2011

ANNUAL REPORT

POSITIONED FOR GROWTH

South African Airways

A STAR ALLIANCE MEMBER

flysaa.com

CONTENTS


SOUTH AFRICAN


mango


AKE 96109 SA
SOUTH AFRICAN AIRWAYS
CARGO

SCOPE OF THIS REPORT

In line with the recommendations of the King Code of Corporate Governance (King III of 2009), South African Airways now presents its first step towards an 'integrated report' combining elements of a 'sustainability report' with a conventional financial report. As is well known, sustainability reporting, widely practised around the world, seeks to present the corporate record in terms of the triple-bottom line which includes: economic, environmental and social performance rather than solely focusing on financial performance. The aim is to 'provide sufficient insight to enable stakeholders to form a comprehensive picture of the organisation's performance and of its ability to create and sustain value, especially in the context of growing environmental, social and economic challenges'. At the same time, sustainability reports have themselves been subject to criticism, especially when made in isolation from records of financial performance. The preferred method is seen to be the combination of these two reporting methods in an integrated report.

MISSION

To deliver sustainable profits and grow our market share through world-class service to our customers internally and externally.

VISION

An African airline with global reach.

CORE BUSINESS

The movement of people and goods by air.

VALUES

Safety

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

Customer focused

Striving to meet the unique needs of our customers (internal and external) by tailoring each interaction to suit their specific needs.

Integrity

Practising the highest standards of ethical behaviour in all our lines of work and maintaining credibility by making certain that our actions consistently match our words.

Valuing our People

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

Accountability

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

Excellence in Performance

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

2010 – 2011 HIGHLIGHTS

Financial

- Turnover up by 6,2%
- Operating costs, excluding fuel costs, up by 1%
- Operating profit up by 65,7%
- Earnings per share 6 cents (2010: 4 cents)
- Capital and reserves up by 65%

Operational

- Statistically SAA's safest year ever with an exceedance rate of 1,62 events per 1 000 sectors versus a benchmark of 5,0
- Initiation of Performance Based Navigation (PBN) has ensured that SAA is now amongst the leaders in Africa in this regard
- Available Seat Kilometres ("ASK") increased from 31,543 million to 32,378 million
- Revenue Passenger Kilometres ("RPK's") increased from 22,413 million to 22,661 million
- Cargo tons flown growth from 119 thousand to 129 thousand
- Revenue Available Seat Kilometres ('RASK") increased from 0,54 to 0,56

Commercial

- Adjustments to frequencies on various routes
- Code share agreements implemented and renegotiated with various airlines
- Entry of the first A330 aircraft into the SAA fleet

Strategic

- Skytrax award for Best Airline Africa for the eighth consecutive year
- Inaugural Skytrax award for Service Excellence Africa
- New three-year Group strategy developed and approved by the Board

SAA, Africa's most awarded airline, operates in three distinct markets for its core services:

Domestic

SAA has the most extensive domestic schedule which is enhanced by its partners, South African Express Airways and SA Airlink. Additionally SAA moves 60% of all air cargo in South Africa.

Regional/Africa

SAA is one of the leading carriers in Africa offering 20 destinations across the continent.

International

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

SOUTH AFRICAN AIRWAYS FLEET

as per 31 March 2011

2
A330-200

21
B737-800

11
A319-100

9
A340-600

4
B737 freighters

8
A340-300

6
A340-200

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FLIGHTS A DAY BETWEEN JOHANNESBURG AND CAPE TOWN

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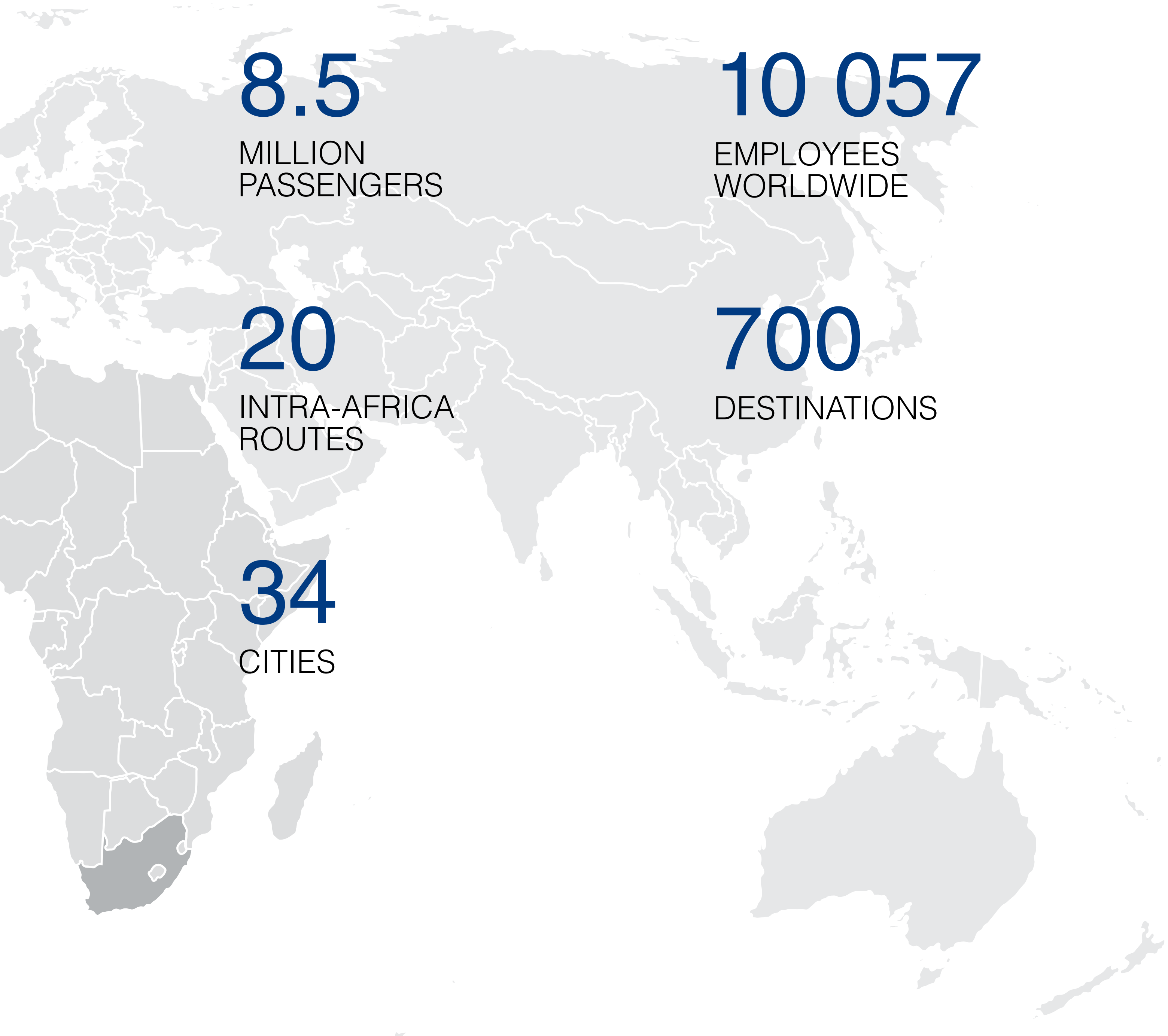
AWARDS

OPERATIONAL OVERVIEW



8.5
MILLION PASSENGERS

10 057
EMPLOYEES WORLDWIDE

20
INTRA-AFRICA ROUTES

700
DESTINATIONS

34
CITIES

SAA IS MOST PROUD TO WIN

SKYTRAX AWARDS 2011:

Best Airline Africa for the eighth consecutive year

Service Excellence Africa inaugural award

ABOUT
SOUTH AFRICAN AIRWAYS

Overview of the business

Since its formation 77 years ago, the South African national carrier, South African Airways (SAA), has grown to become one of Africa's most trusted airlines, operating on par with the world's finest.

SAA is a consolidated airline Group operating in a highly competitive global market, domestically, regionally and internationally. Over the years, the airline has become a premium, 4 star-rated carrier, serving 20 destinations across the continent, as well as major destinations within South Africa from its Johannesburg hub.

SAA's core business is the provision of passenger airline and cargo transport services. The Group operates a dual-brand airline model (SAA as a premium carrier, and Mango as a low cost carrier), with its subsidiary businesses specifically focusing on: aircraft maintenance, repair and overhaul (SAA Technical); in-flight catering (Air Chefs) and a South African network of franchised travel agencies (SA Travel Centre).

This report will highlight SAA's performance for the year ending in 31 March 2011 and track the airline's delivery on sustainability.

Shareholding

SAA is a State Owned Enterprises (SOE) reporting into the Department of Public Enterprises (DPE). In addition to fulfilling the terms as stated in the South African Airways Act No 5 of 2007 (SAA Act), the airline is aligned, for the long-term, to the South African government's broader objectives.

The DPE integrates strategic mandates in policy, coordination, governance and funding solution guidelines within the development and implementation of the SOE's objectives.

Mandate and core objectives

As an SOE, SAA has a specific strategic mandate that is prescribed and further informed by the SAA Act, its Memorandum of Association, Ministerial Statements, and ongoing departmental contact with the DPE.

SAA's primary role is to provide quality passenger and cargo air transport services, in addition to the following strategic objectives:

1. Strategic role for South Africa;
2. Capital base and financial efficiency;
3. Commercial and operational efficiency and effectiveness;
4. Co-operation and consolidation;
5. Capital expenditure and new route development; and
6. Developmental objectives.

SOE airlines in most markets generally support a number of state objectives; few have as their primary objective genuine commercial viability and an appropriate return on capital to the shareholders. Although the strategic objectives for SAA are consistent with the commercial model, SAA also strives to support a range of state policy objectives, including the South African Airlift strategy and New Growth Path.

Various models of aviation catalytic demand or economic catalytic impacts have been developed, ranging from: the International Civil Aviation Organisation; to US Department of Transport; and Oxford Forecasting. They have the same base principles, modelling the impacts from aviation activity, including: direct impacts (employment and activity in the aviation sector); indirect impacts (employment and activity down the aviation supply chain); induced impacts (employment and activity supported by the spending of those directly or indirectly employed in the aviation sector); and consumer welfare impacts as individuals benefit from the increased availability of travel. Oxford Forecasting recently completed a quantification of this for South African aviation, calculating that aviation's annual GDP contribution is R50,9 billion (with 227 000 jobs supported) with an additional R23,4 billion in tourism contribution (with 116 000 additional jobs supported). As SAA carried approximately 50% of air passengers, it estimates its tourism GDP contribution at R11,7 billion with 58 000 jobs supported by its operations.

SOUTH AFRICAN AIRWAYS – STRUCTURE

MANGO

Mango is SAA's low cost carrier and was established in late 2006. Mango pursues the ultra low cost model through a young fleet, high utilisation and lean organisation. Mango has five aircraft and operates to five destinations, carrying close to 1,5 million passengers a year.

SAA TECHNICAL

SAA Technical (SAAT) is the sole provider of aircraft maintenance to SAA and Mango in Africa, and supplies line maintenance to over 25 other domestic, regional and international airlines. Heavy maintenance is supplied to four major customers.

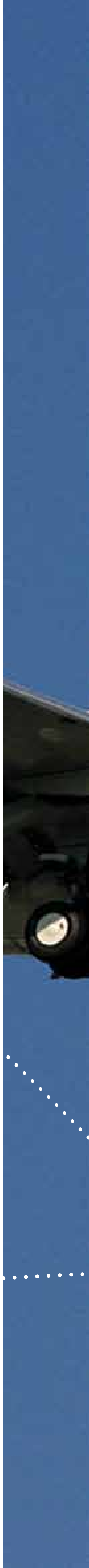
AIR CHEFS

Air Chefs, SAA's catering subsidiary, continues to pursue new business, whilst improving engagement with its client base. Air Chefs constantly works towards enhancing innovation in its product offerings and menu design.

SATC

South African Travel Centre (SATC) was established 15 years ago and is an integral part of SAA's distribution network. SATC is also one of SAA's most cost effective sales channels and amongst the airline's best contributors in terms of fulfilment of customer service.


ZS-SJA



SAA IS WELL POSITIONED FOR GROWTH WITH THE ACQUISITION OF NEW AGE AIRCRAFT

BOARD OF DIRECTORS

Non-Executive Directors

Ms Cheryl Carolus (Non-Executive Chairperson)

BA (Law), BA (Education)

Ms Cheryl Carolus, who was elected Chairperson of SAA in 2009, is a director of several listed and unlisted companies and has played a prominent role in public life. She served as High Commissioner for South Africa to the United Kingdom from 1998 to 2001 and was Deputy Secretary-General to the ANC under Nelson Mandela, playing a full part in the negotiating team during the CODESA negotiations that shaped a new constitution for a Democratic South Africa and the preceding multi-party negotiations.

She served as CEO of SA Tourism from 2001 to 2004 and was Chairperson of the South African National Parks Board for six years. She currently serves on the boards of WWF SA, WWF International and the WWF International Crisis Group.

In the business sector, she serves on the Boards of, among others, De Beers Consolidated Mines Limited, Fenner Conveyor Belting SA (Pty) Limited, Macsteel Service Centres SA, IQ Business Group, Investec Limited and Investec PLC, Gold Fields Limited, and Technology Innovation Agency (Department of Science and Technology).

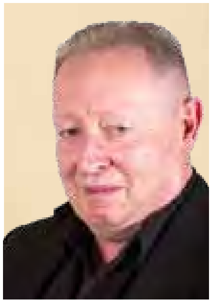
She is also chairperson of SAA's Governance and Nominations Committee.

Mr Bonang Mohale

Chartered Marketer (SA), and various diplomas and certificates in Marketing and Sales Management

Appointed 28 September 2009, Mr Mohale is a member of SAA's Audit Committee and Chairman of SA Travel Centre (Pty) Limited.

He is currently Chairman and Vice President: Sales and Operations of Shell South Africa (Pty) Limited, where he is Chairman of the Boards of Shell South Africa Holdings (Pty) Limited, South African Petroleum Refinery (SAPREF), Shell South Africa Marketing (Pty) Limited and Shell South Africa Refinery (Pty) Limited. Before joining the Shell group he was the CEO of Drake & Scull FM SA (Pty) Limited, CE of Shared Services and Associated Companies of Sanlam, an Alternate Director on the Board of Sanlam Limited, Chairman of the Board of TASC, and a director of Innofin, Gensec Property Services and Fundamo. He was formerly SAA's Executive Vice-President, for Alliances, Network Management and Global Sales.



Professor David H Lewis

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

Appointed on 3 May 2010, Professor Lewis was a member of SAA's Finance, Financial Risk and Investment Committee prior to the merging of this committee with that of SAA's Audit Committee in early 2011 and is a member of the Remuneration and Human Resources Committee.

Since October 2009 he has been a Professor at the Gordon Institute of Business Science, Pretoria University. Prior to that, he was the Chairperson of the Competition Tribunal from 1999 until 2009, having been a member since 1996. Before that, he held positions at the Ministry of Labour and the University of Cape Town. Previously he was General Secretary of the General Workers' Union. He was awarded a fellowship by the Ford Foundation attached to the Institute of African Studies at Columbia University in New York. He is a non-executive director of the Johannesburg Development Agency and a founding member of the International Network. He has published extensively on trade union history, industrial relations, industrial policy and competition policy.

Ms Duduzile Myeni

BAdmin (two majors outstanding), Secondary Teachers' Diploma (Commerce), Business Skills for South Africa (BSSA), Advanced Business Management Diploma, Leadership and Management Development Certificate

Ms Myeni was appointed to the Board of SAA in September 2009 and to the Board of Air Chefs in April 2010. A philanthropist and an entrepreneur, she is the CEO of Skills Dynamics, consulting for various blue chip companies. Chairperson of the South African Association of Water Utilities (SAAWU), Director of Trade and Investment (KZN), and Chairperson of Mhlathuze Water Board, she became a member of the Provincial Board of ABSA and Deputy President of the Zululand Chamber of Commerce and Industry. She is also a director of Alan Dick SA (Pty) Limited, a total communications infrastructure solutions provider. Currently the Chairperson of the JZ Foundation (SA), in her spare time, she gives inspirational talks for corporate and community groups on topics such as transformative leadership, diversity dynamics, change management and women in leadership.

Mr Jabulani Ndhlovu

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

Appointed on 25 February 2010, he is Chairman of SAA's Remuneration and Human Resources Committee and a director of SAA Technical (Pty) Limited.

Mr Ndhlovu has been the HR Director of Microsoft South Africa, since 2008. He joined Microsoft from Barloworld where he was Divisional Human Resources Director, Barloworld Logistics. He started his career at Accenture as a Business Integration Consultant where he worked in a number of business integration and organisation development assignments in various industries, both in South Africa and in the UK. He is extremely experienced in all areas of HR, including talent management, and his work experience spans the retail, oil and energy, banking, telecommunications, utilities, and information and communications technology sectors.

BOARD OF DIRECTORS

Non-Executive Directors

Advocate Lindiwe Nkosi-Thomas

BJuris; LLB

Appointed on 28 September 2009, Adv Nkosi-Thomas is a member of SAA's Audit Committee, the Governance and Nominations Committee and a Director of Mango Airlines (Pty) Limited.

Adv Nkosi-Thomas is a member of the Johannesburg Bar and took silk in December 2009. She has a diverse practice, focused on commercial, constitutional, labour, mining and aviation law. She has served as an Acting Judge. She was: Co-Chairperson of a Committee of Inquiry into irregularities and malpractices affecting the insolvency industry; Chairperson of a Provincial Commission of Inquiry into the causes of public transportation violence in Gauteng Province; Commissioner of the Broadcasting Complaints Commission of South Africa; and member of a Commission of Inquiry into financial irregularities in local government structures within North West Province. She served previously as a non-Executive Director of: Soul City Broad-Based Empowerment (Pty) Limited; the Soul City Institute for Health and Development Communication; and as the Vice Chairperson of the Advertising Standards Authority Tribunal of South Africa.

Mr Louis Rabbets

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

Appointed 2 December 2009, Mr Rabbets is Chairman of SAA's Procurement and Tender Processes Committee and a member of SAA's Audit Committee. He was a member of SAA's Finance, Financial Risk and Investment Committee prior to the merging of this committee with that of SAA's Audit Committee in early 2011.

Mr Rabbets is Executive Chair of Quant Capital. He previously held positions in the investments division of Sanlam, the treasury division of Standard Bank and the Asset and Liability Management division of the National Treasury. While at the National Treasury he conducted comprehensive best practice reviews of the treasury operations of several major SOEs. He has extensive experience in financial markets, treasury and risk management.

Ms Margaret Whitehouse

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

Appointed 24 October 2006, Ms Whitehouse is a member of SAA's Procurement and Tender Processes Committee and Chairperson of Air Chefs (Pty) Limited.

Ms Whitehouse has a background working in multinationals such as Unilever, as well as extensive work within the South African Government. She has experience in building and marketing brands, and a passion for world-class African brands.

Mr Russell Loubser

CA(SA); MComm in Statistics

Appointed 28 September 2009, Mr Loubser is a member of SAA's Audit Committee and the Governance and Nominations Committee. He is the CEO of the Johannesburg Stock Exchange. Until his appointment at the JSE, he was Executive Director at Rand Merchant Bank Limited (RMB). He joined RMB from Finansbank and was part of the team which started the futures industry in South Africa. He was Chairman of SAFEX, is an Extraordinary Professor in Mercantile Law at the University of Pretoria and was appointed to the University's Council in 2007. He is a member of the King Commission on Corporate Governance and serves on the Board of Directors of the World Federation of Exchanges.

Mr Teddy Daka

BA (Hons) (Business Management); Certificate of Education; Executive programmes at several institutions

Mr Teddy Daka, appointed a director of SAA on 28 September 2009, is the Chairman of SAA Technical (Pty) Limited and Chairman of Ansys Limited, a listed company active in the transport, defence and industrial computing sectors. He is the principal shareholder, founder and Executive Chairman of Tedaka Investments (Pty) Limited, an investment company with interests in various industries and is a director of numerous, mainly technical, companies.

Mr Daka was an executive at Telkom SA Limited and Senior Manager at the Palabora Foundation of the Palabora Mining Company. He has participated in major BEE initiatives such as the Black Business Empowerment Report, the Broad Based Black Economic Empowerment Act and the Preferential Procurement Policy Framework Act regulations. He was a member of the State Information Technology Agency (SITA) Tender Board and previously Chairman of the South African Airways Tender Board.

BOARD OF DIRECTORS

Non-Executive Directors

Mr Tukela Cyril Jantjies

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

Appointed a director of SAA on 28 September 2009, Mr Jantjies is a member of SAA's Remuneration and Human Resources Committee and a director of SA Travel Centre (Pty) Limited.

He is currently Director and Chairman of the Middledrift Dairy (Pty) Limited. He is also Chairman of the Community Trust and Provincial Treasurer of the ANC Veterans League. His other previous posts include CEO, of King Sandile Development Trust and Director, Management Services Boksburg TLC. He was formerly Human Resources Director and later an Area General Manager at Nampak Limited.

Ms Yakhe Kwinana

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

Appointed on 2 December 2009, Ms Kwinana is a member of SAA's Audit Committee and was Chairperson of SAA's Finance, Financial Risk and Investment Committee prior to the merging of this committee with that of the Audit Committee in early 2011 as well as a Director of SAA Technical (Pty) Limited.

She is a finance and auditing specialist and previously served on the boards of the Air Services Licensing Council, Debt Collectors Council and at SITA as Chairperson of the Audit Committee. She is currently Managing Director of Kwinana and Associates.

Mr Zakhele Sithole

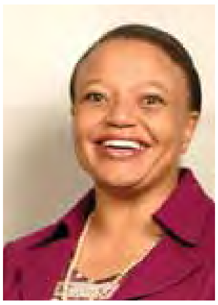
CA(SA); Certified Fraud Examiner; Higher Diploma (Company Law); Higher Diploma (Tax Law); BAcc; BCom

Appointed 2 December 2009, Mr Sithole is Chairman of SAA's Audit Committee and a member of the Procurement & Tender Processes Committee.

Mr Sithole is Executive Chairperson at Sithole Inc. His current directorships include: Command Holdings Limited, Chairman; Allied Technologies Limited, Board Member and Chairman of the Audit Committee; Public Investment Corporation (PIC), Board Member and Member of Audit and Risk Committee, Chairman Human Resources & Remuneration Committee; and University of Zululand, Board of Governors, Chairperson Audit Committee. Previous directorships include: SA National Parks Board, Legal Resources Finance and Corporate Governance Committee; Xtrata South Africa Limited; South African Bureau of Standards; Department of Trade and Industry, South African Police Service; Johannesburg Metropolitan Council; Department of Transport; Ntsika Enterprise Promotion Agency; Isset Seta; and St Matthew's Catholic Church.

He is a specialist in finance, corporate law and governance.

Executive Directors



Ms Sizakele Mzimela (Chief Executive Officer)

BA (Economics and Statistics); Executive programmes at several institutions

Ms Mzimela's career began in 1991 at Standard Bank SA, followed by tenure at Total SA, where she was responsible for managing capital projects. She joined South African Airways (SAA) in 1996, working in various senior roles including that of Regional General Manager for Africa and the Middle East. In November 2001, she was appointed Executive Vice President of Global Passenger Services, overseeing SAA's airport operations both locally and abroad. Soon after, she was responsible for the airline's core business: Global Sales and Voyager, setting the overall strategic direction and actively managing and reducing costs. She was also tasked with the strategic positioning of SAA and optimising alliance partnerships. She was appointed Chief Executive of SA Express Airways on 1 October 2003. The Company registered substantial growth under her leadership, resulting in the eradication of the airline's former state of technical insolvency, without recapitalisation. Her experience and intensive knowledge of the aviation industry, business acumen and positive attitude culminated in her appointment as Chief Executive of SAA on 1 April 2010.

Ms Mzimela is the first woman to be appointed as a director of IATA (International Air Transport Association) in its 67 years of existence.

Mr Wolf Meyer (Chief Financial Officer)

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

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

GROUP EXECUTIVE COMMITTEE*

Mr Barry Parsons (Executive in the CEO's Office, Strategy and Planning and Project Management)

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

Mr Parsons' initial involvement with SAA was in 2005; designing and then advising on the establishment of Mango; then as Mango's Head of Commercial from its launch in 2006 to 2008. Between 2008 and 2010 he worked on a range of assignments for the Centre for Asia Pacific Aviation/CAPA Consulting, particularly focused on aviation policy development and state owned enterprise airlines in both developed and emerging markets. He also held executive roles with Air New Zealand and Ansett Australia at Vice President and General Manager level. Before commencing his aviation career in 1997, Mr Parsons was with the Australia and New Zealand Banking Group for nine years in a range of information technology and internal audit management roles. Mr Parsons joined SAA in July 2011 in the role of Executive in the CEO's Office, Strategy and Planning and Project Management. His expertise includes: strategy development; brand design; marketing; ground and in-flight product development; major project management (eg airline start-ups and Olympic Games sponsorship); distribution strategy; governance and risk management; and macroeconomic and competitive analysis.

Ms Dileseng Koetle (Acting Head of Group Corporate Affairs and Ex Officio member of EXCO)

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

A well-rounded communicator and strategist, Ms Koetle has an array of specialised skills and 10 years experience within the aviation and media industries. Ms Koetle joined SAA in February 2011, having worked at SA Express Airways from 2006, where she made an invaluable contribution to the airline's reputation. Ms Koetle has previously held crucial roles in broadcasting, within the Brand Communication and Public Relations disciplines, at SABC and MultiChoice. Areas to which she is a key influencer include Corporate Communication, Reputation Management, Stakeholder Relations, Publishing, Corporate Social Investment, Sponsorship and Event Management. Ms Koetle is currently acting in the capacity of Head of Group Corporate Affairs.

Ms Ruth Kibuuka (Company Secretary and Ex Officio member of the EXCO)

BA (Hons) (Economics and Social Administration); CIS Diploma; Fellow of the South African Institute of Chartered Secretaries and Administrators; Fellow of the Chartered Institute of Business Management

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

Advocate Sandra Coetzee (General Manager Legal, Risk and Compliance)

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

Adv Coetzee joined SAA in May 2010 and has been in her current position since September 2010. Before joining SAA she served in various posts in the Department of Public Enterprises where she was Deputy Director-General: Legal, Risk and Compliance; Chief Portfolio and Investment Manager and Acting Director-General; and led a team developing a government shareholder management and investment performance model. Before joining Government, she was in private practice for 21 years, specialising in regulation and commercial transactions, mainly in the transport sector, serving clients in South Africa, all regions of the African continent and South East Asia. She won the American Biographical Institute Woman of the Year 2000 Award for significant career achievements and contributions to civil society.

Ms Thuli Mpshe (General Manager Human Resources)

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

Ms Mpshe rejoined SAA in September 2010 after an illustrious career in HR in various economic sectors, including aviation, financial services and retail. Ms Mpshe previously worked with SAA between 2001 and 2003, as Executive Manager, HR, at SAA Cargo: and as Executive Manager, HR, for the SAA Operations Department. From 2003 to 2010 she was Executive Director, HR, for Makro, part of the Massmart Holdings Group. Thuli started her HR career at Standard Bank and has held senior HR management posts at IDT Finance Corporation, African Bank and Nedcor Bank. She has served as a council member of the University of Zululand for six years and has been Chairperson of the Board of Directors for Kids Haven (a home for street kids in Benoni) for five years.

* *Appointed subsequent to financial year end.*

GROUP EXECUTIVE COMMITTEE*

Mr Theunis Potgieter (General Manager Commercial)

BCom (Economics); MCom in International Business

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

Mr Tleli Makhetha (General Manager Cargo)

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

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

Ms Alison Crooks (Chief Executive Officer, Air Chefs)

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

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

* *Appointed subsequent to financial year end.*

GROUP EXECUTIVE COMMITTEE*

Mr Musa Zwane (Chief Executive Officer, SAA Technical)

MBA; MAP (Management Advancement Programme); MSc. (Industrial Chemistry)

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

Mr Nico Bezuidenhout (CEO of Mango)

BCom (Transport Economics and Industrial Psychology); MBA

Mr Bezuidenhout's passion lies not only in aviation, but in the acute commercialisation of a newly commoditised sector. While at SAA, Mr Bezuidenhout was involved in launching the carrier's e-commerce functionality, electronic ticketing and led the team that created low cost airline Mango. Prior to his career in aviation, Mr Bezuidenhout served as founder of the first and highly successful South African online ticketing service Ticketweb, preceded by a period in the commercial segment of the entertainment industry.

Mr Thapelo Lehasa (Chief Executive Officer, SA Travel Centre)

BAdmin; MBA; MAP (Management Advancement Programme); Certificate in Transport Management; and Certificate in Product and Brand Management

Appointed CEO of SA Travel Centre in March 2008, since early 2010 Mr Lehasa has concurrently been acting Head of Galileo Southern Africa (Pty) Limited. He is also a Director of Travel Experience (Pty) Limited, a joint venture company of SA Travel Centre and The Automobile Association of South Africa. He joined SAA in 2002 and held various positions, including Vice President Marketing, Sponsorships and Product Development, Chief Executive of Galileo Southern Africa, and Head of Marketing, Product Development, Sponsorships and Voyager. Before joining SAA, Mr Lehasa worked in various sales, marketing and business planning roles at Mobil Oil SA (Pty) Limited, SA Breweries and Industrial Development Corporation of South Africa. He was also a consultant at Gemini Consulting and a part-time Strategy Lecturer at CiDA.

* *Appointed subsequent to financial year end.*

CHAIRPERSON'S REPORT

Ms Cheryl Carolus
Chairperson

THE YEAR 2010 WILL FOREVER BE ETCHED IN ALL OUR MEMORIES AS THE YEAR THAT OUR COUNTRY SHOWED THE WORLD ITS BEAUTY, WARMTH, THE SPIRIT OF UBUNTU AND ITS ABILITY TO SUCCESSFULLY HOST AN EVENT AS GRAND AS THE FIFA SOCCER WORLD CUP.

The year 2010 will forever be etched in all our memories as the year that our country showed the world its beauty, warmth, the spirit of ubuntu and its ability to successfully host an event as grand as the FIFA Soccer World Cup. This has re-energised our country's belief in itself, and the world's faith in South Africa. As the national carrier, this reaffirmed our role of connecting South Africa and the African continent at large, to the rest of the world.

SAA has remained optimistic in the face of a complex operating environment. The leadership team have responded to the acute challenges that affected the global airline industry in the past year.

Our financial and operational achievements have endorsed the wisdom and effectiveness of our strategy. We have, I believe, demonstrated the ability of a Group which delivers not only sustainable profitable performance, but also, delivers on our shareholder's mandate to make a lasting, positive impact on the society and economy of our land, the African continent, and beyond.

We still have a great deal to accomplish and are confident that the demands placed upon us by our responsibilities as an SOE will be supported by the values, and the efficient structures and processes we have put in place to enable us to meet and possibly exceed our strategic mandate.

SAA's financial position and the state of the business continue to show significant improvement. This financial performance is an encouraging response to the strategic objective contained in the overall Group Strategy, of becoming a fully sustainable business over the next three years and positioning SAA to compete successfully in the global aviation market in 10 years.

Our performance at this early stage of implementing the strategy has shown that the aim of establishing a sustainable capital base and inculcating financial efficiency, together with commercial and operational efficiency, is attainable.

This effectively positions the SAA Group for growth, enabling us to fulfill our strategic role within Africa, deploying aircraft capacity on existing and new routes that enhance the state's policy objectives, such as the Airlift Strategy which seeks to regulate air transport in support of the Tourism Growth Strategy; and the employment creation objectives of New Growth Path, together with Broad-Based Black Economic Empowerment (B-BBEE).

In addition, the SAA Group will be able to support relevant policies which have been endorsed by the South African Government, which are set to transform the political and socio-economic landscape of our continent. In our own immediate corporate environment it is important that we step up our social investment initiatives, especially in the area of improving the lives of our children and youth, preparing them for the future.

Though our focus is firmly on the development of SAA as an African airline, it is imperative that we maintain our global reach so that we can provide air services to our major business, trade and tourism markets. This means that we must remain attuned to major developments in global aviation, adjusting our strategy where necessary.

Apart from sustainable financial strength, our status as a SOE demands commercial and operational efficiency and effectiveness. SAA continues to offer passengers a young, safe fleet of aircraft, an outstanding safety record, an excellent route network with frequent flights, connectivity through membership of Star Alliance and our Voyager loyalty programme.

For the eighth consecutive year, SAA won the prestigious Skytrax Award for the Best Airline in Africa and also, the inaugural award for Service Excellence Africa. I am happy to say that our people regard these recognitions of excellence as encouragement to step up the quality of our services to our customers, in light of our continuing drive to nurture a customer-focused corporate culture.

Our Group subsidiaries performed satisfactorily as reported within the document. Among the most important of these are highly regarded technical services through SAA Technical, in-flight catering services (Air Chefs), and a retail travel agency franchise (SATC). Our Group's low-cost carrier, Mango, targets domestic, price-sensitive leisure and business travellers.

In addition to the Company's appreciable corporate governance improvement, various initiatives are now underway in the critical field of transformation, our re-launched Cadet Pilot Training scheme and the development of the SAA Flight Academy. As far as B-BBEE status is concerned, SAA is now a Level 5 contributor, a three-point improvement when compared to last year's status as a Level 8 contributor. The airline's ultimate goal is to be a Level 1 contributor, fully compliant with industry best-practices.

The pleasing results, amplified in other sections of this report, have been achieved by the dedication, passion, hard work and skills of our staff. I thank them for their enthusiasm in the cause of advancing the interests of this great company and commend them for the steady application of their skills.

In reporting on the encouraging progress in many areas of SAA, I extend particular thanks to our executive team under the leadership of an inspired, energetic and highly competent chief executive guided by a highly skilled and diverse board of directors.

SAA is well positioned for growth, ready to soar beyond expectation.

Cheryl Carolus
Chairperson

Up close and personal during CEO Road Shows.

Ms Siza Mzimela
Chief Executive Officer

IT WAS A GREAT HONOUR FOR ME TO TAKE UP THE POSITION OF CEO OF SOUTH AFRICAN AIRWAYS (SAA), A BRAND THAT I AM EXTREMELY PROUD OF AND PASSIONATE ABOUT, AT A TIME WHEN ALL SOUTH AFRICANS WERE IN HIGH SPIRITS, READY TO HOST THE FIRST EVER FIFA SOCCER WORLD CUP ON AFRICAN SOIL.

South Africa successfully hosted a phenomenal tournament showcasing our country in the best possible light, as well as living up to, and possibly exceeding expectations of a worldwide audience. The lasting legacy of the world cup includes a renewed view of brand South Africa by global citizens, world-class infrastructural development and a re-energised nation, proud of its culture and heritage.

Operating landscape: Jubilant as it was, the year was not an easy one for airlines and businesses across the globe as we continued to feel the impact of the global financial crisis. The South African travel and tourism industry began the year with high hopes based on projections of strong visitor numbers and revenues expected to flow from the Soccer World Cup. The expected peaks did not materialise. In addition, the fluctuating Brent oil price and the continued decline in passenger and cargo growth rates affected SAA's major operating costs.

The Brent price was influenced by unrest in the Middle East and broke through the USD100 per barrel threshold in late January before peaking to the USD117 per barrel at the end of March. SAA, as most major airlines across the globe, had to reassess their risk management policies and revalidate their fuel levy strategies. Global market growth slowed during the year under review, mainly due to the economic downturn which discouraged price-sensitive travellers.

However, SAA remained confident, tightening cost controls and improving business efficiencies. Our major focus for the year was ensuring that the objectives set out in the 2010/11 Shareholders Compact were met; and that the Group strategy was implemented, especially since it is expected to have a direct impact on the growth of the network in Africa, which will enhance SAA's strategic and financial strength on the continent.

Alliances: During the year under review, the airline entered a number of strategic alliances aimed at enhancing our offering to customers by providing increased access to their destinations of choice. Strategic alliances with Emirates (Dubai), El Al (Israel), Jet Blue (US) and TAP (Portugal) were implemented to improve SAA's commercial viability and, more especially, to improve connectivity for our customers.

Voyager: A significant stride forward was made through the conclusion of ring fencing the voyager liability.

Finance: All in all, the entire decline in passenger traffic can be attributed to the global economic downturn. During the year under review, 8 505 744 customers chose to fly SAA and Mango, representing a 2,4% decrease from the previous year. Domestic and regional passenger numbers decreased by 4,9% and 2,2% respectively, while international passenger numbers (1 685 415 passengers) increased by 3,6% in comparison to the 5,4% decrease previously.

I am pleased to share that the SAA Group generated a net profit of R782 million for the current year, an increase of 77% on the restated figure of R442 million achieved last year. Group operating profit rose by 66% to R807 million from a restated R487 million last year. Turnover, comprised largely of passenger revenue, increased by 6% to R18,0 billion from R16,9 billion, while operating costs rose by only 5% despite significantly higher fuel costs.

Capital and reserves were brought up to R1 641 million from last year's restated R992 million and R618 million in cash was generated. Net retained earnings of R681 million exceeded the main key performance indicator for the year of R201 million as set in the Shareholder's Compact. Yet we remain in a challenging financial position with a high debt to equity ratio and we shall continue to pursue and consolidate financial recovery to obviate the need for additional equity from the Shareholder.

SAA people: As all business leaders know, a great strategy without a skilled, passionate work force to implement it effectively is useless. A strong, skilled executive team, with a combined total of 62 years of experience in the industry led the airline, focusing all their energies on the effective implementation of the Group Strategy. It was refreshing to see all levels of the business embracing the Exco and the business's new direction.

The reintroduction of an Induction Programme highlights SAA's focus on investing in its human capital as a means to improving understanding of the business. As an employee engagement initiative, CEO roadshows were initiated to interact with the staff members and to ensure awareness and implementation of the Group objectives.

SAA focused on areas such as Executive, Management, Supervisory development and Leadership programmes. These were run in partnership with the Gordon Institute of Business and the University of Stellenbosch. Additionally, the airline partnered with Airbus in skills and management training programmes.

Passionate people are at the heart of SAA's successes and a key differentiator that gives the airline the required competitive advantage. We recognise that each SAA employee – from our check-in agents and cabin crew, right through all management levels – must strive to go the extra mile to ensure that our product and service offering meets, and exceeds, customer satisfaction.

Keeping our people motivated and inspired also extends to giving back to the community in which we operate. SAA staff members participated actively in the global movement of Nelson Mandela International Day to take the life's work of our great icon forward into the future by changing the world we live in for the better. SAA celebrated Mandela Day in 2010 by flying 92 children from the Mvezo and Qunu villages in East London, where Mandela was born and grew up, to Johannesburg. We will continue to train, engage and motivate staff so that we can all work together towards developing SAA into a self-sustaining and profitable business.

Brand SAA: SAA continues to offer our customers a young, safe fleet of aircraft, outstanding safety record, excellent route network and frequent schedule, greater connectivity through our Star Alliance membership and added benefits through our Voyager loyalty programme. In addition, the launch of the Platinum Service Desk in January 2011, handled by highly skilled relationship consultants, continues to offer convenience and an improved connection with our premium customers.

The quality of service we offer is the deciding factor in creating brand loyalty and consequently, a successful, sustainable business. During 2010, we worked hard to improve the quality of our product and service offering. Brand new lounges were introduced in Johannesburg, Cape Town and at the new King Shaka International airport in Durban. Regionally, we unveiled a stylish lounge in Lagos, Nigeria in recognition of the growing trade and cultural links between South Africa and this West African hub. Free Wi-Fi has been introduced to all domestic lounges as an added convenience for our customers who wish to continue working while in transit.

In addition, an automated lounge tracking system has also been implemented in all domestic lounges to replace the time-consuming manual system.

SAA's in-flight entertainment is currently undergoing a complete overhaul, with greater focus on an improved entertainment programming schedule. A new tantalising food and beverage menu was introduced domestically, regionally and internationally, adding to SAA's competitiveness among other premium long-haul carriers.

CHIEF EXECUTIVE'S REPORT

We are pleased to state, that our efforts were recognised when SAA won several prestigious awards in 2010/11:

- Skytrax award for the Best Airline in Africa for the eighth consecutive year and also the inaugural award for Best Service Excellence
- Ubuntu Award (New York) Best Airline Partner
- Global Airlines Magazine Best Airline Africa
- Air Cargo News Awards (London) for Best African Cargo Airline for the third consecutive year
- Executive Travel Magazine for Best Airline to Africa
- Executive Travel Magazine's Leading Edge Award for Best Airline for Flights to Africa
- Sunday Times Top Brand Awards, first prize for Business to Consumer Metropolitan
- Today's Traveller Award for the Best International Airline connecting India with Africa
- Coolest Domestic Airline Brand – Sunday Times
- Best Airline Stand at Indaba (Largest travel and tourism expo in Africa)

SAA is determined to build further on the Group's strength to create better value for our diverse customers by increasing our customer engagement, including customer feedback and re-engineering our processes to make it easier to do business with us.

Operations: One of the most important reasons why customers continue to fly SAA is our reliable on-time departure reputation. While SAA was able to exceeded the target of 83% as contained in the Shareholders Compact, it is worthwhile to note that in July 2010, SAA achieved the best on-time performance in over 10 years.

As an airline that is trusted from a safety perspective, SAA completed, once more, the IOSA and CAA audits, again, improving results from the prior year.

Governance: In order to improve governance, specific initiatives have been implemented during the year under review. The need for solid business cases before any major procurement can be awarded is an additional control. An internal audit plan to measure compliance with legislation and policies has been introduced. Governance structures such as a cross-functional sourcing team, Bid Adjudication Committee, and Procurement and Tender Committee has also been introduced. Although the system is challenged by legacy contracts, a procurement policy was finalised for current and future implementation.

Route network: SAA's growth strategy includes expansion into Africa as a key focus and some new destinations are planned with an improved flight schedule. These will offer new travel options and enhanced connectivity to areas difficult to reach by air, to our customers. During the year under review, SAA increased frequency to Entebbe (Uganda) and Harare (Zimbabwe). Going forward, SAA will operate to: Abidjan (Côte d'Ivoire), Abuja (Nigeria), Antananarivo (Madagascar), Bujumbura (Burundi), Cotonou (Benin), Kigali (Rwanda), Ndola (Zambia) and Ponte Noire (Republic of the Congo). Preparations for the launch of SAA's direct flight to Beijing, China are underway.

Fleet: SAA received the two of the six A330-200 aircraft in the review period, with two delivered subsequent to year end. The last two will be delivered by the end of 2011. In support of growing our network SAA increased an earlier commitment from 15 to 20 A320 aircraft scheduled to be delivered from 2013, which will ensure a modern, comfortable, reliable, cost-efficient fleet for the national carrier's domestic and regional services.

Greener skies: As an IATA member, SAA is an active participant in the global carbon offsetting conversation and we have embarked on our environmental journey by implementing over 17 separate fuel and emissions saving initiatives. Not only is our airline in the process of introducing a voluntary carbon offset programme, we are also establishing our carbon footprint in order to measure and reduce our impact on the environment. Our goal is to become one of the world's leading green airlines through group recycling, intensive carbon trading and offsetting, reducing emissions, bio-fuel and fuel additive investigations, all based on a holistic and comprehensive group environmental policy.

The biggest challenge for the year ahead (and one which is faced very urgently by all airlines) is to respond effectively to the rapid rises in oil prices, which peaked at US$117 per barrel at year end. Historically, most airlines have not been able to pass all of these fuel prices on to customers, which results in significant pressure on pricing and revenue margin retention. Secondly, SAA operates in one of the most highly competitive environments in South Africa. Approximately 50 different airlines fly into SAA's hub at OR Tambo International every week. There are more than 20 direct and indirect competitors on the London route alone. In the face of this competition, price erosion is a constant threat and this increases the importance of SAA's on-going product, aircraft and quality improvements.

Finally, it is critical that OR Tambo International Airport retain premier status as one of the southern hemisphere's largest air traffic hubs. OR Tambo has world-class standards, however its attractiveness to passengers is diminished by baggage theft and also the transit visa requirements for many foreign visitors. Other African hubs such as Nairobi and Addis Ababa are becoming threats to South Africa's historic air traffic advantage.

SAA will continue to investigate and implement innovative solutions to minimise this issue, working hand in hand with all aviation stakeholders.

Looking forward: In order to build an airline that will be attractive to our customers as well as provide attractive opportunities for generations to come, our focus for the next few years includes:

- Generating sustainable profit;
- Increasing our presence on the continent;
- Finalising an optimal financing model;
- Providing better customer service; and
- Greater influence in environmental affairs community to achieve greener skies.

We will work even harder to provide our customers with a seamless, quality travel experience. I hope that these efforts towards continued excellence as highlighted in the report will inspire our customers to continue flying with us.

Siza Mzimela
CEO

COMMERCIAL

The SAA Group division is responsible for passenger revenue generation. During 2010, Commercial was restructured into a single Department managing: Aeropolitical Affairs (to lead SAA's negotiation of Bilateral Air Services Agreements); Network Planning (capacity management); Aircraft Scheduling; Pricing and Revenue Optimisation; Alliances and Code-shares; International and Domestic Sales; Marketing; On-Board Product planning; Ground Product (airport lounges) planning; E-Commerce, including Flysaa.com; the Voyager loyalty programme; Long-term Aircraft Fleet Planning; and Galileo Southern Africa's operations.

During the year, Aeropolitical obtained licenses for SAA to fly to: Dar-es-Salaam (Tanzania), a further three times per week; Ndola (Zambia), five times per week; and Antananarivo (Madagascar), three times per week (SAA does not yet fly the Ndola and Antananarivo routes). Bilateral Air Services Agreements for unlimited frequencies and intra-African fifth freedom traffic rights were signed under the Yamoussoukro Decision with Benin, Rwanda and Zambia.

Network Planning continues to play a pivotal role in the airline's design of its route network and scheduling, in order to optimise origin and destination passenger flows onto SAA's aircraft. SAA's capacity on international routes (in terms of available seat kilometers) was held fairly consistent, except for São Pãulo which was increased with the introduction of double daily flights on four days of the week and Munich with the deployment of a larger aircraft type. The London routes had partial capacity reductions because of the Icelandic volcanic ash cloud in April 2010. The arrival of the much-anticipated new A330-200 fleet, from early 2011, saw the deployment of the first aircraft onto the Johannesburg-London route, with the remaining five aircraft for progressive deployment onto: the highly competitive Johannesburg-Mumbai route; Cape Town-London; and also some key African routes. Our new product offering, including new seats and in-flight entertainment, received outstanding customer reviews from our first flight in February.

In response to customer demand and market expectations, SAA planned non-stop Johannesburg-New York flights, which were subsequently successfully launched in May.

In our regional (African) network, some extra capacity was added to: Windhoek; Maputo; Dar-es-Salaam; Accra; Lagos; and Harare. SAA's Africa sales are now seeing recovery in this region, after the global financial crisis dampened African travel for longer than in many other parts of the world.

SAA's Domestic network was fairly stable, with a change in November on the Cape Town – Durban route with the implementation of a code-share agreement with Mango. This change was preceded by extensive market research and consultations in the Cape Town and Durban markets to assess the views of business travellers and travel agents. The SAA flight code is on both Mango and South African Express flights and SAA customers have a comparable travel experience, including: purchasing the ticket; Voyager benefits; lounge access; and preferential seating for premium passengers on Mango. Feedback on the code-share and SAA's service has been very good and the capacity (ie number of seats) on the route is marginally higher.

Aircraft utilisation increased in our wide body fleet, particularly with the retirement of the last Boeing 747-400. Utilisation on the narrow body fleet declined marginally, however the new route launches planned for later in 2011 will improve utilisation.

During the year, SAA experienced rapid and sometimes unpredictable changes in consumer price behaviour. Pricing continues to become more dynamic, according to market requirements, and the airline continuously adjusts for weak points in the markets where SAA has a sales presence. SAA has worked towards maintaining its load factors at high levels and this focus on maintaining market presence has put pressure on average fare levels on some routes.

The International, Regional and South Africa point of sale territories focus on increasing both load factors and yield. The sales teams strive to provide sales agreements to travel agents and corporate customers that are both effective and market-competitive, along with a wide programme of other sales support tools. The South African sales team has had success with their "Y-Up" programme, designed to encourage domestic business class travel and also with SMME sales products aimed at smaller customers. The FIFA 2010 Soccer World Cup event saw stronger international demand, from international visitors coming to South Africa. However, this period also saw lower Domestic and Regional traffic, as South African corporate customers and leisure travelers deferred their travel plans from as early as May 2010 until as late as the end of August 2010. SAA feels that the benefits of hosting the World Cup will continue to serve South Africa for many years to come, as an attractive and highly regarded travel destination.

SAA's Marketing team launched a wide-ranging advertising and marketing awareness campaign of SAA with particular emphasis on route sales specials. This brand revitalisation represents a turn-around after a long dormant period in SAA's advertising activity. SAA also worked to improve significantly its on-board product experiences for its customers. The content and quality of in-flight entertainment was upgraded and meal quality (a very important customer requirement on a premium airline) was substantially improved through a closer relationship with Air Chefs, to create outstanding on-board meals. Menus were redesigned and invigorated, with a focus on South African flavours, with SAA's wine selection remaining a highlight for many travellers. Finally, Marketing enjoyed the success of having the "Best Airline stand" at the 2011 Indaba Expo in Durban.

A major effort resulted in the opening of several new airport lounges. Firstly, the highly anticipated OR Tambo International first and business class lounges were opened together with a new International Arrivals lounge. The Cape Town domestic lounge underwent a complete refurbishment and a brand new domestic lounge was opened at the new Durban King Shaka Airport. The Port Elizabeth lounge was partially refurbished and the East

London lounge was moved and refurbished. Finally, a new lounge was opened for SAA's important Lagos destination.

E-commerce and Distribution relaunched the Flysaa.com website during the year. This achievement resulted in the website growing its customer visits to an average of over 1 million visitors per month. SAA also increased its general sales agency (GSA) network and established new representation in Russia, Singapore, Indonesia, Jordan, Lebanon and Malaysia. A number of GSAs in Africa were replaced with new partners. SAA continues to operate a number of call centres around the world, with the major centres being in Johannesburg, London and Fort Lauderdale. The Parktown, Johannesburg call centre operates the Reservations, Voyager, Voyager Platinum and Trade Support desks and received over 2,1 million calls during the year and achieved service levels of 83% (calls answered within 20 seconds). The airline has recently created a function to streamline customer service standards among all its call centres around the world.

Voyager enjoys a position as one of the best customer loyalty programmes in South Africa and continues to grow and is recruiting new members, especially in Africa. An important part of Voyager's offer is to present innovative products and features to its customers, and to reward them with attractive redemption opportunities. Voyager is now a ring-fenced business unit within SAA and accounts for its loyalty costs in terms of the IFRIC 13 accounting standard.

During the year, a new Fleet Committee was established (Chaired by the General Manager Commercial), with a mandate to design and plan the acquisition of the SAA Group's long-term fleet requirements. The focus is on the forthcoming arrival (from 2013) of twenty Airbus A320 aircraft, which are replacements for some outgoing Airbus A319 and Boeing 737-800s. During the year, two Boeing 737-800s were returned to their lessors and a third was acquired by Mango.

The Galileo (Southern Africa) GDS enjoyed a gradual increase in some market shares. Galileo maintains a close relationship with its franchisor Travelport, in order to align the parties' activities towards the best interests of their customers.

SAA participates actively in many airline and industry groupings, the biggest being the Star Alliance. Star Alliance airlines undertake a very wide range of service and quality programmes in order to ensure the strength of the Star offering and to ensure that member airlines maximise value from their participation in the alliance. SAA also participates in the African Airlines Association (AAFRA) and the Airlines Association of Southern Africa (AASA). In addition, SAA heads the Local Customer Advisory Group (LCAG) in South Africa, which is an airline grouping constituted under the auspices of IATA. A joint working group of airlines and travel agents, the Financial Advisory Group (headed by SAA) is in the final stages of concluding a range of credit risk measures with travel agents.

CORPORATE GOVERNANCE

The SAA Group is committed to fair dealing, accountability and openness in conducting its business affairs. SAA is conducting its business within a strict ethical framework that enshrines these principles while at the same time striving to benefit the society in which it operates and to help advance the policies and aims of the state, SAA's shareholder.

Against this background, SAA adheres to the Code of Corporate Practice and Conduct in the King III Report on Corporate Governance and are planning, or in the course of implementing, the structures and procedures needed to give effect to the requirements of the code. In addition, the Board of Directors and management are committed to ongoing improvements in corporate governance processes in line with national and international best practices, the PFMA and the Protocol on Corporate Governance in the Public Sector.

As part of this commitment to good corporate governance principles and compliance, the SAA Group is implementing a combined assurance methodology integrating delivery on its strategic objectives with compliance with its legal and regulatory universe and enterprise risk management towards sustainable delivery on its corporate mandate and engagement with all its stakeholders. SAA's intent is to improve its maturity level within the broader governance, legal and regulatory environments over the next three years to one of consistent application, which is well understood, integrated, regularly reviewed, aligned and coordinated across the organisation.

Accordingly, the Board of Directors structured its Board committees to mirror key areas of integrated performance and compliance and supported executive leadership alignment by the CEO. As a collective the Board and management are continually introducing systems, processes and procedures to ensure that all reported weaknesses are addressed and monitored in order to achieve full compliance, for the benefit of all stakeholders.

Board of Directors

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

Directors' responsibilities and limitations are primarily set out in the Articles of Association, the Board of Directors' Charter, the Companies Act No 61 of 1973, as amended, the PFMA and/or shareholder's resolutions and directives.

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

During the reporting period, the CFO resigned with effect from 15 December 2010 and an Acting CFO was appointed internally until a replacement CFO could be appointed. The new CFO took office on 13 June 2011.

In terms of the Memorandum and the Articles of Association, the Board is responsible for overall company strategy, acquisitions and divestments, major capital projects and financial matters.

The Board reviews and approves the strategic direction, annual budgets and corporate plans of the Company and its subsidiaries. It is required to approve all major individual items of capital expenditure and monitor the Group's performance against financial objectives and detailed budgets through management's monthly reporting. The Board and its committees meet at least every quarter in the discharge of their duty and secretarial services are provided by the Company Secretary.

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

Board committees

Board sub-committees are tasked with focused oversight over matters ranging from audit, investment, risk, procurement, human capital development, transformation and remuneration, transformation, corporate governance as well as social and ethical standards.

Four standing Board committees, supported by secretarial services provided by the Company Secretary, assist the Board in discharging its responsibilities. Each committee acts within agreed written terms of reference which are reviewed on a regular basis and all committees have authority to take external advice as required. Attendance of executive directors at Board committee meetings is by invitation only.

The Board Committees are the Audit Committee; the Finance, Risk and Investment Committee (incorporated into the Audit Committee in February 2011); the Procurement and Tender Processes Committee; the Governance and Nominations Committee and the Remuneration and Human Resources Committee. All statutory functions related to social and ethical matters have been assigned to the latter two committees. SAA's Board Committee composition and mandates are compliant with the Companies Act and Regulations, in particular with the detailed prescript regarding audit and social and ethics matters. By resolution of the Boards of SAA and its subsidiaries, the Audit Committee has oversight over the SAA Group's audit functions.

Board Committees are chaired by a non-executive director who reports to the Board at each scheduled meeting of the Board. Delegation of authority to Board committees does not in any way mitigate or dissipate the discharge by the Board of their duties and responsibilities.

Details of the membership of each of these committees, their powers and duties and attendance at their meetings are given in the Directors' Report.

Delegation of authority

Ultimate responsibility for the Company's operations rests with the Board. The Board discharges its obligations in this regard through Board committees and necessary delegations to the CEO, subject to the statutory and legal provisions applicable to SAA. The Delegation of Authority Policy recognises shareholder reserved rights of approval and embraces an SAA Group approach in ensuring consistent application of principles of accountability and transparency in cascading decision-making to operation levels.

The Company's Executive Committee assists the Chief Executive Officer to manage the business of the Company when the Board is not in session, subject to the statutory limits and the Board's limits on the delegation of authority to the CEO.

Delivering on strategic objectives

In order to speed the implementation of the three-year Corporate Plan negotiated by SAA and the Department of Public Enterprise and agreed by the Board, we have established a Project Management Office (PMO) to ensure that the overall Group Strategy is being implemented. The PMO manages a small number of strategic cross-functional projects and is transferring a commercially pragmatic, risk based project management methodology into all parts of the Group. Strategic Projects being directly managed by the PMO are the African Expansion Programme (Air CEMAC and the West African opportunity), Mango Lanseria and International Operations, SAA Customer Service and B-BBEE.

A new project management methodology has already been interfaced with an existing SAA Project Management Methodology (SAAPM) with key features of insisting on accountability, delivering time, cost and quality objectives, using a basic toolkit that is easily transferrable to SAA divisional line management and subsidiaries, and supported by a strong behavioural science base. The methodology was used successfully in the Mango start-up and has been used on a range of projects in other airlines.

Compliance

The SAA Group is not only alive to its compliance obligations as a state-owned enterprise under the PFMA but is also aware of current trends in the global regulatory environment in protection of consumers, environment, stakeholders and promoting good governance. In South Africa, this is seen in the enactment of such measures as the Consumer Protection Act, the New Companies Act and the Protection of Personal Information Bill, as well as the King III.

In line with the combined assurance strategy, the compliance department has adopted a holistic group approach to achieving its objectives. The compliance programme is paying particular attention to the identification and management of high risk legislation, compliance policies and the creation of awareness and a compliant corporate culture through training programmes. Operating procedures in customer-facing divisions of the business, in particular, were assessed and a compliance policy developed in preparation of the April 2011 effective date of the Consumer Protection Act. Concurrently, SAA takes compliance with competition law extremely seriously. Management engages with business units regularly to advise on competition law implications and to raise awareness of SAA's competition compliance policy and programme.

The PFMA provides that the SAA Board, as the accounting authority, has to ensure that SAA maintains effective, efficient and transparent systems of financial and risk management and internal control. Over the last year, continued initiatives to ensure compliance focused on training and awareness building, improvement of financial controls, prevention of and regular reporting of irregular and wasteful expenditure and review of supply chain management procedures and controls.

The Company's internal and external auditors report that significant progress was made towards PFMA compliance during the current financial year. This included the revision and implementation of our Supply Chain Management (SCM) policy and revised Delegation of Authority (DOA) policy, together with the introduction of controls to prevent non-compliance. The SCM and DOA policies were approved by the Board during February 2011.

The PFMA Compliance Forum serving as the monitoring body for corrective actions and implementation of systems and procedures across SAA and its subsidiaries continued to meet regularly and has made strides in ensuring that issues identified in the previous financial year are addressed and progress is verified by an audit conducted by Internal Audit. To ensure that understanding of the requirements in the SAA Group is as wide-spread as possible, a PFMA training course was presented to key functionaries in all divisions and subsidiaries. Furthermore, a system for the detection and regular reporting of irregular and fruitless and wasteful expenditure to the SAA Group Executive Committee, Board of Directors and, where applicable, the shareholder has been introduced and where relevant disciplinary and remedial actions were taken. To date, no individual irregular or wasteful and fruitless expenditure greater than the threshold agreed with DPE has been identified.

The effective implementation of the SCM Policy involves, inter alia, training of procurement and other personnel and effective use of the ERP-system. The implementation of the new procurement system has been further bolstered. The composition, mandate and training of the internal governance structures for procurement have been revised and initiatives taken to improve procurement planning and contract management. In addition, the re-implementation of the SAP SRM system as a requisitioning and approval system will ensure that compliance is maintained systemically in the longer term. In the interim, a manual control system in respect of the release of payments to prevent irregular and fruitless and wasteful expenditure was introduced to enhance the effectiveness of the SAP SRM system during the implementation phase.

The Company has implemented the Critical Financial Reporting Controls project designed to address key financial control deficiencies in core financial processes. The intention was to ensure that key financial controls are embedded within the organisation. This project involves the CFO meeting regularly with Divisional Financial Controllers and internal auditors in a forum designed to implement remedial action. These meetings are now embedded and continue to operate effectively.

With continued and focused efforts, SAA is confident that non-compliance will continue to be prevented and reported systematically.

The Board has, over the last year, kept the Minister of Public Enterprises abreast of the findings of the KPMG forensic investigation and has taken legal advice regarding potential claims to recover fruitless and wasteful expenditure identified last year.

Environmental management office

A process is also under way to bring environmental management and compliance expertise on board as part of a commitment to the "greening" of the Group's operations and to ensuring, in the short term, compliance with the European Union's environmental legislation. This legislation will have a significant impact on the Group's flight operations in and out of the European Union.

Enterprise risk management

A vital function of governance is the continuous monitoring and controlling of the SAA Group's risks by the Board and its sub-committees.

SAA completed, with success, an independent airline safety audit under the auspices of IATA and a decision was taken to design and implement risk management processes in line with the provisions of ISO 31000: Risk Management. Thus, in order to achieve the Enterprise Risk Management (ERM) objectives of departments, divisions and subsidiaries, the Company is continuously updating the ERM Policy and Framework, defining the Group's risk appetite and tolerance, developing risk management processes and procedures including flow diagrams, cascading and aligning the strategic risks with other risk categories (commercial, operational and financial), and improving its Risk Report format for reporting to SAA Exco, Group ExCo, Audit Committee, the SAA Board and the Shareholder. The scope of this report is intended to incorporate the adequacy and effectiveness of the control measures as assessed against the Board's approved risk appetite and tolerance, new emerging risks, and trend analysis of the breaches on the risk appetite and tolerance.

Transformation

The SAA Group is fully committed to the achievement of employment equity as a long-term business goal. Strategies and plans have been put in place to achieve this and progress against targets is regularly monitored and evaluated at all levels within the Group.

Sustainability

Environmental

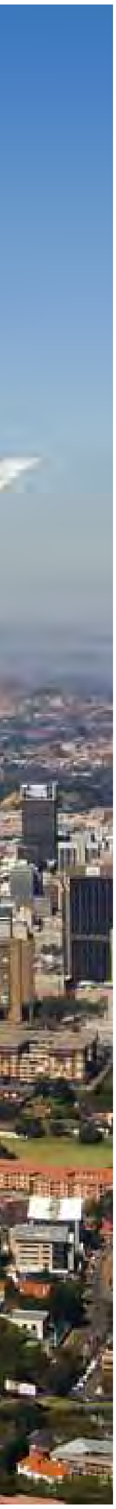
As discussed above, SAA is in the process of developing a formal environmental policy framework to improve its compliance with the growing move towards 'greening the skies' worldwide.

Health and safety

The Board is responsible for ensuring that safety, health and environmental standards and practices at all Group operations are observed as a matter of standard procedure. This includes implementing a policy to deal with the prevention and treatment of HIV/Aids.

SAA IS THE LONGEST OPERATING AIRLINE IN AFRICA

MANGO



FOUNDED IN THE SUSTAINABLE LOW COST PRINCIPLES OF ACCESSIBILITY OF BOTH PRICE AND DISTRIBUTION, THE AIRLINE HAS OVER ACHIEVED AGAINST ITS MANDATE.

Mango took to the skies for the first time in November 2006 and has since its first flight transported over five million South Africans, affordably. Founded in the sustainable low cost principles of accessibility of both price and distribution, the airline has over achieved against its mandate. Approximately 15% of Guests have been first time flyers while the carrier remains in a leadership position amongst its peers through continued innovation. Mango remained the most on time domestic carrier during 2010/11.

Mango was the first airline to retail flights through Shoprite, Checkers and Checkers Hyper Money Market Counters and remains the only airline globally to accept retail charge cards; Edcon group cards are accepted online and through the Mango call centre. Competitive business travel products like Mango Plus and Mango Flex have afforded the airline a competitive edge in the corporate market. Mango also plans to be the first domestic carrier to offer on board Wi-fi access to its guests.

While low cost carriers may fundamentally be similar in nature, Mango has differentiated itself not only through innovation but also its culture of service and a mantra of constant and never ending improvement. It is to this end that the airline continues to refer to passengers as ‘Guests’, reflecting its service ethic culture and delivery-based attitude.

Mango’s growing social media presence has also served to not only take the brand to a greater level of engagement, but delivered some of the largest turnover days measured against online commercial activities through the medium. Mango was the first domestic airline to establish a social media presence and continues to lead within the digital environment.

The airline operated five new generation Boeing 737-800 aircraft during the 2010/11 financial year and continues to maintain the greatest asset utilisation ratio in the domestic sector. November 2010 also saw Mango engage in a codeshare agreement with its shareholder, South African Airways, whereby it became the operating carrier on the coastal Durban Cape Town route.

Mango performance

Mango’s financial performance for the period under review was significantly burdened by recessionary pressures as a result of the global financial crisis in the wake of a period of rocketing fuel prices the calendar year before.

However, the 2010/11 financial year was met with great expectations in terms of an anticipated influx of foreign travellers and increased domestic flights. Actual travel fell well short of forecasts, leading to over-capacity in the market, leading to an increase in price based competition. In any case, gains made during the 2010 FIFA World Cup were offset by lower than usual demand in May and August 2010.

Increases in airport taxes and levies during the year also negatively affected the consumer end-price of air travel.

MANGO

A portion of these increases were absorbed by airlines in order to stimulate a declining market.

One of the primary drivers in low cost aviation is effective cost control. During the review period Mango again exercised prudence in spend with well controlled savings delivered to the business. These were however negated by substantial increases in regulated ACSA levies for landings, parking facilities and ATNS regulated navigation fees, among others.

Contributing to a large percentage of operational cost, fuel is the most significant line cost item for any airline with the least opportunity to mitigate movement in price. Whilst the Rand showed a significant aggregate increase of 9% in strength against the US Dollar over the financial period in review, the cost of jet fuel soared by approximately 27% when compared to the previous financial year – placing substantial pressure on profit margins. Mango continued to be unhedged for the full period under review.

Business sustainability

Mango is geared for growth. Following a period of post-launch brand and commercial consolidation, the business acquired a fifth aircraft early in 2011, followed by the expected launch of its fifth airport operation at Gauteng's Lanseria airport in June. Its new route, between this second Johannesburg port and Cape Town has shown encouraging uptake indicating real market potential in the North Western region of the country. The airline celebrates its fifth year of operation in November 2011 with Guest forecasts exceeding seven million by the end of the next fiscal.

Increased market capacity through the introduction of a fourth domestic low cost carrier coupled with continued economic pressures will challenge margins across the industry. Mango remains confident that its business model, lowest cost base as well as a fast growing ancillary revenue stream will not only serve business sustainability well but also provide a solid foundation for further growth.

Mango expects to launch additional capacity in the domestic market and turn some of its focus to the potential that the regional market holds for low cost aviation in the near future.

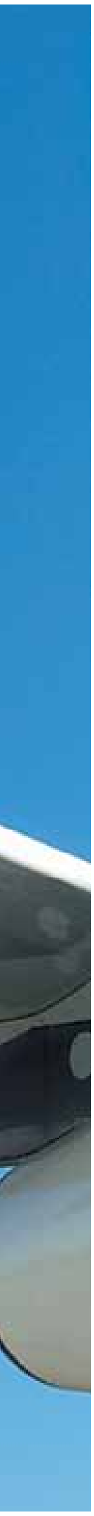
Mango continued as the most on-time domestic airline for the third successive year. Its performance has delivered an additional consumer value proposition, presently effectively communicated through several public relations and marketing initiatives.

Social participation

Mango is very active amongst the communities it serves. The airline renewed its fundraising partnership with UNICEF while also implementing a community driven sustainability programme. The effort saw Mango initiate a national programme where community feeding and employment schemes are supported by way of the construction of fully sustainable vegetable gardens at community centres and schools.

Mango continued to support the Dreamfields soccer initiative during 2010 along with car hire partner Tempest where communities are encouraged to use sport, in particular Soccer, in the development of South Africa's next generation. In a World Cup year, this initiative resonated well with communities.

SAA
TECHNICAL



SOUTH AFRICAN AIRWAYS TECHNICAL

DURING THE PAST YEAR SAA TECHNICAL ACHIEVED A TURNAROUND OF R152 MILLION WHEN COMPARED WITH THE PREVIOUS REPORTING YEAR, RETURNING A PROFIT OF R63 MILLION.

SAAT operates a full-service MRO organisation, the largest in Africa. It has held full and uninterrupted US Federal Aviation Authority certification since the late 1980s, serving a range of local and international airlines. Market segments include: major airframe checks; engine overhaul; mechanical components; avionics; and line maintenance. Its main operational base is Johannesburg and it also services customers at Cape Town, Durban and smaller airports within South Africa. SAAT provides a full maintenance service to SAA Group (SAA and Mango) and has substantial third-party contracts with local and regional airlines. The current growth strategic focus will shape the expansion of the Company for the next three years and beyond.

SAAT has developed a comprehensive strategy to build it into a financially sustainable entity that is the leader of the Sub-Saharan Africa MRO business. SH&E[1] were engaged in May 2010 to investigate SAAT's market potential and identify the steps to be taken to develop the business into a multi-customer MRO by 2012, potentially through a mix of organic growth and strategic partnerships. The first phases of the review identified MRO trends, customer opportunities and competitor benchmarks.

An indepth operational, financial and organisational assessment was also completed. The findings indicated that SAAT's quality and technical work are well regarded from both a quantitative and qualitative perspective. It was also established that certain areas within the business needed much improvement in order to ensure long term sustainability of the business.

In order to deliver on the recommendations identified during the process described above, "Project THRUST" was implemented. This is an acronym, referring to the concept of 'thrust', used in aviation to describe the power an engine generates to achieve take-off speed. The first 'T' in the acronym stands for Teamwork; the 'H' for the Holistic Approach, which is absolutely essential if the Company's ambitious plans for the future are to be fulfilled; the 'R' stands for Reliability, which is SAAT's major sales proposition; the 'U' for Unit Cost, which the Company is determined to reduce in the interests of improving its competitiveness; the 'S' is for Safety, referring to the safety standards, that must be observed in all operations; and the 'T' is for Turnaround Time, which the SAAT team also aim to reduce in order to keep more of its client's aircraft in the sky, where they make money. The overall objective of this project is to improve the companies' bottom line by a R100 million during the current financial year.

1. Simat, Helliesen & Eichner, a Washington DC based aviation consulting practice owned by ICF International.

SAA TECHNICAL

SAA TECHNICAL

The SAA Group recognises that SAAT is an independent business that contributes revenues to the greater organisation. By the same measure SAAT aims to grow alongside its parent, and wishes to extend its influence into the same territories as the parent company.

Almost since its inception, SAAT has been characterised by a workforce which is skilled and dedicated about what it does to the point of passion. The challenge now is to transfer that passion to a new generation of skilled technicians. This passion should extend to the technical school which is also part of the Company's on-going operations. The school is a productive, yet expensive utility, and is one of several in the environs of OR Tambo International Airport, since similar facilities are operated by South African Express, Denel and the South African Air Force. This duplication of effort is increasingly seen as wasteful, and discussions are taking place aimed at coordinating the training on a shared basis – one that will culminate in qualifications recognised by all.

Another major strategy and activity for the Company is skills transfer. Company policy is now to negotiate with suppliers on the basis of reciprocity. Companies, particularly in Europe and the United States, that provide SAAT with technical services will be urged to reciprocate by providing SAAT with work in return in such a way that both parties benefit and skills are transferred. The Company will prioritise its relationship with companies sympathetic to this thinking. Further to this, the Company plans to maintain this attitude as it explores the African market, offering to pass on skills, as part of the package, to those who want them. These activities are designed to stimulate all-round growth.

In light of the parent company's expansion plans, and working with consultants, SAAT went to considerable trouble and expense to examine the potential market for its services and the prospects for building from its present base to a wider role in the African continent. The Company is encouraged by the results of this study and is implementing some of the recommendations, which will increase the attractiveness of its business proposition.

AIR CHEFS

AIR CHEFS MAIN FOCUS IS IMPLEMENTING A TURNAROUND PLAN FOR THE 2011/12 FINANCIAL YEAR WITH THE AIM OF DEVELOPING THE COMPANY INTO A WORLD-CLASS CATERING ORGANISATION OVER A PERIOD OF TWO YEARS.

In 2008, SAA had considered selling Air Chefs as part of the restructuring programme. This decision was reversed in 2010, but the long period of uncertainty had some material adverse affects on the business. These included a lack of infrastructure investment, resulting in ageing facilities, technology, machinery and vehicles, resultant poor morale, and a tired brand and Value Proposition, disconnected to its target market. This resulted in a loss of competitive position and market share.

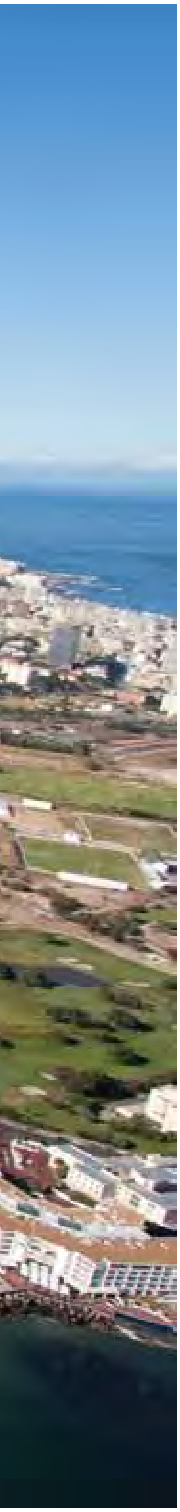
Air Chefs is now in the process of implementing a Turnaround Plan with the aim of developing the company into a world-class catering organisation over the next two years. This will involve the generation of increased revenues and profits through increased market share, leveraging non-airline catering opportunities, and investing in the business to facilitate growth. Additional opportunities include the extension of related services such as bar packing, procurement of product, and regional expansion, in support of the SAA strategy.

This Turnaround Plan is key to the long term retention of Air Chefs as a strategic asset of SAA. A key area of focus in achieving this Turnaround Plan has been on improving the quality of its food offering to all clients, which is a key component of the travellers Lounge and Inflight experience. This includes the introduction of an invigorating menu design and for example, offering Canapés and soup on board.

Air Chefs recorded a loss of R2 million for the financial year compared with a profit of R24,1 million in the previous year. This disappointing performance was primarily as a result of increased food prices and labour costs, which greatly exceeded the increase in revenue for the same period. Aggressive procurement activity, productivity targeting and realignment of business processes are being undertaken to address these areas in order to restore the company to profitability.

Air Chefs has established a solid reputation as a well-respected airline caterer and these strategies will provide it with the leverage to continue to attract more customers. Air Chefs secured the SA Express airline catering business in March 2011, bringing its total client base to ten, which was an encouraging start to a hoped-for new era of growth.

SOUTH AFRICAN TRAVEL CENTRE



SATC OUTPERFORMED ITS COMPETITORS AND ACHIEVED A GROWTH OF 17,61% ON THE SALES OF SAA PREMIUM AND DISCOUNTED INVENTORY IN THE AIRLINE'S HOME MARKET.

The primary function of SA Travel Centre (SATC) for the SAA Group is to incentivise its franchised travel agencies to maximise their revenue contribution to SAA. SATC also contributes to expanding SAA's distribution reach, particularly in the domestic market, making it more convenient for the market to purchase SAA tickets. It does this by setting up alternative travel retail channels and recruiting more travel agencies into the SAA-allied SATC stable of travel retailers. By improving the ease of doing business with SAA, SATC contributes toward enhancing the SAA Group's overall Value Proposition and competitiveness.

SATC continues to recover its operating cost and operates at least at a break-even position. In terms of contribution to SAA passenger revenue, SATC's short to medium term sales performance within the main travel retail channel (travel agencies), has been growing positively on average since 2009.

SATC went into the current financial year with optimistic revenue expectations buoyed mainly by its Africa expansion prospects, re-entry onto the leisure market, and the anticipated positive economic spin-off from the 2010 FIFA World Cup. These were amongst the key assumptions underpinning SATC's strategic planning, against a backdrop of the declining trend in the volume of business within the domestic travel retail industry, which was accelerated by the global financial crisis.

By the end of the financial year, the positive outlook envisaged had not materialised to the extent expected, as evidenced by the low level of business in the local travel retail industry (SATC's mainstay), and amongst SATC franchised travel agencies, relative to the pre-recession era. For SATC, this negative impact manifested mainly in the marked reduction in the volume of corporate travel bookings at franchisee level and underachievement of the FIFA licensed SATC World Cup Tour Operator Sales Programme.

In response to franchisee demand for assistance to better cope with the difficult state of the travel retail industry, SATC introduced a revised franchisee fee structure that was also intended to make the cost of belonging to SATC affordable, thus improving SATC's value proposition in an increasingly competitive travel retail market.

Collectively, the effect of reduced travel bookings, disappointing Tour Operator Programme results and unavoidable lower franchisee fees contributed towards the decline in SATC's revenue. The full extent of this impact was reduced to a R1,0 million loss before taxation against a Shareholder Compact breakeven target for the current financial year. This represents a 42% improvement against the previous year's loss and was achieved through various cost containment and debtors' recovery initiatives that SATC embarked on in the last quarter of the financial year.

In terms of its other Shareholder Compact targets, SATC outperformed its competitors and achieved a combined growth of 17,6% on the sales of SAA premium and discounted inventory in the airline's home market. This growth rate of 17,6% on SAA compares well with the airline's Total Flown Revenue (TFR) and Total Contracted Revenue growth of 7% and 10% respectively for the 2010/11 financial year.


AKE 96109 SA
SOUTH AFRICAN AIRWAYS
CARGO
STAR ALLIANCE

SAA CARGO

TO ACHIEVE GROWTH IN REGIONAL CENTRES SAA CARGO IS IN THE PROCESS OF INCREASING CAPACITY TO DAR ES SALAAM, DURBAN, HARARE, LUANDA, MAPUTO, AND WINDHOEK.

SAA Cargo operates as a business unit and is a critical part of the Group's key mandate to transport goods domestically, within the region and across the globe. This division of the Group has maintained its dominant position, despite the highly competitive market, significantly increasing the number of its key customer accounts in the domestic courier and express industry.

The airline's immediate aim is to achieve growth and capacity in regional centres. SAA Cargo will increase the utilisation of its four freighters by operating on the following routes: Dar es Salaam, Durban, Harare, Luanda, Maputo and Windhoek. In addition to offering a more integrated Cargo service, increasing international freight into regional destinations via Johannesburg is a key initiative that will assist in further unlocking business in these areas.

The shipping of higher value commodities is a complex process which often involves specialised handling and safety procedures. SAA Cargo's handling processes, both regionally and at its Johannesburg hub, are subject to continuous monitoring, with the view of increasing efficiencies and transporting goods more efficiently. The Company's operations are subject to frequent inspections by the Civil Aviation Authority, the Federal Aviation Authority and the International Air Transport Association through IOSA. These certifications make SAA Cargo an attractive proposition amongst freight-forwarders, shippers and the courier industry at large.

As SAA's key objective is to enhance the popularity of Johannesburg as a hub for transportation of cargo, it is important to note that operational costs and customs policies may compromise South Africa's competitive position as a cargo destination. Nonetheless, the Company believes that these challenges can be successfully overcome by effective engagement with all the relevant stakeholders in the interests of strengthening South Africa's position as the destination of choice, and enhancing SAA Cargo's role as the distribution hub for high-value cargo on the continent.


Dole

IN THE 2010/11 FINANCIAL YEAR, SAA INTRODUCED 195 CHILDREN TO THEIR FIRST-EVER FLYING EXPERIENCE

A future SAA pilot?

SAA CONTINUOUSLY STRIVES TO BE A GOOD CORPORATE CITIZEN, ACTIVELY INVOLVED IN REACHING OUT AND GIVING BACK TO COMMUNITIES IN NEED.

This past year, SAA's social investment focus has been on:

- Education – specifically on aviation awareness
- Community outreach
- Emergency relief

SAA and Reach for a Dream Foundation

SAA's partnership with the reach for a dream foundation made it possible to fulfill many heartwarming dreams for children between the ages of three and 18 who have been diagnosed with life-threatening illnesses.

Wings of the future education

SAA prides itself on its Aviation Awareness Programme – "Vulindlela". The Vulindlela project is made possible by a group of SAA pilots, flight attendants, and aircraft technicians who visit schools across the country talking about the science of aviation and motivating learners to follow this career path. SAA also makes use of its partnership with other industry players through the Joint Aviation Awareness Programme (JAAP) to increase knowledge and understanding of the training opportunities offered by the airline and industry. JAAP is SAA's partnership with Air Traffic Navigation Systems, the Civil Aviation Authority, Airports Company of South Africa, the National Air Force, SAPS-Air Wing and the Department of Transport.

SAA also supports the Take a Girl Child to Work Day project. For this initiative, SAA targets schools from disadvantaged communities. A school that benefited in the period under review is Forte High School, in Dobsonville Soweto. On the day the girls were given a real insight into the operations of the airline and treated to a tour of the Company's facilities such as SAA Technical, Operations Control Centre and they were also given a chance to try a hand in flying at the flight simulators.

mySAA Helping Hands – Community Outreach Programmes Food programme

SAA in partnership with its catering subsidiary, Air Chefs, piloted a project aimed at providing food items to organisations that take care of vulnerable children.

The food programme beneficiaries are:

- Etafeni Day Care Centre, an HIV and Aids Programme in Nyanga
- Vukani Stimulation Centre: A Stimulation and Rehabilitation Centre for children with intellectual /multi-disability in Khayelitsha
- Sherwood Park Special Care Centre which cares for mentally challenged children in the community of Sherwood Park
- Siyazigabisa Home of Hope in Tembisa – home to 34 Aids orphans and victims of violence and abuse
- Sithabile Child and Youth Centre in Benoni which houses 67 orphans

SAA's support for the homes also extended to SAA staff volunteering time to do minor renovations at two of the homes ahead of Christmas.

Mandela Day

On Mandela Day, 18th July 2010, SAA partnered with many companies to fly 92 children from Qunu and Mvezo in the Eastern Cape to spend a day in Johannesburg with former State President Nelson Mandela on his birthday.

Chris Hani Baragwanath

SAA staff organised a party for the children in the Oncology wards at the Chris Hani Baragwanath Hospital in Soweto. They provided entertainment and relief to the children who often spend long periods of time in hospital away from their families and friends.

Wings of Mercy

Emergency Relief -Haiti

Under the Wings of Mercy, SAA staff took pride in assisting in getting the much needed relief to the victims of the earthquake disaster in Haiti at the time when that nation was struggling to rebuild lives. SAA collected from staff and some of its suppliers clothes, blankets, water and non-perishables and contributed to the NGO "Gift of the givers". All donations made, were handed over in April to the Gift of the Givers for distribution in Haiti.

In the 2010/11 financial year staff were also encouraged to participate in a range of activities which make a genuine difference in the lives of the less fortunate such as:

- Shavathon in aid of CANSA – The Cancer Association of South Africa
- Casual Day in aid of fund-raising for the Soweto Association for Persons with Disabilities

Children delighted to meet Tata Nelson Mandela.

Overview

The SAA Group proudly employs a committed workforce of 10 057 passionate and skilled people, and is committed to growing its business and developing its employees. To support this commitment, a broad range of exciting initiatives were implemented in this regard.

Aviation is an industry that has a significant impact on the economic growth of our country and continent at large, through job creation and sustained employment. The Operations and Technical areas were SAA's key focus areas for this financial year. SAA Technical successfully created greater job security in a wide range of semi-skilled and skilled disciplines through converting temporary employment contracts into longer fixed-term contracts for technicians, clerical positions, cleaners, buyers, planners and aircraft tug drivers.

Job creation

SAA is committed to the greater objectives of our country's New Growth Path targeting the creation of 529 direct jobs in the next financial year and 1 615 jobs as the business grows over the next three years.

Performance culture

People are at the core of implementing our airline's strategy and delivering on SAA's brand promise. In light of this fundamental priority, the Board has approved an HR strategy with two main focus points:

- To create and embed a high-performance culture in which individual performance is carefully monitored and managed;
- To create a values-based organisational culture.

The key to enabling a performance-based culture lies in all SAA employees living and breathing the airline's core values and business objectives. Encouraging people to strive for excellent performance in their day to day duties, as well as creating a more fulfilling workplace will assist in achieving an organisational culture that will unleash staff potential and create a more successful airline. SAA's performance management systems will thus contract teams or individuals, cover target and standards settings, employee development and periodic competency-based appraisals for every employee. Continuous development through training, mentoring, coaching and building on individual strengths is not only a critical in the long-term retention of services, but also crucial in succession planning in a high performance organisation.

Skills and transformation

SAA has maintained a low staff turnover average of 3,6% over the past year, in comparison to other South African companies at a 9,5% average. SAA's average turnover due to retirement is 0,8% compared to 0,6% and 1,2% for other South African companies.

SAA's age profile

18	to	19 years	0,03%
20	to	29 years	10,98%
30	to	39 years	44,25%
40	to	49 years	25,57%
50	to	59 years	16,77%
60	to	63 years	2,41%

** Excludes Subsidiaries and Fixed-term contractors*

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. SAA will work towards improving its current 36,41% ratio of woman in its employ and the 0.6% of people with disabilities, aiming for 1,4% over the next five years.

The DOT has set the industry-specific targets to fast track implementation of Employment Equity to all stakeholders. The following table highlights SAA's performance in relation to DOT's aviation targets. The industry-specific targets only focus on top management, senior management, pilots and technicians, as well as SAA's targets.

Occupational level	Actual Target	Black		
		Total %	Male	Female
Top management	SAA Achieved	50%	25%	25%
	DOT Target	43%	21%	22%
Senior management	SAA Achieved	58%	41%	17%
	DOT Target	63%	32%	31%
Pilots	SAA Achieved	24%	15%	9%
	DOT Target	8%	5%	3%

The challenge remains to change the Company's workforce profile within the different occupational levels reflecting the demographics of the country's economically active population. Through its modernised, reinvigorated and redesigned Cadet Pilot Training Scheme, SAA plans to achieve meaningful results in this regard, in a short period of time. Furthermore, SAA subscribes to an employee value proposition that attracts, retains and engages employees. Fragmentation of the workforce will assist in addressing the diverse needs and preferences of the current and future generations.

Health and wellness

SAA supports a comprehensive health and wellness programme which promotes a safe and healthy environment through occupational health services and employee assistance programme, and chronic disease management (including HIV and Aids).

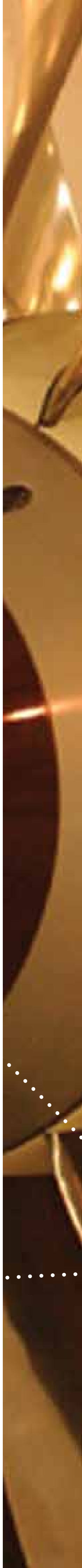
Training

SAA has a long and proud history of recruiting and training within various specialised skills. The airline is creating a common portal for all training within SAA, focusing on training designated groups, e.g. learnerships, graduate programmes and cadet pilot training schemes and ensuring alignment with the spend target of 3% of total payroll spend. The airline will continue to strengthen its training programmes over the long-term as set out below:

- SAA Technical Apprenticeship Programme: SAA already has 105 apprentices in training who will be progressively deployed within the business, as they complete their training. Apprenticeships are offered in a range of specialised aircraft engineering disciplines, including: mechanical engineers, electronics engineers, in-flight entertainment specialists, electroplating, composites and aircraft spray painters. The SAA Technical Apprentice Programme is increasingly focusing on supporting SAA's employment equity objectives.
- Specialist Programmes: These were created to address diversity and skills challenges in specialist roles such as Flight Dispatch, Navigation, Route Analysis and Performance Analysis areas. As part of the initiative to achieve diversity, trainee positions were created in the area for previously disadvantaged individuals. The trainees underwent structured training for three years and are bonded for five years after successful completion of their training.
- Internship Programme: Skills transfer and training through this programme will be amplified in the flight operations, sales, revenue management, HR and information technology services. During the year under review, SAA has successfully extended intern contracts, with others offered permanent employment.

SAA continues to drive employee engagement and participation with its people, consulting in the Bargaining Unit/s with recognised trade unions. The airline continued with its three year wage agreement, up to 31 March 2011.

SAA HAS THE LARGEST AND MOST ADVANCED AIRCRAFT MAINTENANCE BASE IN AFRICA



ANNUAL
FINANCIAL STATEMENTS

For the year ended 31 March 2011

CONTENTS

STATEMENT BY THE COMPANY SECRETARY

For the year ended 31 March 2011

The Company Secretary, Ms R Kibuuka, certifies that the Company has lodged with the Registrar of Companies all such returns as are required for South African Airways (Pty) Limited in terms of section 268(d) of the Companies Act, No 61 of 1973, as amended, and that all such returns are true, correct and up to date in respect of the financial year reported upon.

Company Secretary

30 August 2011

Secretary

Name	Ms R Kibuuka		
Business address	Airways Park Jones Road OR Tambo International Airport Kempton Park 1619	**Postal address**	Private Bag X13 OR Tambo International Airport Kempton Park 1627

Report on the consolidated and separate financial statements

Introduction

We have audited the accompanying consolidated and separate annual financial statements of South African Airways (Proprietary) Limited, which comprise, the consolidated and separate statements of financial position as at 31 March 2011, consolidated and separate statements of comprehensive income, consolidated and separate statements of changes in equity and consolidated and separate statements of cash flows for the year then ended, a summary of significant accounting policies and other explanatory information, the Directors' Report and the Audit Committee Report, as set out on pages 52 to 140.

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

The Accounting Authority (Directors') are responsible for the preparation and fair presentation of these consolidated and separate annual financial statements in accordance with International Financial Reporting Standards and in a manner required by the Companies Act, No 61 of 1973 of South Africa, as amended and the requirements of the Public Finance Management Act No 1, 1999, of South Africa ("PFMA"), and for such internal control as the Accounting Authority (Directors') 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.

Auditor's 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 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 control 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 control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and separate 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 consolidated and separate financial position of South African Airways (Proprietary) Limited as at 31 March 2011, and its consolidated and separate financial performance and its consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards, in the manner required by the Companies Act of South Africa and the requirements of the Public Finance Management Act No 1, 1999, of South Africa.

Emphases of matters

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

Restatement of corresponding figures

As disclosed in note 5 to the annual financial statements, the corresponding figures for 31 March 2010 and 31 March 2009 have been restated. The reasons for the restatements have been disclosed in note 5.

Competition matters

There are certain legal matters against South African Airways (Proprietary) Limited referred to on pages 57 and 58 of the Directors' Report. The ultimate outcome of these matters cannot presently be determined, and no provision for any liability that may result has been made in the annual financial statements.

Guarantees: Air Service Licence

As disclosed on page 59 of the Directors' Report, the requisite guarantees are expiring on 30 September 2011. The Company is in the process ensuring that guarantees will be in place for the period commencing 1 October 2011.

Report on other legal and regulatory requirements

In terms of General notice 1111 of 2010, issued in Government Gazette 33872 of 15 December 2010, we include below our findings on the annual performance report included in the Directors' Report as set out on pages 60 to 62 and on material non-compliance with laws and regulations applicable to the Company and its subsidiaries.

Predetermined objectives

There were no material findings on the audit of predetermined objectives concerning the presentation, usefulness and reliability of the information.

Compliance with laws and regulations

Procurement contract and expenditure management

The reportable items are disclosed in the Directors' Report on pages 58 and 59 in terms of section 50, 51, 55 and 57 of the PFMA.

Other laws and regulations

As disclosed in the Director's Report, South African Airways (Proprietary) Limited has continued its improvement in its processes to identify all legislation and monitor compliance. As these systems are still being implemented, the Group is unable to conclude that it complied with all aspects of relevant legislation.

Internal control

In terms of General notice 1111 of 2010, issued in Government Gazette 33872 of 15 December 2010, we considered internal controls relevant to our audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the findings on compliance with laws and regulations included in this report.

Financial and Performance management

Control deficiencies arose due to non-compliance with the PFMA as reported under "Compliance with laws and regulations" and non-adherence with operational policies and procedures in the expenditure, procurement and contract management processes as detailed on pages 58 and 59 of the Directors' Report.

Deloitte & Touche
Registered Auditor

Deloitte & Touche

Per Trushar Kalan
Partner
30 August 2011

Deloitte Place
The Woodlands
20 Woodlands Drive
Woodmead, 2199

National Executive: GG Gelink Chief Executive, AE Swiegers Chief Operating Officer, GM Pinnock Audit, DL Kennedy Risk Advisory, NB Kader Tax & Legal Services, L Geeringh Consulting, L Bam Corporate Finance, JK Mazzocco Human Resources, CR Beukman Finance, TJ Brown Clients, NT Mtoba Chairman of the Board, MJ Comber Deputy Chairman of the Board.

REPORT OF THE AUDIT COMMITTEE

For the year ended 31 March 2011

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

The Audit Committee has adopted appropriate formal terms of reference compliant with the Companies Act, No 61 of 1973, which have been confirmed by the Board, and has performed its responsibilities as set out in the terms of reference.

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

Audit

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

Financial

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

Governance

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

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

REPORT OF THE AUDIT COMMITTEE

For the year ended 31 March 2011

The Committee's assessment is that the overall control environment of the Group is effective.

The Committee is satisfied that since the previous year of reporting significant progress has been made in improving the internal control environment to prevent, detect and report areas of non-compliance. Reforms introduced include the review of the Delegation of Authority and the Supply Chain Management Policy and introduction of a process for the detection and report of irregular expenditure and fruitless and wasteful expenditure. Accordingly, the full disclosure requirements of the Public Finance Management Act, No 1 of 1999 (PFMA), as amended; have been met during the financial year under review. This is supported by the findings from the internal auditors as well as the external auditors.

The effectiveness of the aforementioned measures continues to be in a constant state of improvement. Where irregular expenditure and fruitless and wasteful expenditure have occurred this has been mainly as 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 adherence to the internal control environment reforms be expedited.

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

The Committee evaluated the SAA's Group annual financial statements for the year ended 31 March 2011 and, based on the information provided therein, believes that the financial statements comply, in all material respects, with the relevant provisions of the PFMA and International Financial Reporting Standards.

Members of the Audit Committee and attendance at meetings

The Committee met 5 times during the year. Details of the members attendance can be found on page 66 of this report.

Audit committee members

ZJ Sithole
BF Mohale
Adv L Nkosi-Thomas
RM Loubser
Y Kwinana*
L Rabbets*
D Lewis*

* *Appointed on 17/02/2011.*

Discharge of responsibilities

The Committee agrees that the adoption of the going-concern premise is appropriate in preparing the annual financial statements, with the consideration of the factors highlighted on page 59 of the Directors' Report. The Audit Committee has therefore recommended the adoption of the annual financial statements by the Board of Directors on 30 August 2011.

On behalf of the Audit Committee

Signed by:

ZJ Sithole
Chairperson

30 August 2011

Introduction

The directors have great pleasure in presenting their report, which forms part of the audited annual financial statements (AFS) of the Company, South African Airways (Pty) Limited (SAA) and of its subsidiaries (the group), for the year ended 31 March 2011.

The AFS 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 which are detailed in note 1 of the financial statements. The accounting policies are supported by reasonable and prudent judgements and estimates as detailed in notes 3 and 4.

The audited AFS are also submitted in accordance with the statutory requirements of the Public Finance Management Act No 1 of 1999 (PFMA) and the South African Companies Act of 1973. In the opinion of the directors, the AFS fairly present the financial position of SAA and its subsidiaries' operations results and cash flow information as at 31 March 2011.

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

Nature of the business and company shareholding

SAA is a state-owned enterprise (SOE) reporting to the Minister of Public Enterprises as supported by the Department of Public Enterprises (DPE). The airline's principal activities include scheduled air services to transport passengers, freight and mail to international, regional and domestic destinations. In fulfilling its mission to be an African airline with global reach, SAA proudly operates to 35 destinations across the continent and provides a competitive, quality air transport service within South Africa, as well as to major cities worldwide.

Review of operating and financial results

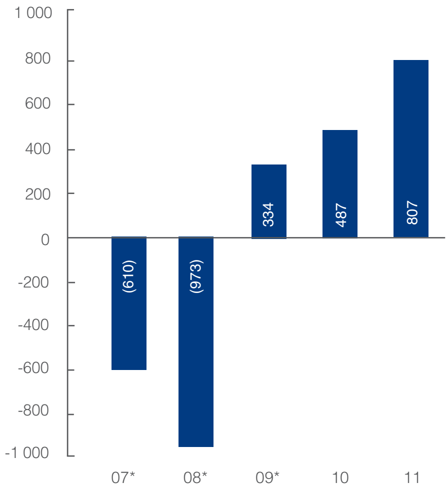
SAA has shown a significant improvement in its financial performance at group level, generating a net profit of R782 million for the current year, which translates into an increase of 77% compared to the R442 million (as restated) in the previous financial year.

These pleasing results were achieved during a period riddled with operating challenges unique for all major airlines across the globe and some unique to SAA. It includes political instability in the Middle East, as well as the effect of a sluggish economic recovery and volatile commodity markets. The airline's sophisticated risk management policies and procedures, designed to manage and mitigate risks arising from the general economic environment, were effective and the results fruitful.

The group's operating performance improved significantly as evidenced by the 66% increase in operating profit to R807 million from R487 million (as restated) in the previous financial year. This improvement is despite the sluggish economic recovery and significantly increased energy cost which was the main contributor to the increase in operating costs. The graph below depicts the operating profit trend over the past five financial years.

Operating profit before finance costs

(R million)

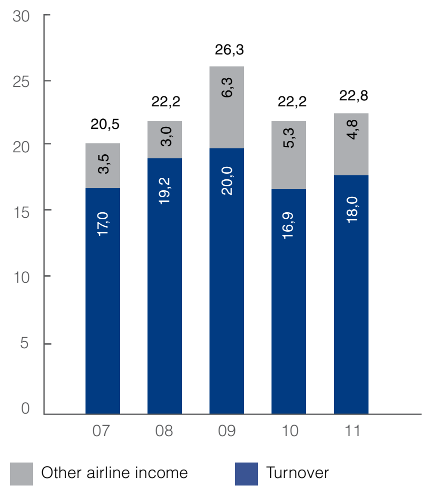


** These amounts have not been adjusted for the restatement as reflected in note 5.*

Turnover, which comprises largely of passenger revenue, has increased by 6% from R16,9 billion in the previous financial year to R18,0 billion in the current financial year. Total income for the group, which includes other airline income comprising largely of fuel levies and other recoveries, increased by 3% from the previous financial year. This increase, although marginal, was despite the sluggish economic and fierce competitive environment. The graph below depicts the turnover trend over the past five financial years.

Income

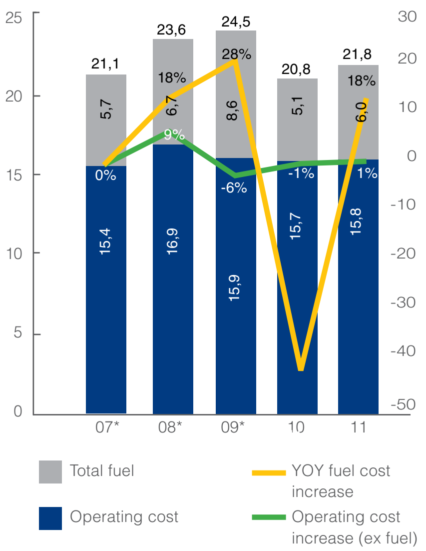
(R billion)



Operating costs, in general, remained well controlled and increased by only 5%. The main driver, as mentioned above, being an increase of 18% in energy costs as a result of the Brent price increasing on average by 25% year-on-year. Excluding the impact of the uncontrollable energy costs, operating costs for the group only increased by 1%, which is testimony of the tight control having been maintained over controllable costs. This was achieved notwithstanding an 8% increase in employee related expenses. The graph below depicts the operating cost and fuel cost trend over the past five financial years.

Fuel costs vs operating cost

(R billion)



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

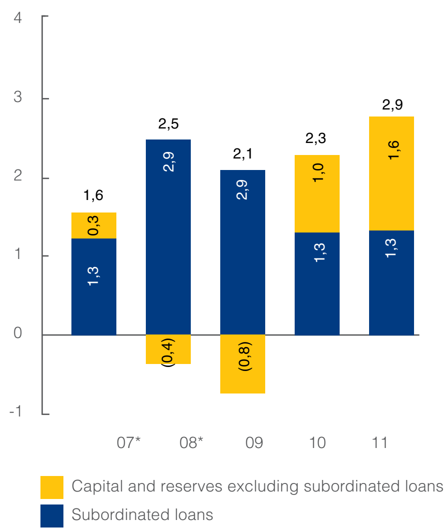
At company level, net profit increased marginally by 2% from a restated R655 million in the previous financial year to R671 million in the current financial year. This increase was largely driven by a significant reduction in foreign currency translation losses and fair value gains on derivative instruments which were partly offset by higher energy costs and lower investment income.

During the current financial period, an improvement in internal controls and systems related to the operational management and financial accounting of deposits paid to fleet-lessors in regard to maintenance deposits has provided SAA with new information which has enabled it to more accurately measure the recoverability of maintenance deposit payments. This information has enabled the Company to restate the recoverable amounts of such deposits in relation to current and prior periods which the Company believes more accurately reflects the results of the operations. As a result, comparative numbers have been restated and opening accumulated losses as at 1 April 2009 adjusted by R1 391 million.

SAA's capital and reserves, before subordinated shareholder guaranteed loans, are currently at R1 641 million compared to the R992 million in the previous financial year (R260 million deficit prior to the restatement mentioned above). The graph below depicts the capital and reserves trend over the past five financial years. During the 2010 financial year a government loan of R1 549 million was converted into equity.

Capital and reserves

(R billion)



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

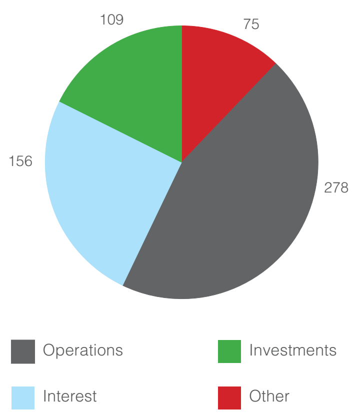
For the year ended 31 March 2011

The group generated total cash of R618 million (2010: R3,8 billion) of which R278 million (2010: R1,7 billion) was generated from operations. The reduction from the previous year is mainly attributable to a decrease in advance sales – the previous year was abnormally high following the run-up to the World Cup – and the strengthening of the Rand against the Dollar.

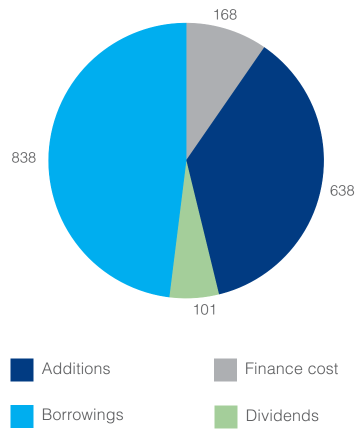
Total cash outflow for the year was R1,7 billion (2010: R4,1 billion) and comprises primarily of net investing activities of R638 million in respect of additions to property, aircraft, equipment and intangible assets (2010: R534 million), as well as the repayment of external borrowings amounting to R838 million (2010: R1,3 billion). As a result, total cash at the end of the year, at group level, declined by R1,1 billion from R3,4 billion to R2,3 billion at the end of March 2011. The graph below analyses the sources of cash inflow and how the cash was applied.

2011

Cash inflow – R618 million

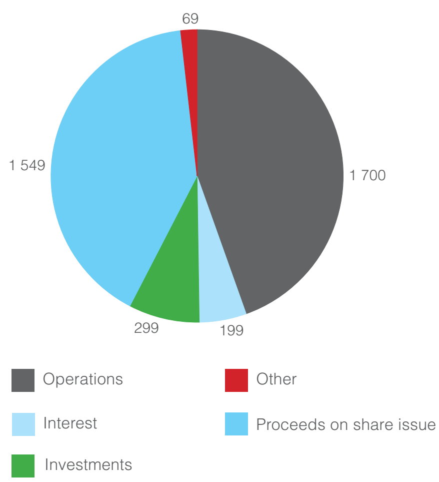


Cash outflow – R1 745 million

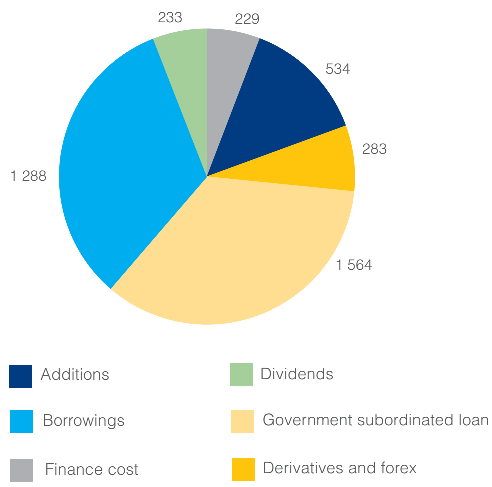


2010

Cash inflow – R3 816 million



Cash outflow – R4 131 million



Group operating data

	2007	2008	2009	2010	**2011**
Capacity – (million)					
Available seat kilometres (ASKs)	34 381	34 570	31 718	31 543	**32 378**
Traffic					
Revenue passenger kilometres (RPKs) (million)	25 920	28 429	23 328	22 413	**22 661**
Revenue passengers (thousands)	8 251	8 906	8 230	8 023	**8 053**
Cargo – tons flown (thousands)	202	186	138	119	**129**
Utilisation					
Passenger load factor (%)	75	82	74	71	**70**
Yield (RPK) – Passenger	0,56	0,58	0,74	0,65	**0,70**
Passenger revenue (Rand million)	14 230	16 527	17 343	14 598	**15 821**
Yield (RASK) – Turnover	0,51	0,56	0,67	0,54	**0,56**
Yield (RASK) – Total airline income	0,61	0,64	0,83	0,71	**0,70**
Unit cost (CASKs)*	0,67	0,75	0,78	0,66	**0,68**
Labour cost	0,10	0,10	0,11	0,13	**0,14**
Energy	0,18	0,21	0,27	0,16	**0,19**
Material cost**	0,05	0,07	0,06	0,06	**0,05**
Depreciation and amortisation	0,02	0,03	0,02	0,02	**0,03**
Other operating costs	0,31	0,34	0,31	0,28	**0,28**

* *Before restructuring costs and exceptional items.*
** *The 2007, 2008 and 2009 amounts have not been adjusted for the restatement as reflected in Note 5.*

Fleet modernisation
In line with SAA's fleet modernisation plan, the final two leased B747-400 aircraft were returned, with the airline taking delivery of the first two new Airbus A330-200s. The new aircraft are under long-term, ten-year operating leases. SAA is also engaged in the process of replacing its narrow-body B737-800 fleet with new A320s.

These strategic steps, combined with steadily improving operational efficiencies and a stronger financial position, place SAA in a well position for sustainable growth in the years ahead.

Critical issues facing the airlines

SAA has continued to deal with a number of critical issues which are elaborated on below. These include strategic and policy issues, in respect of which the directors wish to acknowledge the support received from DPE. SAA reported on these issues in the 2009/2010 Annual Report, with progress highlighted below.

The Airbus A320 order
As reported previously, a Letter of Intent was signed by SAA and Airbus in which it was agreed to increase the number of A320 aircraft from 15 to 20 at a total price not exceeding the indicative value of the original order for the 15 placed in 2002. Deliveries that were scheduled to commence in 2010 have been postponed to 2013. This agreement was subject to shareholder approval, and a Section 54(2)(d) application was submitted to the DPE. Approval from the DPE was received by SAA on 30 April 2010.

The order's total capital commitment of US$886 million is contained in note 36 of the financial statements.

The postponement of the A320 order necessitated SAA to make alternative arrangements to bridge the gap between the expiries of some of the current aircraft leases and the new delivery dates in 2013. These arrangements include 7 lease extensions of existing B737-800s and two new leases on new or used A320 aircraft.

Anti-trust litigation
SAA has made major inroads regarding a range of legacy and dated anti-trust fines/claims emanating in various jurisdictions.

Air cargo
Positive progress has been made regarding SAA's alleged participation in a global air cargo cartel, reducing potential exposure to the airline. In this regard, two proceedings have been concluded without liability to SAA, a third has prescribed according to legal advice received, and a fourth is currently subject to settlement negotiations.

Notably, on 12 November 2010, SAA received correspondence from the European Commission (EC), informing that the EC has decided to close proceedings against the airline. Consequently, SAA was not an addressee in the 9 November 2010 decision of the EC in case COMP/39258, in which 13 airlines were found to have infringed European Union (EU) anti-trust laws and received administrative fines. Related to the EU charge, certain customers of the alleged global air cargo cartel instituted group civil proceedings in the United Kingdom (UK) against British Airways (BA). The latter successfully applied for a motion to include SAA and 35 other airlines as co-respondents in the matter. After the 9 November 2010 decision of the EC, SAA and other non-addressee airlines successfully filed for a motion to be struck from the group action proceedings.

In the United States (US), the anniversary of a five-year prescription period under the US State of Limitations will restrict the Department of Justice to proceed with an indictment. SAA is, without admitting any guilt, currently pursuing a potential settlement with plaintiffs in a separate civil class action for damages in the US. Possible exposure in respect of such a settlement is currently reflected in note 37 of SAA's financial statements as contingent liabilities.

SAA takes compliance with competition law extremely seriously, and engagement with business units takes place on a continuous basis to advise on competition law implications and raise awareness of SAA's competition compliance policy and programme.

Residual air cargo cartel and Far East Asia price fixing matters

SAA's alleged participation in a global air cargo cartel is still under investigation in Australia and Switzerland, with no charges yet. SAA has been charged by the South African Competition Authorities and has replied in defence to the summons by the South African Competition Commission. The South African Competition Commission is investigating price fixing on routes to Far East Asia, however, SAA has not yet been charged in this regard. While taking note of the difficulty of accurately predicting the outcome of the investigations and pending proceedings SAA, with its external advisors, have assessed possible exposure as currently reflected in note 37 of these financial statements as contingent liabilities.

2010 FIFA World Cup ticket pricing complaint

SAA filed a report to the Competition Commission after having received correspondence related to alleged ticket pricing during the World Cup period. SAA simultaneously applied for leniency from prosecution under the Competition Act. The Commission has not yet made any decision in this regard and SAA maintains its commitment to cooperate fully with the Commission.

Comair/Nationwide

The Competition Tribunal handed down a declaratory order in February 2010, ruling that SAA's incentive schemes during the period 1 June 2001 until 31 March 2005 were prohibited practices in contravention of Section 8 (d)(i) of the Competition Act. SAA subsequently filed its notice of appeal in the Competition Appeal Court, with SAA dismissed on 11 April 2011. The judgment includes a cost order reflected in SAA's financial statements as contingent liabilities. No civil claims regarding this matter have been instituted by Nationwide or Comair as yet, instead the two airlines instituted civil claims for an earlier period of alleged contravention. The Nationwide claim was settled with the Nationwide liquidators whilst the Comair claim has not yet proceeded to trial. While taking note of the difficulty of accurately predicting the outcome of the investigations and pending proceedings, SAA with its external advisors has assessed the possible exposure as contingent liabilities as currently reflected in note 37 of these financial statements.

Compliance with the Public Finance Management Act (PFMA)

In accordance with 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.

As noted previously, as part of the remedial action plan, a dedicated PFMA Compliance Officer who reports to the CRO has been appointed. A PFMA Compliance Forum has been established. The forum consists of key personnel from Risk and Compliance, Finance, Human Resources, Procurement and Petroleum Affairs, the subsidiary CFOs and Internal Audit. The forum functions as the monitoring body for corrective actions and implementation of systems and procedures across SAA and its subsidiaries. The forum has made strides in ensuring that issues identified in the previous financial year are addressed and progress is verified by an audit conducted by Internal Audit. With continued and focused efforts, SAA is confident that issues of non-compliance will continue to be addressed systematically.

During the current financial year, according to reports by both the Company's internal and external auditors, significant progress was made towards PFMA compliance. This included the revision and implementation of its Supply Chain Management (SCM) policy and revised Delegation of Authority (DOA) policy and in so doing introducing controls to prevent non-compliance. The SCM and DOA policies were approved by the Board during February 2011. The implementation of the new procurement system has further been bolstered by revised composition, mandate and training of the internal governance structures for procurement as well as initiatives to improve procurement planning and contract management. In addition, the re-implementation of the SAP SRM system as a requisitioning and approval system will ensure that compliance is maintained systemically in the longer term. In the interim, a manual control system in respect of the release of payments to prevent irregular and fruitless and wasteful expenditure was introduced to enhance the effectiveness of the SAP SRM system during the implementation phase.

The procurement of jet fuel supply was compliant with the PFMA, however, extensive administrative delays in signing of contracts by both parties were noted. These administrative delays require future attention.

The Board of Directors adopted a new policy on fruitless and wasteful expenditure in terms of which quarterly disclosures are required of all fruitless and wasteful expenditure incurred. Furthermore, the Board has, over the last year, kept the Minister of Public Enterprises abreast of the findings of the KPMG forensic investigation and has taken legal advice regarding potential claims to recover fruitless and wasteful expenditure.

The Company has implemented the Critical Financial Reporting Controls project designed to address key financial control deficiencies in core financial processes. The intention was to ensure that key financial controls are embedded within the organisation. This project involves the CFO meeting regularly with Divisional Financial Controllers and internal auditors in a forum designed to implement remedial action. These meetings are now embedded and continue to operate effectively. Most critical risks have been addressed, and directors are confident that full compliance with Section 51(1) of the PFMA is within sight.

The Company is confident that the controls implemented to date will bear fruit going forward. The effective implementation of the SCM Policy; training of Procurement and other personnel; effective use of the ERP-system are seen as key enablers in driving the transformation initiative.

Non-compliance with the PFMA
Sections 50, 51, 55 and 57 of the PFMA contain certain obligations including the prevention, detection, identification and reporting of irregular, fruitless and wasteful expenditure, irrespective of quantum.

In the prior year there were no adequate processes and systems in place to identify and report irregular and fruitless and wasteful expenditure and as such these amounts were not reported on and SAA was not fully compliant with these sections. Subsequently, a manual process and system has been put in place in the current year to identify and report on irregular and fruitless and wasteful expenditure. This system is in a constant state of improvement so that in future all irregular and wasteful and fruitless expenditure will be identified and reported on.

To date, no individual irregular or wasteful and fruitless expenditure greater than the threshold agreed with DPE has been identified. A large portion of these breaches related mainly to certain legacy tender processes prior to the implementation of the new procurement system and instances whereby timely contract extensions and signing were not in place in the current year.

Based on the current system in place, total irregular expenditure to the value of R85 million was identified by management and relates to instances whereby expenditure was incurred and timely approval to extend contracts was not obtained or signing of contracts by both parties were not yet in place. In all these instances, services and goods were nevertheless delivered in accordance with contract provisions.

In addition, R2 million of wasteful and fruitless expenditure was identified and relates to fines and penalties. Disciplinary action has been taken against individuals responsible for losses through criminal acts. With the implementation of the new procurement system, processes have been put in place to prevent re-occurrence of these instances of irregular expenditure and wasteful and fruitless expenditure.

Internal control
Regarding the financial control environment, the Company was unable to claim full compliance with Section 51(1)(a)(i) and 51(1)(b)(ii) of the PFMA. Accordingly, SAA commenced and continues with the implementation of a Critical Financial Reporting Controls project designed to address key financial control deficiencies in core financial processes and full compliance with Section 51(1)(a)(i) is expected within the 2011/2012 financial year.

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 the 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 R437 million (2010: R615 million). The current guarantee expires as at 30 September 2011. SAA has engaged with and obtained letters of intent from a local commercial bank to issue the required guarantees with effect from 1 October 2011.

Going concern

Following the airline's turnaround strategy, the financial position of the Company and the state of the business is continuing to show significant improvement. The positive capital base, existing cash resources, available facilities, as well as the facility supported by the guarantee received from the shareholder, are considered adequate by the Directors for the going-concern requirements.

Legal and regulatory universe

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

Recently, there have been various developments within the broader governance, legal and regulatory environments. Internationally, the International Standards Organisation (ISO) issued the International Standard on Risk Management, ISO 31000:2009 (ISO31000). In South Africa, the Institute of Directors South Africa (IoD) issued the King Report on Governance for South Africa 2009 (King III). These developments necessitated the review of our maturity levels in legal, risk and compliance processes. Our objective is to improve our maturity level in these areas over the next three years to one of consistent application, which is well understood, integrated, regularly reviewed, aligned and coordinated across the organisation. Accordingly, we have adopted a combined assurance strategy in respect of our legal and regulatory universe towards achieving this objective.

SAA is in the process of improving the monitoring plan in respect of the broader regulatory and legislative universe. Until the monitoring plan is fully developed and operational, SAA is unable to confirm full compliance with all applicable legislation and regulations.

The trend in the global regulatory environment has been towards the protection of the consumers, environment, stakeholders and promoting good governance. In South Africa, this is evident by the enactment of various laws such as, the Consumer Protection Act, the New Companies Act and the Protection of Personal Information Bill, as well as the King III. Operating procedures in customer facing divisions of the business, in particular, were assessed and a compliance policy developed in preparation of the April 2011 effective date of the Consumer Protection Act. Efforts in respect of the PFMA and competition law are noted above.

In line with the combined assurance strategy, the compliance division has adopted a holistic group approach to achieving its objectives. The compliance programme is paying particular attention to the identification and management of high risk legislation, compliance policies and the creation of awareness and a compliant corporate culture through training programmes.

Shareholder's Compact

Key Performance Indicators (KPIs) have been created to monitor SAA's performance against the predetermined objectives set out at the beginning of the financial year between the airline and 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 2010/2011 financial year.

Other supporting KPIs have been formulated to support the main KPI and are consistent with SAA's 2011-2013 Corporate Plan. Meeting the main KPI may, however, over the forthcoming year, result in SAA having to adjust to unforeseen market conditions which require forfeiting, to a limited extent, delivery against the support KPIs set for the financial year as in the below table:

Key performance area	Key performance indicator by 31 March 2011	FY 2011 Target	FY 2011 Actual	Explanations
Main KPI	Net retained earnings.	R201 million	R681 million	KPI achieved.
Profitability KPIs – structural and operational improvements	Complete a business plan for Voyager by 31 January 2011 and ringfence the Voyager Liability by 31 March 2011.			KPI partially achieved. The business plan was developed by 31 January 2011 but submitted by the 31 March 2011 to the DPE. Activate steps were taken to ring fence the liability which caused year ended liability to decrease by 33%.
	Improving cargo profitability by at least 8% per annum.	8%	57%	KPI achieved.
	Restructuring Air Chefs through critical investment and improved efficiencies by 31 March 2012 towards the sale of business by 31 March 2013.			On track.
	Development of SAA Technical (SAAT) Business Plan by 31 March 2011. SAAT restructuring and improvement of profitability by minimum 8% pa and establishing the Company as a multi-airline focused African maintenance hub by 31 March 2012.			KPI achieved. On track.

Key performance area	Key performance indicator by 31 March 2011	FY 2011 Target	FY 2011 Actual	Explanations
Profitability KPIs – structural and operational improvements (continued)	Develop and implement criteria for route restructurings and fleet investments to enable clear go/no go decision-making by 31 March 2011.			KPI achieved.
	Continuous implementation and monitoring of the effectiveness of the revised Hedging policy with quarterly feedback to the Shareholder.			KPI achieved.
	Obtain suitable Airbus financing without government support, at least 6 months prior to first aircraft delivery.			KPI achieved.
	Strengthening of the financial position evidenced by net retained earnings (R201 million in 2010/11). Improving Debt: Equity Ratio to 75% by 31 March 2013.	R201 million	R681 million	KPI achieved. On track.
	Improve SAA's financial fitness and the need for guarantee support (incl Air Traffic Liability) from the Shareholder.			KPI achieved.
Revenue, traffic and costs	Cargo belly revenue per available ton kilometres	128 cents	130 cents	KPI achieved.
	Average passenger fare.	R2 315	R2 070	KPI not achieved due to economic conditions and market pressure.
Financial value creation	PBT * to total income.	1,3%	3,5%	KPI achieved.
	RASK **(total income).	82,0 cents	70,3 cents	14% below target. KPI was not achieved due to the stronger rand as majority of SAA's revenue is earned in foreign currency.
	RASK (total income) excluding fuel levy.	70,2 cents	62,3 cents	11% below target. KPI was not achieved as a result of lower average airfares and sluggish market conditions.
	RASK (only PAX revenue and fuel levy).	65,2 cents	51,2 cents	21% below target. KPI was not achieved as a result of lower passenger numbers, lower collection of fuel levies and lower average airfares.
	CASK ***(total operating expenses + leases + depreciation).	79,9 cents	67,5 cents	KPI achieved.
	CASK (excluding fuel costs).	58,4 cents	48,7 cents	KPI achieved.
	% of CASK– maintenance.	9%	6%	KPI achieved.

Key performance area	Key performance indicator by 31 March 2011	FY 2011 Target	FY 2011 Actual	Explanations
Financial value creation (continued)	% of CASK – labour.	18%	20%	KPI not achieved.
	% of CASK – fuel.	27%	28%	KPI not achieved.
	Return on total assets.	2%	5%	KPI exceeded.
	Free cash to air traffic liability.	82%	43%	39% below target. KPI lower as a result of lower year-end cash balances.
	** Profit before taxation.* *** Revenue per available seat kilometre.* **** Cost per available seat kilometre.*			
Operational efficiency	Passenger load factor (Revpak*).	74%	69%	5% below target. KPI not achieved due to the general decline in travel in most markets as a result of the recession.
	Cargo load factor (tons carried/ATK**).	54%	53%	1% below target.
	Daily block hours per aircraft.	09:42	09:58	KPI not achieved.
	On-time performance (within 15 minutes of scheduled departure time).	83%	85%	KPI achieved.
	** Revenue bearing passengers.* *** Average ton per kilometre.*			
Human capital	Total income per employee (Permanent + casual) (SAA only).	R3,01 million	R2,39 million	21% below target due to lower average air fares as a result of market pressure.
	ASKs* (SAA only) per employee.	3,45 million	3,22 million	7% below target due to headcount increasing by 9%.
	Training spend on total income.	0,36%	0,20%	0,16% below target due to reprioritising of training needs.
	** Average seat per kilometre.*			
Safety and maintenance efficiency	Operational reportable incidents.	150	46	KPI achieved.
Gearing	Reporting of actual and forward (3 year period) gearing ratio on a quarterly basis including on and off balance sheet debt and commitments. (Off balance sheet commitments to be calculated on the basis of the annual lease cost multiplied by a factor of 7.5).	Quarterly	Quarterly	KPI partially achieved. Actual ratio has been reported quarterly. Forward ratio still to be reported on quarterly on the basis as required in the shareholders report going forward.
	Improving Debt: Equity Ratio to 75% by 31 March 2013.			On track.
	Improve SAA's financial fitness and need for guarantee support (including Air Traffic Liability) from the Shareholder.			KPI achieved.

Corporate governance and code of ethics
The Board of Directors and management are committed to ongoing improvements in corporate governance processes in line with national and international best practices, the PFMA, the Protocol on Corporate Governance in the Public Sector and the King III Report on Corporate Governance for South Africa. As part of this commitment to good corporate governance principles and compliance with the provisions of the PFMA, the Board of Directors and management are continually introducing systems, processes and procedures to ensure that all reported weaknesses are addressed in order to achieve full compliance, for the benefit of all stakeholders. The most significant items receiving attention and focus include those discussed as part of this report. There is also continuous monitoring of SAA's risks at the Finance, Risk and Investment Committee (FRIC), Audit Committee and Board. A process is also under way to bring environmental management and compliance expertise on Board as part of a commitment to the "greening" of the group's operations and to ensuring, in the short term, compliance with the European Union's environmental legislation. This legislation will have a significant impact on the group's flight operations in and out of the European Union.

SAA's Code of Ethics commits the airline to the highest standards of integrity, behaviour and ethics in dealing with all its stakeholders.

Events subsequent to the statement of financial position date
Apart from two A330-200 aircraft deliveries subsequent to 31 March 2011, the directors are not aware of any events that occurred subsequent to the statement of financial position date which require disclosure in or adjustments to these annual financial statements.

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

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

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

Special resolutions passed during the 2010/11 financial year
There were no special resolutions taken at the Annual General Meeting held on 6 September 2010.

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 elected to pay to the various lenders has been classified as dividends. For the current year SAA elected to pay dividends of R101 million (2010: R233 million) on the equity.

Issue of share capital
No shares have been issued.

Directors
SAA has an unitary Board comprising 13 non-executive directors and 2 executive directors. All non-executive directors are appointed by the Minister of Public Enterprises. The directors are drawn from diverse backgrounds (both local and international), and bring a wealth of experience and professional skill to the Board.

Directors' responsibilities and limitations are primarily set out in the Articles of Association, the Board of Directors' Charter, the Companies Act No 61 of 1973, as amended, the PFMA and/or shareholder's resolutions and directives.

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

The Chief Financial Officer (CFO) resigned with effect from 15 December 2010 and an Acting CFO was appointed internally until a replacement CFO could be appointed. The new CFO took up office on 13 June 2011.

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

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

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

Independent professional advice would be available to directors in appropriate circumstances, at the Company's expense. None of the non-executive directors participate in any bonus, share option or pension scheme of the Company.

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

- Board committees
  Four standing Board committees have been established to assist the Board in discharging its responsibilities. Each committee acts within agreed written terms of reference which are reviewed on a regular basis.

  The Chairperson of each committee reports at each scheduled meeting of the Board. Each of the committees has authority to take external advice as required.

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

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

  The Board committees established are as follows:
  - Audit Committee;
  - Finance, Risk and Investment Committee (incorporated into Audit Committee after the 17 February 2011 meeting);
  - Procurement and Tender Processes Committee;
  - Governance and Nominations Committee; and
  - Remuneration and Human Resources Committee.

Audit Committee

The Audit Committee comprised the following members up to 17 February 2011, where after the Finance, Risk and Investment Committee members were incorporated into the Audit Committee:

- Mr ZJ Sithole (Chairperson)
- Mr BF Mohale
- Adv LG Nkosi-Thomas
- Mr RM Loubser

The Audit Committee reviews the Company's AFS to ensure that its accounting policies are the most appropriate to the Company's circumstances and that its financial reporting presents a balanced and understandable assessment of the Company's position and prospects. It also keeps under review the Company's system of internal control.

The committee is also responsible for overseeing the performance, as well as the objectivity and independence, of the auditors and is also required to pre-approve the audit fees. Both internal and external auditors have unfettered access to the committee. Management is invited to all audit committee meetings. According to Treasury Regulation 27 issued in terms of the PFMA, the Audit Committee is required to report on the effectiveness of internal controls and to comment on its evaluations of the annual financial statements. This report can be found on page 52.

Finance, Risk and Investment Committee (FRIC)

The Finance, Risk and Investment Committee comprised the following members up to 17 February 2011, where after the FRIC committee members were incorporated into the Audit Committee:

- Ms Y Kwinana (Chairperson)
- Mr LJ Rabbets
- Prof DH Lewis

This committee is responsible for assisting the Board in discharging its duties relating to corporate and investment accountability and the associated risks in terms of management assurance and reporting. The committee reports to the Board through its chairperson and does not absolve the Board of its ultimate accountability.

The major duties fulfilled by this committee are as follows:
- Present the overall financial risk exposure to the directors.
- Review and recommend any changes to the Financial Risk Management Policy to the Board.
- Review and approve treasury counterparties and counterparty limits for banking, investment and hedging purposes.
- Review financial risk management activities.
- Report on the implementation and control of financial risk management activities to the Board.
- Review investment decisions and make recommendations to the Board.

Procurement and Tender Processes Committee (PTPC)

With effect from 1 April 2010, the committee comprises the following members:

- Mr LJ Rabbets (Chairperson)
- Mr T Daka

- Mr ZJ Sithole
- Ms MM Whitehouse

The role of this committee is to:

- Review and recommend for approval by the Board policies and procedure manuals (where applicable) that are legally compliant and providing for an appropriate procurement and provisioning system which is fair, equitable, transparent, cost-effective;
- Monitor progress with an implementation plan towards full compliance in procurement policies and practices to sustain a compliance culture;
- Monitor trends in procurement spend and compliance and advise the Board of potential risks in irregular and fruitless and wasteful expenditure emanating from procurement practices; and
- Approve, where so delegated by the Board of Directors, the award of tenders in accordance with the Company's Delegation of Authority Policy.

Governance and Nominations Committee (NOMCO)
With effect from 1 April 2010, the committee comprises the following members:

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

This Board Committee must hold sufficient scheduled meetings to discharge all its duties as set out in its terms of reference but subject to a minimum of two meetings per year.

The role of this Committee is:

- To assist the Board to ensure that it has the appropriate composition for it to execute its duties effectively;
- To assist the Board to ensure that directors are appointed through a formal process;
- To assist the Board to ensure that induction and ongoing training and development of directors take place;
- To assist the Board to ensure that formal succession plans for the Board and Chief Executive Officer are in place; and
- To assist and support the Board in the implementation of the overall corporate governance in SAA.

Remuneration and Human Resources Committee (REMCO)
With effect from 1 April 2010, the committee comprises the following members:

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

The role of this committee is to:

- Approve conditions of employment and all benefits applicable to the Chief Executive Officer and the Chief Financial Officer.
- Approve the general material terms and conditions of employment to be applied to all employees of the SAA Group, depending on the regions (i.e. countries) in which they work.
- Consider and recommended to the Board, in consultation with the shareholder where required, for approval, the remuneration of the following:
  (i) The Chief Executive Officer and Chief Financial Officer.
  (ii) The remuneration of the Head of Departments and Executive Managers will be determined by the Chief Executive Officer, within the ranges laid down and approved by the Committee.
  (iii) The Chairperson and non-executive directors' remuneration.
  (iv) The remuneration ranges for all categories of staff.
  (v) The salary increase mandate for all local staff.
  (vi) The general guidelines for salary increase mandates for international stations.
  (vii) The general guidelines to be applied in all annual and any interim salary reviews applicable to the Chief Executive Officer, Chief Financial Officer and the general managers.
- Approve the organisational structure for the Executive Committee level of the organisation.
- Approve the general retirement policies of the SAA group and any changes in such policies or to the rules of the retirement funds.
- Review the Company's affirmative action policies and strategy and the performance of the Company against set targets.
- Review the succession planning as it relates to executives who report directly to the Chief Executive Officer, provided that the Board retains responsibility for planning the succession of the Chief Executive Officer. The committee monitors and reviews employment development and relations such as staff training, personal development, management development, human resources aspects of organisational learning and knowledge, health and safety, contractual relationships, etc.
- Ensure that all appropriate Human Resource Policies are in place and review their appropriateness from time to time.
- Establish a procedure for periodic performance reviews and monitors the effectiveness of staff and management performance on a periodic basis.
- Monitor compliance with the relevant legislation such as Employment Equity, Skills Development, PAYE, Employee Benefits, etc and review the required reports for submission to the Department of Labour.

Directors' interests in contracts
Directors' and employees' declaration 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.

The composition of the Board and changes during the year were as follows:

SAA Board of Directors at 31 March 2011	Date of appointment (A)/ Resignation (R)	Board	AC	FRIC	PTPC	REMCO	NOMCO
Total number of meetings held		6	5	5	3	6	3
Ms CA Carolus (Chairperson) N	28 September 2009 (A)	6					3
Mr T Daka N	28 September 2009 (A)	5			3		
Mr TC Jantjies N	28 September 2009 (A)	6				6	
Mr RM Loubser N	28 September 2009 (A)	5	2				2
Mr BF Mohale N	28 September 2009 (A)	5	4				
Ms MM Whitehouse N	24 October 2006 (A)	6		1*	1		
Ms DC Myeni N	28 September 2009 (A)	5				4	
Adv L Nkosi-Thomas N	28 September 2009 (A)	5	4				3
Mr ZJ Sithole N	2 December 2009 (A)	6	5	4*	3		
Ms Y Kwinana N	2 December 2009 (A)	6	3*	5			
Mr LJ Rabbets N	2 December 2009 (A)	6		5	3		
Mr JP Ndhlovu N	25 February 2010 (A)	6				6	
Prof DH Lewis N	3 May 2010 (A)	5		5		6	
Mr AI Bouchon N	31 October 2010 (R)	1					
Ms SP Mzimela E	1 April 2010 (A)	6	5*	5*	2*	6*	2*
Mr KR Patel (CFO) E	15 December 2010 (R)	3	3*	3*			

Legend

N = Non-executive Director

E = Executive Director

REMCO = Remuneration and Human Resources Committee

NOMCO = Governance and Nominations Committee

AC = Audit Committee

PTPC = Procurement and Tender Processes Committee

**Attendance by invitation*

FRIC = Finance, Risk and Investment Committee

DIRECTORS' REPORT

For the year ended 31 March 2011

Approval of the annual financial statements

The directors are required, by the Companies Act, No 61 of 1973, as amended, and the PFMA to prepare annual financial statements which fairly present the financial position of the Company and the group as at 31 March 2011 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, which 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 the 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.

The external auditors, Deloitte & Touche, 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 are in accordance with the terms of the Companies Act, No 61 of 1973, as amended and the Public Finance Management Act, No 1 of 1999 and appears on page 50.

In preparing the Company and Group annual financial statements set out on pages 52 to 140, unless otherwise disclosed, the Company and Group have complied with International Financial Reporting Standards, the Companies Act and the reporting requirements of the PFMA, and have used the appropriate accounting policies supported by reasonable and prudent judgements and estimates. The directors are of the opinion that these annual financial statements fairly present the financial position of the Company and the Group at 31 March 2011, 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:

Cheryl Carolus
Chairperson

30 August 2011

Siza Mzimela
Chief Executive Officer

30 August 2011

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the year ended 31 March 2011

		GROUP		COMPANY	
	Notes	**2011**	2010	**2011**	2010
R MILLION			RESTATED		RESTATED
Revenue	6	**22 980**	22 462	**21 967**	21 521
Turnover	6	**17 983**	16 941	**16 962**	15 792
Other airline income	6 & 7	**4 841**	5 322	**4 863**	5 393
Total airline income		**22 824**	22 263	**21 825**	21 185
Operating costs		**21 815**	20 805	**20 912**	19 688
Aircraft lease costs	8	**1 686**	1 623	**1 686**	1 623
Accommodation and refreshments		**658**	741	**970**	1 054
Depreciation and amortisation	8	**819**	760	**765**	709
Distribution costs		**1 227**	1 321	**1 182**	1 279
Electronic data costs		**492**	574	**489**	570
Energy		**6 086**	5 148	**5 814**	4 921
Employee benefit expenses	9	**4 417**	4 095	**2 972**	2 814
Material	5 & 24	**1 571**	1 886	**2 807**	2 598
Navigation, landing and parking fees		**1 248**	1 161	**1 173**	1 108
Profit on sale and scrapping of property, aircraft and equipment and assets held-for-sale	8	**(4)**	(53)	**(10)**	(54)
Net impairment write-off	10	**50**	143	**13**	286
Other operating costs		**3 565**	3 406	**3 051**	2 780
Profit before fair value movements and translation losses	8	**1 009**	1 458	**913**	1 497
Fair value movements and translation losses	11	**(202)**	(971)	**(171)**	(903)
Operating profit before finance costs and investment income		**807**	487	**742**	594
Finance costs	12	**(168)**	(229)	**(200)**	(265)
Investment income	13	**156**	199	**142**	336
Profit before taxation		**795**	457	**684**	665
Taxation	14	**(13)**	(15)	**(13)**	(10)
Profit for the year		**782**	442	**671**	655
Other comprehensive income:					
Actuarial gains and losses on defined benefit plans		**(45)**	(35)	**(45)**	(35)
Taxation related to components of other comprehensive income		**13**	10	**13**	10
Other comprehensive losses for the year net of taxation	16	**(32)**	(25)	**(32)**	(25)
Total comprehensive income		**750**	417	**639**	630
Total comprehensive income attributable to:					
Equity holders of the parent		**649**	184	**538**	397
Subordinated loan providers		**101**	233	**101**	233
Basic and diluted earnings per share (cents)	15	**6**	4	**–**	–

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at 31 March 2011

		GROUP			COMPANY		
	Notes	**2011**	2010	2009	**2011**	2010	2009
R MILLION			RESTATED	RESTATED		RESTATED	RESTATED
Assets							
Non-current assets							
Property, aircraft and equipment	17	**6 365**	6 673	7 073	**5 616**	5 909	6 327
Intangible assets	18	**112**	90	103	**107**	85	99
Investments in subsidiaries	19	**–**	–	–	**533**	338	338
Deferred taxation asset	20	**17**	18	23	**–**	–	–
Reimbursement right	38	**–**	–	75	**–**	–	75
		6 494	6 781	7 274	**6 256**	6 332	6 839
Current assets							
Inventories	21	**685**	606	593	**80**	57	77
Investments in subsidiaries	19 & 22	**–**	–	–	**1 313**	1 653	1 798
Derivatives	23	**379**	76	140	**379**	76	140
Trade and other receivables	5 & 24	**4 706**	4 278	5 475	**4 255**	3 796	4 675
Investments	25	**6**	122	349	**6**	122	349
Cash and cash equivalents	26	**2 252**	3 402	3 778	**1 875**	3 111	3 633
		8 028	8 484	10 335	**7 908**	8 815	10 672
Non-current assets held-for-sale and assets of disposal groups	17	**–**	10	80	**–**	10	11
Total assets		**14 522**	15 275	17 689	**14 164**	15 157	17 522
Equity and liabilities							
Capital and reserves							
Share capital	27	**12 892**	12 892	11 343	**13 126**	13 126	11 577
Non-distributable reserve		**(132)**	(100)	(75)	**(132)**	(100)	(75)
Shareholder restructuring fund		**653**	653	653	**653**	653	653
Accumulated loss		**(11 772)**	(12 453)	(12 662)	**(12 314)**	(12 884)	(13 306)
		1 641	992	(741)	**1 333**	795	(1 151)
Subordinated loans guaranteed by government	28	**1 300**	1 300	2 864	**1 300**	1 300	2 864
		2 941	2 292	2 123	**2 633**	2 095	1 713
Liabilities							
Non-current liabilities							
Long-term loans	29	**1 671**	2 139	3 080	**1 671**	2 139	3 080
Employee benefit obligations	30	**39**	41	242	**39**	41	242
Provisions	31	**472**	399	344	**554**	399	344
Other long-term liabilities	32	**63**	63	63	**–**	–	–
Deferred revenue on ticket sales	34	**832**	1 159	1 352	**832**	1 159	1 352
		3 077	3 801	5 081	**3 096**	3 738	5 018
Current liabilities							
Derivatives	23	**14**	–	227	**14**	–	227
Trade and other payables	5 & 33	**4 893**	4 833	5 598	**4 857**	5 003	5 852
Provisions	5 & 31	**83**	246	593	**107**	276	734
Deferred revenue on ticket sales	34	**3 107**	3 540	3 314	**3 050**	3 482	3 261
Short-term portion of long-term loans	29	**407**	553	688	**407**	553	688
Finance lease obligations	35	**–**	10	29	**–**	10	29
		8 504	9 182	10 449	**8 435**	9 324	10 791
Liabilities of disposal group		**–**	–	36	**–**	–	–
Total liabilities		**11 581**	12 983	15 566	**11 531**	13 062	15 809
Total equity and liabilities		**14 522**	15 275	17 689	**14 164**	15 157	17 522

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 March 2011

R MILLION	Share capital	Non-distri-butable reserves	Share-holder restruc-turing	Total capital and reserves	Accumu-lated loss	Share-holder's deficit	Sub-ordinated loss guaran-teed by govern-ment	Total
Group								
Balance at 1 April 2009 – as previously reported	11 343	(75)	653	578	(14 053)	(2 132)	2 864	732
Restatement[1]	–	–	–	–	1 391	1 391	–	1 391
Balance at 1 April 2009	**11 343**	**(75)**	**653**	**578**	**(12 662)**	**(741)**	**2 864**	**2 123**
Total comprehensive income for the year	–	(25)	–	(25)	442	417	–	417
Issue of share capital	1 549	–	–	–	–	1 549	–	1 549
Repayment of subordinated loan during the year	–	–	–	–	–	–	(1 564)	(1 564)
Dividends paid on government subordinated loan classified as an equity instrument	–	–	–	–	(233)	(233)	–	(233)
Balance at 1 April 2010	**12 892**	**(100)**	**653**	**553**	**(12 453)**	**992**	**1 300**	**2 292**
Total comprehensive income for the year	–	(32)	–	(32)	782	750	–	750
Dividends paid on government subordinated loan classified as an equity instrument	–	–	–	–	(101)	(101)	–	(101)
Balance at 31 March 2011	**12 892**	**(132)**	**653**	**521**	**(11 772)**	**1 641**	**1 300**	**2 941**

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the year ended 31 March 2011

R MILLION	Share capital	Non-distri-butable reserves	Share-holder restruc-turing	Total capital and reserves	Accumu-lated loss	Share-holder's deficit	Sub-ordinated loss guaran-teed by govern-ment	Total
Company								
Balance at 1 April 2009 – as previously reported	11 577	(75)	653	578	(14 697)	(2 542)	2 864	322
Restatement[1]	–	–	–	–	1 391	1 391	–	1 391
Balance at 1 April 2009	**11 577**	**(75)**	**653**	**578**	**(13 306)**	**(1 151)**	**2 864**	**1 713**
Total comprehensive income for the year	–	(25)	–	(25)	655	630	–	630
Issue of share capital	1 549	–	–	–	–	1 549	–	1 549
Repayment of subordinated loan during the year	–	–	–	–	–	–	(1 564)	(1 564)
Dividends paid on government subordinated loan classified as an equity instrument	–	–	–	–	(233)	(233)	–	(233)
Balance at 1 April 2010	**13 126**	**(100)**	**653**	**553**	**(12 884)**	**795**	**1 300**	**2 095**
Total comprehensive income for the year	–	(32)	–	(32)	671	639	–	639
Dividends paid on government subordinated loan classified as an equity instrument	–	–	–	–	(101)	(101)	–	(101)
Balance at 31 March 2011	**13 126**	**(132)**	**653**	**521**	**(12 314)**	**1 333**	**1 300**	**2 633**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended 31 March 2011

		GROUP		COMPANY	
R MILLION	Notes	**2011**	2010	**2011**	2010
Cash flows from operating activities					
Cash generated from/(used in) operations	40	**278**	1 700	**(21)**	1 343
Interest income		**156**	199	**142**	336
Finance costs		**(168)**	(229)	**(200)**	(265)
Realised gains/(losses) from derivative financial instruments		**34**	(283)	**34**	(283)
Net cash inflow/(outflow) from operating activities		**300**	1 387	**(45)**	1 131
Cash flows from investing activities					
Additions to property, aircraft and equipment	17	**(593)**	(517)	**(548)**	(487)
Proceeds on disposal of property, aircraft equipment and intangible assets	17 & 18	**41**	69	**39**	69
Additions to intangible assets	18	**(45)**	(17)	**(43)**	(14)
Repayment of/(increase in) loans to subsidiaries		**–**	–	**180**	(1)
Decrease in investments		**109**	299	**109**	299
Acquisition of shares in subsidiary		**–**	–	**(1 800)**	–
Repayment of loan from subsidiary		**–**	–	**1 800**	–
Net cash outflow from investing activities		**(488)**	(166)	**(263)**	(134)
Cash flows from financing activities					
Proceeds on share issue	27	**–**	1 549	**–**	1 549
Repayment of government subordinated loan	28	**–**	(1 564)	**–**	(1 564)
External borrowings repaid		**(838)**	(1 288)	**(804)**	(1 211)
Dividends paid		**(101)**	(233)	**(101)**	(233)
Net cash outflow from financing activities		**(939)**	(1 536)	**(905)**	(1 459)
Net decrease in cash and cash equivalents		**(1 127)**	(315)	**(1 213)**	(462)
Cash and cash equivalents at the beginning of the year		**3 402**	3 776	**3 111**	3 633
Foreign exchange effect on cash and cash equivalents		**(23)**	(59)	**(23)**	(60)
Cash and cash equivalents at end of the year	26	**2 252**	3 402	**1 875**	3 111

Included in cash and cash equivalents at year-end is restricted cash of nil (2010: R423 million).

1. Basis of preparation and significant accounting policies

Statement of compliance

The consolidated annual financial statements of South African Airways (Pty) Limited (the Group and the Company), have been prepared in accordance with International Financial Reporting Standards (IFRS). The Group annual financial statements are presented in South African Rand, which is the Group's reporting and functional currency, rounded to the nearest million. The Group annual financial statements have been prepared on a historical-cost basis, except for measurement at fair value of certain financial instruments as described further in the accounting policy notes below.

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

Basis of consolidation

Subsidiaries

Consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company (subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity to obtain benefits from its activities.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

Goodwill

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

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

Foreign currency transactions

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

For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity. For the purpose of presenting consolidated annual financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in Rands 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 equity and transferred to the Group's translation reserve. Such translation differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

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

Revenue

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

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

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.
- 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 is 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.
- The costs incurred for the transaction and the costs to complete the transaction can be measured reliably recognised by reference to the stage of completion of the transaction at the end of the reporting date.

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

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

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

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

Frequent flyer programme

SAA operates a frequent flyer programme, SAA Voyager, which provides a variety of awards to programme members based on mileage credit for flights on SAA, other airline and non-airline partners that participate in the programme. Cargo users accumulate equivalent awards.

Voyager revenue consists of annual participation fees, service fees and sale of miles to Voyager airline and non-airline partners. The participation fees and service fees are recognised as revenue immediately when it becomes due and payable. Voyager income arising from the sale of mileage to airline and non-airline participating partners are recognised as revenue on accrual in the period which the miles were sold.

SAA recognises two components of the Voyager member's ticket sales price separately. Component one will be the value of the consideration received for the actual service rendered and component two will be the fair value of the miles accumulated as a result of the sale of the ticket. Component one will be recognised as revenue as per the revenue accounting policy. Component two will be deferred until such time that award credits are redeemed and it fulfills its obligations to supply awards or when such miles expire.

The fair value of the liability is determined using estimation techniques that take into account the fair value of awards for which they could be redeemed. The liability is adjusted periodically based on awards earned, awards redeemed and changes in the SAA Voyager programme. Changes in the liability are recognised as revenue in the period of change. In instances where Voyager Miles are expected to expire, a liability is not recognised.

Technical maintenance

Income receipts for maintenance services rendered, to third parties outside the Group, on a power-by-the-hour basis are recognised as revenue when services are rendered based on the percentage of completion. Other maintenance services rendered on time and material basis are recognised as revenue when services are rendered by reference to the stage of completion of a transaction determined based on the proportion that costs incurred to date bear to the estimated total costs of the transaction.

Maintenance costs

Maintenance and repair costs are recognised as an expense when incurred.

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. Unutilised maintenance reserves at the expiry of the lease term are not refundable. Maintenance reserves are recognised as an asset. The recoverability of the asset is assessed against the entity's ability to claim against future maintenance events.

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

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

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

Maintenance reserve: Group as lessor

The maintenance reserve received is recognised as revenue as and when they become due from the lessee.

The provision for maintenance claim liability, limited to the maintenance reserves credits, is raised on receipt of a valid claim for reimbursement in respect of qualifying maintenance costs.

Power by the hour

SAA Group enters into maintenance arrangements (known as power by the hour) for aircraft engines with technical service providers in respect of which SAA is required to make monthly payments based on engine flight hours. Where an agreement is for total care maintenance services, the technical service provider is obligated to provide engine maintenance services when a maintenance event occurs. The monthly payments are recognised as prepaid expenditure and only expensed when the maintenance costs are incurred.

Where the maintenance services or repairs required on the engine is provided only on time and material service basis, the maintenance costs, less any discounts, are recognised as expenses when incurred.

Borrowing costs

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

Taxation

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

Current tax

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

Deferred tax

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

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

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

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

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. 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 is stated at deemed cost and not depreciated. Buildings are stated at deemed cost, less accumulated depreciation and impairment losses. Deemed costs were determined at the date of transition to IFRS, 1 April 2004 as the fair value of the land and buildings arrived at by applying the relevant property index to the property valuations done by professional qualified valuers in 2001.

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 manufacturers' discount/credits, with subsequent additions to or renewal of exchangeable units also stated at cost. Cost includes any fair value gains or losses resulting from hedging instruments used to hedge the acquisition of the underlying asset, which qualify for hedge accounting. Where there are deferred payment terms, the cost is the cash price equivalent.

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

Other property, machinery and equipment

All other property, machinery and equipment, including unit leading devices, are stated at cost less accumulated depreciation and any recognised impairment losses. Equipment includes major spare parts and standby equipment to the extent that SAA is expected to use them in more than one accounting period.

Depreciation

Depreciation is not provided on assets in the course of construction and land. All other property and equipment are depreciated by recording a charge to the statement of comprehensive income, computed on a straight-line basis so as to write off the cost of the assets less the anticipated residual value over their estimated useful lives.

When parts of an item of property, aircraft and equipment have different useful lives, those components are identified and the useful life and residual values are estimated for each component. Where the useful lives for the identified components are similar, those are aggregated and depreciated as one component by applying the useful life relevant to that significant component.

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

The following annual rates are applicable:

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

Leased assets

Period of lease or shorter as may be appropriate.

Residual values

The aircraft and its components have useful lives ranging from five to fifteen years, with residual values of 20% 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 PDPs relating to aircraft still being constructed.

These are released from capital work in progress and recognised as part of the asset when the construction is complete.

Exchangeable units

Exchangeable units are classified as equipment and are depreciated accordingly. The cost of repairing and exchanging such units is charged to the statement of comprehensive income as and when incurred. Disposal or retirement of property, aircraft and equipment which the Group has identified as available-for-sale immediately and in their present condition, subject only to terms that are usual and customary for sales of such assets and for which its sale is highly probable, are reclassified as non-current assets held-for-sale.

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 the statement of comprehensive income 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.

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

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 asset 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 Group'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 Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

Non-current assets held-for-sale

Non-current assets and disposal groups are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition.

Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

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

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

Discontinued operations

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

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

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

Intangible assets

Intangible assets acquired separately

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

Intangible assets acquired in a business combination

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

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

Amortisation

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

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

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

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

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

Derecognition of intangible assets

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

Impairments

Intangible assets

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

Tangible assets

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

Calculation of recoverable amount

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

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Reversal of impairments

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount. The increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in income immediately. An impairment loss in respect of goodwill is not reversed in subsequent periods.

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 timeframe 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 deposit and defeasance deposit.

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, except for trade and recognition of interest would be immaterial.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or that are not classified as at fair value through profit and loss, loans and receivable or held-to-maturity investments. This category includes listed and unlisted investments, except for investments in subsidiaries, associates and joint ventures.

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

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

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

Dividends received from these investments are recognised in profit or loss when the right of payment has been established. These are included in the revenue. Fair value is determined as stated in note 43.1.

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 method less any impairment.

Financial assets at fair value through profit and loss

Financial assets at fair value through profit or loss include financial assets held-for-trading. These mainly include the 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 43.1.

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 asset 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 and 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 Group's investment in subsidiaries, associates and joint ventures continue to be held at cost, and are reviewed annually for impairment.

Cash and cash equivalents

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

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 forms part of the consideration receivable. Any loss arising on remeasurement is classified as 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.

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

Gains and losses on subsequent measurement

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

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

Hedge accounting

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

Effective interest rate method

The effective interest 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 basis for debt instruments other than those financial assets classified as at FVTPL.

Impairment of financial assets

Financial assets, other than those at fair value through profit and loss, are assessed for indicators of impairment at each statement of financial position date. Financial assets are impaired where there is objective evidence that, because of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For categories of financial assets, such as trade receivables, impairment is assessed on an individual basis. Any assets that are assessed not to be impaired on an individual basis are subsequently assessed for impairment on a portfolio basis. The assets are grouped on 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 debtors, and any dispute of amount receivable from the debtor is also considered as part of impairment indicators. For more details refer to note 24.

For loans and deposits carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced using an allowance account. When a trade and 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 and loss are not reversed through profit and loss. Any increase in fair value subsequent to an impairment loss is recognised directly in equity.

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.

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

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 government guaranteed subordinated loans 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 direct reduction from equity. The gains or losses on purchase, sale, issue or cancellation of treasury shares are recognised directly in equity.

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

Financial liabilities
Financial liabilities primarily include trade and other payables, bank overdrafts, interest-bearing borrowings from financial institutions denominated in local and foreign currency, and other liabilities such as finance lease obligations. Other financial liabilities are subsequently measured at amortised cost, with the exception of finance lease obligations, which are measured in terms of IAS 17 Leases (refer to "Accounting policy on leases"). Financial liabilities at fair value through profit and 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 43.1.

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 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.

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

Onerous contracts

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

Reimbursements

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

Restructuring provision

A restructuring provision is recognised when the Group has a present obligation (legal or constructive) because of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The obligation to restructure arises when management has made a decision to restructure and a detailed formal plan for restructuring is put in place, an announcement to stakeholders is made and valid expectation to those affected has been raised that it will be carried out or has started to be implemented before statement of financial position date.

Provision for return conditions

The provision for aircraft return conditions is raised when the obligating event that triggers the return conditions occurs; the provision is the estimated costs to be incurred by SAA for those aircraft that have fallen short of meeting the return conditions, in order to reinstate them to expected redelivery conditions.

Employee benefits

Pension benefits

The Group operates a defined benefit fund as well as defined contribution funds. The assets of each scheme are held separately from those of the Group and are administered by the scheme's trustees. The funds are actuarially valued by professional independent consulting actuaries.

The Group's contributions to the defined contribution fund are charged to the statement of comprehensive income 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, except for the SAA subfund of the Transport Pension Fund, which is valued based on the attained age method. The benefit costs are recognised in the statement of comprehensive income. Actuarial gains and losses are recognised in the period in which they occur outside of profit and loss in a statement of recognised income and expense.

Past-service costs are recognised immediately to the extent that the benefits are already vested and are otherwise amortised on a straight-line basis over the average period until the amended benefits become vested.

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 in the statement of comprehensive income on a straight-line basis over the average period until the benefit becomes vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the statement of comprehensive income.

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.

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

Termination benefits

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

Related parties

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

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

Comparative figures

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

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

Standards and interpretations

- Conceptual framework for Financial Reporting 2010
- IFRS 5 – Non-current Assets Held-for-Sale and Discontinued Operations
- IAS 17 – Leases
- IAS 27 – Consolidated and Separate Financial Statements
- IAS 32 – Financial Instruments: Presentation
- IAS 36 – Impairment of Assets
- IAS 38 – Intangible Assets
- IAS 39 – Financial Instruments: Recognition and Measurement

Final Interpretations issued by the IFRS Interpretations Committee

- IFRIC 9 – Reassessment of Embedded Derivatives

The adoption of these standards and interpretations did not have a material impact on the Group and Company.

2.2 Standards and Interpretations early adopted

The Group has not chosen to early adopt any standards and interpretations except IAS 24: Related parties which is effective for financial periods beginning 1 January 2011. Refer to note 5 and 39 for more details.

2.3 Standards and interpretations and amendments to standards

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

Standards and interpretations

- Amendments to IFRS 1 – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters
- IFRS 1 – Amendments resulting from May 2010 Annual Improvements to IFRS
- IFRS 1 – Replacement of 'fixed dates' for certain exceptions with 'the date of transition to IFRS
- IFRS 7 – Amendments resulting from May 2010 Annual Improvements to IFRS
- Amendments to IFRS 7 Disclosures – Transfers of Financial Assets
- IFRS 9 (as amended in 2010) – Financial Instruments
- IFRS 10 – Consolidated Financial Statements
- IFRS 11 – Joint Arrangements
- IFRS 12 – Disclosure of Interests in Other Entities
- IFRS 13 – Fair Value Measurement
- IAS 1 – Amendments resulting from May 2010 Annual Improvements to IFRS
- IAS 12 – Limited scope amendment (recovery of underlying assets)
- IAS 27 – Amendments resulting from May 2010 Annual Improvements to IFRS

2. New standards and interpretations

(continued)

- IAS 27 – Reissued as IAS 27 Separate Financial Statements (as amended in 2011)
- IAS 28 – Reissued as IAS 28 Investments in Associates and Joint Ventures (as amended in 2011)
- IAS 34 – Amendments resulting from May 2010 Annual Improvements to IFRS
- IFRIC 13 – Amendments resulting from May 2010 Annual Improvements to IFRS
- IFRIC 14 – November 2009 Amendments with respect to voluntary prepaid contributions
- IFRIC 19 – Extinguishing Financial Liabilities with Equity Instruments

An assessment of the above standards and interpretations and amendments to standards will be conducted in the next financial year to determine its impact on the Group and Company financial statements.

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 airway bills 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 airway bills 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 four 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 R560 million to income in the current year. The amount released to income in 2010 was R645 million.

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

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

Useful lives and amortisation method of intangible assets

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

Employee benefit obligations

Refer to notes 1 and 38 respectively for judgements applied by management.

Maintenance reserves impairment provision

Maintenance reserves prepayments unutilised at the expiry of the lease term are not refundable. The Group estimates the unutilised balance that is likely to remain at the end of the lease term based on planned events and assumed consumed life of leased aircraft and their components between year-end and the lease expiry date and uses this estimate as the basis for the valuation of the maintenance reserves impairment provision. The recognition of the maintenance reserves assets and values thereof are subject to critical judgements followed by management.

4. Key sources of estimation uncertainty

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

Power by the hour (PBTH)
Monthly payments are recognised as prepaid expenditure and only expensed when the maintenance costs are incurred. The asset or liability recorded is dependent upon management's judgement pertaining to future maintenance activity levels. In essence, maintenance is prepaid and amortised in future periods based on anticipated future maintenance.

At the end of each reporting period, SAA Technical calculates the total engine flight hour charges for the scope of services as agreed in the contract and paid to Rolls-Royce/Lufthansa and compares the result to the amounts that Rolls-Royce/Lufthansa would have charged for actual off-wing services performed under "time and material rates". If the former result exceeds the latter amounts, SAA Technical recognises an asset (prepayment); if the latter exceeds the former, SAA Technical will recognise a provision.

At year-end, SAA Technical had recorded a net prepayment of R235 million (2010: R316 million).

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.

IFRIC 13 does not prescribe a specific approach for estimating the fair value of an award credit but does require that it is based on the fair value to the holder. The fair value of an individual award credit is determined using estimation techniques and reflects the weighted average of a number of factors ie, fare per sector, flight upgrades and partner rewards. A rolling 12-month historical trend forms the basis of the calculations. The number of Voyager Miles not expected to be redeemed by members are also factored into the estimation of fair value.

A level of judgement is exercised by management due to the diversity of inputs that go into determining the fair value of Voyager Miles.

Contingent liabilities and unquantifiable exposures
Refer to note 37.

5. Restatement

The financial statements have been restated for both SAA (Pty) Limited and SAA Group for the 2010 and 2009 years. The restatements relate to the following:

- During the financial period, an improvement in internal controls and systems related to the operational management and financial accounting of deposits paid to fleet-lessors in regards to maintenance deposits has provided SAA with new information which has enabled it to more accurately measure the recoverability of maintenance deposit payments. This information has enabled the Company to restate the recoverable amounts of such deposits in relation to current and prior periods which the Company believes more accurately reflects the results of its operations.
- A duplicated accrual by one of its subsidiares. This transaction is an inter-company transaction which is eliminated on consolidation and therefore has no impact on the Group.
- A duplicated accrual relating to maintenance costs. This transaction affects both the Company and the Group.

The financial statements have been reclassified for both SAA (Pty) Limited and SAA Group for the 2010 and 2009 years. The reclassifications relate to the provisions for accumulated leave and service bonuses which was in previous years classified as provisions but have now correctly been reclassified as accruals according to IAS 19 – Employee Benefits.

The SAA Group has early adopted IAS 24 – Related Parties which is effective for financial periods beginning 1 January 2011. The early adoption of IAS 24 has been applied retrospectively with the 2010 figures being restated. SAA has applied the exemption under paragraph 25 of IAS 24 to government related entities. Its related parties therefore consitute DPE, its subsidiaries, some major public entities falling under schedule 2 of the PFMA and key management personnel. Prior to the restatement its related parties constituted DPE, its subsidiaries, all major public entities falling under Schedule 2 of the PFMA and key management personnel. Refer to note 39 for more details.

5. Restatement (continued)

The aggregate effect of the restatements on the financial statements for the years ended 31 March 2010 and 31 March 2009 are as follows:

		GROUP		COMPANY	
R MILLION	Notes	2010	2009	2010	2009
Statements of financial position					
Trade and other payables	33				
Previously stated		4 422	5 127	4 818	5 490
Reclassification		550	471	421	362
Duplicated maintenance accruals		(139)	–	(236)	–
Restated balance		4 833	5 598	5 003	5 852
Trade and other receivables	24				
Previously stated		3 165	4 084	2 683	3 284
Reversal of impairment reserve on maintenance reserve receivable		1 113	1 391	1 113	1 391
Restated balance		4 278	5 475	3 796	4 675
Provisions – current portion	31				
Previously stated		796	1 064	697	1 096
Reclassification		(550)	(471)	(421)	(362)
Restated balance		246	593	276	734
Statements of comprehensive income					
Operating costs – material					
Previously stated		2 117		2 926	
Duplicated maintenance accruals		(139)		(236)	
Reversal of impairment reserve on maintenance reserve receivable		(92)		(92)	
Restated amount		1 886		2 598	
Fair value movements	11				
Previously stated		601		533	
Revaluation adjustment on maintenance reserve receivable		370		370	
Restated amount		971		903	
Profit for the year					
Previously stated		581		697	
Net result of adjustments above		(139)		(42)	
Restated profit		442		655	

An amount of R1 391 million was adjusted to opening retained earnings on 1 April 2009. Refer to the statement of changes in equity.

		GROUP		COMPANY	
R MILLION	Notes	**2011**	2010	**2011**	2010
6. Revenue					
The analysis of revenue for the year is as follows:					
Turnover					
Passenger revenue		**15 821**	14 598	**15 159**	13 950
Freight and mail		**1 285**	1 218	**1 285**	1 218
Technical services		**395**	544	**41**	46
Voyager income	34	**284**	362	**284**	362
Commission received		**198**	219	**193**	216
Total turnover		**17 983**	16 941	**16 962**	15 792
Other airline income	7	**4 841**	5 322	**4 863**	5 393
Investment income	13	**156**	199	**142**	336
		22 980	22 462	**21 967**	21 521

R MILLION	Notes	GROUP 2011	GROUP 2010	COMPANY 2011	COMPANY 2010
7. Other airline income					
Other airline income is made up of the following items:					
Handling revenue		**140**	114	**89**	91
Income from leased assets		**51**	184	**153**	263
Release from prescribed tickets		**554**	632	**554**	632
Release from prescribed air waybills		**6**	13	**6**	13
Insurance recoveries		**3**	22	**3**	22
Fuel levies and other recoveries		**4 087**	4 357	**4 058**	4 372
		4 841	5 322	**4 863**	5 393
8. Profit before fair value movements and translation losses					
Profit before fair value movements and translation losses is stated after taking into account, among others, the following:					
Depreciation					
Aircraft and simulators		**642**	630	**638**	626
Land, buildings and structures		**64**	41	**42**	19
Machinery, equipment and furniture		**61**	51	**41**	32
Vehicles and cabin loaders		**8**	6	**2**	2
Containers		**1**	2	**1**	2
Total depreciation	17	**776**	730	**724**	681
Amortisation of intangible assets	18	**43**	30	**41**	28
Total depreciation and amortisation		**819**	760	**765**	709
Operating lease payments					
Aircraft		**1 686**	1 623	**1 686**	1 623
Buildings		**80**	81	**66**	69
Equipment and vehicles		**26**	20	**9**	7
		1 792	1 724	**1 761**	1 699
Profit on sale and scrapping of property, aircraft and equipment					
Profit on sale of property, aircraft and equipment		**(13)**	(76)	**(13)**	(76)
Scrapping costs		**9**	23	**3**	22
Total profit on sale and scrapping of property, aircraft and equipment, and assets held-for-sale		**(4)**	(53)	**(10)**	(54)
Restructuring (reversals) costs					
Grounding of Boeing 747-400 fleet		**–**	(166)	**–**	(166)
Labour costs		**–**	6	**–**	6
Total restructuring costs		**–**	(160)	**–**	(160)
Professional fees					
Managerial services		**4**	5	**4**	5
Technical services		**69**	51	**55**	36
Internal audit fees		**17**	26	**15**	23
Total professional fees		**90**	82	**74**	64

R MILLION	Notes	GROUP 2011	GROUP 2010	COMPANY 2011	COMPANY 2010
8. Profit before fair value movements and translation losses (continued)					
Auditors' remuneration					
Audit fees – current year		**20**	17	**17**	16
Maintenance reserves released to the statement of comprehensive income	24	**(434)**	(495)	**(434)**	(495)
Directors' emoluments and executive management emoluments are disclosed in note 39.					
9. Employee benefit expenses					
9.1 Short-term employee benefit expenses					
Personnel and labour costs		**4 075**	3 729	**2 741**	2 544
Contribution to pension funds		**289**	261	**197**	180
Contribution to provident funds		**37**	31	**37**	31
Contribution to post-retirement medical funds		**52**	47	**33**	32
		4 453	4 068	**3 008**	2 787
9.2 Post-employment benefit expenses[1]					
Current-service costs		**9**	39	**9**	39
Interest cost		**107**	100	**107**	100
Expected return on plan assets		**(152)**	(122)	**(152)**	(122)
Foreign exchange losses		**–**	10	**–**	10
		(36)	27	**(36)**	27
Total employee benefit expenses		**4 417**	4 095	**2 972**	2 814
[1]These costs relate to other post-employment and other long-term employee benefit plans for the Group. The post-employment benefit costs have been disclosed in note 38.					
10. Net impairment write-off					
Impairment of loans and receivables held at amortised cost					
Impairment of accounts receivable		**2**	33	**–**	30
Impairment of other assets					
Net (reversal) impairment of carrying value of investment in subsidiaries	19	**–**	–	**(35)**	146
Reversal of impairment of property, aircraft and equipment		**–**	(18)	**–**	(18)
Impairment of aircraft*		**56**	128	**56**	128
Reversal of impairment of investments		**(6)**	–	**(6)**	–
Reversal of impairment – other		**(2)**	–	**(2)**	–
		50	143	**13**	286

** The impairment of aircraft relates to the impairment processed on the owned 747-400 aircraft.*

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

11. Fair value movements and translation losses

	GROUP 2011	GROUP 2010 RESTATED	COMPANY 2011	COMPANY 2010 RESTATED
Foreign exchange loss on translation of:				
Foreign currency investments	**(23)**	(59)	**(23)**	(59)
Foreign currency-denominated long-term loans	**(215)**	(193)	**(180)**	(117)
Net monetary assets and liabilities	**(71)**	(403)	**(75)**	(411)
Translation loss of foreign assets and liabilities	**(309)**	(655)	**(278)**	(587)
Fair value gain/(loss) on derivative instruments held-for-trading:				
Realised gain/(loss) on derivatives	**34**	(283)	**34**	(283)
Fair value gain on derivative financial instruments	**289**	163	**289**	163
Option premiums amortised	**(216)**	(196)	**(216)**	(196)
Net fair value gain/(loss) on derivative instruments held-for-trading	**107**	(316)	**107**	(316)
Total fair value movements and translation losses	**(202)**	(971)	**(171)**	(903)

12. Finance costs

	GROUP 2011	GROUP 2010 RESTATED	COMPANY 2011	COMPANY 2010 RESTATED
The interest paid related to financial liabilities held at amortised cost is detailed below:				
Interest paid on long-term borrowings	**168**	227	**168**	227
Interest paid on overdraft	**–**	1	**–**	–
Interest on obligations under finance leases	**–**	1	**–**	1
Other interest paid	**–**	–	**32**	37
	168	229	**200**	265
Recognised directly in equity				
Interest paid on subordinated loans guaranteed by government loans classified as a dividend	**101**	233	**101**	233

13. Investment income

	GROUP 2011	GROUP 2010 RESTATED	COMPANY 2011	COMPANY 2010 RESTATED
Interest received was derived from:				
Cash and bank balances	**153**	191	**139**	191
Loans and receivables (defeasance deposit)	**3**	8	**3**	8
Other financial assets – held at amortised cost	**–**	–	**–**	137
	156	199	**142**	336

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

14. Taxation

Major components of the tax expense				
South African normal taxation				
Current				
Local income tax – current period	**–**	–	**–**	–
Deferred				
Deferred taxation – current year	**–**	5	**–**	–
Deferred taxation – impairment of net asset raised through other comprehensive income	**13**	10	**13**	10
	13	15	**13**	10
Total taxation				
Current	**–**	–	**–**	–
Deferred	**13**	15	**13**	10
	13	15	**13**	10
Reconciliation of the tax expense				
Reconciliation between accounting profit and tax expense:				
Accounting profit	**795**	457	**684**	665
Tax at the applicable tax rate of 28% (2010: 28%)	**223**	128	**192**	186
Tax effect of adjustments on non-taxable income				
Tax effect of non-taxable income	**(107)**	(18)	**(15)**	(84)
Tax effect of non-deductible expenses	**9**	105	**10**	70
Current year temporary differences not recognised	**(157)**	363	**(240)**	428
Assessed loss raised/(utilised)	**60**	(508)	**81**	(535)
Interest classified as a dividend – tax deductible	**(28)**	(65)	**(28)**	(65)
Release of deferred tax raised in equity	**13**	10	**13**	10
	13	15	**13**	10
Estimated tax losses available to be utilised against future taxable income	**7 960**	7 296	**6 657**	6 369

	GROUP	
	2011	2010
R MILLION		RESTATED

15. Basic and diluted earnings per share (cents)

Weighted average number of ordinary shares in issue (millions)	**12 056**	12 056
Profit for the year (Rand million)	**782**	442
Basic and diluted earnings per share (cents)	**6**	4
Weighted average number of shares		
Ordinary shares at the beginning of the year	**12 056**	11 343
Ordinary shares issued during the year	**–**	713
Ordinary shares at the end of the year	**12 056**	12 056

Prior to the restatement in 2010, basic and diluted EPS was 5 cents per share.

R MILLION	Gross	Tax	Net
16. Other comprehensive income			
Components of other comprehensive income			
Group – 2011			
Actuarial (losses)/gains on defined benefit plans			
Gains on Frankfurt Pension Fund	**1**	**–**	**1**
Losses on SAA subfund of Transport Pension Fund	**(50)**	**14**	**(36)**
Gains on post-retirement medical benefits	**4**	**(1)**	**3**
	(45)	**13**	**(32)**
Group – 2010			
Actuarial (losses)/gains on defined benefit plans			
Losses on Frankfurt Pension Fund	(4)	1	(3)
Losses on UK Pension Fund	(7)	2	(5)
Losses on SAA subfund of Transport Pension Fund	(28)	8	(20)
Gains on post-retirement medical benefits	4	(1)	3
	(35)	10	(25)
Company – 2011			
Actuarial (losses)/gains on defined benefit plans			
Gains on Frankfurt Pension Fund	**1**	**–**	**1**
Losses on SAA subfund of Transport Pension Fund	**(50)**	**14**	**(36)**
Gains on post-retirement medical benefits	**4**	**(1)**	**3**
	(45)	**13**	**(32)**
Company – 2010			
Actuarial (losses)/gains on defined benefit plans			
Losses on Frankfurt Pension Fund	(4)	1	(3)
Losses on UK Pension Fund	(7)	2	(5)
Losses on SAA subfund of Transport Pension Fund	(28)	8	(20)
Gains on post-retirement medical benefits	4	(1)	3
	(35)	10	(25)

R MILLION	2011 Cost/ Valuation	2011 Accu-mulated depreciation	2011 Carrying value	2010 Cost/ Valuation	2010 Accu-mulated depreciation	2010 Carrying value
17. Property, aircraft and equipment						
Group						
Land, buildings and structures	**1 535**	**(281)**	**1 254**	1 425	(218)	1 207
Machinery, equipment and furniture	**691**	**(423)**	**268**	598	(372)	226
Vehicles and cabin loaders	**80**	**(52)**	**28**	68	(53)	15
Aircraft and simulators	**10 857**	**(6 535)**	**4 322**	10 660	(6 004)	4 656
Containers	**35**	**(34)**	**1**	35	(33)	2
Capital work in progress	**492**	**–**	**492**	567	–	567
Total	**13 690**	**(7 325)**	**6 365**	13 353	(6 680)	6 673
Company						
Land, buildings and structures	**818**	**(131)**	**687**	709	(90)	619
Machinery, equipment and furniture	**347**	**(201)**	**146**	270	(167)	103
Vehicles and cabin loaders	**31**	**(21)**	**10**	28	(21)	7
Aircraft and simulators	**10 812**	**(6 527)**	**4 285**	10 618	(6 000)	4 618
Containers	**35**	**(34)**	**1**	35	(33)	2
Capital work in progress	**487**	**–**	**487**	560	–	560
Total	**12 530**	**(6 914)**	**5 616**	12 220	(6 311)	5 909

R MILLION	Opening balance	Additions	Disposals	Classified as held-for-sale[1]	Transfers	Revaluations of PDPs	Total
Group – 2011							
Reconciliation							
Cost							
Land, buildings and structures	**1 425**	**55**	**(14)**	**10**	**59**	**–**	**1 535**
Machinery, equipment and furniture	**598**	**79**	**(11)**	**–**	**25**	**–**	**691**
Vehicles and cabin loaders	**68**	**22**	**(10)**	**–**	**–**	**–**	**80**
Aircraft and simulators	**10 660**	**356**	**(187)**	**–**	**28**	**–**	**10 857**
Containers	**35**	**–**	**–**	**–**	**–**	**–**	**35**
Capital work in progress	**567**	**81**	**–**	**–**	**(134)**	**(22)**	**492**
	13 353	**593**	**(222)**	**10**	**(22)**	**(22)**	**13 690**

[1] *The non-current assets held-for-sale comprising land and buildings in the previous financial year no longer meets the definition of held-for-sale according to IFRS 5 and has been classified as part of normal property, plant and equipment.*

17. **Property, aircraft and equipment** (continued)

R MILLION	Opening balance	Disposals	Depreciation	Impairment loss	Total
Group – 2011					
Reconciliation					
Accumulated depreciation and impairment					
Land, buildings and structures	**(218)**	**1**	**(64)**	**–**	**(281)**
Machinery, equipment and furniture	**(372)**	**10**	**(61)**	**–**	**(423)**
Vehicles and cabin loaders	**(53)**	**9**	**(8)**	**–**	**(52)**
Aircraft and simulators	**(6 004)**	**167**	**(642)**	**(56)**	**(6 535)**
Containers	**(33)**	**–**	**(1)**	**–**	**(34)**
	(6 680)	**187**	**(776)**	**(56)**	**(7 325)**

R MILLION	Opening balance	Additions	Disposals	Transfer from disposal group held-for-sale	Revaluations of PDPs	Total
Group – 2010						
Reconciliation						
Cost						
Land, buildings and structures	1 385	17	(14)	37	–	1 425
Machinery, equipment and furniture	509	75	(11)	25	–	598
Vehicles and cabin loaders	57	11	(14)	14	–	68
Aircraft and simulators	10 442	239	(21)	–	–	10 660
Containers	34	1	–	–	–	35
Capital work in progress	487	174	–	5	(99)	567
	12 914	517	(60)	81	(99)	13 353

R MILLION	Opening balance	Disposals	Transfer from disposal group held-for-sale	Depreciation	Impairment	Total
Group – 2010						
Reconciliation						
Accumulated depreciation and impairment						
Land, buildings and structures	(173)	–	(4)	(41)	–	(218)
Machinery, equipment and furniture	(310)	10	(21)	(51)	–	(372)
Vehicles and cabin loaders	(42)	13	(18)	(6)	–	(53)
Aircraft and simulators	(5 285)	21	–	(630)	(110)	(6 004)
Containers	(31)	–	–	(2)	–	(33)
	(5 841)	44	(43)	(730)	(110)	(6 680)

17. Property, aircraft and equipment (continued)

R MILLION	Opening balance	Additions	Disposals	Classified as held-for-sale[1]	Transfers	Revaluations of PDPs	Total
Company – 2011							
Reconcilliation							
Cost							
Land, buildings and structures	**709**	**47**	**(7)**	**10**	**59**	**–**	**818**
Machinery, equipment and furniture	**270**	**65**	**(8)**	**–**	**20**	**–**	**347**
Vehicles and cabin loaders	**28**	**6**	**(3)**	**–**	**–**	**–**	**31**
Aircraft and simulators	**10 618**	**352**	**(186)**	**–**	**28**	**–**	**10 812**
Containers	**35**	**–**	**–**	**–**	**–**	**–**	**35**
Capital work in progress	**560**	**78**	**–**	**–**	**(129)**	**(22)**	**487**
	12 220	**548**	**(204)**	**10**	**(22)**	**(22)**	**12 530**

R MILLION	Opening balance	Disposals	Depreciation	Impairment loss	Total
Company – 2011					
Reconciliation					
Accumulated depreciation and impairment					
Land, buildings and structures	**(90)**	**1**	**(42)**	**–**	**(131)**
Machinery, equipment and furniture	**(167)**	**7**	**(41)**	**–**	**(201)**
Vehicles and cabin loaders	**(21)**	**2**	**(2)**	**–**	**(21)**
Aircraft and simulators	**(6 000)**	**167**	**(638)**	**(56)**	**(6 527)**
Containers	**(33)**	**–**	**(1)**	**–**	**(34)**
	(6 311)	**177**	**(724)**	**(56)**	**(6 914)**

R MILLION	Opening balance	Additions	Disposals	Revaluations of PDPs	Total
Company – 2010					
Reconciliation					
Cost					
Land, buildings and structures	706	17	(14)	–	709
Machinery, equipment and furniture	229	51	(10)	–	270
Vehicles and cabin loaders	28	8	(8)	–	28
Aircraft and simulators	10 401	237	(20)	–	10 618
Containers	34	1	–	–	35
Capital work in progress	486	173	–	(99)	560
	11 884	487	(52)	(99)	12 220

[1] The non-current assets held-for-sale comprising land and buildings in the previous financial year no longer meets the definition of held-for-sale according to IFRS 5 and has been classified as part of normal property, plant and equipment.

17. Property, aircraft and equipment (continued)

R MILLION	Opening balance	Disposals	Depreciation	Impairment	Total
Company – 2010					
Reconciliation					
Accumulated depreciation and impairment					
Land, buildings and structures	(71)	–	(19)	–	(90)
Machinery, equipment and furniture	(144)	9	(32)	–	(167)
Vehicles and cabin loaders	(27)	8	(2)	–	(21)
Aircraft and simulators	(5 284)	20	(626)	(110)	(6 000)
Containers	(31)	–	(2)	–	(33)
	(5 557)	37	(681)	(110)	(6 311)

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

Certain aircraft are encumbered as security for the financing thereof. The net book value of capitalised aircraft encumbered in respect of financing raised by the Group amounts to R2,9 billion (2010: R3,2 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.

Assets and disposal groups held for sale are as follows:

	GROUP		COMPANY	
R MILLION	**2011**	2010	**2011**	2010
Non-current assets held for sale				
Carrying value of land and buildings held for sale		10		10
		10		10

18. Intangible assets

R MILLION	2011 Cost/ Valuation	2011 Accu-mulated depreciation	2011 Carrying value	2010 Cost/ Valuation	2010 Accu-mulated depreciation	2010 Carrying value
Group						
Software development	**433**	**(324)**	**109**	366	(281)	85
Internet booking site	**39**	**(36)**	**3**	42	(37)	5
Goodwill[1]	**35**	**(35)**	**–**	35	(35)	–
Total	**507**	**(395)**	**112**	443	(353)	90
Company						
Software development	**423**	**(319)**	**104**	358	(278)	80
Internet booking site	**39**	**(36)**	**3**	42	(37)	5
Total	**462**	**(355)**	**107**	400	(315)	85

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

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

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

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

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

R MILLION	Opening balance	Additions	Total
Group – 2010			
Reconciliation			
Cost			
Software development	352	14	366
Internet booking site	39	3	42
Other intangible assets	35	–	35
	426	17	443

18. Intangible assets (continued)

R MILLION	Opening balance	Amortisation	Total
Group – 2010			
Reconciliation			
Accumulated amortisation and impairment			
Software development	(252)	(29)	(281)
Internet booking site	(36)	(1)	(37)
Other intangible assets	(35)	–	(35)
	(323)	(30)	(353)

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

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

R MILLION	Opening balance	Additions	Total
Company – 2010			
Reconciliation			
Cost			
Software development	347	11	358
Internet booking site	39	3	42
	386	14	400

R MILLION	Opening balance	Amortisation	Total
Company – 2010			
Reconciliation			
Accumulated amortisation and impairment			
Software development	(251)	(27)	(278)
Internet booking site	(36)	(1)	(37)
	(287)	(28)	(315)

		COMPANY	
R MILLION	Note	2011	2010

19. Investments in subsidiaries

Total investment in subsidiaries			
Shares at cost		**2 370**	570
Net amounts owing by subsidiaries	22	**1 313**	3 293
		3 683	3 863
Impairment of investments in subsidiaries		**(1 837)**	(1 872)
		1 846	1 991
Presented as part of non-current assets		**533**	338
Presented as part of current assets		**1 313**	1 653
		1 846	1 991

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

		% holding		RAND MILLION Shares at cost	
Name of subsidiaries	Shares	2011	2010	2011	2010
Air Chefs (Pty) Limited	100	**100**	100	**72**	72
SAA City Centre (Pty) Limited	1 000	**100**	100	**2**	2
SAA Technical (Pty) Limited	200	**100**	100	**1 960**	160
Mango Airlines (Pty) Limited (formerly trading as Tulca (Pty) Limited)	1 120	**100**	100	**336**	336
				2 370	570
Impairment of investment in subsidiaries				**(1 837)**	(232)
				533	338

The share of the net aggregate profits of the subsidiaries for the year amounted to R110 million (2010: loss of R125 million).

	COMPANY	
R MILLION	2011	2010
Directors' valuation[2]		
Air Chefs (Pty) Limited	**70**	13
SAA City Centre (Pty) Limited	**3**	4
SAA Technical (Pty) Limited	**123**	–
Mango Airlines (Pty) Limited (formerly trading as Tulca (Pty) Limited)	**410**	525
	606	542

[2] The companies were valued by the directors in the current year. SAA City Centre (Pty) Limited and SAA Technical (Pty) Limited was valued using the net asset value while Air Chefs (Pty) Limited and Mango Airlines (Pty) Limited was valued using a discounted cash flow model.

	GROUP			COMPANY		
	2011	2010	2009	**2011**	2010	2009
R MILLION		RESTATED	RESTATED		RESTATED	RESTATED
20. Deferred taxation asset						
Deferred tax asset						
Temporary differences in respect of property, aircraft and equipment	**(1 140)**	(1 461)	(1 425)	**(1 059)**	(1 378)	(1 339)
Doubtful debts	**298**	69	82	**294**	65	77
Air traffic liability and other deferred income	**867**	949	761	**708**	842	746
Provisions	**700**	1 072	746	**599**	1 030	750
Prepayments	**–**	(24)	(24)	**–**	(23)	(24)
Maintenance reserve payments	**191**	168	210	**191**	168	210
Differences due to mark-to-market of financial instruments	**(102)**	(22)	24	**(102)**	(22)	24
Other assets	**–**	–	(16)	**–**	–	(16)
Assessed loss	**2 294**	2 146	2 650	**1 929**	1 849	2 451
	3 108	2 897	3 008	**2 560**	2 531	2 879
Deferred tax asset not recognised	**(3 091)**	(2 879)	(2 985)	**(2 560)**	(2 531)	(2 879)
Deferred tax asset recognised	**17**	18	23	**–**	–	–

It is the Group’s policy to only recognise deferred tax assets if it is probable that sufficient future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised. The deferred tax recognised as at 31 March 2011 relates to Mango Airlines (Pty) Limited and SAA City Centre (Pty) Limited.

	GROUP		COMPANY	
R MILLION	**2011**	2010	**2011**	2010
21. Inventories				
Maintenance inventories	**911**	835	**–**	3
Capital work in progress	**26**	40	**–**	–
Consumables	**130**	117	**80**	55
	1 067	992	**80**	58
Provision for obsolescence	**(382)**	(386)	**–**	(1)
	685	606	**80**	57

	COMPANY	
R MILLION	**2011**	2010
22. Amounts owing by subsidiaries		
Subsidiaries		
SAA Technical (Pty) Limited	**1 275**	3 248
Air Chefs (Pty) Limited	**34**	44
SAA City Centre (Pty) Limited	**4**	1
Subtotal	**1 313**	3 293
Impairment of loans to subsidiaries	**–**	(1 640)
	1 313	1 653

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

23. Derivatives

R MILLION	Jet fuel derivatives	Currency options	Forward exchange contracts	Total
Group and Company				
Fair value at 1 April 2009				
Made up as follows:	(227)	97	43	(87)
Assets	–	97	43	140
Liabilities	(227)	–	–	(227)
Fair value adjustments reported in net profit	292	(86)	(43)	163
Fair value at 1 April 2010				
Made up as follows:	65	11	–	76
Assets	65	11	–	76
Fair value adjustments reported in net profit	306	(3)	(14)	289
	371	8	(14)	365

FIGURES IN RAND MILLION	GROUP AND COMPANY 2011	2010
Total derivative financial assets	**379**	76
Jet fuel derivatives	**371**	65
Currency options	**8**	11
Total derivative financial liabilities	**(14)**	–
Forward exchange contracts	**(14)**	–
	365	76

24. Trade and other receivables

R MILLION	GROUP 2011	GROUP 2010 RESTATED	GROUP 2009 RESTATED	COMPANY 2011	COMPANY 2010 RESTATED	COMPANY 2009 RESTATED
Gross accounts receivable	**1 940**	1 853	2 350	**1 907**	1 788	2 243
Allowance for impairment	**(205)**	(218)	(226)	**(189)**	(204)	(209)
Net trade receivables	**1 735**	1 635	2 124	**1 718**	1 584	2 034
Prepayments and other receivables	**2 971**	2 643	3 351	**2 537**	2 212	2 641
Net trade and other receivables	**4 706**	4 278	5 475	**4 255**	3 796	4 675
Reconciliation of impairment of trade and other receivables						
Opening balance	**(218)**	(226)	(292)	**(204)**	(209)	(276)
Provision raised	**(2)**	(33)	(81)	**–**	(30)	(77)
Amounts utilised for write-offs	**15**	41	146	**15**	35	143
Reversal of impairments	**–**	–	1	**–**	–	1
Closing balance	**(205)**	(218)	(226)	**(189)**	(204)	(209)

The trade receivables portfolio impairment loss relates to:

- debtors in dispute which are provided for immediately 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
- omission and errors due to uncaptured sales.

The 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.

R MILLION	Gross amount	Current not yet past due	Past due but not impaired	Impaired amount
24. Trade and other receivables (continued)				
Group – 2011				
BSP	**740**	**695**	**23**	**22**
Credit card	**204**	**201**	**–**	**3**
GSA	**84**	**73**	**4**	**7**
Stations	**5**	**2**	**–**	**3**
Cargo freight and mail	**304**	**253**	**–**	**51**
Airline catering	**5**	**3**	**–**	**2**
Travel services	**8**	**8**	**–**	**–**
Technical maintenance	**76**	**64**	**–**	**12**
Other trade debtors	**514**	**409**	**–**	**105**
	1 940	**1 708**	**27**	**205**
Company – 2011				
BSP	**740**	**695**	**23**	**22**
Credit card	**204**	**201**	**–**	**3**
GSA	**84**	**73**	**4**	**7**
Stations	**5**	**2**	**–**	**3**
Cargo freight and mail	**304**	**253**	**–**	**51**
Other trade debtors	**570**	**467**	**–**	**103**
	1 907	**1 691**	**27**	**189**

R MILLION	Gross amount	Current not yet past due	Past due but not impaired	Impaired amount
Group – 2010				
BSP	836	618	197	21
Credit card	186	180	–	6
GSA	129	72	47	10
Stations	7	3	–	4
Cargo freight and mail	243	118	74	51
Airline catering	2	1	–	1
Travel services	2	–	–	2
Technical maintenance	67	56	–	11
Other trade debtors	381	269	–	112
	1 853	1 317	318	218
Company – 2010				
BSP	836	618	197	21
Credit card	186	180	–	6
GSA	129	72	47	10
Stations	7	3	–	4
Cargo freight and mail	243	118	74	51
Other trade debtors	387	275	–	112
	1 788	1 266	318	204

R MILLION	Gross amount	Current not yet past due	Past due but not impaired	Impaired amount

24. Trade and other receivables (continued)

Group – 2009				
BSP	909	861	–	48
Credit card	162	158	–	4
GSA	115	83	–	32
Stations	9	6	–	3
Cargo freight and mail	261	74	140	47
Airline catering	5	4	1	–
Travel services	4	3	–	1
Technical maintenance	98	72	10	16
Other trade debtors	787	437	275	75
	2 350	1 698	426	226
Company – 2009				
BSP	909	861	–	48
Credit card	162	158	–	4
GSA	115	83	–	32
Stations	9	6	–	3
Cargo freight and mail	261	74	140	47
Other trade debtors	787	435	277	75
	2 243	1 617	417	209

	GROUP			COMPANY		
FIGURES IN RAND MILLION	**2011**	2010	2009	**2011**	2010	2009
The past due but not impaired can be analysed further in terms of aging as follows:						
30 – 60 days	**–**	200	263	**–**	200	262
61 – 90 days	**–**	103	59	**–**	103	53
91 –120 days	**1**	11	104	**1**	11	102
<121 days	**26**	4	–	**26**	4	–
	27	318	426	**27**	318	417

R MILLION	GROUP 2011	GROUP 2010	GROUP 2009	COMPANY 2011	COMPANY 2010	COMPANY 2009
24. Trade and other receivables (continued)						
Included in other receivables are amounts in respect of maintenance payments made to lessors. Refer to the accounting policies section for details of the treatment of these claims.						
Maintenance reserve receivable	**2 001**	1 712	2 140	**2 001**	1 712	2 140
Impairment provision	**(682)**	(599)	(749)	**(682)**	(599)	(749)
Net maintenance reserve receivable	**1 319**	1 113	1 391	**1 319**	1 113	1 391
Reconciliation of net maintenance reserve receivable[1]						
Opening balance	**1 113**	1 391	1 214	**1 113**	1 391	1 214
Maintenance reserve payment expenses	**741**	587	514	**741**	587	514
Total release to statement of comprehensive income for the year	**(434)**	(495)	(583)	**(434)**	(495)	(583)
Maintenance reserves claims received	**(28)**	(190)	(293)	**(28)**	(190)	(293)
Maintenance reserves claims receivable	**(406)**	(305)	(290)	**(406)**	(305)	(290)
Foreign exchange revaluation adjustment	**(101)**	(370)	246	**(101)**	(370)	246
Closing balance	**1 319**	1 113	1 391	**1 319**	1 113	1 391

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

R MILLION	GROUP 2011	GROUP 2010	COMPANY 2011	COMPANY 2010
25. Investments				
Investment in unlisted shares at cost				
SA Airlink (Pty) Limited	**35**	35	**35**	35
Impairment of unlisted investment	**(29)**	(35)	**(29)**	(35)
Directors' valuation of unlisted investment[1]	**6**	–	**6**	–
Investment in share trust				
South African Airways Employee Share Trust	**–**	–	**157**	157
Impairment of the loan to South African Airways Employee Share Trust	**–**	–	**(157)**	(157)
	–	–	**–**	–
Loans and receivables				
Defeasance deposit	**–**	122	**–**	122
The defeasance deposit arose on the back of the sale and operating leaseback of two Boeing 747-400s. These deposits were held in two US$-denominated bank accounts bearing interest at 6,77% (2010: 6,77%) per annum. The capital and interest earned on the deposits was used to pay the related lease payments. After the remaining two aircraft had been returned, the full deposit was utilised to settle the obligations arising from termination of the lease contracts.				
	–	122	**–**	122

[1] *The valuation was conducted on the net asset value and based on the results of SA Airlink's latest audited financial statements. The impairment has been reversed limited to SAA's 2,95% shareholding in SA Airlink.*

		GROUP		COMPANY	
	R MILLION	**2011**	2010	**2011**	2010
26.	**Cash and cash equivalents**				
	Domestic bank accounts	**793**	1 804	**410**	1 506
	Foreign bank accounts	**757**	769	**763**	776
	Short-term investments – call deposits (US$ and EURO denominated)	**702**	829	**702**	829
	Total cash and cash equivalents	**2 252**	3 402	**1 875**	3 111
	Cash and cash equivalents consist of cash on hand, balances with banks and investments in money market instruments. Cash and cash equivalents included in the cash flow statement are as detailed above.				
	The cash injections from the government subordinated loan amounting to nil (2010: R423 million) are restricted, the use of which is subject to approval from the shareholder.				
27.	**Share capital**				
	Authorised				
	9 000 000 000 class A ordinary shares of R1 each	**9 000**	9 000	**9 000**	9 000
	3 000 000 000 class B ordinary shares of R1 each	**3 000**	3 000	**3 000**	3 000
	1 500 000 000 class C ordinary shares of R1 each	**1 500**	1 500	**1 500**	1 500
	750 000 000 class D ordinary shares of R1 each	**750**	750	**750**	750
	750 000 000 class E ordinary shares of R1 each	**750**	750	**750**	750
		15 000	15 000	**15 000**	15 000
	Reconciliation of number of shares issued:				
	Opening balance	**12 892**	11 343	**13 126**	11 577
	Issue of 1 549 080 000 class A ordinary shares	**–**	1 549	**–**	1 549
	Closing balance	**12 892**	12 892	**13 126**	13 126
	Issued				
	8 786 771 465 class A ordinary shares of R1 each	**8 787**	8 787	**8 787**	8 787
	2 412 563 822 class B ordinary shares of R1 each	**2 413**	2 413	**2 413**	2 413
	1 206 281 911 class C ordinary shares of R1 each	**1 206**	1 206	**1 206**	1 206
	603 140 956 class D ordinary shares of R1 each	**603**	603	**603**	603
	117 578 795 class E ordinary shares of R1 each	**117**	117	**117**	117
	Less: Treasury shares held in employee share trust	**(234)**	(234)	**–**	–
		12 892	12 892	**13 126**	13 126

All shares in the classes A to D are held by the South African government, represented by the Department of Public Enterprises, and enjoy the same rights. The E class shares are held by the SAA employee share trust.

	GROUP		COMPANY	
R MILLION	**2011**	**2010**	**2011**	2010
28. Subordinated loans guaranteed by government				
Balance at the beginning of the year	**1 300**	2 864	**1 300**	2 864
Repaid during the year	**–**	(1 564)	**–**	(1 564)
Balance at the end of the year	**1 300**	1 300	**1 300**	1 300

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

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

		GROUP		COMPANY	
R MILLION	Note	**2011**	2010	**2011**	2010
29. Long-term loans					
Secured loans					
External loans		**2 078**	2 692	**2 078**	2 692
The loans are repayable as follows:					
On demand or within one year		**407**	553	**407**	553
Two to five years		**1 511**	1 603	**1 511**	1 603
Later than five years		**160**	536	**160**	536
		2 078	2 692	**2 078**	2 692
Less: Current portion repayable on demand or within one year		**(407)**	(553)	**(407)**	(553)
		1 671	2 139	**1 671**	2 139
The carrying amounts of long-term loans are denominated in the following currencies:					
Rand-denominated		**1 273**	1 613	**1 273**	1 613
Domestic loans[1]					
US$-denominated		**805**	1 079	**805**	1 079
Foreign loans[2]					
		2 078	2 692	**2 078**	2 692

[1] Domestic secured loans amounting to R215 million (2010: R300 million) bear a fixed interest rate of 11,85% (2010: 11,85%), and represent loans secured over aircraft (note 17). The balance of the loans bears interest at JIBAR plus a margin ranging from 1,25% to 2,4%.

[2] The foreign secured loans in US$ bear interest at a fixed interest rate of 4,33% and are secured over aircraft (note 17).

30. Employee benefit obligations					
Post-retirement medical benefits	38.2	**39**	41	**39**	41

31. Provisions

The provision for accumulated leave and provision for service bonuses have been reclassified as accruals according to IAS 37. Refer to note 5.

Reconciliation of provisions

R MILLION	Opening balance	Additions	Utilised during the year	Total	Short-term portion	Non-current portion
Group – 2011						
Provision for onerous contracts[1]	**36**	**–**	**(36)**	**–**	**–**	**–**
Provision for return conditions[2]	**609**	**100**	**(154)**	**555**	**(83)**	**472**
	645	**100**	**(190)**	**555**	**(83)**	**472**

R MILLION	Opening balance	Additions	Utilised during the year	Reversed during the year	Total	Short-term portion	Non-current portion
Group – 2010 – reclassified							
Provision for onerous contracts[1]	367	–	(165)	(166)	36	(36)	–
Provision for return conditions[2]	570	39	–	–	609	(210)	399
	937	39	(165)	(166)	645	(246)	399

R MILLION	Opening balance	Additions	Utilised during the year	Total	Short-term portion	Non-current portion
Group – 2009 – reclassified						
Provision for onerous contracts[1]	1 065	118	(816)	367	(367)	–
Provision for return conditions[2]	600	121	(151)	570	(226)	344
	1 665	239	(967)	937	(593)	344

31. Provisions (continued)

R MILLION	Opening balance	Additions	Utilised during the year	Reversed during the year	Total	Short-term portion	Non-current portion
Company – 2011							
Provision for onerous contracts[1]	**66**	**–**	**(36)**	**(30)**	**–**	**–**	**–**
Provision for return conditions[2]	**609**	**206**	**(154)**	**–**	**661**	**(107)**	**554**
	675	**206**	**(190)**	**(30)**	**661**	**(107)**	**554**

R MILLION	Opening balance	Additions	Utilised during the year	Reversed during the year	Total	Short-term portion	Non-current portion
Company – 2010 – reclassified							
Provision for onerous contracts[1]	508	–	(165)	(277)	66	(66)	–
Provision for return conditions[2]	570	39	–	–	609	(210)	399
	1 078	39	(165)	(277)	675	(276)	399

R MILLION	Opening balance	Additions	Utilised during the year	Total	Short-term portion	Non-current portion
Company – 2009 – reclassified						
Provision for onerous contracts[1]	1 159	165	(816)	508	(508)	–
Provision for return conditions[2]	600	121	(151)	570	(226)	344
	1 759	286	(967)	1078	(734)	344

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

[2] *The provision for aircraft return conditions is raised when the obligating event that triggers the return conditions occurs. The provision is the estimated costs to be incurred by SAA for those aircraft that have fallen short of meeting the return conditions, in order to reinstate them to expected redelivery conditions. This provision is reflected net of maintenance reserve deposits expected to be available to be utilised against these costs. The outflow of economic benefits to meet this obligation only occurs when the aircraft that is due to be returned to the lessor falls outside the normal course of business return conditions. There is no expected reimbursement (from the lessor) in respect of this provision.*

	GROUP		COMPANY	
R MILLION	**2011**	2010	**2011**	2010

32. Other long-term liabilities

Holding company loan to South African Airways Employee Share Trust	**63**	63	**–**	–

The holding company 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 holding company. The loan is interest free and is repayable on the winding up of the South African Airways Employee Share Trust. The intention is to wind up the South African Airways Employee Share Trust and the process is expected to take longer than 12 months with the result that it has been classified as long term.

	GROUP			COMPANY		
	2011	2010	2009	**2011**	2010	2009
R MILLION		RESTATED	RESTATED		RESTATED	RESTATED

33. Trade and other payables

Trade payables	**896**	782	837	**1 100**	1 055	1 193
Other payables	**3 725**	3 849	4 507	**3 732**	3 910	4 589
Accruals	**272**	202	254	**25**	38	70
Interest accruals	**25**	32	57	**25**	32	57
Power plant accrual	**247**	170	197	**–**	6	13
Total trade and other payables	**4 893**	4 833	5 598	**4 857**	5 003	5 852
Classified as part of the liabilities held for sale	**–**	–	28	**–**	–	–
	4 893	4 833	5 626	**4 857**	5 003	5 852

	GROUP		COMPANY	
R MILLION	**2011**	**2010**	**2011**	2010

34. Deferred revenue on ticket sales

Frequent flyer deferred revenue – long term	**832**	1 159	**832**	1 159
Frequent flyer deferred revenue – short term	**669**	769	**669**	769
Net air traffic liability – short term	**2 438**	2 771	**2 381**	2 713
	3 107	3 540	**3 050**	3 482

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 award credits. Revenue is recognised when SAA fulfils its obligations by supplying free or discounted goods or services on the redemption of the award credits. Refer to notes 1 and 4 for more information.

	GROUP		COMPANY	
R MILLION	2011	2010	2011	2010

35. Finance lease obligations

Minimum lease payments due				
– within one year	–	10	–	10
– in second to fifth year inclusive	–	–	–	–
– later than five years	–	–	–	–
	–	10	–	10
Present value of minimum lease payments	–	10	–	10

Finance lease liabilities related to the in-flight entertainment system installed into the Boeing 747 aircraft, which were denominated in US$ at an interest rate of 5,63% (2010: 5,63%) per annum. These aircraft were returned in the current financial year which reduced the finance lease liability to nil.

36. Commitments

Authorised capital expenditure				
Already contracted for but not provided for:				
Capital commitments – contracted in US$	886	889	886	889
	886	889	886	889

Capital commitments relate to the Airbus A320 orders and the amount disclosed includes escalations to the 2016 financial year. The first delivery is expected at the end of the 2013 financial year.

Operating leases – as lessee (expense)				
Operating lease commitments for property, aircraft, equipment and vehicles are expected to be incurred as follows:				
– within one year	1 728	1 445	1 728	1 445
– in second to fifth year inclusive	5 291	3 633	5 291	3 633
– later than five years	2 491	3 227	2 491	3 227
	9 510	8 305	9 510	8 305

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	193	164	193	164
– two to five years	667	647	667	647
– five years plus	317	558	317	558
	1 177	1 369	1 177	1 369

37. Contingent liabilities and unquantifiable exposures

37.1 Competition Tribunal proceedings in South Africa

Comair referred a complaint to the Competition Tribunal in regard to SAA's Voyager Programme and Corporate Agreements. Nationwide joined as an applicant in the matter. The Tribunal ruled against SAA in this matter. SAA has lodged an appeal in the Appeal Court against the decision of the Competition Tribunal. In April 2011 the Appeal Court issued an order for costs against SAA. The Tribunal had found that SAA had contravened the Competition Act in offering incentives to travel agents. SAA is not in a position to assess the extent of the exposure that may attach to this investigation and is therefore unable to quantify damages towards Comair. As Nationwide will be returning to court to pursue the matter, SAA is also unable at this stage to quantify damages to Nationwide.

37.2 Competition Law investigations

The South African Competition Commission

The South African Competition Commission contacted SAA around October 2008 and advised about the commencement of their investigation against various airlines including SAA into possible anti-competitive conduct in the air cargo industry and invited SAA to consider settlement (consent) negotiations. In response, SAA had various meetings with the Commission with a view of gaining a deeper understanding of the merits of the matter and evidence in support thereof. The Commission has indicated that they cannot enter into any consent order negotiations unless admission of guilt is party of the settlement.

Since the matter is at its early stage of prosecution, it is not possible to provide conclusive outcome but evidence in support of merits against SAA is limited. SAA is therefore not in a position to assess the extent of the exposure that may attach to this investigation. The Commission is also investigating a possible contravention of the Act arising out of certain information provided to it that passenger airlines travelling the routes between South Africa and the Far East are or were involved in collusive conduct involving price fixing of international passenger airlines fares.

The Commission issued summons against SAA. The Commission asserts that the airlines agreed to increase fares by specified percentages in various meetings. The Commission has advised that they intend pursuing the matter and have further evidence to support their case. The Commission has requested information, specifically, SAA's fares from 2001 implemented in Australasia. SAA is in the process of preparing their response.

The matter is currently at its early stages of investigation and therefore it is not possible to provide conclusive opinion on the outcome.

2010 Price fixing investigation

The SA Competition Commission was made aware that prices relating to 2010 may have been inflated by airlines and are excessively high. This is being investigated by the Commission. Internal investigations involving the review of hard copy documentation by the Commission as well as interviews with relevant SAA managers and the compilation of their declarations have to date not revealed evidence of collusion. A comprehensive review of the electronic data for possible evidence of anti-competitive conduct is in process and it is expected that the search will take a significant amount of time.

The matter is currently at its early stages of investigation and therefore it is not possible to provide conclusive opinion on the outcome.

The US Department of Justice (DoJ)

The US DOJ has not formally charged SAA following its investigation in 2006 against various air cargo carriers globally, including SAA, into possible collusive conduct in violation of anti-trust laws. The Commission has had various meetings with SAA legal representatives in the USA.

Considering the legal costs as at November 2010 and the extent of the potential contingent liability that could arise from both the civil and criminal litigation in the US, SAA decided to explore a less adversarial approach to the criminal and civil matters with a view to an early exit without admission of guilt. SAA's attorneys have provided a preliminary view on the Company's prospects of success in defending the litigation. They have indicated that in light of the guilty pleas and settlements in the US by a number of other carriers, it is likely that a number would have implicated SAA in wrong doing. If this is the case, SAA prima facie would have poor prospects of success in defending the matter.

37. Contingent liabilities and unquantifiable exposures (continued)

Australian Competition and Consumer Commission

In March 2007 SAA received notification that the Australian Competition and Consumer Commission (ACCC) had initiated an investigation into allegations that SAA may have colluded with other airlines, internationally, in the alleged fixing of fuel and war/security surcharges as well as general freight rates. In the same notice, SAA was required to furnish information to the ACCC. SAA has secured legal representation to protect its rights and at this stage SAA legal representatives are keeping watch over developments in Australia.

SAA is not in a position to assess the extent of the exposure that may attach to this investigation as we have received no further communication regarding this matter.

Swiss Competition Commission

In March 2008 the Swiss Competition Commission issued SAA with notification that it had initiated an investigation into anti-competitive activities in the air freight services industry and that it intended to investigate the activities of SAA in that regard. SAA has engaged legal representation in Switzerland and submitted its response to the Swiss Commission. The Commission has not yet communicated any further developments to SAA.

SAA is not yet in a position to assess the extent of the exposure that may attach to this investigation.

European Competition Commission

The European Commission (EC) involved SAA in their worldwide investigation of alleged anti-competitive agreements and concerted practices by airlines related to cargo surcharges and rates. During November 2010, this case was finalised and SAA escaped fines imposed on 11 of its competitors.

37.3 Other court cases pending

There are various other court cases in which SAA is a defendant. SAA's maximum exposure in this regard is estimated at R50 million (2010: R50 million).

38. Employee benefit information

38.1 SAA Group pension benefits

The Group offers pension benefits through one defined benefit pension fund and one defined contribution fund. The Transport Pension Fund was previously known as 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 (Pty) 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.

38.1.1 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 6 301 members (2010: 6 521) at 31 March 2011. Actuarial valuations are done, at intervals not exceeding three years, to determine its financial position. The last actuarial valuation was performed at 31 October 2010. The actuaries were satisfied with the status of the members' credit account then. The Group's contributions for the period to 31 March 2011 amounted to R329 million (2010: R294 million).

38.1.2 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 144 active members (2010: 158) and 263 pensioners (2010: 247) at 31 March 2011. An actuarial valuation was done as at 31 March 2011 based on the projected unit credit method.

38. Employee benefit information (continued)

The benefits for the members of the fund are determined based on 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 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.

%	2011	2010
Principal actuarial assumptions used:		
Discount rate	**9,16**	9,16
Inflation	**5,98**	5,54
Salary increases		
Inflation	**6,98**	6,54
Pension increases		
First three years	**2,00**	2,00
After three years	**2,00**	2,00
Expected return on assets	**10,22**	10,29

R MILLION		
Benefit asset/liability		
Present value of obligation	**(1 119)**	(1 067)
Fair value of plan assets	**1 610**	1 399
Surplus	**491**	332
Unrecognised asset	**(491)**	(332)
Net liability per the statement of financial position	**–**	–
Reconciliation of movement in present value of obligation		
Opening benefit liability at the beginning of the year	**(1 067)**	(1 089)
Service cost	**(5)**	(12)
Interest cost	**(96)**	(89)
Actuarial (loss) gain	**(14)**	10
Benefits paid	**69**	113
Member contributions	**(6)**	–
Closing present value of obligation	**(1 119)**	(1 067)
Reconciliation of fair value of plan assets		
Opening of plan assets	**1 399**	1 224
Expected return	**142**	116
Actuarial gain	**123**	159
Employer's contributions	**9**	8
Benefits paid	**(69)**	(113)
Member contributions	**6**	5
Closing fair value of plan assets	**1 610**	1 399

%	2011	2010
38. Employee benefit information (continued)		
The major categories of plan assets as a percentage of total plan assets are:		
Equity	**53**	41
Property	**4**	11
Bonds	**20**	24
Cash	**9**	3
International	**14**	21
Other	**–**	–
Total	**100**	100

R MILLION		
Current-service costs	**5**	12
Interest on obligation	**96**	89
Expected return on plan assets	**(142)**	(116)
	(41)	(15)

38.2 Medical benefits

38.2.1 SAA Group employees' post-retirement medical benefits

SAA Group has an arrangement with its employees whereby SAA subsidises their 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, who retired after 31 March 1990 or are still employees of SAA, employees who participate in the Discovery Health Medical Scheme and those that do not belong to a medical scheme.

SAA subsidises continuation and in-service members with a fixed amount of R213 (2010: 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 2011.

The table below summarises the components of net benefit expense recognised in both the statement of comprehensive income and the statement of financial position for the SAA Group as at 31 March 2010 for the SAA Group employees.

%	2011	2010
38. Employee benefit information (continued)		
The principal actuarial assumptions used were as follows:		
Discount rate	**9,16**	8,89
R MILLION		
Net benefit liability		
Present value of unfunded benefit obligations	**39**	41
Changes in the present value of defined benefit obligations are as follows:		
Opening liability	**41**	45
Service costs	**1**	4
Interest cost	**3**	1
Actuarial gain	**(4)**	(4)
Benefits paid	**(2)**	(5)
Benefit liability at year-end	**39**	41
Amounts recognised in the statement of comprehensive income		
Current-service costs	**1**	4
Interest on obligation	**3**	1
	4	5

38.3 SAA (UK) Pension Fund benefits

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

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

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

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

Actuarial valuations

Actuarial valuations were carried out, at intervals not exceeding three years, to determine the financial position of the final salary section. The fund was valued using the projected unit credit method as required by IAS 19: Employee Benefits in March 2009, but has not been valued at 31 March 2010 due to it being bought out.

R MILLION	2010

38. Employee benefit information (continued)

R MILLION	2010
Change in the present value of defined benefit obligations are as follows:	
Defined benefit obligations at the beginning of the year	54
Buy-out of fund	(54)
	–
Changes in the fair value of plan assets as follows:	
Fair value of plan assets at the beginning of the year	79
Buy-out of fund	(79)
	–
Change to statement of recognised income and expenditure	
Actuarial gains at the beginning of the year	(8)
Derecognition of actuarial gain on sale of fund	8
	–

	GROUP AND COMPANY	
R MILLION	2010	2009
Summary of actuarial valuation results for past periods:		
Present value of defined benefit obligation	–	(66)
Fair value of plan assets	–	100
Surplus	–	34
Asset not recognised	–	(34)
Total	–	–

38.4 SAA (German) Pension Fund benefits

SAA operates a retirement plan for its German-based permanent employees. The scheme is a defined benefit fund.

The scheme consists of three groups which are entitled to different benefits as follows:

Group 1: Those in the employment of SAA before 1976. All employees who were members in this group have retired and the scheme has therefore been closed with effect from March 2004.

Group 2: Those in the employment of SAA from April 1976 to December 1988.

Group 3: All new employees who joined SAA after 1 January 1989.

The benefits payable to groups 2 and 3 are determined with reference to the rules of the scheme and are based on the percentage of the average salary for the last 12 months multiplied by the number of years of pensionable service plus a cash lump sum. The retirement age for all employees is 63 years.

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

Actuarial valuation

Actuarial valuations in terms of the rules of the scheme are done at intervals not exceeding three years, to determine its financial position. The most recent actuarial valuation of plan assets and the present value of the defined benefit obligation were carried out in March 2011 using the projected unit credit method.

	VALUATION	
%	**2011**	2010
38. Employee benefit information (continued)		
The principal actuarial assumptions used as at the statement of financial position date were as follows:		
Discount rate	**5,3**	5,3
Expected rate of salary increases	**2,0**	2,0
Expected return on planned assets	**5,3**	5,9
Future pension increases	**4,5**	4,5

	GROUP	COMPANY
R MILLION	**2011**	2010
Results of the actuarial valuation		
Benefit obligation recognised	**159**	159
Change in the present value of defined benefit obligations are as follows:		
Defined benefit obligations at the beginning of the year	**159**	197
Service cost	**3**	23
Interest cost	**8**	10
Exchange differences on foreign plans	**(3)**	(48)
Benefits paid	**(7)**	(10)
Actuarial gain	**(1)**	(13)
	159	159
Changes in the fair value of plan assets are as follows:		
Fair value of plan assets at the beginning of the year	**176**	–
Transfer of reimbursement right	**–**	75
Revaluation of reimbursement right	**–**	3
Transfer of owned deposit	**–**	59
Additional amount paid in relation to contractual trust arrangement	**–**	73
Exchange differences on foreign plans	**(4)**	(45)
Gain on reimbursement right	**–**	4
Members contribution	**2**	–
Actuarial gain	**–**	1
Benefits paid	**(8)**	–
Expected return	**10**	6
	176	176
Summary of actuarial valuation results		
Present value of defined benefit obligation	**(159)**	(159)
Fair value of plan assets	**176**	176
Surplus	**17**	17
Asset not recognised	**(17)**	(17)
Net liability per balance sheet	**–**	–

38.4 SAA (German) Pension Fund benefits (continued)

The insurance policy was taken to finance a portion of the benefit obligations at retirement age. When each employee covered by the insurance policy retires, SAA receives a lump sum amount. SAA uses these funds to fund a portion of the pension benefits. The balance is transferred to the Contractual Trust Arrangement (CTA).

Fixed deposit

An investment raised from the proceeds paid by the insurer to fund pensioners' benefit obligations has been offset against the pension fund liability. The cash available did not qualify as plan assets in terms of IAS 19. This cash amounted to R42,6 million at the end of 2011 (2010: R56 million).

38. Employee benefit information (continued)

38.5 Flight Deck Crew (FDC) disability benefit

SAA has an agreement with the Flight Deck Crew (FDC) members who are on permanent employment to top up the disability benefits payable by the Transnet defined benefit fund. In terms of the rules of the Transnet defined contribution fund all employees are entitled to 75% 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% in addition to what the member would receive from the pension fund in the case of disability. The members or SAA makes 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 was no planned assets or an insurance over in place of these promised benefits. In 2007, SAA took an insurance policy to cover the 25% additional benefit to pilots, which resulted in SAA having a legal or constructive obligation to fund the disability benefit.

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

38.6 Share-based payments

		NUMBER OF SHARES	
		2011	2010
38.6.1	FDC Share Scheme		
	The FDC Share Scheme was created for the Flight Deck Crew. Transnet Limited allocated 40 150 000 E class ordinary R1,00 shares of SAA to this scheme. These shares are held as follows:		
	Employees	**–**	–
	South African Airways Share Trust	**40 150 000**	40 150 000
		40 150 000	40 150 000
38.6.2	Share incentive scheme		
	The scheme granted two types of shares, i.e. 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 Share Trust	**58 018 060**	58 018 060
		58 018 060	58 018 060
38.6.3	Employee Share Ownership Programme (ESOP)		
	This scheme was implemented in March 2001, granting employees in service of SAA on or before 1 April 1999 options to purchase shares at R1,00 per share. These shares vested over a three-year period and were fully vested as at 31 March 2004. These shares are held as follows:		
	South African Airways Share Trust	**93 168 060**	93 168 060
		93 168 060	93 168 060

38.7 HIV/Aids benefits

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

38.8 Travel benefits

The Group offers certain air travel benefits to both current employees and retirees. As 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 as the ticket is only issued on a "standby" basis, with fare-paying passengers always having preference, employees or retirees may only fly if there is available space on the flight.

39. Related parties

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

Public entities that are classified as major public entities which fall under DPE are omitted from detailed disclosure as per paragraphs 25 and 26 of IAS 24. The exemption also applies to DPE. The only significant transaction that was entered with DPE was a R1,3 billion subordinated loan guaranteed by government. Refer to note 28 for more details.

The early adoption of IAS 24 has been applied retrospectively with the 2010 figures being restated. Refer to note 5 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 some rebates when reaching a specified qualifying limit, which are similar to all other third parties who participate in this frequent flyer programme for corporates. Other ticket sales with related parties were made on terms equivalent to those that prevail in arms' length transactions. The revenue from the sale of tickets that are not reported in terms of these contracts have 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.

39. Related parties (continued)

Liabilities include an amount of R75 million (2010: R155 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.

Related party balances

	GROUP		COMPANY	
	2011	2010	**2011**	2010
R THOUSAND		RESTATED		RESTATED
Amounts receivable from related parties[1]				
Subsidiaries	**–**	–	**1 313 000**	3 293 000
Public entities	**26**	–	**26**	–
	26	–	**1 313 026**	3 293 000
Amounts payable to related parties[2]				
Subsidiaries	**–**	–	**1 245 355**	1 165 579
Public entities	**1 459**	115	**1 358**	115
	1 459	115	**1 246 713**	1 165 694

[1] Amounts receivable represent short- and long-term amounts receivable.
[2] Amounts payable represent short- and long-term amounts payable.

R THOUSAND	**2011**	2010	**2011**	2010
Sales of goods/services				
Subsidiaries	**–**	–	**216 810**	199 876
Public entities	**409**	–	**409**	–
	409	–	**217 219**	199 876
Purchases of goods/services				
Subsidiaries	**–**	–	**3 232 154**	2 977 941
Public entities	**465 687**	233 310	**299 124**	232 837
	465 687	233 310	**3 531 278**	3 210 778
Other transactions				
Holding company[1]	**100 868**	233 328	**100 868**	233 328
Subsidiaries	**–**	–	**31 774**	110 315
Key management personnel[2]	**47 420**	25 470	**37 150**	17 988
	148 288	258 798	**169 792**	361 631

[1] Interest paid on government subordinated loan classified as a dividend.
[2] Long- and short-term employee benefits paid to executive members. Executive members' emoluments of subsidiaries that form part of SAA Group Executive Committee are disclosed in note 44. The short-term employee benefits reflected below refer to members of the SAA Company who are also members of the SAA Group Executive Committee.

39. Related parties (continued)

Services rendered to related major public entities relate mainly to transportation services. Services received from related related major public entities included the provision of energy, telecommunication services, financial-related services and other services.

Key management personnel and wider SAA Group employees are entitled to concession tickets which are free or discounted to a nominal amount depending on the terms of the employment contract. Transactions with members of the Board of Directors and group management are limited to compensation and allowances paid in the ordinary course of the business.

Details on subordination of loans by SAA (to its subsidiaries) amounting to R1,3 billion (2010: R1,7 billion) are included in note 22, amounts owing by(to) subsidiaries.

	2011				2010			
	R'000	**Travel benefits Number of flights**			R'000	Travel benefits Number of flights		
	Fees	**International**	**Domestic**	**Regional**	Fees	International	Domestic	Regional
Key management personnel compensation is set out below:								
Board of Directors								
Non-executive								
Gerwel GJ[1]	–	–	–	–	250	–	–	–
Joubert PG[1]	–	–	–	–	150	–	–	–
Modise BIL[1]	–	–	–	–	150	–	5	–
Mojela LM[1]	–	–	–	–	185	3	4	2
Whitehouse MM	714	7	3	–	522	–	1	–
Schrempp JE[1]	–	–	–	–	150	4	–	–
Du Plessis F[1]	–	–	–	–	175	4	2	–
Moyo ND[1]	–	–	–	–	75	3	2	4
Kalyan KP[1]	–	–	–	–	175	3	6	1
Loubser RM	349	2	–	–	148	–	–	–
Nkosi Thomas L	335	10	13	–	146	–	–	–
Myeni DC	365	1	7	–	135	–	–	–
Jantjies TC	334	–	11	–	135	–	2	–
Mohale BF	612	–	6	–	331	–	–	–
Daka T	870	3	–	–	435	–	–	–
Carolus CA	828	1	–	–	414	–	–	–
Kwinana Y	509	4	16	–	71	–	–	–
Rabbets LJ	356	4	6	–	71	–	–	–
Sithole ZJ	453	–	–	–	71	–	–	–
Ndhlovu J	429	–	4	–	36	–	–	–
Bouchon AI[3]	93	–	–	–	71	–	–	–
Lewis DH[2]	298	1	5	1	–	–	–	–
	6 545	**33**	**71**	**1**	3 896	17	22	7

[1] *Resigned in the previous financial year.*
[2] *Appointed 3 May 2010.*
[3] *Resigned 31 October 2010.*

39. Related parties (continued)

Short-term employee benefits 2011

R'000	Salaries	Allow-ances	Fund contri-butions	Resig-nation benefits	Retention premium[2]	Repay-ment of retention premium	Perfor-mance gratuity/ other	Total
Executive directors[1]								
Mzimela SP[3]	**3 756**	**–**	**344**	**–**	**–**	**–**	**–**	**4 100**
Patel KR[4]	**2 271**	**780**	**341**	**2 346**	**–**	**–**	**800**	**6 538**
Total	**6 027**	**780**	**685**	**2 346**	**–**	**–**	**800**	**10 638**
Executive Committee								
Blake J[6]	**891**	**–**	**–**	**8 115[16]**	**–**	**–**	**125**	**9 131**
Nkabinde JN[7]	**1 343**	**–**	**174**	**1 511**	**84**	**–**	**136**	**3 248**
Smyth FC[8]	**2 081**	**114**	**293**	**273**	**–**	**–**	**182**	**2 943**
Zondo LB[9]	**762**	**65**	**–**	**1 595**	**101**	**–**	**139**	**2 662**
Coetzee SJH[10]	**2 251**	**1**	**186**	**–**	**–**	**–**	**–**	**2 438**
Mpshe ME[11]	**1 078**	**500**	**141**	**–**	**–**	**–**	**–**	**1 719**
Potgieter TG[12]	**930**	**–**	**102**	**–**	**–**	**–**	**274**	**1 306**
Zulu WF[13]	**1 536**	**–**	**154**	**–**	**–**	**–**	**64**	**1 754**
Makhetha TP[14]	**709**	**–**	**–**	**–**	**–**	**–**	**–**	**709**
Augustine SL[15]	**131**	**–**	**–**	**–**	**–**	**–**	**–**	**131**
Mellett GE[5]	**346**	**92**	**33**	**–**	**–**	**–**	**–**	**471**
Total	**12 058**	**772**	**1 083**	**11 494**	**185**	**–**	**920**	**26 512**

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

39. Related parties (continued)

Short-term employee benefits 2010

R'000	Salaries	Allow-ances	Fund contri-butions	Resig-nation benefits	Retention premium[1]	Repay-ment of retention premium	Perfor-mance gratuity/ other	Total
Executive directors[2]								
Smyth FC[4]	2 011	480	279	–	55	–	500	3 325
Patel KR	2 271	780	341	–	–	–	800	4 192
Total	4 282	1 260	620	–	55	–	1 300	7 517
Executive Committee								
Blake J	1 651	–	–	–	–	–	274	1 925
Makobe MJ[3]	291	–	–	–	–	–	–	291
Nkabinde JN	1 610	–	190	–	429	–	–	2 229
Zondo LB	1 682	158	–	–	510	–	–	2 350
Bulunga B[5]	1 333	125	165	–	297	(363)	–	1 557
Poprawa SAH	1 196	449	160	–	314	–	–	2 119
Total	7 763	732	515	–	1 550	(363)	274	10 471

[1] Retention premiums were approved by the former Remuneration Committee and were payable over a three-year period.
[2] Executive directors of the Board are also members of the Executive Committee.
[3] Resigned 30 April 2009.
[4] Appointed as Acting CEO in the 2010 financial year.
[5] Resigned 31 January 2010.

39. Related parties (continued)

	Travel benefits 2011 Number of flights			Travel benefits 2010 Number of flights		
	International	**Domestic**	**Regional**	International	Domestic	Regional
Executive directors						
Mzimela SP[15]	**5**	**9**	**–**	–	–	–
Smyth FC[14]	**–**	**–**	**–**	7	24	3
Patel KR[3]	**5**	**13**	**2**	11	6	5
	10	**22**	**2**	18	30	8
Executive committee						
Blake J[3]	**–**	**–**	**–**	2	3	2
Coetzee SJH[4]	**5**	**13**	**–**	–	–	–
Mpshe ME[5]	**–**	**9**	**–**	–	–	–
Potgieter TG[6]	**5**	**–**	**–**	–	–	–
Zulu WF[7]	**–**	**1**	**2**	–	–	–
Makobe MJ[2]	**–**	**–**	**–**	2	–	–
Nkabinde JN[8]	**–**	**16**	**2**	3	17	2
Makhetha TP[9]	**2**	**1**	**–**	–	–	–
Smyth FC[10]	**3**	**21**	**–**	–	–	–
Augustine SL[11]	**–**	**–**	**–**	–	–	–
Zondo LB[12]	**4**	**14**	**–**	12	39	–
Bulunga B[2]	**–**	**–**	**–**	11	2	–
Mellet GE[13]	**–**	**–**	**–**	–	–	–
Poprawa SAH[1]	**–**	**–**	**–**	–	–	–
	19	**75**	**4**	30	61	4

[1] *Included in Mr Poprawa's total cost to Company are certain rebate ticket allowances. These form part of Mr Poprawa's total cost to Company as he is a SAA pilot and is entitled to these benefits under his employment contract.*
[2] *Resigned in the previous financial year.*
[3] *Resigned 15 December 2010.*
[4] *Appointed 1 May 2010.*
[5] *Appointed 1 September 2010.*
[6] *Appointed 27 October 2010.*
[7] *Ex officio member of the Executive Committee.*
[8] *Resigned 10 January 2011.*
[9] *Appointed 1 December 2010 and Ex officio member of the Executive Committee.*
[10] *Resigned 15 March 2011.*
[11] *Appointed 1 March 2010 and Ex officio member of the Executive Committee.*
[12] *Resigned 31 August 2010.*
[13] *Appointed as Acting CFO effective 15 December 2010.*
[14] *Appointed as Acting CEO in the 2010 financial year.*
[15] *Appointed 1 April 2010.*

	GROUP		COMPANY	
	2011	2010	**2011**	2010
R MILLION		Restated		Restated
40. Cash generated from/(utilised in) operations				
Profit before taxation	**795**	457	**684**	665
Adjustments for:				
Amortisation of intangible assets	**43**	30	**41**	28
Depreciation and amortisation on property, aircraft and equipment	**776**	730	**724**	681
Profit on sale and scrapping of property, aircraft and equipment	**(4)**	(53)	**(10)**	(54)
Impairment of aircraft	**56**	128	**56**	128
Reversal of impairment on property, aircraft and equipment	**–**	(18)	**–**	(18)
Impairment of subsidiaries	**–**	–	**–**	146
Transfer of reimbursement right to Frankfurt defined benefit plan	**–**	75	**–**	75
Derivative market movements	**(323)**	120	**(323)**	120
Reversal of impairment of subsidiaries	**–**	–	**(35)**	–
Investment income	**(156)**	(199)	**(142)**	(336)
Finance costs	**168**	229	**200**	265
Impairment of assets less maintenance reserve written back	**2**	33	**–**	30
Movement in onerous contract provision	**(36)**	(331)	**(66)**	(442)
Release from air traffic liability	**(560)**	(645)	**(560)**	(645)
Movement in employee benefit obligations	**(2)**	(69)	**(2)**	(69)
Foreign exchange effect on working capital	**71**	403	**75**	411
Impairment of accounts receivables	**15**	41	**15**	35
Non-cash movement on non-distributable reserves	**(45)**	(35)	**(45)**	(35)
Release from passenger tax levies	**(292)**	(179)	**(292)**	(179)
Unrealised foreign exchange gain of PDPs	**22**	99	**22**	99
Unrealised foreign exchange loss on revaluation of loans	**215**	193	**180**	117
Unrealised foreign exchange gain on security deposits	**7**	(72)	**7**	(72)
Unrealised foreign exchange loss on cash and cash equivalents	**23**	59	**23**	59
Changes in working capital				
Inventories	**(79)**	(4)	**(23)**	20
Trade and other receivables	**(445)**	1 016	**(474)**	683
Trade and other payables	**352**	(622)	**146**	(670)
Air traffic liability	**227**	793	**228**	788
Frequent flyer deferred revenue	**(427)**	(115)	**(427)**	(115)
Provisions	**(54)**	39	**52**	39
Foreign exchange effect on working capital	**(71)**	(403)	**(75)**	(411)
	278	1 700	**(21)**	1 343

41. Financial liabilities by category

Set out below is an analysis of all of the Group's financial liabilities that are carried at either fair value or amortised cost in the annual financial statements depending on their classification:

R MILLION	Notes	Financial liabilities at amortised cost	Fair value through profit or loss – held-for-trading[1]	Total
Group – 2011				
Long- and short-term liabilities	29	**2 078**	**–**	**2 078**
Holding company loan to share trust	32	**63**	**–**	**63**
Trade and other payables	33	**4 275**	**–**	**4 275**
Forward exchange contracts	23	**–**	**14**	**14**
		6 416	**14**	**6 430**
Group – 2010 Restated				
Long- and short-term liabilities	29	2 692	–	2 692
Finance lease obligation	35	10	–	10
Holding company loan to share trust	32	63	–	63
Trade and other payables	33	4 282	–	4 282
		7 047	–	7 047
Group – 2009 Restated				
Long- and short-term liabilities		3 768	–	3 768
Finance lease obligation		29	–	29
Holding company loan to share trust		63	–	63
Trade and other payables	33	5 128	–	5 128
Jet fuel derivatives	23	–	227	227
		8 988	227	9 215

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

R MILLION	Notes	Amortised cost – loans and receivables	Fair value through profit or loss – held-for-trading[1]	Total

42. 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:

R MILLION	Notes	Amortised cost – loans and receivables	Fair value through profit or loss – held-for-trading[1]	Total
Group – 2011				
Options and swaps	23	**–**	**8**	**8**
Jet fuel commodity derivatives	23	**–**	**371**	**371**
Trade and other receivables	24	**4 276**	**–**	**4 276**
Investment in SA Airlink (Pty) Limited	25	**6**	**–**	**6**
Cash and cash equivalents	26	**2 252**	**–**	**2 252**
		6 534	**379**	**6 913**
Group – 2010 Restated				
Options and swaps	23	–	11	11
Jet fuel commodity derivatives	23	–	65	65
Trade and other receivables	24	3 792	–	3 792
Defeasance deposit	25	122	–	122
Cash and cash equivalents	26	3 402	–	3 402
		7 316	76	7 392

R MILLION	Notes	Loans and receivables	Fair value through profit or loss – held-for-trading	Total
Group – 2009 Restated				
Forward contracts	23	–	43	43
Options and swaps	23	–	97	97
Trade and other receivables	24	4 753	–	4 753
Cash and cash equivalents		3 778	–	3 778
Defeasance deposit		349	–	349
Reimbursement right		–	75	75
		8 880	215	9 095

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

43. Risk management

43.1 Financial instruments categories:

Fair value of financial instruments

The Group has estimated fair values where appropriate, by using the following methods and assumptions:

Investment in unlisted shares classified as available-for-sale financial assets

The investment in the unlisted shares is held as an ancillary investment, and is not considered a material holding to the Group. The value of the shares was impaired to zero in prior years but in the current year the impairment was reversed by R6 million. The directors' valuation based on the net asset value model was utilised to determine fair value of this investment at reporting date. This was considered an appropriate valuation basis as the Group holds a minority interest of less than 5% and the investment has just returned to profitability.

43. Risk management (continued)

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 Brent oil and Brent oil commodity derivatives entered into mainly to manage jet fuel price risk, the forward contracts and call options. All these instruments are quoted on the market, and their fair value is therefore determined based on quoted market prices at specific dates.

Foreign currency forward contracts 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.

43.2 Governance structure

The SAA Board is charged with the responsibility of managing the airline's financial risks. It is assisted by the Financial Risk and Investment Management Committee (FRIC). The FRIC is a committee of the Board and it meets at least once per quarter. The FRIC is supported by the Financial Risk Subcommittee (FRSC), which meets on a biweekly basis. The FRSC is chaired by the Chief Financial Officer and its membership is made up of key representatives: Treasurer, Corporate Finance, Cash Management, Chief Dealer, Risk Manager, Financial Manager, Revenue, Pricing and Fuel Affairs.

The Minister of Finance has given approval, on 30 January 2008, to delegate certain of the powers of the SAA Board in terms of Section 66(6) of the PFMA, to the Finance Risk Subcommittee (FRSC), which is limited to operational treasury functions as stated in the PFMA Approval from the National Treasury, via the DPE (Department of Public Enterprises).

Risk management department

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

Risk management systems

SAA has implemented a risk management system with advanced analytics to assist SAA's risk department to accurately measure the diverse risks that the Company faces in treasury. 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 firm-wide view of its financial risks.

The capital risk and financial risk management is described below.

43.3 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 government subordinated guaranteed loans that are classified as equity instruments. The non-distributable reserves include general reserves and government restructuring funds, which are ringfenced for funding of the Group's restructuring activities to ensure that the entity returns to profitability with financial performance metrics similar to those of its world-class peers. The debt included long-term interest-bearing borrowings and short-term borrowings, including accounts payable and bank overdrafts.

The cash injection from the government subordinated loan amounting to nil (2010: R423 million) is restricted.

The Group retains a positive cash position and uses short-term investment instruments to ensure continued funding of operations.

Aircraft and engine financing

Aircraft financing is typically conducted using specialised finance transactions, which are structured through bankruptcy remote special-purpose vehicles (SPVs) that further syndicates the debt to a range of possible lenders.

The SPV itself is simply a legal entity with an administrator and a single asset offset by the financing structure. In addition to the above, aircraft financing facilities tend to be concluded a short time before delivery of the aircraft and then become fully drawn when the aircraft is delivered.

Gearing ratio

The Board, through its Financial Risk and Investment Management Committee (FRIC) 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.

43. Risk management (continued)

The gearing ratio in 2011 and 2010 respectively were as follows:

		MARCH	
	Note	**2011**	2010
R MILLION			RESTATED
Debt[1]		**11 026**	12 338
Less: Cash and cash equivalents	26	**(2 252)**	(3 402)
Net debt		**8 774**	8 936
Equity[2]		**2 941**	2 292
Net debt to equity ratio		**3:1**	4:1
Equity before government subordinated loan		**1 641**	992
Net debt to equity before government subordinated loan ratio		**5:1**	9:1

Prior to the restatement in 2010, the net debt to equity ratio was 8:1 and net debt to equity before government subordinated loan ratio was 33:1.

[1] Debt includes all current and non-current liabilities and excludes all provisions.

[2] The subordinated government guaranteed loans are classified as equity for purposes of capital risk management because it is advanced by the shareholder as a form of recapitalisation of the Group. In addition, the Group has no obligations to pay any cash in the form of repayment of principal or interest. Although the Group has no obligation in regard to this loan, the Group still considers the impact of any coupon payments in its liquidity requirements.

43.4 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, 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 as group are as follows:

- Transactional banking relationships must be reviewed every five years. SAA Treasury is responsible for the recommendation of bankers, and the Board through the Tender Board and the normal tendering process must approve the appointment of bankers.
- All requests for the opening and closing of bank accounts and the management of bank account signatories are to be reviewed and approved by the Chief Financial Officer and the Group Treasurer.
- Prudent cash management practices must be implemented, including the use of a centralised, pooled cash management bank account structure and systems, and the maintenance of minimum cash balances at operational level.
- All companies within the Group are included in the cash management structure and form part of the cash and liquidity management practices of the Group.

43. Risk management (continued)

Cash and liquidity management takes into account the medium to long-term funding plans of SAA as developed by the Funding Committee.

The following are the contractual maturities of financial liabilities based on undiscounted cash flows, excluding the impact of netting agreements and the derivative financial instruments that are out of the money at year-end. The derivative financial instruments that are in the money are reflected as financial assets.

R MILLION	Carrying principal amount[1]	Contractual amount[1]	Less than 1 month	1 – 3 months	3 – 6 months	6 – 12 months	1 – 5 years	Over 5 years
Group – 31 March 2011								
Non-derivative financial liabilities								
US$-denominated secured loans	**119**	**127**	**–**	**12**	**–**	**13**	**102**	**–**
Total (US$)	**119**	**127**	**–**	**12**	**–**	**13**	**102**	**–**
ZAR-denominated secured loans	**1 273**	**1 606**	**–**	**104**	**85**	**186**	**1 071**	**160**
Accounts payable	**4 893**	**4 893**	**4 893**	**–**	**–**	**–**	**–**	**–**
Holding company loan to share trust	**63**	**63**	**–**	**–**	**–**	**–**	**63**	**–**
Total (ZAR)	**6 229**	**6 562**	**4 893**	**104**	**85**	**186**	**1 134**	**160**
Derivative financial instruments								
Fuel – Asian options	**371**	**371**	**46**	**163**	**104**	**58**	**–**	**–**
FX – Currency options	**8**	**8**	**–**	**–**	**–**	**8**	**–**	**–**
Forward exchange contracts	**(14)**	**359**	**–**	**34**	**196**	**129**	**–**	**–**
Total (ZAR)	**365**	**738**	**46**	**197**	**300**	**195**	**–**	**–**
Group – 31 March 2010								
Non-derivative financial liabilities								
US$-denominated secured loans	148	162	–	15	2	16	102	27
US$-denominated finance lease obligations	1	1	–	1	–	–	–	–
Total (US$)	149	163	–	16	2	16	102	27
ZAR-denominated secured loans	1 613	2 392	–	140	121	260	1 410	461
Accounts payable	4 833	4 833	4 833	–	–	–	–	–
Holding company loan to share trust	63	63	–	–	–	–	63	–
Total (ZAR)	6 509	7 288	4 833	140	121	260	1 473	461
Derivative financial instruments								
Fuel – Asian options	65	65	3	8	27	27	–	
FX – Currency options	11	11		1	3	7	–	
Total (ZAR)	76	76	3	9	30	34	–	

[1] *The carrying principal amount excludes interest whilst the contractual amount includes interest. This is applicable to non derivative financial liabilities.*

43. Risk management (continued)

Other risks

Facilities held for Boeing 747 lease commitments

Following the Board's decision to ground the 747 Boeing fleet in the 2008 financial year, the final two aircraft in this subfleet have been returned to its respective lessors during the financial year ending March 2011 and one aircraft, ZSSAZ remains with SAA.

Undrawn commitment

SAA has issued a debt facility to Mango, a 100% owned subsidiary in 2007. This facility remains open for Mango to utilise at its own discretion as and when they need cash funding. SAA does not expect Mango to utilise this facility within the next 12 months. There were no other undrawn commitments at year-end.

Interest rate risk

Interest rate risk is the risk of increased financing cost due to adverse movements in market interest rates. Interest rate risk impacts SAA in the following forms:

- Increased cash costs in an increasing interest rate environment due to the Group's floating aircraft funding structures.
- The opportunity cost of funding at a higher rate in a declining interest rate environment due to the Group's fixed funding structures.
- The bulk of the Group's interest rate exposure is as a result of US$-denominated aircraft financing structures.

This portfolio is made up of operating leases, finance leases and loans. The portfolio is highly sensitive to the movement of US interest rates. The Group is continually monitoring and adjusting its fixed/floating ratio to adapt to the changing dynamics of its business operations and to protect its statement of comprehensive income and statement of financial position.

The objectives of managing interest rate risk are to:

- design appropriate funding structures (fixed versus floating, and local versus foreign currency) through the Funding and Capex Committee;
- reduce the cost of capital;
- minimise the effect of interest rate volatility on the Group's financing expenditure;
- manage the ratio of floating rate exposures to fixed rate exposures;
- obtain optimal investment returns on surplus cash, whilst 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.

43.5 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.

Committed funding facilities

SAA is dependent on funding in the form of leases and loans in foreign currency and local currency, mainly for the purchase of aircraft and aircraft components. The volatility of the financial markets, SAA's financial standing and the difficulties experienced by the airline industry in general affect the availability of funding to airlines. Funding can sometimes be constrained to a limited number of counterparties at any given time. The underlying risk manifests in three forms:

- SAA loses committed funding from a particular counterparty due to that counterparty defaulting on an existing funding arrangement.
- SAA is unable to secure new funding at a particular time.
- SAA loses assets deposited as security deposits, defeasance deposits, or cash collateral on funding structures.

43. Risk management (continued)

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 audited, accurate and readily available. The assessment of rated counterparties follows the guidelines as set out in the Treasury Regulations issued in terms of Section 313 of the Public Finance Management Act of 1999, as amended, with further refinements in the approach to scoring and ranking of approved counterparties.

Unrated counterparties

SAA needs to deal with and hold bank accounts in various exotic locations (where there are sales points and stations) 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 a location and SAA has to use an unrated counterparty to fulfil normal operational banking requirements, or where it is agreed by the Board as a prerequisite for specific operating bases. The Group has therefore a very restricted mandate when dealing with any unrated counterparties.

The Group has operating accounts in some African countries which are not rated. The exposure to these banks is kept at a minimum.

Loans and receivables credit risk

The Group is exposed to credit risk relating to the nature of the distribution network for airline operations. The Group airline distribution network includes BSP (these are IATA-accredited travel agents), and general sales agents (GSAs), who are used in countries where there are no IATA-accredited travel agents. Credit card debtors arise from the customers paying their fares using credit cards and the Group has to recover the money through the credit card financial institutions clearing houses globally.

Other debtors mainly consist of loans receivable and fuel trading debtors. These are classified as other because they do not form part of the Group's normal operating activities. The Group manages its credit risk from trade receivables on the basis of an internally developed credit management policy. This policy sets out the credit limits and requirements for any credit enhancements. The Group holds a guarantee from a GSA as a prerequisite before it can accredit it to be part of its distribution network. The Group also requires some counterparties to provide guarantees in the form of cash and letters of credit as security for exposure. This is prevalent mainly on GSAs. The amount of guarantees is agreed upon based on the risk profile of the counterparty. The fair value of these guarantees could not be reliably estimated. The guarantees relating to BSP debtors are held directly by IATA for the benefit of all exposed airlines to a particular BSP.

Maximum exposure to credit risk

The carrying amount of financial assets represents the maximum credit risk exposure. The maximum exposure to credit risk at the reporting date was as follows:

	GROUP		COMPANY	
	2011	2010	**2011**	2010
R MILLION		RESTATED		RESTATED
Financial instruments				
Cash and cash equivalents	**2 252**	3 402	**1 875**	3 111
Investments	**6**	122	**6**	122
Derivative financial assets held-for-trading	**379**	76	**379**	76
Trade and other receivables	**4 276**	3 792	**4 224**	3 705

43. Risk management (continued)

	Foreign currency amount '000	Carrying amount R'000	CURRENCY PROFIT/(LOSS) IMPACT +19%* -19% US$ R'000	+13%* -13% Euro R'000	+10%* -10% GBP R'000
Financial instruments					
Accounts receivables					
31 March 2011					
US$-denominated	**148 053**	**1 002 901**	**186 796**	**–**	**–**
EUR-denominated	**12 890**	**123 627**	**–**	**10 937**	**–**
GBP-denominated	**9 410**	**102 158**	**–**	**–**	**6 518**
			186 796	**10 937**	**6 518**
31 March 2010					
US$-denominated	180 358	1 313 608	244 599	–	–
EUR-denominated	8 658	85 185	–	6 886	–
GBP-denominated	8 878	98 173	–	–	6 498
			244 599	6 886	6 498

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

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

43. Risk management (continued)

43.6 Market risk management

Market risk comprises currency risk, interest rate risk and other 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 net exposure basis, i.e. taking into account the different currencies it receives in its revenue stream, the different currencies in which its cost base is denominated, and the underlying natural hedges that exist in its business operations. Foreign exchange risk management is managed through the use of cash collection and conversion strategies and approved derivative financial instruments which are mark-to-market on a daily basis. The Group's policy on foreign exchange risk management is to hedge between 50% and 75% of its exposure on a 12-month rolling basis.

The Group's currency risk is represented by the increased financial cost and/or cash requirements due to the net exposure between foreign revenue generated, foreign expenditure commitments and domestic revenues and expenditure commitments. The main objective of the currency risk management policy is to mitigate the potential for financial loss arising through unfavourable movements in exchange rates relative to the budget.

Foreign exchange risk will be managed on a net basis, including operating and capital exposures after taking the following into consideration:

- Source currencies for revenue and costs (US$, GBP and EUR).
- Both direct and indirect foreign exposure. Indirect foreign exposure is where SAA pays in ZAR, but the exposure is determined by using a US$ price, for example jet fuel uplifted in South Africa.
- Volatility of the Rand versus US$, GBP and EUR and the correlation between these currencies.
- Foreign currency exposures are determined from the 12-month rolling ZAR and foreign cash budget. Foreign currency risk will be monitored and managed under the following principles:
  - The net foreign currency position will be monitored on a monthly basis, by obtaining the net foreign currency position in all currencies from the 12-month rolling cash budget, including forecast foreign cash balances.
  - The accuracy of forecast revenues and costs are of critical importance when determining net foreign currency exposure. Management should take care to establish the levels of confidence in achieving forecast revenues and costs on an ongoing basis when designing hedging strategies.
  - The foreign versus domestic currency funding decision (loans/leases) should always consider current foreign currency risk management position and practices, since these decisions are a significant source of foreign currency exposure for the Group.

The decision to manage capital foreign currency exposures (such as leases and loans) should be combined with the business strategy, route planning and funding decisions (as appropriate), to ensure that funding and foreign currency risk management strategies are complementary to the business strategy and present the most relevant overall solution to the Group.

Foreign exchange risk basis 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.

	2011	2010

43. Risk management (continued)

The year-end exchange rates applied in the translation of the Group's foreign monetary assets and liabilities are as follows:

	2011	2010
Exchange rates used expressed in the number of Rands per unit of foreign currency:		
United States Dollar (US$)	**6,77**	7,28
Euro	**9,59**	9,84
Pounds Sterling (GBP)[1]	**10,86**	11,06

	FOREIGN AMOUNT		RAND AMOUNT	
FIGURES IN MILLIONS	**2011**	2010	**2011**	2010
Accounts receivable				
US$	**148**	180	**1 003**	1 314
Euro	**13**	9	**124**	85
UK Pound	**9**	9	**102**	98
Hong Kong Dollar	**17**	22	**15**	21
Danish Krone	**3**	3	**4**	5
Canadian Dollar	**1**	–	**2**	2
Swiss Franc	**1**	1	**6**	6
Australian Dollar	**3**	3	**24**	18
Brazilian Real	**10**	20	**41**	86
Thailand Baht	**13**	15	**3**	3
Malawian Kwacha	**293**	233	**13**	12
Other	**–**	–	**234**	320
			1 571	1 970

	FOREIGN AMOUNT		RAND AMOUNT	
R MILLION	**2011**	2010	**2011**	2010

43. Risk management (continued)

R MILLION	**2011**	2010	**2011**	2010
Accounts payable				
US$	**119**	144	**803**	1 052
Euro	**15**	37	**148**	362
UK Pound	**2**	23	**18**	251
Australian Dollar	**3**	–	**18**	–
Benin CFA Franc BCEAO	**260**	2 803	**4**	42
Other	**–**	–	**110**	–
			(1 101)	(1 707)
Accounts receivable as above			**1 571**	1 970
Net exposure			**470**	263

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

Jet fuel consumption is SAA's biggest cost contributor, representing approximately 30% of the Group's cost base. Jet fuel prices have a high level of uncertainty caused by supply shocks, demand patterns, currency fluctuations, market sentiment and political events. Jet fuel price risk is the risk of increased cash cost of jet fuel due to an increase in the prices of the various jet fuel product prices that the Group pays for physical jet fuel purchased around the globe.

SAA currently consumes approximately 101 million litres (2010: 100 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, i.e. price stability;
- limit the impact of derivative instruments on the Group's financial position and performance;
- occupy a competitive position in the airline industry in terms of jet fuel price risk management, negating the competitive advantage that competitors derive from their jet fuel risk management strategies;
- utilise any backwardation in the energy forward curves to reduce future jet fuel costs;
- provide a protection buffer during times of elevated jet fuel prices; and
- to continually and dynamically transact a minimum amount of hedging in the financial markets, to ensure that hedging prices are averaged into the market and that large hedges are not transacted at single points in time, which may represent the peak of the market.

The Group manages its jet fuel price risk exposures using derivative financial instruments. All derivative contracts are market-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%s, gas oil, Western Texas Intermediate (WTI), FOB ARAB Gulf 0,5% and Jet Kerosene (North West Europe) NWE. It is SAA's policy to hedge a maximum of 60% of its jet fuel price risk exposure on a 12-month basis. This has changed from the prior year, as the previous policy was too restrictive in responding to changing market conditions.

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 is mainly driven by the price per barrel of oil-based commodity derivatives.

The following sensitivity analysis was determined based on the 12-month horizon reasonable possible change at year-end. Management has determined the reasonable possible change using market input and historical data. The 12 months was considered appropriate as the Group only publishes its results annually. For internal reporting to FRIC, a one-month horizon is utilised.

43. Risk management
(continued)

			CURRENCY[1]		COMMODITY PRICE DERIVATIVES[1]	
	Foreign currency amount '000	Carrying amount R'000	Loss impact -19% US$ R'000	Profit impact +19% US$ R'000	Loss impact -33% Brent -34% WTI -33% gas oil -33% jet fuel R'000	Profit impact +33% Brent +34% WTI +33% gas oil +33% jet fuel R'000
Derivative financial instruments						
Group and Company						
31 March 2011						
ICE Brent commodity derivatives						
Asian call	34 579	234 237	(43 627)	43 627	(180 482)	322 318
NYMEX WTI commodity derivatives						
Asian call	7 570	51 283	(9 552)	9 552	(48 321)	104 058
ICE gas oil commodity derivatives						
Asian call	10 385	70 349	(13 103)	13 103	(18 099)	20 765
NWE CIF commodity derivatives						
Asian call	2 277	15 426	(2 873)	2 873	(2 979)	3 746
USD foreign exchange derivatives						
Forward exchange contracts	–	(13 542)	(67 410)	67 410	–	–
European call options	–	7 394	(7 138)	29 344	–	–
		365 147	(143 703)	165 909	(249 881)	450 887

43. Risk management

(continued)

			CURRENCY[1]		COMMODITY PRICE DERIVATIVES[1]	
	Foreign currency amount '000	Carrying amount R'000	Loss impact -19% US$ R'000	Profit impact +19% US$ R'000	Loss impact +27% Brent R'000	Profit impact +27% Brent R'000
Derivative financial instruments						
Group and Company						
31 March 2010						
ICE Brent commodity derivatives						
Asian call	8 772	63 887	(11 896)	11 896	(59 448)	349 089
ICE gas oil commodity derivatives					-35%	+35%
Asian call	111	805	(150)	150	(805)	39 817
Forward exchange contracts	262	262	(3 400)	3 400	–	–
European call options	10 979	10 979	(10 694)	60 168	–	–
		75 933	(26 140)	75 614	(60 253)	388 906

			CURRENCY[1]		INTEREST RATE[1]	
	Foreign currency amount '000	Carrying amount R'000	Profit/(Loss) impact R'000	(Loss)/Profit impact R'000	Profit/(Loss) impact R'000	(Loss)/Profit impact R'000
Non-derivative financial instruments						
31 March 2011						
US$-denominated financial instruments			**-19% US$**	**+19% US$**	**-19 bps US$**	**19 bps US$**
Secured borrowing	**118 945**	**805 732**	**(150 070)**	**150 070**	**31 063**	**(30 503)**
LIBOR floating debt accounts payable	**118 506**	**802 752**	**(149 517)**	**149 517**	**–**	**–**
Total financial liabilities	**237 451**	**1 608 484**	**(299 587)**	**299 587**	**31 063**	**(30 503)**
Call deposit	**93 000**	**629 977**	**(117 336)**	**117 336**	**(1 218)**	**1 218**
Total financial assets	**93 000**	**629 977**	**(117 336)**	**117 336**	**(1 218)**	**1 218**
31 March 2010						
US$-denominated financial instruments			-19% US$	+19% US$	-110 bps US$	+110 bps US$
Secured borrowing	148 104	1 078 711	200 856	(200 856)	189 012	(188 411)
LIBOR floating debt accounts payable	144 393	1 051 691	195 824	(195 824)	–	–
Total financial iabilities	292 497	2 130 402	396 680	(396 680)	189 012	(188 411)
Defeasance deposit	16 698	121 626	(22 646)	22 646	(1 341)	1 341
Call deposit	113 832	829 098	(154 377)	154 377	(9 144)	9 144
Total financial assets	130 530	950 724	(177 023)	177 023	(10 485)	10 485

43. Risk management (continued)

			Impact on other components of equity in Rand[1]	
	Foreign currency amount '000	Carrying amount R'000	+13% -13% Euro/US$ R'000	+10% -10% GBP/US$ R'000
Non-derivative financial instruments				
Denominated in Euro and GBP[3]				
31 March 2011				
Accounts payable – Euro	**15 453**	**148 207**	**13 111**	**–**
Accounts payable – GBP	**1 691**	**18 360**	**–**	**1 171**
		166 567	**13 111**	**1 711**

			Currency[1]	
	Foreign currency amount '000	Carrying amount R'000	+11% -11% Euro/US$ R'000	+10% -10% GBP/US$ R'000
Non-derivative financial instruments				
Denominated in Euro and GBP[2]				
31 March 2010				
Accounts payable – Euro	36 811	362 191	29 279	–
Accounts payable – GBP	22 701	251 044	–	16 617
		613 235	29 279	16 617

[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 whilst some have a floating LIBOR rate linked component. SAA is therefore through its lease commitments exposed to both interest rate risk and foreign currency risk. Interest rates on these leases are linked to 1,3 and 6 months LIBOR rates. These are not hedged but are considered part of the net hedge.

Foreign defined benefit obligations

The Group is also exposed to foreign currency risk relating to its foreign defined benefit obligations. The Germany Pension Fund obligation is denominated in Euro. Any movement is currency based on this fund and reasonable possible changes in the Euro would further impact the Group exposure to foreign currency risk.

R MILLION	2011	2010
44. Directors' emoluments for SAA subsidiaries		
Executive directors' emoluments		
Mango Airlines (Pty) Limited (formerly trading as Tulca (Pty) Limited)		
Mr N Bezuidenhout		
Salary	**1 636**	1 592
Variable pay	**1 990**	1 455
	3 626	3 047
SAA Technical (Pty) Limited		
Mr M Zwane[1]		
Salary	**1 957**	–
Allowance	**150**	–
	2 107	–
Mr SAH Poprawa[2]		
Salary	**760**	1 196
Allowance	**244**	449
Retirement fund contributions	**103**	160
Retention premium	**183**	314
Performance gratuity/other	**180**	–
	1 470	2 119

[1] Appointed as CEO of SAAT effective 1 November 2010.
[2] Appointed as Acting CEO of SAAT until 31 October 2010.

Air Chefs (Pty) Limited		
Mr PJ Bekker[1]		
Salary	**574**	1 147
Performance gratuity/other	**76**	–
	650	1 147
Ms A Crooks[2]		
Salary	**883**	–
	883	–

[1] Appointed as Acting CEO of Air Chefs until 30 September 2010.
[2] Appointed as CEO of Air Chefs effective 1 October 2010.

SAA City Centre (Pty) Limited		
Mr TFB Lehasa		
Salary	**1 045**	976
Allowance	**31**	100
Retirement fund contributions	**104**	93
Performance gratuity/other	**84**	–
	1 264	1 169
SAA City Centre (Pty) Limited		
Mr F Peer[1]		
Salary	**221**	–
Allowance	**32**	–
Retirement fund contributions	**17**	–
	270	–

[1] Appointed as a Board member effective 1 December 2010

R MILLION	2011	2010
44. Directors' emoluments for SAA subsidiaries (continued)		
Non-executive directors' emoluments		
Mango Airlines (Pty) Limited (formerly trading as Tulca (Pty) Limited)		
Dr Christo Wiese	**393**	355
P Krusche	**97**	62
Mr R Wally	**135**	119
Mrs F du Plessis	**85**	80
Mr T Adams	**113**	80
Adv LN Thomas	**91**	27
	914	723
SAA Technical (Pty) Limited		
Ms SP Mzimela[1]	**–**	–
Mr T Daka	**700**	300
Mr Y Kwinana[2]	**128**	–
Mr JP Ndhlovu[2]	**128**	–
	956	300

[1] *CEO of the Holding company who was appointed on 1 April 2010.*
[2] *Appointed on 1 April 2010.*

Air Chefs (Pty) Limited		
Ms SP Mzimela[1]	**–**	–
Ms MM Whitehouse	**445**	222
Ms DC Myeni[2]	**96**	–
	541	222

[1] *CEO of the holding company who was appointed on 1 April 2010.*
[2] *Appointed on 1 April 2010.*

SAA City Centre (Pty) Limited		
Ms SP Mzimela[1]	**–**	–
Mr BF Mohale	**320**	160
Mr TC Jantjies[2]	**65**	–
	385	160

[1] *CEO of the holding company who was appointed on 1 April 2010.*
[2] *Appointed on 1 April 2010.*

CORPORATE INFORMATION

Country of incorporation and domicile

The Republic of South Africa
Company registration number
1997/022444/07

Directors

Resigned	
Mr KR Patel	15 December 2010
Mr AI Bouchon	31 October 2010

Appointed	
Ms MM Whitehouse	24 October 2006
Ms CA Carolus	28 September 2009
Mr RM Loubser	28 September 2009
Adv L Nkosi-Thomas	28 September 2009
Ms DC Myeni	28 September 2009
Mr TC Jantjies	28 September 2009
Mr BF Mohale	28 September 2009
Mr T Daka	28 September 2009
Mr LJ Rabbets	2 December 2009
Ms Y Kwinana	2 December 2009
Mr Z Sithole	2 December 2009
Mr JP Ndhlovu	25 February 2010
Ms SP Mzimela	1 April 2010
Mr DH Lewis	3 May 2011

Company secretary

Ms R Kibuuka (appointed 1 February 2009)

Bankers

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

Auditors

Deloitte & Touche
Private Bag X6
Gallo Manor 2052

Registered office

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

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

HKLM

GLOSSARY

AFS	Annual Financial Statements
ASK	Available Seat Kilometres
B-BBEE	Broad-Based Black Economic Empowerment
DOA	Delegation of Authority
DOT	Department of Transport
DPE	Department of Public Enterprises
FAA	Federal Aviation Authority
IATA	International Air Transport Association
IFE	In Flight Entertainment
IOSA	Operational Safety Audit
ISO	International Standards Organisation
LCC	Low Cost Carrier
MRO	Maintenance Repair Organisation
PBN	Performance Based Navigation
PFMA	Public Finance Management Act
RASK	Revenue Available Seat Kilometres
RPK	Revenue Passenger Kilometres
SAAT	South African Airways Technical
SACAA	South African Civil Aviation Authority
SATC	South African Travel Centre
SCM	Supply Chain Management
SOE	State Owned Enterprises
SRM	Suppliers Requisition Manual

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SOUTH AFRICA