valid for two years, awarded on 9 September 2013.

The beginning of 2014 saw the introduction of a holistic quality management system with a customer service audit schedule developed and implementation commenced in order to ensure continual improvement in customer touch-point areas. The quality assurance programme will be further developed in line with ISO 9001 principles over the next three years.

Group Safety has made inroads in flight, cabin, cargo, and airport operations with the aim of implementing safety structures from the top down. A further enhancement supporting the objectives of Group Safety was the integration of Quality Assurance in the last quarter of 2013. The SMSQA integration has already benefited from staff utilisation and integration, as well as the standardisation of risk assessments and values.

The introduction of the newly procured Safety Data Base will take Group Safety to the next level in safety management, aligning SAA with world best-practices moving to web-based, paperless reporting, and resulting in cost reduction and further support of SAA environmental initiatives. The data base also has the capacity to manage all of the Quality Audit Programme, audit schedules and tracking requirements.

Group Safety has instituted a risk-based approach to all inspections, with the emphasis on all current and new SAA destinations. This philosophy now also applies to all processes and procedures within Group Safety. A 'Significant Issue List' (Risk Register) has been established with a supporting detailed risk-assessment process known as 'Isolated Risk Assessment'. This process has produced positive results since implementation in flight operation, airport assessments and with the South African Civil Aviation Authority (SACAA).

1 *Oxford Economics, South African Airways: Its current and potential future impact on South Africa's economy (May 2013)*

Further enhancements in managing flight data have been achieved by setting up a Flight Data Office under Group Safety for the analysis of flight performance, in support of the Group's mission to move to a predictive safety management process.

The relationship between SACAA and SAA's Group Safety Office has been strengthened and a strong partnership has been established in order to achieve and maintain compliance. The SACAA has accepted without reservation all the completed and submitted risk assessments on different means of compliance.

THE DEVELOPMENTAL MANDATE

HUMAN RESOURCES – BUILDING ORGANISATIONAL CAPABILITY

SAA has also started building its talent pipeline through the implementation of a formal Graduate Programme, which is aimed at creating a source of talent, not only for critical areas within the business, but also for the aviation sector in general.

Overview

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

The company remains committed to its corporate value of Valuing Its People and takes employee satisfaction, development and well-being to heart by treating employees with respect, dignity and fairness.

The focus of HR for the year under review revolved around implementation of the LTTS, with the key themes being performance management, productivity, accountability and succession planning.

As at 31 March 2014, the SAA Group employed a committed workforce of 11 491 passionate and skilled people, and is committed to growing the business and developing its employees. To support this commitment, a broad range of exciting initiatives was implemented over the review period.

Organisational structure: Accountability

In order to ensure Group alignment so that structures are able to deliver the LTTS, a highly reputable external service provider was engaged to assist in conducting benchmark studies of other airlines and companies. The process of organisational redesign has been completed. The new LTTS-aligned structure has been approved, with the CEO now having 11 direct reports, with increased accountability, a number in line with normal trends.

New Growth Path (NGP) initiatives

SAA strives to implement programmes that prepare South Africa's unemployed youth to take on a progressive career journey. SAA Group's Youth Development Programmes are therefore designed to provide experiential learning in the workplace.

SAA continued its approach of an integrated focus on youth development by conducting career days for youth in disadvantaged communities. SAA is committed to the greater objective of our country's National Developmental Plan aimed at capacitating youth with relevant skills to enter the labour market.

SAA successfully applied and received a 91,2 percent higher Discretionary Grant from the Transport Education and Training Authority (TETA), which boosted the annual training budget.

Graduate Programme

With the aim of retaining talent after the completion of the development programme, graduates obtain a significant amount of exposure and experience in the workplace. The programme further supports SAA in building its brand in the market as an 'employer of choice'.

Graduates are placed in either a specialised or a generalist programme, based on business demands and critical skills areas.

The Graduate Programme supports top graduates in the following degree fields: International Relations, Logistics Management, Marketing, Auditing, Risk, Governance and Compliance, Business Management/Administration, Mechanical Engineering, Aeronautical Engineering, Transport Economics or Management, Project Management, Information Technology or Management, Mathematics/Statistics/Economics, and Financial or Management Accounting.

In addition to the youth initiatives such as the internship and the graduate programmes, SAA offers the SAA Technical Apprenticeship Programme, with apprenticeships in a range of specialised aircraft engineering disciplines, including mechanical engineering, electronic engineering, in-flight entertainment specialties, electroplating, composites and aircraft spray painting.

The SAA Technical Apprentice Programme is increasingly focusing on supporting the airline's employment equity objectives. Together with the Shareholder, a target was set to train 100 apprentice technicians, with an increased focus on females. The target was exceeded, with a total of 142 trained in the year under review.

Specialist development programmes

These programmes were created to address diversity and skills challenges in specialist roles in areas such as Flight Dispatch, Navigation, Route Analysis and Performance Analysis. As part of the initiative to achieve diversity, trainee positions were created in the respective areas for previously disadvantaged individuals. The trainees undergo structured training for three years and are bonded for five years after successful completion of their training.

Cadet Pilot Development Programme

When it comes to scarce and critical skills, the focus has been on designated groups. With white males still constituting an 85 percent majority of pilots, the Group was able to employ 33 cadets, of whom nine are women, exceeding the NDA target of 30.

The Cadet Pilot Development Programme is one of SAA's flagship youth programmes. Candidates on this programme gain knowledge, skills and abilities in the functions and core competencies required for the job role of entry-level pilot. In addition, the programme may open the door to future potential working opportunities within SAA. The curriculum includes: Preparation Training; Technical Training; Aviation Medicine; Ground School and Flying Training.

The programme has an annual intake and extends over 18 months. Through a bursary option, it also provides an opportunity to staff who aspire to become pilots.

Further to the training of cadet pilots, we are focusing on the direct intake of fully qualified (with a minimum of 1 500 hours) pilots from feeder airlines. This serves to address the turnover and retirement of pilots.

The table below refers to the demographics and the number of the direct intake pilots that were employed for the year under review.

INTERNSHIP PROGRAMME

The SAA Internship Programme provides youth with the opportunity to gain valuable work experience for a six- to 12-month period. Interns benefit from being exposed to the world of work and the aviation environment in particular. Upon completion of the programme, interns are better prepared for a working role in their career fields of study. The programme also acts as a feeder to the Graduate Programme. The programme saw 60 such interns engaged during the year under review, meeting the National Growth Path (NGP) target.

PILOTS APPOINTMENT PROGRESS FOR THE 2013/14 FINANCIAL YEAR

	AFRICAN			COLOURED			INDIAN		
	Current	Appointments	Targets	Current	Appointments	Targets	Current	Appointments	Targets
Male	55	3	62	27	3	28	42	2	44
Female	4	0	7	2	0	4	4	0	6
Total	59	3	69	29	3	32	46	2	50

Skills development (B-BBEE)

The SAA Academy of Learning achieved a score of 9.1/15 in the verification for the financial year 2012/13 in the B-BBEE skills development pillar, making a significant contribution to SAA being classified as a Level 4 skills development contributor. Although the evaluation was for 2012/13, it was conducted in 2014.

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

NUMBERS AND DEMOGRAPHICS OF TRAINEES GRADUATING FROM PROGRAMMES IN FY2013/14

	ACHIEVED/TARGETS	GENDER	
		Male	Female
Internships (includes graduates)	60/60	24 African males	32 African females 4 Coloured females
Apprentices	142/100	95 African males 2 Coloured males 1 White male	42 African females 1 Coloured female 1 Indian female
Cadets	33/30	10 African males 3 Coloured males 7 Indian males	8 African females 1 Coloured female 4 White females

THE DEVELOPMENTAL MANDATE

HUMAN RESOURCES – BUILDING ORGANISATIONAL CAPABILITY CONTINUED

With the unions being important stakeholders, in 2013 the Group for the first time initiated a training and career path development for full-time union representatives (FTURs) and Shop Stewards. The training also included conflict resolution, negotiation skills and company policies.

As part of the HR strategy to build leadership capability, the Supervisory Development, Management Development Programme (MDP) (for middle management training), and Senior Management Development Programme (SMDP) and Leadership Development Programme (LDP) have been instituted for senior management training. Research topics associated with these programmes will focus on the initiatives of the Long-Term Turnaround Strategy.

Staff turnover

SAA has maintained a low staff turnover of over 4,41 percent in the past year, in comparison to other South African companies at a 9,5 percent average. SAA's average turnover due to retirement is 1,11 percent compared with 0,6 percent and 1,2 percent for other South African companies with 50 percent of employees under the age of 40, the airline has a young workforce. This indicates an ability to build a talent pipeline over a period of time for sustainability.

SAA's age profile*

18 to 19 years	0,05%
20 to 29 years	12,90%
30 to 39 years	37.37%
40 to 49 years	29,77%
50 to 59 years	16,81%
60 to 63 years	3,10%

* *Includes Corporate, Cargo and Technical as at March 2014*

Transformation and employment equity

SAA continues to drive transformation as part of its strategic objectives, and over the years the organisation has set targets to improve its workforce profile. The airline believes in Affirmative Action, equal opportunities for women and employment equity for people living with disability. The airline works hard towards improving its current 50,6 percent ratio of women in its employ and its 0,6 percent age of people with disabilities, aiming for 3 percent over the next three years.

In the final B-BBEE verification, management and control achieved a score of 17/17 and employment equity achieved a score of 17,8/27.

The Department of Transport (DOT) has set industry-specific targets for all stakeholders to fast track implementation of Employment Equity. The improvements in the process of implementing the Employment Equity Act earned SAA an accolade as one of the most improved companies in achieving its employment equity goals from the Employment Equity Commission in its 2012-2013 annual report. The acknowledgement was for showing progress since receiving a compliance order from the Department of Labour.

In all, the Group has exceeded the Department of Transport targets in the categories of senior management, pilots and technicians, although it is still lagging in terms of people with disabilities.

A YOUNG WORKFORCE

SAA has maintained a low staff turnover average of over 4,41 percent in the past year, in comparison to other South African companies at a 9,5 percent average. SAA's average turnover due to retirement is 1,11 percent compared with 0,6 percent and 1,2 percent for other South African companies.

With 50 percent of employees under the age of 40, the airline has a young work force. This indicates an ability and potential to build a talent pipeline over a period of time for sustainability.

	ACTUAL TARGET	BLACK		
Occupational level		**Total%**	**Male**	**Female**
Top management	SAA achieved	75 ▲	37,5 ▲	37,5 ▲
	DOT target	38	21,5	16,5
Senior management	SAA achieved	67,6 ▲	38 ▲	29,6 ▲
	DOT target	43	21,5	21,5
Pilots	SAA achieved	17,1 ▲	15,8 ▲	1,2 ▼
	DOT target	8	5	3
Technicians	SAA achieved	44,4	39	5
	DOT target	25		

This table highlights SAA's performance in relation to aviation targets set by DOT. The industry-specific targets focus on top management, senior management, pilots and technicians, as well as on SAA's targets

Employee wellness

SAA recognises that employee engagement and mitigation of chronic lifestyle diseases are the two key differentiators for modern organisations. To this end the airline continues to ensure that its wellbeing offering to employees keeps up with the continually changing world of work. During the year under review, SAA intensified awareness campaigns of the Company's 'Heartbeat' Employee Assistance Programme (EAP). The purpose of the Heartbeat EAP is to help staff develop coping skills and accept a greater degree of personal responsibility for their health, wellness and associated behaviours. It helps them resolve marital, family and job performance challenges.

The Heartbeat EAP is administered by ICAS Southern Africa, a leading provider of behavioural risk management services. The programme is driven by a confidential toll-free number operational 24 hours a day, 365 days a year. The service is available to all employees within the Group and their immediate family members.

It includes confidential services relating to legal advice, stress, relationships, trauma, family matters, work, substance abuse, health and finances.

SAA's Employee Added Benefits Programme offers employees assistance by using the SAA database to get preferential rates on various goods and services. It supports initiatives to enhance employees' health and well-being and enhances SAA's status as an employer of choice and demonstrates the airline's commitment to valuing its people.

THE DEVELOPMENTAL MANDATE

HUMAN RESOURCES – BUILDING ORGANISATIONAL CAPABILITY CONTINUED

Overview of employee relations landscape

The employee relations climate within South African Airways (SAA) is challenging and complex. Relationships are forged between various levels of management and labour in different bargaining units and where problems arise, the resolution of these problems are characterised by the ability of Management and Labour to innovatively seek solutions.

SAA's Employee Relations philosophy ascribes to the following principles:

- Freedom of association, collective bargaining and meaningful consultation;
- Equity and fairness;
- Trade Union's right to continued existence and representation of their members;
- Collective bargaining between unions and management, which is characterised by a climate of mutual benefit outcomes;
- Appreciation of legitimate needs and problems of management, employees and unions and resolving these in the interest of the broader Company's success; and
- The role of management as well as management prerogatives being accepted as legitimate. This does not exclude the process of consultation on key issues of decision-making.

Sound employee relations are a management priority and therefore an integral element of management's daily tasks in SAA.

It is clear that SAA's approach to its employee relations, bargaining structures and processes and related strategy holds significant value. Through the constant application of innovative and progressive employee relations interventions and strategies, SAA has managed to stabilise its employee relations climate over the last two years. The maintenance of these relationships is nurtured and built through competent unions and management engagements and to this end an Organised Labour Development Programme was implemented for shop stewards and numerous management training and sensitisation interventions were executed.

Terms and conditions of employment of employees in SAA are negotiated in two collective bargaining units, namely Pilots and Cabin Crew/ Ground Staff. The relationship between SAA and its recognised trade unions is formally regulated and/or governed by the Regulating Agreement for Pilots and the South African Bargaining Forum Agreement for Cabin Crew and Ground Staff employees.

One of the highlights during the period under review was the negotiation and agreement of a new SAA Bargaining Forum in order to modernise the bargaining structures, regulate the number of unions for recognition in accordance with the Labour Relations Act, regulate collective bargaining and align the current recognition agreements entered into with unions in the bargaining unit.

PROCUREMENT AND CORPORATE SOCIAL INVESTMENT

Procurement and the developmental mandate

Global Supply Management (GSM) is responsible for the Supply Chain Management (SCM) function within the Group. It encompasses Strategic Sourcing; Procurement Operations and Procurement Continuous Business Improvement. The key purpose of the Procurement Strategy is to create, drive and manage the SCM function in a manner which is fair, equitable, transparent, competitive and cost-effective.

The GSM team has contributed significantly to the Cost Compression targets as well as having improved the Procurement Governance Framework to ensure that SAA is fully compliant with the PFMA and other legislation. The LTTS requires that the Group will continue to align itself with transformation policy objectives across the 20-year horizon of the strategy. This is seen as a key part of the Group's Strategic Objectives, and the organisation has implemented self-monitoring tools through the optimisation of IT systems such as SAP, for preferential procurement and enterprise development. These systems enable better reporting and acceleration of initiatives.

GSM plays a significant role in contributing to the targets as set out in the National Development Plan through the procurement of products and services for the airline, and the identification of further opportunities for Enterprise and Supplier Development that will contribute to further improving SAA's overall Broad-based Black Economic Empowerment (B-BBEE) rating.

Procurement has made great strides in the year under review in terms of the NDA mandate. The department ensures that the Group buys locally-manufactured products, and that it supports Black-owned entities and suppliers – exemplified in the sourcing of various products and services. The policy is also to facilitate liquidity in these companies by ensuring payment within seven days of invoicing, with R171 million having been paid out on this basis. A further enterprise development contribution is the provision of training on SAA's tender processes, completion of tenders to SAA, and the provision of office accommodation at no cost to those SMME suppliers based at Airways Park. An example of such an initiative is the office accommodation provided to two marketing service-provider SMMEs.

Traditional suppliers are also encouraged to partner with black-owned entities, and the in-house printing service is one such example, where the appointed service provider was encouraged to partner with a black-owned SMME to provide in-house printing services to SAA. The department assisted by providing space, and in the year under review, the business began providing its printing services.

This proactive support and action in black-owned enterprise development is possible in many areas of the supply chain, although it is still difficult for smaller companies to break into the key commodity markets such as jet fuel, or the leasing of aircraft.

Corporate social investment

Across the Group there are a number of community-based and other outreach projects and initiatives. SAA's CSI initiatives directly support fulfilment of the Shareholder's Compact and are aligned to the deliverables of the LTTS. CSI supports SAA's business imperatives, which in turn support Sustainable Enterprises Development (SED), by targeting the upliftment of communities and economies within the environments where the company operates.

There are youth development programmes and initiatives with Mango, the pilot corps, Commercial, SAA Technical, Air Chefs, SATC and HR.

SAA is continually looking at ways of advancing and expanding aviation awareness. One initiative that has resulted from this is a partnership between the airline and Boeing called the Vulindlela Aviation Awareness Programme. The programme has seen the conversion of a new purpose-built cargo container to resemble a Boeing 737-800, with the installation being used to raise awareness of careers in the aviation industry, especially in underprivileged communities around the country.

The goal of the project is to expose Grade 8 to 12 learners and their Mathematics and Science teachers to areas of operations in the aviation sector. The intention is that everyone who experiences the marvels of this innovative installation will also be directly exposed to the science of aviation.

A POLICY FOR SOCIAL DEVELOPMENT

The NDA requires attention to Corporate Social Investment (CSI) and SAA Group CSI initiatives ensure direct support in fulfilling the Shareholder's Compact and alignment to the deliverables of the LTTS.

As a grantor of resources (skills, services and assets), SAA CSI seeks to position SAA globally as a responsible corporate citizen that contributes effectively towards the achievement of the key national strategic goals of good corporate governance, particularly within the aviation sector.

In fulfilling this aim, the percentage spent on B-BBEE-compliant companies stands at 81 percent of total eligible spend.

LITERACY PROJECTS

Through a partnership with both the Nelson Mandela Centre of Memory and Breadline Africa, and as part of the Mandela Libraries campaign, SAA continued to support the ongoing yearly training in resource management for all the schools in the country that are part of the campaign. The Mandela Libraries is a Nelson Mandela Centre of Memory initiative, whereby cargo containers are converted into libraries for under-resourced schools. During the year under review four containers were purchased, converted and placed in schools in KwaZulu-Natal and Limpopo. SAA also supports the educator training programme for all the Mandela libraries.

Teacher-training sessions were organised in Cape Town and Johannesburg. In 2013, with SAA's help, Breadline Africa succeeded in up-skilling 22 teacher-librarians from various parts of the country.

REACH FOR A DREAM FOUNDATION IN COLLABORATION WITH SAA VOYAGER

Collaboration with the Reach for a Dream Foundation continued in 2013 to enable children aged between three and 18 who are living with terminal illnesses to see their dreams come true.

In the year under review, the Group made significant progress in embedding environmental sustainability as a key strategic focus that supports the principles of the Shareholder's climate change policy framework for State-owned Companies.

Take a Girl-Child to Work Day

Together with the Department of Women, Children and People with Disabilities, HR participates in a youth development programme with a focus on youth in the workplace, called 'Take a Girl-child to Work Day', and provides a budget for it on an annual basis. SAA is proud to be part of this national initiative, and in 2013, in conjunction with the Airports Company of SA (ACSA), the company hosted 90 girls. On the day, girls from Grades 10 to 12 were exposed to the working aviation world, with those from the various provinces to which SAA flies being flown to SAA headquarters to join a group of their peers from Gauteng. There they were given an opportunity to visit the simulators and the highly specialised operational areas of SAA Technical.

Building capacity

In another initiative, the Group trains unemployed youth as cabin crew and flight dispatchers. While the cabin crew trained in this programme form a reserve pool to be employed by the Group as and when necessary, they are also able to apply to other airlines with the skills they have learnt, with the Group thus playing a role in helping to build aviation capacity for South Africa as a whole.

Career awareness and advisory

This initiative aims to raise knowledge and understanding of the training opportunities offered in the aviation industry. Through career exhibitions that the company undertook throughout the country in 2013, over 20,000 learners were introduced to the aviation sector and made aware of the prerequisites for being part of the industry.

SAA has engaged with partners in the aviation industry to form the Joint Aviation Awareness Program (JAAP). The JAAP partners include the South African Civil Aviation Authority, Air Traffic and Services, ACSA, the South African Air Force, the South African Police Service Air Wing and the Department of Transport.

Instituted both worldwide and among communities less exposed to air travel, the purpose of the programme is to establish and reinforce awareness of the importance of international civil aviation in the social and economic development of states. The programme also highlights the role of the International Civil Aviation Organisation (ICAO) in promoting the safety, efficiency and regularity of international air transport. In 2013, the International Civil Aviation Day (ICAD) was held in Bloemfontein and attracted over 5 000 youth to the exhibition and career expo.

In the year under review, SAA also participated in six partnerships with Mango and SA Express, and three with the DPE, as well as in career exhibits in partnership with labour.

Travel assistance

In October, 16 flight tickets were sponsored for TETA's 'after exam tour' for learners from various provinces travelling to Johannesburg.

SAA's Medical emergency cases and emergency disaster relief efforts have grown, and in one case, 11 tickets were sponsored for a team of medical specialists who were travelling from Johannesburg and Cape Town to the Democratic Republic of Congo to set up a temporary medical facility in Kinshasa where they could treat children who had sustained burn wounds.


A STAR ALLIANCE MEMBER

THE COMMERCIAL MANDATE

ENVIRONMENT

A NUMBER OF OTHER ENVIRONMENTAL INITIATIVES CONTINUED TO BE IMPLEMENTED:

- A Voluntary Carbon Offset Programme was changed to a South African project, which now includes Mango;
- A tender will be released to prepare a Group Carbon Footprint Report on a per-route basis so that passengers can be advised what their carbon footprint is per route;
- Energy-efficiency measures were developed at facilities to reduce both electricity consumption and carbon emissions, with installation progressively completed during 2013;
- A major recycling programme continued with strong black enterprise development goals;
- SAA retained its Stage 1 International Air Transport Association (IATA) Environmental Assessment (IEnvA) Programme rating. The 'Core' and 'Core Plus' phases of Stage 2 of this programme are also part of the target, with ground-handling providers also being involved, and the IEnvA standard being applied with the long-term aim of the Group achieving full stage 2 accreditation;
- The relationship with the World Wide Fund for Nature (WWF) has been broadened with a number of initiatives due to deliver results during FY2014/15;
- SAA's procurement policy has been revised to incorporate environmental sustainability factors in tender processes, with environmentally sustainable procurement having been incorporated in the Group's procurement practices by October 2014. This will have a significant downstream effect because it requires the Group's nearly 2 000 suppliers also to have sustainable policies and practices;
- The DPE and SAA have embarked upon a joint bio-fuel programme designed to investigate the potential for alternative aviation fuel production in Southern Africa, with the aim of providing 50 percent of SAA's fuel requirements sustainably by 2022; and
- An energy efficiency and generation project, incorporating solar panels for electricity and heat pumps for efficient use of heat in the Air Chefs' in-flight catering subsidiary was progressively implemented in 2013, with the effect of reducing costs and carbon emissions in line with the long-term strategy of ensuring that Air Chefs becomes the greenest in-flight caterer in Africa.

The roadmap for the rolling out of the biofuels project over the coming few years has been established.

Articles in Sawubona, SAA's in-flight magazine, are regularly written and published to highlight the airline's green credentials and efforts in environmental sustainability.

The Shareholder has produced a climate change framework, and all the Group's sustainability initiatives fall entirely within it.

Environment

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

Biofuel

The big project in the year under review has been the biofuel programme. The Group, supported by the Shareholder and engaging with a number of government departments and State-owned Companies such as Eskom and Denel, has partnered with Boeing in a strategic collaboration that taps into the aircraft manufacturer's in-depth knowledge of the biofuel industry. The work has reached a stage where feedstock and technology is being identified, and investment can be made in the biofuel programme.

The airline is applying for a National Industrial Participation Programme (NIPP) subsidy, which will procure a strategic equity stake for the Group in the evolving biofuel programme. There are significant social and economic ramifications for the country in the outcome of this project. A primary advantage for the Group is that it will be less susceptible to external shocks, and will be able to regulate the pricing without being passively subject to a weakening exchange rate, thereby providing a natural hedge. There is the potential for thousands of jobs to be created by the initiative, from feedstock producing areas to process, transport and refining, with all the tax revenues also remaining within the country.

While research is available globally, it has been found that Africa has the greatest potential to provide the feedstock, with one in particular showing double the yield in South Africa than anywhere else. The partnership with Boeing also incorporates smallholding farmers, so that the socio-economic benefits filter through to grass-roots level, with smaller producers being encouraged to form co-operatives so that as much of the economy as possible can participate. Skills development is a key focus of this aspect of the programme, helping to ensure that the entire programme is completely sustainable and ethical at every level.

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

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

STAKEHOLDERS AND COMMUNICATIONS

Overview

In line with SAA's vision and mission statements, there are four strategic imperatives outlined in the LTTS as critical to building a viable and successful business model in terms of the Shareholder's commercial mandate:

- To achieve and maintain commercial sustainability;
- To provide excellent customer service
- To achieve consistent, efficient and effective operations; and
- To foster performance excellence.

Stakeholders and communications

One of the requirements of the LTTS is that the Group must deliver a robust, data-driven and actionable insight to support a sustainable and effective stakeholder-relations strategy and secure its long-term interests in its 'ecosystem of influence'.

Identifying and understanding SAA's stakeholders across public and private sectors is crucial in the development of a successful stakeholder-relations strategy. Success in this is vital if key stakeholders are to help drive and support the LTTS.

The objectives of stakeholder relations are:

- To derive a clearer understanding of the needs and expectations of stakeholders and of the types of support they can offer the Group;
- To build strong relationships of trust with significant influencers and opinion-formers; and
- To derive value from stakeholder relationships, and to include stakeholders as part of the Group's communications campaign.

An exercise was therefore undertaken to remedy shortcomings, and to optimise relationships by defining the exact nature of the messages that need to be communicated to stakeholders individually, so that those messages are relevant, focused and matched to their needs.

Seven categories of stakeholders were identified:

- Facilitators;
- Capital and funding;
- Input;
- Output;
- Industry;
- Dependent; and
- Independent.

Clear, concise messaging was then devised in order to communicate effectively to the bodies, groups and entities that fall into these categories, such as government, regulators, the Board, banks, the tourism industry, SARS, ACSA, unions, consumers and retailers.

The aim is to produce structured, organised and focused relationships that will help foster, enhance and maximise the actions both within and outside of the Group as it implements the LTTS.

THE COMMERCIAL MANDATE

STAKEHOLDERS AND COMMUNICATIONS CONTINUED

SAA stakeholder and stakeholder relationships

South African Airways

Enabling resources

Facilitate operations

Government
Department of Public Enterprises
National Treasury
Department of Finance
Department of Transport
Department of Home Affairs
Department of Tourism

Regulators
Department of Trade and Industry
Civil Aviation Authority

Parliament
Public Enterprise Committee
Labour and Public Enterprise
Select Committee
Tourism Committee
Board of Directors

Capital and funding providers

Investors
Treasury
Department of Education

Shareholders
Department of Public Enterprises

Lender
Banks
Finance

Industry structure

Competitors
Domestic: British Airways, Kulula
Regional: Ethiopian Airlines, Egypt Air, Kenya Airways
International: Emirates, British Airways, KLM, Lufthansa, Air France, Virgin Atlantic

Associations
IATA
African Airline Association (AFRAA)
Star Alliance
SASTA

Partners
Code share partners
Boeing
Airbus
Suppliers

Value creation

Input

Government
Home Affairs, Transport, Foreign Affairs, Health, Agriculture, Tourism and Environment, SARS, Provincial government, Regional governments, Multinational government

Safety and security
SAPS, NIA, Interpol

Airport
ACSA
Africa and global airports

Labour
Employees, unions

Output

Consumers
Domestic
Regional
International
Business

Retailers
In flight shopping
Travel agencies

Social responsiveness

Dependent
Community
NGOs
Environment

Independent
Media
Activists/special interest groups
Political parties

FACTORS FOR SUCCESS, PERFORMANCE MANAGEMENT

Factors for success

When the LTTS, approved by the Board, was submitted to the Minister on 2 April 2013, it was based on three critical success factors: equity injection, the replacement of existing wide-body aircraft with a new-generation wide-body fleet, and the successful implementation of certain network optimisation initiatives. In the short term, among these initiatives was the need to terminate certain loss-making routes.

Kigali/Bujumbura and Buenos Aires were duly terminated. On the Beijing route, efforts were made to reduce costs in other ways, culminating in extensive negotiations with the Chinese authorities for improved arrival and departure times, and enhanced cooperation with the airline's Star Alliance partner Air China for seamless connections and frequent-flyer opportunities.

Performance management

SAA embraces a performance management culture that is aligned to the organisation's values and goals, with various interventions aimed at promoting a performance-driven culture. A dedicated Performance Management Office (PMO) was instituted during the year under review to monitor progress in this area. Dashboards for every GM were introduced to enable this function, with key performance indicators (KPIs) being cascaded down into the organisation. The focus is on delivery, but most importantly performance management is being aligned to the LTTS. There is also constant monitoring through the Ministerial Task Team (MTT), and the LTTS Board sub-committee, all looking at deliverables by the PMO on an ongoing basis.

All these deliverables pertain to the commercial mandate:

- To achieve and maintain commercial sustainability;
- To provide excellent customer service;
- To achieve consistent, efficient and effective operations;
- To foster performance excellence.

The Group's values also have a direct influence on performance:

- **Customer focused:** Striving to meet the unique needs of customers (internal and external) by tailoring each interaction to suit their needs;
- **Integrity:** Practising the highest standards of ethical behaviour in all lines of work and maintaining credibility by making certain that the Group's actions consistently match its words;
- **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.

THE COMMERCIAL MANDATE
ENTERPRISE RISK MANAGEMENT

Challenges and opportunities

	Problem statement	Opportunity statement
Financial	• Weak balance sheet • High asset cost (aging fleet is expensive) • High people cost (low staff productivity)	• Cost Containment strategy across the Group • Immediate and ongoing implementation of new financial plan
Network	• Sub-optimal route network • Failure to address South Africa's geographic disadvantage • Long-haul international business losing money	• Cease 'own metal' operations on loss making routes • Major passenger and cargo code-share agreements • Improve revenue management and scheduling
Leadership	• Regular leadership changes • Change in strategy with each change • Lack of trust of leadership	• New and committed Board • Involvement of leadership in development of LTTS

The challenges in overcoming the separate cultures that exist within the Group are mainly to do with the different business models in place for the various subsidiaries. There are aspects of competition that arise, particularly with Mango (which conducts its own skills development), although relevant policies are shared, such as succession management, and the performance management and talent development frameworks.

Enterprise risk management

Governance of risk

SAA recognises that risk in commercial aviation is complex and diverse, with many parts of the organisation working toward managing the risk exposures. Given this realisation, SAA has adopted an enterprise-wide approach to risk management, which means that every identified material risk is included in a structured and systematic process of risk management.

The Board is accountable and responsible for the overall process of risk management. In this regard, the Board has adopted and approved a Group Risk Policy and Framework ('Risk Policy'), which is aligned to ISO 31000 (international standards on risk management). The Risk Policy has been adapted for and approved by the subsidiary boards, with the adaptation of the Risk Policy necessitated by the nature and size of the business at subsidiary level. The Group maintains consistency, however, in the application of the risk management processes and methodology.

The responsibility for the implementation of risk management policies and processes rests with management and staff. Management has developed an Annual Risk Plan, which guides the risk management activities within the Group, and tabled it before the Board for approval.

As part of embedding risk management, Group management undertakes bi-annual strategic and quarterly operational risk assessments. All major projects are also subjected to risk assessments on an on-going basis and the Group Risk Function is represented on high-value and high-profile bids. Progress against the implementation of the Annual Risk Plan, including material risks that are facing the Group, is reported on a quarterly basis to the Board through the Audit and Risk Committee.

The strategic aims and activities undertaken to realise them, are of course affected by the risks, both inherent and residual, facing the Group. The Enterprise Risk Management Framework and Policy was reviewed, updated and approved by the Audit Committee in November 2013.

Strategic risks

The strategic risks facing the Group are an indication of a tough trading environment and resource constraints including a weak balance sheet. A summary of the strategic risks and mitigation measures are set out below.

RISK SUMMARY AND MITIGATION MEASURES

Risk and context	Mitigation measures and key successes
Weak capital base	
The Group has experienced trading losses over a sustained period of time. This and the previous hedge losses wiped out the Group's capital base. By and large, the Group has never been appropriately capitalised by the Shareholder.	The Shareholder has provided a perpetual going-concern guarantee to resolve the solvency issues facing the Group. The Group can also draw down on this guarantee to resolve liquidity, subject to Shareholder approval. The Board and management continue to engage the Shareholder on a cash injection for the Group.
Ability to respond to external factors	
The Group's ownership structure subjects it to various regulatory approvals prior to the decisions being implemented. This provides an additional layer of decision-making in a fast-paced environment. Product limitations, especially on long-haul routes are also a factor in this regard.	Management maintains a closer working relationship with stakeholders in government to ensure timeous response to requests for approval. PFMA protocol and approval processes, which guide the nature of decisions which require government approval and information that should be submitted in support of the applications have also been developed and implemented. In addition, Management has worked tirelessly on product enhancement.
Inappropriate wide-body fleet	
The delay in replacing the current fuel-inefficient long-haul fleet has had an adverse impact on the Group's profitability on all international routes.	The fleet plan has been finalised and the Group is in the process of developing a request for proposals for the replacement of its wide-body fleet. Management is also working closely with various stakeholders in government to ensure that this fleet replacement programme benefits the local industry in accordance with government's developmental objectives.
Innovation and entrepreneurial culture	
The Group operates in a highly regulated environment and over time its organisational culture has developed into one that is more compliance orientated.	The Group continues to implement various programmes including training to reinvigorate the entrepreneurial culture. In this regard the Group has teamed up with various institutions of higher learning.
Information security and integrity	
A changing regulatory environment, especially in the introduction of the Protection of Personal Information Act, coupled with the minimal enforcement of the Group's confidentiality policies and procedures may adversely affect the Group. The Group has also endured consistent confidential information leaks.	The Group is implementing IT controls to manage the dissemination of information. All new and existing employees are also required to sign confidentiality declarations as part of their employment contracts.

THE COMMERCIAL MANDATE
COSTS

SAA's profitability is impeded by certain elements of its cost-base, for example, its labour costs remained high. However, the major impact on costs is caused by the ageing fleet of wide-body aircraft, with their excessive fuel consumption and high maintenance costs. The fuel price in the year under review remained persistently high, and most importantly, the rand-dollar exchange rate remained a crucial component of both risk and costs.

The marked decrease in the value of the rand during FY2012/13 had a significant impact on the company's results, and it was noted then if the rand cost of fuel had remained at prior year levels, the company would have been profitable. Thus, during the year under review the company continued on a cost-compression programme which resulted in savings of R453 million, over and above the saving of R1 billion in the previous year. This was done through identifying savings and improved opportunities in areas such as route optimisation, maintenance reserves, claims and waste management.

The success of that programme notwithstanding, during the same period the deterioration in the exchange rate had a major effect in reducing the benefit, to the extent that if the exchange rate movement were to have been eliminated, the company would have been profitable.

The net impact of the exchange rate on operating expenses and revenue in the year under review was approximately R1,2 billion. Taking into account gains in translation and some hedging where it was possible on volatility and fuel costs, the impact on the bottom line was approximately R600 million. On the operating result line, despite the exchange rate, there is an improvement over the previous year.

Despite being hard-hit by the exchange rate, domestic operations were, as is the case with the regional operations, profitable.

Legacy issues and impairment

The Group took delivery of four new A320 narrow-body aircraft, with Mango taking over the replaced Boeing 737-800s to increase its capacity. This transaction to procure narrow-body aircraft was entered into in 2002, with the deal renegotiated in 2009, when the original order for 15 aircraft was increased to 20.

The financing of these aircraft is being facilitated by way of sale and leaseback transactions, which necessitated the impairment of each aircraft to fair market value on date of delivery. As a result, an impairment of R369 million was recognised on the delivery of the first four aircraft during the current financial year. Similar impairments are expected on all remaining future deliveries.

With the LTTS requiring the replacement of old wide-body aircraft, seven owned aircraft had to be revalued closer to market value.

However, the current book values being higher than the market-related values, an impairment was required to reduce the current book values to market related values. The impact thereof on the current year's results is R752 million.

Historically, SAA had a very weak balance sheet and is in dire need of an equity injection to resolve its solvency problems. To date Shareholder support has been in the form of perpetual guarantees to insure that the airline remains operating as a going concern.

Proactive response

A third party consultant has been engaged to benchmark SAA with other airlines to identify areas of future potential savings.

Cutting costs does not however result in profitability. That has to flow from revenue. The emphasis therefore needs to be on a strong emphasis on forex revenue which can serve as a natural hedge. With more than 60 percent of operating expenses being strong-currency denominated (mainly the dollar, and to a lesser extent, the pound and the euro), only 40 percent of revenue is derived from strong currency.

With this net exposure, what is required is to investigate to what extent the cost base can be changed to rands, although this is very difficult with the main item on the income statement being the cost of fuel. Both this and aircraft leasing are paid for in dollars, as are out-stations around the world, with their expenses and salaries that are currency denominated. The airline is also looking at increasing third-party revenue at SAA Technical (read more under Subsidiaries), where 80 percent of the revenue currently comes from SAA.

Profitability

Domestic and regional operations remained profitable. However, this is not the case with international operations, which are exposed to uneconomical, old-generation aircraft and the impact of currency fluctuations. Various initiatives have been identified to improve operating efficiencies. SAA's financial model determines that the airline will return to overall profitability when all the wide-body aircraft have been replaced. Furthermore, in the short-term additional alliances will promote growth, and numerous alliances have been pursued during the year under review.

Lack of an integrated state policy

South Africa's open skies approach deprives the airline of potential competitive advantages, such as with visas and immigration procedures for high-value passengers, or cargo destined for neighbouring countries via Johannesburg. Unnecessary delays, and a lack of expedited service detract from appeal and marketability.

The LTTS outlines the requirement of a 'Whole of State' aviation' policy framework, whereby State airline ownership, airport operation and aviation policy instruments (such as bilateral air service agreements) are co-ordinated for a single strategic purpose, and provide the optimal platform for delivery on the mandate.

OPERATIONS

Operations lies at the heart of the airline, with its functions spread across the following departments:

- **SAA Flight Operations:** including SAA pilots, training, standards, maintenance standards and flight planning/navigation;
- **SAA In-Flight Services:** including SAA cabin crew and in-flight inventory provisioning of all on-board logistics;
- **SAA Airport Operations:** including airport ticket sales, passenger check-in and boarding, lounges and baggage handling;
- **Global Operations Control Centre:** including operations control, crew movement, flight dispatch, departure control, ramp and logistics and 'flight following' radio (ZUR);
- **Group Security Services:** including corporate and aviation security; and
- **Group Safety, Quality and Regulatory Standards.**

Mango has separate operational capability, but with the same functions as outlined above.

The key initiatives that SAA Operations is pursuing in support of the LTTS can be summarised in the following non-exhaustive list:

- Implementing and improving SAA's Safety Management System as per regulatory standards and requirements;
- Developing cadet skills;
- Consistently increasing SAA's fleet utilisation;
- Achieving consistent customer satisfaction through the implementation on a global basis of a comprehensive Customer Service Improvement Plan;
- Comprehensively launching a Productivity Improvement Programme focusing on workforce optimisation across all operations;
- Intensifying activities in respect of SAA's Baggage Management Improvement Plan 'Project Zero';
- Augmenting cost compression across the global operations landscape;
- Establishing an Airline Performance Improvement, and Systems and Research Department; and
- Integrating SAA's Global Operations Control Centre through centralisation.

On-time performance (OTP)

In the year under review SAA was awarded Most On-time Airline in the world by FlightStats, the leader in global flight and airport information services. The award was presented in the category of 'Middle East and African Major Airlines' for the airline's 91,17 percent on-time record.

Workforce optimisation and employee productivity

Airport integration and automation at Johannesburg

Airport integration at OR Tambo International Airport (ORTIA) was completed during the year under review, eliminating the segregation between domestic and international functions. SAA is now using its workforce more efficiently across the two previously segregated functions. Self-service usage is progressing extremely well, having reached the 40 percent target. ACSA will be trialling self-boarding and bag drop in FY2014/15 and SAA is well-positioned to support this process.

Safety and quality improvement

SAA was awarded 'Best Security and Safety Conscious Airline in Africa' by Security Watch Africa. Initiated in 2004, the aim of the Security Watch Awards is to recognise, appreciate, encourage and celebrate individuals, governments, agencies, brands and companies who have excelled in security administration, practice and governance in Africa.

The growing threat of terrorism

The year under review has seen an increase in terrorism worldwide. The areas that have most affected SAA, however, are Kenya and Nigeria, where activities by terror-related and militant groups saw attacks on various public places, foreign nationals and key installations. While these attacks were mainly against the governments of the respective countries, they nonetheless had an impact on SAA business in that security measures at airports and public areas have been increased to safeguard aviation. At the same time these developments have forced airlines to increase costs in security and impose more stringent security measures on passengers.

Extended Twin Operations (ETOPS)

In a major achievement, SAA is the first airline in the world to be granted approval for 240-minute extended-range twin operations (ETOPS) on the Airbus A330 aircraft. The main advantage of this approval is the ability to dispatch twin-engine aircraft on long-distance flights on routes previously not enabled for this capacity, due to a set of rules developed by civil aviation authorities around the world. Before an airline can commence these operations its training and maintenance-record capabilities must be certified and assessed. In a related development, Airbus has requested permission to use SAA in an advertising campaign and has asked the airline to address a press briefing in Toulouse during FY2014/15 on how the project was managed.

Pilot training in emergency procedures

Due to a proliferation of aircraft accidents around the world in which loss of control in flight (LOC-I) was established as the cause, a need was identified for pilot training in emergency procedures. SAA's Flight Operations has been an industry leader in this area and was mentioned at the IATA Operations conference as a world leader in this regard, with the airline's expertise now utilised by the industry to assist others. SAA's insurance underwriters were approached on the basis of the airline developing a training module programme for its pilots. This key project is almost completed and training will commence in the medium-term. The training will shortly become mandatory although SAA will be compliant in advance of this.

RNP approaches

RNP (required navigation performance) approaches into airports are a cost-effective, efficient method of getting aircraft onto runway approaches without reliance on external aids. The approaches are flown on the Global Navigation Satellite System (GNSS) utilising SatCom receivers and equipment self-contained on the aircraft.

Approaches can be very efficiently flown using this method, and are very safe. In Africa there is often lower-grade infrastructure with accompanying low levels of airport equipment maintenance. In these prevailing conditions approaches are both unsafe and inefficient. RNP approaches, however mitigate these risks for airline carriers. SAA is liaising with IATA for basic RNP in Namibia, Zimbabwe and Zambia and is developing RNP-AR in Blantyre for safety reasons.

THE COMMERCIAL MANDATE

OPERATIONS CONTINUED

SAA has established eight cost compression forums – jet fuel, maintenance and overhaul, aircraft cost, labour agreements, general and administration, product, flight deck crew and wastage to focus on continuous ways of reducing cost savings of R453 million achieved in the financial year 2013/14 bringing total savings to R1,4 billion over two years.

Examples of savings:

- Lease renewal (1 A340-600): The lease rate for the extension of the A340-600 has reduced by 45% per month for an extension of two years which amounts to around R3,1 per month, depending on exchange rate, commencing mid-November 2013;
- IT facilities tender: awarded and IT contract signed at reduced rates – 30 January 2014;
- Aircraft utilisation improved; and
- An advisory firm was appointed to assist with determining the areas where additional savings can be made, starting in June 2014.

SAA continues to improve its aircraft utilisation predominantly through higher usage of its wide-body aircraft.

Cost compression

Dynamic fuel planning

In a cost-compression initiative, Dynamic Fuel Planning (DFP) was introduced. DFP is a process that allows the crew to use the most accurate zero fuel weight for the aircraft and to use the on-board communication equipment to make the final fuel decision at the last minute. This has significant implications for the airline's fuel bill and has made SAA the world leader in this technology. SAA's approximated Q4 savings for the year under review was around US$210 000.

Headline figures comprise 552 requests, of which:

- 53 percent of fuel decreased;
- 12 percent showed no change; and
- 35 percent of fuel increased.

Cross Crew Qualification (CCQ)

On completion of cross crew qualification, pilots are able to operate both the Airbus A330 and Airbus A340 aircraft through mixed fleet flying (MFF). This has resulted in significant crew savings as economies of scale are realised. With a given crew able to fly both types of aircraft, CCQ also assists when irregular operations (IROPS) demand an aircraft change because a second crew does not have to be called out. The original estimate for completion of this programme was 36 months and the airline is currently well within target.

Project 'Sitshayel'inkunkuma'

During the year under review Project 'Sitshayel'inkunkuma' was launched to minimise pilferage and loss of high-value in-flight items by improving controls and commencing with bar items and major galley equipment (MGE) on wide-body aircraft.

The project was implemented in June 2013 and involves various stakeholders including Group Security Services (GSS), Air Chefs, GOCC, e-Gatematrix and Internal Audit under the co-ordination of the In-flight Logistics and Inventory department. Procedures and processes have been put in place to enhance control measures in the transportation of bar items from bar-packing to the aircraft and vice versa.

Consumption data is collected on a daily basis from selected routes per month and is utilised to formulate monthly consumption trends. There has been a positive decline in the consumption of on-board bar items since the inception of the project. There have thus been significant savings against budget since the inception of the project and it is anticipated that these will be augmented during FY2014/15.

Environmental and green initiatives

SAA constantly strives to limit and reduce carbon emissions, with the highest degree of preference being placed on reuse and descending to the least-preferred disposal landfill option.

On-board products and meals

For waste management of in-flight and on-board products SAA currently repacks and reuses passenger comfort items. The objective is to reduce the amount of unused or salvageable products unnecessarily discarded, through cabin offload sorting, and repackaging of unused products in order to reduce the airline's operational costs, overall waste load and carbon footprint. Unused products salvaged from recycling are returned to the supply chain for reloading on board. Further reduction of catering equipment loaded on-board wide bodied aircraft has resulted in weight savings of 14 kg per wide-body aircraft. This initiative was implemented in Q4 and will be strengthened during FY2014/15.

On-board waste reduction

SAA initiated a research study with the objective of determining the waste levels of products loaded on-board so that the right products can be loaded for the right service. In a study being conducted to determine which routes have high levels of wastage and on which items it occurs, data has been collected on all stations including international stations, with the study set to focus on the particular items that have been identified.

The next phase comprised a review in November 2013 of loading patterns based on the outcomes of the study as well as on feedback collected through customer-satisfaction surveys.

Excellent customer service

Skytrax rating

The annual Skytrax audits were completed at all identified stations in Q3 of the year under review, with SAA retaining its 4-star Skytrax rating for the 12th consecutive year.

Airport lounges: Product and service optimisation and rebranding

SAA currently operates lounges at OR Tambo, Cape Town, Durban, Port Elizabeth, East London, Lagos, Lusaka and Harare airports, where a fundamental revamp of the product and service was completed during the year under review.

The revamp included a deal with Investec Bank in terms of which the airline will allow selected segments among Investec clients to access the lounge in exchange for the bank's funding of certain upgrades at key lounges.

Cost compression has been another key theme within SAA's lounges, although the airline has done its utmost not to make a negative impact on the overall value proposition of the lounges. The focus has been rather on fundamentally changing the way in which the value proposition is delivered to high-value passengers. The Investec lounge joint venture is ongoing, and is expected to be completed at the end of FY2014/15.

Fast-track security and immigration processing of premium passengers

SAA is currently working with ACSA with the objective of introducing dedicated fast-track security checkpoints in the medium-term for commercially important passengers (CIPs). SAA and Star Alliance have reached an agreement with the Department of Home Affairs to introduce a fast-track counter at immigration for transfer passengers who are at risk of missing their connection. These steps have been taken as part of SAA's 'Whole of State Aviation' discussion with the South African government under the auspices of the Department of Public Enterprises.

Improved performance on pilferage prevention

A pronounced decline in reported incidents of pilferage and damage was noted during the period of the baggage wrapping trial. During March 2014 the number of baggage items pilfered and damaged was the lowest with performance better than during the June 2010 FIFA Soccer World Cup period when government security agencies were safeguarding baggage at all ACSA airports.

COMMERCIAL

Commercial is a department within SAA focusing on sales, marketing, pricing, revenue management, network planning, scheduling, the airline's loyalty programme and aero-political affairs, with the General Manager Commercial, reporting directly to the CEO. The bulk of the Group's income comes through the Commercial Department, with offices around the world also playing a part in revenue generation.

Aircraft

The largest cost factor facing Commercial is correct aircraft utilisation, with the main risk for the airline identical to that for the rest of the Group – the rand-dollar exchange rate. Of the order for 20 narrow-body aircraft, four have been delivered, with another six due to be delivered in FY2014/15. These Airbus A320s are constructed of lightweight material, and are more fuel efficient than the Boeing 737-800s which they will replace, and have a lot more to offer in terms of customer comfort. In business class, for example, the current seating configuration on the Boeing 737-800 is two on one side of the aisle with three on the other. The new Airbus A320 aircraft have a configuration of two and two abreast in business class with added legroom.

Over the long term the airline is looking to replace its A340 wide body fleet and a process has been initiated to determine what new types of aircraft are necessary for the network, which, because of South Africa's geographical location, requires ultra long-haul capability. This also requires the correct equipment with an adequate proportion of premium to economy cabin seats. The new acquisitions will take effect with the onset of the second phase of the LTTS, with this future outlook being critical to ongoing and sustainable success.

FRONTLINE LEADERSHIP TRAINING FOR CABIN CREW

During the year under review SAA developed and designed an 'on-board leadership programme' using the flight management process as a guide, and factoring in the following:

- The LTTS;
- Skytrax customer feedback;
- Star Alliance quarterly customer feedback;
- New media daily reviews; and
- General customer feedback received.

The project has revealed some challenges but remedies are being implemented on an ongoing basis in Crew communication, with 'Yammer' engagement with Microsoft underway; and in five-star service, with first trials having been conducted on Hong Kong and Mumbai flights. Further customer feedback is expected.

AFRICA AS A STRATEGY

PROVIDING EXCELLENT CUSTOMER SERVICE

On the new A320 fleet features include power points for laptops or cell phone charging, as well as USB ports for any suitable device. In business class there is a separate tablet holder. On routes to Africa from August 2014 onwards, over and above other in-flight entertainment offerings, the airline will be placing its own Samsung tablets in business class, preloaded with content such as movies and news. From 2015 onwards, and within 18 months, the airline is preparing to provide Wi-Fi on the narrow-body A320 aircraft with streaming functionality and connectivity enabled at all times.

INCREASES IN FREQUENCIES ON AFRICAN ROUTES PER WEEK

- Windhoek
  from 20 to 21
- Ndola
  from 3 to 4
- Lusaka
  from 19 to 20
- Nairobi
  from 10 to 11
- Kinshasa
  from 2 to 6
- Dar es Salaam
  from 12 to 13
- Blantyre
  from 2 to 3
- Abidjan
  from 2 to 3

These frequency increases have all been demand-based, and represent some of the best opportunities to deploy the airline's fleet. An added advantage of increased flight frequencies is that customers from long-haul flights arriving at the SAA hub airport in Johannesburg benefit from reduced connection times to the airline's regional and domestic network.

Deployment

The most significant decision in implementing the containment phase of the LTTS has been the discontinuation of the Buenos Aires and Kigali-Bujumbura routes. Another factor contributing to containment has been more efficient redeployment of aircraft. An example of this approach is the redeployment of the Airbus A340-600, a larger aircraft type, from the London to the high-demand Munich route, while the Airbus A330-200 is now being used more efficiently on the twice daily London flights. The larger aircraft on the Munich route currently provides 23 000 more seats per year, and this approach has been successfully implemented on other routes as well. The aim in this has been to demonstrate more flexibility and agility in taking advantage of commercial opportunities and to place capacity on routes with high demand.

Expanding into Africa

Africa represents an area of strong growth, with some of the world's fastest growing economies found on the continent, making it a positive environment in which to operate. As wealth increases, so does demand for travel, and the airline has been responding to this demand as part of the strategic requirement to expand into the continent, as outlined in the LTTS. Africa remains under-serviced, with the airline viewing this as an opportunity for growth.

The domestic and African markets

On the domestic market, the largest such market on the continent, the Johannesburg-Cape Town route is amongst the top ten domestic routes globally in terms of the Available Seat Kilometres (ASKs) offered, with the route showing improved success during the year under review.

Nevertheless, this market has shown a more or less stagnant profile month-on-month, a situation which represents an ongoing challenge. Frequencies to East London have been slightly reduced, enabling greater yield, load factor and profitability on the expanding African routes in response to passenger demand. There has been a focus on ensuring that the airline's Johannesburg hub enables optimum connectivity.

Despite a general downward trend of about 2,5 percent on passenger loads for African airlines, as one of the stronger African carriers SAA has not been adversely affected. The domestic and African routes have been doing very well, delivering profitability to the airline.

International

While the international routes are still making losses, there have been success stories. Perth, Frankfurt and Munich have been doing exceptionally well and are running profitably despite the deployment of the same aircraft types as on other long-haul routes. Portuguese, Spanish, French, Dutch and Scandinavian destinations are all fed via the very successful gateways in Frankfurt and Munich.

Effective strategic partnerships

The airline works closely with South African Tourism to promote South Africa as a destination, and this is apparent across the globe. Strong campaigns have been executed in Europe utilising outdoor media along public transport routes and highways. Social media have also been a strong platform for these communications – all showing very positive results. Domestically KwaZulu-Natal has also been active in promoting its region in collaboration with SAA, with noticeable results for the airline. The wider network that includes Airlink and SA Express also provides further reach into the domestic as well as African markets.

Cost-saving and efficiencies

The weight-saving measures across the Group also apply within Commercial, as do fuel savings and slot-arrival times, which are examined for optimum cost-effectiveness at key airports.

Examples of improvements in this are at São Paulo and Beijing. An earlier arrival slot has been negotiated for São Paulo, allowing for more connections for passengers flying on to other South American destinations. This will increase passenger volumes and type, with more business passengers taking up the opportunity of convenience. A similar change has been negotiated for the Beijing route, opening up additional connections to 36 additional destinations in China, up from just two previously. Developments such as these will have a strong, positive effect on profitability.

Tourism constitutes a very large segment for the airline. With no significant time-zone changes on European routes, and as the rand-dollar exchange rate has weakened, South Africa has become a very attractive destination for European travellers.

Profitability

SAA's domestic and Africa operations continue to deliver high levels of route profitability. The international network remained unprofitable and this is largely expected to continue until such time as the wide body aircraft are replaced. In the interim, various initiatives have been inplemented to deliver improved results.

Since December 2013, code-sharing with Mango has been introduced, with the result that cross-selling can take place between the two airlines.

Distribution

During the year under review, decisions were taken to roll out improved on-line booking functionalities with a relaunch of the website in 2014, making the interface with customers easier and more user-friendly, and offering a multitude of different payment channels. The benefits are expected to become apparent in the fourth quarter of FY2014/15.

The overall aim is to offer customers a wide choice of booking channels. In addition to airport ticket or city ticket offices in the main city centres, the service offers both on-line and call-centre as well as travel agent solutions. The airline maintains its partnerships with other service providers in car hire and hospitality.

Alliances

The airline has a very strong relationship with Star Alliance, which has 31 percent of the ASKs in Africa. Working closely also with partners, a code-share agreement was reached towards the end of 2013 with Virgin Australia on an Australian domestic route, offering customers arriving at Perth more options within Australia. A similar arrangement was put in place with Air New Zealand. Code-share agreements were also concluded with Air Seychelles and with the North American network of Jet Blue, and in the UK with Little Red, a subsidiary of Virgin Atlantic, opening up domestic options for passengers arriving at Heathrow. While the airline runs operations to 38 destinations in 26 countries on six continents, with all the Star Alliance and other airline partners, SAA is able to offer 186 destinations in 62 countries on six continents.

SAA Voyager

SAA Voyager serves as the Frequent Flyer Programme (FFP) for SAA, SA Express (SOC) Limited and SA Airlink (Proprietary) Limited, with Mango as a high customer-value-ranked redemption partner. The programme is one of the best FFPs in Africa, with high-value and high-yield customers attracted and retained through a recognition value model with the opportunity to earn and spend on both air and non-air aspects of the programme. This drives loyalty to the primary (owning) Group's dual brand of SAA and Mango.

Highlights

SAA Voyager launched six non-airline and two airline partners which include Legacy Lifestyle, Taj Hotels and Resorts, Miles for Style, Shangri La Hotels and Resorts, Cruises International, Standard Bank UCount Rewards, Eva Air and Mango Airlines. Three lifestyle partners (Legacy, Miles for Style and Cruises International) were specifically introduced to bring glamour back to travel and to focus on the aspirational aspect of the programme.

Redemptions were also introduced with Legacy enabling our members to utilise their SAA Voyager Miles for Legacy Awards providing a range of Lifestyle products. The introduction of Mango redemptions during December 2013 stimulated reward usage and created a positive response from our members. Members can now make use of various payment methods and redeem as little as 5 000 miles for a flight award.

From 1 November 2013 the SAA Platinum and Premium Services Desk was further enhanced with a full service offering providing an integrated end-to-end suite of consistent and efficient services, enabled by a highly professional team of Relationship Consultants.

From 1 February 2014 SAA Voyager embarked on an exciting journey by introducing a refreshed brand, to be aligned with the SAA Corporate Brand. During the same month SAA Voyager also celebrated its 20th anniversary and launched exciting promotions for the SAA Voyager members.

MARKETING AND PRODUCTS

In 2013, SAA continued to refresh its brand identity and improvement of customer touch-points. A global roll-out of the brand refresh was completed, focusing on customer interfacing environments. The refresh included an upgrade to SAA branding in the airline's airport footprint throughout the globe.

The interiors of the new A320s have been designed to accommodate the brand refresh. Further visual improvements were executed on board the SAA fleet in line with the brand's new visual language.

In the area of catering, SAA signature dishes by Master Chef Benny Masekwameng were introduced to showcase South African cuisine to the world. Executive Chef Song Lee Chong will continue to focus on improving the menus on the Beijing and Hong Kong routes. In Taittinger Brut a new champagne choice was introduced on board.

Marketing continued with consistent tactical and promotional through-the-line campaigns promoting prices, new and existing code shares, specials, new routes and product and frequency adjustments. Further co-ordination between inbound and outbound destination marketing continued on a regional level, in line with the many routes commenced during the prior year and frequency adjustments. There were several promotional messaging campaigns which highlighted SAA's dual mandate of promoting both its developmental and commercial role for South Africa.

SAA has a very high reputation worldwide in a number of its operational areas, with its safety record, pilots and maintenance capacity all being recognised as amongst the best.

THE COMMERCIAL MANDATE
AWARDS

AWARDS 2013

- Ask Afrika Orange Index® Award Airline Industry category: Customer service excellence;
- World Travel Awards 2013: Africa's Leading Airline;
- Sunday Times Top Brands Awards, Airline Consumer category: Winner, and voted amongst the top five companies in the Business to Customer Most Desired Company to work for;
- Business Traveller Africa Awards: Top awards: Best African Regional Short-Haul Airline; Best African Long-Haul Airline; and Best Business Class. Best Airport Business Lounge was awarded to SAA's Baobab Business Class Lounge at OR Tambo International Airport;
- SA Tourism 4th Annual Ubuntu Awards, and Best Airline Generation: Top Performing Airline;
- Skytrax Award: Best Airline in Africa for the 11th consecutive time;
- A 4-Star Skytrax Rating retention for 2013, for the 11th consecutive year;
- FlightStats: Winner, Middle East and Africa category;
- STAT Times: African Cargo Airline of the Year Award (SAA Cargo);
- ACSA prestigious Feather Award for industry players, airlines and aviation service providers who have excelled in service excellence to airlines and companies working in the South African aviation industry: The SAA team at King Shaka Airport;
- Star Readers' Choice Awards: SAA and Mango named first and second;
- SAA was named 'Best Airline' to Africa by readers of Premier Traveler Magazine;
- Global Traveler Magazine named SAA as 'Best Airline in Africa' for the 10th consecutive year; and
- World Travel Awards: SAA was named 'Africa's Leading Airline' for the 20th consecutive year.

2014

Skytrax: 4-Star ranking for 12th year. SAA is the only carrier on the African continent to achieve this high-level rating. The Skytrax Star ranking audit examines more than 800 areas of product and service delivery, across both airport operations and cabin experience.

Campaigns highlighting the extent of SAA's achievements were ongoing, with an emphasis on SAA's long list of accolades, among which were the Skytrax award of Best Airline in Africa, the Sunday Times' Generation X Coolest Domestic Airline and the public sector's Excellence Award.

Challenges

Loyalty programmes have evolved since the launch of the first FFP on 1 May 1981. The expansion beyond the airline industry was primarily to offer members more choice for their miles by establishing partnerships and alliances with traditional (travel) and non-traditional partners (credit card, retail and lifestyle). As programmes matured, there was a growing awareness of the limitations of the legacy model, and an ever-increasing line-up of partners and greater customer participation began putting mounting pressure on the limited award seat inventory that was initially intended to fill otherwise empty seats.

There are two fundamental developments in the evolution of FFPs: The first is the gradual widening of the target market to include low- and medium-frequency travellers. The second is an increasing restructuring tendency between the FFPs and their airlines – recognising the potential of the programme in terms of asset value-creation both for its valued customers and its Shareholder.

Looking ahead

SAA Voyager is a key element of the Group's Customer Value Proposition (CVP) and aligns with the strategic objectives of the LTTS business model: to maintain commercial sustainability, excellence in customer service, and consistent, efficient and effective operations.

The strategy in the LTTS for SAA Voyager provides for immediate interventions to revitalise the programme, and the structure of the programme is accordingly being reviewed. In a step-change, the review will guide the SAA Group in considering the best opportunity, to ensure that loyalty is enhanced to an acceptably higher level through an improved CVP. The interventions are due for implementation during the next financial year.

Africa strategy

In actualising its vision of being Africa's leading world-class airline, the Group is energetically expanding its services and capacity into Africa. In offering passenger and cargo capacity across the continent, with flights to five countries in West Africa, three in Central and East Africa, and nine in the Southern African region, including South Africa, the Group has increased its reach through code-share agreements with seven airline partners.

Following bilateral and licensing agreements the Group will introduce additional licensed weekly frequencies to Ethiopia and Mali for SAA, while for SAA Cargo, frequencies to another seven countries will be introduced. With this expansion, there remain territories where agreements still need to be concluded – South Sudan for SAA, Botswana and South Sudan for SAA Cargo, and Reunion for Mango.

The African focus

Africa traffic is set to grow by an average rate of 6,2 percent per annum between 2011 and 2031. Currently SAA and SA Express serve 11 of the 20 fastest-growing markets with further destinations covered through code-shares with Ethiopian Airlines.

The Network, Alliance and Fleet strategy outlined in the LTTS prescribes the completion of business cases for four new African passenger routes. SAA Cargo has subsequently completed a Sales and Marketing Plan that identifies a range of new freighter routes for business case evaluation.

CARGO

SAA Cargo is a division of the airline dedicated to the movement of airfreight, with the GM reporting directly to the CEO of the Group. Although there is a degree of autonomy, all strategic decisions are taken in line with the LTTS, within the framework of the particular risk to which the transport of cargo, as opposed to the carrying of passengers, is exposed.

In a key definition, the LTTS characterises SAA as a dual passenger and cargo airline, and Cargo is expected to contribute to the turnaround in terms of both revenue and profit, while the developmental mandate requires Cargo to connect South Africa to the rest of the continent, and with the country's trading partners.

Profitability

With the implementation of the LTTS, reporting standards have improved, with belly-space, which constitutes around 70 percent of Cargo's revenue, now being paid for under a system of transfer pricing. In the past, this was not the case, with much larger profits consequently reflected. Under the new system, the Group now has a clearer indication of the profitability of the business, with Cargo's belly-costs and overhead line now represented as a revenue line for the Group, and margins for Cargo being reduced from around 60 percent to around a more realistic, but still substantial 30 percent, yet still creating value for the airline. Pilot, landing and take-off costs are shared with Commercial, although pure cargo-handling and dedicated employee costs have always been borne by Cargo.

In all other material aspects, the mandates, imperatives, aims and vision of Cargo are identical with those of Commercial.

With the bulk of Cargo's freight being carried in the belly-space of the passenger aircraft, much of the route development is done in tandem with Commercial. There are however some routes which the passenger side does not fly, with the result that for some of the freighter routes, development is handled by Cargo. With passenger routes for the most part already established to destinations that DTI trade figures reflect as important, there are however still some new routes that need to be developed, such as mining operation areas of Mozambique or Lubumbashi in the Democratic Republic of Congo (DRC). These are scheduled to be implemented in FY2014/15. Once operational, routes such as these will therefore also form part of the LTTS pillar of expansion into Africa.

One aspect of risk for Cargo is identical to that for the Group as a whole – the capacity of the Middle Eastern carriers to provide a wide spectrum of destinations in Africa, while establishing their home bases as hubs into Europe and elsewhere. The geographical advantage this confers is competitively very significant for SAA.

The LTTS also requires a relook at the freighter fleet strategy. Cargo has proposed a new forward-looking marketing plan, with the aim of increasing revenue generation. The new freighter fleet proposal involving the use of smaller turboprop aircraft for domestic and regional routes has been approved by the Board. These new aircraft will have a significant economic impact resulting from substantial fuel savings, and will assist with transformation by allowing for the employment of low-time cadet pilots. The SAA sourcing team has been appointed with an accelerated time frame to complete this key initiative. Negotiations with organised labour are key and on-going in this respect.

In the medium term, medium-range freighters will be required to extend Cargo's reach into areas such as West Africa, or for intercontinental routes with a stopover.

THE COMMERCIAL MANDATE

CARGO CONTINUED

EXPANDED SERVICES

There are no long-haul freighter routes, and where destinations are not served by SAA, belly-freight is handed over to other airlines under prorate agreements. In an example of a different kind of capacity arrangement, with around 60 percent of European revenue being generated out of Amsterdam (where SAA does not fly) space is purchased from competitor airlines in what is known as 'purchase of capacity', although where this occurs, margins are still required to justify the practice. This allows the airline to provide services in markets where it does not operate, and to market services to the wider African region.

Productivity levels are improving, as measured on the basis of kilogram-per-man-hour.

Efficiencies and the logistics chain

E-freight is an IATA initiative, with the GM being a member of the IATA Cargo Committee. The intention of e-freight is to minimise the use of paper in the movement of cargo, to optimise documentation electronically and to replace the enormous amount of paper hitherto required to enable the transport of freight. SAA was one of the first airlines to sign the Multilateral Air-freight Agreement.

As a signatory, the airline is now able to do business with all freight-forwarders who have also signed the document. As a result the system is more auditable, documentation trails are much more efficient, and clearances are expedited. The system has now been implemented on all the airline's international routes, making it one of the leading carriers in this regard. This has had implications for the airline's IT development in making the system compatible with the various jurisdictions involved.

Apart from the efficiencies, there are also green benefits, and even if paper is required at destinations, documents can be printed without having to be physically flown, with savings in paper, weight and fuel.

Global trends and proactive response

The year under review has been one of the most challenging for the cargo industry. The market has been sluggish as a result of the continuing flat recovery from the recession, particularly in Europe. Despite year-on-year global depression in yields, with intense effort, the airline has been able to maintain its own yields, although to the detriment of volumes, which year-on-year have decreased by around 1 percent.

Yield has been maintained through high service levels, including:

- Reduction in pilferage and improvement in security processes;
- Reduction in damage to cargo, measured monthly and remedied swiftly where necessary with corrective action;
- Delivering on service promises and not accepting cargo unless it can be loaded and thus not left behind because of overbooking;
- Improving customer communications to obviate delays;
- The airline's sustained reputation of being the most knowledgeable cargo carrier in Africa;
- The weak exchange rate, which because of the international practice of charging in dollars, and the commensurate advantage to exporters, has worked to the advantage of the division;
- Innovation, driven by regulation, with a global tightening of security in the industry resulting in the introduction of new IT and X-Ray systems and training, with all warehouse employees now being required to be proficient in the handling of dangerous goods;
- The airline firmly placing itself at the forefront as one of the leaders in E-freight.

During the year under review, with the support of the South African consulate in Mumbai, the division participated successfully in the Air Cargo India Exhibition, hosting the VIP lounge in an initiative to win more business from the sub-continent. With the GM also moderating one of the sessions on business between South Africa and India, the division received significant publicity from its participation.

The year under review: Strategy and progress

With an integrated approach to meet the material issues outlined in the LTTS beginning to be implemented, success has been registered in a number of areas during the year under review, with positive steps having been taken to meet those challenges still unresolved, and significant progress having been made in key initiatives such as fleet optimisation, fuel and weight savings and cost compression through the various forums set up to institute the programme.

MANGO

THE MANGO VISION

To be Africa's leading, world-class low-cost carrier

2014 HIGHLIGHTS

- **First mobile app**
  Mango became the only domestic airline to offer bookings and payment on the go
- **29,7%**
  Mango growth year-on-year
- **Two new routes**
  were launched Johannesburg-George and Johannesburg-Zanzibar
- **100% and 90%**
  Grew fleet and route network respectively over the past four years
- **Additional aircraft**
  on track for September and October 2014

Overview

Mango is an independent low-cost airline within the SAA Group. Launched in 2006, the airline's mandate was threefold: Strategic dual-brand intent within a highly competitive marketplace, structural and management independence as well as the socio-commercial role expected from State-owned Companies. Mango, as an independent subsidiary of the Group, has successfully developed best-practice business processes that have enabled the company to show profitability in 80 percent of its full fiscals and become an exemplary public entity. Based on King III best practice, the Mango Board comprises only two members of the SAA Board with a balance of independent non-executive directors.

Independence, governance and interaction

The Mango CEO reports directly to the Board of the company and not to the CEO of SAA. This reporting line has clearly defined the airline's independence since its inception. As a State-owned Company, however, Mango continues to fulfil its obligations to the ultimate Shareholder and its Representative, the Department of Public Enterprises (DPE), across all its commercial and social activities and conduct.

Mango's business case, its independent management and governance structures as well as its nimble and efficient processes have assisted the company to compete effectively and profitably in the marketplace.

The carrier's Board is assembled with the same objectives as its entire employee body. Skill-sets required for the successful running of the business are a prerequisite vertically and horizontally and are complemented by Board membership of two direct Shareholder (SAA) representatives. The relationship with the SAA Board is governed through Shareholder Compacts, Annual General Meetings and Instruments of Incorporation.

Performance

During the period in review Mango achieved its highest-ever net profit of R40 million before taxation of R56,1 million (2013 – R36,9 million). Revenue earned for the year increased from the 2013 figure by 42,83 percent to R1 942 million, reflecting an increase of R582 million. This was as a result of focusing on yield management with average yields increasing from R712 to R823 (exceeding the target by R111, and coupled with an increase in capacity of 25,62 percent. Load factors increased from 81,25 percent in 2013 to 82,35 percent in the year under review.

Mango has and continues to nurture a culture led by a mantra of friendliness, punctuality, efficiency, professionalism and consistency.

In the year under review Mango carried 4 072 guests per employee, more than double that of its closest competitor.

According to statistics published by Airports Company South Africa (ACSA) passenger numbers in the domestic market have declined by 0,4 percent which, with the weakening of the South African Rand, and increasing foreign currency expenses such as fuel and aircraft leases, put pressure on the domestic market.

Against the above background, Mango increased its share of the domestic market in which it operates from 24,1 percent to 28 percent and from 13,4 percent to 16,6 percent in the overall global domestic market. This market-share growth is attributable to Mango's extensive drive to increase its reach to corporate and business travellers, both directly and through the travel trade, an improved commercial schedule on the 'golden triangle' routes of Johannesburg-Cape Town-Durban, the launch in November of a new domestic route from Johannesburg to George and increased capacity on the Johannesburg-Port Elizabeth route.

Human Capital and Transformation

Mango has seen an improvement in employee productivity, reducing the total average amount of staff per aircraft from 84 to 71. This was achieved mainly as a result of the absorption of the overhead functions of an additional two aircraft without having to materially increase the number of staff.

There has also been an increase in passengers carried per employee, with the number rising from an average of 3 673 to 4 072. Significant investment has been made in human capital, with training spend for non-flight deck crew staff increasing from 1,23 percent of payroll costs to 2,16 percent.

Against targets as set by the Shareholder's Compact, Mango's fuel-burn reduction ideals were exceeded by 12 grams with 175 grams budgeted and 163 grams achieved.

Mango continued to realise scale benefits and productivity gains, with a headcount growth of 15 percent at the start of the financial year to 598 employees at the end of March 2014. The company has begun making progress in pilot transformation, achieving a 2 percent EE rate during the year under review and by introducing targeted interventions that will see this rate reach 5 percent within the next 12 months.

Mango's mandate

The airline's mandate, since inception and subsequently reconfirmed by the LTTS, has been to provide commercially-sustainable passenger and cargo services in trunk and high-density routes within South Africa and the continent where leisure and price-sensitive demand exists.

Mandate fulfilment

The SAA-Mango dual-brand strategy was based, at the time, on some of the most successful models and global best-practice. In fact, since Mango's launch eight years ago, the trend has continued with an increasing number of full-service carriers implementing a strategic split between low-cost travel and full-service brand offerings. This allows a Group claw-back of lost market share within evolving, maturing and competitive markets.

Traditionally low-cost airlines operate within purely price-sensitive market strata while full-service carriers focus on the upper echelons of consumer spends. Not only has Mango won back the 15 percent market-share loss by SAA and fulfilled its purpose profitably, but the airline has become one of the airline brands within the market with an independently-measured reputation that leads the domestic market.

Simultaneously with exceeding its business mandate, Mango has played a significant role as a social and economic enabler. The airline's high-profile social activities as well as its pursuit of affordable and accessible air travel for the previously unflown market has seen the carrier's social capital increase.

Creating Shareholder value

The creation of Mango, its independence and the development of its own processes and practices, have all led to several innovations born at the low-cost carrier and exported to its direct Shareholder.

Turnaround times along with their cost implications have been reduced to 25 to 35 minutes through Mango's processes.

In addition, Mango's independence allows the airline to procure on its own terms and establish a beneficial low cost base, the lowest in the domestic market. The airline has also led the market with its distribution and payment-method strategy making air travel more accessible at both ends of its market. Mango was the first carrier to retail flights through grocer Shoprite Checkers, and remains the only carrier in the world to accept store charge cards as payment (Edgars/Jet). Approximately 10 percent of its seats are booked via these methods.

Mango is a business that is sustained through innovation, particularly within the Information Technology (IT) universe. Recently it became the first domestic airline to offer bookings, payment and travel management through a mobile platform (app) while on the back-end the airline acquired the intellectual property rights to its IT platforms for Africa – not only enabling substantial medium- to long-term overhead savings but positioning the business for cost-effective continental expansion.

In reputation Mango has led its peers across the sector for six out of eight years and through a balanced approach to its public persona, has effectively positioned itself as an airline 'for all the people' of South Africa. Not only has this created substantial value for the company's ultimate Shareholder as a successful and highly-visible State-owned Company, but its consistent reputational gains impact very favourably on commercial intent.

Mango is also one of the most transformed airlines in domestic skies. The airline continually over-achieves against own objectives set across the business with targets that once again raise the bar for its peers, while redoubling its efforts at ensuring transformation among its pilot ranks.

Productivity

The LTTS is pillared in part by people-productivity and the achievement of greater value extraction from employees and assets compared with current and historical gains. Since inception, this has been a primary aspect of the low-cost carrier's business case.

On average, Mango's assets have been utilised by up to three block-hours per aircraft per day – more than that of the domestic market aggregate – and along with its reduced turnaround times the return on capital has been substantial.

Mango's distribution platforms and reliance on automated or electronic processes has seen people-productivity and its relation to bottom-line accessibility and sales lean heavily in favour of the company.

In addition, Mango has from the outset offered incentive-based employment packages. Effectively the company's variable-pay and reward system has seen productivity soar and staff sharing in the success of the business. Cost containment through the elimination of night stops has also realised substantial savings over the years.

Culture

Culturally Mango is bound together by five principles: Friendliness, Punctuality, Professionalism, Efficiency and Consistency. Mango has bred a tonality of teamwork. The airline calls its passengers Guests, and through multi-skilling across guest-facing functions it has saved substantially on human capital overheads and hedged against productivity losses. Staff attrition is pegged at less than one percent annually.

Mango also continues to count among the top ten airlines globally in terms of asset utilisation. The airline's turnaround times, crucial to return on capital, exceed that of its closest competitor by 30 percent.

Business liquidity

Since its inception, Mango has been a highly cash-positive business. The airline's distribution strategy and non-reliance on paper clearing periods has ensured continuous liquidity. Not only has this model positively impacted on the daily cash position of the business, but further income is derived from interest earnings.

On the ground. Flying high

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

Its newly redeveloped app for Android, Apple and Blackberry 10 platforms not only provides for commercial engagement on the go, but the company has effectively created an additional closed user group that may be leveraged for a range of activities and commercial incentives. In addition, the use of social media as a means of engaging its market has not only shown substantial reputational and customer service gains, but has been successfully used commercially time and again. Mango's Facebook presence leads the industry 5:1 in terms of engagement while its Twitter presence continues to climb. Presently the combined social network presence includes 300 000 people.

During the period under review Mango has also been one of the most visibly marketed airlines in the country while its news cycle and share of voice through corporate communication is unrivalled in the sector.

Connectivity in the sky seamlessly connects guests to business, friends and family through G-Connect In-Flight Wi-Fi on six of Mango's fleet of eight Boeing 737-800 aircraft.

Comfort and green as competitive advantages

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

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

The National Developmental Agenda (NDA), National Youth Accord and Social Development

Beyond fulfilling the objectives and mandates of the NDA, the National Youth Accord and Social Development requirements, Mango is compelled through its culture to contribute to South Africa. Its social credo 'We all live for one another' along with the imperative 'Trade – not aid' are founded in the ambition to seed sustainable growth across society, particularly in less-privileged communities. Employees are all required to participate in CSI activities as a condition of employment and as a fundamental cornerstone of the company's culture.

Mango works closely with government and while, in line with its ideas, the company supports various NGOs and NPOs, most initiatives are created internally based on national objectives and community needs. Mango is proactive and literally gets its hands dirty.

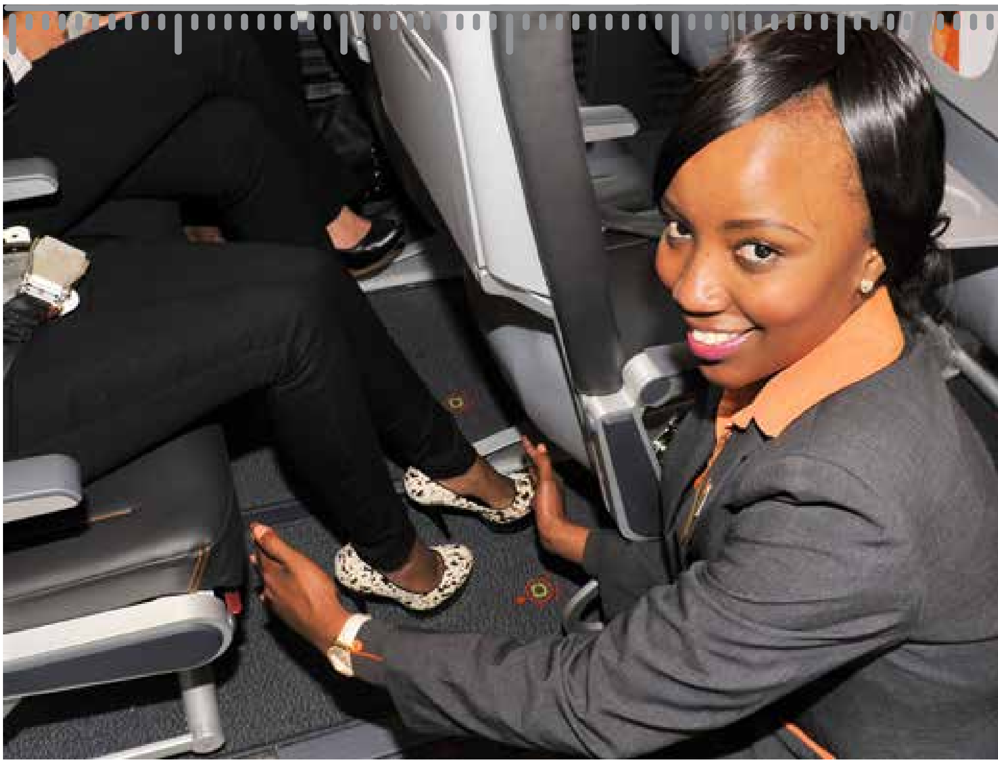
The company focuses on several areas in its Corporate Social Investment:

- Social enterprise development with consequent benefits such as food security, nutrition and job creation. Over the past 24 months Mango has installed several hydroponic vegetable gardens across the country and in most of the centres from which it operates. Not only do these gardens create profitable micro-enterprises, but they answer several national development goals such as food security, job creation and social upliftment.
- Health and wellness promoted by HIV/Aids prevention initiatives through the annual support of the Johns Hopkins Health and Wellness in South Africa programmes designed to prevent HIV/Aids infection including mother-to-child transmission. In addition the company supports AfrikaTikkun whose health clinics across the country fulfil essential needs in informal settlements.
- Youth education and guidance. Mango has touched the lives of more than 50 000 youths through its outreach programme of Career Days where the airline draws from the entire aviation and ancillary sector to provide guidance and information to young South Africans.
- Entrepreneurship and micro-enterprise development is a passion at Mango. Recently the airline invested substantially in the development of Mikateko Media, a black female-owned publishing house

that publishes the airline's in-flight magazine. Mango has also partnered with the business to create a media incubation programme for underprivileged students.

Mango also invested in both the development and internal skills development of a small black-owned enterprise that provides the airline with business analytics, research and market intelligence.

- The arts play an important part, not only in the holistic development of young South Africans but in overall social stability as well. In line with its ideals, the company does not simply sponsor parties but becomes actively involved with its partners. The Johannesburg Ballet Company runs seven development schools in Alexandra, Soweto, Tembisa and Shoshanguve among others, to train youth in the arts – and which fulfil a role similar to sports programmes. Mango has also taken the arts to the people and moved ballet from the theatre to the runway and to township streets through spectacular performance initiatives.



Mango installed new seats across its fleet providing guests with some of the best economy class legroom in the domestic low cost market with up to 6,5 cm additional space.

SOUTH AFRICAN AIRWAYS TECHNICAL (SAAT)

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

2014 HIGHLIGHTS

Commercial

Business Development

- Dedicated team established: October 2013
- Focused on 3rd party revenue growth achieving growth of 11% from last year
- Customer base has doubled from last financial year

Operations

- Increased operational line maintenance revenue by 4,5%
- Increased heavy maintenance checks by 59%
- Increased workshops capability in certain wheels and brakes, landing gears and APU for the A319/320

QUALITY ASSURANCE AND RISK

SAAT successfully retained the following regulatory approvals without any loss of capability or any significant findings:

- Federal Aviation Administration (FAA)
- European Aviation Safety Agency (EASA)
- Civil Australian Safety Authority (CASA)
- Mauritius Directorate Civil Aviation (DCA)

SAAT human resources highlights

- The number of students accepted for apprenticeship from Ekurhuleni West College have grown from 20 to 38
- The move from SACAA qualification to EASA qualification has commenced with the inclusion of SACAA, AMOSA and TETA

Overview

South African Airways Technical SOC Limited (SAAT) is a full-service MRO organisation, the largest in Africa. SAAT has held full and uninterrupted US Federal Aviation Authority certification since the late nineteen eighties, serving a range of local and international airlines. Prior to 1 April 2000, SAAT was a division of SAA. The corporatisation of SAAT as SAA Technical SOC Limited occurred with effect from 1 April 2000. SAAT is a wholly-owned subsidiary of SAA SOC Limited with its own Board and employs approximately 3 000 employees. The SAAT Board is made up of executive and non-executive members drawn from a pool of SAA Group Board members.

Contracts

SAAT has historically provided all of the necessary aircraft maintenance and support for SAA's fleet of aircraft. It was due to South Africa's geographical location and political isolation that it was necessary for SAAT to be able to provide all necessary maintenance services to the airline. The company is also the sole provider of aircraft maintenance to the other premier carriers in South Africa –Mango and Comair/Kulula, and provides MRO services to a variety of regional and other airlines such as Air Namibia, LAM and other third party ad hoc customers such as Air France, Air Mauritius, Air Madagascar, Trans Air Congo and Arik Air. These substantial third-party contracts with local and regional airlines currently contribute up to 15 percent of SAAT's revenue.

Since its corporatisation, SAAT outsourced activities, such as component and engine overhauls, which require large throughput in order to achieve economies of scale. Activities that are critical to the airline's day-to-day operation, such as line and minor maintenance, remained in-house and are aggressively grown through the pursuit of third party customers.

In accordance with the SAA Shareholder's Compact, "SAA Technical shall investigate the feasibility of and requirements for SAA Technical becoming a multi-airline focused African maintenance hub". This will be achieved through a mix of organic growth, strategic partnerships and acquisitions. The Shareholder Compact also states that "SAA Technical may serve a wide range of local and international customer airlines."

Scope

Market segments include major airframe checks, engine overhaul, mechanical components, avionics and line maintenance. SAAT's main operational base is Johannesburg and it also services customers at Cape Town, Durban and other regional airports. It is heavily dependent on maintaining SAA Group aircraft (SAA and Mango).

SAAT employs approximately 20 percent of the Group's staff, and has only one major domestic competitor, with other major competitors being the large airline maintenance facilities belonging to global airlines in northern hemisphere positions namely, Kenya Airways, Ethiopian Airlines, Egypt Airlines and Air Maroc Maintenance and Engineering.

Objectives and solutions

In line with the LTTS, SAAT's strategic objective is to grow third party business exponentially from its current base of 85:15 percent split in favour of SAA as against other sources to a more balanced ratio of 65:35 percent. Although this is a challenging task, it is imperative that the business diversifies its revenue portfolio to minimise overdependence on one customer, the SAA Group.

Third party business growth is not without its challenges one of which is that the opportunities in the region are limited to the number of carriers in sub Saharan Africa and therefore the number of fleets. Currently SAAT is focusing on growing line and base maintenance with less emphasis on other areas of capabilities. In this regard SAAT is reviewing its offering to include General Aviation and Advisory in order to bundle packaged maintenance solutions to its existing and potential clientele. This can provide the biggest portion of business, but it requires a base-line of certain essentials, such as licenses to work on smaller aircraft. Once these have been acquired, however, the company can make use of its internationally Approved Maintenance Operator (AMO) certification to pursue that business.

Working to strategy

SAAT has identified three strategic pillars which form part of the LTTS, namely the pursuit of partnerships, the creation of alternative hubs on the African continent and the creation of a centre of excellence for aircraft maintenance. In addition, the integration of common services with SA Express and Denel is also being pursued as part of improving scale within State-owned Companies.

Risk

SAAT is exposed to a number of business risks in its growth plans, one of which is its geographical location at the tip of Southern Africa. The location not only affects its ability to attract customers beyond the equator but also the resulting freight costs of parts to its facility at ORTIA. While labour costs are well within the global norm, the rand-dollar exchange rate that affects so much of the Group's activities, also plays a role in SAAT's competitiveness – hence the strategic efforts to establish a hub in mid-hemisphere elsewhere on the African continent where the disadvantageous exchange rate might be less of a factor. With shorter distances to major centres of aviation, ferry costs incurred in bringing aircraft to such a facility for maintenance will also be reduced.

Dealing with the challenges

Effective spares policy

The cost structure of a maintenance organisation such as SAAT involves two large items: labour and material. Any optimisation of the utilisation of labour and the movement of spares will therefore have a direct and positive impact on the bottom line.

A pillar of the strategy instituted to help optimise these factors is the engagement with as many Original Equipment Manufacturers (OEMs) and other MROs as possible. This enables the strengthening of working capital as well as the selective enlargement of the spares pool, with a consequent reduction in the cost of movement of spares.

In the past, the policy of the company has been to hold as many spares as possible, but obsolescence very quickly creates a financial burden which has to be provided for. For SAAT the question has been one of finding ways of optimising working capital. Such a risk-based approach has, however, not yet been accomplished in the company.

STRATEGIC GROWTH PLANS AND CHALLENGES

In line with the LTTS SAAT is implementing aggressive growth plans with major focus on line maintenance expansion in the rest of Africa and creation of a strategic hub in West Africa to address its geographical disadvantage. The establishment of a hub in West Africa will go a long way to improving SAAT's visibility across the continent and the Middle East.

A number of challenges remain such as compliance with stringent licensing regulations in the relevant countries and the funding requirements of such projects. The residual resistance among local authorities to allow regional and international operators to service their own airlines is another obstacle SAAT has to overcome in order to be successful in its regional expansion plans. SAAT has therefore adopted a strategy to engage with the respective governments to ensure buy-in while pursuing training and employment of locals as part of its contribution to skilling locals.

Another challenge faced by SAAT is the lack of comprehensive capability especially in the areas of Jetshop and Components Repair and Overhaul. If SAAT is to expand exponentially in the next decade there is a need to expand such high-growth high-margin business. It is in these areas that SAAT is lacking. Jetshop and Components Repair and Overhaul capabilities were outsourced in the early 2000s as they were not commercially viable for the company at the time. This resulted in the loss of high revenue-earning jobs leaving only those that were commoditised. However, SAAT is now embarking on revitalising these capabilities on the back of future trends that envisage high growth in engines and components repair and overhaul.

SAAT provides all the aircraft maintenance and support for SAA's fleet.

SAAT's priorities

Working capital is a material issue for the company. The company has embarked on a project to determine which components can best be eliminated from inventory, and how what is needed can best be sourced and maintained.

Margins and productivity

Competition is dependent on margins, so the question of productivity, identified in the LTTS as a material issue, is core to the successful turning around of the business. Improving productivity by elimination of process inefficiencies, which in turn result in a lowering of labour rates and the in-sourcing of high-margin services are thus key remedies. Heavy maintenance is commoditised, because it depends on volumes and low margins. On the engine maintenance side of the business, however, the margins are high.

The process of making an engine shop a fully-functioning entity again can only be achieved in small considered steps. In the eighties, the technical areas were vibrant with activity, but in time, as a result of outsourcing, the skills were eroded. SAAT has however begun a programme to regain engine maintenance skills, as well as those for landing gears and Auxiliary Power Units (APUs).

Expansion and training

SAAT works with Lufthansa Technik to facilitate the training of some SAAT technical staff in engine maintenance. In addition, the company has instituted a co-operation agreement with Pratt & Whitney, who also train selected SAAT technicians.

The company itself, being an approved Foreign Repair Station accredited by the FAA, EASA and the SACAA, provides a perfect environment for apprentice training, and on-the-job training and certifications. Training is therefore done by SAAT, whose procedures and facilities are monitored annually by these bodies. The Technical Training School is an integral part of the Company, which by creating a seamless integration of training, and certification of technicians, is now part of the Value Proposition in new business development endeavours.

Transformation and skills transfer

SAAT does not only train technicians for its own staffing requirements. In line with its developmental Shareholder mandate as identified in the LTTS, it also trains for the requirements of the country in accordance with the NDA. Technical skills such as welding, painting, machine operation and engine maintenance are viewed by the company as belonging in principle to a body of transferable skills that can be utilised across industries. SAAT therefore trains people in these maintenance principles so that they can be marketable outside of the company. This strategic thrust will see the training school growing into an integrated training institution, working in liaison with other SOCs like Eskom and Transnet, with their well-developed training facilities, and their similar mandates in skills development, so as to create convergent objectives.

Broadened intake

SAAT's requirements call for the training of 40 or 50 technicians annually. The ministerial challenge was to double that number, with the result that training is now given to over four times that number, so that the qualified technicians can then become more economically effective citizens using the skills they have acquired at SAAT.

Relationships in education

SAAT has also forged relationships with Further Education and Training (FET) colleges, having signed a Memorandum of Understanding (MoU) with Ekurhuleni West College, whereby teachers are trained by SAAT. Talks are planned also with Ekurhuleni East College in order to involve them in the programme, with more FET institutions envisaged as joining the network countrywide.

SAAT is also in the process of amalgamating its school with the schools run by Denel Aviation and SA Express so that all training can be done under one umbrella, with the outcome that the technicians will be capable of working on a wide variety of aircraft. Working teams were established during the year under review, with the aim of having the framework in place by the end of 2014.

Productivity

SAAT turnaround time and work quality is still comparable with the best in the world, a fact proven by the willingness of major airlines to make use of the company's facilities.

However, while there are areas of full utilisation of labour, there are others where there are troughs in work. Not all lines can be operational throughout the year, and because of the interconnectedness of maintenance work, troughs in one area cause similar troughs in others. Line maintenance at turnaround points on the airport apron are productive, for example, because aircraft fly all the time, whereas technicians who work in heavy maintenance are not necessarily continuously active. Expansion into general aviation is therefore viewed as a desirable means of remedying this imbalance, as with the increased availability of work labour can be more effectively utilised.

Environmental improvement

Energy conservation is an ongoing initiative in the SAAT facilities. Low energy lights and less electricity usage are now established features of the work environment. Geysers have been changed, solar energy has been introduced where possible, and oil recycling and waste disposal regulations are strictly applied. All these have helped to significantly reduce both costs and the company's carbon footprint.

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

2014 HIGHLIGHTS

- **Product development**
  Dedicated team established: October 2013
- **Marketing Plan**
  that effectively speaks to the chosen target market developed: April 2014
- **Preferential procurement**
  Re-focus and enterprise development initiatives: Achieved level 4
- **Operations Turnaround Plan**
  Implemented: December 2013
- **SAP production**
  Full implementation: September 2013
- **R25 million**
  Year-on-year improvement on the bottom line

Overview

Air Chefs is a wholly-owned subsidiary of South African Airways.

Air Chefs' main business is producing and supplying food and beverages to SAA and other airlines, with kitchens in Johannesburg, Cape Town and Durban. Initiatives undertaken in terms of the LTTS guidelines have been having an impact during the year under review, and are discernable positive trends in cost compression, increased revenue and improvements in operational performance, with a year-on-year improvement in the financial impact of the implementation of LTTS principles of R25 million.

Operations

Air Chefs currently supplies four airlines. In a labour-intensive system, where skills and performance monitoring are paramount, food is received and then prepared in portions and cooked. It is then placed in a blast chiller from where it goes to be assembled and plated. The food is then assembled and placed in trolleys for each flight and sent to a refrigerated area where it is stacked per flight. It is then loaded onto a truck, which takes it to the aircraft. Once the aircraft returns, a company truck will go out to collect all the equipment. The trolleys and equipment are then cleared and washed, and returned to the system.

In Johannesburg, improvement in performance has been directly related to staff management. A programme of matching skills to tasks, with associated accountability, has seen a noticeable month-on-month improvement in customer service, on-time performance, quality of food and loading to specification.

Quality control

Hazard Analysis of Critical Control Points (HACCP) principles is a standard that protects the quality of food on its journey to the final consumer.

The ISO 22000 standard, dealing with all management systems will see full implementation in Johannesburg, Cape Town and Durban by the end of FY2014/15.

Productivity

Time and Motion studies are in the process of being undertaken to determine how productivity can be improved. Certain outsourced meals have been in-sourced in order to reduce cost.

Day-to-day management

With the changes required in increasing the effectiveness of the business, there are a number of challenges that need to be faced. While the business is aligned to the strategic imperatives and policies of SAA in terms of principle, individual issues of content such as pay structures cannot be the same as for the airline because of the industry in which Air Chefs operates.

Moving towards profitability

With losses incurred during the year under review, the target for the coming financial year is to continue to drive losses downward. Discussions have already been initiated with international carriers to supply their catering requirements.

Transformation

The company's B-BBEE rating in the year under review has risen to four. There have been ongoing initiatives to bring chefs in from training schools as interns. The company is also active in enterprise development by supporting small businesses to supply produce to its operations.

Research and development

The company's Research and Development (R&D) department follows global trends, always taking into account the unique needs of its customers. Every month new dishes are developed for recommendation to the airlines. Efficiencies have been introduced in this area with some success being achieved in the containment of some of the losses being incurred by the company. Customer trends are monitored with the help of customer and crew reports.

AIR CHEFS CONTINUED

DIVERSIFICATION

In alignment with the LTTS the strategic drivers have been in the first instance to stabilise the company, in order to become profitable. The aviation catering industry has seen margins shrinking due to cost-cutting initiatives by airlines. While this is a global trend, domestically Air Chefs is looking for non-traditional catering platforms to increase its revenue. This can be done, in among other ways, through partnerships with catering industry companies who supply canteens nationally. This is a means of diversifying the business, while still focusing on food.

Skills transfer

Air Chefs is in the process of up-skilling its chefs and employees, and there is an internship programme in which chefs from schools gain experience through work and training in the company's kitchens. Air Chefs employs at the cook level, and the aim is to assist them to elevate their qualifications so that they can be classified as chefs. This is done under the auspices of the company's two executive chefs in the Research and Development (R&D) department, where apart from the normal development activity, up-skilling courses are being devised.

In the area of operations, with driving required on the apron, there is significant focus on driver training.

Labour

The labour environment is stable and the company is focusing on strengthening its relationships in this area.

Wastage

There are two wastage programmes in place. The SAA wastage programme is meant to counter wastage by reviewing loading ratios and improved processes.

Air Chefs' own wastage programme focuses on improved planning and ordering. This has shown some improvement in the year under review, but has not yet reached targets set by management.

Sales

In the past, there has been no active sales department, with new business resulting only from the companies responding to tenders. A commercial general manager has been appointed, and a commercial department established, with branding and other marketing platforms being introduced.

Environmental measures

Air Chefs is looking at introducing a more efficient water boiler system in tandem with the power supplier. The intention is to be the first catering company in Africa to achieve IEnvA certification. IEnvA is IATA's environmental assessment, and has been established as an environmental benchmark for member airlines. It seeks to create minimum and recommended standards for airlines in areas such as general recycling and reusing, onboard recycling, efficient flight and airport operations, limiting and reducing carbon emissions, and promoting general energy efficiency and environmentally-conscious procurement procedures. Achieving this rating will be fully aligned with the Shareholder's Compact requirements.

SOUTH AFRICAN TRAVEL CENTRE (SATC)

THE SATC VISION

To be Africa's leading centralised travel fulfilment and facilitation agency consortium

2014 HIGHLIGHTS

Divestment of SATC

Preparations for disposal of SATC shares continued to take foremost priority

Global affiliation

Lufthansa City Centre relationship proves to be of value to franchisees

B-BBEE

SATC's rating has improved from level 3 to level 2

Overview

South African Travel Centre (SATC) is a wholly-owned subsidiary of the South African Airways Group, and is a consortium of independently owned and operated travel management companies and agencies with a nationwide presence in South Africa as well as in Botswana, Lesotho, Mozambique, Swaziland and Ghana. The business employs 17 permanent employees and two on contract.

Boasting an extensive footprint comprising over 80 agencies, the company's franchising opportunities give independent agency owners the benefits of operating under an established brand name, with strategic partnerships and efficient operating standards, while at the same time offering its member agencies value by leveraging on economies of scale when dealing with suppliers. SATC operates within a distribution channel comprised of travel agents that collectively generate over 80 percent of SAA's passenger revenue. In the year under review, however, the company's contribution to SAA's retail revenue stands at just four percent.

Directors and Board structure

As a subsidiary, SATC has its own Board, although this Board is primarily composed of members of the Group Board, resulting in Shareholder dominance. A notable development is that two franchisee representatives now sit on the Board by invitation. Although the franchisee representatives are not directors, they do ensure that the interests of key stakeholders are represented at Board level.

Mandate

The company's mandate as defined in its Shareholder Compact is to support the SAA Group in the provision of air and other complementary travel retail services to passengers, thereby ensuring the provision of a complete travel offering to clients; and to improve the Group's market offering by providing comprehensive travel-related services.

In fulfilling its mandate, SATC's mission is to deliver commercially sustainable centralised travel fulfilment and facilitation services in South Africa and on the African continent, as well as to South Africa's tourism and trading partners.

Industry context

Globally, the dynamics of the retail travel market have changed materially over the past five years, with global trends in affiliation and consolidation through mergers and acquisitions and global branding partnerships. These developments have concentrated market power, allowing for cross-selling within groups, and have reduced distribution costs, allowing volume-based pricing advantages and the sharing of intellectual property. Advances in online technology have facilitated the proliferation of home-based agents and independent travel consultants, as well as the development of new online and mobile travel solution platforms and improved corporate booking tools for the corporate travel segment.

These trends have been evident in the consolidation of the South African market and the development of competitive integrated travel groups targeting multiple markets such as the corporate, leisure and online segments. These factors have all contributed to the erosion of SATC's value proposition.

Risk and realities

There has been additional adverse impact resulting from changes to South African competition law and Competition Commission rulings, preventing SAA from providing SATC with exclusive offers – once a fundamental component of the value proposition to franchisees. Franchisee numbers declined from 86 in 2008 to 76 in February 2013. During the year under review up to 50 percent of franchises remained at risk as the return on investment on an SATC franchise fell below 40 percent of that of a typical competitor.

Special strategic circumstances

The dual role of SAA as both a supplier to and a Shareholder in SATC, represents a conflict because SAA is unable to invest further in SATC without alienating other retail groups who are responsible for 96 percent of the airline's South African retail revenue.

Compounding this challenge, as a Shareholder, SAA is conflicted as it needs to comply with the Competition Act. The consequence of this obligation is that any favourable deals SAA might wish to offer via SATC cannot be offered without contravening the Act. The vertical relationship between SAA and SATC thus prevents SATC from following market trends of affiliation and consolidation between competitors. This results in a reduced return on investment for SATC franchisees, in turn causing attrition and limiting growth for the company as franchisees migrate to more attractive consortiums.

Divestment

The material factors outlined above have led to the strategic decisions outlined in the LTTS for the Group to divest from SATC, a process set in motion during the year under review, and which is expected to be completed in 2014.

While the consequence of these material factors and the decline of SAA support has been that little equity has been left in the business for SAA as the Shareholder, and no rationale for retention remains, the sale will still contain the key condition of a contracted future-proofed retention of the SAA brand to ensure that any residual commercial value is retained for the Group.

There has been a great deal of uncertainty arising from the divestment process with a consequent risk of further franchisee loss. Furthermore, competitors have apparently been making approaches to some franchisees with the intention of persuading them to join their consortiums. SATC head office has continued to monitor the situation closely and has been implementing a retention plan.

Predictably, the primary preoccupation during the last quarter of the year under review has been with the divestment process along with its implications for all of SATC's key stakeholders. While the divestment project itself has experienced a delay, SATC has nevertheless been reasonably successful in managing the affected stakeholders. To ensure the long term viability of the business, it is critical that the divestment process be completed as soon as possible.

STRATEGY

There are five strategic imperatives outlined for SATC in the LTTS. They require the company to:

- Support South Africa's National Developmental Agenda through job facilitation, greater transformation and the positioning of the organisation for growth
- Achieve and maintain commercial sustainability through improved margins, improved gearing and improved liquidity
- Provide excellent customer service through accurate segmentation, focused targeting, and global affiliation
- Achieve consistent, efficient and effective operations by establishing an optimal structure
- Foster performance excellence through aligned and engaged employees, aligned skills, an accountability culture and an appropriate reward system

THE SATC VALUE PROPOSITION TO TRAVEL RETAILERS COMPRISES FOUR KEY COMPONENTS BASED ON ITS RELATIONSHIP WITH THE SAA GROUP, THE COST OF BELONGING, THE PROVISION OF BUSINESS DEVELOPMENT SUPPORT AS WELL AS ACCESS TO PREFERRED PARTNERSHIPS THAT YIELD VALUE.

The company expresses these components by demonstrating:

- The backing of the leading airline
- Affordability and a better return
- Assistance with growth
- Good deals from suppliers

Outreach

A head office-run learnership programme, aimed at assisting unemployed youth to enter the travel industry job market was concluded successfully at the end of the fourth quarter. The programme, run nationally, with preference being given to students from underprivileged backgrounds and rural communities was enabled by the Culture, Arts, Tourism, Hospitality and Sport Sector Education and Training Authority (CATHSSETA), and saw 49 previously unemployed learners receiving theoretical and practical training. Awarded with a National Certificate in General Travel NQF level 5 certification, a number of learners were able to secure employment with the host employers as a result of their outstanding performance.

Commercial factors

On the commercial side, with regard to the containment of franchisee loss and consequent loss of revenue, only one franchisee has been lost to a competitor, and another closed down. There has also been an expansion into Africa, with the five franchisees beyond the borders of South Africa including one recently engaged in Ghana, one in Swaziland, and another soon to be added in Zambia.

Day-to-day operations

Despite the prevailing circumstances outlined above, the business was still able to operate with a fair degree of normality, pursuing its policies in new franchise recruitment, renewal of preferred-supplier agreements and franchisee support.

While material risk remains a factor impacting SATC as a going concern, Shareholder loans from SAA continue to support the company.

International partnership

While the challenge of a weakened value proposition remains, SATC has been strengthened through its partnership, entered into in the year under review, with the Germany-based Lufthansa City Centre. With one franchisee agency already participating, others from around South Africa will soon be joining and able to leverage this global affiliation. This long-term partnership has the potential to bring immense value to SATC members in South Africa and on the rest of the continent.

Although the global downturn has not severely impacted the South African travel market, the growth of six percent in FY2013/14 reflects a certain stagnation. Despite the market segmentation of 70 percent business travellers (itself divided into 50 percent each from the private and public sectors), and 30 percent leisure travellers, the internet and online options have not yet displaced the usage of travel agents.

TRANSFORMATION AND CSI

The LTTS clearly outlines both the social and commercial imperatives of SAA as a State-owned Company (SOC) in order to return the Group to sustainability. As a consequence of adhering to the Shareholder mandate relating to the National Developmental Agenda and job creation guidelines, SATC maintains a larger staff complement than might be necessary if measured on commercial grounds alone.

During the fourth quarter of the year under review, SATC was able to report that it had improved its B-BBEE rating to level 2 from its previous level 3. In a positive sign, SATC has also seen the emergence of black women-owned franchisees.

CONTENTS

STATEMENT BY THE COMPANY SECRETARY

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

Sandile Dlamini
Company Secretary

19 January 2015

Name:	Mr CS Dlamini		
Business address:	Airways Park, Jones Road OR Tambo International Airport Kempton Park, 1619	**Postal address:**	Private Bag X 13 OR Tambo International Airport Kempton Park, 1627

DIRECTORS' REPORT

for the year ended 31 March 2014

Introduction

The directors have pleasure in presenting their report, which forms part of the annual financial statements of South African Airways SOC Limited (SAA) and its subsidiaries – 'the Group' – for the year ended 31 March 2014.

The financial statements set out in this report have been prepared by management in accordance with International Financial Reporting Standards (IFRS), and are based on appropriate accounting policies adopted in terms of IFRS, as detailed in Note 1 to the annual financial statements. There have been no changes made to the accounting policies in the year under review. The accounting policies are supported by reasonable and prudent judgements and estimates as detailed in Notes 3 and 4. The audited annual financial statements are submitted in accordance with the statutory requirements of the Public Finance Management Act No 1 of 1999 (as amended) (PFMA) 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 2014.

Nature of the business and company shareholding

SAA is a State-owned company, incorporated in terms of the South African Airways Act No 5 of 2007, reporting to the Minister of Public Enterprises as supported by the Department of Public Enterprises (DPE). The airline's principal activities include providing scheduled air services for the transportation of passengers, freight and mail to international, regional and domestic destinations. In fulfilling its mission to deliver commercially sustainable world-class air passenger and aviation services in South Africa, the African continent and its tourism and trading partners, SAA proudly operates to 38 destinations across the continent and provides a competitive, quality air transport service within South Africa and to major cities worldwide.

Overview of operating and financial results

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

The impact of the consistently high jet fuel price coupled with a further significant deterioration in the value of the rand against all major currencies negated the positive impact of sustainable cost compression initiatives undertaken over the past two years. Fuel remains the biggest single expense, accounting for 36 percent (2013: 35 percent) of the Group's operating costs, and the continued weakening of the currency has had a significant impact on operating costs, as approximately 60 percent of the Group's costs are foreign currency denominated whereas only 40 percent of revenues are earned in strong currencies. The negative net impact of the weaker currency on the operating result was approximately R0,6 billion.

Despite the challenging and competitive operating environment and significant negative impact of the weakening of the rand, the Group still managed to deliver a 12 percent (R51 million) improvement in its operating result with a loss of R374 million compared to R425 million in the previous financial year.

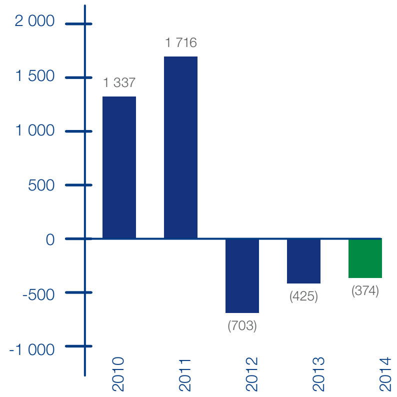
During the current financial year, the company recognised impairments to aircraft and aircraft inventory to the value of R1,3 billion. These impairments primarily relate to adjustments required to their fair market values.

Finance costs increased by 38 percent to R263 million as a result of increased reliance on Shareholder-guaranteed loan funding in the absence of equity support by the Shareholder.

After depreciation and impairments, finance costs, tax and items reflected in other comprehensive income the total comprehensive loss for the year is R2,6 billion against a prior year loss of R1,2 billion.

HISTORICAL OPERATING RESULT

(R million)

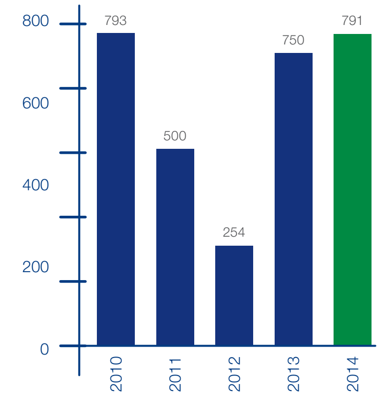


DIRECTORS' REPORT (continued)

for the year ended 31 March 2014

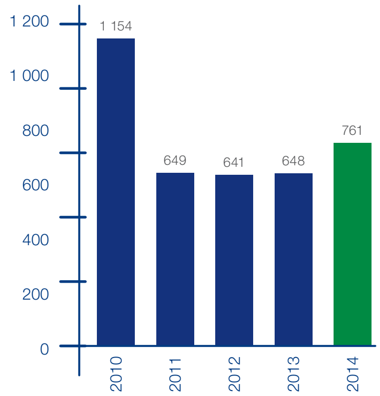
DOMESTIC CONTRIBUTION

(R million)



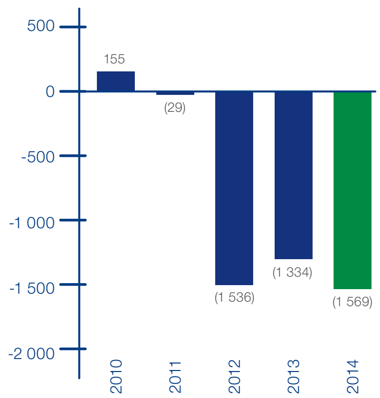
REGIONAL CONTRIBUTION

(R million)



INTERNATIONAL CONTRIBUTION

(R million)



Operating performance

As previously mentioned, the Group's operational result suffered significantly as a result of the weakening rand, despite the positive outcome of the Group's cost compression project. Over the past two years, this project yielded sustainable cost savings in excess of R1,4 billion.

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

Domestic contribution

The Group's domestic operations, which include both its SAA and Mango operations delivered an increased positive contribution to the Group's operating result of R791 million (2013: R750 million), which represents an improvement over the previous financial year of five percent.

The graph (Domestic contribution) depicts the contribution from the Group's domestic operations over the past five financial years reflecting a positive trend since the 2012 financial year.

The Group has identified the commoditised local low-cost market as the area of potential growth and, as a consequence, a strategic decision was taken to downscale its SAA operations and focus on expanding its Mango operations to capitalise on this growth opportunity. As a result the Group's total domestic capacity offering increased by nine percent culminating in a nine percent growth in passenger numbers and a 14 percent growth in revenue.

Regional contribution

The Group's regional operations delivered an increased positive contribution to the Group's operating result of R761 million (2013: R648 million), which represents an improvement over the previous financial year of 17 percent.

The graph (Regional contribution) depicts the contribution from the Group's regional operations over the past five financial years.

SAA was able to achieve this improvement by downscaling its domestic network and utilising the freed-up capacity to expand its regional network in accordance with the LTTS (new strategy). This decision added four percent in available seat kilometres (capacity) which, coupled with a seven percent increase in passenger numbers, realised an eight percent improvement in yield and a 17 percent increase in passenger revenue.

International contribution

The Group's international operations suffered an increased loss of R1,6 billion (2013: R1,3 billion), contributing negatively to the Group's operating result. Since the significant hike in fuel cost in the 2012 financial year, coupled with the weakening exchange rate and its uneconomical old-generation wide-body fleet, SAA's international operations have suffered losses.

The graph (International contribution) depicts the contribution from the Group's international operations over the past five financial years.

The increased loss is largely attributable to the weakening currency as the negative impact thereof is absorbed by the airline and cannot be passed onto its passengers. Competing international airlines operating in strong currencies have a competitive advantage over airlines, such as SAA, operating primarily in weaker currency markets. While passenger growth remained flat year-on-year, passenger yields improved by 10 percent with an 11 percent improvement in passenger revenue.

The new strategy identified certain initiatives to improve the international operations' contribution of which, amongst others, the closure of certain loss-making routes was recommended. However, this was only partially implemented due to the perceived strategic nature of certain identified routes, ie the Johannesburg/Beijing route. Despite measures introduced to reduce losses on this route, this specific route accounts for 21 percent of the losses arising from international operations. The strategic importance of this route will be re-considered in the 2014/15 financial year.

Revenue

Group revenue increased by 12 percent to R30,3 billion from R27,1 billion in the previous financial year. Airline revenue improved by 12 percent on the back of a 13 percent increase in passenger airline revenue, primarily as a result of increased average air fares over the previous financial year. This increase was, however, largely driven by the impact of the 19 percent weakening of the rand/dollar exchange rate. Other contributors to the increase in passenger revenue were the 5,5 percent increase in revenue passengers and a marginal 1,7 percent increase in available capacity.

The graph (Total income) depicts the Group revenue trend over the past five financial years, reflecting a continuous positive trend from 2010.

Operating costs

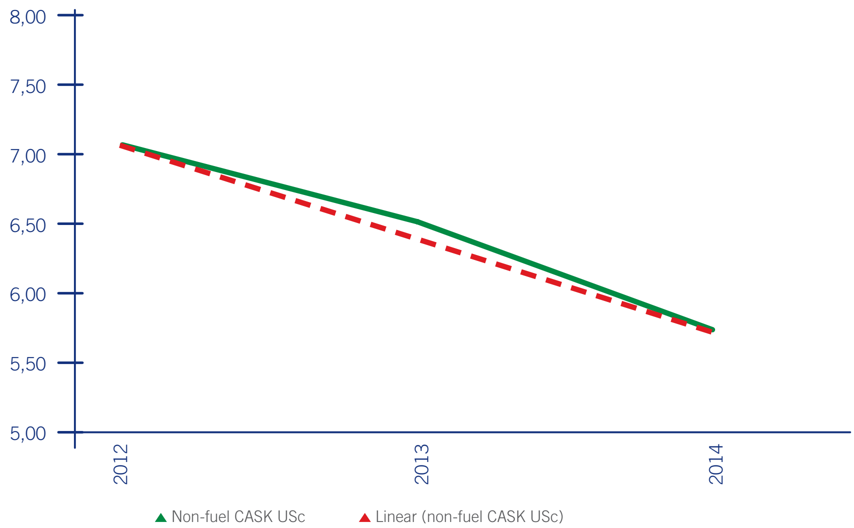
Operating costs over the past financial year remained well controlled but, as in the previous financial year, were severely impacted by the weakening rand/dollar exchange rate. Although total operating expenses increased by 11% year-on-year, the increase in real terms, adjusted for currency movements, was only 2%.

The graph (R/$ exchange rate) depicts the 25 percent movement in the average rand/dollar exchange rate over the past five years. Since 2012 the average rand/dollar exchange rate deteriorated by 34 percent.

Cost compression project

SAA commenced a major cost compression programme in April 2012 with the objective of ensuring a systematic, comprehensive and ongoing compression of the SAA Group's operating cost base, which is key to the new strategy of the airline. The aim is to achieve a reduction in non-fuel CASK (Cost per available seat kilometre) of 20 percent by the end of the 2014/15 financial year, without negatively impacting the demand-side revenue per available seat kilometre (RASK). Further savings for the current financial year of R453 million were achieved with cumulative savings over the past two years totalling in excess of R1,4 billion, with an improvement in CASK of 11 percent over the previous financial year.

SAA AIRLINE CASK (NON-FUEL) IN USc

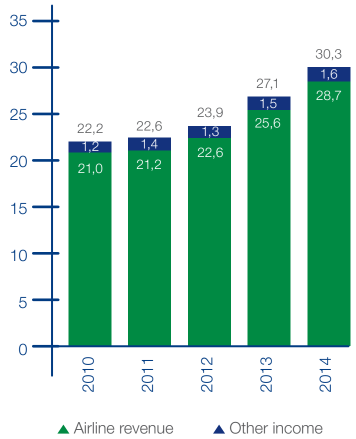


The bulk of the savings were realised from fuel saving initiatives, mostly relating to carrying less fuel through route optimisation, improved flight planning and various weight saving measures; maintenance cost reductions through engine and leasing contract negotiations, and on the general administrative side where Global Supply Management, as custodian of the procurement process, continued to strongly support the cost compression principles when new tenders were issued or contracts re-negotiated or extended.

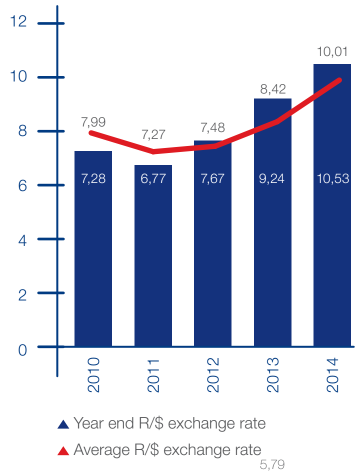
Aircraft utilisation measures were also successful in driving improved aircraft utilisation via quicker turnaround times and increased frequencies, together with cost savings, to effect reduction in CASK.

TOTAL INCOME

(R billion)



R/$ EXCHANGE RATE

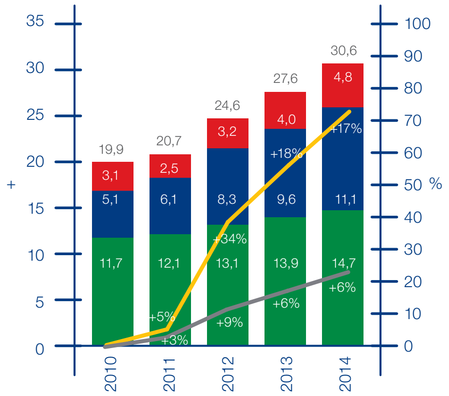


DIRECTORS' REPORT (continued)

for the year ended 31 March 2014

OPERATING FUEL AND REGULATED COST TREND

(R billion)



▲ Operating cost
▲ Total fuel
▲ Regulated cost
▲ Year-on-year fuel and regulated cost increase
▲ Operating cost increase (excluding fuel and regulated costs)

For the next financial year, industry benchmarking will be used to indicate further areas of focus for cost reduction and for this purpose industry experts have been appointed to assist the airline.

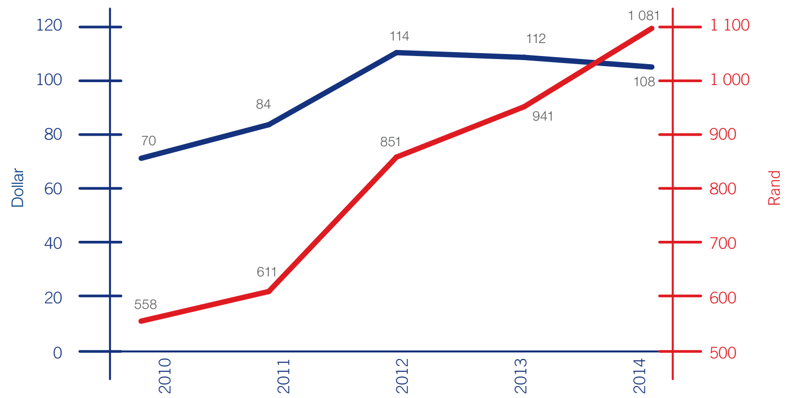
Operating costs analysis

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

Fuel costs

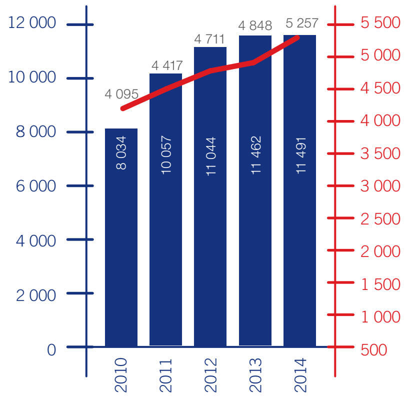
Fuel remains the single biggest cost contributor to the Group, having increased from 35 percent to 36 percent of total operating expenses. Despite the three percent decrease in the average Brent crude oil price for the financial year, total fuel costs increased by R1,5 billion (16 percent) from the prior year as a result of the weaker rand. The impact of the weak rand was R1,6 billion. The graph (rand and dollar price of Brent crude oil) comparing the rand and dollar price of Brent crude over the past five years clearly illustrates the steep increase in the real rand cost of fuel to SAA. Since the 2011 financial year, the rand cost of fuel increased by 77%.

RAND AND DOLLAR PRICE OF BRENT CRUDE OIL



▲ Average dollar Brent oil price ▲ Average rand Brent oil price

HISTORICAL EMPLOYEE COSTS AND HEADCOUNT



▲ Headcount
▲ Employee costs (R million)

Employee costs

The graph (Historical employee costs and headcount) illustrates the trend in headcount and employee costs over the past five years.

Employee costs, which represent the second largest contributor to operating expenses, (17 percent) increased by eight percent to R5,3 billion. General staff received a 6,5 percent increase for the year, whereas pilots received 6,2 percent and management 5,8 percent. There was no significant increase in headcount as only critical vacancies were being filled. During the year SAAT increased its staff at the Regional (Africa) outstations to support its growth strategy. The weaker currency also negatively impacted employee costs paid to staff abroad as well as subsistence allowances denominated in hard currency. In addition, the commencement of the Cadet Pilot Programme during the year has resulted in additional training costs being absorbed.

Maintenance costs

Maintenance costs reflect an increase of 16 percent to R2,7 billion from R2,3 billion in the previous financial year. The majority of these costs are contract driven and, once again, impacted by the weakening rand. The impact of the weak rand amounted to R518 million.

Aircraft lease costs

Aircraft lease costs have increased by 22 percent from R2,1 billion in the previous financial year to R2,5 billion due to the impact of the newly acquired A320's in the fleet, coupled with the 19% depreciation in the rand. SAA acquired four new A320 aircraft during the financial year, while Mango increased its capacity by acquiring two of the four Boeing 737-800's that have exited SAA's fleet.

Leased fleet	2014	2013	Change
A330	**6**	6	–
B737	**14**	18	(4)
A319	**11**	11	–
A320	**6**	2	4
A340	**11**	11	–
Total SAA	**48**	48	–
B737	**8**	6	2
Total Mango	**8**	6	2
Total Group	**56**	54	2

Navigation, landing and parking fees

Regulatory costs (which include navigation, landing and parking fees) have increased by 18 percent from R1,7 billion in the prior year to R2,1 billion. Increases in fees charged by airport service providers across the global network account for eight percent of this increase, with the remaining 10 percent increase due to the weakening of the rand.

Other operating costs

Commissions and network charges have increased by 16 percent. After taking into account the impact of currency on the Global Distribution Charges there is a direct correlation between these costs and the improvement in airline revenue.

The 11 percent increase in electronic data costs from R495 million to R549 million is driven by the weakening rand.

Excluding the impact of energy, regulatory and maintenance costs which are, to a large extent, out of the control of management, the Group's operating costs increased by seven percent. Should the impact of currency be eliminated from these costs, the increase is only four percent, which is testimony to the continued tight cost control maintained over these controllable costs.

Net impairments

Wide-body fleet

Critical to the success of the implementation of the new strategy and the airline's return to profitability is the replacement of the current old-generation wide-body aircraft utilised on international routes with more fuel-efficient new-generation aircraft. To the extent that the decision to replace the wide-body fleet has reduced the anticipated remaining useful life of its current owned wide-body aircraft, the Group was required, in terms of IFRS, to adjust the market values to match their remaining useful lives. The Group owns seven wide-body aircraft and, as a consequence, an impairment of R782 million was recognised on the these aircraft.

Narrow-body fleet

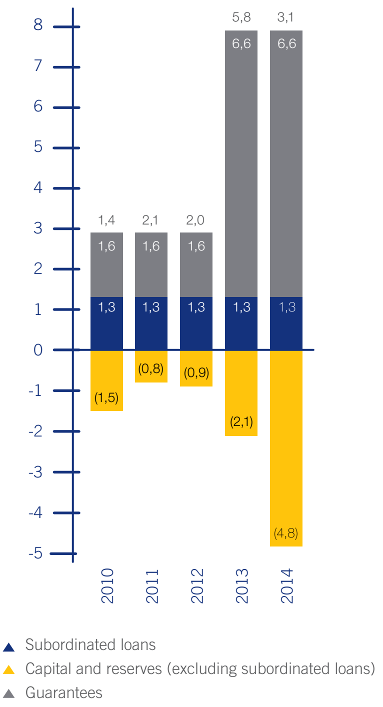
During the current financial year the airline took delivery of four new A320 aircraft.
The agreement for the outright purchase of 20 aircraft, which was originally entered into in 2002 and later re-negotiated in 2009, provided for annual escalations, which has resulted in the actual purchase price exceeding the market value of these aircraft at date of delivery. The financing of these aircraft is being facilitated by way of sale and leaseback transactions, which necessitated the impairment of each aircraft to fair market value on date of delivery. As a result, an impairment of R369 million was recognised on the delivery of the first four aircraft during the current financial year. Similar impairments are expected on all remaining future deliveries.

DIRECTORS' REPORT (continued)

for the year ended 31 March 2014

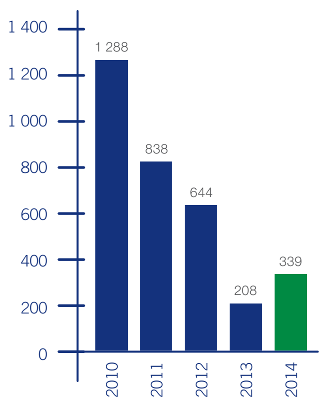
CAPITAL RESERVES AND GUARANTEES

(R billion)



LOANS REPAID

(R million)



Inventory

As a result of the decision to replace the Group's wide-body fleet, and in addition to the required impairment on its wide-body fleet, an impairment of R192 million was recognised during the financial year on all related inventory items.

Statement of financial position

Equity

Historically SAA had to operate with a weak balance sheet which, together with losses incurred during the past three years, required additional assistance from its Shareholder. In October 2012 SAA was granted a R5 billion Shareholder guarantee to secure its continued operations until alternative forms of Shareholder support is received to restore the airline's capital and reserves position. During the past financial year this guarantee has been converted to a perpetual guarantee. Subsequent to year end, this guarantee was increased by an additional R6,488 billion.

The graph (Capital reserves and guarantees) depicts the capital and reserves trend over the past five financial years.

Cash flow

Cash and cash equivalents at the end of the financial year improved by R1,021 billion from R1,100 billion to a net overdraft position of R79 million as a result of the R3,2 billion raised on the back of the government guarantee.

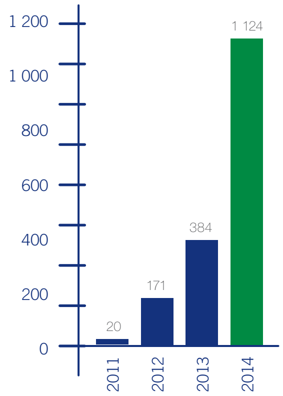
The cash raised was primarily applied to fund the Group's operating activities of R1,7 billion (2013: cash generated R161 million) which includes funding costs of R263 million (2013: R191 million) as a result of increased reliance on Shareholder assistance in the form of government guarantee backed loans.

In addition to the above a net R863 million (2013: R807 million) was applied to investing activities which primarily relate to pre-delivery payments (PDPs) on the A320 transaction to the extent of R1,1 billion (2013: R384 million).

It can further be noted that over a period of five years SAA has repaid loans to the value of R3,3 billion and paid R1,7 billion on aircraft pre-delivery payments (refer graph alongside) which has further contributed to the erosion of the cash reserves over the period.

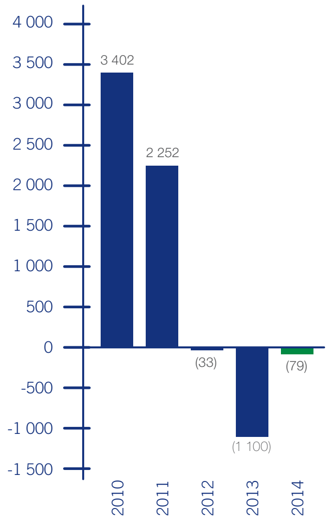
PDP SPEND OVER THE LAST FOUR YEARS

(R million)

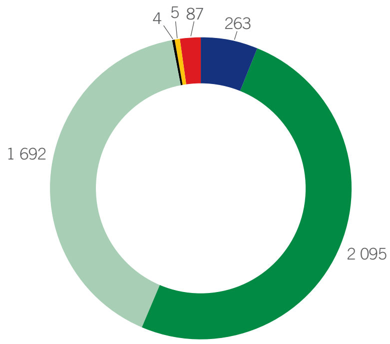


NET CASH POSITION

(R million)

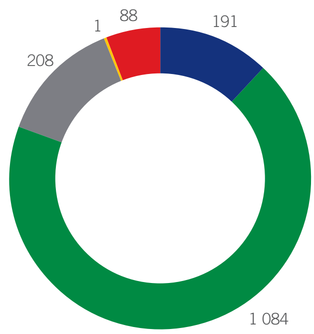


The graphs below analyse the sources of cash flows and how the cash was applied:



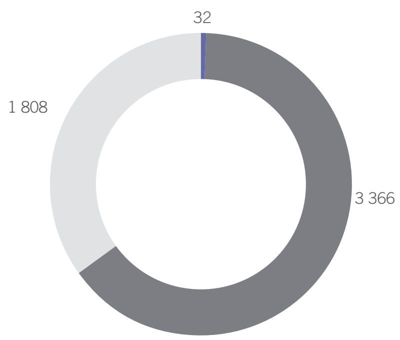
CASH OUTFLOW (2014) – R4 146 MILLION

▲ Finance cost ▲ Additions ▲ Operations
▲ Derivatives and forex ▲ Investments ▲ Dividends



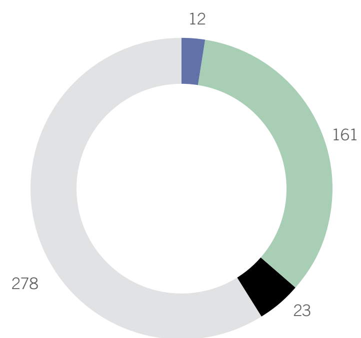
CASH OUTFLOW (2013) – R1 572 MILLION

▲ Finance cost ▲ Additions ▲ Borrowings
▲ Investments ▲ Dividends



CASH INFLOW (2014) – R5 206 MILLION

▲ Interest ▲ Borrowings ▲ Proceeds on disposal assets



CASH INFLOW (2013) – R474 MILLION

▲ Interest ▲ Operations ▲ Derivatives and forex
▲ Proceeds on disposal assets

DIRECTORS' REPORT (continued)

for the year ended 31 March 2014

Group operating data

	2014	2013	2012	2011	2010
Capacity					
Available seat kilometres (ASKs) (millions)	**33 999**	33 441	32 423	32 378	31 543
Traffic					
Revenue passenger kilometres (RPKs) (millions)	**25 606**	24 880	23 217	22 661	22 413
SAA*	**23 124**	22 901	21 509	21 181	21 081
Mango*	**2 482**	1 979	1 708	1 480	1 332
Revenue passengers (thousands)	**9 332**	8 846	8 087	8 053	8 023
SAA*	**7 071**	7 009	6 480	6 630	6 735
Mango*	**2 261**	1 837	1 607	1 423	1 288
Cargo – tonnes flown (thousands)	**132**	133	142	129	119
Utilisation					
Passenger load factor (%)	**75**	74	72	70	71
Yield (passenger revenue/RPKs) – passenger*	**0,78**	0,71	0,69	0,68	0,65
Passenger revenue (R million)**	**20 085**	17 716	15 908	15 443	14 598
Yield (revenue/ASKs) – airline revenue*	**0,84**	0,76	0,70	0,65	0,66
Yield (total income/ASKs) – total income*	**0,89**	0,81	0,74	0,70	0,71
Unit cost (cost per available seat kilometre)**	**0,90**	0,82	0,76	0,64	0,63
Labour cost	**0,15**	0,14	0,15	0,14	0,13
Energy	**0,33**	0,29	0,26	0,19	0,16
Material cost*	**0,08**	0,07	0,05	0,04	0,06
Other operating costs	**0,34**	0,32	0,30	0,27	0,28

* *The 2010 amount has not been adjusted for the restatement that occurred in that year.*

Critical issues facing the airline

SAA continues to deal with a number of critical issues that are elaborated on below. These include strategic and policy issues in respect of which the directors wish to acknowledge the support received from the DPE. The Group reported on these issues in its 2013 Annual Report with progress highlighted below.

Cash flow

Cash flow will remain a critical issue until such time as the airline receives an equity injection from the Shareholder. This has been addressed in the new strategy and engagements are currently under way with the Shareholder in this regard.

Aircraft orders and fleet modernisation

Critical to the success of the implementation of the long-term turn-around strategy and the airline's return to profitability is the replacement of the wide-body aircraft on international routes with more fuel-efficient new-generation aircraft.

The replacement of these aircraft will, however, be subject to a phase-in period, driven by the expiry of current leases and the availability of new-generation aircraft. The process for the replacement of the wide-body aircraft has commenced with the recent appointment of a transaction advisor to assist with the selection of appropriate new-generation aircraft. It is anticipated that the selection process will be finalised during the 2014/15 financial year.

As reported previously, SAA signed an agreement with Airbus for the delivery of 20 A320 aircraft, with deliveries scheduled from 2013 through to 2017. Financing for the first 10 aircraft has been finalised and delivery of the first four taken during the year under review. A further six aircraft are scheduled for delivery during the 2014/15 financial year. The financing of these aircraft has been done on a sale and leaseback basis and included the recognition of an impairment charge of R369 million as a result of the market value of the aircraft at delivery date being lower than the actual final escalated contract price. Similar impairments will be recognised on the remainder of the aircraft to be delivered.

The order's remaining capital commitment of US$822 million is contained in Note 34 to the annual financial statements.

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.

The Company is currently defending various litigation matters including the three actions brought by Comair and the liquidators of Nationwide which arose from findings by the Competition Tribunal that SAA contravened the Competition Act No 89 of 1998 in agreements between SAA and various travel agents between October 1999 and May 2001 ('the first period') and between 1 June 2001 and 31 March 2005 ('the second period'). Comair's claims, which have since been consolidated into a single action, relate to both the first and the second period, while the Nationwide claim relates to the second period only. SAA is not in a position to assess the extent of the exposure that may attach to these claims as a consequence of an order of court but has made an approximate estimate of all necessary costs in the financial statements based on legal advice received.

Compliance with the Public Finance Management Act (PFMA)

SAA is a State-owned company and listed as a schedule two major public entity in terms of the PFMA, (Act No 1 of 1999). The SAA Board as the accounting authority, has the responsibility of ensuring that SAA has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The design and implementation of effective controls has been delegated to the SAA executive management.

Over the past three years there has been a notable decline in the PFMA non-compliance of the organisation, especially in the irregular spend without loss category. This decline is due to management's continued efforts to ensure adherence to processes and procedures as per the PFMA requirements.

The table below provides a summary of PFMA non-compliance categories for 2012/13 and 2013/14, that reflects the actual decline.

Category of PFMA non-compliance	2013/14	2012/13	Movement from previous year
Irregular spend without loss	**R28,4m**	R33,1m	▼
Fruitless and wasteful expenditure	**R19,2m**	R19,9m	▼
Losses due to criminal conduct	**R5,8m**	R556k	▲
Recoveries	–	R187k	◀▶

In an effort to further reduce PFMA non-compliance within SAA, management has developed and implemented action plans that will see a significant reduction to PFMA non-compliance in the coming financial year. The focus of these plans is to ensure that there is consequence management in place and improved processes.

The major contributing factor to the high value of fruitless and wasteful expenditure is visa fines incurred by SAA. There are initiatives in place to identify the root causes of visa fines, to further determine the inherent fines relating to the aviation industry as opposed to avoidable fines. Based on the inherent fines to the industry, the organisation will then need to determine the tolerance level for such fines. This will clarify the actual quantum of fruitless and wasteful expenditure incurred by SAA.

In terms of the increased losses due to criminal conduct, this was due to baggage theft at the Windhoek outstation. The perpetrators have been identified and dismissed from the employ of SAA and criminal charges have been laid. Improvements in internal controls relating to the baggage claim process have been identified and implemented to prevent similar incidents occurring in future.

Internal control

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

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 R545 million (2013: R466 million). This increase is directly related to the increase in passenger tickets sold.

Going concern

As with previous years, SAA remains undercapitalised. Three consecutive years of operating losses has further eroded the capital base and this continues to impact on the ability of the business to operate in a highly demanding and competitive industry. The current economic conditions create financial ambiguity; particularly relating to fluctuating currency rates, and sustained high jet fuel prices.

The directors have assessed the short- to medium-term cash flow requirements of the airline. The timing and the extent of any possible Shareholder support associated with the Long-term Turnaround Strategy was also taken into consideration when determining the future liquidity of the Group.

Subsequent to year end, SAA has received a R6,488 billion additional perpetual guarantee from its Shareholder. This guarantee will be reduced proportionately by any capital injection provided by the Shareholder. In the absence of the timing and extent of the expected Shareholder support, this guarantee provides reasonable comfort that SAA would have the ability to continue operating as a going concern.

The directors are of the view that the guarantee support by its Shareholder would be adequate for the going concern requirement in the short term, being 12 months from the date of approval of these annual financial statements. The directors, however, remain of the view that a more permanent appropriate capital structure is required for the airline. A proposed capital structure was developed and included in the Long-Term Turnaround Strategy.

DIRECTORS' REPORT (continued)
for the year ended 31 March 2014

Legal and regulatory

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

SAA's process of developing, reviewing and monitoring the regulatory universe is underpinned by the approved Compliance Policy and Framework which was informed by the adopted Enterprise Risk Management Methodology aligned to ISO31000. The alignment of risk and compliance methodologies forms the building blocks towards an integrated reporting and combined assurance framework.

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

Embedding a culture of compliance is a continuous process and not a static one. To this end refresher training on the Consumer Protection Act was conducted during the year. Further training sessions will be scheduled on critical regulations for the 2013/14 year. Compliance checklists (CRMP) have been developed to assist with effective monitoring within the organisation.

Shareholder's compact

Key Performance Indicators (KPIs) have been created to monitor SAA's performance against the pre-determined objectives as agreed upon between the airline and the Shareholder. These KPIs are reported on a monthly and quarterly basis, with regular feedback sessions held with the Shareholder. The net retained earnings of the SAA Group was the main performance indicator for the 2013/14 financial year. Other supporting KPIs have been formulated to support the main KPI and are consistent with SAA's 2013 – 2016 Corporate Plan.

Key performance area	Key performance indicator by 31 March 2014	FY 2014 target	FY 2014 actual	Explanations
Financial value creation	Net operating profit/(loss) (Excluding aircraft impairment)	(R1 473m)	(R1 161m)	KPI achieved
	Net retained earnings movement	(R2 873m)	(R2 641m)	KPI achieved
	Net cash flow from operating activities	(R38,2m)	(R1 927m)	KPI not achieved Cash flow was negatively impacted by the devaluation of the rand. In addition the proposed re-financing of certain aircraft deposits did not materialise.
	Cargo revenue as a percentage of operating revenue	5%	8%	KPI achieved
Customer service	Customer satisfaction	84%	84,76%	KPI achieved
Fleet utilisation	Daily block hours	10,6	10,37	KPI not achieved SAA did not achieve the target utilisation of its aircraft. Mainly as a result of unplanned maintenance on aircraft as well as flight schedule changes to optimise route profitability.
On-time performance	On-time performance	86%	84%	KPI not achieved Largely as a result of uncontrollable factors such as fuelling delays, technical problems with aircraft, unfavourable weather conditions and congestion in air traffic.
Safety	Implementation of safety management system as per CAA and ICAO requirements	35%	27%	KPI not achieved A safety system was acquired in March 2014 and the roll out thereof was slightly deferred.
Skills development	Training spend (personnel costs) Cadets Technician trainees Sector specific interns	3% 30 100 60	4,82% 31 142 60	KPI achieved KPI achieved KPI achieved KPI achieved
Education/aviation awareness/other CSI initiatives	Total CSI budget	R5,4m	R3,3m	KPI not achieved This KPI was not achieved as a result of reprioritising our cash flow allocation.
Procurement	% spend locally Spend on B-BBEE compliant companies as a % of local eligible spend % of local spend on black-owned entities	70% 80% 5%	98% 97% 3%	KPI achieved KPI achieved KPI not achieved Although it was a focus for SAA to increase its spend on black-owned entities, the development of the supplier database was protracted.
Energy efficiency	Reduction in energy usage (kW) of 30% due to energy efficiency measures such as replacement of lighting, heating and other measures by 31 December 2013.			KPI not achieved This KPI was not achieved as the cost benefit analysis and the identification of suitable areas where it could be implemented is taking longer than anticipated.

Events subsequent to the statement reporting date

From 16 to 22 October 2014, six directors, namely, Mr A Khumalo, Mr A Mabizela, Ms C Roskruge, Ms R Lepule, Ms N Kubeka and Mr B Mpondo resigned from the Board.

On 23 October 2014, a general meeting was held where the Minister of Public Enterprises resolved to remove Dr Naithani from the Board with immediate effect and to appoint two additional directors, namely Mr A Dixon and Dr J Tambi, who together with four directors retained by the Minister, constitute an interim Board. Apart from these events, no material facts or circumstances have occurred between the accounting date and the date of the report.

On 19 December 2014, the transfer of administrative powers entrusted by the South African Airways Act 2007 from the Minister of Public Enterprises to the Minister of Finance was gazetted. This transfer was effective from 12 December 2014.

Compliance statement

This report is presented in terms of the National Treasury Regulation 28.1 of the PFMA, as amended. The prescribed disclosure of emoluments in terms of National Treasury Regulation 28.1.1 is reflected in note 36 of these financial statements titled 'Related Parties'.

The performance information as envisaged in subsection 55(2)(a) of the PFMA and section 28(1)(c) of the Public Audit Act No 25 of 2004 has been incorporated into this report. By virtue of the matters referred to in this report, the Board does not consider that the company has fully complied with the provisions of sections 51 and 57 of the PFMA throughout the period under review and up to the date of the approval of these annual financial statements.

The Board and management have taken, and are continuing to take, steps to ensure that the areas of non-compliance are addressed.

Special resolutions passed during the 2013/14 financial year

One special resolution taken at the Annual General Meeting held on 29 January 2014. It was resolved that there be no increase in the Non-executive director's fees payable for the financial year 2012/13.

Appointment of auditors

At the Annual General Meeting held on 29 January 2014, the Company re-appointed PricewaterhouseCoopers Inc. and Nkonki Inc. as joint auditors for the 2013/14 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 R87 million (2013: R88 million).

Share capital

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

Directors

SAA had 12 directors during the year under review, comprising 10 Non-executive directors and two Executive directors. The financial year saw two changes to the Board, namely the appointment of the CEO, Mr Kalawe in June 2013, and the resignation of Advocate L Nkosi-Thomas.

The Non-executive directors are appointed by the Minister of Public Enterprises, a Shareholder representative of the Government of the Republic of South Africa. The appointment process includes assessment of the skills and expertise requirements of SAA and the assessment and vetting of the identified candidates.

The directors are drawn from different parts of the world and industries. They are appointed on the basis of their skills, qualifications, professional background, experience, independence, credit worthiness and integrity, amongst others.

As indicated above the SAA Board includes two executive directors, namely the Chief Executive Officer and the Chief Financial Officer. The Board considers the mix of executive and non-executive directors as appropriate for the control, management and direction of the company.

The executive directors, together with executive management, are accountable to the Board on the day-to-day management of SAA. At every Board meeting the Chief Executive Officer and the Chief Financial Officer report on, amongst others, the affairs of the company and its financial performance. In addition, the Board always has unlimited access to the executive management in case they require any information.

Powers and functions of the Board

The Board of SAA is, in terms of the Memorandum of Incorporation (MOI), clothed with the powers to manage and control the business of SAA. Some of its powers are subject to limitations imposed by the Public Finance Management Act, the Companies Act, South African Airways Act and the MOI. While the aforementioned legislation and the MOI broadly set out powers reserved for the Shareholder, the Significance and Materiality Framework (SMF) determines the levels of materiality in order to enable SAA to be responsive to the market demands.

DIRECTORS' REPORT (continued)

for the year ended 31 March 2014

Regarding the business of the Board, it is regulated or conducted in accordance with the Board Charter which, amongst other things, deals with the following matters:

(a) The responsibilities of the Board;
(b) The role of the Chairperson and CEO;
(c) The balance of power in order to ensure no single Board member dominates in the deliberations of the Board;
(d) Requirement to disclose personal financial interests;
(e) The roles and responsibilities of the Board which include:
  - determining key performance indicators and monitoring performance of electives;
  - managing risks and ensuring exploitation of opportunities;
  - ensuring that the Board remains effective in discharging its responsibilities; and
  - reviewing and approval of the strategy and budgets;

(f) Board governance;
(g) Establishment of board committees to assist the Board in the performance of its functions;
(h) Management of risks in terms of which the Board maintains overall responsibility for total process of risk management;
(i) Board meetings;
(j) Board evaluation which must be done annually;
(k) The role of the Company Secretary and the commitment of the Board to empowering the Company Secretary to perform his/her functions; and
(l) The Boards relationship with the Shareholder representative.

Independence of the directors

The Board is led by an independent non-executive Chairperson. All the non-executive directors, with the exception of one, are independent non-executive directors.

During the year under review a system was introduced to review and confirm the independence of the non-executive directors. Given the fact that all the non-executive directors do not represent the Shareholder, have no shareholding in SAA, have not been in the employ of SAA in the preceding three financial years nor have they been professional advisors of SAA and do not receive any remuneration from SAA, the system was used to evaluate whether or not any of the directors or his/her immediate family members had any dealings of financial and personal nature with SAA or any of its subsidiaries. Through this system, it was established that one of our non-executive directors was a holder of interests in a supplier of SAA through a holding company in which he held shares.

Further, SAA has a system in place in terms whereof all directors or members of committees are required to disclose personal financial interests in matters to be considered by the Board or a committee. Any member who has any personal financial interest in a matter does not participate in the discussions nor does he/she vote on that particular matter.

Furthermore, the independence of the Board is maintained through the following additional measures in order to ensure that the Board remains objective and effective:

- Limitation on the number of meetings. The Board has a governance cycle which is approved towards the end of each calendar year. The document details the work of the Board and its committees;
- Separation of the position of the Chief Executive Officer from that of the Chairperson;
- The Board committees are chaired by non-executive directors with only one committee being chaired by the Chairperson of the Board, namely the Social, Ethics, Governance and Nominations Committee;
- The Board has access to independent external advisors at the cost of the company; and
- The Board members are appointed for a period of three years, reviewable annually and their appointment is limited to three terms of three years each, which period is not regarded as too long to impact on their independence.

Board effectiveness

SAA has put in place processes, frameworks and structures to ensure that the Board and its committees operate effectively and efficiently. The Board and its committees have charters which set out their respective duties and responsibilities. In addition to the charters, each governance structure has a work plan that is used to ensure that the governance structures discharge all their duties. The charters and the work plans are reviewed every year. The year under review was no exception.

Every financial year the performance of the Board is evaluated with the assistance of an independent facilitator. In the year under review, SAA adopted a different approach towards the valuation of the SAA Group in terms of which the Board of SAA and the boards of subsidiaries were treated differently.

The evaluation of subsidiary boards in respect of the year under review was facilitated by the Institute of Directors (IoD). The areas that were assessed included the following:

- Board composition;
- Board responsibilities;
- Committees of the Board;
- Relationship with management;
- Stakeholder relationships; and
- Board meetings.

The outcome of the assessment indicated that:

(a) SAAT
SAAT's overall scores for all sections ranged from "needs improvement" to "satisfactory". The average overall rating was 2,9, which is 3,3 percent below that of the benchmark of 3,0.

(b) Air Chefs
Air Chefs overall scores for all sections was "satisfactory". Its average overall rating was 3,1, which is 3,3 percent above that of the benchmark of 3,0.

(c) SATC
SATC's overall scores for all sections ranged between "needs some improvement" to "satisfactory". The average overall rating is 2,9, which is 3,3 percent below that of the benchmark of 3,0.

A remedial action plan was developed and would be implemented with a view to addressing areas for improvement. The implementation would be overseen by the Social, Ethics, Governance and Nominations Committee (SEGNCO).

With regard to SAA, no Board evaluation was done for the 2013/14 financial year.

Meetings and related matters

The Board meets at set intervals and retains full and effective management and control over the company.

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

The directors have unrestricted access to all information, records and documents of the company to enable them to discharge their responsibilities and to take informed decisions.

The Board had five scheduled and four ad hoc meetings during the year under review. Information regarding the attendance of the meetings can be found on page 85.

Board committees

In order to assist the Board and directors in discharging their duties and responsibilities, specific responsibilities have been allocated to the board committees listed below which have specific Terms of Reference. The Terms of Reference deal with or provide for matters, such as the composition of board committees, responsibilities and the scope of authority.

The executive directors and members of the executive management team have standing invitations to attend meetings of the various committees. Membership of the various committees is outlined on page 85 of the annual report.

Audit and Risk Committee

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

During the period under review, the committee performed all its duties and responsibilities in terms of its Terms of Reference. The year under review saw a substantial revision of the Terms of Reference of this committee with a view to improving on risk management and governance oversight. In terms of the changes effected, the committee receives risk management reports more regularly, has an additional meeting that focuses on review and assessment of risk (which is attended by all executives), has transferred functions relating to financial planning and investment to another board committee to allow it to exercise effective oversight.

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

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

The committee had four scheduled meetings and three ad hoc meetings during the year under review. Information regarding the attendance of the meetings can be found on page 85.

Procurement and Tender Processes Committee

This committee is responsible for ensuring there are systems and procedures in place to ensure that goods and services are procured in a manner that is cost-effective, equitable, transparent and fair.

The committee has Terms of Reference which sets out its functions. All the duties of the committee were performed in accordance with its Terms of Reference during the year under review. The committee had four scheduled meetings during the year under review. The information regarding the attendance of the meetings can be found on page 85.

DIRECTORS' REPORT (continued)

for the year ended 31 March 2014

Ad hoc Committee on Litigation

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

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

The committee had three meetings during the year under review. The information regarding the attendance of the meetings can be found on page 85.

Remuneration and Human Resources Committee

The Remuneration and Human Resources Committee has Terms of Reference which are reviewed annually. The main duties of the committee include formulation, development and implementation of remuneration and human capital strategies, policies, plans and programmes for the entire SAA Group, excluding Mango.

All its duties as set out in the Terms of Reference were discharged.

The committee had four scheduled meetings during the year under review. The information regarding the attendance of the meetings can be found on page 85.

Long-Term Turnaround Strategy Committee

This committee is relatively new. It was established during the 2012/13 financial year and has approved Terms of Reference. It is in this committee that strategic conversation takes place at SAA.

The key functions of this committee included overseeing the development and implementation of the Long-Term Turnaround Strategy and ensuring the successful implementation of the Long-Term Turnaround Strategy in accordance with the approved implementation plan.
The committee had seven scheduled meetings during the year under review.

Social, Ethics, Governance and Nominations Committee

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

This committee has Terms of Reference. All its duties as set out in the Terms of Reference were discharged during the year under review.

It had four scheduled meetings during the year under review. The information regarding the attendance of the meetings can be found on page 85.

Board remuneration

The remuneration of the board members is determined in accordance with the Remuneration Guidelines issued by the Minister of Public Enterprises. The remuneration is only made up of a monthly retainer which is paid to the board members for the services rendered to the company. There were no allowances and bonuses paid to the board members during the year under review.

The details of the board members' remuneration for the year under review are stated in note 36 to the Annual Financial Statements.

King Code of Governance Principles for South Africa (King III)

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

The principles which are to be applied are systemically integrated into the company's operations, while explanations are recorded for those which can hardly be applied. The Company has also acquired a governance tool which will enable it to assess compliance with the King III principles and PFMA and take corrective measures where necessary.

Code of Ethics

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

Company Secretary

The Company Secretary, inter alia, plays a significant role in providing strategic support and guidance to the Board; conducting induction of new directors; providing the Board with relevant information on regulatory and legislative changes; providing guidance to directors individually and collectively on their duties and responsibilities to the company; providing guidance and advice to the Board on matters of ethics and good governance; facilitating and managing communication with the Shareholder and stakeholders; facilitating and ensuring compliance with the Memorandum of Incorporation, King III, Companies Act, PFMA and other relevant legislation.

The directors have unrestricted access to the advice and services of the Company Secretary.

The Company Secretary ensured that all reports and returns to relevant supervisory institutions were submitted during the year under review.

Directors' meetings

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

SAA Board of Directors at 31 March 2014	Date of appointment (A)/ resignation (R)	Board	ARC	PTPC	REMCO	SEGNCO	AD HOC	LTTSC
Total number of meetings held		9	7[1]	4	4	4	3	7
Ms DC Myeni[N] (Chairperson)	28 September 2009 (A)	6				3		
Adv L Nkosi-Thomas[2,N]	23 February 2014 (R)	5	4	0	3	0	3	
Ms Y Kwinana[N]	2 December 2009 (A)	7	6	0		3		4
Mr A Mabizela[N]	28 September 2012 (A)	8			3	4		5
Mr A Khumalo[3,N]	28 September 2012 (A)	9	5				0	7
Dr R Naithani**,[N]	28 September 2012 (A)	8		4	3			5
Ms C Roskruge[N]	28 September 2012 (A)	9	6	4				
Mr B Mpondo[N]	28 September 2012 (A)	9		4	3		3	7
Ms R Lepule[N]	28 September 2012 (A)	7	6			3		5
Ms N Kubeka[N]	28 September 2012 (A)	8	4			3		
Mr N Bezuidenhout[E] (Acting CEO)	31 May 2013 (R)	1	2*	1*	0*	0*		2*
Mr M Kalawe[E] (CEO)	1 June 2013 (A)	7	3*	3*	3*	3*	1*	4*
MR WH Meyer[E] (CFO)	13 June 2011 (A)	8	4*					

Legend

N	*Non-executive director*
E	*Executive director*
REMCO	*Remuneration and Human Resources Committee*
SEGNCO	*Social, Ethics, Governance and Nominations Committee*
ARC	*Audit and Risk Committee*
PTPC	*Procurement and Tender Processes Committee*
AD HOC	*Ad hoc Committee on Litigation*
LTTSC	*Long-term Turnaround Strategy Committee*
CEO	*Chief Executive Officer*
CFO	*Chief Financial Officer*

Footnote

* *Attendance by invitation.*

** *Indian national.*

1 *Two meetings of the ARC were in-committee meetings, whereby management was excluded.*

2 *Resigned from SEGNCO, PTPC effective 8 July 2013. Also resigned from SAA Board effective 23 February 2014.*

3 *Resigned from Ad Hoc Committee on Litigation effective 2 July 2013.*

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. This requirement was met during the year under review.

DIRECTORS' REPORT (continued)

for the year ended 31 March 2014

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 2014, 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 resources in place to continue in operation for the foreseeable future, subject to the comments noted above.

The directors have continued to adopt the going-concern concept in preparing the annual financial statements. (Refer to going concern paragraph on page 79 of the Director's report and note 42 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 90.

In preparing the Company and Group annual financial statements set out on pages 92 to 148, unless otherwise disclosed, the Company and Group have complied with International Financial Reporting Standards, the Companies Act and the reporting requirements of the PFMA and has used the appropriate accounting policies supported by reasonable and prudent judgements and estimates. The directors confirm that these financial statements present fairly the financial position of the Company and the Group at 31 March 2014, 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
Chairperson

19 January 2015

Nico Bezuidenhout
Acting Chief Executive Officer

19 January 2015

REPORT OF THE AUDIT AND RISK COMMITTEE

for the year ended 31 March 2014

Report of the Audit and Risk Committee

The Audit and Risk Committee is pleased to present its report in respect of the financial year ended 31 March 2014 in terms of its obligations according to paragraph 3.1.13 of the Treasury Regulations issued in terms of section 51(1)(a)(ii) of the Public Finance Management Act, Act 1 of 1999, as amended by Act 29 of 1999 (PFMA).

The committee is independent and was appointed by the shareholder at the annual general meeting (AGM) held on 29 January 2014 in line with the legislative requirements. At the next AGM scheduled for 26 September 2014, the shareholder will be requested to appoint the members of the committee for the year ending 31 March 2015.

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

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

Committee members and attendance at meetings

The composition of the committee complies with the requirements of section 77 of the PFMA. The committee consisted of six independent, non-executive directors, namely: Ms Y Kwinana; Ms R Lepule; Ms N Kubeka; Ms C Roskruge; Adv L Nkosi-Thomas and Mr A Khumalo. The committee meets quarterly as per its Terms of Reference. The Group's Chief Executive Officer, Chief Financial Officer and Legal Counsel attend committee meetings by invitation. Furthermore internal audit, the external auditors and other assurance providers of the Group are invited to every meeting. Details on the number of meetings held for the year and members attendances are set out on page 85. Biographical details of members are provided on pages 15 to 19.

Roles and responsibilities

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

The committee has conducted its affairs in compliance with these Terms of Reference for the year ended 31 March 2014 and has discharged it responsibilities contained therein. The Terms of Reference are available on request from the Group Company Secretary whose contact details are provided on page 70 of this annual report.

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

Statutory duties

The committee has performed the following statutory duties:

External auditors

The committee has satisfied itself that the external auditors, PricewaterhouseCoopers Inc in joint venture with Nkonki Inc, were independent of the Group as set out in the PFMA, section 90(2)(c) of the Companies Act 2008 as amended, which includes consideration of compliance with criteria relating to independence or conflicts of interest as prescribed by the Independent Regulatory Board for Auditors. Requisite assurance was sought and provided by the external auditors that internal governance processes within PricewaterhouseCoopers Inc and Nkonki Inc support and demonstrate their claim to independence.

The committee, in consultation with executive management, agreed to the engagement letter, terms, audit plan and budgeted audit fees for the 2013/14 financial year. The committee approved a written policy for the provision of non-audit services by the external auditors. The committee is not aware of any non-audit services that the external auditors provided during the 2013/14 financial year.

The committee will consider the re-appointment of the current external auditors at the AGM in line with the legislative requirements. If the current external auditors are not re-appointed at the AGM, a formal procurement process for the external audit function will be embarked upon immediately thereafter.

Internal financial controls

An assessment of the effectiveness of the Group's system of internal controls, which includes internal financial controls, was conducted by internal audit during the 2013/14 financial year. The committee has observed that the overall control environment, including financial controls, has continued to improve during the year under review in line with the trend observed in the previous reporting period. Based on the results of the internal audit assessments, the information and the explanations provided by management and discussions held with external audit on the results of external audit, the committee concluded and advised the Board that nothing has come to its attention that would suggest that the Group's system of internal financial controls is not effective to form a basis for the preparation of reliable financial statements.

However, there are still some concerns with the level of internal controls within the operations where evidence of lapses of effective monitoring and enforcement by management were observed. Where internal controls did not operate effectively throughout the year, compensating controls and/or corrective actions were implemented to eliminate or reduce the risks. This ensured that the Group's assets were safeguarded and that proper accounting records were maintained.

REPORT OF THE AUDIT AND RISK COMMITTEE (continued)

for the year ended 31 March 2014

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

The 2013/14 audits of SAA's information technology (IT) environment has highlighted significant improvements compared to the previous reporting period. The committee is satisfied that the Internal Audit Plan provides for sufficient IT audit coverage in the next three years.

The audits of SAA's international outstations have also highlighted some improvements compared to the previous reporting periods. The other specific focus area was the control environment in the baggage handling area. The internal audits and management reports regarding controls to curb baggage pilferage have highlighted significant improvements compared to previous periods. However, there were reported areas that still need further improvement to ensure baggage pilferage is eradicated completely.

The audit of predetermined objectives is a specific focus area for the Auditor General and the committee. The audits in this area indicated that there are effective internal controls. The committee is satisfied that the Internal Audit Plan provides for sufficient audit coverage of this area in the next three years.

Financial statements and accounting practices

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

Going concern

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

Expertise and experience of the Chief Financial Officer and finance function

The committee has satisfied itself that the Group Chief Financial Officer has appropriate expertise and experience to fulfil his role. The committee is further satisfied with the appropriateness of the expertise and the adequacy of resources of the Group's finance function and the experience of senior members of the finance function.

Duties assigned by the Board

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

Internal audit

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

The 2013/14 financial year was the second year of the SAA in-house internal audit function after many years of outsourced internal audit function. The committee is satisfied with the progress made in building an effective in-house internal audit function. The committee will continue working closely with the Chief Audit Executive to ensure that the momentum is not lost.

The 2013/14 Internal Audit Plan and budget were approved by the committee timeously before the start of the financial year. Approximately 95% of planned audits were executed successfully. The very few internal audits not conducted were due to management not being ready for audits. These audits have been rolled over to the 2014/15 financial year. Over and above the 95% of planned audits being conducted, a number of special ad hoc audit requests were conducted by internal audit.

The committee is satisfied with the three-year rolling Internal Audit Plan in that there is a clear alignment with the major risks, adequate information systems coverage and a good balance between different categories of audits, ie risk-based audits, mandatory and follow up audits. This will, however, require building the necessary capacity.

Risk governance

The Board has assigned the oversight of the Group's risk management function to the committee. The committee fulfils an oversight function regarding risks in all areas of the Group including operations, finance, fraud, information technology and ethics. For more detail on risk management and regulatory compliance refer to pages 40 to 41. An assessment of the effectiveness of the Group's internal controls system was conducted by internal audit during the 2013/14 financial year. Based on this assessment and the ongoing oversight of the committee nothing came to the attention of the committee and the Board that would suggest that the prevailing system of risk management is not in all material respects effective.

Whistle-blowing and ethics

The committee evaluated the Code of Conduct and anonymous reporting (whistle-blowing) policy, fraud prevention policy and fraud prevention plan. Internal audit regularly reports to the committee on progress on the fraud prevention plan and instances of alleged misconduct reported on the anonymous whistle-blowing line. The committee regularly reports back to the Board in this regard in order to consider whether instances of whistle-blowing and unethical behaviour are appropriately dealt with.

Integrated reporting

The committee considered the disclosures in the integrated annual report. It performed an oversight function of the integrated reporting process and recommended it to the Board for approval.

The committee considered the Group's combined assurance framework to the integrated reporting process. As the combined assurance framework is still in the process of being formalised, and recognising that it is a work-in-progress, the committee concluded that additional external assurance on the sustainability disclosures contained in the 2013/14 integrated annual report would not be appropriate until such time as the process has been embedded.

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

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

Specific focus areas for the 2014/15 financial year

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

The implementation of the Long-Term Turn Around Strategy (LTTS):
- Audit of predetermined objectives, ie areas where performance is not meeting targets;
- Information technology control environment;
- Baggage handling processes;
- Anti-corruption and fraudulent activities and feedback on investigations;
- Compliance with the SAA Supply Chain Management Policy;
- Automation of manual operational and financial controls; and
- Implementation of the combined assurance framework.

Meeting with internal and external audit

During the year under review, the committee met with external audit and internal audit without management being present on a number of occasions. The committee also met with executive management without internal audit or external audit. The committee also performed a performance review on itself, internal audit and external audit.

Discharge of responsibilities

The committee agrees that the adoption of the going concern premise is appropriate in preparing the 2013/14 Group annual financial statements, with the consideration of the factors highlighted on page 79 of the Directors' report. The committee has therefore recommended the adoption of the annual financial statements by the Board of Directors on 19 January 2015.

On behalf of the Audit and Risk Committee.

Y Kwinana
Chairperson

South African Airways SOC Ltd Audit and Risk Committee

19 January 2015

INDEPENDENT AUDITORS' REPORT TO PARLIAMENT AND THE SHAREHOLDER OF SOUTH AFRICAN AIRWAYS SOC LTD

for the year ended 31 March 2014

Report on the consolidated and separate annual financial statements

Introduction

We have audited the consolidated and separate annual financial statements of South African Airways SOC Limited and its subsidiaries set out on pages 92 to 148, which comprise the consolidated and separate statement of financial position as at 31 March 2014, the consolidated and separate statement of profit or loss and other comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting Authority's responsibility for the consolidated and separate annual 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 the Companies Act of South Africa and for such internal control as the accounting authority determines is necessary to enable the preparation of consolidated and separate 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 consolidated and separate annual financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated and separate annual financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated and separate annual 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 controls.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and separate annual 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 annual financial statements present fairly, in all material respects, the financial position of South African Airways SOC Limited and its subsidiaries as at 31 March 2014, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Public Finance Management Act of South Africa and the Companies Act of South Africa.

Emphasis of matter

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

Irregular expenditure

As disclosed in the Directors' Report to the consolidated and separate annual financial statements on pages 71 to 86, irregular expenditure to the value of R28,4 million and fruitless and wasteful expenditure to the value of R19,2 million has been identified and reported in terms of section 55(2)(b)(i) of the Public Finance Management Act of South Africa. The reasons for the irregular expenditure and fruitless and wasteful expenditure have been fully disclosed in the Directors' Report.

Other reports as required by the Companies Act

As part of our audit of the consolidated and separate annual financial statements for the year ended 31 March 2014, we have read the Directors' Report, the report of the Audit and Risk Committee and the Statement by the Company Secretary for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated and separate annual 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 annual financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

Report on other legal and regulatory requirements

In accordance with the Public Audit Act of South Africa and the general notice issued in terms thereof, we report the following findings on the reported performance information against predetermined objectives, non-compliance with legislation as well as internal control. We performed tests to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, we do not express an opinion or conclusion on these matters.

Predetermined objectives

We performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the Directors' Report of South African Airways SOC Limited for the year ended 31 March 2014:

- Financial value creation;
- Customer service;
- Fleet utilisation;

- On-time performance;
- Skills development; and
- Procurement.

We evaluated the reported performance information against the overall criteria of usefulness and reliability.

We evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. We further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).

We assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

We did not raise any material findings on the usefulness and reliability of the reported performance information for the selected objectives.

Additional matter

Although we raised no material findings on the usefulness and reliability of the reported performance information for the selected objectives, we draw attention to the following matter:

Achievement of planned targets

Information on achievement of planned targets has been fully disclosed on page 80 of the Directors' Report.

Compliance with legislation

We performed procedures to obtain evidence that South African Airways SOC Limited has complied with legislation regarding financial matters, financial management and other related matters. We did not identify any instances of material non-compliance with specific matters in key legislation, as set out in the general notice issued in terms of the Public Audit Act of South Africa.

Internal control

We considered internal controls relevant to our audit of the consolidated and separate annual financial statements, the performance against predetermined objectives included in the Directors' Report and compliance with legislation. We did not identify any significant deficiencies in internal control that we considered sufficiently significant for inclusion in this report.

Other reports

Agreed upon procedure agreements

An agreed upon procedures agreement was performed on the National Treasury Template. The report covered the period from 1 April 2013 to 31 March 2014.

nkonki
ACTUALISING EMPOWERMENT

Nkonki Inc.

Nkonki Inc.
Per **T Masasa**
Chartered Accountant (SA)
Registered Auditor
Director

28 January 2015

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

Tel: +27 (11) 517 3000
Fax: +27 (11) 807 8630
Web: www.nkonki.com

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

Partners: Mitesh Patel, CA (SA); Mvume Sihele, MSC Computer Science (US); Brian Mungofa, CA (SA); Nyarai Muzarewetu, CA (SA); Peter K Njinu, KPA (K) MBA (Wits); Prof Steven Firer, DSA (SA) IFRS, ACCA RA; Ahmed Pandor CA (SA), CISA, MBA; Sangeeta Kallen, CA (SA); Emma Mashilwane, CA (SA); Thuto Masasa, CA (SA); Morne Kermis, CA (SA); Kiran Bhika, CA (SA); Mahendrin Moodley, CA (SA); Zakhele Nkosi, CA (SA); Julia van Wyk, CA (SA); Eesa Kara, CA (SA)

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

pwc

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
Per **P Mothibe**
Chartered Accountant (SA)
Registered Auditor
Director

28 January 2015

Address:
2 Eglin Road, Sunninghill 2157
Private Bag X36, Sunninghill 2157, South Africa

Tel: +27 (11) 797 4000
Fax: +27 (11) 797 5800
Web: www.pwc.com.za

Africa senior partner: SP Kana

Management committee: H Boegman, TP Blandin de Chalain, BM Deegan, JG Louw, SN Madikane, PJ Mothibe, TD Shango, S Subramoney, AR 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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 March 2014

		GROUP		COMPANY	
R MILLION	Notes	2014	2013	2014	2013
Total income		**30 266**	27 098	**28 105**	25 389
Airline revenue	5	**28 702**	25 566	**26 459**	23 872
Other income	6	**1 564**	1 532	**1 646**	1 517
Operating costs		**30 640**	27 523	**28 733**	25 886
Aircraft lease costs	7	**2 548**	2 097	**2 498**	2 081
Accommodation and refreshments		**1 006**	878	**1 391**	1 233
Commissions and network charges		**1 606**	1 390	**1 529**	1 329
Electronic data costs		**549**	495	**536**	491
Fuel and other energy costs		**11 108**	9 579	**10 356**	9 053
Employee benefit expenses	9	**5 257**	4 848	**3 496**	3 242
Maintenance costs		**2 686**	2 310	**3 821**	3 387
Navigation, landing and parking fees		**2 067**	1 748	**1 878**	1 612
Fair value and translation movements	11	**(691)**	(95)	**(730)**	(115)
Other operating costs		**4 504**	4 273	**3 958**	3 573
Operating loss before interest, tax, depreciation and amortisation	7	**(374)**	(425)	**(628)**	(497)
Depreciation and amortisation	8	**(603)**	(565)	**(532)**	(506)
Net impairment (write off)/reversal	10	**(1 370)**	(23)	**(1 281)**	391
Net gain on disposal of property, aircraft and equipment	7	**40**	22	**33**	24
Operating loss		**(2 307)**	(991)	**(2 408)**	(588)
Finance costs	12	**(263)**	(191)	**(296)**	(212)
Interest income	13	**32**	12	**30**	11
Loss before taxation		**(2 538)**	(1 170)	**(2 674)**	(789)
Taxation	14	**(16)**	2	**–**	–
Loss for the year		**(2 554)**	(1 168)	**(2 674)**	(789)
Other comprehensive loss*:					
Actuarial remeasurements on defined benefit plans		**(23)**	(24)	**(23)**	(24)
Gains and losses on property revaluations		**(13)**	(12)	**–**	11
Other comprehensive loss for the year net of taxation	15	**(36)**	(36)	**(23)**	(13)
Total comprehensive loss		**(2 590)**	(1 204)	**(2 697)**	(802)
Total comprehensive loss attributable to:					
Owners of the parent		**(2 677)**	(1 292)	**(2 784)**	(890)
Subordinated loan provider		**87**	88	**87**	88
		(2 590)	(1 204)	**(2 697)**	(802)

* *None of the items listed can be subsequently reclassified to profit or loss.*

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 March 2014

		GROUP		COMPANY	
R MILLION	Notes	2014	2013	2014	2013
Assets					
Non-current assets					
Property, aircraft and equipment	16	**6 371**	7 582	**5 136**	6 345
Intangible assets	17	**95**	111	**78**	99
Investments in subsidiaries	18	**–**	–	**1 122**	1 244
Deferred tax asset	19	**398**	417	**–**	–
Retirement benefit asset	29	**–**	35	**–**	35
		6 864	8 145	**6 336**	7 723
Current assets					
Inventories	20	**808**	931	**109**	119
Amounts receivable from subsidiaries	21	**–**	–	**1 347**	1 463
Derivatives	22	**227**	148	**227**	148
Trade and other receivables	23	**6 263**	4 480	**5 974**	4 250
Investments	24	**15**	10	**15**	10
Cash and cash equivalents	25	**1 853**	1 536	**1 189**	1 060
		9 166	7 105	**8 861**	7 050
Non-current assets held-for-sale and assets of disposal groups	16	**63**	6	**63**	–
Total assets		**16 093**	15 256	**15 260**	14 773
Equity and liabilities					
Equity					
Equity attributable to equity holders of parent					
Share capital	26	**12 892**	12 892	**13 126**	13 126
Reserves		**892**	928	**538**	561
Accumulated loss		**(18 610)**	(15 969)	**(18 803)**	(16 042)
		(4 826)	(2 149)	**(5 139)**	(2 355)
Subordinated loan guaranteed by government	27	**1 300**	1 300	**1 300**	1 300
		(3 526)	(849)	**(3 839)**	(1 055)
Liabilities					
Non-current liabilities					
Long-term loans	28	**649**	1 020	**627**	996
Retirement benefit obligation	29	**44**	43	**44**	43
Provisions	30	**1 471**	1 239	**1 462**	1 230
Deferred revenue on ticket sales	32	**845**	900	**845**	900
		3 009	3 202	**2 978**	3 169
Current liabilities					
Derivatives	22	**3**	4	**3**	4
Current tax payable		**8**	–	**–**	–
Trade and other payables	33	**6 498**	5 809	**6 260**	5 783
Provisions	30	**176**	214	**176**	214
Other short-term liabilities	31	**63**	63	**–**	–
Current portion of long-term loans	28	**3 721**	403	**3 721**	403
Deferred revenue on ticket sales	32	**4 209**	3 774	**4 044**	3 684
Bank overdraft	25	**1 932**	2 636	**1 917**	2 571
		16 610	12 903	**16 121**	12 659
Total liabilities		**19 619**	16 105	**19 099**	15 828
Total equity and liabilities		**16 093**	15 256	**15 260**	14 773

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2014

R MILLION	Share capital	Non-distributable reserve	Revaluation reserve
GROUP			
Balance at 1 April 2012	12 892	(52)	823
Total comprehensive income for the year	–	(24)	(12)
Transfer of utilised portion of labour restructuring fund	–	–	–
Dividends paid on government subordinated loan classified as an equity instrument	–	–	–
Balance at 1 April 2013	**12 892**	**(76)**	**811**
Total comprehensive income for the year	**–**	**(23)**	**(13)**
Dividends paid on government subordinated loan classified as an equity instrument	**–**	**–**	**–**
Balance at 31 March 2014	**12 892**	**(99)**	**798**
COMPANY			
Balance at 1 April 2012	13 126	(52)	433
Total comprehensive income for the year	–	(24)	11
Transfer of utilised portion of labour restructuring fund	–	–	–
Dividends paid on government subordinated loan classified as an equity instrument	–	–	–
Balance at 1 April 2013	**13 126**	**(76)**	**444**
Total comprehensive income for the year	**–**	**(23)**	**–**
Dividends paid on government subordinated loan classified as an equity instrument	**–**	**–**	**–**
Balance at 31 March 2014	**13 126**	**(99)**	**444**

Shareholder restructuring fund	Total share capital and reserves	Accumulated loss	Shareholder's interest	Subordinated loan guaranteed by government	Total equity
218	13 881	(14 738)	(857)	1 300	443
–	(36)	(1 168)	(1 204)	–	(1 204)
(25)	(25)	25	–	–	–
–	–	(88)	(88)	–	(88)
193	**13 820**	**(15 969)**	**(2 149)**	**1 300**	**(849)**
–	**(36)**	**(2 554)**	**(2 590)**	**–**	**(2 590)**
–	**–**	**(87)**	**(87)**	**–**	**(87)**
193	**13 784**	**(18 610)**	**(4 826)**	**1 300**	**(3 526)**
218	13 725	(15 190)	(1 465)	1 300	(165)
–	(13)	(789)	(802)	–	(802)
(25)	(25)	25	–	–	–
–	–	(88)	(88)	–	(88)
193	**13 687**	**(16 042)**	**(2 355)**	**1 300**	**(1 055)**
–	**(23)**	**(2 674)**	**(2 697)**	**–**	**(2 697)**
–	**–**	**(87)**	**(87)**	**–**	**(87)**
193	**13 664**	**(18 803)**	**(5 139)**	**1 300**	**(3 839)**

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 March 2014

		GROUP		COMPANY	
R MILLION	Notes	2014	2013	2014	2013
Cash flows from operating activities					
Cash (used in)/generated from operations	37	**(1 692)**	161	**(2 118)**	231
Interest income		**32**	12	**30**	11
Finance costs		**(263)**	(191)	**(296)**	(212)
Realised gains from derivative financial instruments		**316**	181	**316**	181
Amounts spent on option premiums		**(320)**	(158)	**(320)**	(158)
Net cash (outflow)/inflow from operating activities		**(1 927)**	5	**(2 388)**	53
Cash flows from investing activities					
Additions to property, aircraft and equipment	16	**(2 074)**	(1 029)	**(2 003)**	(962)
Proceeds on disposal of property, aircraft, equipment and intangible assets	16, 17	**1 808**	278	**1 794**	245
Additions to intangible assets	17	**(21)**	(55)	**(11)**	(48)
Loans repaid/(advanced) by subsidiaries		**–**	–	**101**	(158)
Increase in investments		**(5)**	(1)	**(5)**	(1)
Net cash outflow from investing activities		**(292)**	(807)	**(124)**	(924)
Cash flows from financing activities					
External borrowings advanced/(repaid)		**3 366**	(208)	**3 424**	(190)
Dividends paid		**(87)**	(88)	**(87)**	(88)
Net cash inflow/(outflow) from financing activities		**3 279**	(296)	**3 337**	(278)
Net increase/(decrease) in cash and cash equivalents		**1 060**	(1 098)	**825**	(1 149)
Cash and cash equivalents at the beginning of the year		**(1 100)**	(33)	**(1 511)**	(396)
Foreign exchange effect on cash and cash equivalents		**(39)**	31	**(42)**	34
Cash and cash equivalents at end of the year	25	**(79)**	(1 100)	**(728)**	(1 511)

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2014

1. Basis of preparation and significant accounting policies

Statement of compliance

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

The financial statements are prepared on the basis of the accounting policies applicable to a going concern. This basis presumes that the company will continue to receive the support of its Shareholder and that the realisation of assets and settlement of liabilities will occur in the ordinary course of business. Full disclosure relating to the directors' going concern assessment can be found in note 42.

These accounting policies are consistent with the previous period.

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

Basis of consolidation

Subsidiaries

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

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

Goodwill

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

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

Foreign currency transactions

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

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

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

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

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

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

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

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, commission received, the release of unutilised air tickets and fuel levies.

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

Air tickets that remain unutilised after a 12-month period in respect of International and Regional tickets or a six-month period in respect of Domestic tickets are released to revenue. The estimate is based on historical statistics and data that takes into account the terms and conditions for various ticket types. Refer to Note 3 – Critical judgements in applying the entity's accounting policies, for more information.

Frequent flyer programme

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

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

SAA accounts for award credits issued on SAA flights as a separately identifiable component of the sales transaction in which they are earned. The consideration in respect of the initial sale is allocated to award credits based on their fair value and is accounted for as a liability (deferred revenue) in the consolidated statement of financial position. The fair value is determined with reference to the value of the awards for which miles have been redeemed during the last 12 months and is not adjusted for future changes in fair value. Revenue is recognised on unredeemed miles when they expire.

Technical maintenance

Revenue from maintenance services rendered external to the Group on a power by the hour basis is recognised as revenue when services are rendered based on maintenance events. Revenue is deferred until the maintenance event takes place. Other maintenance services rendered on a time and material basis are recognised as revenue when services are rendered by reference to the stage of completion of the transaction.

Interest income

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

Commission received

SAA provides a ticketing service to other airlines. Commission is earned on interline transactions but is only recognised as revenue when the passenger utilises the ticket.

Maintenance costs

Owned aircraft:

Major overhaul expenditure, including replacement spares and labour costs, is capitalised and amortised over the expected life between major overhauls. All other replacement spares and other expenditure relating to maintenance of owned fleet assets is charged to profit or loss on consumption or as incurred.

Leased aircraft:

Provision is made for aircraft maintenance expenditure which the Group incurs in connection with major airframe and engine overhauls on operating leased aircraft, where the terms of the lease imposes obligations on the lessee to have these overhauls carried out. Provision for expenditure to meet the contractual return conditions is also included. The actual expenditure on the overhauls is charged against the provision when incurred. Any residual balance is transferred to profit or loss. All other replacement spares and other expenditure relating to maintenance of leased fleet assets is charged to profit or loss on consumption or as incurred.

Power by the hour:

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

Maintenance reserve: Group as lessee

Maintenance reserves are payments made to certain lessors in terms of the aircraft lease contract. The lessors are contractually obligated to reimburse the Group for the qualifying maintenance expenditure incurred on aircraft if the Group has a maintenance reserves credit. Maintenance reserves are recognised as an asset. The recoverability of the asset is assessed annually against the entity's ability to claim against future maintenance events. Where it is deemed that the entity will be unable to claim for a future maintenance event, the maintenance reserve payments are expensed accordingly.

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

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

Maintenance reserve: Company as lessor

Where the company leases aircraft to a subsidiary company, appropriate maintenance payments are included in the lease agreements. The maintenance amounts received by the company are recognised as revenue as and when they become due from the lessee.

The provision for maintenance claim liability, limited to the maintenance reserves credits, is raised by the company on receipt of a valid claim for reimbursement in respect of qualifying maintenance costs by the lessee.

Taxation

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

Current tax

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

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the 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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

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

Taxation (continued)

Deferred tax (continued)

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

Current and deferred tax for the year

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

Property, aircraft and equipment

Owned assets

Land and buildings

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

Aircraft

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

Other property, machinery and equipment

All other property, machinery and equipment, including unit leading devices, are stated at cost less accumulated depreciation and any recognised impairment losses. Equipment includes major spare parts and standby equipment to the extent that SAA is expected to use them in more than one accounting period.

Depreciation

Depreciation is not provided on assets in the course of construction or on land. All other property and equipment are depreciated by recording a charge to profit or loss, computed on a straight-line basis so as to write off the cost of the assets less the anticipated residual value over their estimated useful lives.

When parts of an item of property, aircraft and equipment have different useful lives, those components are identified and the useful lives and residual values are estimated for each component. Where the useful lives for the identified components are similar, those are aggregated and depreciated as one component by applying the useful life relevant to that significant component.

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

The following annual rates are applicable:

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

Residual values

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

Capital work in progress

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

Exchangeable units

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

Non-current assets held-for-sale

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

Disposal of assets

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

Leasehold improvements

Land and buildings

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

Aircraft

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

Accounting for leases

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

Group as lessee

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

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

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

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

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

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

Group as lessor

Amounts due from lessees under finance leases are recognised as receivables at the amount of the company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the company's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

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

Non-current assets held-for-sale

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

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

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

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 to 5 years
Internet booking site	5 years

Derecognition of intangible assets

An intangible asset is derecognised on disposal or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

Any subsequent expenditure on capitalised intangible assets is capitalised only when it meets the recognition criteria of an intangible asset. All other expenditure is expensed as incurred.

Impairments

Intangible assets

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

Tangible assets

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

Calculation of recoverable amount

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

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash generating unit is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Reversal of impairments

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash generating unit) is increased to the revised estimate of its recoverable amount. The increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately. An impairment loss in respect of goodwill is not reversed in subsequent periods.

Pre-delivery payments (PDPs) and other aircraft deposits

PDPs paid to the manufacturers of aircraft in terms of the contractual arrangements governing the purchase of aircraft are initially recognised as part of capital work in progress at the cost of the consideration delivered. In the event that a decision is taken that it is likely that the underlying aircraft will not be purchased at the expected delivery date, but will be leased under an operating lease, then the related PDPs will be remeasured to the present value of the consideration expected to be received from the ultimate lessor.

This consideration will, if it is denominated in a foreign currency, be translated to the measurement currency by applying the exchange rate ruling at the reporting date.

In calculating the value of the future consideration receivable, any benefit or loss that will result as a consequence of the Group having secured the aircraft at the original contractual price as against the fair value of the aircraft at the date of delivery to the lessor, which is taken into consideration if the future operating lease payments form part of the consideration receivable. Any loss arising on remeasurement is classified as an impairment.

Once the operating lease agreement related to the aircraft has been formally concluded, the receivable amount so arising is transferred from capital work in progress to refundable deposits.

Where an aircraft is delivered under short-term bridging finance, pending the finalisation of an operating lease, the related PDPs and the final instalment paid to the manufacturer are again remeasured at the present value of the expected consideration from the lessor in the same manner as outlined above. Under these circumstances the full consideration receivable is classified under refundable amounts.

Financial instruments

Financial assets and financial liabilities are recognised when a Group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held to maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, such as trade receivables, loans originated by the Group, fixed deposits and defeasance deposits.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest rate method, less any impairment. Interest income is recognised by applying the effective interest rate method, except for trade and other receivables when the recognition of interest would be immaterial.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

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

Financial instruments (continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or that are not classified as at fair value through profit or loss, loans and receivables or held-to-maturity investments.

This category includes listed and unlisted investments, except for investments in subsidiaries, associates and joint ventures.

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

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

Dividends received from these investments are recognised in profit or loss when the right of payment has been established. Fair value is determined as stated in Note 40.1.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest rate method less any impairment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held-for-trading. These mainly include derivative financial assets and commodity derivatives. A financial asset is classified as held-for-trading if it has been acquired principally for the purposes of selling in the near future, is a derivative that is not designated and effective as a hedging instrument and it is part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking.

After initial recognition, these financial assets are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest on the financial asset. Fair value is determined as stated in Note 40.1.

Derivative financial instruments

The Group uses derivative financial instruments, such as foreign currency contracts, currency options, commodity derivative swaps, options and collars, to manage its risks associated with foreign currency fluctuations and underlying commodity fluctuations. The Group does not hold or issue derivative financial instruments for trading purposes. Derivative financial instruments are classified as held-for-trading financial assets or financial liabilities.

The Group's derivatives normally have a maturity period of 12 months or less and are therefore presented as current assets or current liabilities.

Embedded derivatives in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

Investments

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

Cash and cash equivalents

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

Hedge accounting

The Group does not hedge account as its hedging activities do not meet the criteria for hedge accounting as set out in IAS 39.

Effective interest rate method

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

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

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each statement of financial position date. Financial assets are impaired where there is objective evidence that, because of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For categories of financial assets, such as trade receivables, impairment is assessed on an individual basis. Any assets that are assessed not to be impaired on an individual basis are subsequently assessed for impairment on a portfolio basis. The assets are grouped in a portfolio, taking into consideration similar credit risk characteristics. The objective evidence of impairment for a portfolio of receivables normally includes the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of between 60 to 90 days, depending on the defined credit risk assessment for each type of debtor. Any dispute of amount receivable from the debtor is also considered as part of impairment indicators. For more details refer to Note 23.

For loans and deposits carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced using an allowance account. When a trade receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

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

Derecognition

A financial asset is derecognised when the Group loses control over the contractual rights of the asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished. When available-for-sale assets and assets held-for-trading are sold, they are derecognised and a corresponding receivable is recognised at the date the Group commits the assets. Loans and receivables are derecognised on the day the risks and rewards of ownership are transferred.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (eg when the Group retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention 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.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

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

Financial instruments (continued)

Financial liabilities

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

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

Financial liabilities at fair value through profit or loss are classified as held-for-trading. A financial liability is classified as held-for-trading if it is a derivative not designated and effective as a hedging instrument. Financial liabilities held-for-trading are subsequently stated at fair value, with any gains and losses recognised in profit or loss. Fair value is determined in a manner described in Note 40.1.

Interest-bearing loans and borrowings

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

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

Derecognition of financial liabilities

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

Inventories

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

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

Provisions

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

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

Onerous contracts

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

Reimbursements

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

Provision for lease liabilities

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

Employee benefits

Pension benefits

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

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

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

Past service costs are recognised immediately in profit or loss.

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

Post-retirement medical benefits

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

Short- and long-term benefits

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

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

Termination benefits

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

Related parties

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

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

Comparative figures

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

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year the entity has adopted the following new standards and interpretations that are effective for the current financial year.

Standard/interpretation	Effective date: years beginning on or after	Summary of changes
Amendment to IFRS 7 – *Financial Instruments*: Disclosures – Asset and Liability offsetting	1 January 2013	The amendments to the standard enhance current offsetting disclosures
IAS 19 – *Employee benefits*	1 January 2013	Established changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits
IFRS 13 – *Fair value measurement*	1 January 2013	Improves consistency and reduces complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS.
Amendment to IAS 16 – *Property, plant and equipment*	1 January 2013	The amendment clarifies that spare parts and servicing equipment are classified as property, plant and equipment rather than inventory when they meet the definition of property, plant and equipment.

2.2 Standards and interpretations not yet effective

The Group has chosen not to early adopt the following standards and interpretations which have been published and are mandatory for the Group's accounting periods beginning on or after 1 April 2014 or later periods. The standards and interpretations included below only include those that the directors believe may have an impact on the Group:

Standard/Interpretation	Effective date: years beginning on or after
IFRS 9 – *Financial instruments*	1 January 2015
IASB issues narrow-scope amendments to IAS 36 – *Impairment of assets*	1 January 2014
Amendment to IAS 19 regarding defined benefit plan.	1 July 2014
IFRS 15 – *Revenue from contracts with customers*	1 January 2017
IFRIC 21 – *Accounting for levies*	1 January 2014

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 eight 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 R366 million to income in the current year. The amount released to income in 2013 was R355 million.

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

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

Maintenance reserves expensed

Maintenance reserves prepayments unutilised at the expiry of the lease term are not refundable. The Group estimates the unutilised balance that is likely to remain at the end of the lease term based on planned events and assumed consumed life of leased aircraft and their components between year end and the lease expiry date and uses this estimate as the basis for expensing maintenance reserve payments. The recognition of the maintenance reserves assets and values thereof are subject to critical judgements followed by management.

4. Key sources of estimation uncertainty

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

Frequent flyer programme

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

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

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

		GROUP		COMPANY	
R MILLION	Note	2014	2013	2014	2013
5. Airline revenue					
The analysis of airline revenue for the year is as follows:					
Passenger revenue		**20 085**	17 716	**18 341**	16 480
Freight and mail		**1 601**	1 484	**1 600**	1 484
Technical services		**637**	545	**147**	95
Voyager income	32	**480**	555	**480**	555
Commission received		**100**	85	**92**	77
Release from prescribed tickets		**366**	355	**366**	355
Fuel levies		**5 433**	4 826	**5 433**	4 826
		28 702	25 566	**26 459**	23 872
6. Other income					
Other income is made up of the following items:					
Handling revenue		**121**	181	**60**	86
Income from leased assets		**64**	52	**238**	164
Other recoveries*		**1 379**	1 299	**1 348**	1 267
		1 564	1 532	**1 646**	1 517

* *Other recoveries comprise income associated with ticket cancellations, inter-airline processing offsets and other miscellaneous income.*

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

			GROUP		COMPANY	
	R MILLION	Notes	2014	2013	2014	2013
7.	**Operating loss before interest, tax, depreciation and amortisation**					
	Operating loss before interest, tax, depreciation and amortisation is stated after taking into account amongst others, the following:					
	Operating lease payments					
	Aircraft		**2 548**	2 097	**2 498**	2 081
	Buildings		**98**	84	**81**	70
	Equipment and vehicles		**34**	25	**27**	18
	Total operating lease payments		**2 680**	2 206	**2 606**	2 169
	Auditors' remuneration					
	Audit fees – current year		**15**	14	**10**	9
	Other regulatory audit services		**1**	1	**1**	1
	Non-audit services		**3**	4	**3**	4
	Total auditors' remuneration		**19**	19	**14**	14
	Directors' emoluments and executive management emoluments are disclosed in Note 36.					
	Net gain on disposal of property, aircraft and equipment comprises the following:					
	Profit on disposal of property, aircraft and equipment		**208**	134	**190**	127
	Loss on disposal of property, aircraft and equipment		**(168)**	(112)	**(157)**	(103)
	Net gain on disposal of property, aircraft and equipment		**40**	22	**33**	24
8.	**Depreciation and amortisation**					
	Aircraft and simulators		**(414)**	(392)	**(409)**	(387)
	Buildings and structures		**(65)**	(71)	**(41)**	(47)
	Machinery, equipment and furniture		**(75)**	(58)	**(46)**	(37)
	Vehicles and cabin loaders		**(12)**	(9)	**(4)**	(3)
	Total depreciation	16	**(566)**	(530)	**(500)**	(474)
	Amortisation of intangible assets	17	**(37)**	(35)	**(32)**	(32)
	Total depreciation and amortisation		**(603)**	(565)	**(532)**	(506)
9.	**Employee benefit expenses**					
9.1	Short-term employee benefit expenses					
	Personnel and labour costs		**4 776**	4 414	**3 153**	2 936
	Contribution to medical funds		**61**	55	**40**	35
			4 837	4 469	**3 193**	2 971
9.2	Post-employment benefit expenses*					
	Contribution to pension funds		**379**	351	**262**	243
	Contribution to provident funds		**50**	46	**50**	46
	Current-service cost		**18**	14	**18**	14
	Interest cost		**107**	117	**107**	117
	Expected return on plan assets		**(134)**	(149)	**(134)**	(149)
			420	379	**303**	271
	Total employee benefit expenses		**5 257**	4 848	**3 496**	3 242

* *These costs relate to other post-employment and other long-term employee benefit plans for the Group. The post-employment benefit costs have been disclosed in Note 35.*

R MILLION	Notes	GROUP 2014	GROUP 2013	COMPANY 2014	COMPANY 2013
10. Net impairment (write off)/reversal					
Impairment of loans and receivables held at amortised cost					
Impairment of accounts receivable		**(32)**	(4)	**2**	(4)
Impairment of other assets					
(Impairment)/reversal of investments in subsidiaries	18	**–**	–	**(122)**	414
Impairment of loans to subsidiaries	21	**–**	–	**(15)**	–
Impairment of buildings		**–**	(20)	**–**	(20)
Reversal of impairment of investments		**5**	1	**5**	1
Impairment of aircraft		**(1 151)**	–	**(1 151)**	–
Impairment arising from write down of Inventory to NRV		**(192)**	–	**–**	–
		(1 370)	(23)	**(1 281)**	391
11. Fair value and translation movements					
Foreign exchange (gain)/loss on translation of:					
Foreign cash balances		**39**	(31)	**42**	(34)
Foreign currency denominated net receivables		**(419)**	(164)	**(475)**	(188)
Net monetary assets and liabilities		**(235)**	16	**(221)**	23
Translation of foreign assets and liabilities		**(615)**	(179)	**(654)**	(199)
Fair value (gain)/loss on derivative instruments held-for-trading:					
Realised gain on derivatives		**(316)**	(181)	**(316)**	(181)
Fair value loss on derivative financial instruments		**240**	265	**240**	265
Net fair value (gain)/loss on derivative instruments held-for-trading		**(76)**	84	**(76)**	84
Total fair value and translation movements		**(691)**	(95)	**(730)**	(115)
12. Finance costs					
The interest paid related to financial liabilities held at amortised cost is detailed below:					
Interest paid on long-term borrowings		**(176)**	(93)	**(176)**	(93)
Interest paid on overdraft		**(87)**	(98)	**(84)**	(96)
Other interest paid		**–**	–	**(36)**	(23)
		(263)	(191)	**(296)**	(212)
Recognised directly in equity					
Interest paid on subordinated loan guaranteed by government classified as a dividend		**87**	88	**87**	88
13. Interest income					
Interest received was derived from:					
Cash and bank balances		**29**	8	**27**	7
Loans and receivables		**3**	4	**3**	4
		32	12	**30**	11

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

	GROUP		COMPANY	
R MILLION	2014	2013	2014	2013
14. Taxation				
Major components of the tax (expense)/income				
Current				
Local income tax – current year	**(8)**	–	**–**	–
Deferred				
Deferred tax – current year	**(8)**	2	**–**	–
	(16)	2	**–**	–
Reconciliation of the tax (expense)/income				
Reconciliation between accounting loss and tax (expense)/income.				
Accounting loss	**2 538**	1 170	**2 674**	789
Tax at the applicable tax rate of 28% (2013: 28%)	**711**	328	**749**	221
Tax effect of adjustments on taxable income				
Tax effect of non-taxable income	**35**	102	**–**	–
Tax effect of non-deductible expenses	**(328)**	(101)	**(328)**	(109)
Temporary differences not recognised	**(458)**	(352)	**(445)**	(137)
Interest classified as a dividend – tax deductible	**24**	25	**24**	25
	(16)	2	**–**	–
Estimated tax losses available to be utilised against future taxable income	**14 231**	13 367	**12 339**	11 432

R MILLION	Gross	Tax	Net
15. Other comprehensive loss			
Components of other comprehensive loss			
GROUP – 2014			
Actuarial remeasurements on defined benefit plans			
Remeasurement on SAA German Pension Fund	**(19)**	**–**	**(19)**
Remeasurement on SAA subfund of Transport Pension Fund	**(16)**	**–**	**(16)**
Remeasurement on post-retirement medical benefits	**12**	**–**	**12**
	(23)	**–**	**(23)**
Movements on revaluation			
Impairment on property revaluations	**(13)**	**–**	**(13)**
Total	**(36)**	**–**	**(36)**
Components of other comprehensive loss			
GROUP – 2013			
Actuarial remeasurements on defined benefit plans			
Remeasurement on SAA German Pension Fund	(17)	–	(17)
Remeasurement on SAA subfund of Transport Pension Fund	(10)	–	(10)
Remeasurement on post-retirement medical benefits	3	–	3
	(24)	–	(24)
Movements on revaluation			
Impairment on property revaluations	(12)	–	(12)
Total	(36)	–	(36)
Components of other comprehensive loss			
COMPANY – 2014			
Actuarial remeasurements on defined benefit plans			
Remeasurement on SAA German Pension Fund	**(19)**	**–**	**(19)**
Remeasurement on SAA subfund of Transport Pension Fund	**(16)**	**–**	**(16)**
Remeasurement on post-retirement medical benefits	**12**	**–**	**12**
	(23)	**–**	**(23)**

R MILLION	Gross	Tax	Net
Components of other comprehensive loss			
COMPANY – 2013			
Actuarial remeasurements on defined benefit plans			
Remeasurement on SAA German Pension Fund	(17)	–	(17)
Remeasurement on SAA subfund of Transport Pension Fund	(10)	–	(10)
Remeasurement on post-retirement medical benefits	3	–	3
	(24)	–	(24)
Movements on revaluation			
Gains on property revaluations	11	–	11
Total	(13)	–	(13)

16. Property, aircraft and equipment

	2014			2013		
R MILLION	Cost/valuation	Accumulated depreciation	Carrying value	Cost/valuation	Accumulated depreciation	Carrying value
GROUP						
Land	397	–	397	453	–	453
Buildings and structures	1 777	(236)	1 541	1 779	(195)	1 584
Machinery, equipment and furniture	872	(568)	304	817	(510)	307
Vehicles and cabin loaders	144	(69)	75	115	(65)	50
Aircraft and simulators	10 015	(6 619)	3 396	9 523	(5 464)	4 059
Containers	29	(29)	–	31	(31)	–
Capital work in progress	658	–	658	1 129	–	1 129
Total	13 892	(7 521)	6 371	13 847	(6 265)	7 582

	2014			2013		
R MILLION	Cost/valuation	Accumulated depreciation	Carrying value	Cost/valuation	Accumulated depreciation	Carrying value
COMPANY						
Land	55	–	55	111	–	111
Buildings and structures	1 070	(185)	885	1 080	(168)	912
Machinery, equipment and furniture	469	(296)	173	430	(259)	171
Vehicles and cabin loaders	44	(22)	22	27	(20)	7
Aircraft and simulators	9 942	(6 605)	3 337	9 473	(5 454)	4 019
Containers	29	(29)	–	31	(31)	–
Capital work in progress	664	–	664	1 125	–	1 125
Total	12 273	(7 137)	5 136	12 277	(5 932)	6 345

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

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16. Property, aircraft and equipment (continued)

GROUP – 2014

R MILLION	Opening balance	Additions	Disposals	Classified as held-for-sale	Transfers	Revaluations of PDPs	Depreciation	Impairment loss	Total
Reconciliation									
Land	453	–	–	(56)	–	–	–	–	397
Buildings and structures	1 584	22	(3)	(7)	10	–	(65)	–	1 541
Machinery, equipment and furniture	307	47	(6)	–	31	–	(75)	–	304
Vehicles and cabin loaders	50	38	(1)	–	–	–	(12)	–	75
Aircraft and simulators	4 059	2 595	(1 695)	–	2	–	(414)	(1 151)	3 396
Containers	–	–	–	–	–	–	–	–	–
Capital work in progress	1 129	349	–	–	(1 020)	200	–	–	658
	7 582	3 051	(1 705)	(63)	(977)	200	(566)	(1 151)	6 371

GROUP – 2013

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

R MILLION	Opening balance	Additions	Disposals	Classified as held-for-sale	Transfers	Revaluations of PDPs	Depreciation	Impairment loss	Total
COMPANY – 2014									
Reconciliation									
Land	111	–	–	(56)	–	–	–	–	55
Buildings and structures	912	15	(2)	(7)	8	–	(41)	–	885
Machinery, equipment and furniture	171	21	(2)	–	29	–	(46)	–	173
Vehicles and cabin loaders	7	19	–	–	–	–	(4)	–	22
Aircraft and simulators	4 019	2 570	(1 694)	–	2	–	(409)	(1 151)	3 337
Containers	–	–	–	–	–	–	–	–	–
Capital work in progress	1 125	355	–	–	(1 016)	200	–	–	664
	6 345	2 980	(1 698)	(63)	(977)	200	(500)	(1 151)	5 136

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

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

Certain aircraft are encumbered as security for the financing thereof. The carrying value of capitalised aircraft encumbered in respect of financing raised by the Group amounts to R1,6 billion (2013: R2,7 billion).

Certain aircraft are held under suspensive sale agreements with title only passing to SAA once all obligations to the seller have been settled and the seller in turn has settled all its obligations under a finance lease. These events are expected to occur simultaneously.

The category of aircraft includes the refurbishment costs of both the owned and leased aircraft. This refurbishment is amortised over the shorter of the useful life of the refurbished equipment or the lease term of the leased aircraft. For more information regarding the impairment of aircraft, refer to the Directors' report.

For both (a) land and buildings held using the revaluation approach and (b) the non-current asset held-for-sale, the fair value was determined by an external valuation expert, using the income capitalisation method of valuation. The utilisation of the property in terms of its industrial use is considered to be its highest and best use. A capitalisation rate of 12% was used in the valuation with comparative rentals in the area being applied in the model. As the valuation includes significant unobservable inputs, it is classified as level 3 in the fair value hierarchy.

Asset and disposal groups held-for-sale are as follows:

Non-current assets held-for-sale

	GROUP		COMPANY	
R MILLION	2014	2013	2014	2013
Carrying value of land and buildings held-for-sale	63	6	63	–
	63	6	63	–

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

R MILLION	2014 Cost/valuation	2014 Accumulated amortisation	2014 Carrying value	2013 Cost/valuation	2013 Accumulated amortisation	2013 Carrying value
17. Intangible assets						
GROUP						
Software development	**525**	**(433)**	**92**	503	(395)	108
Internet booking site	**39**	**(36)**	**3**	39	(36)	3
Goodwill*	**35**	**(35)**	**–**	35	(35)	–
Total	**599**	**(504)**	**95**	577	(466)	111
COMPANY						
Software development	**491**	**(416)**	**75**	480	(384)	96
Internet booking site	**39**	**(36)**	**3**	39	(36)	3
Total	**530**	**(452)**	**78**	519	(420)	99

R MILLION	Opening balance	Additions	Amortisation	Total
GROUP – 2014				
Reconciliation				
Software development	**108**	**21**	**(37)**	**92**
Internet booking site	**3**	**–**	**–**	**3**
Goodwill*	**–**	**–**	**–**	**–**
	111	**21**	**(37)**	**95**
GROUP – 2013				
Reconciliation				
Software development	88	55	(35)	108
Internet booking site	3	–	–	3
Goodwill*	–	–	–	–
	91	55	(35)	111
COMPANY – 2014				
Reconciliation				
Software development	**96**	**11**	**(32)**	**75**
Internet booking site	**3**	**–**	**–**	**3**
	99	**11**	**(32)**	**78**
COMPANY – 2013				
Reconciliation				
Software development	80	48	(32)	96
Internet booking site	3	–	–	3
	83	48	(32)	99

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

	COMPANY	
R MILLION	2014	2013
18. Investments in subsidiaries		
Shares at cost	**2 404**	2 404
Impairment of investments in subsidiaries	**(1 282)**	(1 160)
	1 122	1 244

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

		Percentage holding		R MILLION Shares at cost	
Name of company	Shares	2014	2013	2014	2013
Mango Airlines SOC Limited	1 120	**100**	100	**336**	336
SAA Technical SOC Limited	200	**100**	100	**1 960**	1 960
Air Chefs SOC Limited	100	**100**	100	**106**	106
South African Airways City Centre SOC Limited	1 000	**100**	100	**2**	2
				2 404	2 404
Impairment of investment in subsidiaries				**(1 282)**	(1 160)
				1 122	1 244

The net aggregate losses in subsidiaries for the year amounted to R132 million (2013: R16 million).

	GROUP		COMPANY	
R MILLION	2014	2013	2014	2013
19. Deferred tax asset				
Temporary differences in respect of property, aircraft and equipment	**(1 286)**	(1 194)	**(1 090)**	(1 121)
Doubtful debts	**38**	39	**28**	39
Air traffic liability and other deferred income	**1 085**	863	**973**	819
Provisions	**1 258**	1 207	**1 120**	1 121
Prepayments	**(67)**	(56)	**(41)**	(41)
Differences due to changes in fair value of financial instruments	**(63)**	(40)	**(63)**	(40)
Leased assets	**6**	7	**–**	–
Computed tax loss	**3 985**	3 743	**3 455**	3 201
	4 956	4 569	**4 382**	3 978
Deferred tax asset not recognised	**(4 558)**	(4 152)	**(4 382)**	(3 978)
Deferred tax asset recognised	**398**	417	**–**	–

Recognition of deferred tax asset

Deferred tax assets are recognised for tax loss carry forwards to the extent that the realisation of the related tax benefit through future taxable income is probable. The Group did not recognise deferred tax assets of R4,6 billion (2013: R4,2 billion) in respect of losses amounting to R14,2 billion (2013: R13,4 billion) that can be carried forward against future taxable income.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

	GROUP		COMPANY	
R MILLION	2014	2013	2014	2013
20. Inventories				
Maintenance inventories	1 092	1 036	–	–
Work in progress	19	13	–	–
Consumables	165	171	109	119
	1 276	1 220	109	119
Impairment of Inventories	(468)	(289)	–	–
	808	931	109	119
Reconciliation of impairment of inventories				
Opening balance	(289)	(301)	–	–
Reversal of previous write downs to NRV	13	51	–	–
Write down of Inventories recognised as an expense during the year	(192)	(39)	–	–
Closing balance	(468)	(289)	–	–

The write down of inventories in the current year relates to the impairment of obsolete aircraft spares. This stock has been impaired to its net realisable value.

	COMPANY	
R MILLION	2014	2013
21. Amounts receivable from subsidiaries		
Subsidiaries		
SAA Technical SOC Limited	1 169	1 306
Air Chefs SOC Limited	178	148
South African Airways City Centre SOC Limited	15	9
	1 362	1 463
Impairment of loans to subsidiaries	(15)	–
	1 347	1 463

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

R MILLION	Jet fuel options	Currency derivatives	Jet fuel forward exchange contracts and swaps	Total
22. Derivatives				
GROUP AND COMPANY				
Fair value at 1 April 2013	53	72	19	144
Assets	53	72	23	148
Liabilities	–	–	(4)	(4)
Amounts spent on premiums	105	215	–	320
Fair value movements for the year ended 31 March 2014	(79)	(162)	1	(240)
Fair value at 31 March 2014	79	125	20	224
Assets	79	128	20	227
Liabilities	–	(3)	–	(3)

	GROUP		COMPANY	
R MILLION	**2014**	2013	**2014**	2013
23. Trade and other receivables				
Gross accounts receivable	**2 896**	2 666	**2 738**	2 536
Allowance for impairment	**(125)**	(128)	**(90)**	(125)
	2 771	2 538	**2 648**	2 411
Prepayments	**3 492**	1 942	**3 326**	1 839
	6 263	4 480	**5 974**	4 250
Reconciliation of impairment of trade and other receivables				
Opening balance	**(128)**	(197)	**(125)**	(153)
Impairments	**(32)**	(4)	**2**	(4)
Amounts utilised for write-offs	**35**	73	**33**	32
Closing balance	**(125)**	(128)	**(90)**	(125)

The trade receivables portfolio impairment loss relates to:

- debtors in dispute which are provided for when they become known;
- defaulting Billing and Settlement Plan (BSP) and General Sales Agents (GSA) that have exceeded 90 days past their due date; and
- errors due to differences identified when capturing sales.

The gross accounts receivable is analysed below based on the risk profile group linked to the nature of the distribution network and the nature of operations within the Group. The analysis is based on period past due.

R MILLION	Gross amount	Current not yet past due	Past due but not impaired	Impaired amount
GROUP – 2014				
BSP	1 057	1 044	7	6
Credit card	260	250	5	5
GSA	96	95	(2)	3
Stations	5	2	–	3
Cargo freight and mail	111	53	26	32
Airline catering	15	8	7	–
Travel services	3	3	–	–
Technical maintenance	182	117	30	35
Alliance partners	373	230	143	–
Voyager	93	47	46	–
Default debtors	40	–	–	40
Other trade debtors	661	630	30	1
	2 896	2 479	292	125
COMPANY – 2014				
BSP	1 057	1 044	7	6
Credit card	260	250	5	5
GSA	96	95	(2)	3
Stations	5	2	–	3
Cargo freight and mail	111	53	26	32
Alliance partners	373	230	143	–
Voyager	93	47	46	–
Default debtors	40	–	–	40
Other trade debtors	703	672	30	1
	2 738	2 393	255	90

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

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R MILLION	Gross amount	Current not yet past due	Past due but not impaired	Impaired amount
23. Trade and other receivables (continued)				
GROUP – 2013				
BSP	1 004	980	4	20
Credit card	248	245	1	2
GSA	65	49	7	9
Stations	5	3	–	2
Cargo freight and mail	370	306	35	29
Airline catering	19	15	2	2
Travel services	1	1	–	–
Technical maintenance	127	88	38	1
Alliance partners	262	213	36	13
Voyager	146	82	64	–
Default debtors	47	–	–	47
Other trade debtors	372	369	–	3
	2 666	2 351	187	128
COMPANY – 2013				
BSP	1 004	980	4	20
Credit card	248	245	1	2
GSA	65	49	7	9
Stations	5	3	–	2
Cargo freight and mail	370	306	35	29
Alliance partners	262	213	36	13
Voyager	146	82	64	–
Default debtors	47	–	–	47
Other trade debtors	389	386	–	3
	2 536	2 264	147	125

	GROUP		COMPANY	
R MILLION	**2014**	2013	**2014**	2013
Past due but not impaired can be analysed further in terms of aging as follows:				
30 to 60 days	**–**	–	**–**	–
61 to 90 days	**114**	72	**95**	57
91 to 120 days	**37**	38	**37**	26
+120 days	**141**	77	**123**	64
	292	187	**255**	147
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	**3 555**	2 723	**3 555**	2 723
Maintenance reserve payments expensed	**(2 175)**	(1 866)	**(2 175)**	(1 866)
	1 380	857	**1 380**	857
Credit quality of trade and other receivables				
Trade receivables can be analysed based on historical collections performance as follows:				
Trade receivables				
Trade debtors with no history of default	**2 356**	2 259	**2 270**	2 172
Trade debtors where there have been isolated instances of default but no loss suffered	**123**	92	**123**	92
	2 479	2 351	**2 393**	2 264

Collateral held

BSP debtors are credit vetted by IATA, which holds a guarantee appropriate to the level of risk identified. Should an agent be in default with IATA, the guarantee is encashed and apportioned between the creditor airlines. SAA holds additional guarantees of R64 million in respect of local GSA debtors and R101 million in respect of Cargo debtors and Cargo GSAs.

	GROUP		COMPANY	
R MILLION	2014	2013	2014	2013
24. Investments				
Investment in unlisted shares at cost				
SA Airlink (Pty) Ltd	35	35	35	35
Impairment of unlisted investment	(20)	(25)	(20)	(25)
	15	10	15	10
Investment in share trust				
South African Airways Employee Share Trust	–	–	157	157
Impairment of the loan to South African Airways Employee Share Trust	–	–	(157)	(157)
	–	–	–	–
25. Cash and cash equivalents				
Cash and cash equivalents consist of:				
Foreign bank accounts	861	845	865	899
Domestic bank accounts	(1 140)	(1 945)	(1 793)	(2 410)
Short-term investments call deposits (US$ and EURO denominated)	200	–	200	–
Total cash and cash equivalents	(79)	(1 100)	(728)	(1 511)
Current assets	1 853	1 536	1 189	1 060
Current liabilities	(1 932)	(2 636)	(1 917)	(2 571)
	(79)	(1 100)	(728)	(1 511)
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.				
26. Share capital				
Authorised				
9 000 000 000 Class A ordinary shares of R1 each	9 000	9 000	9 000	9 000
3 000 000 000 Class B ordinary shares of R1 each	3 000	3 000	3 000	3 000
1 500 000 000 Class C ordinary shares of R1 each	1 500	1 500	1 500	1 500
750 000 000 Class D ordinary shares of R1 each	750	750	750	750
750 000 000 Class E ordinary shares of R1 each	750	750	750	750
	15 000	15 000	15 000	15 000
Reconciliation of number of shares issued:				
Opening balance	12 892	12 892	13 126	13 126
Issued				
8 786 771 465 Class A ordinary shares of R1 each	8 787	8 787	8 787	8 787
2 412 563 822 Class B ordinary shares of R1 each	2 413	2 413	2 413	2 413
1 206 281 911 Class C ordinary shares of R1 each	1 206	1 206	1 206	1 206
603 140 956 Class D ordinary shares of R1 each	603	603	603	603
117 578 806 Class E ordinary shares of R1 each	117	117	117	117
Less: Treasury shares held in Employee Share Trust	(234)	(234)	–	–
	12 892	12 892	13 126	13 126

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

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

	GROUP		COMPANY	
R MILLION	2014	2013	2014	2013
27. Subordinated loan guaranteed by government				
Balance at the beginning of the year	**1 300**	1 300	**1 300**	1 300
Repaid during the year	**–**	–	**–**	–
Balance at the end of the year	**1 300**	1 300	**1 300**	1 300

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

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

	GROUP		COMPANY	
R MILLION	2014	2013	2014	2013
28. Long-term loans				
Secured loans				
External loans	**4 370**	1 423	**4 348**	1 399
The loans are repayable as follows:				
On demand or within one year	**3 721**	403	**3 721**	403
Two to five years	**648**	1 013	**627**	996
Later than five years	**1**	7	**–**	–
	4 370	1 423	**4 348**	1 399
Less: current portion repayable on demand	**(3 721)**	(403)	**(3 721)**	(403)
	649	1 020	**627**	996
The carrying amounts of long-term loans are denominated in the following currencies:				
Rand denominated domestic loans*	**3 831**	737	**3 809**	713
US$ denominated foreign loans**	**539**	686	**539**	686
	4 370	1 423	**4 348**	1 399

* *Domestic secured loans bear interest at JIBAR plus a margin ranging from 0,60% to 2,44% and are secured over aircraft (Note 16).*

** *The foreign secured loans in US$ bear interest at a fixed interest rate ranging from 4,17% to 4,33% and are secured over aircraft (Note 16).*

	GROUP		COMPANY	
R MILLION	2014	2013	2014	2013
29. Retirement benefits				
Post-retirement medical benefits	**(33)**	(43)	**(33)**	(43)
Retirement benefit asset	**–**	35	**–**	35
Retirement benefit liability	**(11)**	–	**(11)**	–
	(44)	(8)	**(44)**	(8)
Non-current assets	**–**	35	**–**	35
Non-current liabilities	**(44)**	(43)	**(44)**	(43)
	(44)	(8)	**(44)**	(8)

30. Provisions

R MILLION	Opening balance	Additions	Utilised during the year	Currency revaluation	Total	Current portion	Non-current portion
GROUP – 2014							
Reconciliation of provisions							
Provision for lease liabilities(1)	**1 261**	**280**	**(325)**	**171**	**1 387**	**176**	**1 211**
Other provisions(2)	**192**	**68**	**–**	**–**	**260**	**–**	**260**
	1 453	**348**	**(325)**	**171**	**1 647**	**176**	**1 471**

R MILLION	Opening balance	Additions	Utilised during the year	Reversed during the year	Currency revaluation	Total	Current portion	Non-current portion
GROUP – 2013								
Provision for lease liabilities(1)	1 854	9	(648)	(318)	364	1 261	214	1 047
Other provisions(2)	118	75	–	(1)	–	192	–	192
	1 972	84	(648)	(319)	364	1 453	214	1 239

R MILLION	Opening balance	Additions	Utilised during the year	Currency revaluation	Total	Current portion	Non-current portion
COMPANY – 2014							
Provision for lease liabilities(1)	**1 252**	**280**	**(325)**	**171**	**1 378**	**176**	**1 202**
Other provisions(2)	**192**	**68**	**–**	**–**	**260**	**–**	**260**
	1 444	**348**	**(325)**	**171**	**1 638**	**176**	**1 462**

R MILLION	Opening balance	Additions	Utilised during the year	Reversed during the year	Currency revaluation	Total	Current portion	Non-current portion
COMPANY – 2013								
Provision for lease liabilities(1)	1 854	–	(648)	(318)	364	1 252	214	1 038
Other provisions(2)	118	75	–	(1)	–	192	–	192
	1 972	75	(648)	(319)	364	1 444	214	1 230

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

(2) Other provisions include, but are not limited to, amounts set aside to settle claims against the Group/Company arising in the course of its operations. The amounts provided are unlikely to differ materially from the anticipated final settlement amounts. Further information regarding individual claim amounts have not been provided as they may prejudice the Group/Company in its ongoing litigation. Further information has been disclosed in the Directors' report.

	GROUP		COMPANY	
R MILLION	**2014**	2013	**2014**	2013
31. Other short-term liabilities				
Shareholder loan to South African Airways Employee Share Trust	**63**	63	**–**	–

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

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

	GROUP		COMPANY	
R MILLION	2014	2013	2014	2013
32. Deferred revenue on ticket sales				
Frequent flyer deferred revenue – long term	**845**	900	**845**	900
Net air traffic liability – short term	**3 607**	3 007	**3 442**	2 917
Frequent flyer deferred revenue – short term	**602**	767	**602**	767
	4 209	3 774	**4 044**	3 684

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	2014	2013	2014	2013
33. Trade and other payables				
Trade payables	**1 280**	1 183	**1 404**	1 442
Other payables*	**5 218**	4 626	**4 856**	4 341
	6 498	5 809	**6 260**	5 783
** Other payables comprise accruals processed in the normal course of business and ticket taxes received in advance.*				
34. Commitments				
Authorised capital expenditure				
Already contracted for but not provided for				
Capital commitments contracted in US$	**822**	942	**822**	942
	822	942	**822**	942
Capital commitments relate to the Airbus A320 orders and the amount disclosed includes escalations to the 2018 financial year.				
Operating leases – as lessee (expense) (rand million)				
Operating lease commitments for property, aircraft, equipment and vehicles are expected to be incurred as follows:				
– within one year	**2 261**	2 119	**2 261**	2 119
– in second to fifth year inclusive	**4 451**	5 338	**4 451**	5 338
– later than five years	**1 275**	1 594	**1 275**	1 594
	7 987	9 051	**7 987**	9 051
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	**196**	210	**196**	210
– in second to fifth year inclusive	**372**	513	**372**	513
– later than five years	**121**	176	**121**	176
	689	899	**689**	899

35. Employee benefit information

35.1 SAA Group pension benefits

The Group offers pension benefits through two defined benefit pension funds and various defined contribution funds. The Transport Pension Fund was previously known as the Transnet Pension Fund, the name was amended in November 2005. The Transnet Pension Fund Amendment Act restructured the Transport Pension Fund into a multi-employer pension fund. From the date this Act came into operation, all existing members, pensioners, dependant pensioners, liabilities, assets, rights and obligations of the Transport Pension Fund are attributable to a subfund, with Transnet as the principal employer.

The amended Rules of the Fund establish a subfund in the name of South African Airways SOC Limited (SAA Group) from 1 April 2006. A further subfund in the name of South African Rail Commuter Corporation Limited was established with effect from 1 May 2006. The third subfund currently in existence is the Transnet subfund.

The SAA Group also offers post-retirement medical benefits to its employees through various funds of its own.

35.1.1 Transnet Retirement Fund (TRF)

The fund was structured as a defined contribution fund from 1 November 2000. All employees of SAA are eligible members of the fund. There were 5 449 members (2013: 5 702) at 31 March 2014. Actuarial valuations are done, at intervals not exceeding three years, to determine its financial position. The last actuarial valuation was performed at 31 March 2013. The actuaries were satisfied with the status of the members' credit account then. The Group's contributions for the period to 31 March 2014 amounted to R402 million (2013: R378 million).

35.1.2 SAA subfund of the Transport Pension Fund

The fund is a closed defined benefit pension fund. Members are current employees of the SAA Group who elected to remain as members of the fund at 1 November 2000 and pensioner members who retired subsequent to that date. There were 99 active members (2013: 116) and 296 pensioners (2013: 281) at 31 March 2014. An actuarial valuation was done as at 31 March 2014 based on the projected unit credit method.

The benefits for the members of the fund are determined based on the formula below:

A member with at least 10 years' pensionable service is entitled to the following benefits on attaining the minimum retirement age: An annual pensionable salary equal to average pensionable salary multiplied by pensionable service multiplied by accrual factor plus a gratuity equal to 1/3 of annual pension multiplied by gratuity factor. A member with less than 10 years of pensionable service is entitled to a gratuity equal to twice the member's own contributions without interest on attaining the age limit.

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

The Group expects to make a contribution of R7,3 million (2014: R7,8 million) to the defined benefit plan during the next financial year.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

35. Employee benefit information (continued)

35.1 SAA Group pension benefits (continued)

PERCENT	2014	2013
Principal actuarial assumptions used:		
Discount rate	**8,65**	7,19
Inflation	**6,37**	5,75
Salary increases		
Inflation	**7,37**	6,75
Pension increases		
First three years	**2,99**	1,60
After three years	**2,99**	1,60

R MILLION	2014	2013
Benefit asset/(liability)		
Present value of obligation	**(1 365)**	(1 380)
Fair value of plan assets	**2 001**	1 827
Surplus	**636**	447
Asset not recognised	**(607)**	(399)
Net asset per the statement of financial position	**29**	48
Reconciliation of movement in present value of obligation		
Opening benefit liability at the beginning of the year	**(1 380)**	(1 296)
Service cost	**(12)**	(10)
Interest cost	**(94)**	(105)
Actuarial remeasurement	**(39)**	(79)
Benefits paid	**165**	115
Member contributions	**(5)**	(5)
Closing present value of obligation	**(1 365)**	(1 380)
Reconciliation of fair value of plan assets		
Opening fair value of plan assets	**1 827**	1 598
Expected return	**124**	141
Actuarial remeasurement	**203**	190
Employer's contributions	**7**	7
Benefits paid	**(165)**	(114)
Member contributions	**5**	5
Closing fair value of plan assets	**2 001**	1 827

PERCENT	2014	2013
The major categories of plan assets as a percentage of total plan assets are:		
Equity	**34**	35
Property	**7**	8
Bonds	**27**	32
Cash	**5**	4
International	**27**	21
Total	**100**	100

R MILLION	2014	2013
Current-service cost	**12**	10
Interest on obligation	**94**	105
Expected return on plan assets	**(124)**	(141)
	(18)	(26)

35.2 Medical benefits

35.2.1 SAA Group employees' post-retirement medical benefits

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

SAA subsidises continuation and in-service members with a fixed amount of R213 (2013: 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.

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 2014.

The table below summarises the components of net benefit expense recognised in both the statement of profit or loss and other comprehensive income and the statement of financial position for the SAA Group as at 31 March 2014 for SAA Group employees.

The principal actuarial assumptions used were as follows:

PERCENT	2014	2013
Discount rate	**8,94**	8,00

R MILLION	2014	2013
Net benefit liability		
Present value of unfunded benefit obligations	**33**	43
Changes in the present value of defined benefit obligations are as follows:		
Opening liability	**43**	46
Service cost	**1**	1
Interest cost	**3**	3
Actuarial remeasurement	**(12)**	(4)
Benefits paid	**(2)**	(3)
Benefit liability at year end	**33**	43
Amounts recognised in the statement of profit or loss and other comprehensive income		
Current-service cost	**1**	1
Interest on obligation	**3**	3
	4	4

35.3 SAA UK Pension Fund benefits

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

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

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

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

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

35. Employee benefit information (continued)

35.3 SAA UK Pension Fund benefits (continued)

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 2014 due to it being bought out.

35.4 SAA German Pension Fund benefits

SAA operates a retirement plan for its permanent employees based in Germany. The scheme is a defined benefit fund. The scheme consists of three groups which are entitled to different benefits as follows:

Group 1: Those in the employment of SAA before 1976. All employees who were members in this group have retired and the scheme has therefore been closed with effect from March 2004.

Group 2: Those in the employment of SAA from April 1976 to December 1988.

Group 3: All new employees who joined SAA after 1 January 1989.

The benefits payable to groups 2 and 3 are determined with reference to the rules of the scheme and are based on the percentage of the average salary for the last 12 months multiplied by the number of years of pensionable service plus a cash lump sum. The retirement age for all employees is 63 years.

The Group expects to make a contribution of R3,1 million (2014: R2,7 million) to the defined benefit plan during the next financial year.

Actuarial valuation

Actuarial valuations in terms of the rules of the scheme are done at intervals not exceeding three years to determine its financial position. The most recent actuarial valuation of plan assets and the present value of the defined benefit obligation were carried out in March 2014 using the projected unit credit method.

	VALUATION	
PERCENT	**2014**	2013
Principal actuarial assumptions used:		
Discount rate	**3,3**	3,8
Inflation	**1,5**	1,5
Salary increases	**2,0**	2,0
Pension increases per three years	**4,5**	4,5

R MILLION	2014	2013
Benefit (liability)/asset		
Present value of obligation	**(325)**	(246)
Fair value of plan assets	**285**	234
Net liability per the statement of financial position	**(40)**	(12)
Reconciliation of movement in present value of obligation		
Opening benefit liability at the beginning of the year	**246**	185
Service cost	**5**	3
Interest cost	**10**	9
Exchange differences on foreign plans	**58**	31
Benefits paid	**(15)**	(9)
Actuarial remeasurement	**21**	27
Closing present value of obligation	**325**	246
Reconciliation of fair value of plan assets		
Opening fair value of plan assets	**234**	191
Exchange differences on foreign plans	**52**	31
Expected return	**10**	8
Actuarial remeasurement	**2**	10
Benefits paid	**(16)**	(8)
Employer's contribution	**3**	2
Closing fair value of plan assets	**285**	234

PERCENT	2014	2013

35. Employee benefit information (continued)

35.4 SAA German Pension Fund benefits (continued)

The major categories of plan assets as a percentage of total plan assets are:

PERCENT	2014	2013
Equity	26	25
Bonds	–	50
Cash	50	–
Other	24	25
Total	100	100

R MILLION	2014	2013
Current-service cost	5	3
Interest on obligation	10	9
Expected return on plan assets	(10)	(8)
	5	4

35.5 Flight deck crew (FDC) disability benefit

SAA has an agreement with FDC members who are on permanent employment to top up the disability benefits payable by the Transnet Retirement Fund and the SAA Retirement Fund. In terms of the rules of the Transnet Retirement Fund all employees are entitled to 75 percent of the members' pensionable salary payable when a member becomes disabled before the normal retirement age of 63. The agreement with FDC members is for SAA to pay a further 25 percent in addition to what the member would receive from the pension fund in the case of disability. The members or SAA make no additional contribution towards these benefits, and these benefits are therefore unfunded.

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

35.6 Share-based payments

	NUMBER OF SHARES	
	2014	2013
35.6.1 FDC Share Scheme		
The FDC Share Scheme was created for flight deck crew members and Transnet Limited allocated 40 150 000 E class ordinary R1,00 shares of SAA to the scheme. These shares are held as follows:		
South African Airways Employee Share Trust	3 431 418	3 431 418
	3 431 418	3 431 418
35.6.2 Share incentive scheme		
The scheme granted two types of shares, ie joining and promotional shares to management. The promotional shares had a 12-month vesting period and the joining shares had a 24-month vesting period. Vesting was calculated from 1 April 1999 or when the employee joined the company. The employees could exercise these options at 25% per annum after vesting took place. These shares are held as follows:		
South African Airways Employee Share Trust	23 005 660	23 005 660
	23 005 660	23 005 660
35.6.3 Employee Share Ownership Programme (ESOP)		
This scheme was implemented in March 2001, granting employees in service of SAA on or before 1 April 1999 options to purchase shares at R1,00 per share. These shares vested over a three year period and were fully vested as at 31 March 2004. These shares are held as follows:		
South African Airways Employee Share Trust	91 141 728	91 141 728
	91 141 728	91 141 728

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

35. Employee benefit information (continued)

35.7 Employee wellness programme

The Group offers employees and their immediate families access to an holistic health and wellness programme, providing life skills, awareness, counselling and education programmes to promote healthy lifestyles and coping skills. The programme is aimed at providing support covering a whole range of health and medical conditions, including HIV and Aids.

35.8 Travel benefits

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

36. Related parties

The SAA Group has applied the exemption under paragraph 25 of IAS 24 to government related entities. South African Airways SOC Limited (SAA) is owned by the Department of Public Enterprises (DPE), a South African Government National Department. SAA is a Schedule 2 Public Entity in terms of the Public Finance Management Act No 1 of 1999 (as amended) (PFMA). Its related parties therefore constitute DPE, its subsidiaries, some major public entities falling under Schedule 2 of the PFMA and key management personnel.

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

The revenue from the sale of tickets to related parties has been quantified based on the information available from frequent flyer corporate contracts entered into with the Group. The frequent flyer participants qualify for the same benefits as all other third parties who participate in this frequent flyer programme for corporates. Other ticket sales with related parties were made on terms equivalent to those that prevail in arms' length transactions. The revenue from the sale of tickets that are not reported in terms of these contracts has not been disclosed as it is, and will continue to be, impossible to quantify these sales due to the nature of the distribution network. In addition, there is no requirement or obligation for any related party to purchase its tickets from SAA with the result that SAA's relationship with these parties has no impact on related party sales and would not negatively impact results should the relationship be terminated.

Liabilities include an amount of R187 million (2013: R122 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	**2014**	2013	**2014**	2013
Related party balances				
Amounts receivable from related parties*				
Subsidiaries	**–**	–	**1 347 219**	1 463 182
Public entities	**8**	14	**8**	14
	8	14	**1 347 227**	1 463 196
Amounts payable to related parties**				
Subsidiaries	**–**	–	**579 981**	757 771
Public entities	**56**	46 054	**32**	46 029
	56	46 054	**580 013**	803 800

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

	GROUP		COMPANY	
R THOUSAND	**2014**	2013	**2014**	2013
Related party transactions				
Sales of goods/services				
Subsidiaries	**–**	–	**402 868**	282 900
Public entities	**98**	14	**98**	14
	98	14	**402 966**	282 914

R THOUSAND	GROUP 2014	GROUP 2013	COMPANY 2014	COMPANY 2013
Purchases of goods/services				
Subsidiaries	**–**	–	**4 207 968**	3 443 855
Public entities	**1 140 708**	415 526	**668 269**	92 323
	1 140 708	415 526	**4 876 237**	3 536 178
Other transactions				
Shareholder*	**87 231**	88 280	**87 231**	88 280
Subsidiaries	**–**	–	**35 707**	22 598
Key management personnel**	**39 222**	40 698	**20 659**	27 626
	126 453	128 978	**143 597**	138 504

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

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

	DIRECTORS FEES AND TRAVEL BENEFITS				DIRECTORS FEES AND TRAVEL BENEFITS			
	FEES	NUMBER OF FLIGHTS			FEES	NUMBER OF FLIGHTS		
	R'000	INTERNATIONAL	DOMESTIC	REGIONAL	R'000	INTERNATIONAL	DOMESTIC	REGIONAL
	2014				2013			
Key management personnel compensation is set out below:								
Board of Directors								
Non-executive								
Whitehouse MM[1]	–	–	–	–	371	3	1	–
RM Loubser[2]	–	–	–	–	175	2	4	–
L Nkosi Thomas[3]	**417**	**1**	**13**	**1**	402	7	21	–
DC Myeni	**828**	**1**	**5**	–	505	2	1	–
TC Jantjies[4]	–	–	–	–	167	–	3	–
BF Mohale[1]	–	–	–	–	306	4	–	–
T Daka[1]	–	–	–	–	435	–	–	–
CA Carolus[1]	–	–	–	–	414	–	–	–
Y Kwinana	**510**	–	**10**	**6**	477	8	8	–
LJ Rabbets[5]	–	–	–	–	190	4	–	–
ZJ Sithole[7]	–	–	–	–	175	–	–	–
J Ndhlovu[1]	–	–	–	–	214	–	–	–
DH Lewis[1]	–	–	–	–	175	3	9	–
A Mabizela[6]	**382**	–	**2**	–	250	–	–	–
A Khumalo[6]	**396**	–	**20**	**2**	205	1	9	–
R Naithani[6]	**382**	–	–	–	184	–	–	–
C Roskruge[6]	**349**	–	**17**	–	296	–	8	–
B Mpondo[6]	**461**	–	**9**	–	436	–	1	–
R Lepule[6]	**405**	–	–	–	190	–	–	–
N Kubeka[6]	**349**	–	**12**	–	375	–	2	–
V Kona[8]	–	–	–	–	147	2	11	3
	4 479	**2**	**88**	**9**	6 089	36	78	3

1 *Resigned 28 September 2012.*
2 *Resigned 26 September 2012.*
3 *Resigned 23 February 2014.*
4 *Resigned 29 September 2012.*
5 *Resigned 27 September 2012.*
6 *Appointed 28 September 2012.*
7 *Deceased 8 August 2012.*
8 *Appointed 28 September 2012, removed 11 March 2013.*

In terms of the Group's travel benefits policy as referred to in Note 35.8, 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.

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36. Related parties (continued)

R THOUSAND	Salaries	Allowances	Fund contributions	Other	Total
Short-term employee benefits 2014					
Executive directors[1]					
M Kalawe[2]	3 794	–	–	–	3 794
N Bezuidenhout[3]	106	–	–	–	106
WH Meyer	3 464	–	–	–	3 464
Total	7 364	–	–	–	7 364
Executive committee					
BK Parsons	1 749	–	–	–	1 749
ME Mpshe	2 240	–	205	–	2 445
TP Makhetha	2 525	–	–	–	2 525
F Thabethe[4]	789	137	77	–	1 003
M Papa[5]	1 038	144	87	–	1 269
Z Ramasia	1 618	–	120	–	1 738
K Phohleli[6]	451	–	–	–	451
U Fikelepi[7]	667	–	–	–	667
P Ncala[8]	948	–	–	500	1 448
Total	12 025	281	489	500	13 295

1 *Executive directors of the Board are also members of the Executive Committee.*
2 *Appointed 1 June 2013.*
3 *Appointed as Acting CEO until 31 May 2013.*
4 *Appointed to the Executive Committee in an acting capacity until 31 October 2013.*
5 *Appointed to the Executive Committee in an acting capacity until 22 October 2013.*
6 *Appointed to the Executive Committee in an acting capacity effective 23 October 2013.*
7 *Appointed 1 November 2013.*
8 *Appointed 1 December 2013.*

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

1 *Executive directors of the Board are also members of the Executive Committee.*
2 *Resigned 8 October 2012.*
3 *Appointed as Acting CEO from 8 October 2012 until 11 February 2013.*
4 *Appointed as Acting CEO effective from 11 February 2013.*
5 *Appointed to the Executive Committee in an acting capacity from 1 October 2012.*
6 *Appointed to the Executive Committee in an acting capacity from 12 November 2012.*
7 *Appointed 15 May 2012.*

	Travel benefits 2014 Number of flights			Travel benefits 2013 Number of flights		
	International	**Domestic**	**Regional**	International	Domestic	Regional
Executive directors						
SP Mzimela[1]	–	–	–	6	16	2
M Kalawe[2]	1	54	2	–	–	–
N Bezuidenhout[3]	–	5	–	–	6	–
WH Meyer	9	16	–	4	26	4
Total	10	75	2	10	48	6
Executive committee						
BK Parsons	10	4	2	24	10	2
SJH Coetzee[1]	–	–	–	6	23	5
ME Mpshe	5	15	–	4	18	–
TG Potgieter[1]	–	–	–	18	6	3
TP Makhetha	4	9	–	7	9	–
F Thabethe[4]	–	8	4	–	9	–
M Papa[5]	1	7	–	1	3	–
Z Ramasia[6]	19	23	3	12	27	–
K Phohleli[7]	–	1	–	–	–	–
U Fikelepi[8]	–	9	–	–	–	–
P Ncala[9]	2	–	–	–	–	–
Total	41	76	9	72	105	10

1 Resigned 8 October 2012.
2 Appointed 1 June 2013.
3 Appointed as Acting CEO until 31 May 2013.
4 Appointed to the Executive Committee in an acting capacity until 31 October 2013.
5 Appointed to the Executive Committee in an acting capacity until 22 October 2013.
6 Appointed 15 May 2012.
7 Appointed to the Executive Committee in an acting capacity effective 23 October 2013.
8 Appointed 1 November 2013.
9 Appointed 1 December 2013.

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R MILLION	GROUP 2014	GROUP 2013	COMPANY 2014	COMPANY 2013
37. Cash (used in)/generated from operations				
Loss before taxation	**(2 538)**	(1 170)	**(2 674)**	(789)
Adjustments for:				
Depreciation and amortisation on property, aircraft and equipment	**566**	530	**500**	474
Net gain on disposal of property, aircraft and equipment	**(40)**	(22)	**(33)**	(24)
Amortisation of intangible assets	**37**	35	**32**	32
Impairment of aircraft	**1 151**	–	**1 151**	–
Impairment of buildings	**–**	20	**–**	20
Impairment of loans to subsidiaries	**–**	–	**15**	–
Derivative market movements	**(76)**	84	**(76)**	84
Impairment/(reversal of impairment) of investments in subsidiaries	**–**	–	**122**	(414)
Interest income	**(32)**	(12)	**(30)**	(11)
Finance costs	**263**	191	**296**	212
Release from air traffic liability	**(366)**	(355)	**(366)**	(355)
Movement in employee benefit obligations	**1**	(3)	**1**	(3)
Impairment of accounts receivables	**32**	4	**(2)**	4
Non-cash movement on retirement benefit plans	**(23)**	(24)	**(23)**	(24)
Other non-cash movements	**–**	(12)	**–**	11
Movement in non-current assets classified as held-for-sale	**(57)**	(6)	**(63)**	–
Release from passenger tax levies	**(412)**	(133)	**(412)**	(133)
Unrealised foreign exchange gain on PDPs	**(200)**	(67)	**(200)**	(67)
Unrealised foreign exchange gain on revaluation of loans	**(419)**	(164)	**(475)**	(188)
Unrealised foreign exchange loss/(gain) on cash and cash equivalents	**39**	(31)	**42**	(34)
Movement in retirement benefit asset	**35**	(4)	**35**	(4)
Changes in working capital:				
Inventories	**123**	(21)	**10**	(27)
Trade and other receivables	**(1 815)**	22	**(1 722)**	101
Trade and other payables	**1 099**	1 127	**889**	1 220
Air traffic liability	**966**	953	**891**	936
Frequent flyer deferred revenue	**(220)**	(262)	**(220)**	(262)
Provisions	**194**	(519)	**194**	(528)
	(1 692)	161	**(2 118)**	231

R MILLION	Notes	Financial liabilities at amortised cost	Fair value through profit or loss held-for-trading*	Total
38. Financial liabilities by category				
Set out below is an analysis of all of the Group's financial liabilities that are carried at either fair value or amortised cost in the annual financial statements depending on their classification:				
GROUP – 2014				
Long- and short-term liabilities	28	**4 370**	**–**	**4 370**
Shareholder loan to share trust	31	**63**	**–**	**63**
Trade and other payables	33	**6 498**	**–**	**6 498**
Bank overdraft	25	**1 932**	**–**	**1 932**
Currency derivatives	22	**–**	**3**	**3**
		12 863	**3**	**12 866**
GROUP – 2013				
Long- and short-term liabilities	28	1 423	–	1 423
Shareholder loan to share trust	31	63	–	63
Trade and other payables	33	5 809	–	5 809
Jet fuel forward exchange contracts and swaps	22	–	4	4
Bank overdraft	25	2 636	–	2 636
		9 931	4	9 935

* *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*	Available-for-sale	Total
39. Financial assets by category					
Set out below is an analysis of all of the Group's financial assets that are carried at either fair value or amortised cost in the annual financial statements depending on their classification:					
GROUP – 2014					
Jet fuel forward exchange contracts and swaps	22	**–**	**20**	**–**	**20**
Currency derivatives	22	**–**	**128**	**–**	**128**
Jet fuel options	22	**–**	**79**	**–**	**79**
Trade and other receivables	23	**6 263**	**–**	**–**	**6 263**
Cash and cash equivalents	25	**1 853**	**–**	**–**	**1 853**
Investment in SA Airlink (Pty) Limited	24	**–**	**–**	**15**	**15**
		8 116	**227**	**15**	**8 358**
GROUP – 2013					
Jet fuel forward exchange contracts and swaps	22	–	23	–	23
Currency derivatives	22	–	72	–	72
Jet fuel options	22	–	53	–	53
Trade and other receivables	23	4 480	–	–	4 480
Cash and cash equivalents	25	1 536	–	–	1 536
Investment in SA Airlink (Pty) Ltd	24	–	–	10	10
		6 016	148	10	6 174

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

40. Risk management

40.1 Financial instruments categories:

Fair value of financial instruments

The Group has estimated fair values where appropriate, by using the following methods and assumptions:

Investment in unlisted shares classified as available-for-sale financial assets

The investment in the unlisted shares is held as an ancillary investment and is not considered a material holding to the Group. The value of the shares was impaired to zero but in the previous three financial years the impairment was reversed by R9 million in 2012, R1 million in 2013 and by a further R5 million in the current financial year.

Derivative assets and liabilities

The derivative assets and liabilities are entered into to manage Group exposure to foreign currency, interest rates and jet fuel price risks. The Group derivatives include Fixed contracts, Vanilla European and Asian options, Swaps, Call Spreads and Collars, which are entered into mainly to manage foreign currency exchange risk and jet fuel price risk. The fair values of the derivative instruments are determined based on observable inputs into valuation models.

Foreign currency forward contracts are mainly entered into to manage foreign currency exchange risk and are measured using the quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

All other financial assets and liabilities are measured at amortised cost.

Fixed swaps are valued using a simple discounted cash flow calculation. Asian options are valued using the Black Scholes formula, where the inputs into the pricing model are the expected arithmetic average and the variance of the expected arithmetic average of the underlying. The treasury system used for the foreign currency hedges is SunGard Quantum and SunGard Kiodex for the Fuel commodity derivatives.

40.2 Governance structure

The SAA Board is charged with the responsibility of managing the airline's financial risks. It is assisted by the Audit and Risk Committee, which reviews all the financial risks of the organisation, as well as key financial decisions. The Audit and Risk Committee is a committee of the Board and it meets at least once per quarter and is supported by the Financial Risk Subcommittee (FRSC) which meets on a monthly basis. The FRSC is chaired by the Chief Financial Officer and its membership is made up of key representatives: Chief Risk Officer, Group Treasurer, Corporate Finance, Head Cash Management, Chief Dealer, Risk Manager, Financial Risk Manager, Fuel Management, Head Financial Accounting and CFO's of all the subsidiaries.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

40. Risk management (continued)

40.2 Governance structure (continued)

Risk management systems

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

The capital risk and financial risk management is described below.

40.3 Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of share capital and a government subordinated guaranteed loan that is classified as an equity instrument. The non-distributable reserves include general reserves and government restructuring funds, which are ring fenced for funding of the Group's restructuring activities to ensure that the entity returns to profitability with financial performance metrics similar to those of its world class peers. The debt includes long-term interest-bearing borrowings and short-term borrowings, including accounts payable and bank overdrafts.

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

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

Aircraft and engine financing

Recent aircraft financing has been conducted using a sale and leaseback mechanism as a financing transaction. This type of structure is able to limit on-balance sheet debt whilst acquiring much needed assets.

Gearing ratio

The Board, through its Audit and Risk 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 ratio in 2014 and 2013 respectively were as follows:

R MILLION	Note	2014	2013
Debt*		**17 972**	14 652
Less: Cash and cash equivalents	25	**79**	1 100
Net debt		**18 051**	15 752
Equity		**(3 526)**	(849)
Net debt to equity ratio		**(5):1**	(19):1

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

40.4 Financial risk management

The fundamental objective of financial risk management at SAA is to protect and, where possible, improve on future budgeted and forecast cash flows, and the financial performance and financial position of the Group, by:

- Protecting the Group from adverse market movements that manifest as financial downside for the business and endanger stakeholders (Shareholder, employees and the community), and threaten the sustainability and competitive position and reputational risk of the SAA Group in the market;
- Reducing the volatility and resultant uncertainty of operating revenues and cash flows that result from financial market volatility; and
- Providing some price stability through improving the transparency of price mechanisms.

The main financial market risks faced by the Group are liquidity risk, credit risk and market risk which consist of interest rate risk, currency risk and commodity price risk.

The Board has a clear financial risk management policy with clearly defined objectives. This policy presents a framework and control environment that sets the limits within which management can leverage their experience and knowledge of the business together with financial risk management skills and a degree of innovation, to manage and mitigate financial risk on a day-to-day basis.

Liquidity risk

Liquidity risk is the risk that the Group does not meet its financial obligations on a cost-effective and a timeous basis, and could result in reputational damage should a default occur.

The cash management and liquidity risk management processes are aimed at ensuring that the Group is managing its cash resources optimally, has sufficient funds to meet its day-to-day financial obligations, has established prudent limits on the percentage of debt that can mature in any financial year, is investing any cash surpluses in an appropriate and authorised way and has sufficient facilities in place to provide its relevant forecast liquidity requirement.

The principles for cash and liquidity management at SAA are as follows:

- Transactional banking relationships must be reviewed every five years. SAA Treasury is responsible for the recommendation of bankers, and the Board must through the Bid Adjudication Committee (BAC), the Procurement and Tender Processes Committee (PTPC) and the normal tendering process approve the appointment of bankers;
- All requests for the opening and closing of bank accounts and the management of bank account signatories are to be reviewed and approved by the Chief Financial Officer and the Group Treasurer; and
- Prudent cash management practices must be implemented, including the use of a centralised, pooled cash management bank account structure and systems, and the maintenance of minimum cash balances at operational level.

All companies within the Group are included in the cash management structure and form part of the cash and liquidity management practices of the Group.

Committed funding facilities

SAA is dependent on funding in the form of operating leases and loans in foreign currency and local currency, mainly for the purchase of aircraft and aircraft components. The volatility of the financial markets, SAA's financial standing and the difficulties experienced by the airline industry in general affect the availability of funding to airlines. Funding can sometimes be constrained to a limited number of counterparties at any given time. The underlying risk manifests in three forms:

- SAA loses committed funding from a particular counterparty due to that counterparty defaulting on an existing funding arrangement;
- SAA is unable to secure new funding at a particular time; and
- SAA loses assets deposited as security deposits, defeasance deposits, or cash collateral on funding structures.

Cash and liquidity management takes into account the medium- to long-term funding plans of SAA as developed by the Funding Committee.

The following are the contractual maturities of financial liabilities based on undiscounted cash flows, excluding the impact of netting agreements and the derivative financial instruments that are out of the money at year end. The derivative financial instruments that are in the money are reflected as financial assets.

R MILLION	Carrying principal amount*	Contractual amount*	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years
GROUP – 31 MARCH 2014**								
Non-derivative financial liabilities								
US$ denominated secured loans (in ZAR)	539	554	–	134	–	130	290	–
Total US$ denominated loans (in ZAR)	539	554	–	134	–	130	290	–
ZAR denominated secured loans	3 831	3 887	–	62	39	3 428	358	–
Accounts payable	6 498	6 498	–	6 498	–	–	–	–
Shareholder loan to share trust	63	63	–	–	–	63	–	–
Total (ZAR)	10 392	10 448	–	6 560	39	3 491	358	–
Derivative financial instruments								
Fuel – Asian options	79	79	6	20	18	35	–	–
FX – currency options	97	97	10	17	47	23	–	–
Forward exchange contracts – assets	28	28	7	20	3	(2)	–	–
Fuel swap – assets	20	20	5	4	7	4	–	–
Total (ZAR)	224	224	28	61	75	60	–	–

* *The carrying principal amount excludes interest while the contractual amount includes interest. This is applicable to non-derivative financial liabilities.*

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

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

40. Risk management (continued)

40.4 Financial risk management (continued)

R MILLION	Carrying principal amount*	Contractual amount*	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years
GROUP – 31 MARCH 2013**								
Non-derivative financial liabilities								
US$ denominated secured loans (in ZAR)	686	720	–	121	–	116	483	–
Total US$ denominated loans (in ZAR)	686	720	–	121	–	116	483	–
ZAR denominated secured loans	737	746	–	67	38	93	541	7
Accounts payable	5 809	5 809	–	5 709	–	–	100	–
Shareholder loan to share trust	63	63	–	–	–	–	63	–
Total (ZAR)	6 609	6 618	–	5 776	38	93	704	7
Derivative financial instruments								
Fuel – Asian options	53	53	2	22	18	11	–	–
FX – currency options	57	57	–	44	10	3	–	–
Forward exchange contracts – assets	15	203	–	83	74	46	–	–
Fuel swap – assets	23	23	–	11	6	6	–	–
Fuel swap – liabilities	(4)	(4)	(4)	–	–	–	–	–
Total (ZAR)	144	332	(2)	160	108	66	–	–

* *The carrying principal amount excludes interest while the contractual amount includes interest. This is applicable to non-derivative financial liabilities.*
** *A separate liquidity analysis has not been provided for the Company, as the numbers do not differ significantly from the Group numbers.*

Other risks

Undrawn commitment

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

Interest rate risk

Interest rate risk is the risk of increased financing cost due to adverse movements in market interest rates. Interest rate risk impacts SAA in the following forms:

- Increased cash costs in an increasing interest rate environment due to the Group's floating aircraft funding structures;
- The opportunity cost of funding at a higher rate in a declining interest rate environment due to the Group's fixed funding structures; and
- The bulk of the Group's interest rate exposure is as a result of US$ denominated aircraft financing structures. This portfolio is made up of operating leases, finance leases and loans. The portfolio is highly sensitive to the movement of US interest rates. The Group is continually monitoring and adjusting its fixed/floating ratio to adapt to the changing dynamics of its business operations and to protect its statement of profit or loss and other comprehensive income and statement of financial position.

The objectives of managing interest rate risk are to:

- design appropriate funding structures (fixed versus floating, and local versus foreign currency) through the Funding and Capex Committee;
- reduce the cost of capital;
- minimise the effect of interest rate volatility on the Group's financing expenditure;
- manage the ratio of floating rate exposures to fixed rate exposures;
- obtain optimal investment returns on surplus cash, while ensuring that credit risk is managed;
- ensure that appropriate levels of liquidity are maintained, while remaining within the guidelines set by this policy; and
- ensure efficiency by restructuring interest rate exposure as and when necessary.

The Group is exposed to changes in interest rates on floating rate debt and cash deposits. Interest rate risk on borrowings and leases is managed through determining the right balance of fixed and floating debt within the financing structure. To manage the interest rate exposure, the Group Treasury keeps a reasonable amount of foreign cash deposits to offset to some degree the finance charges. The current SAA Group policy limits the maximum interest rate exposure to fixed debt at 75 percent and floating debt at 50 percent. As at 31 March 2014, the current interest rate exposure to fixed debt is 63 percent and 37 percent in respect of floating debt. Market conditions are considered when determining the desired balance of fixed and floating rate debt. The sensitivities of the Group's floating interest rate debt and cash deposits are calculated using the annualised volatility over the last five years.

40.5 Credit risk management

Credit risk is the risk of losses (realised or unrealised) arising from a counterparty defaulting on a financial market instrument where the Group is a party to the transaction or failure to service debt according to contractual terms. Credit risk encompasses both the direct risk of default and the risk of deterioration of creditworthiness and the respective concentration risk.

The objectives of managing counterparty risk are to avoid contracting with any party that is not of an acceptable credit standing, formulate evaluation criteria of potential counterparties and implementing monitoring measures and control processes for counterparty risk.

The Group is exposed to a number of types of counterparty risk as part of its normal business operations as described below:

Investment risk

Cash balances and investments held in a range of local and offshore bank accounts, in a range of currencies, which form part of SAA's cash management and revenue collection infrastructure.

Marginal risk

The Group makes use of derivative instruments in the foreign exchange, interest rate and commodity markets to mitigate the risk of adverse changes in cash flow and earnings that result from fluctuations in the financial markets. Counterparty risk arises on these derivative instruments when the hedging positions with counterparties have a positive net present value to SAA and are providing SAA with protection against adverse market movements in future. In this scenario SAA would lose the protection if the counterparty defaults on its obligation and SAA will have to replace this protection with similar hedging transactions at a higher cost. It is also important to note that, in the event that a counterparty goes into liquidation and its marginal risk position (net present value) is positive (an asset to the counterparty) with SAA, the Company may be called on by the creditors of the counterparty to crystallise and settle the positions in question earlier than anticipated.

Counterparties are grouped in two major groups from a credit risk perspective:

Rated counterparties

Local and international banking and financial institutions, which are rated by major ratings agencies, and whose financial information is readily available.

Unrated counterparties

SAA needs to deal with and hold bank accounts in various locations with local banking institutions that may not be rated and for which there is very little or no financial information available. This is typically the case where there is no representation of any of the rated counterparties in such location and SAA has to use an unrated counterparty to fulfil normal operational banking requirements, or where it is agreed by the Board as a prerequisite for specific operating bases. The Group has therefore a very restricted mandate when dealing with any unrated counterparties.

The Group has operating accounts in some African countries which are not rated. The exposure to these banks is kept at a minimum.

Loans and receivables credit risk

The Group is exposed to credit risk relating to the nature of the distribution network for airline operations. The Group airline distribution network includes BSPs (these are IATA accredited travel agents) and general sales agents (GSAs) who are used in countries where there are no IATA accredited travel agents. Credit card debtors arise from the customers paying their fares using credit cards and the Group has to recover the money through the credit card financial institutions clearing houses globally.

Other debtors mainly consist of loans receivable and fuel trading debtors. These are classified as other because they do not form part of the Group's normal operating activities. The Group manages its credit risk from trade receivables on the basis of an internally developed credit management policy. This policy sets out the credit limits and requirements for any credit enhancements. The Group holds a guarantee from a GSA as a prerequisite before it can accredit it to be part of its distribution network. The Group also requires some counterparties to provide guarantees in the form of cash and letters of credit as security for exposure. This is prevalent mainly on GSAs. The amount of guarantees is agreed upon based on the risk profile of the counterparty. The guarantees relating to BSP debtors are held directly by IATA for the benefit of all airlines exposed to a particular BSP.

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40. Risk management (continued)

40.5 Credit risk management (continued)

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	**2014**	2013	**2014**	2013
Financial instruments				
Cash and cash equivalents	**1 853**	1 536	**1 189**	1 060
Amounts receivable from subsidiaries*	**–**	–	**1 347**	1 463
Derivative assets held-for-trading	**227**	148	**227**	148
Trade and other receivables	**6 263**	4 480	**5 974**	4 250
Investments	**15**	10	**15**	10

* *These amounts are not past due or impaired.*

	IMPACT ON OTHER COMPONENTS OF EQUITY IN RAND*				
	Foreign currency amount '000	**Carrying amount R'000**	**+28%* -28% US$ R'000**	**+17%* -17% Euro R'000**	**+14%* -14% GBP R'000**
Financial instruments					
Accounts receivable					
31 MARCH 2014					
US$ denominated	**264 919**	**2 790 256**	**781 272**	**–**	**–**
EUR denominated	**17 272**	**250 497**	**–**	**42 584**	**–**
GBP denominated	**7 452**	**130 783**	**–**	**–**	**18 310**
			781 272	**42 584**	**18 310**

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

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

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

40.6 Market risk management

Market risk comprises currency risk, interest rate risk and price risk.

Set out below is the impact of market risk on the Group's annual financial statements:

Currency risk

Foreign exchange risk is the risk of loss as a result of adverse movements in currency exchange rates. The biggest contributors to currency risk for the Group are foreign revenues earned at operating unit level, aircraft financing transactions and the covariance risks inherent in the Group's revenue and cost streams. The Group's approach to foreign currency risk management is to protect itself against exchange rate volatility and adverse movements in the exchange rate of the rand in relation to other currencies that the Group is exposed to. The Board made a decision to manage its foreign exchange risk exposures on a net exposure basis, ie taking into account the different currencies it receives in its revenue stream, the different currencies in which its cost base is denominated, and the underlying natural hedges that exist in its business operations. Foreign exchange risk management is managed through the use of cash collection and conversion strategies and approved derivative financial instruments which are marked-to-market on a daily basis. The Group's policy on foreign exchange risk management is to hedge between 50 percent and 75 percent of its exposure on a 18-month rolling basis.

The Group's currency risk is represented by the increased financial cost and/or cash requirements due to the net exposure between foreign revenue generated, foreign expenditure commitments and domestic revenues and expenditure commitments. The main objective of the currency risk management policy is to mitigate the potential for financial loss arising through unfavourable movements in exchange rates relative to the budget.

Foreign exchange risk will be managed on a net basis, including operating and capital exposures after taking the following into consideration:

- Source currencies for revenue and costs (US$, GBP and EUR);
- Both direct and indirect foreign exposure. Indirect foreign exposure is where SAA pays in ZAR, but the exposure is determined by using a US$ price, for example jet fuel uplifted in South Africa;
- Volatility of the rand versus US$, GBP and EUR and the correlation between these currencies; and
- Foreign currency exposures are determined from the 18-month rolling ZAR and foreign cash budget. Foreign currency risk will be monitored and managed under the following principles:
  - The net foreign currency position will be monitored on a monthly basis by obtaining the net foreign currency position in all currencies from the 18-month rolling cash budget, including forecast foreign cash balances;
  - The accuracy of forecast revenues and costs are of critical importance when determining net foreign currency exposure. Management should take care to establish the levels of confidence in achieving forecast revenues and costs on an ongoing basis when designing hedging strategies; and
  - The foreign versus domestic currency funding decision (loans/leases) should always consider current foreign currency risk management position and practices, since these decisions are a significant source of foreign currency exposure for the Group.

The decision to manage capital foreign currency exposures (such as leases and loans) should be combined with the business strategy, route planning and funding decisions (as appropriate), to ensure that funding and foreign currency risk management strategies are complementary to the business strategy and present the most relevant overall solution to the Group.

Foreign exchange risk

The Group collects revenues in approximately 30 currencies other than ZAR, EUR, GBP and US$. The foreign risk of exotic currencies cannot be practically managed at the local currency level, therefore the cash management structure rolls local currency balances up into hard currency pool accounts on a weekly basis. Currency risk exposures are managed at the hard currency level, ie in US$, GBP and EUR versus ZAR.

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

	2014	2013
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$)	**10,53**	9,24
Euro (EUR)	**14,50**	11,84
Pounds Sterling (GBP)	**17,55**	14,04

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

	FOREIGN AMOUNT		RAND AMOUNT	
R MILLION	2014	2013	2014	2013
40. Risk management (continued)				
40.6 Market risk management (continued)				
Foreign currency exposure at statement of financial position date				
The following debtors and creditors amounts included in the statement of financial position have not been covered by forward exchange contracts:				
Accounts receivable				
US Dollar	**265**	189	**2 790**	1 748
Euro	**17**	35	**250**	414
UK Pound	**7**	8	**131**	117
Hong Kong Dollar	**17**	18	**23**	21
Danish Krone	**2**	4	**4**	6
Swiss Franc	**1**	2	**16**	19
Australian Dollar	**4**	5	**35**	45
Brazilian Real	**23**	24	**105**	111
Thai Baht	**3**	7	**1**	2
Malawian Kwacha	**491**	705	**13**	17
Other	**–**	–	**420**	449
			3 788	2 949
Accounts payable				
US Dollar	**60**	45	**634**	418
Euro	**15**	16	**214**	185
UK Pound	**3**	2	**44**	22
Australian Dollar	**4**	3	**37**	31
Benin CFA Franc BCEAO	**10**	293	**–**	5
Other	**–**	–	**162**	127
			(1 091)	(788)
Accounts receivable as above			**3 788**	2 949
Net exposure			**2 697**	2 161

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

Price risk associated with commodities

Jet fuel consumption is SAA's biggest cost contributor, representing approximately 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 108 million litres (2013: 107 million litres) of jet fuel per month. This means that any change in price will have a significant impact on the Group's performance.

The objectives of managing jet fuel price risk are to:

- reduce the volatility of jet fuel costs and the effect of this volatility on cash flows and earnings, ie price stability;
- limit the impact of derivative instruments on the Group's financial position and performance;
- occupy a competitive position in the airline industry in terms of jet fuel price risk management, negating the competitive advantage that competitors derive from their jet fuel risk management strategies;
- utilise any backwardation in the energy forward curves to reduce future jet fuel costs;
- provide a protection buffer during times of elevated jet fuel prices;
- continually and dynamically transact a minimum amount of hedging in the financial markets; and
- ensure that hedging prices are averaged into the market and that large hedges are not transacted at single points in time, which may represent the peak of the market.

The Group manages its jet fuel price risk exposures using derivative financial instruments. All derivative contracts are marked-to-market and are cash settled. The Group's risk policy permits the organisation to manage its jet fuel price risk exposures using the underlying products such as International Crude Exchange (ICE) Brent Crude Oil, ICE Gas Oil 0,5 percent, Gas Oil, Western Texas Intermediate

(WTI), FOB ARAB Gulf 0,5 percent and Jet Kerosene (North West Europe) NWE. It is SAA's policy to hedge a maximum of 60 percent of its jet fuel price risk exposures on an 18-month rolling basis with no minimum hedge percentage.

Sensitivity analysis

The Group sensitivity analysis would include the sensitivity of annual financial statements to currency risk based on US$, which carries a greater impact on the Group, the interest rate risk sensitivity to LIBOR and JIBAR, the other price risk sensitivity mainly driven by the price per barrel of oil based commodity derivatives.

The following sensitivity analysis was determined based on the 12-month horizon with reasonable possible change at year end. Management has determined the reasonable possible change using market input and historical data. The 12 months was considered appropriate as the Group only publishes its results annually and has reasonable expectations for uncertainties in the 12-month horizon. For internal reporting to the Audit and Risk Committee, a one month horizon is utilised.

	CURRENCY*				COMMODITY PRICE DERIVATIVES*	
	Foreign currency amount '000	**Carrying amount R'000**	**Profit/(loss) impact -28% US$ R'000**	**Profit/(loss) impact +28% US$ R'000**	**Loss impact -19% brent -23% WTI -17% gas oil -18%jet fuel R'000**	**Profit impact +19% brent +23% WTI +17% gas oil +18% jet fuel R'000**
GROUP AND COMPANY**						
Derivative financial instruments						
31 MARCH 2014**						
ICE brent commodity derivatives						
Fixed swaps	**1 865**	**19 646**	**(5 501)**	**5 501**	**(85 974)**	**85 974**
Asian cap	**1 135**	**11 958**	**(3 348)**	**3 348**	**(6 054)**	**47 375**
Collars	**149**	**1 569**	**(439)**	**439**	**(6 296)**	**10 610**
Call spreads	**6 189**	**65 188**	**(18 253)**	**18 253**	**(63 130)**	**89 209**
US$ foreign exchange derivatives						
Forward exchange contracts – assets	**–**	**28 594**	**(17 612)**	**17 612**	**–**	**–**
European call options	**–**	**96 752**	**(33 081)**	**40 034**	**–**	**–**
		223 707	**(78 234)**	**85 187**	**(161 454)**	**233 168**

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

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

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

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

for the year ended 31 March 2014

40. Risk management (continued)

40.6 Market risk management (continued)

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				
31 MARCH 2014				
Assets				
Jet fuel options	–	79	–	79
Currency derivatives	–	128	–	128
Jet fuel forward exchange contracts and swaps	–	20	–	20
Liabilities				
Currency derivatives	–	3	–	3
GROUP AND COMPANY				
31 March 2013				
Assets				
Jet fuel options	–	53	–	53
Currency derivatives	–	72	–	72
Jet fuel forward exchange contracts and swaps	–	23	–	23
Liabilities				
Jet fuel forward exchange contracts and swaps	–	4	–	4

Fair value hierarchy

The table above analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identifiable assets and liabilities;
- Level 2: Inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (ie from prices) or indirectly (ie derived from prices); and
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

			CURRENCY[1]		INTEREST RATE[1]	
	Foreign currency amount '000	Carrying amount R'000	Profit/(loss) impact -28% US$ R'000	(Loss)/profit impact +28% US$ R'000	Profit/(loss) impact -11 BPS US$ -56 BPS ZAR R'000	(Loss)/profit impact +11 BPS US$ +56 BPS ZAR R'000
GROUP AND COMPANY						
Non-derivative financial instruments						
31 MARCH 2014						
Secured borrowing – LIBOR floating debt (US$ denominated)	51 158	538 692	150 834	(150 834)	593	(593)
Secured borrowing – JIBAR floating debt (ZAR denominated)	–	3 815 489	–	–	21 367	(21 367)
ZAR based cash and cash equivalents (net overdraft)	–	1 139 758	–	–	6 383	(6 383)
Accounts payable (US$ denominated)	60 204	634 095	177 547	(177 547)	–	–
Total financial liabilities	111 362	6 128 034	328 381	(328 381)	28 343	(28 343)
Foreign cash and cash equivalents (Favourable cash – US$ equivalent)	100 776	1 061 169	(297 127)	297 127	(1 167)	1 167
Total financial assets	100 776	1 061 169	(297 127)	297 127	(1 167)	1 167

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

	IMPACT ON OTHER COMPONENTS OF EQUITY IN RAND[1]			
	Foreign currency amount '000	**Carrying amount R'000**	**+17% -17% Euro/US$ R'000**	**+14% -14% GBP/US$ R'000**
GROUP AND COMPANY				
Non-derivative financial instruments				
31 MARCH 2014				
Denominated in Euro and GBP[2]				
Accounts payable – EUR	**14 731**	**213 643**	**36 319**	**–**
Accounts payable – GBP	**2 488**	**43 665**	**–**	**6 113**
		257 308	**36 319**	**6 113**

	IMPACT ON OTHER COMPONENTS OF EQUITY IN RAND[1]			
	Foreign currency amount '000	Carrying amount R'000	+22% -22% Euro/US$ R'000	+16% -16% GBP/US$ R'000
GROUP AND COMPANY				
Non-derivative financial instruments				
31 MARCH 2013				
Denominated in Euro and GBP[2]				
Accounts payable – EUR	15 590	184 590	40 610	–
Accounts payable – GBP	1 584	22 235	–	3 558
		206 825	40 610	3 558

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 specifically hedged but are considered part of the net exposure for hedging purposes on foreign exchange.

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS (continued)

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40. Risk management (continued)

40.6 Market risk management (continued)

Foreign defined benefit obligations

The Group is also exposed to foreign currency risk relating to its foreign defined benefit obligations. The German Pension Fund obligation is denominated in Euro. Any movement is currency based on this fund and reasonable possible changes in the Euro would further impact the Group exposure to foreign currency risk and SAA hedges this exposure on a net portfolio hedge basis.

R THOUSAND	2014	2013
41. Directors' emoluments for SAA subsidiaries		
Executive directors' emoluments		
Mango Airlines SOC Limited		
Mr N Bezuidenhout		
Salary	2 630	1 893
Performance bonus	2 845	–
	5 475	1 893
Ms M Ebersohn[1]		
Salary	928	1 278
Performance bonus	458	–
	1 386	1 278
SAA Technical SOC Limited		
Mr M Zwane		
Salary	3 126	2 941
Allowance	360	360
Performance bonus	–	146
	3 486	3 447
Mr S Zulu[2]		
Salary	930	1 558
Termination benefits/performance bonus	895	37
Retirement fund contributions	46	75
	1 871	1 670
Air Chefs SOC Limited		
Ms A Crooks[3]		
Salary	954	1 907
Leave pay paid out	92	–
Termination benefits	1 914	–
	2 960	1 907
Mr M Muller[4]		
Salary	943	1 049
Retirement fund contributions	84	97
Leave pay paid out	166	–
Allowance	38	–
	1 231	1 146
Mr M Kemp[5]		
Salary	482	–
Retirement fund contributions	44	–
Allowance	85	–
	611	–
South African Airways City Centre SOC Limited		
Ms GB Koyana		
Salary	1 434	1 300
Allowance	109	–
	1 543	1 300

1. *Appointed 28 June 2012 and resigned 14 January 2014.*
2. *Resigned 23 October 2013.*
3. *Resigned 30 September 2013.*
4. *Resigned 24 January 2014.*
5. *Appointed as Acting CEO effective 1 November 2013.*

R THOUSAND	2014	2013
Mr F Peer[6]		
Salary	–	421
Allowance	–	53
Retirement fund contributions	–	32
Leave pay paid out	–	72
	–	578
Non-executive directors' emoluments		
Mango Airlines SOC Limited		
Mr P Krusche[20]	**54**	112
Mr R Wally	**485**	485
Mr T Adams	**142**	145
Adv L Nkosi Thomas[7]	–	49
Mr A Khumalo[8]	**145**	34
Dr R Naithani[9]	**112**	–
	938	825
SAA Technical SOC Limited		
Ms SP Mzimela[10]	–	–
Mr M Kalawe[11]	–	–
Mr T Daka[12]	–	300
Ms Y Kwinana	**128**	118
Mr JP Ndhlovu[13]	–	64
Mr B Mpondo[14]	**601**	250
Mr A Mabizela[14]	**128**	53
	857	785
Air Chefs SOC Limited		
Ms SP Mzimela[10]	–	–
Mr M Kalawe[11]	–	–
Ms MM Whitehouse[12]	–	222
Ms DC Myeni[15]	–	82
Ms N Kubeka[14]	**445**	185
Mr A Mabizela[16]	**26**	6
Adv L Nkosi Thomas[16]	**26**	6
Ms C Roskruge[17]	**8**	–
	505	501
South African Airways City Centre SOC Limited		
Ms SP Mzimela[10]	–	–
Mr M Kalawe[11]	–	–
Mr BF Mohale[12]	–	160
Mr TC Jantjies[18]	–	32
Ms C Roskruge[14]	**320**	133
Dr R Naithani[19]	**65**	4
Ms N Kubeka[14]	**65**	27
	450	356

6. *Resigned 31 October 2012.*
7. *Resigned 8 March 2013.*
8. *Appointed 10 October 2012.*
9. *Appointed 8 March 2013.*
10. *Resigned 8 October 2012.*
11. *Appointed 1 June 2013.*
12. *Resigned 28 September 2012.*
13. *Resigned 27 September 2012.*
14. *Appointed 1 November 2012.*
15. *Resigned 8 March 2013.*
16. *Appointed 9 March 2013 and Resigned 8 July 2013.*
17. *Appointed 28 February 2014.*
18. *Resigned 29 September 2012.*
19. *Appointed 9 March 2013.*
20. *Resigned 23 October 2013.*

NOTES TO THE CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2014

42. Going concern

As with previous years, SAA remains undercapitalised. Three consecutive years of operating losses have further eroded the capital base and this continues to impact on the ability of the business to operate in a highly demanding and competitive environment. The lack of capital has hindered the Directors' ability to invest in newer and more efficient aircraft and left the company less able to cope with the significant volatility in foreign exchange rates and the price of jet fuel.

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

On 22 December 2014, SAA received a further R6,488 billion perpetual guarantee for working capital requirements from its shareholder. This additional guarantee has conditions attached to it requiring SAA to, amongst other operational and governance enhancements, provide its shareholder with a comprehensive implementation schedule for a 90-day action plan for delivering targeted savings.

The guarantees above are, in addition to the existing R1,6 billion perpetual guarantee. These guarantees provide reasonable comfort that SAA will have the ability to continue as a going concern in the foreseeable future.

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

CORPORATE INFORMATION

Country of incorporation and Domicile
The Republic of South Africa
Company registration number
1997/022444/30

Directors
Resigned
One resignation from the Board in 2013/14

Directors during the reporting period
L Nkosi-Thomas*
DC Myeni
Y Kwinana
WH Meyer
B Mpondo
C Roskruge
R Lepule
A Khumalo
R Naithani
A Mabizela
N Kubeka
Y Kwinana
M Kalawe

**Resigned 2013/14*

Company Secretary
CS Dlamini

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

Auditors
PricewaterhouseCoopers Inc
Private Bag x 36
Sunninghill, 2157

Nkonki Inc
PO Box 1503
Saxonworld, 2132

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

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

Website
www.flysaa.com

www.flysaa.com