

09 Annual Report

Building on Restructuring

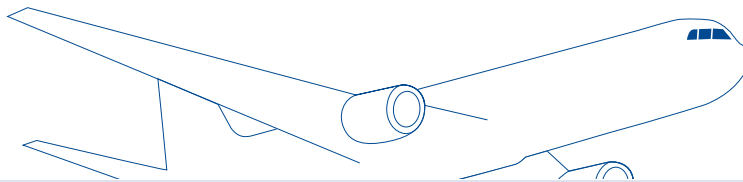


SOUTH AFRICAN AIRWAYS

A STAR ALLIANCE MEMBER 

75 

Our milestones. Your memories.



VISION

An African airline with global reach

MISSION

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

CORE BUSINESS

Movement of people and goods by air

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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.

➤ **VALUING OUR PEOPLE**

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

➤ **CUSTOMER FOCUSED**

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

➤ **ACCOUNTABILITY**

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

➤ **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.

➤ **EXCELLENCE IN PERFORMANCE**

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



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Financial highlights

KEY FINANCIAL AND OPERATING DATA EXCLUDING RESTRUCTURING

	2004/05 R million	2005/06 R million	2006/07 R million	2007/08 R million	2008/09 R million
GROUP INCOME STATEMENT DATA					
Turnover	15 319	15 347	17 021	19 270	20 123
Total airline income	17 186	19 128	20 524	22 257	26 435
Operating profit (loss) before fair value movements					
Before restructuring costs	581	395	(650)	(27)	2 381
After restructuring costs	581	395	(650)	(1 372)	1 907
Net profit (loss) for the year	648	65	(883)	(1 085)	398
Earnings (loss) per share (cents)	22	2	(12)	(10)	4
GROUP OPERATING DATA					
Capacity (million)					
Available seat kilometres (ASKs)**	33 367	35 222	33 671	32 681	29 980
Traffic					
Revenue passenger kilometres (RPKs) (million)	23 505	24 488	25 381	24 619	21 935
Revenue passengers (thousands)	6 851	7 158	7 727	7 444	6 898
Cargo – tons flown (thousands)	176	185	202	186	138
Utilisation					
Passenger load factor (%)	70	70	75	75	73
Yield (RRPK) ¹ – Passenger	0,56	0,52	0,56	0,67	0,79
Passenger revenue (R million)	13 163	12 747	14 230	16 527	17 343
Yield (RASK) ² – Turnover	0,46	0,44	0,51	0,59	0,67
Yield (RASK) ² – Total airline income	0,52	0,54	0,61	0,68	0,88
Unit cost (CASKs) ^{3*}	0,49	0,54	0,64	0,68	0,82
Operating costs					
Labour cost	0,10	0,09	0,10	0,10	0,11
Energy	0,10	0,14	0,17	0,20	0,29
Material cost	0,03	0,04	0,05	0,06	0,06
Depreciation and amortisation	0,01	0,02	0,02	0,02	0,02
Other operating costs	0,25	0,25	0,30	0,30	0,34

¹ RRPk – Yield per revenue passenger kilometres.

² RASK – Revenue per available seat kilometres.

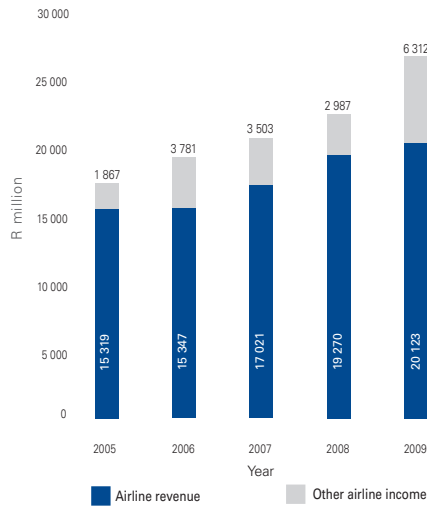
³ CASK – Cost per available seat kilometres.

* Before restructuring costs and exceptional items.

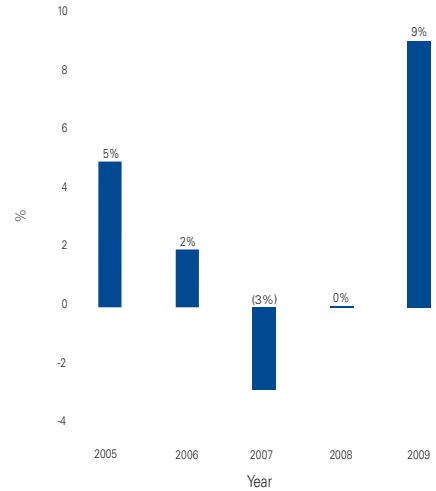
** Lower available seat kilometres due to the grounding of the Boeing 747-400 fleet.



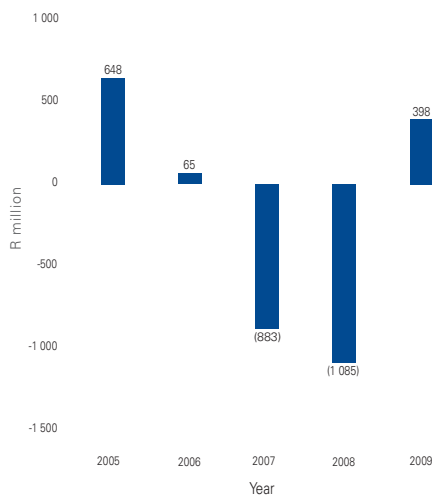
TURNOVER



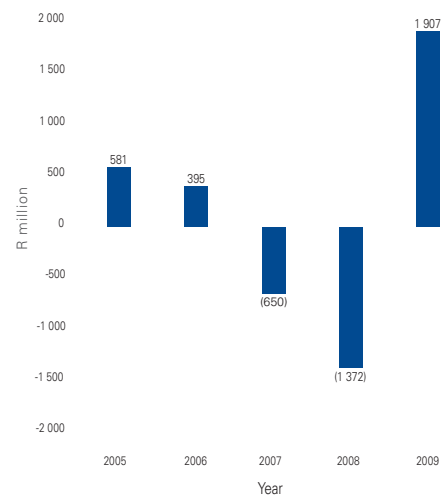
EBIT MARGIN (BEFORE RESTRUCTURING)



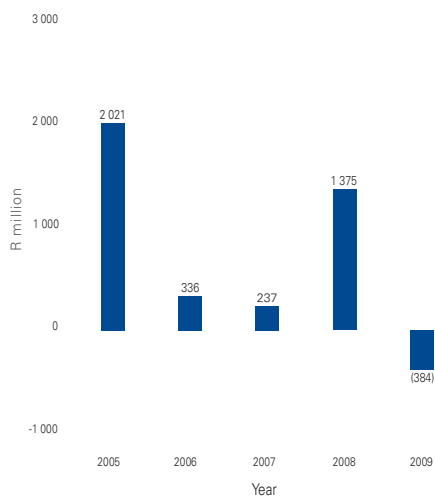
NET PROFIT/(LOSS) FOR THE YEAR



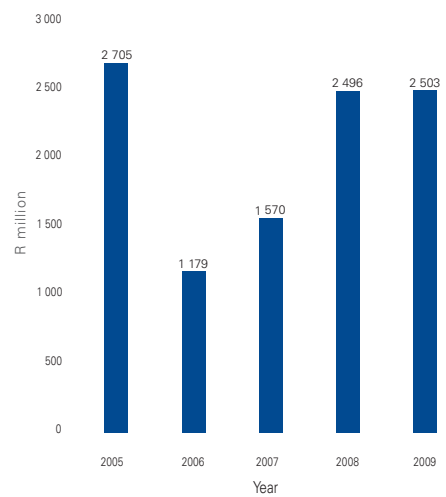
PROFIT/(LOSS) BEFORE FAIR VALUE MOVEMENTS



NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES



NET ASSETS EMPLOYED



Report of the Chairman

Professor Jakes G Gerwel | Chairman

In light of the massive challenges currently being faced by airlines around the world following the global economic meltdown, our restructuring intervention was embarked upon most timeously.

RESTRUCTURING OVERVIEW

The restructuring process which we embarked upon in March 2007 was concluded at the end of this financial year with tangible results such as cost reduction, revenue growth and efficiency gains. In light of the massive challenges currently being faced by airlines around the world following the global economic meltdown, our restructuring intervention was embarked upon most timeously.

SAA is today operationally profitable due to the achievements forged under the restructuring programme. However, given the pressures currently being placed on the aviation industry and the wider travel market, we will have to redouble our efforts and ensure that our targets are tested against the very important requirement of sustainability.

We can report that we have managed sustainable achievements which all of us can now build on further. For this, I would like to thank the Board, management and especially the staff of the airline who persevered in difficult circumstances.

Perhaps the most significant aspect of the restructuring was the ability to take approximately R2,5-billion in costs out of the organisation over the two-year period, which is 8% above target. The challenge is to ensure that this is sustained. As a result, we have embedded the management of costs into our financial processes and budget procedures and will follow the same rigorous monitoring approach going forward as we did during the restructuring process.

In the first year of restructuring, the focus was largely on streamlining the business and ensuring financial stability. In the past year, management has focused strongly on improving customer service, the operational performance, building on the financial gains achieved in the first year and future growth. To help fulfil our promise of improved customer service, a customer service charter was implemented. We are holding management to performance standards both in the areas of employee development and well-being, to ensure that we maintain an operationally excellent airline. There has also been a strong improvement in the on-time performance of our flights, and we are now exceeding our target of 80%.

One of the major restructuring initiatives was the grounding of our fleet of six Boeing 747 aircraft. Half of the grounded fleet was returned under normal lease expiry conditions, and SAA introduced mitigating strategies to reduce costs incurred from grounding the remaining three aircraft. They are rotated to support a wet-leasing agreement with another airline as well as supporting SAA's operations on profitable routes.

Although we are performing well in difficult trading conditions, we need to remain vigilant. The aviation industry continues to be under severe pressure and our strategic focus going forward will be to strengthen our operations in those markets where we lead, such as into Africa. In order to remain leaders in our home market and on the continent, we have made key changes to our pricing and route network, concentrating on areas where we would like to achieve market share gains.

AIRBUS A320 ORDER

The previous Board of SAA resolved in 2002 to purchase 15 A320-200 aircraft as part of a significant overhaul of SAA's fleet, which involved the acquisition of a total of 41 aircraft.

However, during the ensuing two years the airline's financial circumstances changed dramatically due to significant foreign exchange hedging losses being sustained in 2003/4. As a result, that Board decided in July 2004 to cancel the A320 purchase agreement with Airbus. Airbus acknowledged receipt of the cancellation notification but did not indicate their acceptance or rejection thereof.

Lengthy discussions have been held between SAA and Airbus on this matter. In 2008/9, the Department of Public Enterprises became involved in the discussions which culminated in a letter of intent being signed between Airbus and SAA in August 2009. Details of the agreement are outlined in paragraph 3.1.1 of the Directors' report.

In light of the successful re-negotiation of the terms and conditions of the order, there is a positive impact on the income statement of R408-million arising from the reversal of impairments on the historic pre-delivery payments, net of foreign exchange differences.



GOING CONCERN

Provided the airline remains on its current growth path and that circumstances remain within reasonable economic predictions, SAA is expected to continue generating profits, benefiting from the positive impact of the restructuring of the airline. I would like to thank those members of the Board and the Executive Team who have been instrumental in helping to address key legacy issues, notably the Airbus A320 deal and the anti-trust allegations referred to in the Directors' report, which absorbed a considerable amount of time and energy.

The assistance of the Department of Public Enterprises with these matters has also been invaluable, and the state's provision of a R1,6-billion guarantee to SAA will provide an important buffer against unforeseen events going forward.

VISION

Our operational and customer service initiatives are in keeping with our mandate to be an African airline with global reach. We acknowledge that in the current tough trading environment, we will have to pare down flights on some routes. But we will also grow where there are clear opportunities, notably in Africa. We launched routes to Botswana and Cameroon in March, and our international route network was bolstered with our inaugural flight to Buenos Aires in April. Besides being a great route for traders, Buenos Aires is also a superb leisure destination, as is South Africa to the people of Argentina and their neighbours.

The airline strives to be supportive of broader government goals. The building of regional and international linkages seeks to assist in the promotion of trade and access to various markets. Developing our Cargo division is a key enabler of South Africa's export market and enhances the country's economic role by connecting continents through Africa.

CORPORATE GOVERNANCE

The current economic meltdown, if it persists, will pose significant risks for SAA. The airline business is in a state of turmoil and is characterised by low margins, high costs – the majority of which are fixed – and a difficult industry-wide operational environment. Besides the issues of sustainability faced by the business going forward, persistent leadership instability characterised by a history of high turnover of executives in the past 10 years-odd also poses its own challenges to the organisation.

We believe that we have adequate short- to medium-term measures in place to manage these identified risks. In this regard, we have focused on building the capacity of the risk management side of our business, which is also tasked with overseeing the overall compliance and internal audit environments. The "greening" of our operations will be another area of focus for the coming financial year. The European

Emissions legislation, aimed at effectively taxing airlines operating within the European airspace, comes into effect in 2010 and will significantly add to the operating costs on these routes. The airline has engaged experts in this field to assist with our readiness to comply with the legislation.

TRANSFORMATION

The Board is in full support of, and is committed to, ensuring the transformation of SAA via our policies of broad-based black economic empowerment and employment equity as well as the effective use of our procurement power.

In terms of black economic empowerment, the challenge remains to eradicate inequality across the board. The integration of all South Africans into the economy remains a priority, as there can be little doubt that empowerment is a key contributor to long-term economic growth. It is only once all of our citizens participate in the economy in a meaningful and productive way that we as a nation will reach our full potential. Growth, development and enterprise development must form the cornerstones of any empowerment process.

SAA is intent on improving employment equity, increasing management diversity and ensuring that our procurement policies support the drive towards empowerment. As an enabler of this commitment, SAA has launched an Employment Equity Implementation Project as part of the requirements of the Employment Equity Act and to prepare an employment equity plan. As part of the process of developing the equity plan, employees and labour will be consulted and an appropriate diagnosis of the workplace will be done. The diagnosis will help to understand the reasons behind any under representation of black people, women and people with disabilities that may exist in some SAA workplaces. The implementation of this plan will increase the diversity of employees at all levels in SAA. Our focus regarding employment equity is on the creation of a competitive workforce, which reflects the diversity of people in South Africa, based on succession planning, training, diversity management and retention of key staff.

Our commitment to broad-based black economic empowerment is also evident in the procurement process. The focus here remains on ensuring that a sizeable portion of our annual discretionary spend goes to companies which are empowerment compliant. Progress is being made with 34% of the discretionary spend for the 2008/9 financial year going to BBBEE-compliant companies.

CELEBRATING 75 YEARS

Despite the challenges we face, we remain an airline with a long history of which we are immensely proud. We have been a solid presence in the African skies for 75 years, and over this time we have seen many highlights. We believe that our restructuring

Report of the Chairman (continued)

Professor Jakes G Gerwel | Chairman

programme has left us stronger, and that despite the present harsh trading environment, we will continue to make our mark as the leader on the continent and within our global reach.

We were delighted that SAA has been recognised by Skytrax as being amongst the top 15 airlines in the world for our product and service offering and has for the seventh time in a row, been voted the number-one African airline and 11th in the world in business class. The Skytrax surveys are renowned for being a truly global, independent survey of airline standards, with an estimated 15-million passengers participating worldwide.

We can continue to proudly hold our heads high as we received a list of awards during the year, demonstrating our strongest features.

FORENSIC INVESTIGATION

A number of allegations of possible irregularities relating to transactions in which the airline was involved were raised in the financial year, which resulted in the Board commissioning a forensic investigation by an independent firm to determine and objectively verify the allegations. The investigation commenced in February 2009 and is wide-ranging, involving amongst other things a review of various tenders awarded and contracts with third parties.

As appears more fully from the Directors' report, although much progress has been made in the investigation, it is not yet complete and accordingly SAA is as yet unable to definitively confirm the allegations.

However, preliminary indications from the investigation are such that, regrettably, SAA is not confident that all aspects of the PFMA, the Companies Act and its own policies (such as its procurement policy) have been complied with in the transactions being investigated.

The Board is determined that as soon as the forensic investigation has been completed and legal advice obtained, it will take such appropriate legal, disciplinary and other steps that are warranted.

BOARD

It has been a particularly challenging time for our Board as we were faced with ongoing public controversies culminating in a change in leadership following the early departure of former CEO, Khaya Ngqula. The Board and Mr Ngqula mutually agreed in March that his employment would be terminated.

Chris Smyth, General Manager of Operations, was appointed as acting CEO from February 2009. I would like to thank those executives who departed during the year for their valuable

contributions, namely Clive Else, who was acting Chief Financial Officer during a key period in the restructuring and was subsequently CEO at SAA Technical, as well as Patrick Dlamini, CEO of SAA Cargo and Thelma Melk, Company Secretary.

I would further like to thank all of the members of the Board for their invaluable input and hard work during a difficult period in our history, which included the launch of the forensic investigation referred to above. The Board's continued support of the restructuring process, which was concluded this year, is particularly appreciated.

LOOKING FORWARD

With the restructuring now behind us, the focus is to ensure that the gains we made under the programme become a sustained part of the business. The impact of the global financial conditions cannot be underestimated, with latest estimates indicating that the global aviation industry is expected to lose US\$9-billion this year.

It is important to note that SAA remains operationally sound. The airline has achieved a remarkable operational turnaround due mainly to the restructuring, and it is profitable at an operational level.

We will continue to work hard to ensure that the airline is profitable on a sustainable basis. The Board would like to thank the shareholder for the guidance and support which has been so generously given during this period, as well as the management team, which has done exemplary work and remained steadfast during a turbulent time. The staff remains SAA's biggest asset by far, and must be commended for their pride in the airline and their ongoing commitment to excellence.



Professor Jakes Gerwel

18 September 2009



Report of the Executive

Chris Smyth | Acting CEO

SAA experienced strong growth in market share in Africa, which remains the most profitable market following a strategic decision to concentrate on growth plans in the region.

OVERVIEW

The airline industry entered one of its cyclical downturns in 2008. The strong demand for travel at the beginning of the year started to dampen in about September, and demand remains under pressure. South African Airways (SAA) was most fortunate to have undertaken its restructuring programme in 2007 when the economy was still strong and growing. This meant that the airline had a good base from which to deal with the many challenges which came its way.

The restructuring allowed the airline to better manage the impact of increased competition from other airlines. SAA experienced strong growth in market share in Africa, which remains the most profitable market following a strategic decision to concentrate on growth plans in the region. Domestically, our position remained strong and was backed up well by the low-cost carrier, Mango. In the international market, there was growth in a number of markets, including South America and Australia, although several other markets were negatively affected by the economic downturn, notably North America and Europe.

We have implemented action plans to mitigate these trends. Some international routes remain underperformers and even though we are stronger as a result of our successful restructuring, the route network will continue to come under intense scrutiny going forward. Mindful of opportunities for growth, we will direct our attention to those markets where we see potential, especially in Asia, South America and Africa.

GREENER SKIES

We remain committed to being an environmentally responsible airline. SAA has a modern fleet, which means it emits reduced levels of carbon and nitrous oxide, the most significant contribution to airline emissions.

SAA is at the forefront of the International Air Transport Association (IATA) call from 2004 for the voluntary commitment of member airlines to increase fuel efficiency and reduce CO₂ emissions. To this extent, we engaged IATA to subject SAA to their Fuel Efficiency Gap Analysis during the latter part of the

year under review. SAA is intent on burning less fuel, not only as a cost-saver, but as our way of further contributing to a greener future. We are in ongoing discussions with the Air Transport Navigational Services (ATNS) on how traffic control procedures can contribute towards improved efficiencies.

SAFETY

SAA will continue to place the safety of its customers above all else. We operated all of our flights safely, legally and efficiently over the 60 092 sectors and 192 692 hours which we flew in 2008/9. As our contribution to further increase safety in the skies, we are also actively involved with the development of Required Navigation Performance (RNP), which makes use of GPS technology rather than ground-based infrastructure to navigate aircraft. This technology creates a more accurate flight path, particularly for departures, arrivals and approaches to airports. It increases the safety and efficiency of aviation worldwide while also bringing environmental benefits. SAA, in conjunction with IATA, spearheads the use of RNP as it is particularly appropriate to the African aviation environment.

LEGAL AND COMPETITION ISSUES

In keeping with good corporate governance, SAA continues to manage legal risks relating to the global operations of the airline. Competition law remains a critical risk area for SAA. SAA continues to take measures to ensure that employees are aware of the implications of competition law as they carry out their duties on behalf of the airline. During the year under review, the European Union Competition Commission pursued its global investigation against various carriers in the air freight industry, including SAA, by issuing its Statement of Objection and holding oral hearings at which carriers presented their responses to the Statement of Objection. In line with our belief that SAA operations in the EU did not contravene the law, SAA defended itself by filing its response to the EU Commission's Statement of Objection and appearing before the EU Commission during the oral hearings.

SAA now awaits the decision of the EU Commission. SAA also filed its response to the Statement of Objection issued by

Report of the Executive (continued)

Chris Smyth | Acting CEO

Switzerland's Competition Commission. With regard to the USA and Australian air freight industry competition investigations, SAA provided information that the relevant authorities requested in regard to SAA's air freight operations and has not received further communication from the authorities.

SALES AND MARKETING

The volatility of the global economic environment had a direct impact on the aviation market, placing pressure on demand for travel across the board. This was compounded by the oil price reaching record levels during the review period and ongoing exchange rate volatility. The challenging operating environment resulted in the total number of revenue passengers travelling on SAA falling to 6,9-million from 7,4-million previously. However, load factors held up well to settle at about 73% for the full year, and average airfares rose to R2 300 from R2 067 in 2007/8.

A brand repositioning project was launched with the aim of developing the SAA brand further. Rebranding started with an internal programme, the Journey of the Champion, designed to rekindle the passion of SAA employees for the business. This programme focused on ensuring that customer service ethics were at accepted industry standards, supported by investment in training and skills development. Repositioning the brand is aimed at maintaining and improving SAA's brand equity in the domestic market, regionally (into the rest of Africa) and internationally.

Product

SAA's world-class on-board product is one of the airline's key competitive advantages. During the review period, on-board entertainment was upgraded, and the lounge facilities at OR Tambo International Airport in Johannesburg are also being revamped with a new business class lounge to be opened. Lounges in other key African markets, such as Lagos, Nigeria and Luanda, Angola are also on the cards.

Voyager

During the year under review Voyager, SAA's loyalty programme, achieved further growth of its member base as customers opted to fly with SAA and participate in the broader value proposition offered by Voyager.

The International Financial Reporting Interpretations Committee (IFRIC) issued IFRIC 13: Customer Loyalty Programmes in 2007. This standard is applicable to SAA's 31 March 2010 year-end.

FLEET AND NETWORK PLANNING

Corporatisation

As part of the restructuring plan, it was envisaged that SAA would be reshaped into a new corporate structure with the establishment of seven separate independent subsidiaries.

These plans were subsequently adapted, partly in light of the impact of the global economic meltdown on the airline.

SAA Cargo will now remain a business unit of SAA following a decision not to corporatise this division. SAA's view is that Cargo is of strategic value and the focus will therefore be on the internal optimisation of the business. The search for an equity partner for our technical division, SAAT, will be pursued at a later stage once the downturn in the economy improves.

In line with the decision to focus SAA's resources on value-generating activities we will proceed with the disposal of those services which have been identified as being non-core.

Network

The network was adapted during the review period in line with the strategy of remaining focused on being an African carrier with global reach and enhancing Johannesburg as a key hub. In the absence of additional aircraft, we increased our capacity on popular and profitable routes. This involved reducing capacity on some domestic and international routes.

SAA will continue to scrutinise the network over the coming 12 months, especially the European routes, in order to deal with the continued impact of the global economic meltdown. New routes will continue to be explored as growing the airline is critical for sustainability, but it is also important to deal with those routes that hold little or no value.

Fleet management

During the year under review, SAA's fleet remained constant apart from the grounding of the Boeing 747s (in the previous financial year) and the limited redeployment of three of these aircraft on profitable routes in Africa as well as to support a wet-lease to TAAG.

For the coming financial year (2009/10), SAA does not plan any additions to the existing fleet. Plans announced in May 2008 to modernise the existing fleet by acquiring additional narrow- and wide-body aircraft did not materialise due mainly to the economic downturn. The longer-term fleet plan will proceed as planned, in line with network requirements and the restructuring plan.

OPERATIONS

SAA had a satisfactory year from an operational perspective, particularly in comparison to the previous year during which we faced a change in handlers and difficulties arising out of the restructuring process including its impact on staff morale. The results were borne out by improved on-time performance and the inroads made in protecting the baggage of customers.



Customer Satisfaction

The various improvements made to the business to ensure a smooth travel experience for customers paid off and in the second half of 2008, SAA experienced a 7% increase in customer satisfaction as measured by our customer satisfaction index. Customers were also happier with our airport service (by 10%), cabin services (4% increase, now at a level of almost 90%), and the product offering can compete with the best in the world.

On-time performance

There was a turnaround in SAA's overall on-time performance for flights since March last year when just under one out of every two flights departed late. A full 100% was achieved twice during 2009, something the airline has not achieved for several years. SAA's overall on-time performance was 5% better than the international average for much of the latter part of the review period, and particularly during the industrial action in the latter part of the year.

We are aware of ongoing problem areas, especially on some of our African routes, and are working hard to rectify these.

Self-service

The introduction of self-service kiosks at domestic airports was well received by customers. This programme has reduced costs at the airport and improved efficiencies, but while we have achieved our 10% target we need to continue to encourage the increased use of such machines for check in.

Aviation technology

SAA is leading the initiative to capture the benefits made possible by the use of the performance-based navigation (PBN) technology based on the Global Navigation Satellite System (GNSS) in Africa during arrivals, departures and instrument approaches. This promises to be the next step change in safety and efficiency on the continent. SAA plans to design and certify such procedures at Cape Town International Airport before the end of 2009 as a demonstration project for the benefit of the entire continent.

CARGO

The economic slowdown last year took its toll on the air cargo industry. According to statistics from the International Air Transport Association (IATA), Africa experienced the most significant decline of all regions during February 2009, with freight demand falling by 30,7%. Globally, freight volumes were 22,1% lower than those for 2008. SAA Cargo volumes experienced a drop of about 26% when compared to the previous year, which is in keeping with the global trend where demand for passenger and freight traffic declined.

Although the global trend affected Cargo revenues, and the grounding of the Boeing 747-400s meant a loss of cargo space,

SAA Cargo managed to protect and defend its market share. At year-end, demand stabilised and SAA Cargo experienced a 4% growth in revenue. SAA Cargo managed to grow market share in key markets over the period in review, which are Lagos, Accra and Kinshasa.

MANGO

Mango continued to focus on cost control, efficiency and guest service delivery. With a broad distribution network and a wide array of payment channels within the South African industry, Mango realised service delivery improvements during the review period.

From an operational and cost standpoint Mango maintained its cost leadership position within South African aviation with efficiency measures being implemented such as average daily aircraft utilisation and people productivity. The focus on cost, along with growth achieved in ancillary revenue streams, allowed Mango to moderate the impact of escalating fuel costs on core ticket prices. Mango also reported market share gains on all the routes it operates on.

AIRCHEFS

Much time was spent during the review period on due diligence processes in preparation for the sale of Airchefs. This formed part of a tender process. The procurement process was put on hold in early 2009 to facilitate a Board-mandated investigation in regard thereto. As a result, no contracts were concluded with bidders by the 2008/9 financial year-end.

SAATECHNICAL

SAA Technical (SAAT), a 100% subsidiary of SAA, maintained its client base with work from domestic legacy airlines, low-cost airlines, and regional and international airlines. SAA Technical currently services over 40 domestic and foreign airlines in addition to SAA.

During the review period, regulatory audits were carried out at SAAT by the US Federal Aviation Administration (FAA), the European Aviation Safety Authority (EASA), the South African Civil Aviation Authority (SACAA) and various other national authorities. The FAA accreditation was subsequently renewed to the end of 2009. A SACAA audit of SAA Technical resulted in accreditation being renewed until 31 October 2009. Similarly, the EASA accreditation was renewed to 24 February 2011.

SAAT's on-time dispatch reliability, which is an international benchmark for rating our operational reliability and records of aircraft delayed for more than 15 minutes due to a technical fault, remained close to the internal target of 98,80% over the review period (1 April 2008 – 31 March 2009).

Report of the Executive (continued)

Chris Smyth | Acting CEO

Staffing

During the restructuring initiative SAA Technical lost some of its technical staff. To counter this, a recruitment drive was embarked upon to restore its skills base. The recruitment drive resulted in the employment of 260 qualified technicians, bringing the total number of staff involved in the maintenance of aircraft to 1 300. This recruitment drive is ongoing within South Africa, the region and internationally.

HUMAN RESOURCES

The period under review was a difficult time for the staff of SAA, with the restructuring process affecting people at all levels. This resulted in uncertainty and the loss of skills in key operational areas. Rightsizing the organisation was an important part of the restructuring process, and SAA has now been rightsized from a workforce of 10 048 at the start of restructuring in April 2007 to 7 989 at the end of this financial year. We undertook various training programmes in line with the emphasis under the restructuring programme on reskilling our staff.

The relationship with labour came under pressure during the review period, with incidents of industrial action relating to the outsourcing of our call centres, retention premium payments and the use of labour brokers. All these matters were resolved with little impact on operations. We were also most pleased to have concluded multi-year agreements on wage/salary increases in respect of employees in our various bargaining units following positive negotiations with trade unions. These included a three-year wage agreement with UASA (AIWU) and SATAWU in respect of ground staff and cabin crew, a three-year salary agreement with SAAPA, the SAA Pilots Union, in respect of pilots and a 42-month wage agreement with AUSA in respect of non-management staff at SAA Technical. A further agreement with SAAPA has also been reached on a new approach to determining pilots' salary increases going forward from 2010. The aim of entering into these agreements is to allow for more labour stability within the company.

FINANCE

Revenue and earnings

During the review period, revenue grew strongly to R26,9-billion from R22,5-billion previously, an increase of 19%. Passenger revenue improved to R17,3-billion from R16,5-billion previously despite a reduction in frequencies on the domestic and international routes towards the latter part of the year. It was driven mainly by continued excellent growth on the African route network as well as improvements in the efficiency and utilisation of aircraft.

At the operating profit level, the loss of R1,37-billion posted in 2007/8 was turned into a profit of R1,9-billion. SAA's net profit for the year to end March 2009 amounted to R398-million against a net loss after restructuring costs of R1,085-billion previously.

Costs

Operating costs increased to R24,5-billion for the year to end of March 2009, from R23,6-billion the previous year. This was dominated by the energy bill, which rose R1,9-billion (or 28%) to R8,6-billion from R6,7-billion previously and made up almost 35% of total operating costs. This was driven largely by the sharp increase in the oil price in 2008, when the dollar price per barrel of Brent crude oil rose sharply in July of that year. Excluding energy costs, operating costs decreased by about 6%.

Hedging

As was common with many of the world's leading airlines, the sharp rise in the oil price had an impact on SAA's hedging programme. Hedging is a critical tool in the arsenal of any company that is exposed to oil and currency movements in the financial markets. It provides a means to mitigate the level of exposure of companies to these movements, and it is thus common practice for airlines around the world to hedge to some degree. SAA is conservative in its approach to hedging, with the approved target range being 40% to 60% for fuel and 50% to 75% for forex of the 12-month rolling future purchase. This should be viewed against an industry norm of hedging up to 80% of fuel uplift and for four years. The conservative nature of SAA's hedging minimised the airline's potential losses. SAA's programme of hedging its monthly uplift of 50 000 barrels a month resulted in 40% of the monthly purchase of fuel increasing significantly to July 2008, and thereafter declining to levels at year-end of US\$60 a barrel. In the environment of a declining oil price hedging, losses of R1,046-billion were incurred.

Financial overview

A concerted effort was made on streamlining key business processes within financial accounting in order to align to best business practices and effectively manage cash flow. Substantial benefits were realised as a result of this exercise, particularly relating to interline recoveries.

A committee to guide capital expenditure remained active during the review period, ensuring that expenditure was coordinated across different business units in order to eliminate wastage.

The savings achieved by renegotiating contracts to supply SAA with telecommunications, electricity, credit cards, insurance premiums and computer facilities proved to be sustainable. As part of SAA's recapitalisation process, which was agreed to in the restructuring programme, a total of R1,48-billion was allocated to SAA in the 2009 Budget Vote to convert into equity a guarantee issued in the prior year. SAA's current high gearing levels remain a concern, and this matter will continue to be addressed with the shareholder in order to bring it in line with industry norms.



SAA Treasury operates within the parameters of the Financial Risk Management Policy. This policy covers the spectrum of financial risks and is reviewed annually and approved by the SAA Board. Cognisance must also be taken of the delegation by the Minister of Finance, in terms of section 66 (6) of the PFMA, of some of the powers of the SAA Board under section 66 (3) to the SAA Financial Risk Subcommittee (FRSC). The corporate governance reporting structure for the hedge portfolio follows a process whereby decisions are made at the FRSC, and these are reported through to the FRIC (Financial Risk and Investment Committee) and to the SAA Board. The FRSC meets bimonthly, and the foreign exchange and jet fuel hedge performance are discussed at these meetings.

The disposal of non-core immovable assets was one of the initiatives considered to maximise SAA's property portfolio. SAA's core business does not include property ownership, and the idea is to focus on the core business. As such, ownership of non-core properties could be transferred to relevant companies in the property sector to properly manage and maintain the infrastructure.

Information technology services

During the review period, the Information Technology Services (ITS) division met the IATA deadline in June to eliminate paper tickets. E-ticketing is the cornerstone of IATA's Simplifying the Business initiative, and SAA met the prescribed deadlines timeously.

In keeping with the modernisation of SAA's IT systems and with smoothing the travel experience for our customers, SAA further marketed the facility of online check-in, where customers can check in by using our website, flysaa.com. The implementation of a new E-commerce booking platform that enhances the customers' online shopping capabilities and reduces operational costs substantially, has been concluded. In addition a fully managed organisational network printing environment substantially reducing the organisational cost of printing has been deployed. ITS also deployed a corporate executive dashboard providing online reporting of key organisation performance metrics for Executive Committee (Exco) management purposes. Looking ahead the following projects are planned:

- The Africa infrastructure upgrade, which will be required to support SAA's Africa expansion strategy.
- Expansion of the SAA E-commerce Platform, which will include extensive customer enhancement features (mobile support, customer experience enhancements and integrated security facilities).
- Upgrade of revenue management system to enhance the revenue generation.

WAY FORWARD

The airline has a commanding presence within Africa, a region that so far seems to have been less affected by the recession than the rest of the world. This gives SAA a unique natural hedge against the full impact of what the rest of the world is feeling, although it seems clear that this advantage will not be sustainable for long.

Africa will also feel the pain sooner rather than later, and the strong regional growth is sure to wane, particularly in the oil-rich regions that rely wholly or mainly on oil now that the sky-high prices that generated much of their growth have all but gone. As a team we are acutely aware of this and we know that we must continue to root out cost inefficiencies as we have done over the past 24 months.

More importantly, we need also to ensure that we take advantage of new opportunities and move quickly into new markets and routes that can be sustained from a profit point of view. The airline is first and foremost set to carry out its mandate of being an African airline with global reach by further expanding its African route network.

We will also continue to closely monitor our routes across our global network, particularly those which may underperform. We have already reduced flight frequencies on certain domestic and international routes. Cutbacks on flight frequencies are foreseen for the rest of the year and will be reinstated as and when required.

We are proud of our history and our solid presence in the African skies, particularly in our 75th year of existence. We will be leveraging off our proud history to restore and reinvigorate the pride and confidence of our staff and the travelling public in the airline. Ultimately, we are determined to be a world-class airline of which South Africa can be proud.

Chris Smyth
18 September 2009

The Board

PROF JAKES GERWEL Chairperson

Jakes Gerwel is Chancellor of Rhodes University, Distinguished Professor in the Humanities at the University of the Western Cape, Honorary Professor in the Humanities at the University of Pretoria, and Chairman of the Human Sciences Research Council. He was Vice-Chancellor and Rector of the University of the Western Cape from 1987 to 1994. From May 1994 to June 1999, he served as Director-General in the Office of President Mandela and Secretary of the Cabinet in the Government of National Unity. He is presently a non-executive director of Naspers and Old Mutual. He is also non-executive chairman of Aurecon, Brimstone Investment Corporation, Life Healthcare and Media 24. He chairs the Boards of Trustees of the Nelson Mandela Foundation, the Mandela Rhodes Foundation and the Allan Gray Orbis Foundation and is Vice Chairman of the Peace Parks Foundation.

DR KHAYA NGQULA* President and Chief Executive Officer

Khaya Ngqula has a BAdmin degree and an Honorary Doctorate of Commerce from University of Fort Hare. He sits on the board of Worldwide African Investment Holdings and Party Design (Pty) Limited. Previously he was President and Chief Executive of the Industrial Development Corporation (IDC) of SA Limited. Before joining the IDC, he was MD of Norwich Unit Trust.

MR CHRIS SMYTH** Acting CEO and General Manager: Operations

Chris Smyth holds a Bachelor of Commerce degree as well as a postgraduate diploma in Accountancy from the University of Natal, is a Chartered Accountant (South Africa) and holds a current commercial pilot's licence. Mr Smyth has extensive financial experience in the African aviation industry, having filled the position of General Manager in charge of Flight and Airport Operations at SAA. In prior positions, he was Group Finance Director for Kenya Airways from 2001 until 2005, Chief Financial Officer and Board Director for Virgin Nigeria Airways from 2005 until 2007. He was a key member of the Virgin Nigeria start-up team, which raised the airline's initial capital in the Nigerian private equity markets and started up the airline from scratch. Other positions held include Finance Executive/Director, Radiospoor Telecoms and Group Financial Director at National Airways Corporation. Appointed as Acting CEO of the airline on 13 February 2009.

MR KAUSHIK PATEL Chief Financial Officer

Kaushik Patel holds a Bachelor of Accounting Science (Honours) degree from the University of South Africa and is a Chartered Accountant (South Africa). Prior to this, he served as CFO of Telkom, Financial Director for Teba Bank Limited in 1999 and Finance Executive for The African Bank Limited in 1997. He has extensive expertise in financial matters, and is well versed in the key financial issues of state-owned enterprises, the requirements of the Public Finance Management Act (PFMA) and government relations. He has extensive commercial experience both locally and internationally as well as being experienced in the turnaround of state-owned enterprises.

MS LOUISA MOJELA Non-executive

Louisa Mojela is one of the founders and Group CEO of Women Investment Portfolio Holdings (Wiphold). She has held positions at Standard Corporate and Merchant Bank, the Development Bank of Southern Africa and the Lesotho National Development Corporation. She has a BCom from the University of Lesotho. She is a director of companies including Sun International and Women Investment Holdings Limited.

MR PETER JOUBERT Non-executive

Peter Joubert is the current Chairman of BDFM Publishers (Pty) Limited and Sandvik (Pty) Limited. He also serves on the boards of Transnet and Telkom. His career spanned 30 years with Afrox, starting as a trainee and 15 years as Chief Executive and Chairman. He served on the board of various top corporates such as Murray & Roberts, Old Mutual and Nedcor and as chairman of various other companies, including Delta Electrical Industries, Foodcorp, General Motors SA, Impala Platinum, Munich Reinsurance Company of Africa Limited and Northern Engineering Industries. He has also been chairman of Roedebeek School and Chancellor of the Order of St John. He serves on the Finance, Investment and Risk Management Committee as well as the Restructuring subcommittee of the Board.

* CEO – Dr Khaya Ngqula: Employment with SAA terminated by mutual agreement on 6 March 2009

** Acting CEO – Chris Smyth: Appointed as a director of SAA's Board on 13 February 2009



**ADV FRANCINE-ANN
DU PLESSIS**
Non-executive

Francine-Ann du Plessis is a Chartered Accountant (South Africa) and is an admitted advocate to the Cape High Court. She is an expert on taxation issues and contracts. She brings strong legal and financial expertise to the SAA Board. She serves on various other boards, including Naspers, Sanlam, KVV, Kaap Agri and Tulca (Mango). On the SAA Board, she also serves as chairperson of the Audit Committee and is a member of the Restructuring Subcommittee.

**MS MARGIE
WHITEHOUSE**
Non-executive

Margie Whitehouse has a Bachelor of Business Science with Honours in Marketing. With a background of working in multinationals such as Unilever, as well as extensive work within the South African Government, Ms Whitehouse has experience in building and marketing brands, with a passion for world-class African brands. She serves on the Financial, Risk and Investment Management Committee, Restructuring Subcommittee and the Airchefs Board.

**PROF DR (h.c)
JÜRGEN E SCHREMP**
Non-executive

Jürgen E Schrempp is former Chairman of the Board of Management of DaimlerChrysler. He served as President of Mercedes-Benz of South Africa, President of EUCLID, USA, as well as Chairman of the Board of Management of Daimler-Benz Aerospace. Prof Schrempp was a leading contributor in the creation of EADS (European Aeronautic Defence and Space Company). He became Chairman of Daimler-Benz in 1995 and continues to hold the position of Non-executive Chairman of Mercedes-Benz of South Africa (MBSA). He is the Independent Lead Director of the South African Coal, Oil and Gas Corporation (SASOL), Jonah Capital (Pty) Limited, an investment holding company in South Africa, and Compagnie Financière Richemont SA, Switzerland. He is a member of the Board of Overseers of Reinet Investments SCA, Luxembourg. He also serves as Deputy-Chairman of the Technology Company Iron Mineral Beneficiation Services (Pty) Limited (IMBS), South Africa, and on the Advisory Council of GEMS, a private equity firm. He is Chairman of the Southern Africa Initiative of German Business (SAFRI) and a member of the International Investment Council of the South African President. Prof Schrempp is Chairman Emeritus of the Global Business Coalition on HIV/AIDS and Honorary Consul-General of the Republic of South Africa. He holds a professorship of the Federal State of Baden-Württemberg in Germany, an honorary Doctorate of the University of Graz, Austria, and an honorary Doctorate in Commerce (HC) of the University of Stellenbosch, South Africa. Prof Schrempp has received numerous awards and has been recognised for his civic leadership and charitable contributions. Amongst other distinctions, he is Commander of the French Legion of Honour and holds South Africa's highest civilian award, the Order of Good Hope, conferred upon him by former President Nelson Mandela.

DR NKOSANA MOYO
Non-executive

Nkosana Moyo, a Zimbabwean national, holds a PhD in Physics and an MBA. He was the Minister of Industry and International Trade in Zimbabwe. Dr Moyo held a number of senior management positions, all of them in the private sector, and largely in finance. He held several executive director positions as CEO for banking institutions and has worked with the World Bank. He is currently a Senior Advisor to Actis LLP, a leading private equity investor. He is also a pilot.

MS KOOSUM KALYAN
Non-executive

Koosum Kalyan has a BCom (Law) (Hons Economics) and has completed the Senior Executive Management Programme: London Business School. She is a member and co-facilitator of the UNAIDS/Shell Scenario Planning Team on HIV/AIDS in Africa. She was an adviser to Prime Minister Blair's Commission for Africa as a Private Sector Liaison and Coordinator for Africa, and is lecturing at Harvard Business School on Investment Climate for Africa. She chairs the G8 Business Action Against Corruption in Africa, the Commonwealth Business and Women's Network and the Commonwealth Business Advisory Council. She sits on the boards of the MTN Group Limited, South African Bank Note Company of SA Reserve Bank, South African Mint Company of Reserve Bank, Kgotsi Holdings and UK/SA Business Initiative London.

MR BILLY MODISE
Non-executive

Billy Modise was the South African High Commissioner to Canada from 1995 to 1999. He was Chief of State Protocol at the Department of Foreign Affairs from 1999 until April 2006. He served a total of 13 years with the United Nations in two different capacities from 1975 to 1988. He has a BA as well as an MA degree in Social Sciences. He serves on the Nominations, Governance and Remuneration subcommittees of the Board, Airchefs and Technical.

SAA Leadership

CHRIS SMYTH
Acting CEO and
General Manager:
Operations

Functions: Responsible for all the airline's operations including the fleet, cabin and cockpit crew as well as ground operations at all the destinations the airline serves. Appointed as Acting CEO of the airline on 13 February 2009.

Qualifications: Chris Smyth holds a Bachelor of Commerce degree as well as a postgraduate diploma in Accountancy from the University of Natal, is a qualified Chartered Accountant (South Africa) and holds a current commercial pilot's licence. Mr Smyth has extensive financial experience in the African aviation industry, having filled the position of General Manager in charge of Flight and Airport Operations at SAA. In prior positions he was Group Finance Director for Kenya Airways from 2001 until 2005 and Chief Financial Officer and Board Director for Virgin Nigeria Airways from 2005 until 2007. He was a key member of the Virgin Nigeria start-up team, which raised the airline's initial capital in the Nigerian private equity markets and started up the airline from scratch. Other positions held include Finance Executive/Director Radiospoor Telecoms and Group Financial Director at National Airways Corporation.

KAUSHIK PATEL
Chief Financial
Officer

Functions: Chief Financial Officer of the airline. Kaushik Patel was appointed as Chief Financial Officer in December 2007.

Qualifications: He holds a Bachelor of Accounting Science (Honours) degree from the University of South Africa and is a Chartered Accountant (South Africa). Prior to this he served as CFO of Telkom, Financial Director for Teba Bank Limited in 1999 and Finance Executive for The African Bank Limited in 1997. He has extensive expertise in financial matters, and is well versed in the key financial issues of state-owned enterprises, the requirements of the Public Finance Management Act (PFMA), government relations, with extensive commercial experience, both locally and internationally, as well as being experienced in the turnaround of state-owned enterprises.

NOMVULA NKABINDE
General Manager:
Sales and Marketing

Functions: As General Manager: Sales and Marketing, she is responsible for the complete global sales function of the company, as well as marketing and sponsorship and holds responsibility for SAA's Cargo division. She was appointed on 1 April 2008, from the position of Head of Commercial at SAA Cargo.

Qualifications: She holds a BComm Accounting degree from the University of Fort Hare, a Master's in Business Leadership (MBL) and an Advanced Executive Programme from the University of South Africa's School of Business Leadership. She joined SAA Cargo from Barclays Bank PLC as Marketing and Communications Director. Before this, she was Commercial Director at Uthingo Management (Pty) Limited and Acting Head of Marketing and Communication at Eskom respectively. She also worked at SA Breweries and Nedbank Limited.

STEFAN POPRAWA
Acting CEO:
SAA Technical

Functions: Responsible for the complete function of SAA Technical, a 100% subsidiary of SAA and Accountable Manager for the Maintenance Repair Organisation.

Qualifications: He holds a BSc (Eng) cum laude, MSc Eng, MS Aero, MBA cum laude, Airline Transport Pilot Licences from South Africa and JAA/EASA, Flight Instructor Grade II and Test Pilot Grade II ratings and is registered as a professional engineer with the Engineering Council of South Africa. His previous position held was Chief Technical Pilot and Postholder Maintenance Standards for SAA. Before that he also was the SAA Technical Pilot for Airbus A340s and A319s, a pilot instructor on the Airbus A340s and Boeing 737s, SAAT Vice-President: Central Planning and SAA Cargo Manager: Special Projects.

BHABHALAZI BULUNGA
General Manager:
Human Resources

Functions: As General Manager responsible for Human Resources, he is responsible for the complete human resources function of the company.

Qualifications: He holds a BA Social Science degree from the University of Swaziland and completed an Executive Development Programme at Wharton University in Philadelphia, USA. He has wide business experience in various sectors, including for government (SARS), pharmaceutical, aluminium smelters, fast-moving consumer goods (FMCG) and information technology sectors.



RUTH KIBUUKA
Company Secretary

Functions: Appointed to the position of Company Secretary with effect from 1 February 2009. She provides a secretariat service to the Board of Directors and committees of the Board of SAA, the Boards of SAA's subsidiaries, as well as the SAA Executive and other governance forums.

Qualifications: She holds a Bachelor of Arts (Honours) degree, majoring in Economics and Social Administration, from Makerere University in Kampala, Uganda, and a CIS Diploma from Intec College in Cape Town. She is a Fellow of the South African Institute of Chartered Secretaries and Administrators and for the Chartered Institute of Business Management. Previously she held, amongst others, the position of Financial Controller for Export Credit Insurance Corporation of South Africa (ECIC) and Group Accountant at Fedics Group Services.

JOE MAKOBE
Chief Risk Officer

Functions: Appointed to the position of SAA's Chief Risk Officer, with effect from 1 May 2008, with the responsibility for the company's risk management function, including compliance and the PFMA.

Qualifications: He has a Bachelor of Commerce (BCom) from the University of the North and a Certificate in Strategic Management from Baruch College, NY. He joined the airline in 2004, and was responsible for overseeing the process of transferring SAA out of the Transnet stable to government. Before joining SAA, he worked at Worldwide African Investment Holdings, Credit Suisse First Boston (NY), Barclays Merchant Bank and Deloitte & Touche.

JAN BLAKE
General Manager:
Mergers and Acquisitions
and Business
Development

Functions: As General Manager: Mergers and Acquisitions from 1 December 2007, Jan Blake is responsible for the implementation of the corporate structure of SAA into various divisions and subsidiaries under a single holding company as set out in the corporate plan. In addition, he is responsible for corporate development including network planning, fleet planning and revenue management.

Qualifications: He is a Chartered Accountant (South Africa) with over 20 years' experience in the aviation industry. Prior to becoming General Manager: Mergers and Acquisitions, Jan was CEO of SAA Technical (SAAT), he headed SAA's operations and he was Chief Financial Officer at SAAT. Before joining SAA he was CEO of Flitestar, CEO of XPS Express freight division of the Rennies Group and worked for Iscor.

LOUISA ZONDO
General Counsel

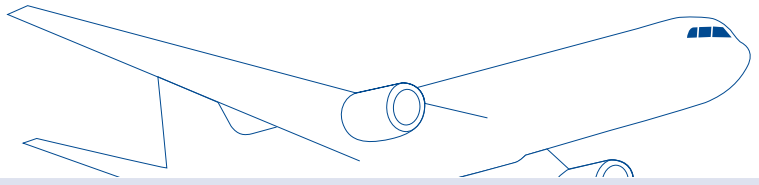
Functions: As General Counsel Louisa is responsible for all legal matters affecting the airline.

Qualifications: Louisa holds a BProc degree (University of the North), LLB (University of Natal, Durban) and an LLM (London School of Economics and Political Science), and is an advocate of the High Court of South Africa. Before joining SAA she was CEO of the National Nuclear Regulator (NNR) and had spent three years in Vienna with the Preparatory Commission for the Comprehensive Nuclear-Test-Ban Treaty Organisation as Secretary for the Preparatory Commission. She practised as an advocate at the Johannesburg and Durban Bar. Her work experience also includes roles as CEO of the South African Human Rights Commission and Deputy Executive Director in The Secretariat of the Constitutional Assembly.

**Leadership for the
year under review**

Resignations

Clive Else – Chief Executive Officer: SAA Technical
Thelma Melk – Company Secretary
Patrick Dlamini – General Manager: SAA Cargo



Annual financial statements

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Information page

for the year ended 31 March 2009

COUNTRY OF INCORPORATION AND DOMICILE	The Republic of South Africa	
DIRECTORS	Prof GJ Gerwel Dr KN Ngqula Adv F du Plessis Mr PG Joubert Ms KP Kalyan Mr BIL Modise Ms LM Mojela Dr ND Moyo Prof JE Schrempf Ms MM Whitehouse Mr FC Smyth Mr KR Patel	Chairman (appointed 27 August 2004) (resigned 6 March 2009) (appointed 24 October 2006) (appointed 27 May 2005) (appointed 24 October 2006) (appointed 24 October 2006) (appointed 27 August 2004) (appointed 24 October 2006) (appointed 24 October 2006) (appointed 24 October 2006) (appointed 24 October 2006) (appointed 13 February 2009) (appointed 26 October 2007)
COMPANY SECRETARY	Ms R Kibuuka	(appointed 1 February 2009)
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	
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	
COMPANY REGISTRATION NUMBER	1997/022444/07	

Statement by the Company Secretary

for the year ended 31 March 2009

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 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. This should be read in conjunction with the disclosures made with respect to the Companies Act compliance in paragraph 4.3 of the Directors' report.



Company Secretary

18 September 2009

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

INTRODUCTION

We have audited the annual financial statements of South African Airways (Proprietary) Limited and its subsidiaries, which comprise the Directors' report, balance sheets as at 31 March 2009, and the income statements, statements of recognised income and expenses and cash flow statements for the year then ended, a summary of significant accounting policies and other explanatory notes as set out on pages 20 to 92. These financial statements are the responsibility of the accounting authority. Our responsibility is to express an opinion on these financial statements based on our audit. The performance information is the responsibility of the accounting authority. Our responsibility is to express an opinion on whether the performance information is furnished in terms of subsection 55(2)(a) of the Public Finance Management Act, 1 of 1999 ("PFMA"), as amended, is fair in all material respects and is presented on a basis consistent with that of the preceding year.

ACCOUNTING AUTHORITY'S RESPONSIBILITY FOR THE ANNUAL FINANCIAL STATEMENTS

The accounting authority is responsible for the preparation and fair presentation of these annual financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act 61 of 1973 of South Africa ("Companies Act") and the PFMA. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these 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 on whether the annual financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the annual financial statements. The audit was also planned and performed to obtain reasonable assurance that our duties in terms of sections 27 and 28 of the Public Audit Act have been complied with.

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

National Executive: GG Gelink Chief Executive, AE Swiegers Chief Operating Officer, GM Pinnock Audit, DL Kennedy Tax & Legal and Risk Advisory, L Geeringh Consulting, L Bam Corporate Finance, CR Beukman Finance, TJ Brown Clients and Markets, NT Mtoba Chairman of the Board, CR Qually Deputy Chairman of the Board

A full list of partners and directors is available on request.

B-BBEE rating: Level 3 contributor/AA (certified by Empowerdex)

Member of Deloitte Touche Tohmatsu

OPINION

In our opinion, the annual financial statements present fairly, in all material respects, the financial position of South African Airways (Proprietary) Limited and its subsidiaries as of 31 March 2009, and the results of their operations and cash flows for the year then ended in accordance with International Financial Reporting Standards and the manner required by the Companies Act and the PFMA.

EMPHASES OF MATTERS

Without qualifying our opinion above, we draw attention to the matters listed below.

Non-compliance with the PFMA and Companies Act

The transactions of South African Airways (Proprietary) Limited and the group that came to our attention during the audit were, in all material respects, in accordance with the requirements of the PFMA, with the exception of matters detailed in the Directors' report on pages 22 and 23. These matters relate to the ability of the current procurement system to ensure goods and services are procured fairly, equitably, transparently, competitively and cost-effectively; the prevention, identification and reporting of all fruitless and wasteful expenditure; the appropriate declaration of interests in contracts by Directors and the shareholder's compact with government. These exceptions evidence that SAA is currently not in compliance with the PFMA, which is, in itself, a breach of the PFMA.

The performance information as envisaged in subsection 55(2)(a) of the PFMA has not been included in the annual financial statements and we are, therefore, unable to express an opinion thereon as envisaged by section 28(1)(c) of the Public Audit Act.

South African Airways (Proprietary) Limited has begun to put processes and systems in place to identify all legislation applicable to it and a monitoring plan to ensure compliance with this legislation. As disclosed in the Directors' report, on page 23, as these systems are not yet fully implemented, the group cannot conclude that it has complied with all applicable legislation relating to financial matters, financial management and other related matters.

Certain instances of non-compliance with the Companies Act were identified and are disclosed on page 23 of the Directors' report.

Reportable irregularity

The above exceptions to South African Airways (Proprietary) Limited's compliance with the PFMA and Companies Act, resulted in our reporting a reportable irregularity as required in terms of the Auditing Profession Act 2005.

International and Air Service Licence Council Guarantee

The guarantee provided by government in respect of the air traffic liability expires on 31 March 2010, which is less than 12 months from the date of this report. Refer to paragraph 3.3 of the Directors' report for details in this regard.

Deloitte & Touche

A Mackie
Partner – Audit

18 September 2009

Directors' report

for the year ended 31 March 2009

The directors have pleasure in presenting their report, which forms part of the annual financial statements of the company and of the group, for the year ended 31 March 2009. The audited annual financial statements set out in this report have been prepared by management in accordance with International Financial Reporting Standards (IFRS). They are based on appropriate accounting policies adopted in terms of IFRS which are detailed in Note 1 to these annual financial statements. The accounting policies are supported by reasonable and prudent judgements and estimates as detailed in Notes 3 and 4 to the annual financial statements.

The audited annual financial statements are submitted in accordance with the statutory requirements of the Public Finance Management Act 1 of 1999 (PFMA) and the South African Companies Act. In the opinion of the directors, the annual financial statements fairly present the financial position of South African Airways (Pty) Limited (SAA) and its subsidiaries as at 31 March 2009, and the results of their operations and cash flow information for the year then ended.

1. NATURE OF BUSINESS AND COMPANY SHAREHOLDING

SAA, whose shareholder is the Department of Public Enterprises (DPE), has as its principal activities the operation of international, regional and domestic scheduled air services for the carriage of passengers, freight and mail. In keeping with SAA's mission to be an African airline with global reach, SAA is the largest carrier on the African continent offering 20 destinations across the continent and provides a competitive, quality air transport service within South Africa, as well as to major cities worldwide.

2. OVERALL RESULTS FOR THE YEAR UNDER REVIEW

SAA generated an operating profit of R1,9-billion (2007/8: operating loss of R1,4-billion) which includes restructuring costs of R474-million (2007/8: R1,3-billion), a once-off air traffic liability release of R248-million and the reversal of the A320 pre-delivery payments (PDPs) impairment amounting to R472-million.

3. IMPACT OF CRITICAL ISSUES DEALT WITH DURING THE YEAR AND GOING CONCERN ASSESSMENT

SAA has faced a number of compelling issues which consumed a considerable amount of effort and time during the course of this financial year. The directors are appreciative of the support received from the DPE on these issues. Due to the significance and nature of these issues, the directors believe it is necessary to highlight them in further detail.

3.1 Legacy issues dealt with during the year

SAA has had to deal with a number of legacy issues during this period, which resulted in extensive consultation between SAA management, the Board and the DPE.

These are detailed below:

3.1.1 The Airbus A320 order

Background

During 2001 SAA announced it would embark on a fleet acquisition strategy with the main aim being to replace its ageing fleet. At a Board meeting held during 2002, it was resolved that SAA purchase 15 A320-200 aircraft for which delivery was scheduled to commence in the first half of 2010.

During July 2004 the Board of Directors (the Board) of SAA met and, as a result of SAA's dire financial situation at the time, decided to cancel the A320 purchase agreement with Airbus. SAA was of the view that the cost of the cancellation was the forfeiture of the PDPs made to the date of cancellation, amounting to approximately US\$42,8-million and accordingly fully impaired these PDPs.

During 2007 SAA received a letter from Airbus, the contents of which indicated that Airbus had kept the purchase agreement in force.

Current status of the A320 order

Negotiations between SAA management, the DPE and Airbus took place where various options were considered on how best to proceed.

At the date of approval of the annual financial statements, a letter of intent was signed between SAA and Airbus, which contained the following salient points:

- SAA and Airbus have agreed to increase the number of A320 aircraft from fifteen to twenty at a total price that does not exceed the indicative value of the original order for fifteen placed in 2002.
- SAA will lease six A330 aircraft for eight years commencing May 2010 at market-related rates to replace the six A340-200 aircraft, with leases terminating between December 2010 and May 2011.
- Deliveries that were scheduled to commence in 2010 have been postponed to 2013. This includes the postponement of further PDPs until September 2011.

The conclusion of the contract is subject to the approval of both the SAA and Airbus Board of Directors.

Accounting for the A320 order

As a result of the intention to fulfil the contract, the impairment recognised against the PDPs during 2004, amounting to R408-million net of foreign exchange adjustments since 2004, has been reversed.

The resulting capital commitment of US\$1,075-million has been disclosed in Note 39 of the annual financial statements.

Should the letter of intent not result in a final agreement for any reason, SAA foresees a protracted legal process with an estimated potential exit cost of approximately US\$90-million as well as forfeiture of the

US\$42,8-million PDPs paid to date. The estimated cost of exit has not been accounted for in the annual financial statements as SAA has every reason to believe the contract will be satisfactorily concluded in line with the letter of intent.

SAA will only be required to remit the next PDPs in September 2011. Financing for ownership of the aircraft will only be required from 2013 on delivery of each individual aircraft. These deferrals afford SAA sufficient time to source an appropriate funding structure, which may require some element of shareholder support or guarantee.

Airbus has agreed, in the letter of intent, that no guarantees or support will be required for the eight-year lease of the A330-200 aircraft. SAA is confident that the cash flow impact of the A330-200 lease, net of the retired A340-200 fleet payments, is beneficial to SAA and will be financed through the operating activities of those aircraft.

3.1.2 *Antitrust litigation*

SAA is faced with litigation relating to antitrust investigations imposed by the US Department of Justice Antitrust Division, the European Union in Brussels, the Swiss authorities, the Australian Competition and Consumer Commission (ACCC) and the local South African authorities, relating to allegations of anti-competitive conduct spanning over the period between 1998/9 and 2005/6.

During the year under review and beyond, the SAA legal team held various meetings with respective stakeholders regarding SAA's exposure, specifically with respect to the European Union (EU) Competition Commission. The EU Competition Commission lodged an investigation into alleged anticompetitive conduct in the air cargo services industry and issued a Statement of Objection (SO) against various air cargo carriers globally, including SAA.

SAA responded to the SO and presented arguments of both a legal and technical nature as well as facts taking into account the absence of sufficient evidence to substantiate the allegations of fact contained in the SO. In light of developments, while taking note of the difficulty of accurately predicting what the decision of the Commission might be, the SAA legal team has assessed the prospect of the Commission issuing a fine against SAA to be remote.

The Commission has not yet issued a decision in this matter. Possible exposure in respect of these investigations, together with the other antitrust investigations, is currently reflected in SAA's annual financial statements as contingent liabilities. (Refer Note 40).

3.2 **Independent forensic investigation and the departure of the CEO, Dr Khaya Ngqula**

In January 2009, a number of serious allegations were brought to the Board's attention relating to the possible involvement of the then CEO and other senior executives in irregularities in the conduct of the airline's business. The Board deemed it appropriate to launch a forensic investigation by an independent firm to determine and objectively verify the allegations.

An extraordinary general meeting of the company was held to endorse the decision of the Board to commission an independent investigation. KPMG was engaged to conduct the investigation, which commenced in February 2009.

During March 2009, the Board held a separate meeting, where a discussion with the CEO was held. It was agreed that the CEO would go on voluntary leave for the period of the investigation. Subsequently the Chairman of the Board announced that, by agreement with the former CEO, his employment with SAA was terminated.

It must be made clear that Dr Ngqula's separation from SAA will not protect him from any personal liability that may arise from the consequences of investigation that the Board has instigated.

The investigation proved to be a substantial exercise involving, amongst other things, a review of numerous tenders awarded and contracts concluded with third parties and interviews with many persons. Substantial progress has been made in the investigation but it is not yet complete and there are still certain important fact-finding aspects which must be concluded and legal advice which must be obtained. SAA has accordingly been unable to definitively determine the allegations. Preliminary indications from the investigation are, however, such that, regrettably, SAA is not confident that all aspects of the PFMA, the Companies Act and SAA's policies (such as its procurement policy) have been complied with in the transactions being investigated. As described more fully below, this has a bearing on what is reported in relation to the PFMA and regulatory compliance by SAA.

The Board is determined that as soon as the forensic investigation has been completed and legal advice obtained, it will take appropriate legal, disciplinary and other steps that are warranted.

3.3 **International and Air Service Licence Council Guarantee**

In terms of both the International and Domestic Air Services Act, all South African carriers are obliged to have a guarantee in place in order to cover the passengers, who have purchased tickets, but have not yet travelled, against the collapse of the airline. Without a guarantee in place SAA would not be permitted to operate any domestic or international operations.

Directors' report (continued)

for the year ended 31 March 2009

The DPE has issued a letter of support to the Licence Council to support SAA to this extent, which expires on 31 March 2010. The Board has no reason to believe that DPE will not renew the guarantee on expiration.

3.4 Going concern assessment

SAA remains an undercapitalised business. This has a significant effect on the ability of the business to operate within the current volatile economic climate. The global airline industry has suffered from declining passenger volumes and yields and increased operating costs, most notably fuel.

The directors have given consideration to the short- to medium-term cash flow requirements of the airline, considering carefully the depressed aviation market, combined with the potential for adverse cash flows to arise from legacy issues, in particular the Airbus transaction and antitrust litigation, both of which are referred to above.

In light of the potential adverse cash flow impact arising from the state of the global airline industry, SAA approached the shareholder for a guarantee to be made available amounting to R1,6-billion to provide reasonable comfort that SAA has the ability to continue as a going concern. The shareholder has agreed to provide such a guarantee.

The directors are also pleased to report that the shareholder has allocated an amount to inject fresh equity of R1,48-billion to replace a financing facility of R1,55-billion, relieving the airline of the debt servicing burden. This injection was allocated in the 2009 budget vote.

Conclusion

The directors are of the view that SAA has the ability to generate profits from operations under normal circumstances.

The cash resources plus available facilities supported by the guarantee received from the shareholder are considered by the directors adequate for the going concern requirements in the short term, being 12 months from the date of approving these annual financial statements.

The directors remain of the view that in due course a more permanent appropriate capital structure is required for the airline.

4. PFMA

In accordance with the PFMA the Board has the responsibility of ensuring that SAA has and maintains effective, efficient and transparent systems of financial and risk management and internal control.

4.1 Procurement

During the year, the company's internal auditors commenced a review of procurement, and although this

project is still ongoing, preliminary findings indicate areas of weakness in the level of compliance with the company's procurement policies and procedures.

Additionally, as previously discussed, a forensic investigation by KPMG has been initiated to review various transactions and the conduct of the company's representatives to establish whether there have been any infractions of the PFMA or the company's procurement and supply chain management policies and procedures. Although much progress has been made in the investigation, it is not yet complete, and therefore the Board is currently unable to definitively determine whether there have been any infractions of the PFMA or the company's procurement policies and procedures, and the materiality thereof.

4.1.1 Procurement system

Section 51(1)(a)(iii) of the PFMA requires the procurement system to be fair, equitable, transparent, competitive and cost-effective. SAA is unable to claim full compliance with section 51 of the PFMA in respect to certain legacy contracts and arrangements approved before the implementation of the current procurement system, against which payments have been made during the year.

Additionally, based on preliminary feedback and progress reports received as part of the KPMG forensic investigation, it appears the procurement system was not complied with in relation to certain tender processes and awards of contracts.

The above has resulted in the Board directing management to renew their focus on achieving compliance with the company's procurement system and ensuring future compliance with section 51 of the PFMA.

4.1.2 Irregular, fruitless and wasteful expenditure

Sections 50, 51, 55 and 57 of the PFMA contain certain onerous obligations for the company to comply with. These obligations include the prevention and detection, identification and reporting of irregular, fruitless and wasteful expenditure, irrespective of quantum.

Based on preliminary feedback and progress reports received as part of the KPMG forensic investigation, SAA is unable to claim full compliance with all the requirements of the PFMA regarding the prevention and disclosure of irregular or fruitless and wasteful expenditure, losses resulting from possible criminal conduct, and expenditure not complying with the operational policies of SAA, as contemplated in sections 50, 51(1)(b)(ii), 55 and 57 of the PFMA.

As soon as the forensic investigation has been completed and legal advice obtained, a detailed report covering any known instances of fruitless, wasteful and irregular expenditure, together with other contraventions of the PFMA, will be acted upon by the Board and incorporated in a submission to the Minister of Public Enterprises.

4.2 Internal control

As part of the objective of improving the internal control environment, the company implemented the Critical Financial Reporting Controls project designed to address key financial control deficiencies in core financial processes.

Additionally, the CFO, with the assistance of Internal Audit, has initiated a forum with the objective of designing and overseeing remedial actions required to address internal and external audit findings. The members of the forum include the CFO, the CRO and the divisional financial controllers.

Despite the continued efforts by management during the year to enhance the financial control environment, the company is unable to claim full compliance with section 51(1)(a)(i) of the PFMA.

4.3 Legislation

Section 51(1)(h) of the PFMA requires that SAA comply with the PFMA and any other legislation applicable to the company. SAA has endeavoured to implement a strategy to comply with the many laws and regulations affecting its operations. This strategy includes the establishment of a compliance division within SAA to develop and implement a "regulatory universe". The regulatory universe will cover all legislation which is applicable to SAA.

The following four key focus areas have been identified for the next financial year to ensure compliance:

- The PFMA.
- The Competition Act.
- The European Union Emissions Regulations (Environmental regulations).
- The Consumer Protection Act.

SAA is currently developing a monitoring plan in respect of the above focus areas. Until the monitoring plan is fully developed and operational, SAA is unable to confirm compliance with all applicable legislation and regulations.

SAA is also required to comply with the Companies Act. Based on preliminary feedback and progress reports received as part of the KPMG forensic investigation, in a number of instances sections 234, 235 and 242 of the Companies Act have not been fully complied with in this period. These sections relate to the duties of directors to disclose interests in contracts, and to the keeping of minutes of directors' and managers' meetings.

The Board is taking appropriate measures to ensure this does not reoccur and in this regard it has appointed a new Company Secretary, whose appointment has already had a positive effect in these areas.

4.4 Shareholder's compact

For the year under review a shareholder's compact, as required by Treasury Regulation 29, was not in place due to the inconclusive discussions with the shareholder of

the company. In the absence of the shareholder's compact, performance information has not been included in the annual report as envisaged by section 55(2) of the PFMA.

5. 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 in Corporate Governance in the Public Sector and King II 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 in paragraph 4 of this report. There is continuous monitoring of SAA's risks at the Financial Risk and Investment Committee (FRIC), Audit Committee and Board.

For the period under review, improvements included an appointment of a dedicated PFMA Compliance Officer who reports to the CRO. 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.

6. EVENTS SUBSEQUENT TO THE BALANCE SHEET DATE

There have been a number of events subsequent to balance sheet date. These include:

- progress on the Airbus A320 negotiations (Refer to paragraph 3.1.1);
- securing additional funding and guarantees from government (Refer to paragraph 3.4); and
- preliminary findings on the KPMG forensic investigation being released to the Board (Refer to paragraph 3.2).

The directors consider that these events have been appropriately dealt with in the annual financial statements.

The directors are not aware of any other events that occurred subsequent to the balance sheet date which require disclosure in or adjustments to these annual financial statements.

Directors' report (continued)

for the year ended 31 March 2009

7. 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 under Note 42 of these annual financial statements titled "Related Party Transactions".

The performance information as envisaged in subsection 55(2)(a) of the PFMA and section 28(1)(c) of the Public Audit Act 25 of 2004, has not been included in the annual financial statements. 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, 55 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.

8. SPECIAL RESOLUTION TAKEN DURING THE YEAR

A special resolution was passed during the year to adopt an amended Memorandum and Articles of Association, more appropriate to the company. This resolution has not been successfully lodged with CIPRO at the date of approval of these annual financial statements.

9. DIVIDENDS PAID AND RECOMMENDED

No dividends have been recommended, declared or paid for the current or prior financial year. The government guaranteed subordinated loans have been classified as equity in accordance with IAS 39. Accordingly, any interest which SAA has elected to pay to the various lenders has been classified in equity. For the current year SAA elected to pay interest of R359-million (2007/8: R137-million) on the loans.

10. BOARD OF DIRECTORS

SAA has a unitary Board comprising eight non-executive directors and two executive directors. All 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 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 chairman and the executive

management of the company is led by the acting Chief Executive Officer. There is a division of responsibilities between the Chairman and the acting CEO, and their respective roles are described in the Board of Directors' Charter and the Executive Committee Charter.

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.

10.1 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.

10.2 Board Committees

Three (3) 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 three Board committees established are as follows:

- Audit Committee.
- Financial, Risk and Investment Management Committee.
- Nominations, Governance and Remuneration Committee.

In addition to the above, the Restructuring Subcommittee was formed in 2007, as a subcommittee of the Board.

10.2.1 Audit Committee

The Audit Committee comprises three (3) independent directors, namely Dr ND Moyo, Ms LM Mojela and the chairperson, Adv F du Plessis.

The Audit Committee reviews the company's annual financial statements 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 auditor and is also required to pre-approve the audit fees.

Both internal and external auditors have unfettered access to the committee. Management is invited when required. In terms of 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, as reflected on page 27.

10.2.2 Financial, Risk and Investment Committee (FRIC)

The FRIC comprises of Ms LM Mojela (Chairperson), Mr PG Joubert and Ms MM Whitehouse.

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 chairman and does not absolve the Board of its ultimate accountability. The major duties to be fulfilled by this committee are as follows:

- Present the overall financial risk exposure to the directors.
- Review and recommend any changes to 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.

10.2.3 Nominations, Governance and Remuneration Committee

The Nominations, Governance and Remuneration Committee is made up of the following members: Ms LM Mojela, Ms KP Kalyan (Chairperson) and Mr BIL Modise.

This Board Committee meets at least quarterly and at such other times as the Chairperson may determine. The responsibilities of the committee include the following:

- To review and approve related policies.
- To ensure that the company's directors and senior executives are fairly rewarded for their individual and joint contribution to the company's overall performance.
- To demonstrate to all stakeholders in the business that remuneration of the senior executives is done independently and objectively.
- To ensure that remuneration of senior executives is determined in accordance with the company's applicable remuneration philosophies and that such policies are reviewed in accordance with the company's overall business strategy.
- To assist and support the Board in the implementation of the overall corporate governance at SAA.
- To ensure that nominations to the Board of Directors and senior executive appointments and subsequent appointees are people who have the necessary and appropriate expertise in discharging their responsibilities.

10.2.4 Restructuring Subcommittee (RSC)

The RSC was formed in 2007 to consider all restructuring proposals and to make appropriate recommendations to the Board. The RSC was made up of the following members: Ms LM Mojela (Chairperson), Ms MM Whitehouse, Adv F du Plessis, Mr PG Joubert and the CEO.

The role of the RSC was fundamental in the achievement of the objectives of the restructuring programme, especially in the early phases where executive commitment was key.

With the conclusion of the restructuring process at the end of the financial year, the need for a separate RSC fell away, and its functions were assumed by FRIC.

10.3 Directors' interests in contracts

Directors' and employees' declaration of interest is a standing item at all meetings of the Board and its committees. Directors and employees are obliged to submit updated declarations once a year. This should be read in conjunction with paragraph 4.3 of this report.

Directors' report (continued)

for the year ended 31 March 2009

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

SAA Board of Directors at 31 March 2009		Date of appointment (A)/ resignation (R)	Number of meetings attended				
			Board	AC	FRIC	NGRC	RSC
Number of meetings held during the year			7	4	6	5	5
Prof GJ Gerwel (Chairman)	N	27 August 2004 (A)	7	–	–	–	–
Mr FC Smyth (Acting CEO)	E	13 February 2009 (A)	1	–	1*	1*	–
Ms LM Mojela	N	27 August 2004 (A)	7	4	6	5	3
Mr PG Joubert	N	27 May 2005 (A)	6	–	3	–	5
Adv F du Plessis	N	24 October 2006 (A)	7	4	–	–	5
Ms KP Kalyan	N	24 October 2006 (A)	7	–	–	5	–
Mr BIL Modise	N	24 October 2006 (A)	6	–	–	5	–
Dr ND Moyo	N	24 October 2006 (A)	7	3	–	–	–
Prof JE Schrempp	N	24 October 2006 (A)	6	–	–	–	–
Mrs MM Whitehouse	N	24 October 2006 (A)	7	–	5	–	2
Mr KR Patel	E	26 October 2007 (A)	7	4*	6*	–	–
Dr KN Ngqula	E, R	6 March 2009 (R)	6	4*	4*	3*	5

Legend

N Non-executive Director

E Executive Director

AC Audit Committee

FRIC Financial, Risk and Investment Committee

NGRC Nominations, Governance and Remuneration Committee

RSC Restructuring Subcommittee

R Resigned

* Attendance by invitation

11. 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 at 31 March 2009 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 company and the group with the exception of matters disclosed elsewhere in this report with respect to the PFMA and Companies Act 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 in paragraph 3.4. 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 in terms of the Companies Act, No 61 of 1973, as amended, the Public Finance Management Act, No 1 of 1999, and Public Audit Act, 25 of 2004, appears on page 19.

In preparing the company and group annual financial statements set out on pages 20 to 92, 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 2009, 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:



Prof GJ Gerwel
Chairman

18 September 2009



Mr FC Smyth
Acting Chief Executive Officer

18 September 2009

Report of the Audit Committee

for the year ended 31 March 2009

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 (“the Committee”) has adopted appropriate formal terms of reference, which have been confirmed by the Board, and has performed its responsibilities as set out in the terms of reference.

The Committee is constituted in terms of the principles of sound corporate governance practices, and operates within those principles. The Committee assists the Board to comply with its obligations under the applicable legislation including (without limitation) the Companies Act, the Public Finance Management Act and common law. The Committee provides a forum for communication between the Board, management and the internal and external auditors.

In performing its responsibilities the Committee has reviewed the following:

- The effectiveness of the internal control systems.
- The effectiveness of the internal audit function.
- The risk areas of the entity’s operations to be covered in the scope of the internal and external audits.
- The adequacy, reliability and accuracy of financial information provided to any governmental body or to be made public and other users of such information prior to submission and approval by the Board.
- The accounting or auditing concerns identified as a result of the internal and external audits.
- The entity’s compliance with legal and regulatory provisions.
- The activities of the internal audit function, including its annual work programme, coordination with the external auditors, the reports of significant investigations and the responses of management to specific recommendations.
- The independence and objectivity of the external auditors.
- The scope and results of the external audit function.

While the Committee is satisfied that internal control policies and procedures were in place during the period, it has noted instances of non-adherence to the policies and procedures. This is supported by the initial findings from the procurement review conducted by the internal auditors and the preliminary

indications from the independent forensic investigation. Therefore the Committee is not confident that the company has complied with the internal control policies and procedures or the applicable regulatory provisions (such as those in the Companies Act and the PFMA) in the period under review.

The Committee has accordingly resolved to ensure that urgent and immediate appropriate steps are taken to rectify these matters with particular emphasis on ensuring that the control systems that have been established are adhered to.

The Committee has evaluated the annual financial statements of South African Airways for the year ended 31 March 2009 and, based on the information provided to the Committee, concluded that they comply, in all material respects, with the requirements of the Companies Act, 1973 (Act No 61 of 1973), as amended, and the International Financial Reporting Standards.

However, as noted in paragraphs 4.4 and 7 of the Directors’ report, the full disclosure requirements of the Public Finance Management Act, 1999 (Act No 1 of 1999), as amended, have not been met.

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 in paragraph 3.4 of the Directors’ report. The Audit Committee has therefore recommended the adoption of the annual financial statements by the Board of Directors at their meeting held on 18 September 2009.



Signed by: Adv F du Plessis
Chairperson

18 September 2009

Audit Committee members:
Adv F du Plessis (Chairperson)
Dr ND Moyo
Ms LM Mojela

Income statements

for the year ended 31 March 2009

Figures in Rand million	Notes	Group 2009	Group 2008	Company 2009	Company 2008 Restated
REVENUE – CONTINUING OPERATIONS					
Turnover	6	20 123	19 270	18 810	18 437
Other airline income	6 and 7	6 312	2 987	6 409	3 028
Total airline income		26 435	22 257	25 219	21 465
Operating costs		24 528	23 629	23 664	23 138
Aircraft lease costs	12	2 266	3 012	2 266	3 011
Accommodation and refreshments		964	908	950	896
Depreciation and amortisation	12	680	823	644	782
Distribution costs		1 728	1 430	1 680	1 383
Electronic data costs		550	649	548	647
Energy		8 589	6 685	8 266	6 434
Employee benefit expenses	8	3 496	3 298	2 508	2 387
Material		1 760	2 066	2 522	2 604
Navigation, landing and parking fees		1 214	1 142	1 166	1 094
(Profit) loss on sale and scrapping of property, aircraft and equipment and assets held for sale	12	(1)	(8)	1	(6)
Net impairment (reversal) write-off	9	(333)	142	(178)	646
Other operating costs		3 615	3 482	3 291	3 260
Profit (loss) before fair value movements and translation (losses) gains	12	1 907	(1 372)	1 555	(1 673)
Fair value movements and translation (losses) gains	13	(1 564)	399	(1 501)	352
Operating profit (loss) before finance costs and investment income		343	(973)	54	(1 321)
Finance costs	10	(363)	(384)	(404)	(442)
Investment income	11	453	254	645	372
Profit (loss) before taxation		433	(1 103)	295	(1 391)
Taxation	14	(22)	15	(16)	(11)
Profit (loss) for the year from continuing operations		411	(1 088)	279	(1 402)
(Loss) profit for the year from discontinuing operation	16	(13)	3	-	-
Profit (loss) for the year		398	(1 085)	279	(1 402)
Attributable to:					
Equity holders of the parent		398	(1 085)	279	(1 402)
Basic and diluted gain (loss) per share (cents)	15	4	(10)	-	-

Balance sheets

at 31 March 2009

Figures in Rand million	Notes	Group 2009	Group 2008 Restated	Company 2009	Company 2008 Restated
ASSETS					
Non-current assets					
Property, aircraft and equipment	17	7 073	6 984	6 327	6 223
Intangible assets	18	103	108	99	104
Investments in subsidiaries	19	–	–	338	338
Reimbursement right	24	75	112	75	112
Deferred taxation asset	35	23	28	–	–
Total non-current assets		7 274	7 232	6 839	6 777
Current assets					
Inventories	23	593	450	77	98
Investments in subsidiaries	19 and 20	–	–	1 798	1 313
Derivative financial assets	26	140	204	140	204
Trade and other receivables	25	4 084	3 598	3 284	2 961
Investments	21	349	461	349	461
Cash and cash equivalents	27	3 778	5 393	3 633	5 319
Total current assets		8 944	10 106	9 281	10 356
Assets and disposal group held for sale	22	80	137	11	68
TOTAL ASSETS		16 298	17 475	16 131	17 201
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital	28 and 29	11 343	11 343	11 577	11 577
Shareholder restructuring fund	28	653	653	653	653
Non-distributable reserves	28	(75)	(43)	(75)	(43)
Accumulated losses	28	(12 282)	(12 321)	(12 926)	(12 846)
Shareholder's deficit		(361)	(368)	(771)	(659)
Subordinated loans guaranteed by government	30	2 864	2 864	2 864	2 864
Total capital and reserves		2 503	2 496	2 093	2 205
Liabilities					
Non-current liabilities					
Long-term loans	31	3 080	3 519	3 080	3 519
Employee benefit obligations	34	242	208	242	208
Provisions	38	344	401	344	401
Other long-term liabilities	33	63	63	–	–
Total non-current liabilities		3 729	4 191	3 666	4 128
Current liabilities					
Derivative financial liabilities	26	227	–	227	–
Trade and other payables	37	5 127	5 260	5 490	5 441
Provisions	38	1 336	1 916	1 368	1 907
Air traffic liability	36	2 623	2 938	2 570	2 890
Short-term portion of long-term loans	31	688	590	688	590
Finance lease obligations	32	29	40	29	40
Bank overdraft	27	–	1	–	–
Total current liabilities		10 030	10 745	10 372	10 868
Liabilities included in disposal group held for sale	22	36	43	–	–
TOTAL LIABILITIES		13 795	14 979	14 038	14 996
Equities		2 503	2 496	2 093	2 205
Liabilities		13 795	14 979	14 038	14 996
TOTAL EQUITY AND LIABILITIES		16 298	17 475	16 131	17 201

Statements of recognised income and expenses

for the year ended 31 March 2009

Figures in Rand million	Notes	Group 2009	Group 2008	Company 2009	Company 2008 Restated
Gain on Frankfurt Pension Fund		23	–	23	–
Losses on UK Pension Fund		(4)	(15)	(4)	(15)
Losses on SAA subfund of Transport Pension Fund		(47)	(61)	(47)	(61)
(Loss) gain on post-retirement medical benefits		(4)	7	(4)	7
Loss recognised directly in equity		(32)	(69)	(32)	(69)
Profit (loss) for the year from continuing operations		411	(1 088)	279	(1 402)
(Loss) profit from discontinuing operations		(13)	3	–	–
Dividend paid on government subordinated loan classified as an equity instrument	10	(359)	(137)	(359)	(137)
Total recognised income and expenses for the year		7	(1 291)	(112)	(1 608)
Attributable to:					
Equity holders of the parent		7	(1 291)	(112)	(1 608)

Cash flow statements

for the year ended 31 March 2009

Figures in Rand million	Notes	Group 2009	Group 2008	Company 2009	Company 2008
CASH FLOW FROM OPERATING ACTIVITIES					
Cash (used in) generated from operations	43	(1 811)	1 388	(1 408)	1 739
Interest income		453	254	645	372
Finance costs		(363)	(384)	(404)	(442)
Tax paid		–	(37)	–	(35)
Realised derivatives		1 337	154	1 337	154
Net cash (outflow) inflow from operating activities		(384)	1 375	170	1 788
CASH FLOW FROM INVESTING ACTIVITIES					
Additions to property, aircraft and equipment	17	(394)	(179)	(364)	(141)
Proceeds on disposal of property, aircraft and equipment	17	49	53	37	50
Proceeds on disposal of assets held for sale		46	–	46	–
Additions to intangible assets	18	(21)	(38)	(20)	(34)
Decrease in investments		197	157	197	157
Increase in loans to subsidiaries		–	–	(644)	(106)
Increase in investment in subsidiary		–	–	–	(336)
Net cash outflow from investing activities		(123)	(7)	(748)	(410)
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividend paid on government subordinated loans classified as equity instruments		(359)	(137)	(359)	(137)
External borrowings raised		–	1 564	–	1 564
External borrowings repaid		(564)	(523)	(563)	(519)
Restructuring funds raised		–	653	–	653
Net cash (outflow) inflow from financing activities		(923)	1 557	(922)	1 561
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS					
		(1 430)	2 925	(1 500)	2 939
Cash and cash equivalents at the beginning of the year		5 390	2 363	5 319	2 278
Foreign exchange effect on cash and cash equivalents		(184)	102	(186)	102
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	27	3 776	5 390	3 633	5 319

Included in cash and cash equivalents at year-end is restricted cash of R2,86-billion (2008: R2,86-billion).

Notes to the annual financial statements

for the year ended 31 March 2009

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. This is usually the case when the company owns more than one half of the voting rights. The subsidiaries are fully consolidated from the effective date of acquisition until the effective date of disposal.

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities assumed, and equity instruments issued by the group in exchange for control of the acquiree, plus any costs directly attributable to the business combination.

Potential voting rights

The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls or has significant influence over the other entity.

Transactions eliminated on consolidation

All intra-group transactions, balances and unrealised profits/losses are eliminated in preparing the consolidated annual financial statements. Where the group transacts with its jointly controlled entities or with its associates, unrealised profits or losses are eliminated to the extent of the group's interest in the associate or joint venture.

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 balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet 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 balance sheet 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 arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Revenue

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. Revenue from services is recognised in the income statement as and when services are rendered.

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 the 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

The airline manages a travel incentive programme, whereby frequent travellers accumulate mileage credits that entitle them to free travel, and cargo users accumulate equivalent awards.

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

The provision for the potential obligation that will arise when the member becomes entitled to promised frequent flyer rewards is estimated based on incremental costs and an assumed level of redemption of frequent flyer miles earned. The provision is reduced to reflect the outstanding obligation as members redeem awards or as their entitlement to awards expires.

The incremental costs accrued include fuel, catering servicing costs and costs of redemption on airline and

non-airline partners. These costs are charged to operating costs when the provision is raised.

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 expense when they become due and payable to the lessor in terms of the contract.

The reimbursement amounts claimed from lessors in respect of qualifying maintenance expenditure are recognised as current assets, until actually received.

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. Assets are not recognised to the extent of work not yet performed as should the work not be performed, in terms of the contract, the amounts previously paid cannot be recovered.

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 expensed as and when incurred.

Taxation and deferred taxation

Deferred tax is provided, using the balance sheet liability method, on all temporary differences, other than those listed below as being exempt. Temporary differences are differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences except when:

- the deferred tax balance arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss;
- it does not relate to goodwill; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, carry-forward of unused tax assets and unused tax losses can be utilised except for:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

The charge for normal taxation is based on the results for the year as adjusted for items that are non-assessable or disallowed. The group's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

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

Other property, machinery and equipment

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

Depreciation

Depreciation is not provided on assets in the course of construction and land. All other property and equipment are depreciated by recording a charge to the income statement, 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 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 estimate.

The following annual rates are applicable:

Asset class	Useful lives
Aircraft and simulators	8 – 15
Buildings and structures	10 – 50
Furniture	5
Office equipment	5 – 6
Computer equipment	3 – 5
Light motor vehicles	5
General purpose vehicles	10
Containers	5
Machinery	15 – 20
Cabin loaders	10 – 20

Residual values

The aircraft and its components have useful lives ranging from eight 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 income statement as and when incurred.

Disposal or retirement

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 income statement 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 recognised as assets at the commencement of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between the finance charges and reduction of the lease liability to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in the income statement.

Capitalised leased assets are depreciated using a depreciation policy consistent with that of depreciable assets that are owned, except where there is no reasonable certainty that the lessee will obtain ownership at the end of the lease term, in which case the asset is depreciated over the shorter of the lease term and its useful life.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

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 recorded as receivables at the amount of the group's net

Notes to the annual financial statements (continued)

for the year ended 31 March 2009

investment in the leases. Finance lease income is allocated to the accounting periods 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

A non-current asset (or disposal group) will be classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. Assets classified as such are measured using the applicable IFRS immediately before classification. Once reclassified, the asset (or disposal group) is recognised at the lower of the carrying amount and the fair value less costs to sell at the date when it is initially classified as held for sale.

Impairment losses on initial classification as held for sale assets are included in the profit or loss, even for assets measured at fair value. Gains and losses on subsequent remeasurement are included in the profit or loss for the period.

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

Acquired intangible assets

Intangible assets that are acquired separately are recognised as assets if it is probable that the expected future economic benefits will flow and the cost of the asset can be measured reliably.

Intangible assets acquired as part of an acquisition of a business are recognised as an asset separately from goodwill if the fair value can be measured reliably on initial recognition. After initial recognition, acquired intangible assets are carried at cost less any accumulated amortisation and impairment losses.

Amortisation

Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets assessed to have indefinite useful lives and goodwill are not amortised but are tested for impairment at each reporting period.

The tangible 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
Internet booking site	5

Subsequent expenditure

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 balance sheet 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, financial liabilities and equity instruments are recognised when the group becomes a party to the contractual provisions of the instruments. Financial assets and liabilities are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of those financial instruments. The financial assets and liabilities that are classified as at fair value through profit and loss are measured at fair value excluding any transaction costs.

Financial assets

Financial assets for the group primarily include investment, trade and other receivables, cash and cash equivalents, and derivative financial assets. A regular-way purchase of financial assets are recognised and derecognised using a trade date, ie the date that the group commits to purchase the asset.

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 method, less any impairment. Interest income is recognised by applying the effective interest rate, except for trade and other receivables when the recognition of interest would be immaterial.

Available for sale financial assets

Available for sale financial assets are non-derivative financial assets that are designated as available for sale or that are not classified as at fair value through profit 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.

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 46.1.

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.

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.

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 46.1.

Notes to the annual financial statements (continued)

for the year ended 31 March 2009

Cash and cash equivalents

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

Gains and losses on subsequent measurement

Gains or losses on investments held for trading are recognised in the income statement. 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 income statement 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.

Impairment of financial assets

Financial assets, other than those at fair value through profit and loss, are assessed for indicators of impairment at each balance sheet 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 25.

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.

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.

Financial liabilities and equity instruments issued by the group

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 46.1.

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.

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 balance sheet 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 the provision due to the passage of time is recognised as an interest expense.

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

Onerous contracts

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

Notes to the annual financial statements (continued)

for the year ended 31 March 2009

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 balance sheet 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 schemes' trustees. The funds are actuarially valued by professional independent consulting actuaries.

The group's contributions to the defined contribution fund are charged to the income statement 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 income statement. 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 income

statement 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 income statement.

The amount recognised in the balance sheet represents the present value of the defined benefit obligation reduced by the fair value of plan assets.

Post-retirement medical benefits

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

Short- and long-term benefits

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

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

Termination benefits

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

Related parties

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

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

Comparative figures

The comparative information is consistent with the prior year except for the restatement as detailed in Note 5.

These affect balances which are reflected as “restated” in the Notes to the financial statements.

2. NEW STANDARDS AND INTERPRETATIONS

2.1 Standards and interpretations effective and adopted in the current year

In the current year, IFRIC 12 “Service Concession Arrangements” and IFRIC 14 “IAS 19 the limit on a defined benefit asset, Minimum Funding Requirements and their interaction” became effective. However, these did not have a material impact on the company and group.

2.2 Standards and interpretations early adopted

The group has chosen to not early adopt any standards and interpretations.

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

- IFRS 2 – Share-based Payments
- IFRS 8 – Operating Segments
- IAS 1 – Presentation of Financial Statements
- IAS 23 – Borrowing Costs
- IAS 27 (AC 132) – Consolidated and Separate Financial Statements
- IAS 28 (AC 110) – Investments in Associates
- IAS 31 (AC 119) – Interests in Joint Ventures
- IAS 39 (AC 133) – Financial Instruments: Recognition and Measurement – Amendments for Eligible Hedged Items
- IFRIC 13 – Customer Loyalty Programmes
- IFRIC 15 – Agreements for the Construction of Real Estate
- IFRIC 16 – Hedges of a Net Investment in a Foreign Operation
- IFRIC 17 – Distributions of Non-cash Assets to Owners
- IFRIC 18 – Transfers of Assets from Customers

Amendments to standards

- IFRS 1 (AC 138) – First-time Adoption of International Financial Reporting Standards
- IFRS 5 (AC 142) – Non-current Assets Held for Sale and Discontinued Operations
- IAS 1 (AC 101) – Presentation of Financial Statements
- IAS 16 (AC 123) – Property, Plant and Equipment
- IAS 19 (AC 116) – Employee Benefits
- IAS 20 (AC 134) – Accounting for Government Grants and Disclosure of Government Assistance
- IAS 27 (AC 132) – Consolidated and Separate Financial Statements
- IAS 29 (AC 124) – Financial Reporting in Hyperinflationary Economies

- IAS 31 (AC 119) – Interests in Joint Ventures
- IAS 32 (AC 125) – Financial Instruments: Presentation
- IAS 36 (AC 128) – Impairment of Assets
- IAS 38 (AC 129) – Intangible Assets
- IAS 39 (AC 133) – Financial Instruments: Recognition and Measurement
- IAS 40 (AC 135) – Investment Property
- IAS 41 (AC 137) – Agriculture

The adoption of all standards listed above, other than IFRIC 13, are not expected to have a material impact on the results of the group, but may result in additional disclosures than is currently provided in the annual financial statements.

The expected impact of the adoption of IFRIC 13 has been described in Note 47.

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.

System limitations that affected SAA’s ability to accurately compute the forward sales liability on a ticket-for-ticket basis have been eliminated 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.

Management has revised its assumptions and judgement regarding the period over which the unutilised air tickets and airway bills are released to income from an 18-month rolling period to 12 months. 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 three 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 R826-million to income in the current year. The amount released to income in 2008 was R373-million.

Useful lives and residual values of property, aircraft and equipment

The group assesses the useful lives and residual values of property, aircraft and equipment at each reporting date. During the year under review the residual values and useful lives remained unchanged as they were deemed to be appropriate. In the prior year, the group accelerated the depreciation of the leasehold improvements on the Boeing 747-400s due to the management decision to ground these aircraft.

Release of maintenance reserves impairment provision.

Amounts in respect of re-imbursment amounts due from lessors for maintenance reserve claims are only recognised as assets if the work has been performed and it appears reasonable that the amounts to be claimed are recoverable. The recognition of the 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 balance sheet 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.

Provision for frequent flyer

The amount of the provision to be raised as a liability for the Voyager miles that are expected to be redeemed is determined using various assumptions concerning the future behaviour of Voyager members. These include the following assumptions:

- The Voyager members will continue to prefer redemption of mileage in exchange for the free airticket, instead of other non-airticket rewards such as free car hire and free wine tours. The Voyager members who redeem miles in exchange for the other rewards will continue to be immaterial within the next financial year.
- The Voyager rewards for free tickets are non-displacing to fare-paying passengers, and therefore the incremental costs method is appropriate in estimating the Voyager liability.
- The Voyager members accumulate miles from various sources, including frequently flying with SAA and from the use of Voyager participating partners. No distinction is made at redemption point between miles earned from frequent flying and those earned from other sources.

The carrying amount of the provision for Voyager miles was estimated at R272-million (2008: R190-million). Refer

to Note 38 for details of the provision raised and Note 47 for the future treatment in terms of IFRIC13.

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 R585-million (prepayment of R633-million and liability of R48-million) (2008: R446-million).

Accounting for the Airbus A320 order

Refer to paragraph 3.1.1 of the Directors' report.

5. RESTATEMENT OF PRIOR YEAR

Prior year adjustment – Impairment of loan to SAA Technical (Pty) Limited – Company

In the current year, an impairment on the loan between SAA Technical (Pty) Limited and SAA (Pty) Limited was processed to the extent of the technical insolvency of SAA Technical (Pty) Limited. The total current year impairment processed was R646-million of which R171-million has been processed in the current year income statement (refer to Note 20). The remaining balance of R475-million has been adjusted for against the opening balance of accumulated losses (refer to Note 28) and restated in the 2008 company income statement and balance sheet. This restatement had no impact on the cash flow statement.

Prior year reclassification – Power by the hour prepayments and liabilities – Group

In the current year the prepayments and liabilities relating to the power by the hour contracts has been classified as part of other receivables and other payables respectively. The restatement had no impact on the cash flow statement. The prior year balance of R446-million was classified as part of other receivables. In the prior year annual financial statements this has been restated to reflect R569-million as a receivable and R123-million as a payable, resulting in the net 2008 prepayment of R446-million (refer to Note 4). This restatement has no impact on the basic loss per share or cash flow statement.

Figures in Rand million		Group 2009	Group 2008	Company 2009	Company 2008
6. REVENUE					
The analysis of revenue for the year is as follows:					
Turnover					
Passenger revenue		17 343	16 527	16 620	15 963
Freight and mail		1 561	1 765	1 561	1 765
Technical services		634	336	50	72
Voyager income	Notes 4, 38 and 47	294	327	294	327
Commission received		291	315	285	310
Total turnover		20 123	19 270	18 810	18 437
Other airline income	Note 7	6 312	2 987	6 409	3 028
Investment income	Note 11	453	254	645	372
Total revenue – continuing operations		26 888	22 511	25 864	21 837
Revenue from discontinuing operation	Note 16	47	92	–	–
		26 935	22 603	25 864	21 837
7. OTHER AIRLINE INCOME					
Other airline income is made up of the following items:					
Handling revenue		105	81	100	95
Income from leased assets		493	273	568	326
Release from prescribed tickets		810	366	810	366
Release from prescribed air waybills		16	7	16	7
Insurance recoveries		13	12	13	12
Fuel levies and other recoveries		4 875	2 248	4 902	2 222
Total other airline income – continuing operations		6 312	2 987	6 409	3 028
Other airline income from discontinuing operation	Note 16	47	92	–	–
		6 359	3 079	6 409	3 028
8. EMPLOYEE BENEFIT EXPENSES					
8.1 Short-term employee benefit expenses					
Personnel and labour costs		3 213	3 014	2 295	2 175
Contribution to pension funds		221	230	165	174
Contribution to provident funds		31	29	31	28
Contribution to post-retirement medical funds		46	51	32	36
		3 511	3 324	2 523	2 413
8.2 Post-employment benefit expenses*					
Current-service costs		36	36	36	36
Interest cost		108	105	108	105
Expected return on plan assets		(164)	(164)	(164)	(164)
Past-service costs		7	–	7	–
Foreign exchange losses (gains)		2	(3)	2	(3)
Gains in curtailment		(4)	–	(4)	–
		(15)	(26)	(15)	(26)
Total employee benefit expenses – continuing operations		3 496	3 298	2 508	2 387
Employee benefit expenses from discontinuing operation		86	89	–	–
Total employee benefit expenses		3 582	3 387	2 508	2 387

* These costs relate to other post-employment and other long-term employee benefit plans for the group. The post-employment benefit costs relating to SAA subfund of the Transport Pension Fund have been disclosed in Note 41.1.2.

Notes to the annual financial statements (continued)

for the year ended 31 March 2009

	Group 2009	Group 2008	Company 2009	Company 2008 Restated
Figures in Rand million				
9. NET IMPAIRMENT (REVERSAL) WRITE-OFF				
Impairment of loans and receivables held at amortised cost				
Impairment of accounts receivable	80	48	76	45
Impairment of defeasance deposit	–	8	–	8
Impairment of other assets				
Impairment of reimbursement right on Frankfurt defined benefit fund Note 41.4	37	–	37	–
Impairment of carrying value of investment in subsidiaries Note 20	–	–	159	507
Impairment of property, aircraft and equipment	–	86	–	86
Reversal of impairment of PDPs on A320 order	(472)	–	(472)	–
Impairment of assets held for sale	22	–	22	–
Net impairment (reversal) write-off – continuing operations	(333)	142	(178)	646
Impairment from discontinuing operation	1	1	–	–
	(332)	143	(178)	646
10. FINANCE COSTS				
The interest paid related to financial liabilities held at amortised cost is detailed below:				
Interest paid on long-term borrowings	347	367	347	367
Interest paid on overdraft	14	14	13	14
Interest on obligations under finance leases	2	3	2	3
Other interest paid	–	–	42	58
	363	384	404	442
Recognised directly in equity				
Interest paid on government guaranteed loans classified as a dividend	359	137	359	137
11. INVESTMENT INCOME				
Interest received was derived from:				
Loans and receivables (defeasance deposit)	32	33	32	33
Cash and bank balances	37	43	36	43
Other financial assets – held at amortised cost	384	178	577	296
	453	254	645	372
12. PROFIT (LOSS) BEFORE FAIR VALUE MOVEMENTS AND TRANSLATION (LOSSES) GAINS				
Profit (loss) before fair value movements and translation (losses) gains is stated after taking into account, among others, the following:				
Operating lease payments				
Aircraft	2 266	3 012	2 266	3 011
Properties	67	66	62	62
Equipment and vehicles	11	24	4	18
Total operating lease payments – continuing operations	2 344	3 102	2 332	3 091
Operating lease payments from discontinuing operation	16	16	–	–
Total operating lease payments	2 360	3 118	2 332	3 091

Figures in Rand million	Group 2009	Group 2008	Company 2009	Company 2008
12. PROFIT (LOSS) BEFORE FAIR VALUE MOVEMENTS AND TRANSLATION (LOSSES) GAINS (continued)				
Profit (loss) on sale and scrapping of property, aircraft and equipment				
Profit on sale of property, aircraft and equipment	(27)	(13)	(27)	(13)
Scrapping costs	30	5	32	7
Total loss (profit) on sale and scrapping of property, aircraft and equipment	3	(8)	5	(6)
Profit on sale of assets held for sale	(4)	–	(4)	–
Total (profit) loss on sale and scrapping of property, aircraft and equipment, and assets held for sale	(1)	(8)	1	(6)
Restructuring costs				
Grounding Boeing 747-400 fleet	151	935	151	935
Penalties on late delivery of 747-400s	149	–	149	–
Labour costs	174	154	174	154
Other restructuring costs	–	256	–	256
Total restructuring costs	474	1 345	474	1 345
Depreciation and amortisation				
Aircraft and simulators	570	704	568	701
Land, buildings and structures	38	40	17	18
Machinery, equipment and furniture	41	43	31	29
Vehicles and cabin loaders	3	3	1	1
Containers	2	3	2	3
Total depreciation and amortisation – continuing operations	654	793	619	752
Amortisation of intangible assets Note 18	26	30	25	30
Depreciation from discontinuing operation	680	823	644	782
	3	3	–	–
Total depreciation and amortisation	683	826	644	782
Professional fees				
Managerial services	6	7	6	7
Technical services	87	267	71	253
Internal audit fees	15	12	10	6
Total professional fees	108	286	87	266
Auditors' remuneration				
Audit fees – current year	18	17	16	13
Other services	1	–	1	–
Total auditors' remuneration	19	17	17	13
Directors' emoluments and executive management emoluments are disclosed in Note 42.				
Maintenance reserves released to the income statement Note 25	(583)	(106)	(583)	(106)

Notes to the annual financial statements (continued)

for the year ended 31 March 2009

	Group 2009	Group 2008	Company 2009	Company 2008 Restated
Figures in Rand million				
13. FAIR VALUE MOVEMENTS AND TRANSLATION (LOSSES) GAINS				
Foreign exchange (loss) gain on translation of:				
Foreign currency investments	(184)	102	(186)	102
Foreign currency-denominated long-term loans	34	59	77	15
Net monetary assets and liabilities	3	23	25	20
Foreign exchange impact on prior year revaluation of PDPs	(125)	–	(125)	–
Translation of foreign assets and liabilities	(272)	184	(209)	137
Fair value (loss) gain on derivative instruments held for trading:				
Realised (loss) gain on derivatives	(755)	154	(755)	154
Fair value (loss) gain on derivative financial instruments	(291)	156	(291)	156
Option premiums amortised	(246)	(95)	(246)	(95)
Net fair value (loss) gain on derivative instruments held for trading	(1 292)	215	(1 292)	215
Total fair value movements and translation (losses) gains	(1 564)	399	(1 501)	352
14. TAXATION				
Major components of the tax (expense) income:				
South African normal taxation:				
Current				
Local income tax – current period	–	17	–	17
	–	17	–	17
Deferred				
Deferred taxation – current year	(5)	8	–	–
– rate adjustment	(1)	–	–	–
– impairment of asset raised through equity	(16)	(28)	(16)	(28)
Deferred taxation – prior year	–	18	–	–
	(22)	(2)	(16)	(28)
Total taxation				
Current	–	17	–	17
Deferred	(22)	(2)	(16)	(28)
	(22)	15	(16)	(11)
Reconciliation of the tax (expense) income				
Tax at the applicable tax rate of 28% (2008: 29%)	(118)	319	(83)	403
Tax effect of adjustments on non-taxable income				
Tax effects of non-taxable income	132	–	132	–
Tax effect of non-deductible expenses	(51)	(254)	(93)	(251)
Tax effect of rate adjustment	(1)	–	–	–
Tax payable – current year	–	(28)	–	(28)
Tax payable – prior year	–	17	–	17
Current year temporary differences not recognised	(50)	(337)	(86)	(530)
Assessed loss utilised	12	443	29	339
Current year tax loss not utilised	(31)	(203)	–	–
Release of deferred tax raised in equity	(16)	–	(16)	–
Deferred tax not raised in the prior year	–	19	–	–
Dividend classified as interest – tax deductible	101	39	101	39
Current year tax charge	(22)	15	(16)	(11)
Estimated tax losses available to be utilised against future taxable income	9 414	9 642	8 705	8 849

Figures in Rand million	Group 2009	Group 2008
15. BASIC AND DILUTED GAIN (LOSS) PER SHARE (CENTS)		
Weighted average number of ordinary shares in issue (millions)	11 343	11 343
Profit (loss) for the year (R'million)	398	(1 085)
Basic gain (loss) per share (cents)	4	(10)
The discontinuing operation had no material impact on loss per share.		
Weighted average number of shares		
Ordinary shares at the beginning of the year	11 343	11 343
Ordinary shares at the end of the year	11 343	11 343

16. DISCONTINUING OPERATION AND DISPOSAL GROUP HELD FOR SALE

The discontinuing operation relates to the planned disposal of Airchefs (Pty) Limited, a 100%-owned subsidiary of SAA. Airchefs had been reclassified as a disposal group held for sale in the prior year.

The Group made a decision to sell the business of Airchefs (Pty) Limited, a subsidiary whose nature of business is the supply of airline catering services. The date of disposal is planned to take place within the next year. The specified group of assets and liabilities earmarked for sale have been reclassified as a disposal group held for sale.

Detailed below is the (loss) profit and assets and liabilities relating to the discontinuing operation and disposal group held for sale.

Figures in Rand million	Group 2009	Group 2008
(Loss) profit of discontinuing operation		
Revenue net of intercompany transactions	47	92
Operating costs	(57)	(88)
Loss on scrapping of property and equipment	(3)	–
Net (loss) profit before finance costs	(13)	4
Finance costs	–	(1)
(Loss) profit from discontinuing operation	(13)	3
There was no material cash flow impact from the discontinuing operation.		
Assets and liabilities of disposal group held for sale		
Assets		
Land, buildings and structures	33	28
Machinery, equipment and furniture	4	5
Vehicles and cabin loaders	1	3
Capital work in progress	–	6
Inventories	9	8
Trade and other receivables	22	19
	69	69
Liabilities		
Long-term loans	(1)	(2)
Accounts payable	(28)	(37)
Provision for leave	(5)	(2)
Bank overdraft	(2)	(2)
	(36)	(43)

Notes to the annual financial statements (continued)

for the year ended 31 March 2009

Figures in Rand million	Cost/ valuation	2009 Accumulated depreciation	Carrying value	Cost/ valuation	2008 Accumulated depreciation	Carrying value
17. PROPERTY, AIRCRAFT AND EQUIPMENT						
Group						
Land, buildings and structures	1 385	(173)	1 212	1 422	(137)	1 285
Machinery, equipment and furniture	509	(310)	199	484	(275)	209
Vehicles and cabin loaders	57	(42)	15	48	(40)	8
Aircraft and simulators	10 442	(5 285)	5 157	10 619	(5 172)	5 447
Containers	34	(31)	3	33	(30)	3
Capital work in progress	487	–	487	504	(472)	32
	12 914	(5 841)	7 073	13 110	(6 126)	6 984
Classified as part of disposal group held for sale	76	(38)	38	82	(40)	42
Total	12 990	(5 879)	7 111	13 192	(6 166)	7 026
Company						
Land, buildings and structures	706	(71)	635	743	(56)	687
Machinery, equipment and furniture	229	(144)	85	220	(123)	97
Vehicles and cabin loaders	28	(27)	1	28	(27)	1
Aircraft and simulators	10 401	(5 284)	5 117	10 587	(5 174)	5 413
Containers	34	(31)	3	33	(29)	4
Capital work in progress	486	–	486	493	(472)	21
Total	11 884	(5 557)	6 327	12 104	(5 881)	6 223

Reconciliation – Group – Cost – 2009	Opening balance	Additions	Disposals	Revaluation of PDPs	Transfers to assets held for sale	Total
Land, buildings and structures	1 422	1	(31)	–	(7)	1 385
Machinery, equipment and furniture	484	32	(7)	–	–	509
Vehicles and cabin loaders	48	10	(1)	–	–	57
Aircraft and simulators	10 619	292	(469)	–	–	10 442
Containers	33	2	(1)	–	–	34
Capital work in progress	504	57	(10)	(64)	–	487
	13 110	394	(519)	(64)	(7)	12 914

Reconciliation – Group – Accumulated depreciation and impairment – 2009	Opening balance	Disposals	Depreciation	Reversal of impairment of PDPs	Total
Land, buildings and structures	(137)	2	(38)	–	(173)
Machinery, equipment and furniture	(275)	6	(41)	–	(310)
Vehicles and cabin loaders	(40)	1	(3)	–	(42)
Aircraft and simulators	(5 172)	457	(570)	–	(5 285)
Containers	(30)	1	(2)	–	(31)
Capital work in progress	(472)	–	–	472	–
	(6 126)	467	(654)	472	(5 841)

Reconciliation – Group – Cost – 2008	Opening balance	Additions	Disposals	Transfers to assets held for sale and from capital work in progress	Total
17. PROPERTY, AIRCRAFT AND EQUIPMENT (continued)					
Land, buildings and structures	1 420	6	–	(4)	1 422
Machinery, equipment and furniture	452	36	(4)	–	484
Vehicles and cabin loaders	47	3	(2)	–	48
Aircraft and simulators	10 530	117	(33)	5	10 619
Containers	33	–	–	–	33
Capital work in progress	503	6	–	(5)	504
	12 985	168	(39)	(4)	13 110

Reconciliation – Group – Accumulated depreciation and impairment – 2008	Opening balance	Disposals	Depreciation	Impairment	Total
Land, buildings and structures	(97)	–	(40)	–	(137)
Machinery, equipment and furniture	(234)	2	(43)	–	(275)
Vehicles and cabin loaders	(38)	1	(3)	–	(40)
Aircraft and simulators	(4 397)	15	(704)	(86)	(5 172)
Containers	(27)	–	(3)	–	(30)
Capital work in progress	(472)	–	–	–	(472)
	(5 265)	18	(793)	(86)	(6 126)

Reconciliation – Company – Cost – 2009	Opening balance	Additions	Disposals	Revaluation of PDPs	Transfers to assets held for sale	Total
Land, buildings and structures	743	1	(31)	–	(7)	706
Machinery, equipment and furniture	220	20	(11)	–	–	229
Vehicles and cabin loaders	28	1	(1)	–	–	28
Aircraft and simulators	10 587	284	(470)	–	–	10 401
Containers	33	1	–	–	–	34
Capital work in progress	493	57	–	(64)	–	486
	12 104	364	(513)	(64)	(7)	11 884

Reconciliation – Company – Accumulated depreciation and impairment – 2009	Opening balance	Disposals	Depreciation	Reversal of impairment of PDPs	Total
Land, buildings and structures	(56)	2	(17)	–	(71)
Machinery, equipment and furniture	(123)	10	(31)	–	(144)
Vehicles and cabin loaders	(27)	1	(1)	–	(27)
Aircraft and simulators	(5 174)	458	(568)	–	(5 284)
Containers	(29)	–	(2)	–	(31)
Capital work in progress	(472)	–	–	472	–
	(5 881)	471	(619)	472	(5 557)

Notes to the annual financial statements (continued)

for the year ended 31 March 2009

Reconciliation – Company – Cost – 2008	Opening balance	Additions	Disposals	Transfers to assets held for sale and from capital work in progress	Total
17. PROPERTY, AIRCRAFT AND EQUIPMENT (continued)					
Land, buildings and structures	743	4	–	(4)	743
Machinery, equipment and furniture	200	23	(3)	–	220
Vehicles and cabin loaders	29	–	(1)	–	28
Aircraft and simulators	10 501	114	(33)	5	10 587
Containers	33	–	–	–	33
Capital work in progress	498	–	–	(5)	493
	12 004	141	(37)	(4)	12 104

Reconciliation – Company – Accumulated depreciation and impairment – 2008	Opening balance	Disposals	Depreciation	Impairment	Total
Land, buildings and structures	(38)	–	(18)	–	(56)
Machinery, equipment and furniture	(97)	3	(29)	–	(123)
Vehicles and cabin loaders	(27)	1	(1)	–	(27)
Aircraft and simulators	(4 402)	15	(701)	(86)	(5 174)
Containers	(26)	–	(3)	–	(29)
Capital work in progress	(472)	–	–	–	(472)
	(5 062)	19	(752)	(86)	(5 881)

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 R3,58-billion (2008: R3,69-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. The net book value of the financed improvements amounts to Rnil (2008: Rnil) and the outstanding lease finance in regard thereto amounts to R29-million (2008: R40-million).

Figures in Rand million	Cost/ valuation	2009 Accumulated amortisation and impairment	Carrying value	Cost/ valuation	2008 Accumulated amortisation and impairment	Carrying value
18. INTANGIBLE ASSETS						
Group						
Software development	352	(252)	100	331	(226)	105
Internet booking site**	39	(36)	3	39	(36)	3
Goodwill*	35	(35)	–	35	(35)	–
Total	426	(323)	103	405	(297)	108

Figures in Rand million		2009 Cost/ valuation	2009 Accumulated amortisation and impairment	2009 Carrying value	2008 Cost/ valuation	2008 Accumulated amortisation and impairment	2008 Carrying value
18. INTANGIBLE ASSETS (continued)							
Company							
Software development		347	(251)	96	327	(226)	101
Internet booking site**		39	(36)	3	39	(36)	3
Total		386	(287)	99	366	(262)	104
Reconciliation – Group – Cost – 2009				Opening balance	Additions	Total	
Software development				331	21	352	
Internet booking site**				39	–	39	
Goodwill*				35	–	35	
				405	21	426	
Reconciliation – Group – Accumulated amortisation and impairment – 2009				Opening balance	Amortisation	Total	
Software development				(226)	(26)	(252)	
Internet booking site**				(36)	–	(36)	
Goodwill*				(35)	–	(35)	
				(297)	(26)	(323)	
Reconciliation – Group – Cost – 2008				Opening balance	Additions	Total	
Software development				293	38	331	
Internet booking site**				39	–	39	
Goodwill*				35	–	35	
				367	38	405	
Reconciliation – Group – Accumulated amortisation and impairment – 2008				Opening balance	Amortisation	Total	
Software development				(196)	(30)	(226)	
Internet booking site**				(36)	–	(36)	
Goodwill*				(35)	–	(35)	
				(267)	(30)	(297)	
Reconciliation – Company – Cost – 2009				Opening balance	Additions	Total	
Software development				327	20	347	
Internet booking site**				39	–	39	
				366	20	386	
Reconciliation – Company – Accumulated amortisation and impairment – 2009				Opening balance	Amortisation	Total	
Software development				(226)	(25)	(251)	
Internet booking site**				(36)	–	(36)	
				(262)	(25)	(287)	

Notes to the annual financial statements (continued)

for the year ended 31 March 2009

	Opening balance	Additions	Total
Reconciliation – Company – Cost – 2008			
18. INTANGIBLE ASSETS (continued)			
Software development	293	34	327
Internet booking site**	39	–	39
	332	34	366

	Opening balance	Amortisation	Total
Reconciliation – Company – Accumulated amortisation and impairment – 2008			
Software development	(196)	(30)	(226)
Internet booking site**	(36)	–	(36)
	(232)	(30)	(262)

* The goodwill arose from acquisition of Airchefs (Pty) Limited and has been impaired in full.

** SAA's internet booking site – www.flysaa.com has been impaired to a carrying value of R3-million (2008: R3-million).

The additions to intangible assets in the current financial year is due to the capitalisation of software development costs.

		Company 2009	Company 2008 Restated
Figures in Rand million			
19. INVESTMENTS IN SUBSIDIARIES			
Total investment in subsidiaries			
Shares at cost		570	570
Net amounts owing by subsidiaries	Note 20	3 292	2 648
		3 862	3 218
Impairment of investments in subsidiaries		(1 726)	(1 567)
		2 136	1 651
Presented as part of non-current assets		338	338
Presented as part of current assets		1 798	1 313

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

Name of subsidiaries	Shares million	% holding 2009	% holding 2008	Shares at cost 2009	Shares at cost 2008
Airchefs (Pty) Limited*		100	100	72	72
SAA City Centre (Pty) Limited	2	100	100	2	2
SAA Technical (Pty) Limited	160	100	100	160	160
Tulca (Pty) Limited, trading as Mango*		100	100	336	336
				570	570
Impairment of investment in subsidiaries				(232)	(232)
				338	338

The share of the subsidiaries' loss for the year amounted to R172-million (2008: R48-million).

* Less than one million shares.

Figures in Rand million	Group 2009	Company 2008
19. INVESTMENTS IN SUBSIDIARIES (continued)		
Directors' valuation**		
Airchefs (Pty) Limited	–	–
SAA City Centre (Pty) Limited	2	2
SAA Technical (Pty) Limited	–	–
Tulca (Pty) Limited, trading as Mango	505	495
	507	497

** The companies were valued by the directors in the current year, using a discounted cash flow model, where appropriate.

Figures in Rand million	Company 2009	Company 2008 Restated
20. AMOUNTS OWING BY (TO) SUBSIDIARIES		
Subsidiaries		
SAA Technical (Pty) Limited	3 256	2 609
Airchefs (Pty) Limited	44	44
SAA City Centre (Pty) Limited	(8)	(5)
Subtotal	3 292	2 648
Impairment of loans to subsidiaries	(1 494)	(1 335)
	1 798	1 313

The loans to subsidiaries bear interest at rates ranging between the South African prime overdraft rate less 50 basis points and prime. The balances on the loan accounts fluctuate in line with the financing requirements of the subsidiaries and are repayable on demand except as detailed below. The loans have, therefore, been classified as current assets in accordance with IAS 1.

The loans to SAA Technical (Pty) Limited and Airchefs (Pty) Limited, have been subordinated in favour of the companies' creditors until their assets, fairly valued, exceed their liabilities. The loans, where required, have been impaired to the extent of the continued technical insolvency of the company.

Refer to Note 5 for details of the restatement of the prior year figures.

Figures in Rand million	Group 2009	Group 2008	Company 2009	Company 2008
21. INVESTMENTS				
Investment in unlisted shares at cost				
SA Airlink (Pty) Limited	35	35	35	35
Impairment of unlisted investment	(35)	(35)	(35)	(35)
Directors' valuation of unlisted investment*	–	–	–	–
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)
	–	–	–	–

* The valuation is based on future anticipated cash flows from the investment.

Notes to the annual financial statements (continued)

for the year ended 31 March 2009

Figures in Rand million		Group 2009	Group 2008	Company 2009	Company 2008
21. INVESTMENTS (continued)					
Loans and receivables					
Defeasance deposit		349	461	349	461
The defeasance deposit arose on the back of the sale and operating leaseback of two Boeing 747-400s. These deposits are held in two US\$-denominated bank accounts bearing interest at 6,77% per annum. The capital and interest earned on the deposits will be used to pay the related lease payments. As a result of management's decision to ground the Boeing 747-400s in November 2007, the full deposit will be utilised to settle the obligations arising from termination of the lease contracts within the next financial year. Hence, the amount is shown as current assets.					
		349	461	349	461
22. ASSETS AND DISPOSAL GROUP HELD FOR SALE					
Carrying value of aircraft held for sale	Note 22.1	–	64	–	64
Carrying value of land and buildings	Note 22.2	11	4	11	4
Carrying value of assets in disposal group held for sale	Note 16	69	69	–	–
		80	137	11	68
Liabilities classified as part of disposal group held for sale	Note 16	(36)	(43)	–	–
22.1 Aircraft					
During the current year, management sold three (SAV, SAJ and SIW) of the five aircraft which were classified as held for sale in the prior year. Hence, at year-end, two aircraft are classified as held for sale, namely SIV and SAC. Management's intention at year-end was to sell these aircraft to Airports Company South Africa (ACSA). However, subsequent to year-end, management has decided to scrap these assets with the result that they have been fully impaired.					
22.2 Land and buildings					
Management has made a decision to dispose of certain land and buildings in the current year. These have been reclassified as non-current assets held for sale.					
Figures in Rand million		Group 2009	Group 2008	Company 2009	Company 2008
23. INVENTORIES					
Maintenance inventories		796	642	3	3
Capital work in progress		61	20	–	–
Consumables		126	139	75	98
		983	801	78	101
Provision for obsolescence		(390)	(351)	(1)	(3)
Total inventories – continuing operations		593	450	77	98
Classified as part of disposal group held for sale	Note 16	9	8	–	–
		602	458	77	98

Figures in Rand million	Group 2009	Group 2008 Restated	Company 2009	Company 2008 Restated
24. REIMBURSEMENT RIGHT				
Cost	112	112	112	112
Accumulated impairment	(37)	–	(37)	–
	75	112	75	112
Refer to Note 41.4 for further details.				
25. TRADE AND OTHER RECEIVABLES				
Gross accounts receivable	2 350	3 007	2 243	2 961
Allowance for impairment	(226)	(292)	(209)	(276)
Net trade receivables	2 124	2 715	2 034	2 685
Prepayments and other receivables	1 960	883	1 250	276
Net trade and other receivables – continuing operations	4 084	3 598	3 284	2 961
Classified as part of disposal group held for sale Note 16	22	19	–	–
	4 106	3 617	3 284	2 961
Reconciliation of impairment of trade and other receivables				
Opening balance	(292)	(266)	(276)	(250)
Provision raised	(81)	(50)	(77)	(45)
Amounts utilised for write-offs	146	22	143	19
Reversal of impairments	1	2	1	–
Closing balance	(226)	(292)	(209)	(276)

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.

Figures in Rand million	Gross amount	Current not yet past due	Past due but not impaired	Impaired amount
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

Notes to the annual financial statements (continued)

for the year ended 31 March 2009

Figures in Rand million	Gross amount	Current not yet past due	Past due but not impaired	Impaired amount
25. TRADE AND OTHER RECEIVABLES (continued)				
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 2008				
BSP	1 007	875	–	132
Credit card	201	201	–	–
GSA	109	63	9	37
Stations	31	8	–	23
Cargo freight and mail	397	205	158	34
Airline catering	13	13	–	–
Travel services	5	1	3	1
Technical maintenance	62	43	4	15
Other trade debtors	1 182	987	145	50
	3 007	2 396	319	292
Company 2008				
BSP	1 007	875	–	132
Credit card	201	201	–	–
GSA	109	63	9	37
Stations	31	8	–	23
Cargo freight and mail	397	205	158	34
Other trade debtors	1 216	1 021	145	50
	2 961	2 373	312	276
	Group 2009	Group 2008	Company 2009	Company 2008
The past due but not impaired can be analysed further in terms of ageing as follows:				
30 – 60 days	263	115	262	114
61 – 90 days	59	49	53	44
91 – 120 days	104	155	102	154
Total	426	319	417	312

Figures in Rand million	Group 2009	Group 2008 Restated	Company 2009	Company 2008 Restated
25. TRADE AND OTHER RECEIVABLES (continued)				
Included in other receivables are amounts in respect of maintenance claims made from lessors. Refer to the accounting policies section for details of the treatment of these claims.				
Maintenance reserve receivable	1 620	1 689	1 620	1 689
Impairment provision	(1 620)	(1 689)	(1 620)	(1 689)
Net maintenance reserve receivable	–	–	–	–
Reconciliation of movement in impairment provision				
Opening balance	(1 689)	(1 340)	(1 689)	(1 340)
Maintenance reserve payment expenses	(514)	(455)	(514)	(455)
Total release to the income statement in the year	583	106	583	106
Maintenance reserve claims received	293	14	293	14
Maintenance reserve claims receivable	290	92	290	92
Closing balance	(1 620)	(1 689)	(1 620)	(1 689)

	Jet fuel derivatives R million	Currency options R million	Forward exchange contracts R million	Total R million
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26. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING INFORMATION

Group and company				
Fair value at 1 April 2007	48	–	–	48
Made up as follows:				
Assets	58	–	–	58
Liabilities	(10)	–	–	(10)
Fair value adjustments reported in net profit	10	73	73	156
Fair value at 31 March 2008	58	73	73	204
Made up as follows:				
Assets	58	73	73	204
Liabilities	–	–	–	–
Fair value adjustments reported in net profit	(285)	24	(30)	(291)
Fair value at 31 March 2009	(227)	97	43	(87)

	Group and company 2009	Group and company 2008
Total derivative financial assets	140	204
Jet fuel derivatives	–	58
Currency options	97	73
Forward exchange contracts	43	73
Total derivative financial liabilities	(227)	–
Jet fuel derivatives	(227)	–
	(87)	204

Notes to the annual financial statements (continued)

for the year ended 31 March 2009

Figures in Rand million	Group 2009	Group 2008	Company 2009	Company 2008
27. CASH AND CASH EQUIVALENTS				
Domestic bank accounts	2 385	3 678	2 220	3 594
Foreign bank accounts	805	655	825	665
Short-term investments – call deposits (US\$-denominated)	588	1 060	588	1 060
	3 778	5 393	3 633	5 319
Bank overdraft	–	(1)	–	–
Total cash and cash equivalents – continuing operations	3 778	5 392	3 633	5 319
Classified as part of disposal group held for sale	(2)	(2)	–	–
	3 776	5 390	3 633	5 319
<p>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.</p> <p>The cash injections from the government subordinated loan amounting to R2,86-billion (2008: R2,86-billion) is restricted, the use of which is subject to approval from the shareholder.</p>				
28. RECONCILIATION OF SHARE CAPITAL, RESERVES AND ACCUMULATED LOSSES				
28.1 Share capital				
Balance at the beginning of the year	11 343	11 343	11 577	11 577
Balance at the end of the year	11 343	11 343	11 577	11 577
28.2 Shareholder restructuring fund				
Balance at the beginning of the year	653	–	653	–
Raised during the year	–	653	–	653
Balance at the end of the year	653	653	653	653
28.3 Non-distributable reserves				
Balance at the beginning of the year	(43)	26	(43)	26
Net actuarial gains and losses	(32)	(69)	(32)	(69)
Balance at the end of the year	(75)	(43)	(75)	(43)
28.4 Accumulated losses				
Balance at the beginning of the year	(12 321)	(11 099)	(12 846)	(11 307)
Loss for the year from continuing operations 2008 – restated	411	(1 088)	279	(1 402)
Profit (loss) for the year as previously reported	411	(1 088)	279	(927)
Prior year restatement	–	–	–	(475)
Dividend paid on government subordinated loan classified as an equity instrument	(359)	(137)	(359)	(137)
(Loss) profit for the year from discontinuing operation	(13)	3	–	–
Balance at the end of the year	(12 282)	(12 321)	(12 926)	(12 846)

Figures in Rand million		Group 2009	Group 2008	Company 2009	Company 2008
29. SHARE CAPITAL					
<i>Authorised</i>					
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
<i>Issued</i>					
7 237 691 465	class A ordinary shares of R1 each	7 238	7 238	7 238	7 238
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
<i>Less: Treasury shares and impairment losses arising on consolidation of Share Trust</i>		(234)	(234)	–	–
		11 343	11 343	11 577	11 577
<p>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 Share Trust.</p> <p>As disclosed in paragraph 8 of the Directors' report, the special resolution adopted to amend the company's memorandum and articles of association has not been successfully lodged with CIPRO. The amendments agreed upon include removing reference to A, B, C and D class shares although the total number of authorised and issued shares has not changed. The disclosure above includes reference to all share classes reflected in the previous memorandum of association until such time as the special resolution is appropriately lodged and the associated company returns are lodged with CIPRO.</p>					
30. SUBORDINATED LOANS GUARANTEED BY GOVERNMENT					
Balance at the beginning of the year		2 864	1 300	2 864	1 300
Raised during the year		–	1 564	–	1 564
Balance at the end of the year		2 864	2 864	2 864	2 864
<p>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.</p> <p>The loan of R1,3-billion bears interest at an aggregate of three months JIBAR plus 53 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.</p> <p>The loans of R1,56-billion bear interest at an aggregate of three months JIBAR plus an average of 140 basis points and is payable quarterly from June 2008 at the sole discretion of the issuer. These loans have been classified as equity instruments and interest paid accounted for as a dividend.</p>					

Notes to the annual financial statements (continued)

for the year ended 31 March 2009

Figures in Rand million	Group 2009	Group 2008	Company 2009	Company 2008
31. LONG-TERM LOANS				
Secured loans				
External loans	3 768	4 109	3 768	4 109
The loans are repayable as follows:				
On demand or within one year	688	590	688	590
Two to five years	2 076	2 218	2 076	2 218
Later than five years	1 004	1 301	1 004	1 301
	3 768	4 109	3 768	4 109
Less: Current portion repayable on demand or within one year included in current liabilities	(688)	(590)	(688)	(590)
	3 080	3 519	3 080	3 519
The carrying amounts of long-term loans are denominated in the following currencies:				
Rand-denominated				
Domestic loans*	1 934	2 240	1 934	2 240
US\$-denominated				
Foreign loans**	1 834	1 869	1 834	1 869
Total loans – continuing operations	3 768	4 109	3 768	4 109
Classified as part of disposal group held for sale Note 16	1	2	–	–
	3 769	4 111	3 768	4 109
* Domestic secured loans amounting to R378-million (2008: R449-million) bear a fixed interest rate of 11,8% (2008: 11,8%), and represent loans secured over aircraft (Note 17). The balance of the loans bears interest at JIBAR plus a margin ranging from 1,48% to 2,4%.				
** The foreign secured loans in US\$ bear interest between LIBOR + 0,02% and LIBOR flat and are secured over aircraft and capitalised lease improvements (Note 17).				
32. FINANCE LEASE OBLIGATIONS				
Minimum lease payments due				
Within one year	30	41	30	41
Less: Future finance charges	(1)	(1)	(1)	(1)
Present value of minimum lease payments	29	40	29	40
Finance lease liabilities relate to the in-flight entertainment system installed into the Boeing 747 aircraft, are denominated in US\$ and bear interest between 2% and 6% per annum. As a result of management's decision to ground the Boeing 747-400s in November 2007, these liabilities are expected to be repaid within the next 12 months and are therefore classified as current liabilities.				
33. 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. At the date of this report there is no intention to wind up the South African Airways Employee share trust with the result that it has been classified as long term.				

		Group 2009	Group 2008 Restated	Company 2009	Company 2008
Figures in Rand million					
34. EMPLOYEE BENEFIT OBLIGATIONS					
Post-retirement medical benefits	Note 41.2.1	45	33	45	33
SAA (Germany) Pension Fund obligation	Note 41.4	197	175	197	175
		242	208	242	208
35. DEFERRED TAXATION					
<i>Deferred tax asset</i>					
Temporary differences in respect of property, aircraft and equipment		(1 425)	(1 537)	(1 339)	(1 446)
Doubtful debts		82	80	77	75
Air traffic liability and other deferred income		761	790	746	774
Provisions		746	761	750	759
Prepayments		(24)	(19)	(24)	(19)
Maintenance reserve payments		454	473	454	473
Differences due to mark-to-market of financial instruments		24	(57)	24	(57)
Other assets		(16)	(9)	(16)	(9)
Assessed loss		2 706	2 700	2 507	2 479
		3 308	3 182	3 179	3 029
Deferred tax asset not recognised		(3 285)	(3 154)	(3 179)	(3 029)
Deferred tax asset recognised		23	28	–	–
It is the group's policy to only recognise deferred tax assets if it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised. The deferred tax asset recognised in the current year relates to Tulca (Pty) Limited.					
36. AIR TRAFFIC LIABILITY					
Net air traffic liability		2 623	2 938	2 570	2 890
This balance represents the unrealised income resulting 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. Refer to Note 3 for the critical judgements applied by management to the value and recognition of this liability.					
37. TRADE AND OTHER PAYABLES					
Trade payables		837	860	1 193	1 042
Other payables		4 036	4 296	4 227	4 338
Accruals		254	104	70	61
Interest accruals		57	54	57	54
Power plant accrual		197	50	13	7
Total trade and other payables – continuing operations		5 127	5 260	5 490	5 441
Classified as part of the liabilities held for sale	Note 16	28	37	–	–
		5 155	5 297	5 490	5 441

Notes to the annual financial statements (continued)

for the year ended 31 March 2009

Figures in Rand million	Opening balance	Additions	Utilised during the year	Total	Short-term portion	Non-current portion
38. PROVISIONS						
Reconciliation of provisions						
Group 2009						
Provision for frequent flyer liability ⁽¹⁾	190	147	(65)	272	(272)	–
Provision for accumulated leave ⁽²⁾	371	158	(157)	372	(372)	–
Provision for service bonus ⁽³⁾	91	99	(91)	99	(99)	–
Provision for onerous contracts ⁽⁴⁾	1 065	118	(816)	367	(367)	–
Provision for return conditions ⁽⁵⁾	600	121	(151)	570	(226)	344
	2 317	643	(1 280)	1 680	(1 336)	344
Reconciliation of provisions						
Group 2008						
Provision for frequent flyer liability ⁽¹⁾	152	120	(82)	190	(190)	–
Provision for accumulated leave ⁽²⁾	420	176	(225)	371	(371)	–
Provision for service bonus ⁽³⁾	98	65	(72)	91	(91)	–
Provision for onerous contracts ⁽⁴⁾	132	1 053	(120)	1 065	(1 065)	–
Provision for return conditions ⁽⁵⁾	425	175	–	600	(199)	401
	1 227	1 589	(499)	2 317	(1 916)	401
Reconciliation of provisions						
Company 2009						
Provision for frequent flyer liability ⁽¹⁾	190	147	(65)	272	(272)	–
Provision for accumulated leave ⁽²⁾	282	158	(152)	288	(288)	–
Provision for service bonus ⁽³⁾	77	74	(77)	74	(74)	–
Provision for onerous contracts ⁽⁴⁾	1 159	165	(816)	508	(508)	–
Provision for return conditions ⁽⁵⁾	600	121	(151)	570	(226)	344
	2 308	665	(1 261)	1 712	(1 368)	344
Reconciliation of provisions						
Company 2008						
Provision for frequent flyer liability ⁽¹⁾	152	120	(82)	190	(190)	–
Provision for accumulated leave ⁽²⁾	326	125	(169)	282	(282)	–
Provision for service bonus ⁽³⁾	81	68	(72)	77	(77)	–
Provision for onerous contracts ⁽⁴⁾	132	1 147	(120)	1 159	(1 159)	–
Provision for return conditions ⁽⁵⁾	425	175	–	600	(199)	401
	1 116	1 635	(443)	2 308	(1 907)	401

(1) The airline provides for the estimated incremental costs, which are expected to be incurred as a result of an assumed level of redemption of frequent flyer miles earned. The provision is reduced to reflect the outstanding obligation as members redeem awards or as their entitlement to awards expires (Note 4).

(2) The provision mainly relates to the accumulated leave days due to employees.

(3) This consists of a thirteenth cheque payable to all employees for the period worked, ie if the employee completed a full year. If an employee works part of the year (ie starts mid-way through the year or leaves before bonuses are paid), the employee is entitled to the thirteenth cheque pro rata for the months worked. The service bonus is paid annually in November. Flight crew receive their bonus in April.

(4) The onerous contract raised during the prior 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 has taken a decision to return these aircraft earlier than per lease contract term. The onerous lease has been determined as the lower of the net costs for fulfilling the lease contract and the termination costs. The lease asset due to lease smoothing has also been reversed. The onerous lease contract also includes a provision raised, relating to leases between SAA and its subsidiary. The amounts receivable are onerous due to the currency and interest rate impact.

(5) 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. The outflow of economic benefits to meet this obligation only occurs when the aircraft due to be returned to the lessor does not meet the return conditions during the normal course of business. There is no expected reimbursement (from the lessor) in respect of this provision.

Figures in Rand million	Group 2009	Group 2008	Company 2009	Company 2008
39. COMMITMENTS				
Authorised capital expenditure				
Already contracted for but not provided for				
Capital commitments				
Contracted in US\$	1 075	727	1 075	727
	1 075	727	1 075	727
Operating leases – as lessee (expense)				
Operating lease commitments for property, aircraft, equipment and vehicles are expected to be incurred as follows:				
Within one year	2 184	1 684	2 184	1 684
In second to fifth year inclusive	5 627	5 545	5 627	5 545
Later than five years	1 840	2 929	1 840	2 929
Total	9 651	10 158	9 651	10 158
Operating leases – as lessor (income)				
Lease receivables				
Within one year	1	7	1	7
In second to fifth year inclusive	–	1	–	1
	1	8	1	8

Capital commitments relate to the Airbus A320 order as detailed in paragraph 3.1.1 of the Directors' report. The amount disclosed includes escalations to 2014 being the financial year in which the first delivery is expected.

The operating lease commitment in respect of the six A330s to be leased from May 2010 are not included as the lease agreement was not yet in place at year-end.

Notes to the annual financial statements (continued)

for the year ended 31 March 2009

Figures in Rand million	Group 2009	Group 2008	Company 2009	Company 2008
39. COMMITMENTS (continued)				
Included in the operating lease commitments are the following US\$-based lease commitments. Currency risks associated with these commitments are not hedged. The table below sets out the foreign denominated lease commitments.				
Uncovered lease commitments (US\$ million)				
One to 12 months	184	169	184	169
One to two years	165	169	165	169
Two to three years	118	160	118	160
Three to four years	89	120	89	120
Four to five years	82	95	82	95
Five years plus	120	362	120	362
Total	758	1 075	758	1 075

40. CONTINGENT LIABILITIES AND UNQUANTIFIABLE EXPOSURES

40.1 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 decision of the Tribunal is now awaited. The Tribunal has competency to impose a penalty up to a maximum of 10% of the relevant year's total revenue.

40.2 Competition Law Investigations Internationally

The EU Competition Commission Investigation

SAA has argued in its reply to the Statement of Objection (SO) issued by the EU Competition Commission (the Commission) that there are many legal/technical weaknesses in the case against SAA and that the allegations of fact against SAA are not substantiated by sufficient evidence.

The SAA legal team is strongly of the view that the evidence against SAA is fragmented and inconclusive and is insufficient to constitute an infringement of article 81(1), let alone a single and continuous infringement and that SAA ought to be removed from the Commission's final decision and not be subject to a fine.

The SAA legal team is also strongly of the view that the arguments SAA advanced in its reply to the SO are sound and will prevail on appeal to the Court of First Instance (CFI) in the event that the Commission includes SAA in an adverse decision.

It is, however, not possible to accurately predict what the Commission's decision will be or to estimate the extent of the fine that might be imposed in the event that the Commission decides to impose a fine against SAA. While the possibility exists that the Commission might not find against SAA and therefore impose no fine, the possibility also exists that the Commission might impose a fine within a wide range.

The US Department of Justice (DoJ)

The Anti-trust Division has issued subpoenas for SAA to provide information and documentation in respect of a price-fixing inquiry in progress within the USA. The allegation is that SAA may have been involved in price fixing in respect of its cargo operations in the USA. The DoJ is investigating this allegation in respect of several other airlines globally. SAA is confident about its prospects of success in refuting the allegations and continues to liaise with the DoJ through its legal representation in the USA. Price fixing is a criminal offense in the USA and, if found guilty, SAA exposure may include a penalty of up to US\$-10 million. While maintaining confidence that it was not involved in the anti-competitive conduct under investigation, SAA continues with its preparations to defend the matter in the event that an indictment is nevertheless issued against SAA.

Civil claims in the USA normally arise from anti-trust investigations of the nature reported above. In this regard, plaintiffs in a district court class action included SAA as a defendant in their action which relates to alleged conspiracy and price fixing in the air cargo industry by airlines and various cargo operators through the introduction and implementation of fuel, security, and/or war surcharges.

40. CONTINGENT LIABILITIES AND UNQUANTIFIABLE EXPOSURES (continued)

40.2 Competition Law Investigations Internationally (continued)

The US Department of Justice (DoJ) (continued)

On 29 April 2008 the Magistrate Judge in the civil case heard oral arguments on various motions to dismiss the plaintiff's amended complaint. SAA now awaits the ruling of the Magistrate Judge on the motion which, under procedural rules, requires approval by the Judge. At this stage it remains unclear what the basis is for the plaintiffs' case against SAA specifically.

Australian Competition and Consumer Commission

In March 2007 SAA received notification that the Australian Competition and Consumer Commission ("the 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. The notification is similar to the one issued by the EU Commission and required the submission of documentation. 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.

40.3 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.

SAA is also exposed to liabilities associated with changes in the regulatory framework governing travel agent agreements and the collection of taxed fees and charges globally. SAA cannot, as yet, quantify the value of these potential exposures.

41. EMPLOYEE BENEFIT INFORMATION

41.1 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.

41.1.1 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 6 556 members (2008: 7 070) at 31 March 2009. Actuarial valuations are done, at intervals not exceeding three years, to determine its financial position. An actuarial valuation was performed at 31 March 2008. The actuaries were satisfied with the status of the members' credit account then. The group's contributions for the period to 31 March 2009 amounted to R115-million (2008: R150-million).

41.1.2 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 189 active members (2008: 781) and 235 pensioners (2008: 203) at 31 March 2009. An actuarial valuation was done as at 31 March 2009 based on the projected unit credit method.

Notes to the annual financial statements (continued)

for the year ended 31 March 2009

41. EMPLOYEE BENEFIT INFORMATION (continued)

41.1 SAA group pension benefits (continued)

41.1.2 SAA subfund of the Transport Pension Fund (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.

	2009 %	2008 %
Principal actuarial assumptions used:		
Discount rate	8,24	8,56
Inflation	4,59	5,34
Salary increases		
Inflation	5,59	6,84
Pension increases		
First three years	2,00	2,00
After three years	2,00	2,00
Expected return on assets	9,64	11,40

	2009 R million	2008 R million
Benefit asset/liability		
Present value of obligation	(1 089)	(1 207)
Fair value of plan assets	1 224	1 599
Surplus	135	392
Unrecognised asset	(135)	(392)
Net liability per the balance sheet	-	-
Reconciliation of movement in present value of obligation		
Opening benefit liability at the beginning of the year	(1 207)	(1 299)
Service cost	(14)	(34)
Interest cost	(91)	(98)
Actuarial (loss) gain	(34)	130
Benefits paid	104	94
Defined benefit obligation settled	153	
Closing present value of obligation	(1 089)	(1 207)
Reconciliation of fair value of plan assets		
Opening fair value of plan assets	1 599	1 634
Expected return	156	157
Actuarial (losses) gains	(287)	(127)
Contributions	14	29
Benefits paid	(104)	(94)
Transfer to defined contribution fund	(154)	-
Closing fair value of plan assets	1 224	1 599

41. EMPLOYEE BENEFIT INFORMATION (continued)

41.1 SAA group pension benefits (continued)

41.1.2 SAA subfund of the Transport Pension Fund (continued)

	2009 %	2008 %
The major categories of plan assets as a percentage of total plan assets are:		
Equity	44	65
Property	11	10
Bonds	30	20
Cash*	(6)	5
International	21	
Total	100	100

* Cash includes net current liabilities.

	2009 R million	2008 R million
Current-service costs	14	34
Interest on obligation	91	98
Expected return on plan assets	(156)	(157)
	(51)	(25)

41.1.3 Flight Deck Crew (FDC)

The liability relates to additional benefits to members of the flight deck crew (FDC), who are employees of SAA. These additional pension benefits are required to equate to the increases that would have been applied to the total cost of employment for the years commencing 16 March 1999 to 16 March 2000. This liability has been settled in full in the prior year.

This liability was recognised for the first time in 2003.

Balance at the beginning and the end of the year	–	(5)
Liability settled	–	5
	–	–

41.2 Medical benefits

41.2.1 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 per month in retirement. The amount is fixed irrespective of the number of dependents on the medical scheme. Dependents 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.

Notes to the annual financial statements (continued)

for the year ended 31 March 2009

41. EMPLOYEE BENEFIT INFORMATION (continued)

41.2 Medical benefits (continued)

41.2.1 SAA group employees' post-retirement medical benefits (continued)

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 2009.

The table below summarises the components of net benefit expense recognised in both the income statement and balance sheet for the SAA group as at 31 March 2009 for the SAA group employees.

The principal actuarial assumptions used were as follows:

	2009 %	2008 %
Discount rate	8,41	9,36
	R million	R million
Net benefit liability		
Present value of unfunded benefit obligations	45	33
Changes in the present value of defined benefit obligations are as follows:		
Opening liability	33	41
Service costs	4	1
Past-service costs	7	–
Interest cost	2	3
Actuarial loss (gain)	5	(10)
Benefits paid	(2)	(2)
Effect of curtailment or settlement	(4)	–
Benefit liability at year-end	45	33
Amounts recognised in the income statement		
Current-service costs	4	1
Interest on obligation	2	3
	6	4

41.3 SAA (UK) Pension Fund benefits

SAA operates the SAA (UK) Pension Fund for employees based in the United Kingdom. The fund has defined benefit (final salary) and defined contribution (money purchase) sections. No person is eligible to participate in the final salary section in respect of pensionable service after 30 June 2003 unless they were already participating in the final salary section at that date and their 63rd birthday falls before 1 July 2013.

Benefits for final salary members are mainly calculated on a formula of 1/60 final salary years of membership of the final salary section. Final salary means the average of the last three pensionable salaries preceding retirement or date of leaving the fund if this is earlier. Pensionable salary is defined as basic salary less the state lower earnings limit (with a pro rata adjustment for part-timers) at the beginning of each fund year (1 July).

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.

The fund had nil (2008: 11) active members. Twenty one (2008: 4) deferred members still accruing final salary benefits and 28 (2008: 26) pensioners as at 31 March 2009.

Some members have entitlements in both the final salary section and the money purchase sections.

The following only refers to the final salary section and specifically excludes all money purchase assets and liabilities, including annuities purchased at retirement in respect of money purchase entitlements.

41. EMPLOYEE BENEFIT INFORMATION (continued)

41.3 SAA (UK) Pension Fund benefits (continued)

Actuarial valuations

Actuarial valuations are 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. The fund had a surplus of R25-million (2008: R34-million) at that date.

The employers' pension contributions for the financial year to 31 March 2009 are expected to amount to approximately R7-million. These exclude employers' pension contributions to the money purchase section, the group life premiums which are paid by the employer and the administration expenses which are paid by the employer.

The principal actuarial assumptions used were as follows:

	Valuation at 2009 %	Valuation at 2008 %
Discount rate	6,7	6,9
Expected return on assets	6,7	7,9
Price inflation	2,7	3,6
Expected rate of salary increases	–	4,1
Pension increases in payment		
Pre-April 1997 (4%)	2,7	3,6
Post-April 1997 (5%)	2,7	3,6
Pension increases during deferment	2,7	3,6
	2009 R million	2008 R million
Benefit asset/liability		
Present value of obligation	(54)	(66)
Fair value of plan assets	79	100
Surplus	25	34
Unrecognised asset	(25)	(34)
Net liability recognised in the balance sheet	–	–
Changes in the present value of defined benefit obligations are as follows:		
Defined benefit obligations at the beginning of the year	66	68
Service cost	1	1
Interest cost	4	4
Actuarial gain	(6)	(14)
Exchange loss on foreign plans	(8)	9
Benefits paid	(3)	(2)
	54	66
Changes in the fair value of plan assets as follows:		
Fair value of plan assets at the beginning of the year	100	87
Expected return	8	7
Contributions by employer	7	8
Actuarial loss	(19)	(12)
Exchange (loss) gain on foreign plans	(14)	12
Benefits paid	(3)	(2)
	79	100

Notes to the annual financial statements (continued)

for the year ended 31 March 2009

41. EMPLOYEE BENEFIT INFORMATION (continued)

41.3 SAA (UK) Pension Fund benefits (continued)

Actuarial valuations (continued)

	2009 %	2008 %
The fair value of plan assets at the balance sheet date is analysed as follows:		
The major categories of plan assets as a percentage of total plan assets		
Equity instruments	–	81
Debt instruments	100	19
	100	100

	2009 R million	2008 R million
The amounts recognised in the profit or loss are as follows:		
Current-service costs	1	1
Interest on obligation	4	4
Expected return on plan assets	(8)	(7)
Foreign exchange loss (gain)	4	(3)
	1	(5)
Change to statement of recognised income and expenditure		
Actuarial gains at the beginning of the year	6	8
Actuarial loss recognised	(14)	(2)
	(8)	6

	2009 R million	2008 R million	2007 R million	2006 R million
Summary of actuarial valuation results for past periods:				
Present value of defined benefit obligation	(54)	(66)	(68)	(55)
Fair value of plan assets	79	100	88	59
Surplus	25	34	20	4
Asset not recognised	(25)	(34)	(20)	(4)
Total	–	–	–	–

41.4 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.

SAA has taken out an insurance policy to cover the estimated promised employment benefits, but retains the legal obligation to pay further contributions if the insurer does not pay all employee benefits relating to employee service in the current and prior periods.

41. EMPLOYEE BENEFIT INFORMATION (continued)

41.4 SAA (German) Pension Fund benefits (continued)

The insurance policy was, in previous years, incorrectly accounted for as a plan asset and was offset against the post-employment benefit obligations. As the expected insurance payout was in excess of the benefit obligations, no liability was recognised in the annual financial statements.

In prior years, it was concluded that the insurance policy was not a qualifying asset as the insurance proceeds are paid over to SAA when an employee reaches the retirement age of 63, SAA then pays the pension benefits. The funds are not ring-fenced and blocked from other SAA funds.

As a result, the insurance policy was accounted for as a reimbursement right in the current and prior year and recognised as a separate asset at its fair value. The benefit obligation was recognised in full.

The portion of the liability that relates to current pensioners was also recognised in full. No reimbursement right was raised in respect of this obligation as the proceeds have already been received. The proceeds received are not legally separate from SAA. They are invested in a separate fixed deposit bank account which is raised as an asset as and when proceeds are received from the insurer.

The employer contributes 100% and the employee makes no contribution towards this retirement plan.

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 April 2009 using the Projected Unit Credit Method.

The principal actuarial assumptions used as at the balance sheet date were as follows:

	Valuation 2009 %	Valuation 2008 %
Discount rate	5,5	4,5
Expected rate of salary increases	2,0	2
Future pension increases	4,5	4,5

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

	2009 R million	2008 R million
Results of the actuarial valuation		
Benefit obligation recognised	197	175
Defined benefit obligations at the beginning of the year	175	122
Service cost	17	15
Interest cost	11	8
Exchange differences on foreign plans	2	35
Benefits paid	(8)	(5)
	197	175
Reimbursement right		
Fair value of reimbursement right at the end of the year	75	112

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.

Fixed deposit

Recognised as part of the cash equivalents (Note 27) is an investment raised from the proceeds paid by the insurer to fund pensioners' benefit obligations. The cash available did not qualify as plan assets in terms of IAS 19. This cash amounted to R56-million at the end of 2009 (2008: R62-million).

Notes to the annual financial statements (continued)

for the year ended 31 March 2009

41. EMPLOYEE BENEFIT INFORMATION (continued)

41.5 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 cover 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.

In terms of "IAS 19" an entity may pay insurance premiums to fund an employment benefit plan. An entity shall treat such a plan as a defined contribution plan unless the entity will have a legal or constructive obligation to either:

- pay the employee benefits directly when they fall due; or
- pay further amounts if the insurer does not pay all future employee benefits relating to employee service in the current and prior periods."

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

41.6 Share-based payments

Cash-settled share-based payments

During the current and prior year, SAA (Pty) Limited operated, via the South African Airways Employee Share Trust, three share incentive schemes, namely the Flight Deck Crew (FDC) Share Scheme, the Share Incentive Scheme and the Employee Share Ownership Programme. These schemes were created for the benefit of the employees of SAA. These schemes were classified as cash-settled because the employees could, at their discretion exercise the option and immediately sell them back to the Trust for cash. These share options pertain to 156 336 120 E class shares of SAA.

The share options not exercised lapse when an employee leaves SAA for reasons other than normal retirement as stipulated in the rules of the pension fund.

In the previous year, the inspectors' report "inspection in terms of Sections 258 of the Companies Act" held that the trading of shares in all three of the schemes operated by the Share Trust were invalid. The report recommended that the Trust should recover moneys from incentive scheme participants to whom payment were made, tender to the participants the return of the shares and pay over moneys recovered to Transnet and SAA in settlement of their loans used to fund these invalid share trades. The inspectors concluded that although the above was recommended, Transnet, SAA, the present Trustees and all three scheme participants should endeavour to settle the claims arising from the invalid trading of shares. Previously, SAA entered into negotiations with the representatives of the scheme participants to regularise the transactions of all three share schemes. The negotiations resulted in an agreement for a buy-back of all shares owned by employees under all three schemes. In addition, SAA management, in agreement with the representatives of scheme participants, made a final settlement to all holders of outstanding share options under the scheme.

The explanations of all the share schemes that existed from April 1999 to August 2006 are detailed below. The scheme has been discontinued following the share buy-back and settlement of all outstanding share options.

41.6.1 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:

	2009 Number of shares	2008 Number of shares
Employees	–	–
South African Airways Share Trust	40 150 000	40 150 000
	40 150 000	40 150 000

	2009	2008
	Number	Number
	of shares	of shares
41. EMPLOYEE BENEFIT INFORMATION (continued)		
41.6 Share-based payments (continued)		
41.6.2 Share incentive scheme		
The scheme granted two types of shares, ie joining and promotional shares to management. The promotional shares had a 12-month vesting period and the joining shares had a 24-month vesting period. Vesting was calculated from 1 April 1999 or when the employee joined the company. The employees could exercise these options at 25% per annum after vesting took place. These shares are held as follows:		
South African Airways Share Trust	58 018 060	58 018 060
	58 018 060	58 018 060
41.6.3 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

41.7 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.

41.8 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.

42. RELATED PARTIES

SAA (Pty) Limited is wholly owned by the Department of Public Enterprises, a South African Government National Department. SAA (Pty) Limited is a Schedule 2 Public Entity in terms of the Public Finance Management Act (PFMA). It therefore has a significant number of related parties including other state owned entities, Government departments and all other entities within the national sphere of Government. Accordingly, the quantum of related parties is significant.

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.

Included in the company accounts payable is an amount of R228-million (2008: R294-million) relating to leases entered into during the prior financial year 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.

Notes to the annual financial statements (continued)

for the year ended 31 March 2009

	Group 2009 R 000	Group 2008 R 000	Company 2009 R 000	Company 2008 R 000
42. RELATED PARTIES (continued)				
RELATED PARTY BALANCES				
Amounts receivable from related parties				
Subsidiaries and joint ventures	–	–	3 383 275	2 662 149
State-controlled entities	2 514	821	2 514	5
	2 514	821	3 385 789	2 662 154
Amounts payable to related parties				
Subsidiaries and joint ventures	–	–	1 089 806	603 152
State-controlled entities	2 995	4 390	2 970	3 102
National government departments	–	30	–	30
	2 995	4 420	1 092 776	606 284
<ul style="list-style-type: none"> • Amounts receivable represent short- and long-term amounts receivable • Amounts payable represent short- and long-term amounts payable 				
RELATED PARTY TRANSACTIONS				
Sales of goods/services				
Holding company	2 407	2 227	2 407	2 227
Subsidiaries and joint ventures	–	–	171 184	205 510
State-controlled entities	233 168	103 383	222 789	81 289
National government departments	292 040	197 788	292 040	197 788
Key management personnel	173	1 180	173	1 180
	527 788	304 578	688 593	487 994
Purchases of goods/services				
Subsidiaries and joint ventures	–	–	2 803 813	2 150 414
State-controlled entities	642 265	830 893	640 210	740 768
National government departments	1 050	1 241	1 050	1 240
	643 315	832 134	3 445 073	2 892 422
Other transactions				
Holding company	358 749*	136 928	358 749*	136 928
Subsidiaries and joint ventures	–	–	150 379	105 855
	358 749	136 928	509 128	242 783

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

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

Services rendered to related national government departments relate mainly to transportation services. Services received from related national government departments included training, personnel services and management 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. There are a variety of transactions under investigation which may meet the definition of related parties and have not been disclosed as such.

Details on subordination of loans by SAA (to its subsidiaries) amounting to R1,8-billion (2008: R1,4-billion) are included in Note 20, Amounts owing by(to) subsidiaries.

42. RELATED PARTIES (continued)
RELATED PARTY TRANSACTIONS

	Travel benefits 2009				Travel benefits 2008			
	Fees	Number of flights			Fees	Number of flights		
	2009 R 000	International	Domestic	Regional	2008 R 000	International	Domestic	Regional
Key management personnel compensation is set out below:								
Board of Directors								
Non-executive								
Gerwel GJ	500	–	–	–	500	–	–	–
Joubert PG	310	2	2	–	300	–	–	–
Modise BIL	330	–	2	–	320	–	1	–
Mojela LM	350	10	4	7	360	4	16	–
Whitehouse MM	320	2	2	–	320	4	12	–
Schrempp JE	300	4	–	–	310	–	–	–
Du Plessis F	350	5	–	–	350	–	–	–
Moyo ND	300	8	–	5	304	8	6	3
Kalyan KP	350	1	9	–	358	–	–	–
Semenya IAM*	20	2	7	14	10	1	6	1
Total	3 130	34	26	26	3 132	17	41	4

* SAA City Centre (Pty) Limited.

Short-term employee benefits 2009	Salaries R 000	Allowances R 000	Fund contributions R 000	Termination benefits R 000	Repayment		Restructuring bonus R 000	Total R 000
					Retention premium** R 000	of retention premium R 000		
Executive directors								
Ngqula KN*	3 831	–	1 051	9 350	756	(1 337)	–	13 651
Smyth FC***	212	15	36	–	40	–	–	303
Patel KR	1 921	960	319	–	250****	–	207	3 657
Total	5 964	975	1 406	9 350	1 046	(1 337)	207	17 611
Executive Committee								
Blake J	1 505	–	–	–	–	–	274	1 779
Melk T	504	48	69	68	80	(192)	–	577
Dlamini P	915	79	135	289	125	(167)	254	1 630
Makobe MJ	1 827	–	–	–	–	–	–	1 827
Nkabinde JN	1 379	81	160	–	429	–	–	2 049
Else CR*****	1 362	42	129	92	220	(242)	376	1 979
Kibuuka RN	108	17	9	–	–	–	–	134
Smyth FC***	1 542	104	241	–	290	–	500	2 677
Naicker VK	104	11	9	198	21	(227)	375	491
Zondo LB	1 526	158	–	–	510	–	–	2 194
Lehutso JLR	556	–	51	1 522	37	(223)	–	1 943
Bulunga B	1 290	150	172	–	396	–	–	2 008
Total	12 618	690	975	2 169	2 108	(1 051)	1 779	19 288

* K Ngqula was an executive director of the Board as well as a member of the Executive Committee before his resignation.

** Retention premiums were approved by the Remuneration Committee and are payable over a three-year period with a clawback clause in the event of resignation.

*** FC Smyth was on the Executive Committee and thereafter was the acting CEO.

**** Sign on payment.

***** CR Else was on the Executive Committee as well as the CEO of SAA Technical (Pty) Limited for the full financial year.

Notes to the annual financial statements (continued)

for the year ended 31 March 2009

42. RELATED PARTIES (continued)

RELATED PARTY TRANSACTIONS (continued)

Short-term employee benefits 2008	Salaries R 000	Allowances R 000	Fund contributions R 000	Termination benefits R 000	Retention premium** R 000	Total R 000
Executive directors						
Ngqula KN*	3 743	–	1 449	–	688	5 880
Griffiths G	793	40	–	–	–	833
Patel KR	641	320	106	–	250***	1 317
Total	5 177	360	1 555	–	938	8 030
Executive Committee						
Blake J	1 096	–	–	–	–	1 096
Melk T	978	96	130	–	160	1 364
Dlamini P	776	105	135	–	140	1 156
Jordaan CF	1 131	94	180	–	–	1 405
Magwentshu N	573	45	57	500	–	1 175
Else CR	945	99	90	–	220	1 354
Smyth FC	1 504	109	219	–	275	2 107
Naicker VK	1 253	139	108	–	206	1 706
Zondo LB	1 387	158	–	–	425	1 970
Lehutso JLR	1 030	–	95	–	186	1 311
Bulunga B	919	150	113	–	330	1 512
Bekker PJ	892	63	85	–	–	1 040
Total	12 484	1 058	1 212	500	1 942	17 196

* K Ngqula is an executive director of the Board as well as a member of the Executive Committee. Similarly, G Griffiths before his resignation.

** Retention premiums were approved by the Remuneration Committee and are payable over a three-year period with a clawback clause in the event of resignation.

*** Sign on payment.

	Travel Benefits 2009 Number of flights			Travel Benefits 2008 Number of flights		
	International	Domestic	Regional	International	Domestic	Regional
Executive directors						
Ngqula KN	5	90	1	3	60	–
Smyth FC	3	21	–	–	–	–
Patel KR	7	4	2	–	–	–
Total	15	115	3	3	60	–
Executive Committee						
Blake J	2	4	–	–	–	–
Melk T	1	–	–	–	2	1
Dlamini P	8	10	–	2	10	–
Jordaan CF	–	3	–	–	4	–
Magwentshu N	–	–	–	5	7	–
Makobe MJ	–	6	–	–	–	–
Nkabinde JN	–	12	–	3	4	–
Else CR	7	4	1	3	6	–
Smyth FC	–	–	–	–	–	–
Naicker VK	–	5	–	3	13	–
Zondo LB	4	28	1	13	19	1
Lehutso JLR	–	3	–	–	10	1
Bulunga B	9	7	4	–	11	–
Kibuuka R	–	–	–	–	–	–
Bekker PJ	–	–	–	14	5	4
Total	31	82	6	43	91	7

Figures in Rand million	Group 2009	Group 2008 Restated	Company 2009	Company 2008 Restated
43. CASH (USED IN) GENERATED FROM OPERATIONS				
Profit/(loss) before taxation	420	(1 100)	295	(1 391)
Adjustments for:				
Depreciation	654	796	619	752
Loss (profit) on sale and scrapping of property, aircraft and equipment	3	(8)	5	(6)
Loss on scrapping of property and equipment included in disposal group held for sale	3	–	–	–
Profit on sale of assets held for sale	(4)	–	(4)	–
Amortisation of intangible assets	26	30	25	30
Impairment of subsidiaries	–	–	159	507
Impairment of assets held for sale	22	–	22	–
Investment income	(453)	(254)	(645)	(372)
Finance costs	363	384	404	442
Movement in onerous contract provision	(698)	933	(651)	1 027
Impairment of assets less maintenance reserve written back	80	124	76	119
Reversal of impairment of PDPs	(472)	–	(472)	–
Release from air traffic liability	(826)	(373)	(826)	(373)
Impairment of accounts receivable	147	19	144	20
Revaluation of PDPs	64	–	64	–
Non-cash movement on non-distributable reserves	(48)	(97)	(48)	(97)
Release from passenger tax provision	(176)	(108)	(176)	(108)
Impairment of reimbursement right	37	–	37	–
Movement in employee benefit obligations	34	(49)	34	(49)
Derivative market movements	(1 046)	(310)	(1 046)	(310)
Unrealised foreign exchange loss on revaluation of loans	211	134	211	134
Unrealised foreign exchange gain on security deposits	(85)	(58)	(85)	(58)
Unrealised foreign exchange loss on cash and cash equivalents	184	(102)	186	(102)
Foreign exchange effect on working capital	(3)	(23)	(25)	(20)
Changes in working capital:				
Inventories	(144)	57	21	(7)
Trade and other receivables	(716)	(41)	(543)	19
Trade and other payables	37	541	225	680
Air traffic liability	511	711	506	717
Provisions	61	159	55	165
Foreign exchange effect on working capital	3	23	25	20
	(1 811)	1 388	(1 408)	1 739

Notes to the annual financial statements (continued)

for the year ended 31 March 2009

44. FINANCIAL LIABILITIES BY CATEGORY

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

Group – 2009		Amortised cost	Fair value (held for trading)	Total
Long- and short-term liabilities	Note 31	3 768	–	3 768
Finance lease obligation	Note 32	29	–	29
Holding company loan to Share Trust	Note 33	63	–	63
Trade and other payables	Note 37	5 127	–	5 127
Jet Fuel commodity derivatives	Note 26	–	227	227
		8 987	227	9 214
Group – 2008 – restated				
Long- and short-term liabilities	Note 31	4 109	–	4 109
Finance lease obligation	Note 32	40	–	40
Holding company loan to Share Trust	Note 33	63	–	63
Trade and other payables	Note 37	5 260	–	5 260
Bank overdraft	Note 27	1	–	1
		9 473	–	9 473

At company level, the net amounts owing by subsidiaries are held at amortised cost.

45. FINANCIAL ASSETS BY CATEGORY

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

Group – 2009		Amortised cost – loans and receivables	Fair value through profit or loss – held for trading	Total
Forward contracts	Note 26	–	43	43
Options and swaps	Note 26	–	97	97
Trade and other receivables	Note 25	3 362	–	3 362
Cash and cash equivalents	Note 27	3 778	–	3 778
Defeasance deposit	Note 21	349	–	349
Reimbursement right	Note 24	–	75	75
		7 489	215	7 704
Group – 2008 – restated				
Jet fuel commodity derivatives	Note 26	–	58	58
Forward contracts	Note 26	–	73	73
Options and swaps	Note 26	–	73	73
Trade and other receivables	Note 25	3 048	–	3 048
Cash and cash equivalents	Note 27	5 393	–	5 393
Defeasance deposit	Note 21	461	–	461
Reimbursement right	Note 24	–	112	112
		8 902	316	9 218

46. RISK MANAGEMENT

46.1 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 has been impaired to zero in the prior years. The Directors' valuation based on the dividends yield model is utilised to determine fair value of this investment at each reporting date. This was considered an appropriate valuation basis as the group holds a minority interest of less than 5%.

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.

46.2 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.

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. 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.

Notes to the annual financial statements (continued)

for the year ended 31 March 2009

46. RISK MANAGEMENT (continued)

46.3 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 ring-fenced for funding of the group's restructuring activities to ensure that the entity returns to profitability with financial performance metrics similar to those of its world-class peers. The debt included long-term interest-bearing borrowings and short-term borrowings, including accounts payable and bank overdrafts.

The cash injection from the government subordinated loan amounting to R2,86-billion is restricted.

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

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

Aircraft and engine financing

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

Gearing ratio

The Board, through its 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.

The gearing ratio in 2009 and 2008 respectively were as follows:

	March 2009 R million	March 2008 Restated R million
Debt*	12 115	12 662
Cash and cash equivalents	(3 778)	(5 392)
Net debt	8 337	7 270
Equity**	2 503	2 496
Net debt to equity ratio	3:1	3:1
Equity before government subordinated loan	(361)	(368)
Net debt to equity before government subordinated loan ratio	24:1	21:1

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

** 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.

46. RISK MANAGEMENT (continued)

46.4 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 required 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.

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

Notes to the annual financial statements (continued)

for the year ended 31 March 2009

Group and company 31 March 2009 Figures in Rand million	Carrying principal amount**	Contractual amount**	Less than 1 month	1 – 3 months	3 – 6 months	6 months	1 – 5 years	5+ years
46. RISK MANAGEMENT (continued)								
46.4 Financial risk management (continued)								
Liquidity risk (continued)								
Non-derivative financial liabilities								
US\$-denominated secured loans	193	290	–	19	4	23	122	122
US\$-denominated finance lease obligations	3	3	–	–	3	–	–	–
Total	196	293	–	19	7	23	122	122
ZAR-denominated secured loans*	1 934	2 742	–	148	122	265	1 584	623
Accounts payable	5 127	5 127	5 127	–	–	–	–	–
Holding company loan to Share Trust	63	63	–	–	–	–	63	–
Total	7 124	7 932	5 127	148	122	265	1 647	623
Derivative financial instruments								
Fixed swaps	(229)	(20)	–	(16)	(3)	(1)	–	–
Fixed swaps	96	22	–	9	8	5	–	–
Forward exchange contracts	43	458	42	170	128	118	–	–
Total	139	480	42	179	136	123	–	–
Group and company – 31 March 2008								
Restated								
Non-derivative financial liabilities								
US\$-denominated secured loans	231	277	–	16	50	16	115	80
US\$-denominated finance lease obligations	5	5	–	–	5	–	–	–
Total	236	282	–	16	55	16	115	80
ZAR-denominated secured loans*	2 240	3 151	–	147	123	228	1 807	846
Accounts payable	5 260	5 260	5 260	–	–	–	–	–
Holding company loan to Share Trust	63	63	–	–	–	–	63	–
Total	7 563	8 474	5 260	147	123	228	1 870	846
Derivative financial instruments								
Fixed swaps	(20)	(20)	–	(16)	(3)	(1)	–	–
Fixed swaps	22	22	–	9	8	5	–	–
Forward exchange contracts	73	458	42	170	128	118	–	–
Total	95	480	42	179	136	123	–	–

* Non-derivative liabilities included as part of disposal group held for sale amounted to R1-million (2008: R2-million). There were no other financial liabilities or derivative assets from other companies within the group.

** The carrying principal amount excludes interest whilst the contractual amount includes interest.

46. RISK MANAGEMENT (continued)

46.4 Financial risk management (continued)

Other risks

Facilities held for Boeing 747 lease commitments

The defeasance deposit is utilised mainly to fund the operating lease commitments relating to the B747 fleet. This was previously reported as held to maturity financial instrument category. Due to a decision by the Board to ground the whole Boeing 747 fleet, the defeasance deposit would be utilised to settle the outstanding liabilities and lease termination penalties; any shortfall would be funded from the company's cash and cash equivalents. Management expect to finalise the termination arrangements and return these aircraft once a suitable buyer has been found.

Facilities held for unfunded post-employment benefit obligations

The fixed deposit amounting to R56,8-million is utilised mainly to fund the unfunded pension obligation relating to the German outstation employees and is not available for any other short- or long-term cash requirements. The deposit is created from the proceeds of the insurance policy lump sum payout when the employee reaches retirement.

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 income statement and balance sheet.

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.

46.5 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.

Notes to the annual financial statements (continued)

for the year ended 31 March 2009

46. RISK MANAGEMENT (continued)

46.5 Credit risk management (continued)

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.

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 around the world.

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 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.

46. RISK MANAGEMENT (continued)

46.5 Credit risk management (continued)

Maximum exposure to credit risk

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

Financial instruments	Group 2009	Group 2008 Restated	Company 2009	Company 2008
Figures in Rand million				
Cash and cash equivalents	3 778	5 393	3 633	5 319
Investments – defeasance deposit	349	461	349	461
Derivative financial assets held for trading	140	204	140	204
Trade and other receivables	3 362	3 048	3 185	2 866

	Foreign currency amount	Carrying amount R 000	Currency Profit (loss) impact		
			+19%* -19% US\$ R 000	-11%* +11% Euro R 000	-9%* +9% GBP R 000
Sensitivity analysis					
Accounts receivable – 31 March 2009					
US\$-denominated	187 346	1 782 110	338 600	–	–
EUR-denominated	5 517	71 280	–	7 850	–
GBP-denominated	3 638	50 424	–	–	4 460
			338 600	7 850	4 460

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

	Foreign currency amount	Carrying amount R 000	Currency Profit (loss) impact		
			-18% +18% US\$ R 000	-7% +7% Euro R 000	-7% +7% GBP R 000
Accounts receivable – 31 March 2008					
US\$-denominated	24 587	198 966	34 187	–	–
EUR-denominated	22 973	248 302	–	12 986	–
GBP-denominated	6 681	106 394	–	–	3 788
			34 187	12 986	3 788

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

Notes to the annual financial statements (continued)

for the year ended 31 March 2009

46. RISK MANAGEMENT (continued)

46.6 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 the group and its shareholder 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, ie taking into account the different currencies it receives in its revenue stream, the different currencies in which its cost base is denominated, and the underlying natural hedges that exist in its business operations. Foreign exchange risk management is managed through the use of cash collection and conversion strategies and approved derivative financial instruments which are marked-to-market on a daily basis. The group's policy on foreign exchange risk management is to hedge between 50% 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 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.

46. RISK MANAGEMENT (continued)

46.6 Market risk management (continued)

Year-end exchange rates

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

Exchange rates used expressed in the number of Rands per unit of foreign currency:

	2009	2008
United States dollar (US\$)	9,51	8,09
Euro	12,92	12,78
Pounds sterling (GBP)	13,86	16,09

	Foreign amount 2009 million	Foreign amount 2008 million	Amount 2009 R million	Amount 2008 R million
The following debtors and creditors amounts included in the balance sheet have not been covered by forward exchange contracts:				
Uncovered foreign monetary items				
Accounts receivable				
US\$	187	25	1 782	198
Euro	6	23	71	293
UK pound	4	7	50	107
Hong Kong dollar	13	21	16	21
Danish krone	4	3	7	5
Canadian dollar	-	1	-	8
Swiss franc	-	1	-	12
Australian dollar	1	7	10	49
Brazilian real	11	3	47	13
Thailand baht	15	12	4	4
Malawian kwacha	206	252	14	14
Other	-	-	280	68
			2 281	792
Accounts payable				
US\$	14	9	136	75
Euro	9	11	113	135
UK pound	1	3	10	53
Australian dollar	-	2	-	14
Cape Verde escudo	1 503	67	157	7
Other	-	-	-	44
			(416)	(328)
Accounts receivable as above			2 281	792
Net exposure			1 865	464

These amounts represent SAA Company and SAA Technical (Pty) Limited receivables and payables. There are no significant uncovered foreign currencies in any of the subsidiaries.

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.

Notes to the annual financial statements (continued)

for the year ended 31 March 2009

46. RISK MANAGEMENT (continued)

46.6 Market risk management (continued)

Price risk (continued)

SAA currently consumes approximately 123-million litres (2008: 120-million litres) of jet fuel per month. This means that any change in price will have a significant impact on the group's performance.

The objectives of managing jet fuel price risk are to:

- reduce the volatility of jet fuel costs and the effect of this volatility on cash flows and earnings, ie price stability;
- limit the impact of derivative instruments on the group's financial position and performance;
- occupy a competitive position in the airline industry in terms of jet fuel price risk management, negating the competitive advantage that competitors derive from their jet fuel risk management strategies;
- utilise any backwardation in the energy forward curves to reduce future jet fuel costs;
- provide a protection buffer during times of elevated jet fuel prices; and
- to continually and dynamically transact a minimum amount of hedging in the financial markets, to ensure that hedging prices are averaged into the market and that large hedges are not transacted at single points in time, which may represent the peak of the market.

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, FOB ARAB Gulf 0,5%_s and Jet Kerosene (North West Europe) NWE. It is SAA's policy to hedge between 40% and 60% of its jet fuel price risk exposures on a 12-month rolling basis.

Sensitivity analysis

The group sensitivity analysis would include the sensitivity of annual financial statements to currency risk based on US\$, which carries a greater impact on the group, the interest rate risk sensitivity to LIBOR and JIBAR, the other price risk sensitivity mainly driven by the price per barrel of oil-based commodity derivatives.

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

	Foreign currency amount	Carrying amount R 000	Currency		Commodity price derivatives	
			Profit (loss) impact -19% US\$ R 000	Profit (loss) impact +19% US\$ R 000	Profit (loss) impact -27% Brent R 000	Profit (loss) impact +27% Brent R 000
DERIVATIVE FINANCIAL INSTRUMENTS						
31 March 2009						
ICE Brent commodity derivatives						
Asian call	3 300	31 389	(5 989)	5 989	(26 703)	46 926
Collar	(2 507)	23 848	(4 504)	4 504	(33 196)	38 830
ICE Gas Oil commodity derivatives						
Fixed swap	6 674	(63 490)	(11 993)	11 993	(7 864)	7 864
Forward exchange contracts	4 588	43 640	(167 065)	167 065	-	-
European call options	10 124	96 302	(58 056)	58 056	-	-
		131 689	(247 607)	247 607	(67 763)	93 620

	Foreign currency amount	Carrying amount R 000	Currency Profit (loss) impact -18% US\$ R 000	Currency Profit (loss) impact +18% US\$ R 000	Commodity price derivatives Profit (loss) impact -27% Brent R 000	Commodity price derivatives Profit (loss) impact +27% Brent R 000
46. RISK MANAGEMENT (continued)						
46.6 Market risk management (continued)						
Sensitivity analysis (continued)						
31 March 2008						
ICE Brent commodity derivatives						
Asian call	5 959	48 227	(8 287)	8 287	(20 222)	60 462
Synthetic call	1 490	(12 058)	(2 072)	2 072	(31 922)	84 494
ICE Gas Oil commodity derivatives					-32% gas oil	+32% gas oil
Fixed swap	2 665	21 563	(3 705)	3 705	(34 237)	34 237
Forward exchange contracts	63 732	73 191	(94 266)	94 266	-	-
European call options	65 720	72 569	(55 348)	80 470	-	-
		203 492	(163 678)	188 800	(86 381)	179 913

	Foreign currency amount	Carrying amount R 000	Currency Profit (loss) impact R 000	Currency Profit (loss) impact R 000	Interest rate Profit (loss) impact R 000	Interest rate Profit (loss) impact R 000
NON-DERIVATIVE FINANCIAL INSTRUMENTS						
31 March 2009						
US\$-denominated financial instruments			-19% US\$	+19% US\$	-97 bps US\$	+97 bps US\$
Secured borrowings – LIBOR floating debt	192 769	1 833 705	(17 873)	17 873	(12 905)	17 905
Accounts payable	14 322	135 236	(25 735)	25 735	-	-
Total financial liabilities	207 091	1 968 941	(43 608)	43 608	(12 905)	17 905
Defeasance deposit	36 667	348 796	(65 887)	65 887	(3 400)	3 400
Call deposit	59 000	561 235	(106 016)	106 016	(5 470)	5 470
Total financial assets	95 667	910 031	(171 903)	171 903	(8 870)	8 870
31 March 2008						
US\$-denominated financial instruments			-18% US\$	+18% US\$	-137 bps US\$	+137 bps US\$
Secured borrowings – LIBOR floating debt	230 994	1 869 252	(336 465)	336 465	(25 526)	25 526
Accounts payable	9 300	75 261	(13 547)	13 547	-	-
Total financial liabilities	240 294	1 944 513	(350 012)	350 012	(25 526)	25 526
Defeasance deposit	56 982	461 107	(82 999)	82 999	(6 297)	6 297
Call deposit	131 000	1 060 084	(190 815)	190 815	(14 476)	14 476
Total financial assets	187 982	1 521 191	(273 814)	273 814	(20 773)	20 773

47. IFRIC 13 CUSTOMER LOYALTY PROGRAMMES (continued)

As at 31 March 2009, SAA Voyager customers have accumulated 19 029 850 111 miles before breakage and 17 329 069 869 miles after breakage which is available for redemption. The fair value of a mile has been estimated at 9,37 cents per mile. Expected breakage for the redeemable miles as at 31 March 2009 is estimated at 12,41%. Based on these assumptions, had the provision of IFRIC 13 been applied at 31 March 2009, a liability of R1,56-billion would have been raised.

	2009 R 000	2008 R 000
48. DIRECTORS' EMOLUMENTS FOR SAA SUBSIDIARIES		
Executive directors' emoluments		
Tulca (Pty) Limited – trading as Mango		
Mr N Bezuidenhout		
Salary	1 202	1 130
Normal fees as director	–	97
	1 202	1 227
SAA Technical (Pty) Limited		
Mr CR Else**		
Salary	1 362	118
Allowance	42	4
Retirement fund contributions	129	11
Restructuring bonus	376	22
Termination benefit	92	–
Retention premium	(22)	–
	1 979	155
Mr SAH Poprawa		
Salary	248	–
Allowance	216	–
Retirement fund contributions	34	–
Retention premium	79	–
	577	–
Airchefs (Pty) Limited		
All executives of Airchefs (Pty) Limited are shareholder representatives from SAA (Pty) Limited and consequently emoluments are paid by Airchefs (Pty) Limited with the exception of:		
Ms J September		
Salary	–	882
Retirement fund contributions	–	54
Allowances	–	81
	–	1 017
Mr PJ Bekker*		
Salary	953	–
	953	–

* PJ Bekker is Acting CEO of Airchefs.

** CR Else was on the Executive Committee as well as the CEO of SAA Technical (Pty) Limited for the full financial year.

Notes to the annual financial statements (continued)

for the year ended 31 March 2009

	2009 R 000	2008 R 000
48. DIRECTORS' EMOLUMENTS FOR SAA SUBSIDIARIES (continued)		
SAA City Centre (Pty) Limited		
Mr TJ Nzima		
Salary	–	1 861
Retirement fund contributions	–	53
	–	1 914
Mr TFB Lehasa		
Salary	712	–
Retirement fund contributions	103	–
Allowances	158	–
	973	–
Non-executive directors' emoluments		
Tulca (Pty) Limited – trading as Mango		
Dr Christo Wiese	328	372
Prof J Gerwel	–	18
Me P Krusche	77	53
Mr H Mashaba	–	63
Mr R Wally	83	102
Mrs F du Plessis	69	35
Mr T Adams	39	–
	596	643
SAA Technical (Pty) Limited		
Mr BIL Modise	10	10
	10	10
Airchefs (Pty) Limited		
Mr BIL Modise	10	10
Ms MM Whitehouse	10	10
	20	20
SAA City Centre (Pty) Limited		
Mr IAM Semenya	20	20
	20	20



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