PEOPLE, PATRONAGE & PROFIT

ANNUAL REPORT
2005

South African Airways

ANNUAL FINANCIAL STATEMENTS

CONTENTS

The annual financial statements set out on pages 46 to 127 were approved by the board of directors on 20 June 2005.

INFORMATION PAGE

for the year ended 31 March 2005

DIRECTORS	Prof GJ Gerwel	Chairman
	Dr K Ngqula	President and Chief Executive Officer
	Ms MMT Ramano	Executive Vice President and Chief Financial Officer
	Prof R Doganis (Greek)	
	Adv MTK Moerane	
	Ms LM Mojela	
	Mr MV Moosa	
	Dr CC Okeahalam (British)	
	Ms A Ngwezi	
	Mr AP Nkuna	
	Ms MDCDNC Ramos	
CURRENT SECRETARY	Ms T Melk (appointed 1st April 2005)	
REGISTERED OFFICE / ADDRESS	Airways Park Jones Road Johannesburg International Airport Kempton Park 1627	
	Private Bag X13 Johannesburg International Airport Kempton Park 1627	
COUNTRY OF INCORPORATION	South Africa	
REPORTING CURRENCY	South African Rand (ZAR)	
PRIMARY MEASUREMENT CURRENCY	South African Rand (ZAR)	
JOINT AUDITORS	Deloitte & Touche Private Bag X6 Gallo Manor 2052	APF Incorporated PO Box 260144 Excom 2023
BANKERS	Nedbank, a division of Nedcor Limited Standard Bank Limited Citibank of South Africa (Proprietary) Limited	
HOLDING COMPANY	Transnet Limited	
COMPANY REGISTRATION NO.	1997/022444/07	

REPORT OF THE AUDIT COMMITTEE

for the year ended 31 March 2005

We are pleased to present our report for the financial year ended 31 March 2005 as recommended by the King II Report on Corporate Governance and the Public Finance Management Act.

The Audit Committee is composed of four non-executive directors. The committee held six scheduled meetings relating to the 2005 financial year.

The Audit Committee reports that it has adopted appropriate formal terms of reference as its Audit Committee charter and has regulated its affairs in compliance with this charter, and has discharged all of its responsibilities as contained therein.

In the conduct of its duties, the Audit Committee has, inter-alia, performed the following activities:

- Received and reviewed reports from the internal auditors, and from forensic investigations concerning the effectiveness of the Group's internal control systems.
- Reviewed the report of the joint external auditors detailing their concerns arising out of their audit and ensured that there are appropriate responses from management, which will result in their concerns being addressed.
- Considered the effectiveness of internal audit and the adherence of internal audit to its annual programme.
- Considered the risk areas identified by management, internal and the joint external auditors that the Group is exposed to and deliberated the extent to which these risks are covered by the scope of the internal and the joint external auditors' work programmes.
- Considered the Group's compliance with legal and regulatory provisions to the extent that such issues have been brought to the attention of the Audit Committee by either management, internal audit or the joint external auditors.
- Reviewed and recommended for adoption by the Board such financial information that is publicly disclosed which for the year under review included:
  - The annual financial statements for the year ended 31 March 2005.
  - The interim results for the six-month period ended 30 September 2004.
- Considered the independence and objectivity of the joint external auditors and ensured that the scope of their additional services provided were not such that they could be seen to have impaired their independence.
- Made appropriate recommendations to the Board regarding the corrective actions to be taken as a consequence of audit findings.

In the opinion of the Audit Committee, the internal controls of the Group (other than those required to meet all of the obligations of the Public Finance Management Act as set out under the heading "Section 51 and 55" in the Directors' Report) are considered to be appropriate to:

- ensure the Group's assets are safeguarded; and
- ensure that transactions undertaken are recorded in the Group's records.

Where weaknesses in specific controls have been identified, management has undertaken to implement the appropriate corrective action to mitigate the weaknesses identified. The Audit Committee is pleased to report that SAA is implementing a new Revenue Accounting System, which will remediate concerns and possible weaknesses inherent in the current system. None of these weaknesses constituted a material breakdown in the internal controls of the Group.

However, the Audit Committee has noted that SAA's risk management framework, certain of its policies and procedures and elements of the Company's monitoring procedures need to be redefined and enhanced to ensure that they meet the needs of a modern international airline.

REPORT OF THE AUDIT COMMITTEE (continued)

for the year ended 31 March 2005

Our report in compliance with the PFMA section 55(2)b, is incorporated in our holding company's submission to the Minister of the Department of Public Enterprise.

The Audit Committee has evaluated the annual financial statements for the year ended 31 March 2005 and considers that they comply, in all material respects, with the requirements of the Companies Act, 61 of 1973 in South Africa, as amended, the Public Finance Management Act, 1 of 1999, as amended, and Statements of South African Generally Accepted Accounting Practice. The Audit Committee concurs that the adoption of the going concern premise in framing the annual financial statements is appropriate. The Audit Committee has therefore recommended the adoption of the annual financial statements by the Board of Directors at their meeting on 20th June 2005.

Dr CC Okeahalam
Chairperson: SAA Audit Committee
20 June 2005

STATEMENT BY THE COMPANY SECRETARY

for the year ended 31 March 2005

The Company secretary, Ms T Melk, certified that the Company has lodged with the Registrar of Companies all such returns as are required for a private Company in terms of the Companies Act , 61 of 1973, as amended, and that all such returns are true, correct and up to date in respect of the financial year reported upon.

COMPANY SECRETARY
20 June 2005

SECRETARY

Name:	Ms T Melk
Business Address:	Airways Park Jones Road Johannesburg International Airport Kempton Park 1627
Postal Address:	Private Bag X13 Johannesburg International Airport Kempton Park 1627

REPORT OF THE INDEPENDENT AUDITORS

to the members of South African Airways (Proprietary) Limited

We have audited the annual financial statements of South African Airways (Proprietary) Limited and the Group set out on pages 52 to 127 for the year ended 31 March 2005. These annual financial statements of South African Airways (Proprietary) Limited and the Group are the responsibility of the South African Airways (Proprietary) Limited 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 furnished in terms of sub-section 55(2)(a) of the Public Finance Management Act, 1 of 1999, as amended, is fair in all material respects and, on a basis consistent with that of the preceding year.

Scope

We conducted our audit in accordance with Statements of South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. 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, 25 of 2004, have been complied with.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the annual financial statements;
- assessing the accounting principles used and significant estimates made by management; and
- evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

Audit opinion

The annual financial statements fairly present, in all material respects, the financial position of South African Airways (Proprietary) Limited and the Group at 31 March 2005, and the results of their operations and cash flows for the year then ended, in accordance with South African Statements of Generally Accepted Accounting Practice and in the manner required by the Companies Act, 61 of 1973 in South Africa, the Public Finance Management Act, 1 of 1999, as amended, and the Public Audit Act, 25 of 2004.

Emphasis of matter

Without qualifying our audit opinion, we draw your attention to:

The performance information as envisaged in sub-section 55(2)(a) of the Public Finance Management Act, 1 of 1999 and section 28(1)(c) of the Public Audit Act, 25 of 2004, has not been included in the annual financial statements and we are therefore unable to express an opinion thereon; and

REPORT OF THE INDEPENDENT AUDITORS (continued)

to the members of South African Airways (Proprietary) Limited

The transactions of South African Airways (Proprietary) Limited and the Group that had come to the auditors attention during the audit were in all material respects in accordance with the mandatory function of South African Airways (Proprietary) Limited, as determined by law or otherwise, with the exception of the South African Reserve Bank approval as outlined in the Directors' Report on page 65.

Deloitte & Touche

Deloitte & Touche

Registered Accountants and Auditors
Chartered Accountants (SA)

APF Inc

APF Inc.

Registered Accountants and Auditors
Chartered Accountants (SA)

Johannesburg
20 June 2005

DIRECTORS' REPORT

for the year ended 31 March 2005

INTRODUCTION

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 2005. The audited financial statements set out in this report have been prepared by management in accordance with South African Statements of Generally Accepted Accounting Practice. They are based on appropriate accounting policies which have been consistently applied except for those statements adopted in the current year listed in note 33 to these annual financial statements. The accounting policies are supported by reasonable and prudent judgements and estimates.

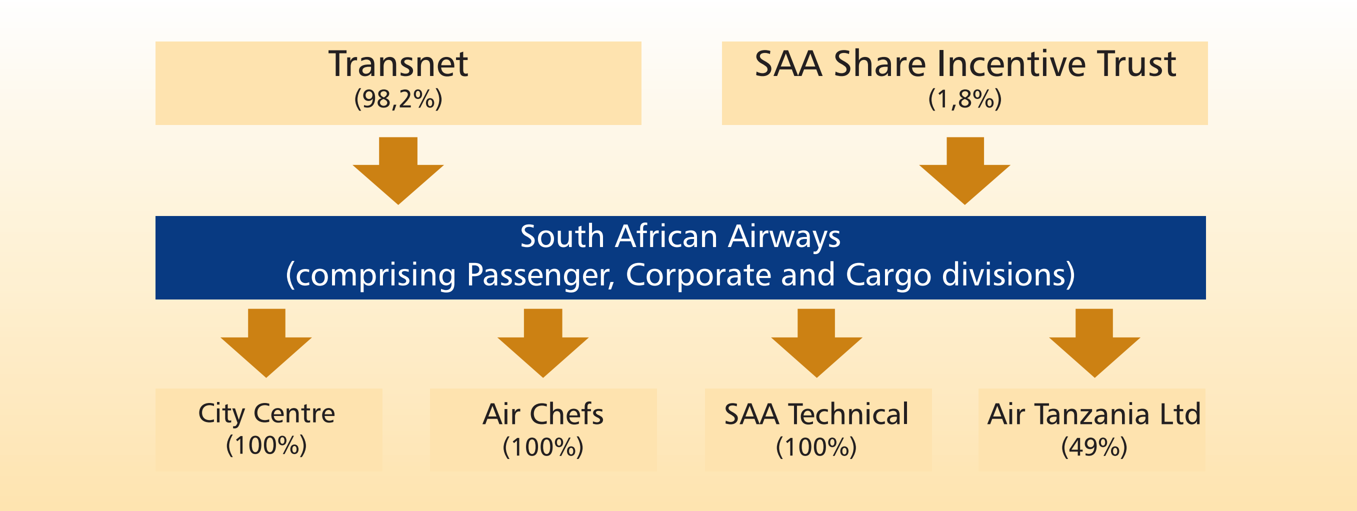
This report and the audited financial statements are submitted in accordance with the statutory requirements of the Public Finance Management Act (PFMA) and the Companies Act. In the opinion of the Directors, the financial statements fairly present the financial position of South African Airways (Proprietary) Limited ("SAA") and its subsidiaries as at 31 March 2005, and the results of their operations and cash flow information for the year then ended.

NATURE OF BUSINESS AND COMPANY STRUCTURE

The main activities of SAA and its subsidiaries are the operation of international, regional and domestic scheduled air services for the carriage of passengers, freight and mail.

SAA is the largest carrier on the African continent and provides a competitive, quality air transport service within South Africa, as well as to major cities worldwide.

Company Structure and Shareholding



SAA is a 98, 2% held subsidiary of Transnet Limited. The staff and management of SAA, through the mechanism of three different share incentive schemes, hold the minority shareholding of 1.8%.

DIRECTORS' REPORT (continued)

for the year ended 31 March 2005

SAA's share capital is divided into five classes which are held as follows:

Class of ordinary share R1 each	Shareholder	Authorised	Issued
Class A	Transnet Ltd	9 000 000 000	5 721 901 992
Class B	Transnet Ltd	3 000 000 000	1 907 300 664
Class C	Transnet Ltd	1 500 000 000	953 650 332
Class D	Transnet Ltd	750 000 000	476 825 166
Class E	Share Scheme members and SAA Share Incentive Trust	750 000 000	165 739 594
Total		15 000 000 000	9 225 417 748

During the year the company increased its authorised share capital from 10 billion ordinary shares to 15 billion (2004 increased from 5 billion to 10 billion). 9 403 474 (2004: 6 089 291 874) ordinary shares of R 1 each were issued during the year.

The nature of subsidiaries and the company's share in the profit and losses of its subsidiaries is reflected in note 11 to the annual financial statements.

DIRECTORS

The Directors of SAA during the financial year and to the date of this report were:

Name		Date of Appointment (A) / Resignation (R)	No. of Board Meetings Attended	No. of Audit Comm. Meetings Attended	No. of FRIC Meetings Attended	No. of Nominations, Governance and Remuneration Meetings Attended
Prof GJ Gerwel (Chairman)	N	27 August 2004 (A)	5	–	–	–
Dr K Ngqula (President and CEO)	E	27 August 2004 (A)	5	–	–	–
Ms MMT Ramano (CFO)	E	1 April 2004 (A)	11	–	–	–
Prof R Doganis (Greek)	N	10 September 2003 (A)	11	–	–	2
Mr OA Mabandla	E	8 November 2004 (R)	8	–	–	–
Adv MTK Moerane	N	10 September 2003 (A)	11	5	–	4
Ms LM Mojela	N	27 August 2004 (A)	5	–	1	–
Ms AMSS Mokgabudi	N	31 August 2004 (R)	6	–	–	–
Mr MV Moosa	N	27 August 2004 (A)	5	–	–	–
Dr CC Okeahalam (British)	N	10 September 2003 (A)	11	6	3	–
Ms A Ngwezi	N	1 September 2004 (A)	5	4	–	–
Mr AP Nkuna	N	10 September 2003 (A)	11	–	–	3
Ms MDCDNC Ramos	S	14 January 2004 (A)	11	4	3	2
Mr AN Viljoen	E	31 August 2004 (R)	6	–	–	–
Mr R Forson	E	31 August 2004 (R)				

Appointment dates reflected are the initial dates of appointment and do not reflect re-appointment dates

E – Executive Director

N – Non-executive Director

S – Shareholders Representative

The Board met on eleven (11) occasions during the financial year.
The Audit Committee met on six (6) occasions during the financial year.
The Financial, Investment and Risk Committee (FRIC) met on three (3) occasions during the financial year.
The Nominations, Governance and Remuneration Committee (REMCO) met on four (4) occasions during the financial year.

Directors' and employees' interest in contracts

No Director or senior executive of the Group has any material interests in contracts or conflict of interest that may affect the Group or his or her position in SAA.

DIRECTORS' REVIEW OF THE FINANCIAL PERFORMANCE AND STATE OF AFFAIRS

	Group 2005 R'Million	Restated Group 2004 R'Million
Turnover	15 554	15 338
Other airline income	1 888	1 001
Total airline income	**17 442**	**16 339**
Operating costs	**16 507**	**16 205**
Operating costs	11 106	11 044
Depreciation and amortisation	471	785
Lease costs	1 585	1 556
Energy costs	3 345	2 820
Profit from airline operations	**935**	**134**
Impairments	(141)	(3 410)
Insurance recoveries	–	26
Loss on sale and scrapping of property, aircraft and equipment	(25)	(367)
Fair value movements and translation gains (losses)	342	(4 470)
Operating profit (loss)	**1 111**	**(8 087)**
Net finance costs	**(186)**	**(533)**
Taxation	**(2)**	–
Minority interests	**43**	**10**
Net profit (loss) for the year	**966**	**(8 610)**

SAA's profit from airline operations increased to R935-million as compared to R134-million generated in 2004.

Revenue Analysis

	Group 2005 R'Million	Group 2004 R'Million
Passenger revenue	13 163	12 926
Cargo revenue (freight and mail)	1 501	1 482
Voyager income	300	292
Commission received	222	253
Technical revenue	368	385
Sundry income (excluding interest received)	1 888	1 001
TOTAL AIRLINE INCOME	**17 442**	**16 339**

Overall, passenger revenue year-on-year has increased 1,83% to R13 163-million as compared to R12 926-million in 2004. Sundry income increased by 88,61% from R1 001-million to R1 888-million. A major contribution to this was the R356-million increase attributable to the introduction of the fuel surcharge during the year and an additional R423-million attributable to the release in respect of unutilised tickets from the air traffic liability account. Refer to note 23 for details, in particular noting the current system difficulties, and the sensitivity of the judgements made by management in arriving at the release.

Operating costs, impairments and fair value

Operating costs increased 1,9% to R16 507-million (2004: R16 205-million). The airline's results are affected significantly by two external factors, being the fuel price and foreign exchange rate fluctuations.

The average monthly fuel price increased from $28,59 per barrel in the 2004 financial year to $40,54 per barrel (42% increase) in the current year. This increase was offset by the average ZAR/USD exchange rate strengthening from approximately R7,32 per dollar in the previous year to R6,32 (14% decrease) and better fuel efficiency of the new fleet of aircraft. Fuel uplift in litres reduced by 4,5% year on year, even though capacity increased by 1%. The combined effect of all these factors is a 19% increase in SAA's energy costs from R2 820-million to R3 345-million.

Labour costs increased from R3 084-million in 2004 to R3 266-million which represents a 6% increase for the current financial year. This increase includes a provision of R42-million for the Voluntary Settlement Plan. The balance arises from normal inflation linked salary increases and staff movements.

The decrease in fair value movements and translation gains and losses arises from the fact that the hedge book liability of R5 958-million was fully settled in the current financial year. The hedges were settled in part out of the R4 000-million compulsory convertible subordinated loan advanced by Transnet Limited and the balance being settled using SAA's own cash resources.

Depreciation and amortisation decreased to R471-million as compared to R785-million in 2004 due to the impairments in the value of aircrafts in the prior year.

An additional impairment charge of R141-million (2004: R3 410-million) on a number of assets and aircraft was taken to the income statement.

EVENTS SUBSEQUENT TO BALANCE SHEET DATE

During the current financial year, Transnet advanced a R4-billion compulsory convertible subordinated loan at 0% interest, to address the technical insolvency of SAA.

Subsequent to the year end of 31 March 2005, the Board of SAA and Transnet have reviewed both the provisions of the loan and SAA's financial position. It has been agreed that R2.4-billion of the original R4-billion loan will be converted into 2.4 billion ordinary shares as soon as practicable. The balance of the loan will be repaid to Transnet out of existing cash resources. Transnet has agreed to provide credit facilities to SAA of R1.5-billion.

New aircraft

The only other significant events that have arisen, between the end of the financial year and the date of this report, were the delivery of the following aircraft, under operating lease agreements.

Future lease commitments in respect of these five aircraft are set out below in USD million:

Aircraft type	Delivery date	1st year	2nd year	3rd year	4th year	5th year & later
A340-600	April 2005	12	13	13	13	79
A319-100	April 2005	2	2	2	2	21
A340-600	May 2005	11	13	13	13	82
A319-100	May 2005	2	2	2	2	21
A319-100	June 2005	2	2	2	2	21

INTERNATIONAL RECOGNITION

South African Airways (SAA) received the following awards since the beginning of the 2005 calendar year:

- SAA's First Class Lounge was ranked number two in the world after Thai Airways and ahead of other international airlines, Cathay Pacific, Emirates, Gulf Air and Singapore Airlines.
- SAA's Zimbabwe office won the Foundation for Excellence Business Practice (FEBP) Gold medal in Geneva, Switzerland.
- SAA was named the Best International Airline in Cape Town during the Airports Company of South Africa (ACSA) Feather Awards. SAA was judged against passenger perceptions of service, visibility of supervisors and friendliness of staff.
- The airline's East London office received an award from Border Technikon for its contribution to experiential training of its students.

Other awards received during the 2004 calendar year are as follows:

- Best Business Class lie-flat seat in the world,
- Best Airline in Africa, Best Cabin Staff in Africa (Skytrax),
- Best Airline Based in Africa (Official Airline Guide),
- Travel Star Award for Top Airline to Africa,
- Best Airline Stand at Indaba,
- Best African Airline (Diners Club Asata Awards),
- Best Online International Airline,
- Best Airline to Africa (Travel weekly Globe Awards).

FLEET NETWORK

During the year SAA continued to strengthen their fleet and its associated network by introducing the world's best aircraft for business and leisure travelling. The restructuring of SAA's fleet network and the addition of greater operational capacity through the continuing expansion of SAA's fleet and the affiliation to Star Alliance also positioned SAA to seize new opportunities in passenger and freight logistics. In operations, SAA is continuing to refine the format of its infrastructure and tailor the products and services to suit the changing needs of its customers.

SAA, as at the date of the balance sheet, operated a fleet of 73 aircraft, as compared to 65 in 2004. 17 of the aircraft are owned by SAA and the balance of 56 are held under various operating leases. Detailed below is the comparative operating fleet:

	31 March 2005			31 March 2004		
	Owned	Leased	Total	Owned	Leased	Total
Boeing 737-200F	–	2	2	–	2	2
Boeing 737-200Adv	–	10	10	–	15	15
Boeing 737-800	–	21	21	–	21	21
Boeing 747-200SP*	2	–	2	1	–	1
Boeing 747-300*	3	–	3	3	–	3
Boeing 747-400 3	5	8	–	5	8	3
Airbus A330–200	–	–	–	–	2	2
Airbus A340-200	–	6	6	–	5	5
Airbus A340-300e	3	3	6	1	–	1
Airbus A340-600	6	1	7	6	1	7
Airbus A319-100	–	8	8	–	–	–
	17	**56**	**73**	**14**	**51**	**65**

** Not in service*

CORPORATE GOVERNANCE

SAA is committed to enhance its corporate governance processes in line with international best practice, The Public Finance Management Act (PFMA) and King II Code of Corporate Governance Practices. As part of this commitment to the highest levels of corporate governance and compliance with provisions of the PFMA, the SAA Board of Directors and management are continually introducing processes and procedures to ensure that all reported weaknesses are addressed in order to achieve full compliance.

BOARD OF DIRECTORS

The Board appointments are made by Transnet Limited in conjunction with the Minister of Public Enterprises. Certain matters require the approval of the major shareholder, Transnet Limited, in addition to the approval of the Board of Directors of SAA.

Throughout the year, the Board comprised of two executive Directors and eight non-executive Directors. The Board considers that the balance of executive and non-executive Directors is appropriate and effective for the control and direction of the business.

It is the opinion of the Board that, throughout the year, each of the Company's non-executive Directors was independent for corporate governance purposes and free from any business or other relationship which could materially interfere with the exercise of his or her judgement. None of the non-executive Directors participate in any bonus, share option or pension scheme of the Company.

In terms of the memorandum and the articles of association the Board meets every month and is responsible for overall Company strategy, acquisitions and divestments, major capital projects and financial matters. It reviews the strategic direction and annual budgets of the Company and its subsidiaries, and approves major individual items of capital expenditure. The matters referred to the Board for consideration specifically include risks such as: matters likely to disrupt the Company's and subsidiaries' ability to carry on business, or damage the reputation of the Company as a whole in the eyes of its shareholders or the general public and matters which are likely to result in a substantial unplanned financial risk to the Company.

The Directors are collectively responsible for ensuring that risks arising from environmental, social and ethical factors and the health and safety of the Group's employees are suitably managed and are referred to the Board, as necessary. All Directors have full and timely access to all relevant information needed to enable them to properly discharge their responsibilities.

Board Committees

The Board has established three Committees to focus on key functional areas of the core business and make recommendations to the Board. Whilst the Committees perform delegated responsibilities on behalf of the Board, ultimate accountability still rests with the Board. The Committees have adopted formal charters governing the roles and responsibilities and are reviewed on a regular basis. The Committees are chaired by non-executive Directors. The company secretary provides secretarial services to all Committees.

Audit Committee

The Audit Committee assists the Board in fulfilling its audit, accounting and reporting responsibilities, monitors internal and external auditors including the independence of external auditors. There is a charter that governs the Audit Committee. The Committee meets at least four times a year and is comprised of three (3) independent non-executive Directors and (1) non-executive Director.

Both internal and joint external auditors have free access to the committee. The CEO and CFO are ex-officio members. 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. The Audit Committee's conclusions on these matters are recorded as part of their report on pages 47 and 48.

The Committee met on six (6) occasions during the financial year.

Nominations, Governance and Remuneration Committee (REMCO)

This Board Committee meets, at least, quarterly and at such other times, as the chairperson may determine. The responsibilities of the Committee are limited to the following:

- 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 in SAA.
- To ensure that nominations to the Board of Directors and appointment of senior executives and subsequent appointees are people who have the necessary and appropriate skill to discharge their responsibilities.

The Committee met on four (4) occasions during the financial year.

BOARD OF DIRECTORS (continued)

Remuneration of Directors

Executive Directors

	March 2005 Total remuneration (R 000's)					
Name	**Salary**	**Retirement fund contributions**	**Allowances**	**Incentive bonus**	**Gain on share options**	**Total**
Dr K Ngqula *	2 180	115	–	–	–	2 295
Ms MMT Ramano **	1 283	136	206	–	–	1 625
A Viljoen	4 695	–	160	–	–	4 855
O Mabandla ***	1 753	84	264	–	–	2 101
R Forson	–	–	–	–	–	–
	9 911	335	630	–	–	10 876

	March 2004 Total remuneration (R 000's)					
Name	**Salary**	**Retirement fund contributions**	**Allowances**	**Incentive bonus**	**Gain on share options**	**Total**
A Viljoen	2 160	–	160	975	650	3 945
O Mabandla	–	–	–	–	–	–
R Forson	877	–	205	–	550	1 632
	3 037	–	365	975	1 200	5 577

* Dr K Ngqula was appointed on 27 August 2004 and took office with effect from 15 October 2004.

** Ms MMT Ramano was appointed on 1 April 2004.

*** In addition: Mr O Mabandla received a restraint of trade payment of R2-million after the end of the financial year.

DIRECTORS' REPORT (continued)

for the year ended 31 March 2005

Non-executive Directors

	March 2005 Total remuneration (R 000's)			
Name	**Fees**	**Consulting fees**	**Allowances**	**Total**
G Gerwel	250	–	–	250
R Doganis	530	–	–	530
M Moerane *	510	–	–	510
L Mojela	150	–	–	150
T Mokgabudi *	208	–	–	208
V Moosa	150	–	–	150
C Okeahalam *	400	–	–	400
A Ngwezi	160	–	–	160
P Nkuna *	300	–	–	300
M Ramos **	–	–	–	–
D Ncube	–	–	–	–
D Konar	–	–	–	–
	2 658	–	–	2 658

	March 2004 Total remuneration (R 000's)			
Name	**Fees**	**Consulting fees**	**Allowances**	**Total**
G Gerwel	–	–	–	–
R Doganis	248	–	–	248
M Moerane *	209	–	–	209
L Mojela	–	–	–	–
T Mokgabudi *	217	–	–	217
V Moosa	–	–	–	–
C Okeahalam *	205	–	–	205
A Ngwezi	–	–	–	–
P Nkuna *	184	–	–	184
M Ramos **	–	–	–	–
D Ncube	514	–	174	688
D Konar	21	56	–	77
	1 598	56	174	1 828

* Prior year fees adjusted to include amounts paid after the previous year end.

** Ms M Ramos is the shareholder-appointed Director of SAA. She is employed by the holding company and, as part of her duties, she attends SAA's Board meetings. She is accordingly not remunerated for her services by SAA.

Financial, Investment and Risk Management Committee (FRIC)

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

- To ensure that effective, efficient and transparent systems of financial and risk management and internal controls are maintained. In this regard it shall set out the nature role, responsibility and authority of the risk management function within the SAA Company and outline the scope of the risk management work.
- To review and assess the integrity of the risk control systems and ensure that the risk policies and strategies are effectively managed.
- To monitor external developments relating to the practice of corporate accountability and the reporting of specifically associated risks, including emerging and prospective impacts.
- To provide an independent and objective oversight and review of the information presented by management on corporate accountability and specifically associated risks, also taking account of reports by management and the Audit Committee, to the Board on financial, business and strategic risks.

The Committee met on three (3) occasions during the financial year.

Risk management and internal control

The Board is responsible for the Company's system of risk management and internal control and for reviewing its effectiveness. A workable and realistic system can only be designed to manage, rather than eliminate, the risk of failure to achieve business objectives and, therefore, can only provide reasonable and not absolute assurance against material misstatement or loss. The current management team has made significant progress in strengthening the general control environment by implementing a number of projects and task teams which focus on improving and enhancing specific key areas within the business.

During the year the Directors reviewed the need for SAA to have its own internal audit function, independent from Transnet. A decision was taken to establish a full internal audit and risk management function reporting directly to the Chief Risk Officer with an indirect reporting line to the Chief Executive Officer and Audit Committee. A new head of audit, Mr. Molefi Nkhabu was appointed. Internal Audit reports functionally and directly to the Audit Committee and indirectly to the Chief Executive Officer.

During the year the company implemented a rigorous financial risk management process. The focus of the framework is on the major key risks facing the airline namely, jet fuel price risk, currency risk, interest rate risk, credit risk, liquidity risk and operational risk. The framework also stipulates the governance framework in managing the financial risks facing the Company. The Finance, Investment and Risk Management Committee (FRIC) is a sub-Committee of the SAA Board, and is referred to above.

During the financial year under review, the oil price, which is a significant financial risk for the Company, traded at an average price of $42,18 per barrel compared to a budgeted oil price of $35 per barrel. SAA managed the risk of this high volatility through hedging the crude oil price at an average price of $40,91 per barrel. Currently, 37% of the physical uplift is hedged. The policy stipulates that a minimum of 20% and a maximum of 60% of the fuel uplift must be hedged on a 12 month rolling basis.

HEALTH, SAFETY AND ENVIRONMENTAL ISSUES

Health and safety of the Company's employees, passengers, contractors and others affected by its operations and activities are a top priority for management. The Company views itself as being environmentally responsible and is committed to ensuring that it operates its business in compliance with worldwide environmental standards.

Enhanced security measures have had, and will continue to have, a significant impact on SAA's flying experience for passengers. While these security requirements have not impacted aircraft utilisation, they have impacted on our business. The Company has invested significantly in facilities, equipment, and technology to make SAA a memorable flying experience.

CODE OF ETHICS

SAA's Code of Ethics, which has been approved by the Board and endorsed by the recognised trade unions, commits the airline to the highest standards of integrity, behaviour and ethics in dealing with all its stakeholders.

HIV / AIDS

SAA runs a number of HIV/Aids programmes; from the provision of Anti-Retroviral treatment to all employees who require it, at no cost to that employee, to awareness campaigns, which coincided with the HIV/Aids calendar throughout the year. SAA is still facing the challenge in building the capacity of Managers, and Team leaders in dealing with the disease in the work place, and is in the process of rolling out the HIV/Aids programme to all SAA stations.

PUBLIC FINANCE MANAGEMENT ACT (PFMA)

SAA began a process of re-orientating its governance structures and processes in conformance with the provisions of the PFMA. PFMA compliance is one of the key business requirements that the Group manages and monitors.

The company's internal audit unit which has been recently established has begun a process of integrating compliance with the PFMA provisions in its audit programme and reports its findings to the Audit Committee. Non-compliance with the PFMA is viewed very seriously by the Board and will be dealt with according to the relevant prescripts.

Section 51 and Section 55 of the Public Finance Management Act contain certain onerous obligations for the Company to comply with. These obligations are in regard to the prevention, identification and reporting of all fruitless and wasteful expenditure irrespective of quantum and the collection of all revenue. The Act does not allow for these obligations to be formally regulated by a materiality framework and therefore taken at face value, those obligations result in the requirements that SAA should introduce systems and have controls and reporting systems in place to meet requirements which go well beyond what a normal commercial system is designed to perform. SAA's ability to modify its systems in a cost-effective manner to ensure compliance is hampered by the complexity of SAA's existing systems and the sheer volume of transactions undertaken by the Company. As a consequence of this, SAA is currently not fully in compliance with all of the requirements of the PFMA and is unable to provide the necessary PFMA disclosures with respect to fruitless and wasteful expenditure.

All the matters that SAA is required to report in terms of this Section have been tabled with the Company's holding company which will co-ordinate an overall submission to the Minister of Public Enterprises.

CONTRAVENTION OF SOUTH AFRICAN RESERVE BANK APPROVAL

SAA have contravened the South African Reserve Bank approval relating to exchange control through an investment in working capital of Air Tanzania Company Limited in the amount of R18-million.

SAA have informed the South African Reserve Bank, and who have noted the additional investment in working capital of Air Tanzania Company Limited and have granted an extension until 31 July 2005 for further working capital support.

COMPLIANCE STATEMENT

This report is presented in terms of Treasury Regulation 28.1 of the Public Finance Management Act, 1 of 1999, as amended. The prescribed disclosure of emoluments in terms of Treasury Regulation 28.1.1 is reflected under the heading "Remuneration of Directors" and under note 28 of these annual financial statements titled "Related Party Transactions".

Other than those areas of non-compliance regarding the shareholders compact not in place with the holding company, the performance information as envisaged in sub-section 55(2)(a) of the Public Finance Management Act, 1 of 1999 and section 28(1)(c) of the Public Audit Act, 25 of 2004, has not been included in the annual financial statements. The board considers that the Company has complied with the provisions of Sections 51, 54 and 55 of the PFMA throughout the period under review and up to the date of the approval of these financial statements. The board and management have taken steps to ensure that all the areas of non-compliance are addressed in the next financial year.

SHAREHOLDER RELATIONS

The Board attaches considerable importance to the maintenance of good relationships with shareholders. The Annual General Meeting is regarded as an opportunity to communicate directly with shareholders and the chairman of the Nominations, Governance and Remuneration Committee is available at the Annual General Meeting to answer shareholders' questions.

SHAREHOLDER'S COMPACT

In compliance with the PFMA and its accompanying Treasury Regulations, the Company and the holding company, Transnet Limited, are in the process of finalising the shareholder's compact.

GOING CONCERN

SAA as an international airline is exposed to significant risks, which can effect both the attainment of the Company's objectives and impact on its financial performance. These risks include inter alia:

- Exchange rate fluctuations
- Rising commodity prices – particularly crude oil prices
- Changes in economic activity levels domestically, regionally or internationally
- Fluctuating interest rates
- The consequences of terrorist activities
- The consequences of pandemics

SAA has access to a R1,5-billion credit line from its holding company in addition to the net R2,4-billion compulsory convertible subordinated loan, strengthening the confidence that the Company can address the risks highlighted.

Transnet will provide further support of R1,6-billion in the event that the liabilities of SAA exceed assets fairly valued. The support is until the Transnet shares in SAA are transferred to government.

The Directors of the Company confirm that it is their belief that the Company is a going concern and that its obligations will continue to be met in the normal course of business, subject to the extent of the origination of any of the risks outlined above, which could, if they eventuate, result in the Company being unable to realise its assets or discharge its liabilities in the normal course of business.

INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

The Company has taken a decision to apply International Financial Reporting Standards with effect from 1 April 2005. SAA has formed and implemented its International Financial Reporting Standards ("IFRS") steering Committee which is responsible for ensuring that SAA amends its accounting policies in all areas necessary to ensure they are IFRS compliant for the March 2006 financial year.

The areas which will be the subject of the most significant accounting policy changes include:

- Componentisation of property, aircraft and equipment.
- Annual re-assessment of the useful lives and residual values of property, aircraft and equipment.
- Expensing share options in line with IFRS2: Share based payments.
- Accounting for and disclosing related party transactions.

SPECIAL RESOLUTIONS TAKEN DURING THE YEAR

The only special resolution taken by the Shareholders during the financial year related to the increase in share capital as outlined under "company structure and shareholding".

UNBUNDLING OF SAA FROM TRANSNET

On the 27th August 2004, Transnet unveiled its strategy in which it was stated that aviation is not core to the business of Transnet. The strategy was approved by Government. Subsequent to that, Transnet, and SAA have put in place a high level team, including the Chief Executive Officer of Transnet and the Chief Executive Officer of SAA, to oversee the unbundling of SAA out of Transnet to Government (the Department of Public Enterprise).

DIVIDENDS PAID AND RECOMMENDED

No dividends have been recommended, declared or paid for the financial year.

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The Directors are required, by the Companies Act, 61 of 1973, and the Public Finance Management Act, 1 of 1999 ("PFMA"), to prepare annual financial statements which fairly present the state of affairs of the Group and the Company as at the end of the financial year and the profit or loss of the Group and the Company 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 judgments 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.

DIRECTORS' REPORT (continued)

for the year ended 31 March 2005

The Directors are of the opinion that they have discharged their responsibility for keeping proper accounting records that disclose with reasonable accuracy, the financial position of the Group and the Company.

The Directors have every reason to believe that the Group and the Company have adequate resources in place to continue in operation for the foreseeable future. The Directors are satisfied that South African Airways (Proprietary) Limited ("SAA") is a going concern and have continued to adopt the going concern concept in preparing the financial statements.

The external auditors, Deloitte & Touche and APF Inc., are jointly responsible for independently auditing and reporting on the annual financial statements in conformity with South African Auditing Standards. Their report on the annual financial statements in terms of the Companies Act and the PFMA appears on pages 50 and 51.

The Audit Committee has reviewed the effectiveness of the Group's internal controls and systems and steps in place to address the inability of the current systems to meet all the obligations of the PFMA as outlined in the Directors' report. The inefficiency of the current revenue accounting system has also been addressed and new systems and processes are being implemented that are appropriate for the effective operating of its business.

In preparing the Company and Group annual financial statements set out on pages 68 to 127, the Group has complied with South African Statements of Generally Accepted Accounting Practice, the Companies Act and the reporting requirements of the PFMA and has used the appropriate accounting policies supported by reasonable and prudent judgements and estimates. The Directors are of the opinion that these annual financial statements fairly present the changes in equity, financial position of the Company and the Group at 31 March 2005, and the results of their operations and cash flow information for the year then ended.

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

Prof GJ Gerwel
Chairman
20 June 2005

Dr K Ngqula
President & Chief Executive Officer

INCOME STATEMENTS

for the year ended 31 March 2005

	Notes	Group 2005 R'Million	Restated Group 2004 R'Million	Company 2005 R'Million	Restated Company 2004 R'Million
Revenue	1	17 658	16 475	17 113	15 996
Turnover	1	15 554	15 338	14 946	14 763
Other airline income	2	1 888	1 001	1 777	943
Total airline income		17 442	16 339	16 723	15 706
Operating costs		16 507	16 205	15 619	15 287
Aircraft lease costs		1 585	1 556	1 543	1 506
Accommodation and refreshments		442	546	647	708
Depreciation and amortisation	4	471	785	445	746
Distribution costs		1 766	1 888	1 725	1 869
Electronic data costs		486	633	424	506
Energy		3 345	2 820	3 234	2 751
Labour		3 266	3 084	2 272	2 169
Material		1 141	1 167	1 757	1 702
Navigation, landing and parking fees		890	857	875	846
Other operating costs		3 115	2 869	2 697	2 484
Gross profit from airline operations		935	134	1 104	419
Impairments	3	(141)	(3 410)	(536)	(4 243)
Airline profit (loss) before other income		794	(3 276)	568	(3 824)
Insurance recoveries		–	26	–	26
Loss on sale and scrapping of property, aircraft and equipment	4	(25)	(367)	(30)	(363)
Profit (loss) from airline operations before fair value movements and translation gains (losses)	4	769	(3 617)	538	(4 161)
Fair value movements and translation gains (losses)	5	342	(4 470)	335	(4 546)
Operating profit (loss)		1 111	(8 087)	873	(8 707)
Interest paid		(402)	(669)	(399)	(668)
Interest received		216	136	390	290
Profit (loss) before taxation and minority interest		925	(8 620)	864	(9 085)
Taxation	6	(2)	–	–	–
Profit (loss) after taxation		923	(8 620)	864	(9 085)
Minority interest	7	43	10	–	–
Net profit (loss) for the year		966	(8 610)	864	(9 085)
Profit (loss) per share (cents)	8	11	(296)		
Headline profit (loss) per share (cents)	8	13	(166)		

BALANCE SHEETS

as at 31 March 2005

	Notes	Group 2005 R'Million	Restated Group 2004 R'Million	Company 2005 R'Million	Restated Company 2004 R'Million
ASSETS					
Non-current assets					
Property, aircraft and equipment	9	9 216	8 494	8 711	7 992
Intangible assets and goodwill	10	3	125	4	10
Investment in subsidiaries	11	–	–	1 075	981
Investments and long-term assets	12	564	814	564	781
Total non-current assets		**9 783**	**9 433**	**10 354**	**9 764**
Current assets					
Inventories	13	535	523	85	65
Refundable amounts	14	236	1 267	236	1 267
Accounts receivable	15	2 843	2 464	2 374	2 585
Derivative financial asset	30	199	23	199	23
Short-term investments	16	858	327	858	327
Short-term portion of investments and long-term assets	12	207	130	200	130
Bank and other cash balances	17	1 766	2 720	1 775	2 721
Total current assets		6 644	7 454	5 727	7 118
TOTAL ASSETS		16 427	16 887	16 081	16 882
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital	18	8 982	8 982	9 225	9 216
Non-distributable reserves	19	(34)	(35)	–	–
Accumulated losses		(10 720)	(11 686)	(10 907)	(11 771)
Shareholders' deficit		(1 772)	(2 739)	(1 682)	(2 555)
Holding company compulsory convertible loan	20	4 000	–	4 000	–
Total equity		2 228	(2 739)	2 318	(2 555)
Minority interest	7	–	42	–	–
Total Capital and reserves		**2 228**	**(2 697)**	**2 318**	**(2 555)**
Non-current liabilities					
Long-term liabilities	21	5 608	4 580	5 599	4 571
Other long-term liabilities	21	250	209	163	124
Total non-current liabilities		**5 858**	**4 789**	**5 762**	**4 695**
Current liabilities					
Bank overdraft	17	10	70	–	35
Derivative financial liability	30	–	5 957	–	5 957
Air traffic liability	23	2 803	2 792	2 797	2 784
Accounts payable	24	4 687	4 005	4 363	3 995
Short-term portion of long-term liabilities	21	841	1 971	841	1 971
Total current liabilities		**8 341**	**14 795**	**8 001**	**14 742**
TOTAL EQUITY AND LIABILITIES		**16 427**	**16 887**	**16 081**	**16 882**

STATEMENTS OF CHANGES IN EQUITY

for the year ended 31 March 2005

	Notes	Share capital
		R'Million
Group		
Balance at 31 March 2003		3 127
Shares issued	18	6 089
Movement in net asset values at acquisition		–
Translation losses		–
Net movement on cash flow hedges previously deferred to equity		–
Net loss for the year		–
Balance at 31 March 2004 as previously stated		9 216
Treasury shares held by employee share trust	33.1.2	(234)
Restated balance as at 31 March 2004		8 982
Translation gains		–
Net profit for the year		–
Shares issued		9
Treasury shares held by employee share trust		(9)
Balance at 31 March 2005		8 982
Company		
Balance as 31 March 2003		3 127
Shares issued	18	6 089
Net movement on cash flow hedges previously deferred to equity		–
Net loss for the year		–
Balance as 31 March 2004		9 216
Shares issued	18	9
Net profit for the year		–
Balance as 31 March 2005		9 225

Non-distributable reserves					
Non-distributable reserve R'Million	Deferred cash flow hedges R'Million	Translation reserve R'Million	Total non-distributable reserves R'Million	Accumulated losses R'Million	Total R'Million
4	(1 446)	(19)	(1 461)	(3 076)	(1 410)
–	–	–	–	–	6 089
(3)	–	–	(3)	–	(3)
–	–	(17)	(17)	–	(17)
–	1 446	–	1 446	–	1 446
–	–	–	–	(8 610)	(8 610)
1	–	(36)	(35)	(11 686)	(2 505)
–	–	–	–	–	(234)
1	–	(36)	(35)	(11 686)	(2 739)
–	–	1	1	–	1
–	–	–	–	966	966
–	–	–	–	–	9
–	–	–	–	–	(9)
1	–	(35)	(34)	(10 720)	(1 772)
–	(1 446)	–	(1 446)	(2 686)	(1 005)
–	–	–	–	–	6 089
–	1 446	–	1 446	–	1 446
–	–	–	–	(9 085)	(9 085)
–	–	–	–	(11 771)	(2 555)
–	–	–	–	–	9
–	–	–	–	864	864
–	–	–	–	(10 907)	(1 682)

CASH FLOW STATEMENTS

for the year ended 31 March 2005

	Notes	Group 2005 R'Million	Restated Group 2004 R'Million	Company 2005 R'Million	Restated Company 2004 R'Million
CASH FLOW FROM OPERATING ACTIVITIES					
Cash generated from operations	31	1 911	741	2 317	561
Interest received		216	136	390	290
Interest paid		(402)	(669)	(399)	(668)
Realised derivatives		(5 922)	(1 611)	(5 922)	(1 611)
Net cash outflow from operating activities		(4 197)	(1 403)	(3 614)	(1 428)
CASH FLOW FROM INVESTING ACTIVITIES					
Acquisition of short-term asset		–	(798)	–	(798)
Replacement of property, aircraft and equipment		(55)	(3 947)	(31)	(3 903)
Additions to property, aircraft and equipment		(1 799)	–	(1 794)	–
Proceeds on sale of property, aircraft and equipment		17	259	13	259
Net funds received from aircraft receivable		1 496		1 496	
Decrease in long-term assets		153	64	89	139
Net cash outflow from investing activities		(188)	(4 422)	(227)	(4 303)
CASH FLOW FROM FINANCING ACTIVITIES					
Share capital – rights issue		–	6 089	9	6 089
External borrowings repaid		(3 273)	(2 112)	(3 273)	(2 112)
External borrowings raised		3 302	5 835	3 300	5 826
Related party borrowings repaid		–	(4 162)	(568)	(4 162)
Related party borrowings raised		4 000	2 494	4 000	2 432
		4 029	8 144	3 468	8 073
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(356)	2 319	(373)	2 342
Foreign exchange effect on cash and cash quivalents		(7)	(135)	(7)	(135)
Cash and cash equivalents at beginning of year		2 977	793	3 013	806
CASH AND CASH EQUIVALENTS AT END OF YEAR	32	2 614	2 977	2 633	3 013

ACCOUNTING POLICIES

for the year ended 31 March 2005

The principle accounting policies adopted in the preparation of these financials statements are set out below:

Statement of compliance

The consolidated financial statements of South African Airways (Proprietary) Limited (the company), as set out on pages 2 to 85, have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice, and are consistent with those of the previous period with the exception of the company fully adopting the following South African Statements of Generally Accepted Accounting Practice:

- AC 140 (IFRS 3 revised 2004) Business Combinations;
- AC 128 (IAS 36 revised 2004) Impairment of Assets;
- AC 129 (IAS 38 revised 2004) Intangible assets; and
- AC 116 (IAS 19 revised 2004) Employee benefits, with effect from 1 April 2004.

In addition, the South African Airways Share Trust was consolidated for the first time in line with the Johannesburg Securities Exchange's amended interpretation of AC132. Accordingly, the prior year financial statements have been restated.

Basis of preparation

The financial statements are presented in the South African Rand as its reporting currency, rounded to the nearest million. The consolidated 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.

BASIS OF CONSOLIDATION

Subsidiaries

The consolidated financial statements incorporate the financial statements of the company and the entities controlled by the company (its subsidiaries), made up to 31 March each year. Control is achieved where the company has the power to govern the financial and operating policies of an investee so as to obtain benefits from its activities.

Business combinations where the agreement date was before 31 March 2004:

On acquisition, the assets and liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess (deficiency) of the cost of acquisition over (below) the fair values of the identifiable net assets acquired is recognised as goodwill (negative goodwill). The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

Business combinations where the agreement date was on or after 31 March 2004:

On acquisition, the group initially measures the identifiable assets and liabilities acquired at their fair values as at the acquisition date hence causing any minority interest in the acquiree to be stated at the minority's proportions of the net fair values of those items. Any excess of the cost of the acquisition over the fair value of the identifiable assets and liabilities is recognised as goodwill. Goodwill is tested for impairment annually. Any deficiency of the cost of acquisition below the fair value of the identifiable assets acquired is negative goodwill, which is recognised in the income statement immediately.

The operating results of subsidiaries acquired or disposed of during the reporting period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Subsidiaries acquired with the intention of disposal within a short period of time and subsidiaries domiciled where there are severe long-term restrictions that significantly impair the subsidiaries' ability to transfer funds to the Company are not consolidated.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by other entities in the Group.

Transactions eliminated on consolidation

All intra-group transactions, balances and unrealised profits/losses are eliminated in preparing the consolidated financial statements.

Goodwill

Goodwill is the excess of the cost of acquisition over the attributable fair value of the identifiable assets and liabilities of subsidiaries at dates of acquisition. Goodwill is recognised as an intangible asset and assessed for impairment annually. Any impairment is recognised immediately in profit or loss and is not subsequently reversed.

Goodwill arising on acquisitions for which the agreement date was before 31 March 2004 was recognised as an intangible asset and was amortised over its useful life. Goodwill is no longer amortised but is assessed for impairment annually in order to comply with AC140: Business Combinations. Any accumulated amortisation has been written off against the gross carrying value of the goodwill as at 1 April 2004.

Negative goodwill

Business combinations where the agreement date was before 31 March 2004:

Negative goodwill arising on acquisition represents any excess of the fair value of the Group's share of the identifiable assets and liabilities acquired over the cost of the acquisition. To the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, it is recognised in the income statement when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the income statement over the weighted average useful life of the depreciable/amortisable assets. The balance of negative goodwill in excess of the fair value of the non-monetary assets acquired is released against opening retained income.

Business combinations where the agreement date was on or after 31 March 2004:

Negative goodwill arising on an acquisition is recognised directly in profit or loss.

Foreign currencies

Foreign currency transactions

Foreign currency transactions are recorded in the measurement currency by applying to the foreign currency amount the exchange rate between the measurement currency and the foreign currency at the date of the transaction. In the case of sales denominated in foreign currencies the ruling exchange rate is taken as being the International Air Transport Association (IATA) five-day average rate applicable to the transaction month.

Monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on exchange are recognised in net profit or loss for the period.

In order to hedge its exposure to certain foreign exchange risks, the Group enters into forward contracts and options (see below for details of the groups accounting policies in respect of such derivative financial instruments).

Foreign subsidiaries

The assets and liabilities of foreign subsidiaries are translated at the rate of exchange ruling at the balance sheet date. The income and expenses items of foreign subsidiaries are translated at weighted average exchange rates for the year. The rates applied approximate the actual transactions rates. All items in the foreign subsidiary's equity are measured utilising historical exchange rates. Cash flows are translated at the average exchange rate for the year, other than transactions material to the Group, which are translated at the exchange rate ruling on the date of the transaction. The exchange differences arising are classified as equity and transferred to the translation reserve. On disposal of a foreign entity, accumulated exchange differences are recognised in the income statement as a component of the gains or losses on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the acquiring Company and are recorded at the exchange rate at the date of the transaction.

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

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

Unused tickets are not recognised as revenue until such time as the unclaimed amount can be reliably measured.

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. The airline accrues the estimated incremental cost of providing these benefits. The accrued incremental cost is included in current liabilities.

Maintenance costs

Aircraft maintenance and repair costs are expensed to income as incurred. Maintenance reserve payments, which are contractually required in terms of certain lease agreements, are expensed as incurred.

Borrowing costs

Borrowing costs are expensed as and when incurred.

Taxation and deferred taxation

The charge for taxation is based on the results for the year as adjusted for items that are not taxable or deductible. The current tax rate is 30%.

Deferred income tax is provided, using the balance sheet liability method, on all temporary differences. 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 income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from goodwill amortisation or 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 taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where 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 income 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 where the deferred income 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 income 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 income 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 deferred tax has been calculated at 29% based on the announcement by the Minister of Finance in his 2005/06 Budget Speech that the future tax rate for companies (with effect from all years of assessment ending on or after 1 April 2005) will be 29%.

PROPERTY, AIRCRAFT AND EQUIPMENT

Owned assets

Aircraft are stated at cost less accumulated depreciation and any recognised impairment loss. 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.

All other property, machinery and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Capital work in progress relates to Buyer Finished Equipment (BFEs) and Pre-delivery payments (PDPs) relating to aircraft still being constructed. These are released from capital work in progress and capitalised to the asset when the construction is complete.

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

The following annual rates are applicable:

Aircraft	4 %
Buildings and structures	1 – 5 %
Machinery	6,67 %
Office equipment	6,67 %
Computer equipment	20 %
Furniture	10 %
Light motor vehicles	20 %
General purpose vehicles	10 %
Containers	5 %

Major improvements to property and equipment are capitalised. Maintenance and repair costs are expensed as and when incurred.

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.

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 assets are delivered to the buyer.

Leasehold improvements

Land and buildings

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

Aircraft

In cases where the aircraft held under operating leases are fitted with the buyer furnished equipment (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 so as 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 the straight line basis over the lease term as they fall due.

Manufacturers' credits which represent a portion of manufacturers' 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 so as 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 investment in the leases. Finance lease income is allocated to the accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease.

Intangible assets

Intangible assets that are acquired separately are recognised as assets.

Intangible assets arising from a Business combinations where the agreement date was before 31 March 2004:

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, subject to the constraint that, unless the asset has a readily ascertainable market value, the fair value is limited to an amount that does not create or increase any negative goodwill arising on the acquisition.

After initial recognition intangible assets are carried at its cost less any accumulated amortisation and any recognised impairment loss.

Intangible assets arising from a Business combinations where the agreement date was on or after 31 March 2004:

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 intangible assets are carried at cost less any accumulated amortisation.

Internally generated intangible assets:

Research and development expenditure

Expenditure of research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised as an expense in the period it is incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved products and processes, is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources to complete development. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads.

Intangible assets arising from development phase of an internal project are recognised only if its future recoverability can reasonably be regarded as assured.

Internally generated intangible assets are amortised on a straight line basis over their useful lives, and are reviewed for impairment annually when the asset is not yet in use, and otherwise when events or changes in circumstances indicate that the carrying value may not be recoverable. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

Subsequent expenditure

Before 31 March 2004, subsequent expenditure on capitalised intangible assets was capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred. Any subsequent expenditure on capitalised intangible assets on or after 31 March 2004 is capitalised only when the asset recognition criteria are met. All other expenditure is expensed as incurred.

Impairment of assets

The carrying amounts of the Group's tangible assets, which mainly consist of property, aircraft and equipment, and intangible assets, 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 net selling price 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 flow, the recoverable amount is determined for the cash generating unit to which the asset belongs. Receivables with a short duration are not discounted.

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, but so that 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 unless the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

Financial instruments

Financial assets, financial liabilities and equity instruments are recognised on the group's balance sheet when the group becomes a party to the contractual provisions of the instruments.

Trade and other receivables

Trade receivables, which generally have 30 to 60 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. The allowance raised is the amount needed to reduce the carrying value to the present value of the expected future cash receipts. Bad debts are written off when identified. Where an amount is written off recovery proceedings are nevertheless continued and credits are only recognised for amounts when actually received.

Cash and cash equivalents

Cash and cash equivalent consists of cash on hand, cash in banks, short-term and long-term deposits, bank overdrafts and highly liquid investments and are measured at amortised cost.

Investments

All investments, including subsidiaries, are recognised on a trade date basis and are initially recognised at cost, being the fair value of the consideration given and including transaction costs associated with the investment.

After initial recognition, the Company's investment in subsidiaries continues to be held at cost, and is reviewed annually for impairment.

After initial recognition, investments, which are classified as either held for trading or available for sale, are measured at fair value.

Other long-term investments that the group has the intention and ability to hold to maturity, which are classified as held to maturity are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity. For investments carried at amortised cost, gains and losses are recognised in the net profit or loss for the period when the investments are derecognised or impaired, as well as through the amortisation process.

For investments that are actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the balance sheet date. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

All regular way purchases of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. All regular way sales of financial assets are recognised on the settlement date i.e. the date the asset is delivered to the counter party. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Interest-bearing loans and borrowings

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

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

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.

Derivative financial instruments

The Group uses derivative financial instruments such as foreign currency contracts, interest rate swaps, cross-currency swaps and options to hedge its risks associated with foreign currency fluctuations, interest rate fluctuation and underlying commodity fluctuations. The Group does not hold or issue derivative financial instruments for trading purposes. Derivative financial instruments are stated at fair value.

The fair value of forward exchange contracts and cross-currency swaps is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments. The fair value of the options is determined by reference to market values for the underlying commodity.

For the purposes of hedge accounting, hedges are classified as either fair value hedges where they hedge the exposure to changes in the fair value of a recognised asset or liability; or cash flow hedges where they hedge exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a forecasted transaction.

In relation to fair value hedges (foreign currency contracts, interest rate swaps, cross-currency swaps and options) which meet the conditions for special hedge accounting, any gain or loss from re-measuring the hedging instrument at fair value is recognised immediately in the income statement. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognised in the income statement.

In relation to cash flow hedges to hedge firm commitments which meet the conditions for special hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity and the ineffective portion is recognised in the income statement.

When the hedged firm commitment results in the recognition of an asset or a liability, then - at the time the asset or liability is recognised - the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability. For all other cash flow hedges, the gains or losses that are recognised in equity are transferred to the income statement in the same period in which the hedged firm commitment affects the net profit and loss, for example when the future sale actually occurs.

For derivatives that do not qualify for hedge accounting, any gains or losses arising from changes in fair value are taken directly to the income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecasted transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement.

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 trade are sold, they are derecognised and a corresponding receivable is recognised at the date the Group commits the assets. Held to maturity instruments, originated loans and receivables are derecognised on the day they are transferred to the Group.

Financial asset impairment

At each balance sheet date an assessment is made of whether there is any objective evidence of impairment of financial assets. If there is such evidence, the recoverable amount is estimated and an impairment loss is recognised.

Pre-delivery payments and other aircraft deposits

Pre-delivery payments paid to the manufacturers of aircraft in term 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 pre-delivery payments will be re-measured to the present value of the consideration expected to be received from the ultimate lessor.

This consideration will, if it is denominated in 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 in the future operating lease payments forms part of the consideration receivable. Any loss arising on re-measurement 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 pre-delivery payments and the final instalment paid to the manufacturer are again re-measured 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.

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 regards 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. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. 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. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

EMPLOYEE BENEFITS

Pension benefits

The Group operates two defined benefit funds and a defined contribution fund. 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 funds are determined separately for each fund using the projected unit credit method for the Transnet Defined Benefit Pension Fund and Transnet Second Defined Benefit Fund. 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 cost is 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 prevent value of the defined benefit obligation reduced by the fair value of plan assets.

Post retirement medical benefit

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 to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

Employee share incentive plan and employee share trust

The Group has an employee share incentive plan granting non-transferable options to employees.

The Group uses the intrinsic value accounting method for share awards under which there is no charge to earnings for employee share option awards (because the exercise price equals the market value of the shares on the date of grant). There is no dilutive effect of outstanding options as the exercise price of the options exceeds the most recent value of the shares, which are taken into account in the computation of earnings per share.

	Group 2005 R'Million	Restated Group 2004 R'Million	Company 2005 R'Million	Restated Company 2004 R'Million
1. REVENUE				
Turnover				
Passenger revenue	13 163	12 926	12 937	12 720
Freight and mail	1 501	1 482	1 491	1 470
Technical services	368	385	–	33
Voyager income	300	292	300	292
Commission received	222	253	218	248
Total turnover	15 554	15 338	14 946	14 763
Interest received	216	136	390	290
Other airline income (refer note 2)	1 888	1 001	1 777	943
	17 658	16 475	17 113	15 996
2. OTHER AIRLINE INCOME				
Other airline income is made up of the following items				
Handling revenue	128	75	87	77
Income from leased assets	80	60	49	54
Release from unutilised tickets (refer note 23)	401	189	401	189
Release from unutilised air waybills (refer note 23)	22	19	22	19
Fuel levies and other ticket based recoveries	1 257	658	1 218	604
	1 888	1 001	1 777	943
3. IMPAIRMENTS				
Impairment of loan to South African Airways Share Trust	–	–	(38)	(130)
Increase of impairment of aircraft, rotables and PDPs	(23)	(3 228)	(23)	(3 228)
Impairment of refundable deposits	–	(181)	–	(181)
Impairment of Zimbabwe net assets	(1)	(1)	(1)	(1)
Impairment of intangible assets and goodwill (refer note 10)	(116)	–	–	–
Reversal of impairment of Buenos Aires net assets	6	–	6	–
Impairment of carrying value of investment in subsidiaries (refer note 11)	–	–	(473)	(703)
Impairment of flight deck crew loan	(7)	–	(7)	–
	(141)	(3 410)	(536)	(4 243)

	Group 2005 R'Million	Restated Group 2004 R'Million	Company 2005 R'Million	Restated Company 2004 R'Million
4. PROFIT (LOSS) FROM AIRLINE OPERATIONS BEFORE FAIR VALUE MOVEMENTS AND TRANSLATION GAINS (LOSSES)				
Profit (loss) from airline operations before fair value movements and translation gains (losses) is stated after taking into account, amongst others, the following:				
Auditors' remuneration				
Audit fees – current year	15	10	14	10
Under-provided in previous year	15	10	15	10
Other services	2	–	2	–
Total auditors' remuneration	**32**	**20**	**31**	**20**
Depreciation of property, aircraft and equipment				
Aircraft				
Normal	418	498	414	495
Accelerated	–	219	–	219
Land, buildings and structures	10	10	6	5
Machinery, equipment and furniture	29	29	15	15
Vehicles	7	7	3	4
Containers	1	2	1	2
Total depreciation	465	765	439	740
Amortisation of intangible assets and goodwill (refer to note 10)	6	20	6	6
Total depreciation and amortisation	**471**	**785**	**445**	**746**
Loss on sale and scraping of property, aircraft and equipment				
Property, aircraft and equipment	25	34	30	30
Pre-delivery payments	–	333	–	333
Total loss on sale and scrapping of property, aircraft and equipment	**25**	**367**	**30**	**363**
Operating lease payments				
Aircraft	1 585	1 556	1 543	1 506
Equipment	43	60	14	14
Properties	69	56	54	46
Total operating lease payments	**1 697**	**1 672**	**1 611**	**1 566**

	Group 2005 R'Million	Restated Group 2004 R'Million	Company 2005 R'Million	Restated Company 2004 R'Million
4. PROFIT (LOSS) FROM AIRLINE OPERATIONS BEFORE FAIR VALUE MOVEMENTS AND TRANSLATION GAINS (LOSSES) (continued)				
Research and development costs	2	5	1	5
Professional fees				
Managerial services	16	6	16	6
Technical services	166	63	141	46
Directors' emoluments and executive management emoluments are disclosed in the directors' report and the related parties note respectively.				
Salaries	–	–	10	3
Discretionary bonuses	–	–	–	1
Gain on disposal of shares	–	–	–	1
Other	–	–	1	–
Non-executive Directors' remuneration				
Fees as Directors	–	–	3	1
Other	–	–	1	–
Total staff costs	3 266	3 084	2 272	2 169
Pension fund contributions				
Current service cost	216	194	154	147
Medical benefit contributions	52	47	33	31
Provident fund contributions	28	31	28	31
Actuarially determined loss from defined benefit plan	30	34	30	34
Headcount				
Number of employees	11 601	11 920	7 684	7 867

	Group 2005 R'Million	Restated Group 2004 R'Million	Company 2005 R'Million	Restated Company 2004 R'Million
5. FAIR VALUE MOVEMENTS AND TRANSLATION GAINS (LOSSES)				
Foreign exchange gain (loss) on translation of:				
Foreign currency investments	(22)	(2)	(22)	(2)
Foreign currency denominated long-term loans	90	555	90	555
Net monetary assets and liabilities	62	(471)	55	(547)
Translation of foreign assets and liabilities	130	82	123	6
Net derivative fair value gain (loss)	211	(4 485)	211	(4 485)
Option premiums amortised	–	(69)	–	(69)
Fair value gain on France Telecom shares	1	2	1	2
	342	(4 470)	335	(4 546)
6. TAXATION				
South African normal taxation:				
Deferred taxation – current year	(2)	–	–	–
	(2)	–	–	–
Reconciliation of the effective and the standard taxation rate:				
South African normal rate of taxation	30	30	30	30
Tax effect of non-taxable income	(16)	(1)	–	(1)
Tax effect of non-deductible expenses	74	1	70	1
Current year assessed loss not recognised	178	(26)	161	(26)
Net deductible temporary differences not recognised	(266)	(4)	(261)	(4)
Effective rate of taxation	–	–	–	–

Estimated tax losses in the Company available to be utilised against future taxable income amounts to R8 746-million (2004: R7 770-million). The Group has tax losses of R9 856-million (2004: R8 372-million), which will be utilised against future taxable income.

7. MINORITY INTEREST

The amount represents the outside shareholders' share of losses in Air Tanzania. The share of losses is limited to the total share in these losses. The minority interest has been reduced to zero and the minority will not share in any future profit of the company until they have made good their unrecognised share in the losses.

	Group 2005 R'Million	Restated Group 2004 R'Million	Company 2005 R'Million	Restated Company 2004 R'Million
8. PROFIT (LOSS) PER SHARE (CENTS)				
Weighted average number of ordinary shares in issue (millions)	8 982	2 909	–	–
Net profit (loss) for the year (R'Millions)	966	(8 610)	–	–
Profit (loss) per share (cents)	11	(296)	–	–
Reconciliation between net profit (loss) for the year and headline profit (loss) (R'Million):				
Net profit (loss) for the year	966	(8 610)	–	–
Adjusted for:				
Net impairment of property, aircraft, equipment and receivables	25	3 410	–	–
Impairment of intangible assets and receivables	116	–	–	–
Loss on sale and scrapping of property, aircraft and equipment	25	367	–	–
Goodwill amortisation	–	13	–	–
Headline profit (loss) for the year	1 132	(4 820)	–	–
Headline profit (loss) per share (cents)	13	(166)	–	–

9. PROPERTY, AIRCRAFT AND EQUIPMENT

Group (2005)	Aircraft R'Million
COST	
Balance at 31 March 2004	11 034
Additions at cost	802
Disposals	(219)
Transfer from capital work in progress to aircraft	1 962
Net Refunds received on PDPs	–
Foreign exchange adjustment	–
Balance at 31 March 2005	13 579
ACCUMULATED DEPRECIATION AND IMPAIRMENT	
Balance at 31 March 2004	4 870
Depreciation for the year	418
Impairment	166
Disposals	(179)
Balance at 31 March 2005	5 275
Carrying value at 31 March 2005	8 304
Group (2004)	
COST	
Balance at 31 March 2003	7 944
Additions at cost	3 406
Disposals	(318)
Transfer to refundable amounts	–
Foreign exchange adjustment	2
Balance at 31 March 2004	11 034
ACCUMULATED DEPRECIATION AND IMPAIRMENT	
Balance at 31 March 2003	2 074
Depreciation for the year	717
Impairment	2 388
Disposals	(309)
Balance at 31 March 2004	4 870
Carrying value at 31 March 2004	6 164

Land, buildings and structures R'Million	Machinery, equipment and furniture R'Million	Vehicles R'Million	Containers R'Million	Capital work in progress R'Million	Total R'Million
712	391	62	28	2 299	14 526
4	15	1	3	1 028	1 853
–	(4)	(2)	(3)	–	(228)
–	–	–	–	(1 962)	–
–	–	–	–	(757)	(757)
–	1	–	–	–	1
716	403	61	28	608	15 395
69	196	35	22	840	6 032
10	29	7	1	–	465
–	–	–	–	(298)	(132)
–	(3)	(1)	(3)	–	(186)
79	222	41	20	542	6 179
637	181	20	8	66	9 216
708	368	63	27	3 067	12 177
4	34	3	1	499	3 947
–	(11)	(4)	–	–	(333)
–	–	–	–	(1 267)	(1 267)
–	–	–	–	–	2
712	391	62	28	2 299	14 526
59	176	31	20	–	2 360
10	29	7	2	–	765
–	–	–	–	840	3 228
–	(9)	(3)	–	–	(321)
69	196	35	22	840	6 032
643	195	27	6	1 459	8 494

9. PROPERTY, AIRCRAFT AND EQUIPMENT (continued)

Company (2005)	Aircraft R'Million
COST	
Balance at 31 March 2004	11 006
Additions at cost	802
Disposals	(221)
Transfer from capital work in progress to aircraft	1 958
Net refunds on PDPs	–
Balance at 31 March 2005	13 545
ACCUMULATED DEPRECIATION AND IMPAIRMENT	
Balance at 31 March 2004	4 864
Depreciation for the year	414
Impairment	166
Disposals	(179)
Balance at 31 March 2005	5 265
Carrying value at 31 March 2005	8 280

Company (2004)	
COST	
Balance at 1 April 2003	7 919
Additions at cost	3 405
Disposals	(318)
Transfer to refundable amounts	–
Balance at 31 March 2004	11 006
ACCUMULATED DEPRECIATION AND IMPAIRMENT	
Balance at 1 April 2003	2 070
Depreciation for the year	714
Impairment	2 388
Disposals	(308)
Balance at 31 March 2004	4 864
Carrying value at 31 March 2004	6 142

	Land, buildings and structures R'Million	Machinery, equipment and furniture R'Million	Vehicles R'Million	Containers R'Million	Capital work in progress R'Million	Total R'Million
	332	162	30	28	2 288	13 846
	1	2	1	3	1 016	1 825
	–	(2)	(2)	(3)	–	(228)
	–	–	–	–	(1 958)	–
	–	–	–	–	(757)	(757)
	333	162	29	28	589	14 686
	33	73	21	22	840	5 853
	6	15	3	1	–	439
	–	–	–	–	(298)	(132)
	–	(2)	(1)	(3)	–	(185)
	39	86	23	20	542	5 975
	294	76	6	8	47	8 711
	323	159	32	25	3 080	11 538
	9	10	2	2	475	3 903
	–	(7)	(4)	–	–	(329)
	–	–	–	–	(1 267)	(1 267)
	332	162	30	27	2 288	13 845
	28	66	20	20	–	2 204
	5	15	4	2	–	740
	–	–	–	–	840	3 228
	–	(8)	(3)	–	–	(319)
	33	73	21	22	840	5 853
	299	89	9	5	1 448	7 992

9. PROPERTY, AIRCRAFT AND EQUIPMENT (continued)

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

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 R5 628-million (2004: R3 912-million).

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 which 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 improvements amounts to R192-million (2004: R385-million) and the outstanding lease finance in regard thereto amounts to R181-million (2004: R315-million).

10. INTANGIBLE ASSETS AND GOODWILL

SAA's Information Technology (IT) function has been outsourced since April 2002. Part of the outsourcing contract included SAA's right to implementation and use of certain specified software to the value of R189-million, which was recorded as an asset. Subsequent to the demise of the Swiss Air Group (ultimate holding company of Atraxis Africa (Proprietary) Limited), certain assets and liabilities of Atraxis AG were sold to Electronic Data Services (EDS). An impairment provision of R166-million was raised in the 2002 financial year, against the above software development asset as only AxsRes/AxsControl was implemented.

SAA's Internet booking site - "flysaa.com" has been impaired to a carrying value of R3-million (2004: R3-million). The recoverable amount is based on the expected increase in net revenue after commission savings attributable to the internet booking site discounted at SAA's cost of capital.

SAA tests goodwill annually for impairment, or more frequently if there are indications that it might be impaired. The recoverable amounts of cash generating units are determined with respect to fair value less cost to sell. At 31 March 2005, other than impairment of R116-million in respect of goodwill arising on the acquisition of a minority interest in a subsidiary, no other impairment charges were required nor made in the current financial year.

Group	Software development R'Million	Internet booking site R'Million	Total intangible assets R'Million	Goodwill R'Million	Total intangible assets and goodwill R'Million
COST					
Balance at 31 March 2004	189	39	228	132	360
Balance at 31 March 2005	189	39	228	132	360
ACCUMULATED AMORTISATION AND IMPAIRMENT					
Balance at 1 April 2003	176	36	212	3	215
Amortisation for the year	7	–	7	13	20
Balance at 31 March 2004	183	36	219	16	235
Amortisation for the year	6	–	6	–	6
Impairment	–	–	–	116	116
Balance at 31 March 2005	189	36	225	132	357
Carrying value at 31 March 2005	–	3	3	–	3
Carrying value at 31 March 2004	6	3	9	116	125
Company					
COST					
Balance at 31 March 2004	189	39	228	–	228
Balance at 31 March 2005	189	39	228	–	228
ACCUMULATED AMORTISATION AND IMPAIRMENT					
Balance at 1 April 2003	176	36	212	–	212
Amortisation for the year	6	–	6	–	6
Balance at 31 March 2004	182	36	218	–	218
Amortisation for the year	6	–	6	–	6
Balance at 31 March 2005	188	36	224	–	224
Carrying value at 31 March 2005	1	3	4	–	4
Carrying value at 31 March 2004	7	3	10	–	10

	Company 2005 R'Million	Restated Company 2004 R'Million
11. INVESTMENT IN SUBSIDIARIES		
Shares at cost	418	418
Amounts owing by subsidiaries	1 833	1 266
	2 251	1 684
Impairment of subsidiaries	(1 176)	(703)
	1 075	981

Subsidiary	Place of incorporation	Nature of business
Air Chefs (Proprietary) Limited	South Africa	Airline catering
Air Tanzania Company Limited	Tanzania	Airline business
SAA City Centre (Proprietary) Limited	South Africa	Travel agency
SAA Technical (Proprietary) Limited	South Africa	Maintenance of aircraft

Air Tanzania Company Limited ("ATCL") has been consolidated with effect from 2 December 2002 as the Company gained effective control on this date. SAA considers that it has control due to the management agreements in place, which gives it the power to govern the ATCL's operating and financial policies.

Analysis of 2005 holdings	Shares Million	Issued shareholding %	Shares at cost R'Million	Net debt R'Million	Share of (loss) profit for the year R'Million
Air Chefs (Proprietary) Limited	*	100	72	1	(33)
Air Tanzania Company Limited	*	49	184	–	(55)
SAA City Centre (Proprietary) Limited	2	100	2	1	2
SAA Technical (Proprietary) Limited	160	100	160	1 831	(223)
Total investment			418	1 833	
Impairment			(416)	(760)	
			2	1 073	
Directors' valuation					
Air Chefs (Proprietary) Limited			–		
Air Tanzania Company Limited			–		
SAA City Centre (Proprietary) Limited			2		
SAA Technical (Proprietary) Limited			–		
			2		

** less than one million shares*

The above companies were valued by Vunani Capital, using a discounted cash flow model, to provide a basis for the above Directors' valuations.

Analysis of 2004 holdings	Shares Million	Issued shareholding %	Shares at cost R'Million	Net debt R'Million	Share of (loss) profit for the year R'Million
Air Chefs (Proprietary) Limited	*	100	72	1	(15)
Air Tanzania Company Limited	*	49	184	–	(9)
SAA City Centre (Proprietary) Limited	2	100	2	1	2
SAA Technical (Proprietary) Limited	160	100	160	1 264	(336)
Total investment			418	1 266	
Impairment			(161)	(542)	
			257	724	
Directors' valuation			257		

* = less than one million shares

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 concert with the financing requirements of the subsidiaries and are repayable on demand except as detailed below.

The loan to SAA Technical (Proprietary) Limited has been subordinated in favour of its creditors and impaired to the extent of its technical insolvency.

	Group 2005 R'Million	Restated Group 2004 R'Million	Company 2005 R'Million	Restated Company 2004 R'Million
12. INVESTMENTS AND LONG-TERM ASSETS				
12.1 Long-term assets				
South African Airways Share Trust	–	–	167	130
Impairment of the loan to South African Airways Share Trust	–	–	(167)	(130)
	–	–	–	–
12.2 Defeasance deposit	741	889	741	889
Arose in terms of the sale and operating leaseback of two Boeing 747-400's. These deposits are held in two US Dollar 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. The deposit will be fully utilised at the end of 2011 when the operating lease expires.				
Balance carried forward	741	889	741	889

	Group 2005 R'Million	Restated Group 2004 R'Million	Company 2005 R'Million	Restated Company 2004 R'Million
Balance brought forward	741	889	741	889
12.3 Other deposits	7	33	–	–
	748	922	741	889
12.4 Investment in unlisted shares at cost				
SA Airlink (Proprietary) Limited	35	35	35	35
Impairment of unlisted investment	(35)	(35)	(35)	(35)
12.5 Investment in listed shares				
121 221 shares in France Telecom Group, at a trading price of € 23 per share (2004: 132 966 shares at a trading price of € 20,82 per share)	23	22	23	22
Total investments and long-term assets	771	944	764	911
Less: Short-term portion of	(207)	(130)	(200)	(130)
Defeasance deposit	(200)	(130)	(200)	(130)
Other deposits	(7)	–	–	–
Net investments and long-term assets	564	814	564	781
Directors' valuation of unlisted investment	Nil	Nil	Nil	Nil
Market value of listed investments	23	22	23	22

13. INVENTORIES

	Group 2005 R'Million	Restated Group 2004 R'Million	Company 2005 R'Million	Restated Company 2004 R'Million
Consumables	155	344	85	65
Maintenance inventory	376	174	–	–
Work in progress	4	5	–	–
	535	523	85	65

Inventory is stated net of a provision for slow moving inventory of R355-million (2004: R511-million) for maintenance inventory and R8-million (2004: R8-million) for consumables.

14. REFUNDABLE AMOUNTS

	Group 2005 R'Million	Restated Group 2004 R'Million	Company 2005 R'Million	Restated Company 2004 R'Million
Refundable deposit arising on A319-100 PDP's	236	650	236	650
Refundable amount arising on A340-300e aircraft	–	798	–	798
Impairment	–	(181)	–	(181)
	236	1 267	236	1 267

The pre-delivery payments (PDP's) made to secure the manufacture and delivery of three A319-100 aircraft (2004: eleven) have been disclosed as short-term receivables as the company has entered into operating leases for these aircraft. The short-term monetary receivables represent the present value of the expected future proceeds to be received from the lessor when the aircraft is delivered. R236-million of the refundable deposit arising from the A319-100 aircraft forms security for the loans granted to finance the payment of PDPs.

At the end of the previous financial year the Company took delivery of an Airbus A340-300e aircraft. The acquisition was financed by way of a short-term bridging finance facility and subsequently the Company entered into an operating lease agreement. This asset was therefore disclosed as a current asset and impaired to reflect the present value of expected future cash flows that would arise from entering into the operating lease.

15. ACCOUNTS RECEIVABLE

	Group 2005 R'Million	Restated Group 2004 R'Million	Company 2005 R'Million	Restated Company 2004 R'Million
Net trade accounts receivable	1 439	1 500	1 454	1 601
Prepayments and other receivables	1 404	964	920	984
	2 843	2 464	2 374	2 585

16. SHORT-TERM INVESTMENTS

	Group 2005 R'Million	Restated Group 2004 R'Million	Company 2005 R'Million	Restated Company 2004 R'Million
Call Deposits				
US Dollor denominated	180	153	180	153
Euro denominated	255	86	255	86
Pound Sterling denominated	423	88	423	88
	858	327	858	327

	Group 2005 R'Million	Restated Group 2004 R'Million	Company 2005 R'Million	Restated Company 2004 R'Million
17. BANK AND OTHER CASH BALANCES				
Holding company current account	1 636	–	1 636	–
Domestic bank accounts	(232)	2 085	(228)	2 079
Foreign bank accounts	362	635	367	642
	1 766	2 720	1 775	2 721
Overdraft	(10)	(70)	–	(35)
	1 756	2 650	1 775	2 686

Domestic bank balances are cleared daily into the holding company current account and any resulting credit balance on the current account is reflected as part of the overdraft balance. The balance reflected as domestic bank accounts represents transactions uncleared at year end and amounts on call deposit.

	Group 2005 R'Million	Restated Group 2004 R'Million	Company 2005 R'Million	Restated Company 2004 R'Million
18. SHARE CAPITAL				
Authorised				
9 000 000 000 (2004: 6 000 000 000) class A ordinary shares of R1 each	9 000	6 000	9 000	6 000
3 000 000 000 (2004: 2 000 000 000) class B ordinary shares of R1 each	3 000	2 000	3 000	2 000
1 500 000 000 (2004: 1 000 000 000) class C ordinary shares of R1 each	1 500	1 000	1 500	1 000
750 000 000 (2004: 500 000 000) class D ordinary shares of R1 each	750	500	750	500
750 000 000 (2004: 500 000 000) class E ordinary shares of R1 each	750	500	750	500
	15 000	10 000	15 000	10 000

	Group 2005 R'Million	Restated Group 2004 R'Million	Company 2005 R'Million	Restated Company 2004 R'Million
18. SHARE CAPITAL (continued)				
Issued				
5 721 901 992 (2004 : 5 721 901 992) class A ordinary shares of R1 each	5 722	5 722	5 722	5 722
1 907 300 664 (2004 : 1 907 300 664) class B ordinary shares of R1 each	1 907	1 907	1 907	1 907
953 650 332 (2004 : 953 650 332) class C ordinary shares of R1 each	953	953	953	953
476 825 166 (2004 : 476 825 166) class D ordinary shares of R1 each	477	477	477	477
165 739 594 (2004 : 156 336 120) class E ordinary shares of R1 each	166	157	166	157
Less treasury shares on consolidation of Share Trust	(243)	(234)	–	–
Treasury shares at par value	(166)	(157)	–	–
Gain on sale of treasury shares	(77)	(77)	–	–
	8 982	8 982	9 225	9 216

All shares in the classes A to D are held by the holding company Transnet Limited. The class E shares are held either by employees directly or by the South African Airways Share Trust. All unissued shares are under the control of the Directors until the 2005 AGM. An additional 9 403 474 E class ordinary shares were issued during the year in terms of the rights offer made to shareholders on 31 March 2004 at a par value of R1.

	Group 2005 R'Million	Restated Group 2004 R'Million	Company 2005 R'Million	Restated Company 2004 R'Million
19. NON-DISTRIBUTABLE RESERVES				
Foreign currency translation reserve	(35)	(36)	–	–
Non-distributable reserve on acquisition of Air Tanzania Company Limited	1	1	–	–
	(34)	(35)	–	–

20. HOLDING COMPANY COMPULSARY CONVERTIBLE LOAN

After the 31 March 2004 year-end, Transnet Limited (holding company) provided South African Airways (Proprietary) Limited a R4 000-million compulsory convertible subordinated loan to address a net shareholders' deficit that existed as at 31 March 2004.

This loan will bear 0% interest until conversion.

In terms of AC125: Financial Instruments, Disclosure and Presentation, this loan is considered to be a compound instrument comprising an equity component of R4 000-million and a liability component of nil, as the loan bears no interest.

Subsequent to 31 March 2005, the Board of SAA and Transnet have reviewed the provisions of the loan and the financial position of SAA. It was agreed that R2,4-billion of the original R4-billion will be converted into 2,4 billion ordinary shares of R1 each as soon as practical. The remaining balance of R1,6-billion will be repaid to Transnet, from SAA's existing cash resources.

	Group 2005 R'Million	Restated Group 2004 R'Million	Company 2005 R'Million	Restated Company 2004 R'Million
21. LONG-TERM LIABILITIES				
Secured loans				
External loans	6 449	6 551	6 440	6 542
The loans are repayable as follows:				
On demand or within one year	841	1 971	841	1 971
In the second year	669	567	669	567
In the third year	666	548	666	547
In the fourth year	676	545	676	544
Five years and later	3 597	2 920	3 588	2 913
	6 449	6 551	6 440	6 542
Less: Current portion repayable on demand or within one year included in current liabilities	(841)	(1 971)	(841)	(1 971)
	5 608	4 580	5 599	4 571
Analysis of borrowings by currency:				
Rand denominated				
Domestic loans	3 027	1 285	3 018	1 276
US Dollar denominated				
Foreign loans	3 422	5 266	3 422	5 266
	6 449	6 551	6 440	6 542

The domestic secured loans bear an effective interest rate of at 10,3%, and represent loans secured over aircraft (refer note 9).

The foreign secured loans in US$ bear interest between LIBOR + 2% and LIBOR flat and are secured over aircraft and capitalised lease improvements (refer note 9) and the refundable amounts (refer note 14).

Included in foreign loans are capitalised lease liabilities to the amount of R151-million (2004: R315-million). Foreign currency denominated capitalised lease liabilities bear interest between 2% and 6% per annum. These liabilities are repayable over periods ranging between 2005 and 2012.

	Notes	Group 2005 R'Million	Restated Group 2004 R'Million	Company 2005 R'Million	Restated Company 2004 R'Million
OTHER LONG-TERM LIABILITIES					
Holding company share trust loan		63	62	–	–
Post retirement medical benefits	27.2.1	46	42	46	42
FDC Pension fund benefits	27.1.4	5	5	5	5
Pension Fund	27.1	26	–	26	–
Long-term portion of leave pay provision		110	100	86	77
Total obligation		220	200	172	154
Short term portion	24	(110)	(100)	(86)	(77)
		250	209	163	124
Opening balance on leave pay provision		200	186	154	147
Utilised		(30)	(62)	(24)	(42)
Charged to income statement		50	76	42	49
Closing balance on leave pay provision		220	200	172	154

The leave pay provision has not been present valued, as any such adjustment would not be material.

The holding company share trust loan account was created when the "E" class shares were transferred into the employee share trust from the holding company. The loan is interest free and has no fixed repayment period with repayments being made as the beneficiaries of the Trust exercise their share options.

22. DEFERRED TAXATION

	Group 2005 R'Million	Restated Group 2004 R'Million	Company 2005 R'Million	Restated Company 2004 R'Million
The net unrecognised deferred tax comprises:				
Temporary differences in respect of property, aircraft and equipment	(963)	(697)	(944)	(581)
Doubtful debts	80	54	80	50
Air traffic liability and other deferred income	915	838	913	835
Provisions	530	380	510	376
Prepayment	(37)	(55)	(37)	(55)
Maintenance reserve payments	151	112	151	112
Differences due to mark-to-market of financial instruments	(58)	273	(68)	273
Other assets	(1)	106	(1)	315
Tax losses	2 858	2 512	2 536	2 331
	3 475	3 523	3 140	3 656
Deferred tax asset not recognised	(3 475)	(3 523)	(3 140)	(3 656)
	–	–	–	–

A deferred tax asset was not recognised during the current year. It is the Company'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. Due to the cyclical nature and volatility of international airlines, it is also difficult to forecast expected results with sufficient precision beyond the short-term. Consequently, no deferred tax asset has been raised.

23. AIR TRAFFIC LIABILITY

	Group 2005 R'Million	Restated Group 2004 R'Million	Company 2005 R'Million	Restated Company 2004 R'Million
Net air traffic liability	2 803	2 792	2 797	2 784

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 inter-line partners. The liability is of a short term nature and is reflected as a current liability.

Management has used a significant degree of judgement in assessing the adequacy of the net air traffic liability in order to cover future claims. Estimates were made around the expected percentage of tickets sold that will not be flown. The estimates were based on past experience as well as trends within the airline industry. Industry norms indicate a non-utilisation rate of between 0% and 3%.

Non-utilisation is estimated by management at 2,9% for passenger tickets and 4% for miscellaneous charge orders sold. This judgement is consistent with prior years.

Due to system limitations it is not practical to accurately determine what part of this liability could be taken to revenue this year, the amount of which could be substantial. Management, in applying the 2,9% and 4% non-utilisation rate, released an amount of R423-million (2004: R208-million) to income. Accordingly the systems used to manage this liability are under review and will be replaced by enhanced systems. Once these new systems are in place the accounting policy will be amended and may result in the release to revenue of additional amounts.

24. ACCOUNTS PAYABLE

	Group 2005 R'Million	Restated Group 2004 R'Million	Company 2005 R'Million	Restated Company 2004 R'Million
Trade creditors	806	1 110	778	1 179
Other payables	3 484	2 514	3 256	2 576
Deferred income	–	15	–	15
Accruals				
Interest accrual	57	12	57	12
Frequent flyer accrual	147	136	147	136
Power plant accrual	44	118	–	–
Insurance accrual	39	–	39	–
Leave pay accrual (refer note 21)	110	100	86	77
	4 687	4 005	4 363	3 995

25. COMMITMENTS

Included in the operating lease commitments are the following US$ based lease commitments. Currency risks associated with these commitments are not hedged. SAA's hedge book was closed out in June 2004. The table below sets out the foreign denominated lease commitments as well as the financial instruments used to hedge those commitments.

Description	12 months US$ million	1 to 2 years US$ million	2 to 3 years US$ million	3 to 4 years US$ million	4 to 5 years US$ million	Greater than 5 years US$ million	Total US$ million
Lease commitments covered by the defeasance deposit (note 12)	28.0	26.6	25.3	24.0	22.8	17.3	144.0
Uncovered lease commitments	147.9	153.1	181.3	167.6	164.6	525.4	1 339.9
Total foreign currency based lease commitments	175.9	179.7	206.6	191.6	187.4	542.7	1 483.9

	Group 2005 R'Million	Group 2004 R'Million	Company 2005 R'Million	Company 2004 R'Million
25. COMMITMENTS (continued)				
Capital commitments contracted in US$	378	5 468	378	5 465
The total capital commitments are expected to be incurred as follows:				
On demand or within one year	313	2 376	313	2 373
In the second year	65	–	65	–
In the third year	–	–	–	–
Thereafter	–	3 092	–	3 092
	378	5 468	378	5 465
Operating lease commitments for aircraft, property and equipment are expected to be incurred as follows:				
On demand or within one year	1 743	1 539	1 741	1 537
In the second year	1 703	1 945	1 703	1 945
In the third year	1 803	2 167	1 803	2 167
In the fourth year	1 872	2 248	1 872	2 248
Five years and later	5 507	4 340	5 507	4 340
	12 628	12 239	12 626	12 237
Rand based capital commitments:				
Authorised but not yet contracted	9	298	9	289
Authorised and contracted	–	4	–	–
	9	302	9	289

Capital commitments will be funded from internal funds and external borrowings.

	Group 2005 R'Million	Group 2004 R'Million
26. CONTINGENT LIABILITIES		
26.1 Guarantees		
Guarantees and letters of credit provided in the normal course of business	473	413
26.2 Additional pension fund benefits		
SAA has a contingent liability in respect of an agreement reached with the pilots in terms of which SAA has accepted liability for the difference between each pilot's total cost of employment and the amount payable by the pension fund in the event of a pilot losing their licence on account of disability. The maximum exposure has been estimated at R50-million.	50	50
26.3 Sun-Air (Proprietary) Limited		
In a prior year the liquidators of Sun-Air and a previous shareholder instituted legal proceedings against SAA for alleged damages caused by SAA for not acquiring Sun-Air (Proprietary) Limited. Any liability arising will only be known once the decision of the court has been made. The estimated maximum exposure excluding interest, amounts to:	275	275
26.4 Other court cases pending		
There are numerous other court cases in which SAA is a defendant. SAA's maximum exposure in this regard is estimated at	2	25

26.5 Nationwide (Proprietary) Limited

The Competition Commission is acting against SAA regarding Nationwide (Proprietary) Limited. The maximum penalty that SAA could be fined is up to 10% of the relevant years total revenue.

26.6 Comair Limited

The Competition Commission is investigating SAA regarding Comair Limited. The maximum penalty that SAA could be fined is up to 10% of the relevant years total revenue.

26.7 Code share agreements, travel agent agreements, travel incentives, pricing policies and fuel levies

The Competition Commission is investigating certain aspects of SAA's code share agreements, travel agent agreements, travel incentives, pricing policies and fuel levies. Should the Competition Tribunal elect to proceed against SAA, and is successful the maximum penalty in each case is up to 10% of its relevant years' total revenue.

SAA is committed to defend all actions brought against the Group. Management do not believe that any material liability will arise.

27. EMPLOYEE BENEFIT INFORMATION

The Transnet Group offers pension benefits through two defined benefit pension funds and one defined contribution fund. Specific retirement benefits are also offered to senior management and under the Workmen's Compensation Act. SAA participates in these funds. The SAA Group also offers post retirement medical benefits to its employees through various funds of its own. The following summarises the relevant components of the different pension benefits and post retirement medical benefits:

27.1 Pension benefits

Transnet has three pension funds, namely:

- Transnet Retirement Fund;
- Transnet Pension Fund; and the
- Transnet Second Defined Benefit Fund.

Except for the Transnet Retirement Fund, the latest actuarial valuations for the funds were performed at 31 March 2005.

27.1.1 Transnet Retirement Fund

The fund was structured as a Defined Contribution Fund from 1 December 2000. All employees of Transnet Limited are eligible members of the fund. There were 64 803 members (2004: 66 255) at 31 March 2005. Actuarial valuations are done, at intervals not exceeding three years, to determine its financial position. An actuarial valuation was performed at 31 March 2004. The actuaries were satisfied with the status of the members' credit account then. The Transnet Group's contributions for the period to 31 March 2005 amounted to R908-million (2004: R731-million).

27.1.2 Transnet Pension Fund

The fund is a closed defined benefit pension fund. Members are current employees of the Transnet 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 9 217 members (2004: 10 316) at 31 March 2005. An actuarial valuation was performed based on the Attained Age Method since the Projected Unit Credit Method is considered unsuitable, as the fund is a closed fund. The difference between the two methods relate to the required future contribution rate only. The principal actuarial assumptions used were as follows:

	2005	2004
Discount rate	8,50%	9,75%
Salary increases		
• Inflation	4,00%	5,25%
• Promotional	5,50%	1,50%
Pension increases		
• First 3 years	2,00%	2,00%
• After 3 years	2,00%	2,00%

27.1.2 Transnet Pension Fund (continued)

The results of the actuarial valuation for the Transnet Group are as follows:

Benefit asset/ liability	**2005 R'Million**	**Restated Group 2004 R'Million**
Present value of obligation	(4 950)	(4 199)
Fair value of plan assets	4 818	4 034
Deficit	(132)	(165)
Liability	(132)	(165)

As SAA is only a component part of the Transnet Group,
only a proportion of any resulting charge would be born by SAA.

Reconciliation of movement in net liability:

Net liability at beginning of year	(165)	(71)
Current service cost	(132)	(148)
Interest cost	(402)	(419)
Interest return	388	318
Actuarial gain recognised in equity	20	–
Contribution by the Group charged to the income statement	92	91
Contribution by members	67	64
Net liability at end of year	(132)	(165)

Refer to the paragraph 27.3 for further information.

Any deficit or liability arising from Transnet Pension Fund, incurred prior to 31 March 1999, is by agreement between Transnet Limited and SAA, for the account of Transnet Limited. Any unfunded actuarial deficit attributable to the airline, after 1 April 1999, will be for SAA's account.

27.1.3 Transnet Second Defined Benefit Fund

The fund was established on 1 November 2000 for the benefit of the retired members and qualifying beneficiaries. There were 45 075 members at (2004: 48 068) at 31 March 2004. This figure excludes widows, children and pensioners. The all-inclusive membership is 67 236 (2004: 90 798). The actuarial valuation was based on the Projected Unit Credit Method.

27.1.3 Transnet Second Defined Benefit Fund (continued)

The principal actuarial assumptions used were as follows:

	2005	2004
Discount rate		
Period to May 2005	7,59%	10,75%
Next 5 years	–	10,25%
Remaining years thereafter	6,77%	9,75%
Pension increases	2,00%	2,00%

A liability of R4 750-million (2004: R3 439-million) is recognised in annual financial statements of Transnet Group. SAA however is not required to contribute to the actuarial deficit, and therefore no liability has been recognised in the Company's annual financial statements.

The results of the actuarial valuation for the Transnet Group are as follows:

Benefit liability	**2005 R'Million**	**2004 R'Million**
Present value of obligation	(20 839)	(18 463)
Fair value of plan assets	16 089	15 024
Deficit	(4 750)	(3 439)
Liability recognised in the balance sheet	(4 750)	(3 439)
Movement in net liability		
Opening net liability	(3 439)	(5 282)
Actuarial (loss) gain recognised in equity	(941)	2 418
Income statement charges	(370)	(575)
Interest cost	(1 984)	(2 058)
Return on plan assets	1 614	1 483
Net liability at end of year	(4 750)	(3 439)

Transnet Group management is in the process of defining how to fund the deficit, as required by the rules of the fund.

Refer to the paragraph 27.3 for further information.

27.1.4 Flight Deck Crew (FDC)

The liability relates to additional benefits to members of the Flight Deck Crew (FDC), who are employees of SAA (Pty) Ltd. 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 was recognised for the first time in 2003.

	2005 R'Million	2004 R'Million
Balance at the beginning of the year	(5)	(49)
Partial settlement during the year	–	44
Balance at the end of the year	(5)	(5)

27.1.5 Other funds

The Company also contributes to a variety of defined contribution and defined benefit funds for all non-South African employees in the countries where they are employed, many of which are multi-employer funds.

All funds were assessed as fully funded at the last date of their respective valuation or have been "topped up" based on the findings of the actuaries. Any such top up was charged to the income statement in the year incurred.

27.2 Medical benefits

27.2.1 Transnet employees post retirement medical benefits

This includes current and past employees of Transnet who are currently members of Transnet's in house medical aid, Transmed Medical Fund Membership is voluntary. Transnet currently subsidises members at a fixed contribution of R213 (2004: R213) per month per member.

To enable the Transnet Group to fully provide for such post retirement medical aid liabilities, since April 2000 actuarial valuations are obtained annually, as required by AC 116: Employee Benefits. There are no assets held to fund the obligation.

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 the SAA's account.

The Projected Unit Credit Method has been used for the purposes of determining an actuarial valuation of post retirement medical benefits as at 31 March 2005.

The following table summarises the components of net benefit expense recognised in both the income statement and balance sheet in the Transnet Group as at 31 March 2005 for the Transnet employees.

	2005	2004
Discount rate	8,50%	9,00%
Medical aid inflation	10,00%	10,00%

27.2.1 Transnet employees post retirement medical benefits (continued)

Net benefit liability	2005 R'Million	Restated 2004 R'Million
Present value of obligations	(808)	(741)
Fair value of plan assets	–	–
Unfunded benefit obligation	(808)	(741)
Net liability at end of year	(808)	(741)
Net liability movement		
Opening liability	(741)	(545)
Service costs	(12)	(12)
Interest cost	(62)	(65)
Actuarial losses (gains)	(41)	(158)
Benefits paid	48	39
Benefit liability at year-end	(808)	(741)

Refer to the paragraph 27.3 for further information.

27.3 Allocation of defined benefit costs

All the funds described in parts 27.1.2, 27.1.3 and 27.2 are multi-employer funds, for which the actuarial valuations are performed for the Transnet Group as a whole. Consequently the information needed to comply with AC 116: Employee Benefits does not exist at the level of a single employer.

Accordingly SAA and all its subsidiaries provide for that portion of the liability relating to these various funds that is agreed between Transnet Limited and the various fund actuaries as being attributable to SAA or its subsidiaries as well as recognising in the income statement contributions made to these funds as incurred.

In making this allocation, consideration is given to the SAA corporatisation agreement, whereby provision for future retirement benefit costs relating to the period before 31 March 1999 for current employees and pensioners retired before this date, is the responsibility of Transnet Limited. All provisions attributable to retirement benefit costs relating to pension and medical aid liabilities for periods of service after 1 April 1999 are the responsibility of SAA.

The total contributions to:	2005 R'Million	2004 R'Million
Pension funds	216	194
Medical benefit funds	52	47

27.4 Equity compensation benefits

SAA (Pty) Ltd operates, via the South African Airways Employee Share Trust, three share incentive schemes, namely the 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 share options are over 165 629 055 E class shares of SAA.

The latest share value announced of R0.01 per share was in respect of the March 2003 year end. The share valuation for March 2004 has been completed and will be presented to the Trustees for their consideration and recommendation to the Board of Directors.

a) Specific details of each scheme are as follows:

FDC Share Scheme

The FDC Share Scheme was created for the Flight Deck Crew (FDC). Transnet Ltd allocated 40 150 000 E class ordinary R1 shares of SAA to this scheme. These shares are held as follows:

	2005	2004
Employees	37 005 085	17 409 343
South African Airways Share Trust	3 144 915	22 740 657
	40 150 000	40 150 000

During the year 31 March 2004, due to a delay in the announcement of the share value, no shares were sold to the Trust.

During the year 31 March 2005, 256 600 shares were sold to the Trust by ex-members and estates. Due to the R0,01 value of the share, no trading was done.

b) Share Incentive Scheme

This incentive scheme operates 58 018 060 E class shares for the benefit of management. These shares are held as follows:

	2005	2004
Employees	12 500	12 500
Advanced to the ESOP scheme	10 157 540	10 157 540
South African Airways Share Trust	47 848 020	47 848 020
	58 018 060	58 018 060

27.4 Equity compensation benefits (continued)

b) Share Incentive Scheme (continued)

From this scheme, 10 157 540 shares were allocated to the ESOP scheme (refer to c below) to address a shortfall in the number of shares allotted by that scheme.

For the year ended 31 March 2004, 18 396 406 shares had vested and 16 179 598 were sold back to the Trust. 13 757 722 shares were traded at R2,10 per share, compared to 4 000 000 traded in the previous year.

For the year ended 31 March 2005 no shares were traded.

c) Employee Share Ownership Programme

This incentive scheme operates 58 168 060 E class shares for the benefit of all eligible employees of SAA. Since inceptions, 10 157 540 shares were allocated from the Incentive Scheme to make good a shortfall on initial allocation. A further 9 292 935 shares were allotted to the share trust under the rights issue.

Employee options vest over a three-year period, and are held as follows:

	2005	2004
Employees	1 821 930	1 481 180
South African Airways Share Trust	56 346 130	56 686 880
Advanced from Share Incentive Scheme	10 157 540	10 157 540
Rights Offer	9 292 935	–
	77 618 535	68 325 600

At 31 March 2004, due to a delay in the announcement of the share value, no shares were sold to the Trust, compared to 28 505 751 sold back in the previous year.

At 31 March 2005, 51 450 shares were sold back to the Trust by former Atraxis members.

27.5 HIV/Aids benefits

The Company, as part of the Transnet 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.

27.6 Travel benefits

The Company 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 "stand-by" basis, with fare-paying passengers always having preference, employees or retirees may only fly if there is available space on the flight. The Company therefore does not incur any incremental costs in providing this benefit and therefore no liability is recognised.

28. RELATED PARTY TRANSACTIONS

The Holding company of the Group is Transnet Limited, a Company incorporated in the Republic of South Africa.

The Group and its subsidiaries, in the ordinary course of business, enter into various sales, purchase and service agreements with others within the Transnet Limited Group. These transactions are under terms that are no more favourable than those arranged with third parties. The significant net balances outstanding at 31 March 2005 for the Group are as follows:

Related party	Net finance cost during 2005 R'Million	Net Balance to as at 31 March 2005 R'Million	Net finance cost during 2004 R'Million	Net Balance to as at 31 March 2004 R'Million	Purchases for the year ended 31 March 2005 R'Million	Purchases for the year ended 31 March 2004 R'Million
Transnet Limited - Treasury	(12)	1 636	504	(39)	–	–
SA Express (Proprietary) Limited	–	(68)	–	(59)	29	23

Executive Committee remuneration is set out below:

	March 2005 Total remuneration (R 000's)					
Name	**Salary**	**Retirement fund contributions**	**Allowances**	**Incentive bonus**	**Gain on share options**	**Total**
Mr J Blake	843	–	84	–	–	927
Ms N Qata	806	76	168	–	–	1 050
Mr V Kona	648	65	250	–	–	963
Mr O Tabane	514	71	345	–	–	930
Ms N Magwentshu	382	39	88	–	–	509
Ms L Zondo	250	–	–	–	–	250
Mr A Meintjies	69	5	6	–	–	80
Mr J Van Jaarsveld *	7 530	314	56	–	–	7 900
Mr A Mabizela	1 172	50	66	–	–	1 288
Mr R Bulder	775	75	121	–	–	971
Mr R Ramkissoon	2 327	84	72	–	–	2 483
Mr A Hamilton-Manns	1 102	–	–	–	–	1 102
Ms S Mzimela	–	–	–	–	–	–
	16 418	779	1 256	–	–	18 453

* Mr J van Jaarsveld – includes a R 6,5-million restraint of trade payment, paid after year end.

Executive Committee (continued)

March 2004
Total remuneration (R 000's)

Name	Salary	Retirement fund contributions	Allowances	Incentive bonus	Gain on share options	Total
Mr J Blake	790	–	84	350	406	1 630
Ms N Qata	773	64	168	297	266	1 568
Mr V Kona	698	48	153	345	220	1 464
Mr O Tabane	103	12	39	–	–	154
Ms N Maqwentshu	–	–	–	–	–	–
Ms L Zondo	–	–	–	–	–	–
Mr A Meintjies	–	–	–	–	–	–
Mr J Van Jaarsveld	618	627	100	468	550	2 363
Mr A Mabizela	838	82	133	320	110	1 483
Mr R Bulder	920	67	113	113	–	1 213
Mr R Ramkissoon	940	34	51	18	–	1 043
Mr A Hamilton-Manns	93	–	–	–	–	93
Ms S Mzimela	2 374	35	162	325	244	3 140
	8 147	969	1 003	2 236	1 796	14 151

29. UNCOVERED FOREIGN MONETARY ITEMS

The following debtors and creditors amounts included in the balance sheet have not been covered by forward exchange contracts:

	Foreign amount 2005 Million	Foreign amount 2004 Million	2005 R'Million	2004 R'Million
Accounts receivable				
US Dollar	70	32	436	204
Euro	15	13	121	101
UK Pound	6	7	70	82
Hong Kong Dollar	12	12	10	10
Danish Krone	4	3	4	3
Zimbabwe Dollar	139	(5)	–	–
Canadian Dollar	1	2	5	10
Swiss Franc	3	2	14	10
Australian Dollar	1	2	5	10
Brazilian Real	11	11	26	24
Thailand Baht	8	15	1	2
Malawi Kwacha	57	62	3	4
Zambian Kwacha	2 569	1 879	3	3
Other			154	60
			852	523
Accounts payable				
US Dollar	17	13	106	83
Euro	6	6	50	47
UK Pound	3	3	31	35
Swiss Franc	1	1	6	5
Zimbabwe Dollar	1 907	683	2	3
Australian Dollar	–	–	1	–
Cape Verde Escudo	23	13	2	1
Other			38	44
Accounts payable			236	218
Accounts receivable			852	523
Net exposure			616	305

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

30. FINANCIAL RISK MANAGEMENT

CURRENCY RISK MANAGEMENT

Foreign exchange risk is the risk of loss as a result of adverse movements in exchange rates. SAA's approach to foreign currency risk management is to protect the Group and its shareholder(s) against adverse changes in the value of the Rand in relation to other currencies at the lowest possible cost. SAA has Board approval to manage its foreign exchange risk exposures on a net basis, i.e. taking into account the different currencies it receives in its revenue stream, the different currencies in which its cost base is denominated, and the underlying natural hedges that exist in its business operations. Foreign exchange risk management is managed through the use of approved derivative financial instruments which are marked to market. SAA's policy on foreign exchange risk management is to hedge on a 12 months rolling basis. The biggest contributors to currency risk for SAA are aircraft related funding, the covariance risks inherent in SAA's revenue and cost streams, and the foreign exchange transaction exposures at business unit level.

Year-end exchange rates

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

All expressed in the number of Rands required per unit of foreign currency	2005	2004
United States Dollar	6,22	6,37
Euro	8,09	7,79
Pounds Sterling	11,74	11,67

INTEREST RATE RISK MANAGEMENT

Interest rate risk is the risk of loss as a result of adverse movements in market rates. Interest rate risk impacts SAA in the following three forms:

- Increased cash costs in an increasing interest rate environment due to SAA's floating aircraft funding structures;
- The opportunity cost of funding at a higher rate in a declining interest rate environment due to SAA's fixed funding structures; and
- The fair value changes of SAA's funding portfolio.

The bulk of SAA's interest rate exposure is as a result of dollar denominated aircraft funding 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. An exercise is underway to determine SAA's appropriate fixed/floating ratio given the dynamics of its business operations and its competitors. This ratio will be one of the key drivers in SAA's interest rate hedging strategies.

JET FUEL PRICE RISK MANAGEMENT

Jet fuel consumption is SAA's biggest cost. Jet fuel price risk is the risk of increased cash costs due to an increase in crude oil prices which leads to a concomitant increase in crude oil by products, i.e. Jet fuel. SAA has a Board approved policy of not hedging its Jet fuel price risk exposures completely. SAA hedges its Jet fuel price risk exposures using derivative financial instruments. All derivative contracts are marked to market and they are cash settled. SAA's risk policy permits the organisation to hedge its Jet fuel price risk exposures using the following underlying instruments: IPE Brent Crude Oil, IPE GasOil 0.5%S, GasOil FOB ARAB Gulf 0,5 % S and Jet Kerosene New FOB ARAB. It is SAA's policy to hedge Jet fuel price risk exposures on a 12 month rolling basis.

Due to the complexity and the inter-relationship of the risks that SAA faces, the Company manages its financial risks by currency, by asset class, and in totality by aggregating all the risks. This is to ensure that all the variables of interest are taken into account. This latter approach uses the cash flow at risk methodology as its benchmark tool for hedging purposes.

LIQUIDITY RISK

Liquidity risk is managed and controlled by SAA's Cash Management department in consultation with SAA's financial risk department. The objective of liquidity risk management is to ensure that the Group is able to meet its financial obligations on a cost-effective and timely basis. SAA's Cash management department is responsible for the opening of bank accounts and subsidiaries may only operate bank accounts with bankers, both within and outside the ZAR monetary area, which have been duly authorised. The Transnet front office conducts money market activities on behalf of SAA.

CREDIT RISK

Financial assets that potentially subject the Group to concentration of credit risk consist principally of cash, short-term deposits, and the market value of forward exchange contracts and trade receivables. The SAA Board has approved the list of counterparties and the limits that the Company can transact with. Exposure limits are reported on a daily basis and there are regular reviews of credit evaluations of the financial position of the counterparties. Due to the magnitude and nature of aircraft funding structures, the counterparties involved and the limits assigned to these counterparties are submitted as a package to the SAA Board for consideration and approval.

RISK MANAGEMENT SYSTEMS

SAA is in the process of implementing 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. It is anticipated that implementation will begin in July 2005.

RISK MANAGEMENT DEPARTMENT

SAA has established an enterprise wide risk management department. This department is headed by the chief risk officer who joined SAA recently. The chief risk officer is supported by experienced risk professionals.

RISK MANAGEMENT GOVERNANCE STRUCTURE

The SAA Board is charged with the responsibility of managing the airline's financial risks. It is assisted by the Finance, Investment and Risk Management Committee (FRIC). The FRIC is a Committee of the Board and it meets once per quarter. The FRIC is supported by the Financial Risk Sub-Committee (FRSC) which meets on a weekly basis. The FRSC is chaired by the Chief Risk Officer and its membership is made up of key professionals from SAA and Transnet.

Market values of hedging instruments		**Forward exchange contracts R'Million**	**Currency options R'Million**	**Cross currency swaps R'Million**	**Interest rate swaps R'Million**	**Jet fuel derivatives R'Million**	**Total R'Million**
Opening balances – 1 April 2003		(3 525)	(388)	(449)	(73)	(71)	(4 506)
Made up as follows	Assets	65	–	84	–	–	149
	Liabilities	(3 590)	(388)	(533)	(73)	(71)	(4 655)
Fair value adjustments reported in net profit		(4 046)	123	(655)	–	93	(4 485)
Movement in NDR relating to deferred to equity cash flow hedges		592	–	–	–	–	592
Derivatives settled	- Non-cash flow hedge to equity settlement	1 619	4	(85)	73	–	1 611
	- Cash flow hedge settlement included in aircraft values	854	–	–	–	–	854
Closing balances – 31 March 2004		(4 506)	(261)	(1 189)	–	22	(5 934)
Made up as follows	Assets	–	–	–	–	23	23
	Liabilities	(4 506)	(261)	(1 189)	–	(1)	(5 957)
Fair value adjustments reported in net profit		(2)				213	211
Derivatives settled		4 508	261	1 189	–	(36)	5 922
Closing balances – 31 March 2005		–	–	–	–	199	199
Made up as follows	Assets	–	–	–	–	199	199
	Liabilities	–	–	–	–	–	–

Except for jet fuel SAA has closed out all of its hedging positions by settling them in cash.

30.1 Fair value of financial instruments

All financial instruments have been recognised in the balance sheet at their fair values and carrying values. The Group has estimated fair values by using the following methods and assumptions:

Refundable amounts
The refundable amounts are to secure the manufacture and delivery of aircraft. This represents the present value of the expected future proceeds to be received from the lessor when the aircraft are delivered. Present value is determined by applying the weighted average cost of capital of 17%. Refer to note 14 for further information.

Investment in unlisted shares
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, as the Directors believe that no future cash flows will be derived from this Company.

Investment in listed shares
The investment in listed shares is held as an ancillary investment, and is not considered a material holding to the Group. The fair value is determined using the appropriate market value as at year end.

Derivative assets and liabilities
The derivative assets and liabilities are entered into to cover foreign exchange, interest rates and commodity risks. Their fair values are determined by applying the mark-to-market valuations.

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

		Amortised cost		Fair value	
	Notes	2005 R'Million	2004 R'Million	2005 R'Million	2004 R'Million
Financial assets					
Loans and receivables originated from the enterprise financial assets					
Defeasance deposit	12	–	–	741	889
Other deposits	12	7	33	*	*
Refundable amounts	14	–	–	236	1 267
Accounts receivable	15	2 843	2 464	*	*
Short term investments	16	858	327	*	*
Cash and cash equivalents	17	1 756	2 650	*	*

* Amortised cost approximates the fair value because of the short term nature of these instruments.

30.1 Fair value of financial instruments (continued)

	Notes	Amortised cost 2005 R'Million	Amortised cost 2004 R'Million	Fair value 2005 R'Million	Fair value 2004 R'Million
Financial assets					
Available for sale financial assets					
Investment in listed shares	12	–	–	23	22
Held for trading financial assets					
Derivative asset	29	–	–	199	23
Financial liabilities					
Held for trading financial liabilities					
Derivative liabilities	30	–	–	–	5 957
Other financial liabilities					
Long-term liabilities	21	6 449	6 551	–	–
Air traffic liability	23	2 803	2 792	–	–
Accounts payable	24	4 687	4 005	–	–

	Group 2005 R'Million	Restated Group 2004 R'Million	Company 2005 R'Million	Restated Company 2004 R'Million
31. RECONCILIATION OF PROFIT (LOSS) BEFORE TAXATION AND MINORITY INTEREST TO CASH GENERATED FROM OPERATIONS				
Profit (loss) before taxation and minority interest	925	(8 620)	864	(9 085)
Adjusted for:				
Amortisation of goodwill	116	13	–	–
Amortisation of intangible assets	6	7	6	6
Amortisation of option premium	–	69	–	69
Depreciation	465	765	439	740
Provision for onerous lease contract	42	–	42	–
Interest paid	402	669	399	668
Interest received	(216)	(136)	(390)	(290)
Impairment provision	(132)	3 228	(132)	3 228
Impairment of share trust – (reversal) charge	–	–	38	130
Impairment – other	157	182	157	182
Impairment of subsidiaries	–	–	473	703
Non-cash flow movement in Air Tanzania	2	(41)	–	–
Total carried forward	1 767	(3 864)	1 896	(3 649)

31. RECONCILIATION OF PROFIT (LOSS) BEFORE TAXATION AND MINORITY INTEREST TO CASH GENERATED FROM OPERATIONS (continued)

	Group 2005 R'Million	Restated Group 2004 R'Million	Company 2005 R'Million	Restated Company 2004 R'Million
Total brought forward	1 767	(3 864)	1 896	(3 649)
Net loss (profit) on disposal of property, aircraft and equipment	25	367	30	363
Release from air traffic liability	(423)	(208)	(423)	(208)
Reversal of bad debt provision	78	(34)	92	(34)
Unrealised foreign exchange defeasance deposits	19	229	19	229
Unrealised foreign exchange loss on Marktomarket of financial derivatives	(211)	4 485	(211)	4 485
Unrealised foreign exchange loss on investments	1	2	1	2
Unrealised foreign exchange gain on revaluation of investment to market value	–	(2)	–	(2)
Unrealised foreign exchange gain on revaluation of loans	(90)	(555)	(90)	(555)
Unrealised foreign exchange loss on security deposits	2	26	2	26
Unrealised foreign exchange loss on cash and cash equivalents	7	135	7	135
Foreign exchange effect on working capital	(13)	81	(13)	157
Operating income before working capital changes	1 162	662	1 310	949
Working capital changes	749	79	1 007	(388)
(Increase) decrease in inventories	(12)	(20)	(20)	9
(Increase) decrease in accounts receivable	(329)	(107)	247	(989)
Increase (decrease) in accounts payable	643	(306)	331	160
Increase in air traffic liability	434	593	436	589
Foreign exchange effect on working capital	13	(81)	13	(157)
Cash generated from operations	1 911	741	2 317	561

	Group 2005 R'Million	Restated Group 2004 R'Million	Company 2005 R'Million	Restated Company 2004 R'Million
32. CASH AND CASH EQUIVALENTS				
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 comprise the following balance sheets amounts:				
Bank balances and cash	1 766	2 720	1 775	2 721
Overdraft	(10)	(70)	–	(35)
Short-term investments excluding short-term portion of defeasance deposit	858	327	858	327
Cash and cash equivalents	2 614	2 977	2 633	3 013

33. CHANGES IN ACCOUNTING POLICY

The following comparatives have been restated to disclose the effect of the first time consolidation of the SAA Share Incentive Trust and a number of accounting standards adopted as detailed in 33.3. A review of the financial statements resulted in a change in the presentation of other unrelated comparatives to provide a more appropriate presentation of events and transactions as detailed below:

33.1 Consolidation of SAA Share Incentive Trust

The consolidation of the Trust arose mainly from the Johannesburg Securities Exchange's amended interpretation of AC132. The comparative figures for 2004 have been restated as follows:

Income Statements

	Notes	Group 2004 As currently stated R'Million	Group 2004 As previously stated R'Million	Company 2004 As currently stated R'Million	Company 2004 As previously stated R'Million
33.1.1 Impairments	3	(3 410)	(3 554)	(4 243)	(4 243)

On consolidation the impairment of the investment in SAA Shares held by the Trust is reversed as well as the impairment of the loan accounts to the Trust in SA, resulting in a net adjustment to the income statement which had an effect on prior year equity of R144-million.

		Notes	Group 2004 As currently stated R'Million	Group 2004 As previously stated R'Million	Company 2004 As currently stated R'Million	Company 2004 As previously stated R'Million
	Balance Sheets					
33.1.2	**Issued Share Capital**	18	8 982	9 216	9 216	9 216
	The share value held within the Trust is treated as a reduction of share capital on consolidation as theses shares are considered to be treasury shares. The reduction of share capital increased/decreased prior year equity of R234-million.					
33.1.3	**Holding Company Share Trust loan**	21	62	–	–	–
	The loan from the holding company to the Trust, which arose on transfer of the incentive shares to the Trust, is brought to in account on consolidation.					

33.2 Holding Company Current account reclassified as cash and cash equivalents

The SAA current account with the holding company has been restated from accounts payable to cash and cash equivalents. A subsidiary overdraft has been restated from cash and cash equivalents and included as overdraft.

	Notes	Group 2004 As currently stated R'Million	Group 2004 As previously stated R'Million	Company 2004 As currently stated R'Million	Company 2004 As previously stated R'Million
Cash and cash equivalents	17	2 720	2 714	2 721	2 721
Overdraft	17	(70)	(1)	(35)	–
Accounts payable holding company current account	24	–	35	–	35

33. CHANGES IN ACCOUNTING POLICY (continued)

33.3 Adoption of the following South African Statements of Generally Accepted Accounting Practice:

- AC 140 (IFRS 3 revised 2004): Business combinations
- AC 128 (IAS 36 revised 2004): Impairment of assets
- AC 129 (IAS 238 revised 2004): Intangible assets; and
- AC 116 (IAS 19 revised 2004): Employee benefits, with effect from 01 April 2004.

The principal effects of this decision are discussed below:

AC 140 (IFRS 3 revised 2004) applies to accounting for business combinations for which the agreement date is on or after 31 March 2004. Upon acquisition the Group initially measures the identifiable assets and liabilities acquired at their fair value as at the acquisition date, causing any minority interest in the acquiree to be stated at the minority's portions of the net fair value of these items. There were no business combinations entered into in the current financial year.

In addition, the adoption of AC 129 has resulted in the Group ceasing annual goodwill amortisation and testing for impairment annually. The carrying amount of positive goodwill was impaired during the current financial year by an amount of R116-million refer to note 10.

There was no carrying amount of negative goodwill; therefore there was no effect with regards to negative goodwill, as a result of the change in policy.

The amendments to AC 116 (IAS 19 revised) allows the Group to recognise actuarial gains and losses in the defined post-retirement benefit schemes using the systematic method, which recognises actuarial gains/ losses immediately in the statement of changes in equity. Previously the Group recognised actuarial gains and losses as income or expenses when the cumulative unrecognised actuarial gains and losses for each fund at the beginning of the year exceeded 10% of the greater of the defined benefit obligation and the fair value of the plan assets at the beginning of the year.

The amendments to AC 116 are applicable to annual periods beginning on or after 1 January 2004, the Group has elected to early adopt the amendments and applied it with effect from 1 April 2004. There was no effect on the comparatives as a result of early adoption.

The pension and medical aid liabilities for 2004 was finalised after the completion of the prior year audit, as a result the prior year liability was understated. An additional amount of R34-million has been taken into account and the comparatives have been adjusted in respect of the above liabilities.

	Notes	Group 2004 As currently stated R'Million	Group 2004 As previously stated R'Million	Company 2004 As currently stated R'Million	Company 2004 As previously stated R'Million
The effect of the adjustment was as follows:					
Post retirement medical benefit	21	42	8	42	8
Labour cost		3 084	3 050	2 169	2 135

	2005 R'Million	2004 R'Million
34. DIRECTORS EMOLUMENTS FOR SAA SUBSIDIARIES		
SAA City Centre (Pty) Ltd		
Mr M Stoltzing		
Salary	865	816
Incentive bonus – related to 2003 (2002) financial year	–	467
Fringe benefits	49	35
Settlement on rescinding share options	–	300
	914	1 618
SAA Technical (Pty) Ltd		
Mr R Ramkissoon		
Salary	2 411	493
Fringe benefits	72	57
	2 483	550
Ms L Olitzki		
Salary	789	654
Incentive bonus – related to 2003 (2002) financial year	–	174
Gain on share options	–	110
Settlement on rescinding share options	–	300
	789	1 238

Air Chefs (Pty) Ltd

All executives of Air Chefs (Pty) Ltd are shareholder representatives from SAA (Pty) Ltd and consequently no emoluments are paid by Air Chefs (Pty) Ltd with the exception of:

	2005 R'Million	2004 R'Million
Mr B Fischer		
Salary	1 049	945
Incentive bonus *	–	145
	1 049	1 090

* In respect of 2003 financial year where Mr Fischer was an employee.

Air Tanzania Company Limited's directors' emoluments are not disclosed as it is a foreign subsidiary that is not within the scope of the PFMA.

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