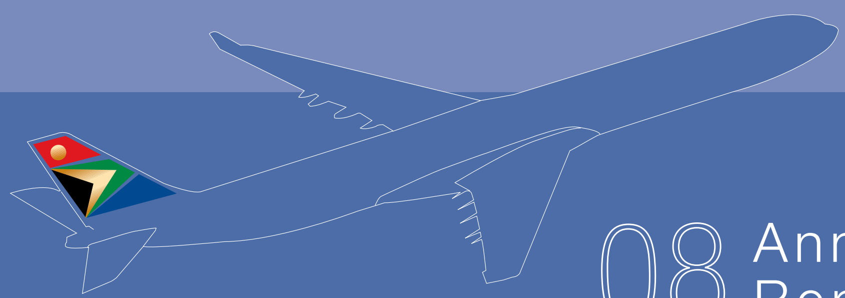


# 08 Annual Report

Restructuring towards profitability

SOUTH AFRICAN AIRWAYS

A STAR ALLIANCE MEMBER

# Values

## Valuing our people

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

**CUSTOMER FOCUSED**

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

**ACCOUNTABILITY**

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

**INTEGRITY**

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

**SAFETY**

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

**EXCELLENCE IN PERFORMANCE**

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

SOUTH AFRICAN AIRWAYS
A STAR ALLIANCE MEMBER

# Vision

An African airline with global reach

# Mission

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

# Core business

Movement of people and goods by air

**CONTENTS**

# Financial highlights

At the end of the year, SAA reported a net profit of R123-million before restructuring costs against a loss of R883-million the previous year.

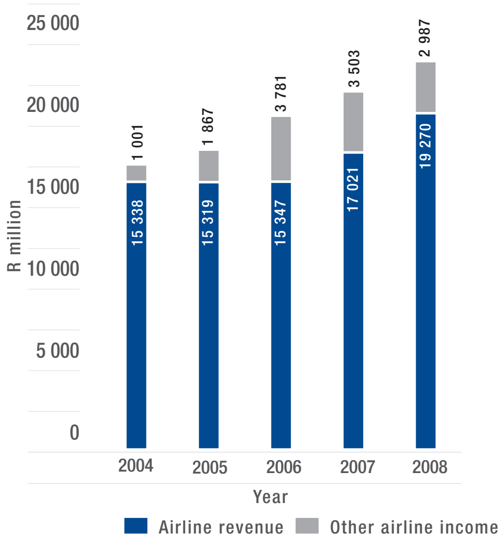
## KEY FINANCIAL AND OPERATING DATA

| | 2003/04 R million | 2004/05 R million | 2005/06 R million | 2006/07 R million | **2007/08 R million** |
|---|---|---|---|---|---|
| **GROUP INCOME STATEMENT DATA** | | | | | |
| **Turnover** | 15 338 | 15 319 | 15 347 | 17 021 | **19 270** |
| **Total airline income** | 16 339 | 17 186 | 19 128 | 20 524 | **22 257** |
| **Net profit (loss) for the year** | (8 610) | 648 | 65 | (883) | **123*** |
| **Earnings (loss) per share (cents)** | (296) | 22 | 2 | (12) | **–*** |
| **GROUP OPERATING DATA** | | | | | |
| Capacity (million) | | | | | |
| Passenger available seat kilometres (ASKs) | 33 056 | 33 367 | 35 222 | 33 671 | **32 681** |
| **Traffic** | | | | | |
| Revenue passenger kilometres (RPKs) (million) | 22 306 | 23 505 | 24 488 | 25 381 | **24 619** |
| Revenue passengers (thousands) | 6 510 | 6 851 | 7 158 | 7 727 | **7 444** |
| **Utilisation** | | | | | |
| Passenger load factor (%) | 67 | 70 | 70 | 75 | **75** |
| **Yield (R/RPK) – Passenger** | 0,58 | 0,56 | 0,52 | 0,56 | **0,67** |
| Passenger revenue (R million) | 12 926 | 13 163 | 12 747 | 14 230 | **16 527** |
| **Yield (R/ASK) – Turnover** | 0,46 | 0,46 | 0,44 | 0,51 | **0,59** |
| **Yield (R/ASK) – Total airline income** | 0,49 | 0,52 | 0,54 | 0,61 | **0,68** |
| **Unit cost (C/ASKs)** | 0,49 | 0,49 | 0,54 | 0,64 | **0,68*** |
| Labour cost | 0,09 | 0,10 | 0,09 | 0,10 | **0,10**** |
| Energy | 0,09 | 0,10 | 0,14 | 0,17 | **0,20** |
| Material cost | 0,04 | 0,03 | 0,04 | 0,05 | **0,06** |
| Depreciation and amortisation | 0,02 | 0,01 | 0,02 | 0,02 | **0,02** |
| Other operating costs | 0,25 | 0,25 | 0,25 | 0,30 | **0,30** |

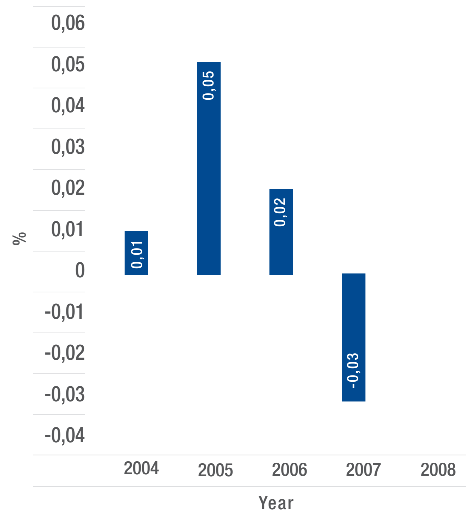
** Before restructuring costs of R1,35-billion*

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

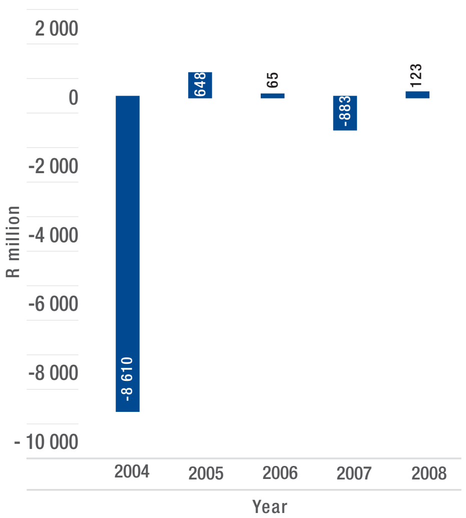
## TURNOVER



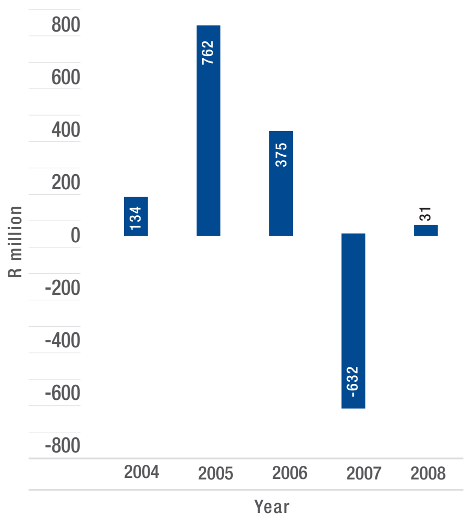

## EBIT MARGIN



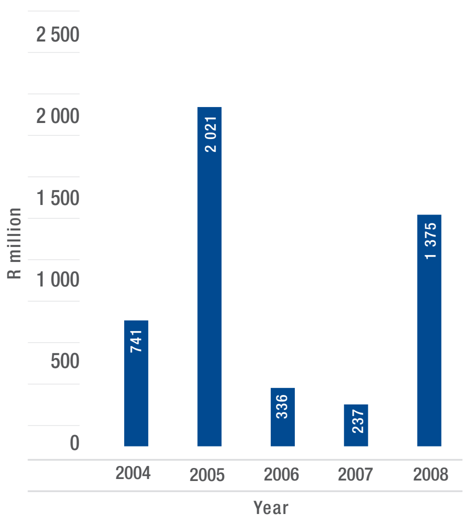

## NET (LOSS) PROFIT FOR THE YEAR



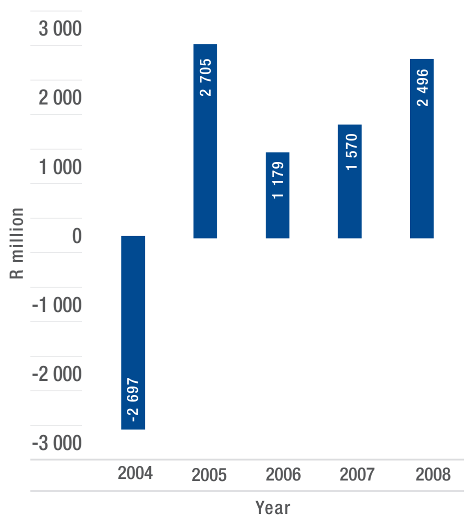

## GROSS (LOSS) PROFIT BEFORE IMPAIRMENT




## CASH GENERATED FROM OPERATIONS




## NET ASSETS EMPLOYED



# Chairman's statement

Professor Jakes G Gerwel | Chairman

Restructuring was a central focus for SAA in the 2007/08 year, and excellent progress was made with the programme exceeding its target by 3% in the first year.

## AVIATION AND OPPORTUNITY

For the first time since 2000, the global aviation industry turned a profit in 2007 of approximately US$5,6-billion. This is welcome news for an industry which lost an estimated US$40-billion in the six years to 2006, according to figures supplied by the International Air Transport Association (IATA). The return to profitability came on the back of a strong global economy which helped to drive international passenger demand for the aviation industry.

Key market trends during the year included the continued growth of low-cost carriers, a focus on improving fuel efficiencies, greater labour productivity, further market liberalisation and strong emphasis being placed on safety and security.

Just as it seemed the aviation industry had turned the corner, predictions began to emerge of a far gloomier year ahead. The soaring oil price was the main culprit, followed closely by slower economic growth. Competition continues to grow in the global market. The Open Skies agreement, which has been signed between the European Union and the United States of America, will increase competition on North Atlantic routes while the increased number of Middle Eastern airlines operating through South Africa will have an impact on the local industry.

Most airlines have already pared back their operations and costs significantly, so further efficiency improvements will be challenging and a decline in profitability for the industry is once again expected in 2008.

Within this context, SAA's fundamental restructuring exercise has proven to be a critical and timely intervention. It is vital that the airline is as streamlined and operationally efficient as possible if we are to survive and take advantage of opportunities. For SAA, there is a significant opportunity for growth on the continent, which we are actively pursuing.

Restructuring was a central focus for SAA in the 2007/08 year, and excellent progress was made with the programme exceeding its target by 3% in the first year.

The strong focus on cost control has yielded positive results with cash flow improving; the business is more streamlined and efficient; and we have also seen significant benefits regarding revenue growth. The focus in the current year will be on improving customer service, the operational performance and building on the financial performance achieved to date.

## OUR VISION

SAA's strategic vision is to be an African airline with global reach. This is in line with the mandate of concentrating operations locally and into Africa, while ensuring that we service the international market. The vision goes hand-in-hand with our mission of delivering sustainable profits and growing market share by offering world-class service to customers.

## STRONG FOCUS ON CORPORATE GOVERNANCE

One of our most critical interventions during the year under review was the management of risk from Board level throughout the rest of the group.

The total control environment, including the group's compliance with regulatory control requirements was assessed, and the legislation relating to the regulatory environment was categorised according to risk. Two major governance projects were undertaken to further ensure that the airline meets the prescripts of the Public Finance Management Act (PFMA).

A rigorous delegation of authority procedure was approved and implemented. During 2007, SAA embarked on the implementation of critical financial reporting controls in key departments such as Revenue Management and Accounting, Information Technology, SAA Technical, Procurement and Payroll.

Full compliance with the PFMA and National Treasury regulations is the target set by the Board, and internal audit and risk procedures have been implemented to ensure the achievement of this target. A firm platform has now been established and a further internal audit will be conducted to reinforce the compliance regime, with particular emphasis on financial controls.

The Board has three standing committees which meet regularly, operating under Board approved charters which are reviewed on a regular basis.

The directors on these committees provide guidance on key issues affecting the organisation.

The Audit Committee reviews SAA's financial statements, keeps the group's system of internal control under review and oversees the performance, objectivity and independence of the auditors.

The Financial, Risk and Investment Committee (FRIC) focuses on corporate and investment accountability and associated risks in terms of management assurance and reporting.

The Nominations, Governance and Remuneration Committee is responsible for overseeing remuneration policies, assisting and supporting the Board on overall corporate governance and ensuring that nominees to the Board and executives appointed into senior positions have the requisite expertise.

A subcommittee to monitor and give guidance on the restructuring programme also operated during the year.

## TRANSFORMING OUR BUSINESS

The transformation of SAA remains a key commitment of the Board and management, with good progress having been made with our broad-based black economic empowerment policy.

This commitment is driven by the belief that empowerment is a key driver of long-term growth. It is clear that the economy will only reach its full potential when all of our citizens participate in a meaningful way. This calls for an empowerment process that focuses on growth, development and enterprise development.

SAA remains committed to ensuring that empowerment takes place in its most broad-based form. Much attention is thus being paid by SAA to improving employment equity, increasing management diversity and ensuring that our procurement policies support the drive towards empowerment.

Our focus regarding employment equity is on the creation of a competitive workforce which reflects the diversity of people in South Africa, based on succession planning, training, diversity management and retention of key staff. Our commitment is also evident in the procurement process, where there is a strong focus on ensuring that a significant portion of our annual spend goes to companies which are empowerment compliant.

In order to enhance oversight of the empowerment programme, monitoring of the initiative was moved under the procurement function during the review period. Further, Internal Audit provides valuable assistance in ensuring that SAA is fully compliant.

## BOARD OF DIRECTORS

I would like to thank our Board members for their invaluable input and hard work during the year under review, and especially for their support during the restructuring process which the airline embarked upon during the review period. The former Chief Financial Officer, Mr Gareth Griffiths, resigned effective 1 August 2007, and I would like to thank him for the positive contribution during his tenure. Mr Kaushik Patel was appointed as Chief Financial Officer on 1 December 2007.

A special word of thanks to our Board's Restructuring Subcommittee, chaired by Ms Louisa Mojela, who together with her team has performed outstanding work on the restructuring process and the development of a new business plan for SAA.

## LOOKING FORWARD

There can be little doubt that 2007/08 was one of the most challenging periods faced by SAA, with painful decisions required by management in order to turn the airline around. The restructuring will continue until March 2009, but the achievements thus far have placed the airline on a far more solid footing to deal with the challenges ahead. The airline posted a R123-million net profit prior to restructuring costs, which was an excellent achievement against the background of the R883-million loss recorded in the previous year.

The focus now is to build on the successes of restructuring to ensure that SAA succeeds in its vision to be an African airline with global reach, delivering remarkable service to its customers.

I would like to thank the Board and the shareholder for the guidance, support and wisdom that was given to SAA during this difficult period. The management team of SAA has been exemplary in the way it has risen to the challenge of turning the airline around. But ultimately, it is the employees of this airline who have made the critical difference, demonstrating their loyalty through the sacrifices they have made, and their hard work.

I have every confidence that we will successfully see the restructuring process through, and attain our goal of achieving sustainable profitability for SAA.

Professor Jakes Gerwel

11 July 2008

# Chief Executive Officer's report

Khaya Ngqula | Chief Executive Officer

The safety of our customers remains our prime concern and we are proud to report that 2007/08 was an excellent safety year for SAA.

## RESTRUCTURING TOWARDS PROFITABILITY

The restructuring process was a painful and uncomfortable experience for all of us at the airline and I would like to thank the Board for its guidance as well as management and staff of SAA for their perseverance during this difficult time.

We knew from the outset that SAA would be faced with tough decisions, but that taking those difficult decisions was necessary to keep the airline in operation. We have engaged with all our staff throughout the company from the start of the process and I am happy to say that we have emerged as a stronger and more focused team.

The process that started in May 2007 was driven and overseen by the Board's Restructuring Subcommittee. The restructuring has four main pillars – simplify and rightsize the business as well as reskill and incentivise management and staff. The overriding aim is to restore the airline to profitability on a sustainable basis.

The first year of the restructuring plan was largely financial in nature and was completed 3% ahead of target, which was a significant achievement. Restructuring has to date reduced costs by almost R1-billion and has also contributed to revenue growth through a number of initiatives.

The two biggest restructuring initiatives that have been substantially completed are the grounding of the fleet of Boeing 747-400s and consultations with labour on standardising and simplifying conditions of employment, with final agreements being put in place. These two initiatives together make up more than half the value of the total restructuring initiatives.

A range of other initiatives are also under way. SAA has made considerable progress in negotiations with its partners serving the southern African route network, SA Express and Airlink. This initiative will help increase revenue and reduce costs. Negotiations to reduce distribution costs (ticket booking fees) are close to finalisation which will potentially save the airline R78-million a year. The recent overhaul of SAA's website, flysaa.com, has been enhanced with the launch of the Online Check-In service, which allows passengers to check in using the internet. These are just some of the many initiatives identified as part of SAA's deep and fundamental restructuring which have helped place the airline on the path to sustainable profitability.

## STRATEGIC DIRECTION

Our restructuring initiatives are in keeping with the clear mandate that SAA is an African airline with global reach.

It remains the strategic intention of management to focus on building the airline's presence in Africa, adding further capacity and opening new routes on the continent. We have also reaffirmed our position within Star Alliance as the strongest player on the continent and all Star Alliance members are actively working together to encourage visitors from all over the world to travel to Africa. Our African routes remain our strong point.

We will maintain our focus on growing revenue and reducing costs in order to ensure that SAA becomes profitable on a sustainable basis. SAA will build further on its restructuring plan with more emphasis being placed on the operational and customer care aspects of our business. We will ensure our people have the necessary skills and capabilities to operate the airline and to maintain its fleet to the highest safety standards.

## FINANCIAL PERFORMANCE

SAA's total revenue grew strongly during the review period, rising to R22,5-billion from R20,6-billion the previous year.

This strong performance was achieved despite a reduction in overall capacity due to the removal of aircraft from active service. SAA's routes into Africa, continued to grow strongly, with traffic rising 27,2% year-on-year, while traffic on international and domestic routes also saw good growth. This was an excellent achievement in light of the fact that SAA's fleet of six Boeing 747-400s was grounded and the routes to Paris and Zurich were discontinued, which removed a significant amount of capacity and thus traffic from the network.

Operating costs rose sharply, driven by the soaring oil price with the higher fuel bill adding R951-million to our costs and ending the year at R23,62-billion for 2007/08 against R21,17-billion the previous year. Energy costs made up almost a third of total operating costs. The dedicated fuel levy and the hedging strategy helped to offset this cost, but this contributed to only a portion of the total increase in energy costs for the year.

At the end of the year, SAA reported a net profit, excluding restructuring costs, of R123-million from ongoing operations against a loss of R883-million the previous year.

In 2006/07, SAA was partly recapitalised to the tune of R1,3-billion. An additional R1,56-billion was secured in the review period to assist SAA with restructuring initiatives. This funding is restricted and can only be used to support the company's solvency.

The funding was received in the form of a subordinated loan with a guarantee provided by our shareholder, the Department of Public Enterprises. The loan has been classified as an equity instrument and as such any interest which SAA elects to pay will be classified as dividends. This resulted in SAA paying dividends of R137-million in 2007/08.

This has proven to be a costly method of recapitalising the organisation due to the continuous spiralling effect of servicing debt in the form of interest, thereby negatively impacting on the optimal capital structure. This concern is being addressed with the shareholder as a matter of urgency.

## RESKILLING AND INCENTIVISING OUR PEOPLE

Although the restructuring of SAA resulted in a period of uncertainty for staff, we made excellent progress in building strong and healthy relationships with employees. I must commend the trade unions represented within the airline which agreed to partner with us in our restructuring efforts and make the necessary sacrifices, helping SAA to achieve the labour restructuring targets for the first year. The organisation has now been rightsized from a workforce of 10 048 at the beginning of the financial year to 8 227 people at year-end.

Wage negotiations for the year ending March 2009 between SAA management and unions representing the airline's pilots, ground staff and cabin crew members began in February 2008. This follows an agreement by labour to freeze wages for the 2007/08 financial year when labour gave its commitment to supporting the restructuring process. We successfully concluded an agreement in May on a multi-year wage deal with unions representing the airline's pilots, ground staff and cabin crew members.

Strategically, these agreements are an important step for SAA and our employees. They set the course for stability on the labour relations front until well after 2010, allowing management to focus on consolidating the airline's deep and fundamental restructuring programme, as well as growing the business in the future. We are satisfied that this agreement will allow us to build on the good relationship with our union colleagues.

The focus for the coming year will be on reskilling our staff in line with the restructuring plan. Equally, we are incentivising key employees to retain the necessary skills and experience to ensure the continuation of core functions within the airline. The retention of these skills is also vital to ensuring that the restructuring is successfully completed. We are cognisant of the urgency required in creating a conducive environment for our employees so that they can deliver good customer service in return.

We will focus on the idea of brand champions where our people can promote what they do and prepare the organisation for growth. A management philosophy emphasising a common platform of understanding for all managers will be implemented.

## CONTRIBUTING TOWARDS GREENER SKIES

SAA supports the industry's strategic efforts to improve cost efficiencies and we are committed to contributing to greener skies. We are looking at ways to fly and to run our ground handling as efficiently as possible as part of our contribution to a greener future. The airline is at the forefront of the IATA (International Air Transport Association) call from 2004 for member airlines to commit voluntarily to increasing fuel efficiency and reducing $CO_2$ emissions.

When IATA published a checklist in 2004 for participating airlines to measure their operations in terms of fuel and emissions, SAA had already complied with 80% of the list. Since then, measures have been put in place to achieve 100% compliance.

In keeping with IATA's recommendations to reduce emissions and increase fuel efficiency we will be reviewing our fleet over time and improving ground and flight operations. SAA already operates one of the youngest, most efficient aircraft fleets relative to its peers, with an average age of only five years.

Ongoing discussions are being held with our aviation partner, Air Transport Navigational Services (ATNS), on how traffic control procedures can contribute towards improved efficiencies. Our strategy is to reduce fuel consumption on a sustainable basis, not only as a cost containment measure, but as our way of contributing to a greener planet.

## THE CENTRAL ROLE OF SAFETY

The safety of our customers remains our prime concern and we are proud to report that 2007/08 was an excellent safety year for SAA. We flew 60 107 sectors and experienced only two incidents which were deemed to be significant, both of which were runway related. No injuries were sustained during these incidents and there was only minor damage to the aircraft.

# Chief Executive Officer's report (continued)

Khaya Ngqula | Chief Executive Officer

SAA was the first African airline to pass its second IATA Operational Safety Audit (IOSA) in September 2007, after having received the initial qualification two years previously. SAA will continue to work closely with the South African Civil Aviation Authority and the US Federal Aviation Administration to retain our International Civil Aviation Organisation (ICAO) safety compliance. SAA's operations are in compliance with South African and international safety regulations and, in this regard, our Air Operators Certificate was renewed in March 2008.

## COMPETITION LAW

Competition law remains a critical focus area for SAA and we continue to take measures to ensure that all employees are aware of the implications of competition law as they operate on behalf of SAA. While SAA has been included in the list of airlines that are being investigated by the competition authorities of various countries (USA, European Union, Australia, Switzerland) with regard to possible anti-competitive conduct in the air freight services industry, SAA is confident that it did not violate the law in any of the jurisdictions and has decided to defend all the actions relating to the investigations.

## IMPROVING OUR CUSTOMER SERVICE

One of the key tenets of our strategy is a firm commitment to achieving truly remarkable customer service. Excellence in customer service is a value we aim to instil in all our staff, and at the beginning of 2008 we renewed our focus on ensuring that this is achieved. We have a full plan of action on customer service which is being rolled out, with the relevant divisions committing to targets which are monitored on a monthly basis. There are regular feedback sessions with the Top 100 managers.

SAA has embraced technology to improve the experience of passengers who choose to fly with us. These include self-service kiosks at the airports within South Africa that SAA serves and enhancing our website to give customers greater control over their travel, such as Online Check-In.

The first phase of the One-Stop-Shop was successfully launched and gives customers the opportunity to conduct all their ticketing and Voyager transactions from one point rather than at a number of different points. The last phase of the One-Stop-Shop, scheduled to be finalised in the middle of this financial year, will enable SAA to include the facility to sell tickets at check-in counters.

One of the biggest challenges faced by SAA during the review period was bedding down a new ground handler, Swissport International. The Airports Company of South Africa (ACSA) changed ground handlers in February 2008, which had a major impact on SAA's airport operations. The change of handler to Swissport International involved simultaneously taking on new equipment, new staffing and new management at five airports around the country. This created difficulties and had a short-term impact, particularly on baggage handling, on-time performance and how we handled our disabled passengers due to a shortage of passenger aid units. However, we have largely recovered from this setback and operations are now improving significantly. We are working closely with ACSA and Swissport on all relevant operational issues, and are seeing significant improvements. We have seen reductions in baggage pilferage and mishandled baggage overall, as well as improvements in our on-time performance. I would like to commend the operations staff, as well as the management of Swissport, for the way in which they handled a difficult situation.

## INVESTING IN OUR FUTURE

It became evident towards the end of 2007 that, with our restructuring programme rolling out on schedule and the airline on the path to break-even, excluding restructuring costs, we needed to think strategically about the future.

A re-evaluation of SAA's strategic network and fleet plan was conducted during 2007, which showed that SAA will have to replenish and modernise the existing fleet to take advantage of network growth opportunities and to improve operating cost efficiencies. Much will depend on the oil price, but SAA needs to plan for increased capacity on existing domestic, regional and international routes, and for possible future expansion into profitable new regional and international routes.

The airline needs to remain competitive and ensure that we operate as efficiently as possible from a cost and fuel efficiency point of view, particularly in light of the soaring oil price. SAA also needs to be ready to take advantage of the projected growth in travel demand. As such, the fleet is under review and will be replenished and modernised over time.

## RESHAPING OUR BUSINESS

In the long run, SAA will be reshaped into a new corporate structure, with seven separate subsidiaries being established. These will be independent subsidiaries, operating as profit centres and will have their own corporate functions. Where considered appropriate, partners may be identified for these subsidiaries in order to complement the existing services and to broaden the skills base to ensure they remain competitive. We will be embarking on a process of identifying equity partners for SAA Technical and SAA Cargo. SAA City Centre will remain a wholly owned subsidiary of SAA while we are evaluating options which may include merging it with SAA Holidays.

In order to ensure that SAA focuses its resources on value generating activities, several of the existing operations were identified as being non-core to the future vision of the airline. In this regard, we are evaluating disposal options for Airchefs, our catering supplier, and Galileo, the platform for the travel industry.

## PROSPECTS

In 2008/09, SAA will further build on the restructuring programme to ensure that the airline becomes profitable on a sustainable basis, delivers service excellence and is shaped into a world-class operation. In the first year of restructuring, we focused closely on restoring SAA to financial health. We needed to be fighting fit to survive the volatility that is inherent in the aviation business. We are satisfied that we are sufficiently streamlined and that our financial performance has improved significantly as a result.

The improved financial results were tempered in the review period by large restructuring costs. These are once-off costs and the expectation is that once the restructuring is completed in March 2009, we will be on the path to sustainable profitability. We do, however, need to take cognisance of the recent huge rise in the oil price and the concomitant fall-off of consumer demand worldwide which have placed margins under pressure across the board.

When we were devising the restructuring programme in late 2006 and early 2007, SAA set a profit target of 7,5% of turnover for the 2008/09 financial year on the assumption that the oil price would average $65 per barrel. This demanding target was set deliberately high in order to provide a cushion for the airline due to the volatile nature of the aviation industry. This has proven to be prudent in light of the soaring oil price, which is creating a huge challenge for SAA and will result in a reduced profit target being reached. Nevertheless, SAA remains confident that the airline will achieve profitability in the year ahead.

Given the achievements of the restructuring programme, we are now focused on ensuring that the airline is properly positioned, both financially and operationally, for future growth.

The key touchpoint areas will be customer service, re-engineering the business, improving our on-time performance and ensuring that our staff members are properly incentivised and motivated.

Africa will remain a strong focus in terms of growth, and additional capacity will continue to be placed on new and existing routes. Key to the restructuring programme and network strategy is building Johannesburg as the strongest hub in Africa. We will continue to explore the possibility of adding new routes to the regional and international network.

I would like to thank all of SAA's people for their hard work and the sacrifices they have made to achieve our restructuring targets. The Board has been steadfast in its support of our efforts, and the shareholder has provided wise counsel throughout the year. I would also like to express my appreciation to my executive colleagues, and management as a whole, for their support and individual contributions during the year.

Khaya Ngqula

11 July 2008

# Finance and operations review

Kaushik Patel | Chief Financial Officer

SAA's improved operational performance was reflected in the improvement in cash generated from operations, which rose more than fourfold to R1,39-billion in the review period from R316-million previously.

## REVENUE AND EARNINGS

SAA's operating environment remained highly challenging during the review period, with the oil price reaching record levels amidst ongoing exchange rate volatility and an increasingly tough competitive environment. Average load factors settled at more than 75% with the average airfare amounting to R2 067 from R1 770 in 2006/07. This was the primary driver behind the strong growth in revenue, which rose to R22,51-billion from R20,65-billion previously, an increase of 9%.

As a result, passenger revenue rose to R16,53-billion from R14,23-billion, an increase of 16,2%. The increase in revenue was achieved despite the removal of six Boeing 747-400s from SAA's fleet, which reduced the overall capacity available on the international routes. SAA sought to offset this by increasing frequencies on a number of routes, particularly into the continent, as well as improving the efficiency and utilisation of aircraft.

The higher passenger revenue was largely the result of excellent growth in traffic on the African route network, where passenger revenue grew 27,2% year-on-year. This was followed by our international routes which grew 7,9%, an excellent achievement in light of the fact that the Paris and Zurich routes were halted during the review period. The domestic routes also showed solid growth as SAA continued to regain lost market share.

Revenue from freight and mail was slightly lower, amounting to R1,77-billion from R1,83-billion previously as a result of growing competition and fewer aircraft on key routes. Turnover from technical services fell to R336-million from R410-million in the previous period. This was attributable mainly to a change in accounting policy for the recognition of certain revenue in order to comply with IAS 18 (International Accounting Standard on Revenue Recognition).

Other airline income declined 14,3% to R3,08-billion during the review period from R3,6-billion previously. The bulk of this income comes from the fuel levy which is charged to offset the sharp increase in fuel costs, as well as the release to revenue of unused passenger tickets and air waybills, which amounted to R373-million in the review period.

SAA's loss before tax stood at R1,1-billion against R890-million the previous financial year, and after tax, the net loss was R1,09-billion from R883-million previously. However, after adding back restructuring costs of R1,35-billion and after accounting for interest of R137-million as a dividend, SAA achieved a net profit of R123-million for 2007/08 from a loss of R883-million in the previous year.

## COSTS

Operating costs increased to R23,63-billion in the year to end March 2008 from R21,17-billion the previous year. The main contributor was, once again, the energy bill which rose R951-million (or 16,6%) to R6,68-billion and made up almost 30% of total operating costs. The dollar price per barrel of Brent crude oil rose to US$104 as at 31 March 2008 from US$68 at 1 April 2007. SAA hedged 10,6% of its jet fuel hedge portfolio as at 31 March 2008, at an average fuel uplift price of US$72,68. This is below the preferred hedging level and SAA intends increasing hedging levels.

Excluding energy costs, operating costs increased by 9,74%, which is still below inflation and reflects the improvements made as a result of the restructuring programme. One of the key contributors to this was the wage "freeze" for employees, which saw employee benefit expenses remaining steady at R3,3-billion. Stringent cost control measures saw distribution costs, which relate to ticket booking fees, remaining stagnant at the R1,4-billion level.

Apart from fuel costs, other large increases were seen in aircraft lease costs, which rose 20% to R3-billion from R2,51-billion previously, and material costs, which increased to R2-billion from R1,5-billion previously. Navigation, landing and parking fees, which relate to costs imposed by outside parties, increased marginally to R1,14-billion from R1,06-billion previously.

## CASH FLOW

SAA's improved operational performance was reflected in the significant improvement in cash generated from operations, which rose more than fourfold to R1,39-billion in the review period from R316-million previously. This was the result of improved revenue management and the significant reduction in costs which formed part of the restructuring programme. It was also supported by an improved working capital position as a result of better cash management of receivables and payables.

Due to the restructuring programme, cash used for investing activities was also minimised to achieve stability in the organisation. The net cash position increased significantly to R5,39-billion from R2,36-billion previously as a result of the investment by government through external borrowings and restructuring funds. However, of the R5,39-billion, some R2,86-billion is restricted cash, only available to SAA for use in certain specific circumstances.

## FINANCIAL OVERVIEW

SAA placed much emphasis in the reporting period on improving the financial and revenue accounting systems as part of the overall restructuring effort.

With regard to financial accounting, controls were significantly strengthened, particularly relating to purchase orders, to achieve best value for money on all procured goods and services and ensure that procurement supports SAA's restructuring programme.

In the revenue accounting area, the aim was to streamline processes and maximise the business return from revenue accounting to other areas such as pricing, marketing, sales and yield management. Airline settlements through the International Air Transport Association (IATA) moved from monthly settlements to weekly settlements in order to improve cash flows and turnaround times in processing refunds for customers have also improved. Overall, there have been significant improvements in both financial and revenue accounting, and we will continue to build on these successes.

SAA's business plan was completed well ahead of schedule which will serve to give clear direction to the organisation in 2008/09. Capital expenditure will be guided by a committee which was formalised during the review period, and SAA has complied rigorously with all its reporting functions, having undertaken regular reporting sessions with the Executive Committee, the Board and the shareholder.

As a first step in the recapitalisation process, in 2006/07 SAA secured a R1,30-billion subordinated loan from a local financial institution with a guarantee concurrently provided by government for the repayment of the loan. Further funding was received for the restructuring programme in March 2008, with R1,56-billion being allocated for the grounding of the fleet of Boeing 747-400s and a further R653-million for restructuring. Most of the funding was received in the form of debt and guarantees which in the latter case, SAA's treasury department used to raise funding from banks with good credit ratings. SAA's current high gearing levels are a concern, and this matter is being addressed with the shareholder in order to bring it in line with industry norms.

SAA has a hedging policy in place, the Financial Risk Management Policy, which covers the spectrum of financial risks and is reviewed annually and approved by the SAA Board. SAA has adopted a conservative approach to hedging. The hedges are managed against the policy parameters, and reported to the Chief Risk Officer (CRO), the Chief Financial Officer (CFO) and the shareholder every day. The risks are also monitored and reported daily. There is also a subcommittee on financial risk which meets every two weeks where the forex and jet fuel hedges are discussed. Any concerns or levels of losses are reported daily to the CRO and the CFO.

A key focus in the review period was the restructuring programme, with a range of initiatives being undertaken. The largest initiative falling under the area of finance was the grounding of the fleet of Boeing 747-400s. Three of the aircraft have been returned to their lessors, one has been wetleased to the Angolan airline TAAG and the remaining two aircraft are being subleased in a process which will be managed jointly with their owners.

Significant savings were achieved by renegotiating contracts to supply SAA with telecommunications and electricity. Additional contracts currently under negotiation relate to the supply of printers, computer facilities and information technology services. In line with SAA's drive to focus on the core business, a project to dispose of non-core properties is under way.

## NEW IT SYSTEMS

The Information Technology Services division continued the pursuit of SAA's IT systems modernisation strategy during 2007/08, with a particular focus on the development and implementation of new customer centric facilities and services. SAA's website, flysaa.com, was revamped during the year to give customers greater control over their travel experience. This includes the launch of the Online Check-In service which allows passengers to check in using the internet, with 2D Barcode and seamless integration into the available self check-in facilities, called Common User Self-Service or CUSS facilities.

An upgrade of SAA's international technologies and a technology refresh for all regional and international stations was concluded in the review period. This included the renegotiation of a global IP/VPN network and consolidation/renegotiation of the SAA Voice Services contract, which has realised substantial savings.

The IATA electronic ticketing programme progressed well. The programme sought to ensure compliance of paperless travel and interline facilities for strategic interline partners, destination airports and Global Distribution Systems. SAA is on track to meet IATA's deadline of having a paperless ticketing environment by June 2008, which will be more convenient for customers and help ease their travel experience.

# Finance and operations review (continued)

Kaushik Patel | Chief Financial Officer

## OPERATIONAL OVERVIEW

In spite of the continued challenges facing the industry such as the escalating fuel price, SAA managed to maximise the efficiencies of its fleet and operating procedures. The operations division of SAA contributed significantly to the restructuring cost saving initiatives of the airline through various projects. The cabin crew complement was reduced and brought in line with international norms, the station at George was closed as the airline no longer flies to this destination, and a number of contracts relating to ground handling, equipment and baggage were renegotiated resulting in savings.

As with most restructuring programmes, the loss of employees had a short-term impact on service levels. The current focus is on improving operational performance and customer service. An action plan has been implemented on customer service with targets set and regular feedback sessions held. Regarding on-time performance, a task team meets every day to manage operational problems and to recover as quickly as possible from all flight delays.

## FLEET AND ROUTE NETWORK

At financial year-end, SAA including Cargo was operating a fleet of 66 aircraft, of which 14 are owned and 52 are leased.

Our route network was further enhanced and expanded especially into Africa with a host of improvements, including new routes, added capacity, larger aircraft and more lounge facilities.

New routes launched during the review period were to Munich, Germany in July and to Libreville, Gabon, in September. Three additional weekly flights were added to São Pãulo, Brazil, bringing the number of weekly frequencies to 10 over the period of SAA's route licence. Code share partnerships were enhanced by concluding a code share with Scandinavian Airlines (SAS), which added significantly to travel choices for our customers.

## WORLD-CLASS PRODUCT

SAA opened new Business Class departure lounges in Lusaka, Zambia and in Harare, Zimbabwe. SAA's uniquely African themed Baobab Premium Class lounge is available to all the airline's business class customers, including SAA Voyager Platinum, Gold Card members and Star Alliance Gold Card holders. A similar lounge is planned for Lagos, Nigeria. Our bar service on board domestic flights was simplified and we no longer offer alcoholic beverages to customers travelling in economy and business class on domestic flights before 12:00 daily.

## VOYAGER

The year in review was a period of consolidation for Voyager, SAA's frequent flyer programme. Voyager remains the strongest loyalty programme in Africa with almost a third of customers based internationally. During the year under review, Voyager grew its elite member base significantly as more customers opted to fly with SAA.

The airline partner base expanded and the programme now provides members with a choice of over 25 airlines internationally where Voyager miles can be earned and redeemed. The focus on the enablement of on-line web facilities proved valuable and convenient to customers.

The co-branded Voyager card, which is operated through our partners Nedbank Limited and Amex International, is growing in popularity. This unique co-brand has brought new international benefits to SAA, which are highly valued, and provides non-frequent flyers with access to the Voyager programme benefits.

New initiatives for the coming year will have a strong focus on customer service, key to which will be the development and activation of additional on-line services. The aim is to further increase the elite base, the size of which already indicates that good value is being delivered to the frequent flyer. The aim is to add more value internationally, as well as extend the current partner base to include more partners in Africa. More redemption partners will be added, providing more choice to our customer base when using their miles.

Voyager will need to comply in 2010 with the IFRIC 13 (Customer Loyalty Programmes) requirement and as such preparation for compliance and the associated process changes will continue.

## MANGO

Mango has made great strides in establishing itself as the leading low-cost carrier in Africa, having carried its 2-millionth passenger in March 2008, and is on track to achieve its business plan goals. The company has kept costs low by using its aircraft effectively and boosting productivity amongst employees. Mango has further established itself as an innovator, introducing flight purchases on retail store credit, including at Edgars, Jet, Boardmans and CNA; automated electronic funds transfer (EFT) transactions; and ticket purchases at Shoprite/Checkers and Computicket locations countrywide. This combination of a lean cost structure and wide distribution net, combined with Mango operating the most fuel-economic aircraft on a per-seat basis in South Africa, positions the company to withstand the impact of escalating fuel costs.

Mango as a business has added strategic as well as financial value to the group, as evidenced by both the company's operational performance and the value placed on the company following a recent valuation performed by the directors.

## SAA TECHNICAL

SAA Technical, our maintenance arm which operates as a separate business entity, grew its client base significantly with work from domestic legacy airlines and low-cost airlines as well as regional airlines.

This is part of its overarching goal of ensuring that the servicing of SAA aircraft makes up a total of 50% of its value-adding revenue in the next two years, against the current 75%. SAA Technical currently services over 40 domestic and foreign airlines in addition to SAA.

The highlight for the year in review was reaching agreement on a deal with Comair in respect of 22 of Comair's Boeing 737 aircraft. SAA Technical also signed a contract with Air Namibia for line maintenance on its two Boeing 737-500 aircraft as well as intermediate layover checks on its two Airbus A340-300 aircraft. The high workload from anchor customer SAA continued with both line maintenance as well as major maintenance including C-checks on Airbus A340s, Airbus A319s and Boeing 737-800s and D-checks on Boeing 737s. SAA Technical has a full order book for major maintenance work for the year ahead, and may outsource some activities to third-party service providers to alleviate the workload.

SAA Technical has amongst the best dispatch records in the world which not only reflects well on its maintenance standards, but also boosts SAA's revenue.

SAA Technical's dispatch reliability statistics (which measure on-time departures) remain close to an average of 99%, which is above world standards. SAA Technical remains committed to ensuring the airworthiness of all its customers' aircraft and the safety of all flying customers.

The high skills level of SAA Technical technicians make them highly marketable which, combined with the burgeoning worldwide aviation industry, meant that SAA Technical has regrettably lost a high level of staff members over the last two years. SAA Technical received the final audit results from the Federal Aviation Authority (FAA) in April 2008 following an initial draft support submitted at year-end, which confirmed SAA Technical's concern over the loss of qualified staff. We are pleased that the FAA renewed SAA Technical's certificate for 2008, but the loss of technicians is a clear concern to SAA Technical and at year-end an intensive mitigation process was put in place to restore our skills base. SAA Technical confirms that safety is not negotiable and no pressure has or will be exerted on SAA Technical staff members to take shortcuts in their work or release any incomplete aircraft or repair work as a result of a manpower shortage in a particular area.

Going forward SAA Technical will begin a planned move towards the European Aviation Safety Agency (EASA 66) licensing and quality system, which will allow for a more efficient use of certified technical staff.

## SAA CARGO

SAA Cargo worked hard at protecting its market share during the review period, assisted by the restructuring programme which helped reduce costs and grow revenue. Cargo revenues were affected by the grounding of SAA's Boeing 747-400s due to the loss of cargo space on these aircraft, which offered 14 to 20 tons of belly space. Despite this, SAA Cargo grew its market share in key markets such as Lagos, Accra, Amsterdam and Kinshasa.

Two Boeing 737-300 cargo freighters were introduced in October/November on domestic routes and into the rest of Africa, with successful feeds into international markets. The MD11 freighter was redeployed into Europe (with Amsterdam as its online destination) as its initial use from Johannesburg – Accra – Amsterdam – New York – Accra – Johannesburg did not achieve the anticipated results. The contract for the lease of the MD11 expired in May 2008.

SAA Cargo will benefit from SAA's planned lease of three additional wide body long haul aircraft, which will allow Cargo to continue its focus on profitable markets in Africa, such as the Democratic Republic of Congo, Kinshasa, and Luanda.

SAA Cargo is considering its options relating to its joint venture with Lufthansa. Costs have become exorbitant given the strength of the euro against the rand, which increased by more than 40% in the year to March 2008.

Kaushik Patel

11 July 2008

# The Board

**PROF GERT JOHANNES 'JAKES' GERWEL**
*Chairperson*
Jakes Gerwel is chancellor of Rhodes University, Distinguished Professor in the Humanities at the University of the Western Cape, Honorary Professor in the Humanities at the University of Pretoria, and Chairman of the Human Sciences Research Council. He was Vice-Chancellor and Rector of the University of the Western Cape from 1987 to 1994. From May 1994 to June 1999 he served as Director-General in the Office of President Nelson Mandela and Secretary of the Cabinet in the Government of National Unity. He is currently a non-executive director of Naspers and Old Mutual. He is non-executive chairman of Africon Engineering International, Brimstone Investment Corporation, Life Healthcare and Media 24.

**DR KHAYA NGQULA**
*President and Chief Executive Officer*
Khaya Ngqula was President and Chief Executive of the Industrial Development Corporation (IDC) from 1997 – 2004. Before joining the IDC he was Managing Director of Norwich Unit Trust. He has a BAdmin degree and an Honorary Doctorate of Commerce from University of Fort Hare. He sits on the board of Worldwide African Investment Holdings and Party Design (Pty) Limited.

**MS LOUISA MOJELA**
*Non-executive*
Louisa Mojela is one of the founders and Group Chief Executive Officer of Women Investment Portfolio Holdings (Wiphold). She has held positions at Standard Corporate and Merchant Bank, the Development Bank of Southern Africa and the Lesotho National Development Corporation. She has a BCom from the National University of Lesotho. She is a director of companies including, Sun International and Women Investment Holdings Limited amongst others.

**MR PETER JOUBERT**
*Non-executive*
Peter Joubert is the current Chairman of BDFM Publishers (Pty) Limited and Sandvik (Pty) Limited. He also serves on the boards of Transnet, Cycad Financial Holdings Limited and IMS Holdings (Pty) Limited. His career spanned 30 years with Afrox, starting as a trainee and with 15 years as Chief Executive and Chairman. He served on the board of various top corporates such as Murray & Roberts, Old Mutual and Nedcor and as Chairman of various other companies, including Delta Electrical Industries, Foodcorp, General Motors SA, Impala Platinum, Munich Reinsurance Company of Africa Limited and Northern Engineering Industries. He has also been Chairman of Roedean School and Chancellor of the Order of St John.

**ADV FRANCINE-ANN DU PLESSIS**
*Non-executive*
Francine-Ann du Plessis is a Chartered Accountant (South Africa) and is an admitted advocate to the Cape High Court. She is an expert on taxation issues and contracts. She brings strong legal and financial expertise to the SAA Board. She has served on various boards, including Naspers, Sanlam and the IDC.

**MS MARGIE WHITEHOUSE**
*Non-executive*
Margie Whitehouse has a Bachelor of Business Science with Honours in Marketing. With a background of working in multinationals such as Unilever, as well as extensive work within the South African Government, Ms Whitehouse has experience in building and marketing brands, specifically world-class African brands.

**DR JÜRGEN E SCHREMPP**

*Non-executive*

A graduate in mechanical engineering from the University of Applied Science in Offenburg, Germany, Dr Schrempp holds a Professorship of the Federal State of Baden-Württemberg in Germany, an Honorary Doctorate from the University of Graz, Austria and an Honorary Doctorate in Commerce from the University of Stellenbosch, South Africa. Between 2000 and 2005, he was Chairman of DaimlerChrysler AG. He served as President of Mercedes-Benz of South Africa (1980-1982), President of EUCLID Inc, a US Daimler-Benz unit 1982 – 1984, as well as Chairman of Daimler-Benz Aerospace AG (1989-1995). He was Chairman of Daimler-Benz AG from 1995 until his appointment first as Co-Chairman then as Chairman of the merged DaimlerChrysler group. He continues to serve as Non-executive Director of Mercedes-Benz of South Africa and is a Non-executive Director of the South African Coal, Oil and Gas Corporation (Sasol) and Vodafone Group, UK. Other activities include membership of the Advisory Council of GEMS and the Steering Committee of the Bilderberg Group. He is a member of the International Investment Council of the President of South Africa and is Chairman of the Southern Africa Initiative of German Business (SAFRI). He is Chairman Emeritus of the Global Business Coalition on HIV/Aids and Honorary Consul-General of the Republic of South Africa.

**DR NKOSANA MOYO**

*Non-executive*

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

**MS KOOSUM KALYAN**

*Non-executive*

Koosum Kalyan has a BCom (Law) (Hons Economics) and has completed the Senior Executive Management Programme from London Business School. She is a member and co-facilitator of the UNAIDS/Shell Scenario Planning Team on HIV/Aids in Africa. She is an adviser to Prime Minister Blair's Commission for Africa as well as a Private Sector Liaison and Coordinator for Africa and is lecturing at Harvard Business School on Investment Climate for Africa. Ms Kalyan chairs the G8 Business Action Against Corruption in Africa, the Commonwealth Business and Women's Network and the Commonwealth Business Advisory Council. She is a non-executive director of the MTN Group Limited, South African Business Trust, South African Bank Note Company of SA Reserve Bank, South African Mint Company of Reserve Bank, and the Standard Bank Group. Ms Kalyan also sits on the Board of the Tällberg Foundation. She is chairperson of Kgontsi Holdings.

**MR BILLY MODISE**

*Non-executive*

Billy Modise was the South African High Commissioner to Canada from 1995 to 1999. He was Chief of State Protocol at the Department of Foreign Affairs from 1999 until April 2006. He served a total of 13 years with the United Nations in two different capacities from 1975 to 1988. He has a BA as well as a master's degree in Social Sciences.

# SAA Leadership

### DR KHAYA NGQULA

**President and Chief Executive Officer**

**Functions:** CEO of the airline.

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

### KAUSHIK PATEL

**Chief Financial Officer**

**Functions:** Chief Financial Officer (CFO) of the airline. Kaushik was appointed as Chief Financial Officer from December 2007.

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

### BHABHALAZI BULUNGA

**General Manager: Human Resources**

**Functions:** Responsible for the complete human resources function of the company.

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

### CLIVE ELSE

**Chief Executive Officer: SAA Technical**

**Functions:** Appointed CEO of SAA Technical from 1 December after previously acting as SAA Group Chief Financial Officer from June 2006 to November 2007. Responsible for all aircraft maintenance work for SAA as well as other international airlines.

**Qualifications:** Clive Else holds a Bachelor of Commerce and Accounting degrees from the University of Witwatersrand and is a qualified Chartered Accountant (South Africa). He has extensive operational and financial experience within a variety of industries, including Operations Director and General Manager Finance for Avis Fleet Services from 1996 to 2003. Between 2003 and 2005 he was the Finance Director and later added the portfolio of Support Services Director of the Jeddah-based Abdul Latif Jameel Retail, the holder of the Toyota franchise for Saudi Arabia. He also held financial responsibilities at Nissan SA Marketing (Pty) Limited and BMW SA.

### CHRIS SMYTH

**General Manager: Operations**

**Functions:** Responsible for all the airline's operations including the fleet, cabin and cockpit crew as well as ground operations at all the destinations the airline serves.

**Qualifications:** Chris Smyth holds a Bachelor of Commerce degree as well as a post-graduate Diploma in Accountancy from the University of Natal. He is a Chartered Accountant (South Africa) and a past commercial pilot. Mr Smyth has extensive financial experience in the African aviation industry, having filled the position of Group Finance Director for Kenya Airways from 2001 until 2005 and Chief Financial Officer and Board Director for Virgin Nigeria Airways from 2005 until 2007. He was an instrumental part of the Virgin Nigeria start-up team, having gone to the market to raise equity for the airline. Other positions held include Finance Executive/Director, Radiospoor Telecoms and Group Financial Director for National Airways Corporation.

### THELMA MELK

**Company Secretary**

**Functions:** Provides a secretarial service and corporate governance council to the SAA Board, the CEO and the executive team.

**Qualifications:** Thelma Melk holds a Bachelor of Arts (Law) and LLB from the National University of Lesotho, and is educated in labour relations, corporate governance and company directions. She was previously the group Company Secretary for the SABC and worked for Transnet.

### PATRICK DLAMINI

**General Manager: SAA Cargo**

**Functions:** Responsible for running the airline's global cargo division, where he has been general manager since 2004.

**Qualifications:** Patrick Dlamini holds a BCom Accounting degree from the University of Durban-Westville and completed the Wits Business School Executive Programme. Before joining SAA he worked for South African Ports Operations as business unit executive and previously as chief operations manager at Transnet, and at the McCarthy Group as Regional Audit Manager.

### JAN BLAKE

**General Manager: Mergers and Acquisitions**

**Functions:** Appointed General Manager Mergers and Acquisitions from 1 December 2007, responsible for the implementation of a revised corporate structure of SAA. Also responsible for corporate development including network planning, fleet planning and revenue management.

**Qualifications:** Jan Blake is a Chartered Accountant (SA). Prior to becoming GM Mergers and Acquisitions, Jan was the CEO of SAA Technical, he headed SAA's operations and he was Chief Financial Officer at SAA Technical. Before joining SAA he was with Flitestar, the XPS division of the Rennies Group and worked for Iscor.

# SAA Leadership (continued)

**LOUISA ZONDO**

**General Counsel**

**Functions:** Responsible for all legal matters affecting the airline.

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

**RUSHJ LEHUTSO**

**General Manager: Commercial**

**Functions:** Responsible for the airline's worldwide sales, marketing, sponsorship and Voyager functions.

**Qualifications:** Rushj Lehutso holds a MBS from the University of Cape Town and a Bachelor of Communications from the University of North West. He previously held the position as the City of Cape Town's Chief Operations Officer. During his career, he was a District Manager for South African Breweries and the Director of Operations for Coca-Cola Southern Africa.

**VISHNU NAICKER**

**Chief Risk Officer**

**Functions:** Responsible for managing the corporate enterprise risk management, internal audit, corporate governance and compliance portfolios.

**Qualifications:** Vishnu Naicker holds a BCompt, HDip Tax, Dip Bus Mgt (University of Natal) and a Systems Administration Diploma, with a strong academic background and experience in economics, accounting and financial management.

**LEADERSHIP FOR THE YEAR UNDER REVIEW**

* Nomfanelo Magwentshu
Chief Restructuring Executive

* Captain Colin Jordaan
General Manager:
Flight Operations

* Gareth Griffiths
Chief Financial Officer

** Phillip Bekker
Airchefs Acting CEO

* *Resignations*

** *Moved to Airchefs, August 2007*

SOUTH AFRICAN AIRWAYS
A STAR ALLIANCE MEMBER

# Annual Financial Statements

**CONTENTS**

# Information page

for the year ended 31 March 2008

| | | |
|---|---|---|
| **DIRECTORS** | Prof GJ Gerwel | Chairman (appointed 27 August 2004) |
| | Dr K Ngqula | CEO (appointed 27 August 2004) |
| | Mr G Griffiths | CFO (resigned 1 August 2007) |
| | Ms F du Plessis | (appointed 24 October 2006) |
| | Mr PG Joubert | (appointed 27 May 2005) |
| | Ms KP Kalyan | (appointed 24 October 2006) |
| | Mr BIL Modise | (appointed 24 October 2006) |
| | Ms LM Mojela | (appointed 27 August 2004) |
| | Dr ND Moyo | (appointed 24 October 2006) |
| | Prof JE Schrempp | (appointed 24 October 2006) |
| | Mrs MM Whitehouse | (appointed 24 October 2006) |
| **COMPANY SECRETARY** | Ms T Melk | |
| **REGISTERED OFFICE** | Airways Park<br>Jones Road<br>OR Tambo International Airport<br>Kempton Park<br>1627 | |
| | Private Bag X13<br>OR Tambo International Airport<br>Kempton Park<br>1627 | |
| **COUNTRY OF INCORPORATION** | Republic of South Africa | |
| **REPORTING CURRENCY** | South African rand (ZAR) | |
| **AUDITORS** | Deloitte & Touche<br>Private Bag X6<br>Gallo Manor<br>2052 | |
| **BANKERS** | Standard Bank Limited<br>Nedbank, a division of Nedbank Group Limited<br>Citibank of South Africa (Pty) Limited | |
| **SHAREHOLDER** | Department of Public Enterprises (DPE) | |
| **COMPANY REGISTRATION NUMBER** | 1997/022444/07 | |

# Statement by the Company Secretary

for the year ended 31 March 2008

The Company Secretary, Ms T Melk, certifies 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, No 61 of 1973, as amended, and that all such returns are true, correct and up to date in respect of the financial year reported upon.

**Company Secretary**

11 July 2008

## SECRETARY

| | |
|---|---|
| **Name** | Ms T Melk |
| **Business address** | Airways Park<br>Jones Road<br>OR Tambo International Airport<br>Kempton Park<br>1627 |
| **Postal address** | Private Bag X13<br>OR Tambo International Airport<br>Kempton Park<br>1627 |

# Report of the independent auditors

To the member of South African Airways (Proprietary) Limited

We have audited the group and company annual financial statements of South African Airways (Proprietary) Limited which comprise the directors' report, the consolidated balance sheet and balance sheet at 31 March 2008, and the consolidated income statement and income statement, consolidated statement of recognised income and expenses and statement of recognised income and expenses and consolidated cash flow statement and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 23 to 103.

**Management's responsibility for the annual financial statements**

Management is responsible for the preparation and fair presentation of these annual financial statements in accordance with International Financial Reporting Standards and the performance information in accordance with section 55(2)(a) of the Public Finance Management Act No 1 of 1999 and the Companies Act of South Africa. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditors' responsibility**

Our responsibility is to express an opinion on these annual financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance on whether the annual financial statements are free from material misstatement. 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, No 25 of 2004, have been complied with. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the annual financial statements.

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

**Opinion**

In our opinion the annual financial statements present fairly, in all material respects, the financial position of South African Airways (Proprietary) Limited and the group as of 31 March 2008, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards, the Companies Act, No 61 of 1973, as amended, and the Public Finance Management Act, No 1 of 1999, as amended, and the Public Audit Act, No 25 of 2004.

**Emphasis of matter**

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

***Public Finance Management Act, No 1 of 1999, as amended (PFMA) and Public Audit Act, No 25 of 2004 (PAA)***

We draw your attention to the disclosure of the group's PFMA non-compliance made on pages 30 to 31 of the directors' report.

***Compliance with legislation relating to financial matters***

South African Airways (Proprietary) Limited and the group have put processes and systems in place to identify all legislation applicable to it and a monitoring plan in place to ensure compliance with this legislation. As disclosed in the directors' report, on page 31, as these systems are not yet fully implemented, the group cannot conclude that it has complied with all applicable legislation relating to financial matters, financial management and other related matters.

Deloitte & Touche

**Deloitte & Touche**
Andrew Mackie
Partner

Johannesburg
11 July 2008

# Directors' report

for the year ended 31 March 2008

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 2008. The audited annual financial statements set out in this report have been prepared by management in accordance with International Financial Reporting Standards (IFRS). They are based on appropriate accounting policies adopted in terms of IFRS which are detailed in note 3 to these annual financial statements. The accounting policies are supported by reasonable and prudent judgements and estimates.

This report and the audited annual financial statements are submitted in accordance with the statutory requirements of the Public Finance Management Act, No 1 of 1999 (PFMA), and the Companies Act. In the opinion of the directors, the annual financial statements fairly present the financial position of South African Airways (Pty) Limited (SAA) and its subsidiaries as at 31 March 2008, and the results of their operations and cash flow information for the year then ended.

## 1. NATURE OF BUSINESS AND KEY CURRENT YEAR HIGHLIGHTS

South African Airways was established in 1934 and is South Africa's national carrier offering premium service. SAA's strategic vision is to be an African airline with global reach which is in line with the mandate of increasing the level of operations locally and into Africa, while ensuring that we service the international market. The vision goes hand in hand with the mission of delivering sustainable profits and growing market share through world-class service to customers.

The principle 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 as well as the provision of technical services. 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.

The African routes remain the strategic intention of management to focus on building the airline's presence in Africa, by adding further capacity into Africa. Star Alliance plays a key role in bringing the world to Africa and encouraging growth in this market.

The growth and cost reduction are still of high focus and is entrenched through the restructuring plan together with strong dedication and commitment by management on customer service delivery.

**Results for the year under review**

Net profit attributable to the shareholder amounted to R123-million (prior to restructuring costs of R1,35-billion and after accounting for interest of R137-million as a dividend recognised directly in equity) against a net loss of R883-million in the previous year.

During 2006 the airline industry globally began recovering from the inherent volatility in the economy since 2001. This has however been dampened in the recent months by the unprecedented high fuel prices impacting the industry and economy to a point where airlines are scrutinising their operations to find alternate ways of saving costs.

Amidst the soaring fuel prices, open skies policy and the downturn in the economy, SAA's restructuring process, is a step in the right direction in terms of simplifying and right-sizing the business.

The restructuring process commenced more than a year ago with significant progress made towards achieving sustainable profitability as forecasted for the year ending March 2009. This will though inevitably suffer dilution due to the impact on both the industry and economy, as a result of the increase in fuel prices.

Through the restructuring process, SAA has reduced its headcount by more than 1 800 employees, with more than half having opted for the voluntary severance packages. To ensure operations run smoothly and the successful completion of the restructuring process, measures have been taken to ensure the retention of key skills.

Major restructuring, in addition, includes the grounding of the six Boeing 747-400s aircraft, which is anticipated to contribute significantly in savings. Three of these aircraft have been returned to their lessors, one has been wetleased, while the remaining two are in the process of being subleased through their owners.

Other initiatives include:

- "unbundling" seven business units within SAA as stand-alone entities;
- reduction in flight delays;
- negotiations to reduce distribution costs;
- implementation of ticket handling fees at the airport;
- 30% savings on actual telephone billings as a result of the renegotiation of the Transtel contract;
- office closures in Paris, Milan, Zurich, Amsterdam and Taipei, with Paris and Milan being converted to General Sales Agents (GSA); and
- the renegotiation of the MD11 contract by SAA Cargo, yielding a saving on both block-rates and hours.

Considerable effort on the above and other initiatives implemented to date have yielded 3% above target cost savings.

# Directors’ report continued

for the year ended 31 March 2008

**1.1 Recapitalisation and guarantee provided by the Department of Public Enterprises (DPE)**

SAA was partly recapitalised in the previous financial year by securing a R1,3-billion subordinated loan from a South African financial institution. A guarantee was concurrently provided by the government for the repayment of the loan.

This was the first step in the recapitalisation process and the proceeds were used to strengthen the financial position of SAA. A further R1,56-billion subordinated loan was secured in March 2008 to assist SAA with restructuring initiatives specifically relating to the grounding of the Boeing 747-400s fleet. Simultaneously, a guarantee was provided by the South African Government. SAA can elect, at any stage and for whatever reason, not to repay the interest or capital due to the financier, at which time the claims are automatically ceded to the government in terms of the guarantee. Should the government settle any capital or interest due to SAA’s election not to make payment to the financier, they will have no recourse to SAA. The cash received is restricted and can only be used to support the group’s solvency.

In accordance with IAS 39: Financial Instruments – Recognition and Measurement, the guarantee and the subordinated loan agreement have been assessed as one instrument, because they were entered into at the same time and in contemplation of one another. The loan has been classified as an equity instrument. Due to the classification as equity, any interest which SAA elects to pay will be classified as dividends. For the current year SAA serviced interest of R137-million on the loan, which has been classified as dividends and recognised directly in equity.

During the current financial year, a proposal was submitted by SAA to DPE detailing the expenditure required to complete the restructuring process and requesting assistance in providing funds to meet the expenditure burden. Funds of R653-million (excluding VAT of R91,4-million) were approved by DPE and received by SAA in March 2008.

SAA is obliged to comply with the conditions stipulated by DPE in that the funding is to be utilised solely for the restructuring process, with reports being submitted detailing clearly the spend in terms of the said funds. Should there be any non-compliance or funds not fully utilised, SAA must repay the portion of unutilised funds to DPE.

In light of the funds being received from the shareholder (DPE) with no formal agreement in place and no requirement that the funds be paid back to DPE in the future, SAA appropriately classified the funds as equity.

The budget for 2008/09 excludes the impact of certain restructuring costs as the above were considered sufficient funds to cover these costs. The classification as equity will however result in the funds not being matched with the associated restructuring costs, thereby distorting the budgeted performance of the airline. As such, the 2008/09 financials will be impacted to the extent of these restructuring costs which will not be set off against the associated funding. With the costs now being much higher than budgeted for 2008/09, performance evaluation will be affected and as such the impact of the restructuring costs will be excluded for this purpose.

**1.2 Fuel costs**

Fuel costs currently constitute in excess of 30% of the airline’s operating costs, excluding aircraft leases. As such, the sustained surge in oil prices will pose significant challenges for SAA, as it will for other airlines.

This past financial year the dollar price per barrel of Brent crude oil rose from US$68 at 1 April 2007 to US$104 as at 31 March 2008. Steps were taken to reduce the adverse impact on SAA’s financial results through hedging activities (both fuel hedges and FECs) and increases in fuel levy recoveries. These steps, however, had a lagging effect due to the continuous increase in fuel prices.

In view of the sensitivity to further fuel increases, initiatives are in progress to review networks and schedules, fares and surcharges, fuel efficiency measures and managing of costs across our operations, although these measures are unlikely to fully cover higher fuel costs. We will also continue to adopt a conservative approach to fuel hedging in compliance with our Financial Risk Management policy, particularly in view of the current high level and volatility of oil prices.

**1.3 Fleet**

During the financial year, SAA’s fleet experienced some significant changes. These changes are summarised below:

- The sublease agreement between SAA and Jet Airways, for three Airbus 340-300 aircraft, came to an end. All the aircraft relating to the lease were returned to SAA.
- As part of the restructuring initiatives, in November 2007 the Boeing 747-400s aircraft consisting of five leased and one owned aircraft, were grounded. One of the leased aircraft has already been returned to the lessor. The remaining leased aircraft will be returned to the lessor during the 2009 financial year. The owned aircraft was contracted out on a “wetlease” basis.
- During the year Cargo introduced two new Boeing 737-300SF freighter aircraft into service.

As at 31 March 2008 SAA, including Cargo and Mango, were operating a fleet of 66 aircraft of which 14 are owned and 52 are leased.

SAA’s Board approved a new long-term fleet plan for additional and replacement aircraft. The new fleet plan will assist SAA to remain competitive, to absorb future growth and to modernise the current fleet.

### 1.4 Capital commitment and contingent liabilities

*Capital commitment*

*Background*

In 2002, SAA entered into an agreement with Airbus to purchase 15 A320 aircraft. During 2004, SAA requested the cancellation of this purchase agreement. Airbus acknowledged receipt of the letter but was silent on the cancellation itself. Based on their belief that the contract was cancelled, management advised the Department of Public Enterprises and the National Treasury that this order had been cancelled. The PFMA approval for the fleet plan pertaining to the A 320s was thereby withdrawn. SAA was of the view that the price of cancellation was the forfeiture of the Pre-Delivery Payments (PDPs) made to date, and hence these were impaired in the 2004 year.

*Current year events*

During the current year, SAA was approached by Airbus for further PDPs in respect of the A320 order, as Airbus is of the view that the order is not cancelled. SAA is considering the options in the circumstances. The circumstances include the following:

- The contracted purchase price for the A320 is unfavourable.
- SAA does not have PFMA approval to take delivery of the A320 fleet as this was rescinded in the belief that the contract was cancelled.
- SAA has issued a request for information (RFI) to both Airbus and Boeing pertaining to both the long- and short-haul fleet requirements. SAA has requested Airbus to attempt to incorporate the previously paid PDPs into the revised proposal.
- Airbus has been willing to renegotiate the delivery price of the A320 aircraft.
- SAA will consider the viability of both companies' suggestions prior to concluding on its options with respect to the Airbus matter.
- Should SAA elect to pursue its belief that the Airbus contract is cancelled, there is a remote possibility that the costs to exit the contract may exceed forfeiture of the PDPs only. It is impossible to quantify any potential liability in this regard.

*Accounting for this matter*

Based on these recent events, SAA has reassessed the accounting for the A320 matter in prior years and concluded that the prior year accounting was correct, apart from the lack of disclosure of a potential capital commitment. The considerations in arriving at this conclusions are set out below:

- SAA is of the belief that the decision to impair the PDPs in 2004 was appropriate, as it was management's intention and belief to cancel the order at the time. It also considered whether it would be appropriate to reverse the impairment in the current year on the premise that the contract was not cancelled. SAA concluded that it was inappropriate to do so until and unless the matter has been resolved and the PDPs are available for contribution towards the cost of future delivery of aircraft.
- Given the events, a capital commitment note in respect of the 15 A320s has been included in the annual financial statements, despite the fact that SAA has and continues to be of the view that the contract was cancelled. Accordingly note 41 now contains a capital commitment for US$727-million for the 15 aircraft. The corresponding comparative figures have been amended accordingly.

***Contingent liabilities***

There are anti-competitive cases lodged against SAA Cargo relating to price-fixing allegations. The opinion received from legal counsel indicates limited exposure to SAA and hence no provision has been made in this regard. The annual financial statements disclose these claims as contingent liabilities.

### 1.5 Voyager

The IFRIC 13 (International Financial Reporting Interpretations Committee) of the International Accounting Standards Board (IASB) addresses how companies that grant their customers loyalty award credits when buying goods or services, should account for their obligation to provide free or discounted goods or services if and when the customers redeem the award.

Prior to this, detailed guidance was lacking in this regard and SAA made a provision based on incremental costs, which was consistent with many other global airline loyalty programmes. IFRIC 13 requires that companies value the miles to the customer and defer this amount of revenue as a liability until redemption or expiry.

The effective date for the application of IFRIC 13 is mandatory for annual periods beginning on or after 1 July 2008, and earlier application is permitted. SAA will be compliant effective for the financial year ending 31 March 2010. Notwithstanding this, IAS 8 requires the disclosure of the potential impact of new Standards and Interpretations on the entity results. SAA has estimated the potential liability as at 31 March 2008 to be R1,28-billion.

### 1.6 Disposal of Airchefs (Pty) Limited

Airchefs (Pty) Limited is a subsidiary of SAA and has as its core business the supply of airline catering services. During the year, a decision was taken by the group to sell the business of Airchefs, the disposal date of which is planned to take place within the next seven months. The specified group of assets and liabilities earmarked for sale have been reclassified as a disposal group held for sale.

# Directors' report continued

for the year ended 31 March 2008

## 2. RESTRUCTURE OF SAA

SAA officially launched its deep and fundamental restructuring process, with the objective of simplifying, rightsizing, reskilling, and incentivising the business, during 2007. A Board Restructuring Subcommittee, chaired by the chairperson of the Finance, Risk and Investment subcommittee of the Board, Louisa Mojela, was formed and the process to develop a restructured business plan for SAA was approved. In May 2007, the completed business plan was approved by the SAA Board. The general managers of the airline began implementing the plan immediately. SAA has made good progress towards achieving its restructuring target and as at 31 March 2008 the restructuring has reduced costs by almost R1-billion. This sterling performance is tempered by the once-off restructuring costs, with the expectation that once the restructuring is completed in March 2009, we will be on the path to sustainable profitability.

Major restructuring initiatives involved the grounding of the fleet of Boeing 747-400s and consultations with labour on standardising and simplifying conditions of employment. Agreements with labour have substantially been finalised. The organisation has been streamlined and a new, leaner management structure has been finalised. A total of 963 employees opted for the voluntary severance packages and a further 869 employees resigned. The focus now is on ensuring that SAA retains the key skills necessary to complete the restructuring, and ensure that operations run seamlessly.

With regard to SAA's operational focus, the second phase of the One-Stop-Shop, whereby each counter will be able to process Voyager transactions, ticketing and check-in is under way and should be fully operational by the middle of the 2008/09 financial year. There is currently a strong focus on improving SAA's operational performance by continuing to reduce delays and improve on-time performance. The change over of ground handlers to Swissport, effective from 1 February 2008, is expected to assist with the process. SAA has already seen a sharp decline in baggage pilferage.

Further initiatives are being executed by SAA Technical who has lost over 300 employees in the past two years. Some of these are through employee incentive retirement programmes and others through natural attrition, but most appear to be due to other opportunities. This exodus of employees includes mechanics, inspectors, certifying staff, quality supervisors and management personnel.

Currently, many shops are staffed with enough trained/qualified personnel to effectively perform maintenance and inspection functions. Others, however, are barely staffed with enough trained/qualified personnel to meet the daily demands of the repair station and the subsequent oversight by quality assurance personnel.

SAA Technical's plan of hiring to fill the open positions has commenced.

As a result, SAA Technical has implemented a headcount programme which has the following main elements:

- Active recruitment and appointment to fill 260 vacancies identified as at 31 December 2007 and all subsequent critical vacancies.
- Termination of section 189 of the Labour Relations Act (this Act defines a termination based on the operational requirements of an employer as one that is based on the economic, technological, structural or similar needs of the employer).
- Introduction of a market-related skills retention incentive targeted at retaining technicians with skills, trades and licences/certifications where SAA Technical is particularly vulnerable.
- Negotiation of a three-year inflation indexed wage deal with the unions.

Voyager has also been affected during the restructuring of SAA, both through voluntary service packages offered and resignations of managers and staff. The key positions required have been profiled and are being filled in order to ensure improved service levels to the Voyager customers.

Going forward, the restructuring process will focus on completing the unbundling of the airline into separate business units and finding equity partners, where appropriate, re-engineering the business and improving customer service.

## 3. DIRECTORS

There has been a change in the composition of the Board of Directors during the current financial year with the resignation of an executive director, Mr G Griffiths (CFO), on 1 August 2007. The table below reflects the make-up of the Board as it was at 1 April 2007 and 31 March 2008 respectively:

| SAA Board of Directors at 1 April 2007 Name | Non-executive (N)/ executive (E) | Date of appointment (A)/ resignation (R) | SAA Board of Directors at 31 March 2008 Name | Non-executive (N)/ executive (E) | Date of appointment (A)/ resignation (R) |
|---|---|---|---|---|---|
| Prof GJ Gerwel (Chairman) | N | 27 August 2004 (A) | Prof GJ Gerwel (Chairman) | N | 27 August 2004 (A) |
| Dr K Ngqula (CEO) | E | 27 August 2004 (A) | Dr K Ngqula (CEO) | E | 27 August 2004 (A) |
| Ms LM Mojela | N | 27 August 2004 (A) | Ms LM Mojela | N | 27 August 2004 (A) |
| Mr PG Joubert | N | 27 May 2005 (A) | Mr PG Joubert | N | 27 May 2005 (A) |
| Ms F du Plessis | N | 24 October 2006 (A) | Ms F du Plessis | N | 24 October 2006 (A) |
| Ms KP Kalyan | N | 24 October 2006 (A) | Ms KP Kalyan | N | 24 October 2006 (A) |
| Mr BIL Modise | N | 24 October 2006 (A) | Mr BIL Modise | N | 24 October 2006 (A) |
| Dr ND Moyo | N | 24 October 2006 (A) | Dr ND Moyo | N | 24 October 2006 (A) |
| Prof JE Schrempp | N | 24 October 2006 (A) | Prof JE Schrempp | N | 24 October 2006 (A) |
| Mrs MM Whitehouse | N | 24 October 2006 (A) | Mrs MM Whitehouse | N | 24 October 2006 (A) |
| Mr G Griffiths | E | 1 August 2007 (R) | | | |

The Board met on eleven (11) occasions during the financial year.

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

The Financial, Risk and Investment Management Committee (FRIC) met on seven (7) occasions during the financial year.

The Nominations, Governance and Remuneration Committee met on three (3) occasions during the financial year.

The Ad Hoc Board Restructuring Subcommittee met regularly under the terms of reference set by the Board.

***Directors' and employees' interest in contracts***

No director or senior executive of the group has any material interests in contracts or conflicts of interest that may affect the group or his or her position in SAA.

## 4. EVENTS SUBSEQUENT TO BALANCE SHEET DATE

The directors note that the following event occurred subsequent to the balance sheet date.

***Redelivery of ZS-SAK and ZS-SAY***

The Aircraft Lease Agreements for the abovementioned aircraft, which have a lease termination date in June 2008, require that SAA redeliver the aircraft in a condition that will qualify the aircraft to obtain a certificate of airworthiness, to enable the Lessor to sell the aircraft for the public transport of passengers under the applicable Federal Aviation Authority (FAA) regulation of the United States of America.

In 2004, in compliance with a mandatory airworthiness requirement, an Enhanced Ground Proximity Warning System (EGPWS) modification was embodied on these aircraft. This modification was accomplished by a locally generated Engineering Bulletin, that had South African Civil Aviation Authority (SACAA), and FAA Form 8110-3 approval.

Recently, the abovementioned method of approval was questioned by the FAA resulting in an interpretation, received on 30 May 2008, that requires that the approval for this type of modification, must be accomplished by a Supplemental Type Certificate (STC) process.

SAA are procuring such STC, but this process will not be complete prior to the lease termination of these aircraft, which means that these aircraft will not meet redelivery conditions, on termination of the lease term.

This situation of late redelivery, means that SAA will, in terms of the Aircraft Lease Agreement be in a non-compliance condition, which permits the Lessor to claim against SAA for damages, that may be incurred in the disposal of the aircraft.

The value of the claim at this stage is not quantifiable as management is in the process of addressing this issue.

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

## 5. CORPORATE GOVERNANCE

SAA is committed to ongoing improvements to its corporate governance processes in line with international best practice, the PFMA and King II Code of Corporate Practices and Conduct. As part of this commitment to corporate governance and compliance with the 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, for the benefit of all stakeholders.

More focus was given this year to corporate governance through monthly FRIC, special Board meetings and DPE meetings.

# Directors' report continued

for the year ended 31 March 2008

## 6. BOARD OF DIRECTORS

The directors' responsibilities were established with reference to good corporate governance and the PFMA requirements. These responsibilities are summarised below.

The directors consider themselves 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. All directors have full and timely access to all relevant information needed to enable them to properly discharge their responsibilities. The Board carried out its annual review of matters referred to it for decision and those delegated to its Executive Committee. The Board is also responsible for the group'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 Board considers that the balance of executive and non-executive directors is appropriate and effective for the control and direction of the business. The Board is led by the non-executive Chairman and the executive management of the company is led by the Chief Executive Officer. There is a division of responsibilities between the Chairman and the Chief Executive Officer and their respective roles are described in the Board of Director's Charter and the Executive Committee Charter. Throughout the year, the Board comprised at least one executive director and nine non-executive directors.

In terms of the memorandum and the articles of association, the Board is responsible for overall company strategy, acquisitions and divestments, major capital projects and financial matters. The Board reviews and approves the strategic direction, annual budgets and corporate plans of the company and its subsidiaries. The Board is required to approve all major individual items of capital expenditure and monitor the group's performance against financial objectives and detailed budgets through management's monthly reporting.

All directors receive a regular supply of information relating to the group so that they are equipped to participate knowledgeably in Board meetings. With the Chairman's approval, management prepares the detailed agenda of each Board meeting. Papers for the Board and committee meetings are typically distributed one week prior to the relevant meeting. Papers for the Board contain both regular items such as reports on subsidiaries, updates on business development, monthly management accounts, as well as matters for the decision or information of the Board. All Board members have separate and independent access to the Company Secretary for any information they require. In addition, the Secretary ensures that the Board members are appropriately inducted on the business matters of the group. The appointment and removal of the Secretary is a matter for the Board as a whole. Independent professional advice would be available to directors in appropriate circumstances, at the group's expense.

It is the opinion of the Board that, throughout the year, each of the group'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 participates in any bonus, share option or pension scheme of the group.

### 6.1 Delegation of authority

The ultimate responsibility for the group's operations rests with the Board of Directors. The Board discharges its obligations in this regard through the Board committees and necessary delegations to the Chief Executive Officer within the necessary confines of applicable legislation.

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

### 6.2 Board committees

The Board has established three standing Board committees and one Ad Hoc Board Restructuring Subcommittee which met regularly under the terms of reference set by the Board. Each of the committees had authority to take external advice as required. While the committees performed delegated responsibilities on behalf of the Board, ultimate accountability still rests with the Board. The committees have adopted formal charters governing their roles and responsibilities and are reviewed on a regular basis. The committees were chaired by non-executive directors. The Company Secretary provides secretarial services to all committees.

The three Board committees established are as follows:

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

#### *6.2.1 Audit Committee*

From 1 April 2007, the Audit Committee comprised three (3) non-executive directors, namely Dr ND Moyo, Mrs MM Whitehouse and the chairperson Ms F du Plessis.

The Audit Committee reviews the group's annual financial statements to ensure that its accounting policies are the most appropriate to the group's circumstances and that its financial reporting presents a balanced and understandable assessment of the group's position and prospects. It also keeps under review the group's system of internal control. The committee is also responsible for overseeing the performance, as well as the objectivity and independence of the auditors and is also required to pre-approve the audit fees.

Both internal and the external auditors have unfettered access to the committee. Management is invited when required. In terms of Treasury Regulation 27, issued in terms of the PFMA, the Audit Committee is required to report on the effectiveness of internal controls and to comment on its evaluations of the annual financial statements.

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

*6.2.2 Financial, Risk and Investment Committee (FRIC)*

The FRIC Committee comprises three (3) non-executive directors, namely, Mr PG Joubert, Mrs MM Whitehouse and the chairperson Ms LM Mojela.

This committee is responsible for assisting the Board in discharging its duties relating to corporate and investment accountability and the associated risks in terms of management assurance and reporting. The committee reports to the full Board through its chairman and does not absolve the Board of its ultimate accountability. The major duties to be fulfilled by this committee are as follows:

- 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 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 seven (7) occasions during the financial year.

*6.2.3 Nominations, Governance and Remuneration Committee*

The Nominations, Governance and Remuneration Committee is made up of the following non-executive directors: Ms LM Mojela, Mr BIL Modise and the chairperson Ms KP Kalyan who were all appointed during October 2006. Prior to this date, Adv M Moerane, Ms MDCDNC Ramos and Mr P Nkuna were the committee members.

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

- To review and approve recommendations on remuneration policies.
- To ensure that the group's directors and senior executives are fairly rewarded for their individual and joint contribution to the group'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 group's applicable remuneration philosophies and that such policies are reviewed in accordance with the group'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 senior executive appointments and subsequent appointees are people who have the necessary and appropriate expertise in discharging their responsibilities.

The remuneration of directors has been included in note 44 of the notes to the annual financial statements. This note refers to related-party transactions which incorporates disclosure of personal compensation for key management. Key management refers to executive and non-executive directors as well as the Executive Committee of the group.

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

*6.2.4 The Ad Hoc Board Restructuring Subcommittee*

The Board's Restructuring Subcommittee comprises four (4) non-executive directors, namely Mr PG Joubert, Mrs MM Whitehouse, Ms F du Plessis and the chairperson Ms LM Mojela.

The subcommittee was established to oversee and monitor the implementation of SAA's restructuring programme. It will continue until the restructuring programme has been completed.

## 7. SAFETY, HEALTH AND ENVIRONMENTAL ISSUES (SHE)

Occupational Health and Safety (OHS) of the group's employees, passengers, contractors and others affected by its operations and activities is a top priority for management. The group views itself as being environmentally responsible and is committed to providing a working environment that is safe and without risk to its employees, passengers, contractors and others affected by its operations

# Directors' report continued

for the year ended 31 March 2008

and activities, as far as is reasonably practicable. The group is committed to ensuring that it operates its business in compliance with all the applicable legislation and standards.

Enhanced measures have had, and will continue to have, a significant impact on the flying experience for SAA's passengers.

SAA operations underwent and endured a number of regulatory audits from the International Civil Aviation Authorities, and the International Air Transport Association (IATA) Operational Safety Audit (IOSA). The results for 2007 reflected certain findings which were all corrected. The findings of the Air Operator Certificate (AOC) audit was performed by the Civil Aviation Authority (CAA) in March 2007, the results of which were satisfactorily resolved. The Air Operator Certificate was issued in April 2007. SAA went on to deliver successfully on a number of strategic business initiatives, which included the intervention for safe and secure operations.

The year under review did not pass without its problems and air traffic services and communication in Africa remained a moderate risk for SAA aircraft. Good support from IATA and improved liaison with the various regulatory authorities generally improved safety in the African region.

Notwithstanding the impact that this has had on our aircraft utilisation, safety requirements are a priority and will not be compromised in any way. The group has invested significantly in facilities, equipment and technology to make SAA a customer-focused airline.

SAA will continue to maintain its compliance to Code Shares; Star Alliance and PFMA regulations, and in particular to the implementation of part 108 (New Cargo security regulations) provisions promulgated by the South African Civil Aviation Authority (SACAA).

SAA adopts a zero-defect stance and strives for zero accidents through proper training, work practices, risk management and adherence to safety regulations at all times.

## 8. 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.

## 9. HIV/AIDS

SAA annually mirrors the HIV/Aids calendar through awareness campaigns and a number of HIV/Aids programmes, such as World Aids Day and Memorial Aids Day.

SAA, through its service providers; provides a 24-hour HIV counselling service to its staff and continuously seeks to educate line managers and supervisors in dealing with this disease in the workplace.

SAA runs a number of HIV/Aids programmes; from the provision of anti-retroviral treatment to staff with no medical cover, to awareness campaigns.

## 10. PFMA

In accordance with the PFMA, the Board has the responsibility of ensuring that SAA has and maintains effective, efficient and transparent systems of financial and risk management and internal control. In this regard, SAA has implemented governance structures and processes to ensure that they have generally complied with the provisions of the PFMA. PFMA compliance is one of the key legislative programmes that are monitored at both Board and Executive levels. The management, through the Chief Executive Officer, is accountable to the Board in ensuring that these objectives are met. The systems are designed, implemented and maintained in order to provide reasonable assurance that SAA will achieve its objectives including the prescripts of the PFMA.

In keeping with the above, the Chief Risk Officer (CRO) has responsibility over the following functions:

- Aviation and quality assurance.
- Compliance and corporate governance.
- Internal audit.
- PFMA compliance.
- Enterprise risk management which includes fraud prevention.

The CRO reports functionally to the Financial, Risk and Investment (FRIC) and Audit committees and administratively to the Chief Executive Officer. The CRO also has oversight over the Financial Risk subcommittee, a management committee reporting to FRIC, in terms of the Financial Risk Management Policy approved by the Board.

### 10.1 Procurement system

During the 2007/08 financial year SAA faced many challenges that were emphasised in the audit findings on procurement weaknesses during the 2006/07 financial year. Due to the enormity of these challenges, the Procurement function is in the process of being restructured by:

- the establishment of the Cash Conservation Office, with emphasis on payment of suppliers for services done through valid contracts,
- embarking on a company-wide communication drive on PFMA compliance, especially to the management team;

- the implementation of a contracts register; and
- the establishment of a document management system.

SAA will strive to conduct its procurement activities in a fair, equitable, transparent, cost-effective and competitive manner as per the provisions of the PFMA.

**10.2 Irregular, fruitless and wasteful expenditure**

Sections 51 and 55 of the PFMA contain certain onerous obligations for the group to comply with. These obligations include the prevention, identification and reporting of all fruitless and wasteful expenditure irrespective of the quantum.

In the light of the internal control weaknesses, SAA is aware that it is not yet fully compliant with all the requirements of the PFMA regarding the prevention and disclosure of irregular expenditure in terms of section 51(b) (ii) of the Act. (A report covering any known instances of fruitless, wasteful and irregular expenditure, together with other contraventions of the PFMA, will be incorporated in a submission to the Minister of Public Enterprises.)

**10.3 Shareholders' compact**

A shareholders' compact, as required by Treasury Regulation 29, was signed on 4 September 2007 and the performance information has accordingly been included in the annual report as envisaged by section 55(2) of the PFMA, in part 15 of this directors' report below.

**10.4 Legislation**

Section 51(1)(h) of the PFMA requires that SAA complies with the PFMA and any other legislation applicable to the company.

SAA has embarked on a strategy to comply with the many laws and regulations affecting its operations. This strategy has resulted in the establishment of a compliance division within SAA which developed a "regulatory universe". The regulatory universe attempts to list all legislation which is applicable to SAA.

With this as a base, SAA disaggregated the applicable legislation and sorted those laws and regulations that are likely to have a material impact from those which will have a lesser impact.

A monitoring plan has been approved and is currently being implemented. This represents a marked improvement over prior years. However, until the monitoring plan is fully operational, SAA is unable to confirm compliance with all legislation and regulations.

**10.5 Internal control**

As a result of the onerous obligations of the PFMA and the non-compliance with certain statutory prescripts of the PFMA, the group is also in breach of sections 51 and 57 relating to internal control. However, the Board highlights the substantial progress that has been made in redefining the foundation for sound internal control within the group and is committed to implementing improvements in key areas, including an enhancement of the group's contract register, further refinement of the new revenue accounting system and the procurement system.

## 11. COMPLIANCE STATEMENT

This report is presented in terms of Treasury Regulation 28.1 of the PFMA, as amended. The prescribed disclosure of emoluments in terms of Treasury Regulation 28.1.1 is reflected under the heading "Remuneration of directors" above and under note 44 of these annual financial statements titled "Related-party transactions".

The Board considers that the group has complied with the provisions of sections 51, 54 and 55 of the PFMA, other than those matters referred to on page 31, throughout the period under review and up to the date of the approval of these annual financial statements. The Board and management have taken steps to ensure that the areas of non-compliance are addressed in the next financial year.

SAA will be reporting the above matters in terms of the PFMA to the Minister of Public Enterprises.

## 12. STAKEHOLDER RELATIONS

The group is committed to communicating its latest reviewed or audited financial information to its employees, shareholders, and local and international stakeholders. We also maintain ongoing dialogue and sharing of financial information with the government.

The Chief Executive Officer, with senior management, regularly communicate with stakeholders by organising meetings with management and staff, and visits local and international stakeholders by presenting the half-year reviewed and audited year-end financial information.

We acknowledge the importance of the media in building the SAA brand, and management is constantly available to speak to journalists to provide them with answers and commentary when required.

The group issues detailed annual financial statements, notwithstanding that it is not obliged to do so, by virtue of it being an unlisted private company.

# Directors’ report continued

for the year ended 31 March 2008

## 13. GOING CONCERN

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

- rising commodity prices, particularly crude oil prices;
- exchange rate fluctuations;
- changes in economic activity levels domestically, regionally or internationally;
- fluctuating interest rates;
- the consequences of terrorist activities;
- the consequences of pandemics; and
- domestic and international competition from the growth in low-fare carriers.

As a result of significant losses that were incurred during the 2006/07 financial year, SAA embarked on a restructuring programme to address the ever-changing risks associated with the airline industry as a whole. The restructuring programme focused on three main areas, namely (i) global initiatives, involving many different departments; (ii) revenue initiatives; and (iii) departmental specific initiatives aimed at cost cutting in order to return the airline to profitability with financial performance metrics similar to those of its world-class peers.

Going forward, SAA will continuously identify and monitor cost-saving/revenue enhancement initiatives, to ensure the airline remains profitable into the future.

The directors have assessed SAA's ability to continue as a going concern based upon appropriate and reasonable economic indicators and forecasts taking account of the risks mentioned above. Of particular relevance is the recent rapid climb in fuel prices and the prospects for the price going forward. In line with other carriers, SAA has introduced a fuel levy to recover a portion of the increase in fuel price. The going concern assessment includes a reasonable assumption that passengers will continue to accept the fuel levy as part of the ticket price and that there will not be a significant fall off in passenger numbers as a consequence of the additional cost of travel. Taking all the above factors into account the directors are of the belief that SAA has sufficient cash resources and credit facilities to continue as a going concern and that its obligations will continue to be met, in the normal course of business, based upon realistic and reasonable economic assumptions.

The attention of stakeholders is however drawn to the present global economic turmoil and in particular the uncertainties facing the airline industry as a whole. It is possible that actual economic events, impacting in particular fuel prices; interest rates and exchange rates could be more disadvantageous than anticipated. Should this occur, the consequences for the industry and SAA would be serious.

During the current restructuring period the shareholder has facilitated equity injections into SAA, via the provision of guarantees in support of subordinated loans. The directors will engage the shareholder on the capital structure of SAA should unreasonable and unrealistic economic circumstances arise.

## 14. DIVIDENDS PAID AND RECOMMENDED

As detailed on page 24, section 1.1, SAA entered into a subordinated loan agreement. As there is no contractual obligation to deliver cash and the subordinated loan has been classified as equity, the interest which SAA has elected to pay has been classified as dividends. For the current year SAA serviced interest of R137-million which has been classified as dividends in the annual financial statements.

## 15. PROGRESS ON KEY PERFORMANCE INDICATORS

As envisaged by section 55 (2) of the PFMA, the group is required to report on the key performance indicators (KPIs) during the financial year under review. This has accordingly been set out below:

| Key performance indicators (KPIs) | Performance | | |
|---|---|---|---|
| **Profitability**<br>Achieve sustainable profitable operations in every major market segment of: domestic (both legacy and Mango); regional; and, each separable intercontinental market. | KPI | Target for the year ended 31 March 2008 R million | Year to date Actual R million |
| Achieve recurring earnings before interest and taxation (EBIT) as follows: | EBIT | 695 | 375* |

** Excluding restructuring costs of (R1,35-billion).*

| Key performance indicators (KPIs) | Performance | | |
|---|---|---|---|
| **Traffic** | | | |
| Sustain passenger load factors and grow average passenger and cargo fares (excluding Mango and foreign currency effects) as follows: | KPI | Target for the year ended 31 March 2008 | Year to date Actual |
| | Passenger load factors (%) | 77 | 75,3 |
| | Average passenger fare (Rand) | 2 000 | 2 067 |
| | RASK* (ZAR cents) | 66,3 | 65,7 |
| | CASK** (ZAR cents) | 64,2 | 65,2*** |
| | Cargo revenue to passenger revenue on international routes (%) | 15 | 13 |
| **Fleet** | | | |
| Produce a long-term fleet plan updated every six months detailing schedule of demand and capacity. Improve fleet utilisation (excluding Mango) as follows: | Daily block hours per aircraft (excluding Mango) | 10,7 | 10,6 |

** RASK – Revenue per available seat kilometre.*
*** CASK – Cost per available seat kilometre.*
**** Excluding restructuring costs.*

## 16. APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The directors are required, by the Companies Act, No 61 of 1973, and the PFMA to prepare annual financial statements which fairly present the financial position of the group and the company at 31 March 2008 and the results of their operations and cash flows for the year then ended. In preparing these annual financial statements, the directors are required to:

- select suitable accounting policies and apply them consistently;
- make judgements and estimates which are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the annual financial statements on the going concern basis unless it is inappropriate to presume that the group and/or the company will continue in business for the foreseeable future.

The directors are of the opinion that they have discharged their responsibility for keeping proper accounting records that disclose, 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, subject to the comments noted above in “going concern”. The directors have continued to adopt the going concern assumptions in preparing the annual financial statements.

The external auditors, Deloitte & Touche, are responsible for independently auditing and reporting on the annual financial statements in conformity with International Standards on Auditing. Their report on the annual financial statements in terms of the Companies Act and Public Audit Act, No 25 of 2004, appear on page 22.

The Audit Committee has reviewed the effectiveness of the group’s internal controls and systems, and steps are 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 previous revenue accounting system has been addressed and new systems and processes have been implemented that are appropriate for the effective operation of the business. These systems and processes continue to be refined.

In preparing the group and company annual financial statements set out on pages 23 to 103, unless otherwise disclosed, the group and company have complied with International Financial Reporting Standards, the Companies Act and the reporting requirements of the PFMA and have used appropriate accounting policies supported by reasonable and prudent judgements and estimates. The directors are of the opinion that these annual financial statements fairly present the financial position of the group and the company at 31 March 2008, and the results of their operations and cash flows for the year then ended.

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

**Prof GJ Gerwel**
*Chairman*

11 July 2008

**Dr K Ngqula**
*Chief Executive Officer*

11 July 2008

# Income statements

for the year ended 31 March 2008

| | Note | Group 2008 R million | Group 2007 R million | Company 2008 R million | Company 2007 R million |
|---|---|---|---|---|---|
| **REVENUE – CONTINUING OPERATIONS** | 6 | **22 511** | 20 652 | **21 837** | 20 357 |
| **Turnover** | 6 | **19 270** | 17 021 | **18 437** | 16 484 |
| **Other airline income** | 7 | **2 987** | 3 503 | **3 028** | 3 555 |
| **Total airline income** | | **22 257** | 20 524 | **21 465** | 20 039 |
| **Operating costs** | | **23 629** | 21 174 | **22 663** | 20 712 |
| Aircraft lease costs | 11 | **3 012** | 2 514 | **3 011** | 2 514 |
| Accommodation and refreshments | | **908** | 880 | **896** | 872 |
| Depreciation and amortisation | 11 | **823** | 741 | **782** | 702 |
| Distribution costs | | **1 430** | 1 409 | **1 383** | 1 404 |
| Electronic data costs | | **649** | 472 | **647** | 467 |
| Energy | | **6 685** | 5 734 | **6 434** | 5 647 |
| Employee benefit expenses | 8 | **3 298** | 3 300 | **2 387** | 2 405 |
| Material | | **2 066** | 1 524 | **2 604** | 2 419 |
| Navigation, landing and parking fees | | **1 142** | 1 056 | **1 094** | 1 039 |
| Impairment write-off (reversal) | 9 | **142** | (18) | **171** | (28) |
| (Profit) loss on sale and scrapping of property, aircraft and equipment | 11 | **(8)** | 3 | **(6)** | 4 |
| Other operating costs | | **3 482** | 3 559 | **3 260** | 3 267 |
| **Loss before fair value movements and translation gains (losses)** | 11 | **(1 372)** | (650) | **(1 198)** | (673) |
| Fair value movements and translation gains (losses) | 12 | **399** | 40 | **352** | (57) |
| **Operating loss** | | **(973)** | (610) | **(846)** | (730) |
| Finance costs | 10 | **(384)** | (408) | **(442)** | (408) |
| Investment income | 10 | **254** | 128 | **372** | 318 |
| **Loss before taxation** | | **(1 103)** | (890) | **(916)** | (820) |
| Taxation | 13 | **15** | (42) | **(11)** | (41) |
| **Loss for the year from continuing operations** | | **(1 088)** | (932) | **(927)** | (861) |
| Profit for the year from discontinued operations | 14 | **3** | 49 | **–** | – |
| **Loss for the year** | 11 | **(1 085)** | (883) | **(927)** | (861) |
| **Attributable to:** | | | | | |
| Equity holders of the parent | | **(1 085)** | (883) | **(927)** | (861) |
| Basic loss per share (cents) | 15 | **(10)** | (12) | **–** | – |

# Balance sheets

at 31 March 2008

| | Note | **Group 2008 R million** | Group 2007 R million | **Company 2008 R million** | Company 2007 R million |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Property, aircraft and equipment | 16 | **6 984** | 7 720 | **6 223** | 6 942 |
| Intangible assets | 17 | **108** | 100 | **104** | 100 |
| Investment in subsidiaries | 18 | **–** | – | **338** | 2 |
| Investments | 19 | **–** | 420 | **–** | 420 |
| Reimbursement right | 24 | **112** | 112 | **112** | 112 |
| **Total non-current assets** | | **7 204** | 8 352 | **6 777** | 7 576 |
| **Current assets** | | | | | |
| Investment in subsidiaries | 18 | **–** | – | **1 788** | 1 714 |
| Non-current assets and disposal group held for sale | 20, 22 | **137** | 134 | **68** | 90 |
| Inventories | 23 | **450** | 509 | **98** | 91 |
| Accounts receivable | 25, 26 | **3 475** | 3 621 | **2 961** | 3 025 |
| Deferred taxation asset | 37 | **28** | – | **–** | – |
| Derivative financial assets | 27 | **204** | 48 | **204** | 48 |
| Investments | 19 | **461** | 148 | **461** | 148 |
| Cash and cash equivalents | 28 | **5 393** | 2 364 | **5 319** | 2 278 |
| **Total current assets** | | **10 148** | 6 824 | **10 899** | 7 394 |
| **TOTAL ASSETS** | | **17 352** | 15 176 | **17 676** | 14 970 |
| **EQUITY AND LIABILITIES** | | | | | |
| **Capital and reserves** | | | | | |
| Share capital | 29, 30 | **11 343** | 11 343 | **11 577** | 11 577 |
| Shareholder restructuring fund | 29 | **653** | – | **653** | – |
| Non-distributable reserves | 29 | **(43)** | 26 | **(43)** | 26 |
| Accumulated losses | 29 | **(12 321)** | (11 099) | **(12 371)** | (11 307) |
| **Shareholders' (deficit) equity** | | **(368)** | 270 | **(184)** | 296 |
| Subordinated loan guaranteed by government | 32 | **2 864** | 1 300 | **2 864** | 1 300 |
| **Total capital and reserves** | | **2 496** | 1 570 | **2 680** | 1 596 |
| **Non-current liabilities** | | | | | |
| Long-term loans | 33 | **3 519** | 3 921 | **3 519** | 3 921 |
| Other long-term liabilities | 35 | **63** | 63 | **–** | – |
| Employee benefit obligations | 36 | **208** | 257 | **208** | 257 |
| Provisions | 40 | **401** | 768 | **401** | 723 |
| Finance lease obligations | 34 | **–** | 25 | **–** | 25 |
| **Total non-current liabilities** | | **4 191** | 5 034 | **4 128** | 4 926 |
| **Current liabilities** | | | | | |
| Bank overdraft | 28 | **1** | – | **–** | – |
| Air traffic liability | 38 | **2 938** | 2 600 | **2 890** | 2 546 |
| Accounts payable | 39 | **5 137** | 4 833 | **5 441** | 4 869 |
| Provisions | 40 | **1 916** | 457 | **1 907** | 393 |
| Taxation | | **–** | 54 | **–** | 52 |
| Short-term portion of long-term loans | 33 | **590** | 554 | **590** | 554 |
| Short-term portion of finance lease obligations | 34 | **40** | 34 | **40** | 34 |
| Liabilities included in disposal group held for sale | 22 | **43** | 40 | **–** | – |
| **Total current liabilities** | | **10 665** | 8 572 | **10 868** | 8 448 |
| **TOTAL EQUITY AND LIABILITIES** | | **17 352** | 15 176 | **17 676** | 14 970 |

# Statements of recognised income and expenses

for the year ended 31 March 2008

| | **Group 2008 R million** | Group 2007 R million | **Company 2008 R million** | Company 2007 R million |
|---|---|---|---|---|
| Losses on UK pension fund | **(15)** | – | **(15)** | – |
| Losses on SAA subfund of Transport Pension Fund | **(61)** | – | **(61)** | – |
| Actuarial gain on post-retirement medical benefits | **7** | – | **7** | – |
| Gain on share buy-back | **–** | 20 | **–** | 20 |
| **(Loss) income recognised directly in equity*** | **(69)** | 20 | **(69)** | 20 |
| Loss for the year from continuing operations | **(1 088)** | (932) | **(927)** | (861) |
| Profit from discontinued operations | **3** | 49 | **–** | – |
| Dividend paid on government subordinated loan classified as an equity instrument | **(137)** | – | **(137)** | – |
| **Total recognised income and expense for the year** | **(1 291)** | (863) | **(1 133)** | (841) |
| **Attributable to:** | | | | |
| Equity holders of the parent | **(1 291)** | (863) | **(1 133)** | (841) |

** For detailed movement on equity refer to note 29.*

# Cash flow statements

for the year ended 31 March 2008

| | Note | Group 2008 R million | Group 2007 R million | Company 2008 R million | Company 2007 R million |
|---|---|---|---|---|---|
| **CASH FLOW FROM OPERATING ACTIVITIES** | | | | | |
| Cash generated from operations | 45 | **1 388** | 316 | **1 739** | 150 |
| Interest received | | **254** | 128 | **372** | 318 |
| Finance costs | | **(384)** | (408) | **(442)** | (408) |
| Realised derivatives | | **154** | 201 | **154** | 201 |
| Taxation paid | | **(37)** | – | **(35)** | – |
| Net cash inflow from operating activities | | **1 375** | 237 | **1 788** | 261 |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | | | | |
| Additions to property, aircraft and equipment | | **(179)** | (269) | **(141)** | (226) |
| Additions to assets held for sale | | **–** | (36) | **–** | (36) |
| Proceeds on disposal of property, aircraft and equipment | | **53** | 3 | **50** | 2 |
| Net proceeds on disposal of assets held for sale and subsidiary | | **–** | 12 | **–** | 43 |
| Decrease in investments | | **157** | 227 | **157** | 227 |
| Additions to intangibles assets | | **(38)** | (99) | **(34)** | (99) |
| Increase in loans to subsidiaries | | **–** | – | **(106)** | (185) |
| Increase in investment in subsidiary | | **–** | – | **(336)** | – |
| Net cash outflow from investing activities | | **(7)** | (162) | **(410)** | (274) |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | | | | |
| Net cash outflow on share buy-back | | **–** | (39) | **–** | (39) |
| External borrowings repaid | | **(523)** | (530) | **(519)** | (549) |
| External borrowings raised | | **1 564** | 1 300 | **1 564** | 1 300 |
| Restructuring funds raised | | **653** | – | **653** | – |
| Dividend paid on government subordinated loan classified as an equity instrument | | **(137)** | – | **(137)** | – |
| Net cash inflow from financing activities | | **1 557** | 731 | **1 561** | 712 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | **2 925** | 806 | **2 939** | 699 |
| Foreign exchange effect on cash and cash equivalents | | **102** | 117 | **102** | 117 |
| Cash and cash equivalents at beginning of year | | **2 363** | 1 440 | **2 278** | 1 462 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | 28 | **5 390** | 2 363 | **5 319** | 2 278 |

Included in cash and cash equivalents at year-end is restricted cash of R2,86-billion (2007: R1,30-billion).

# Notes to the annual financial statements

for the year ended 31 March 2008

## 1. STATEMENT OF COMPLIANCE

The consolidated annual financial statements of South African Airways (Pty) Limited (the group and the company), as set out on pages 19 to 103, have been prepared in accordance with International Financial Reporting Standards (IFRS).

## 2. STANDARDS AND INTERPRETATION ISSUED BUT NOT YET EFFECTIVE

**IAS 1 Presentation of Financial Statements**

The objective of this standard is to prescribe the basis for presentation of general purpose financial statements, to ensure comparability both with the entity's financial statements of previous periods and with the financial statements of other entities. This statement will not impact the results of the group but will likely result in certain additional disclosures. Effective date: Annual periods commencing on or after 1 January 2009.

**IAS 23 Borrowing costs – revised**

The main change from the previous version of IAS 23 is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. This standard will not have a material impact on the results of the group. Effective date: Annual periods commencing on or after 1 January 2009.

**IFRS 8 Operating segments**

IFRS 8 requires an entity to adopt the "management approach" to reporting on the financial performance of its operating segments. The standard sets out requirements for disclosure of information about an entity's operating segments and also about the entity's products and services, the geographical areas in which it operates, and its major customers. The disclosure should enable users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates. This standard will not impact the results or disclosures of the group as the group equity is not traded in a public market. Effective date: Annual periods commencing on or after 1 January 2009.

**IFRIC 13 Loyalty Programmes**

IFRIC 13 dealing with customer loyalty programmes. This standard will have a major impact on the SAA Voyager programme when it becomes effective for annual periods commencing on or after 1 July 2008. The estimated impact of this interpretation is detailed in note 47.

## 3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The group annual financial statements are presented in South African rand which is the group's reporting and functional currency, rounded to the nearest million. The group annual financial statements have been prepared on a historical-cost basis, except for measurement at fair value of certain financial instruments as described further in the accounting policy notes below.

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

**Basis of consolidation**

**Subsidiaries**

Consolidated financial statements incorporate the financial statements of the company and the entities controlled by the company (subsidiaries). Control is achieved where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. This is usually the case when the company owns more than one half of the voting rights. The subsidiaries are fully consolidated from the effective date of acquisition until the effective date of disposal.

**Business combinations**

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

**Potential voting rights**

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

**Transactions eliminated on consolidation**

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

**Goodwill**

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

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

**Foreign currency transactions**

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

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

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

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

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

**Revenue**

Revenue consists of passenger airline revenue, freight and mail revenue, revenue from technical services, Voyager income, commissions received, interest income and income from leased assets, insurance recoveries and the release of unutilised air tickets. Revenue from services is recognised in the income statement as and when services are rendered.

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

Air tickets that remain unutilised after an 18-month period are released to revenue. The estimate is based on the historical statistics and data which takes into account the terms and conditions for various ticket types.

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

**Frequent flyer programme**

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

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

# Notes to the annual financial statements continued

for the year ended 31 March 2008

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

The incremental costs accrued include fuel, catering servicing costs and costs of redemption on airline and non-airline partners. These costs are charged to operating costs when the provision is raised.

**Technical maintenance income**

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

**Maintenance costs**

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

**Maintenance reserve: Group as lessee**

Maintenance reserves are payments made to certain lessors in terms of the aircraft lease contract. The lessors are contractually obligated to reimburse the group for the qualifying maintenance expenditure incurred on aircraft provided that the group has the maintenance reserves credit. Unutilised maintenance reserves at the expiry of the lease term are not refundable. Maintenance reserves are recognised as an expense when they become due and payable to the lessor in terms of the contract.

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

Maintenance costs not reimbursed by the lessor due to insufficient maintenance reserve credits, including those for non-qualifying maintenance events, are recognised as an expense immediately in the profit or loss for the period.

**Maintenance reserve: Group as lessor**

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

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

**Power by the hour**

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

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

**Borrowing costs**

Borrowing costs are expensed as and when incurred.

**Taxation and deferred taxation**

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

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

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

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

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

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

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

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

**Property, aircraft and equipment**

**Owned assets**

***Land and buildings***

Land is stated at deemed cost and not depreciated. Buildings are stated at deemed cost, less accumulated depreciation and impairment losses. Deemed costs were determined at the date of transition to IFRS, 1 April 2004 as the fair value of the land and buildings arrived at by applying the relevant property index to the property valuations done by professional qualified valuers in 2001.

***Aircraft***

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

***Other property, machinery and equipment***

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

***Depreciation***

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

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

The residual value and the useful life of each asset or component thereof will be reviewed at least at each financial year-end and any difference will be treated as a change in estimate.

The following annual rates are applicable:

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

# Notes to the annual financial statements continued

for the year ended 31 March 2008

*Residual values*

The aircraft and its components have useful lives ranging from 8 to 15 years, with residual values of 20% on structures and engines. All other property and equipment and their components have no residual value.

*Capital work in progress*

Capital work in progress relates to Buyer Furnished Equipment (BFE) and PDPs relating to aircraft still being constructed. These are released from capital work in progress and recognised as part of the asset when the construction is complete.

*Exchangeable units*

Exchangeable units are classified as equipment and are depreciated accordingly. The cost of repairing and exchanging such units is charged to the income statement as and when incurred.

*Disposal or retirement*

Property, aircraft and equipment which the group has identified as available for sale immediately and in their present condition subject only to terms that are usual and customary for sales of such assets and for which its sale is highly probable are reclassified as non-current assets held for sale.

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

**Leasehold improvements**

*Land and buildings*

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

*Aircraft*

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

*Accounting for leases*

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

*Group as lessee*

Assets held under finance leases, are recognised as assets at the commencement of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between the finance charges and reduction of the lease liability 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 a straight-line basis over the lease term.

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

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

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

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

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

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

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

**Intangible assets**

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

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

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

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

| Intangible asset class | Useful lives |
|---|---|
| Application software | 3 – 5 |
| Internet booking site | 5 |

*Subsequent expenditure*
Any subsequent expenditure on capitalised intangible assets is capitalised only when it meets the recognition criteria of an intangible asset. All other expenditure is expensed as incurred.

**Impairments**

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

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

*Calculation of recoverable amount*
The recoverable amount is the higher of the asset's 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 flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

# Notes to the annual financial statements continued

for the year ended 31 March 2008

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

*Reversal of impairments*

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

*Financial instruments*

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

Financial assets and liabilities are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of those financial instruments. The financial assets and liabilities that are classified as at fair value through profit and loss are measured at fair value excluding any transaction costs.

*Financial assets*

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

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, such as trade receivables, loans originated by the group, fixed deposit and defeasance deposit.

Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for trade and other receivables when the recognition of interest would be immaterial.

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or that are not classified as at fair value through profit and loss, loans and receivable or held-to-maturity investments.

This category includes listed and unlisted investments, except for investments in subsidiaries, associates and joint ventures.

After initial recognition, available-for-sale financial assets are measured at fair value with unrealised gains or losses being recognised directly in equity in fair value reserves. With disposal of financial assets, the accumulated gains and losses recognised in equity resulting from measurement at fair value are recognised in profit or loss. If a reliable estimate of the fair value of an unquoted equity instrument cannot be made, this instrument is measured at cost less any impairment losses.

Dividends received from these investments are recognised in profit or loss when the right of payment has been established. These are included in the revenue. Fair value is determined as stated in note 46.3.

*Investments*

Investments in subsidiaries, associates and joint ventures, are recognised on a trade date basis and are initially recognised at cost. After initial recognition, the group's investment in subsidiaries, associates and joint ventures continue to be held at cost, and are reviewed annually for impairment.

*Derivative financial instruments*

The group uses derivative financial instruments, such as foreign currency contracts, currency options, commodity derivative swaps, options and collars, to manage its risks associated with foreign currency fluctuations and underlying commodity fluctuations. The group does not hold or issue derivative financial instruments for trading purposes. Derivative financial instruments are classified as held for trading financial asset or financial liabilities.

The group's derivatives normally have a maturity period of 12 months or less and are therefore presented as current assets or current liabilities.

Embedded derivatives in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit and loss.

*Financial assets at fair value through profit and loss*

Financial assets at fair value through profit or loss include financial assets held for trading. These mainly include the derivative financial assets and commodity derivatives. A financial asset is classified as held for trading if it has been acquired principally for the purposes of selling in the near future, is a derivative that is not designated and effective as a hedging instrument and it is part of an identified portfolio of financial instruments that the group manages together and has a recent actual pattern of short-term profit taking.

After initial recognition, these financial assets are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest on the financial asset. Fair value is determined as stated in note 46.3.

*Cash and cash equivalents*

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

*Gains and losses on subsequent measurement*

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

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

*Hedge accounting*

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

*Impairment of financial assets*

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

For categories of financial assets, such as trade receivables, impairment is assessed on an individual basis. Any assets that are assessed not to be impaired on individual basis are subsequently assessed for impairment on a portfolio basis. The assets are grouped on portfolio, taking into consideration similar credit risk characteristics. The objective evidence of impairment for a portfolio of receivables normally includes the group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of between 60 to 90 days, depending on the defined credit risk assessment for each type of debtors, and any dispute of amount receivable from the debtor is also considered as part of impairment indicators. For more details refer to note 26.

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade and receivable is considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

For equity instruments held and classified as available for sale, a significant or prolonged decline in the fair value is the objective evidence for a possible impairment. Impairment losses previously recognised through profit and loss are not reversed through profit and loss. Any increase in fair value subsequent to an impairment loss is recognised directly in equity.

*Derecognition*

A financial asset is derecognised when the group loses control over the contractual rights of the asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished. When available-for-sale assets and assets held for trade are sold, they are derecognised and a corresponding receivable is recognised at the date the group commits the assets. Held-to-maturity instruments, loans and receivables are derecognised on the day the risks and rewards of ownership are transferred.

# Notes to the annual financial statements continued

for the year ended 31 March 2008

If the group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the group retains substantially all the risks and rewards of ownership of a transferred financial asset, the group continues to recognise the financial asset and also recognises collateralised borrowing for the proceeds received.

***Pre-Delivery Payments (PDPs) and other aircraft deposits***

PDPs paid to the manufacturers of aircraft in terms of the contractual arrangements governing the purchase of aircraft are initially recognised as part of capital work in progress at the cost of the consideration delivered. In the event that a decision is taken that it is likely that the underlying aircraft will not be purchased at the expected delivery date, but will be leased under an operating lease, then the related PDPs will be remeasured to the present value of the consideration expected to be received from the ultimate lessor.

This consideration will, if it is denominated in a foreign currency, be translated to the measurement currency by applying the exchange rate ruling at the reporting date.

In calculating the value of the future consideration receivable, any benefit or loss that will result as a consequence of the group having secured the aircraft at the original contractual price as against the fair value of the aircraft at the date of delivery to the lessor, which is taken into consideration if the future operating lease payments forms part of the consideration receivable. Any loss arising on remeasurement is classified as impairment.

Once the operating lease agreement related to the aircraft has been formally concluded, the receivable amount so arising is transferred from capital work in progress to refundable deposits.

Where an aircraft is delivered under short-term bridging finance, pending the finalisation of an operating lease, the related PDPs and the final instalment paid to the manufacturer are again remeasured at the present value of the expected consideration from the lessor in the same manner as outlined above. Under these circumstances the full consideration receivable is classified under refundable amounts.

***Financial liabilities and equity instruments issued by the group***

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

***Equity instruments***

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

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

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

***Financial liabilities***

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

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

Financial liabilities at fair value through profit and loss are classified as held for trading. A financial liability is classified as held for trading if it is a derivative that is not designated and effective as a hedging instrument. Financial liabilities held for trading are subsequently stated at fair value, with any gains and losses recognised in profit or loss. Fair value is determined in a manner described in note 46.3.

***Interest-bearing loans and borrowings***

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

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

*Inventories*

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

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

*Provisions*

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

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

*Onerous contracts*

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

*Reimbursements*

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

*Restructuring provision*

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

*Provision for return conditions*

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

**Employee benefits**

*Pension benefits*

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

The group's contributions to the defined contribution fund are charged to the income statement during the year in which they relate.

The benefit costs and obligations under the defined benefit funds are determined separately for each fund using the projected unit credit method, except for the SAA subfund of the Transport Pension Fund, which is valued based on the attained age method. The benefit costs are recognised in the income statement. Actuarial gains and losses are recognised in the period in which they occur outside of profit and loss in a statement of recognised income and expense.

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

When the benefits of a plan are improved, the portion of the increased benefit relating to past services by the employees is recognised as an expense in the income statement on a straight-line basis over the average period until the benefit becomes vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the income statement.

# Notes to the annual financial statements continued

for the year ended 31 March 2008

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

***Post-retirement medical benefits***

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

***Short- and long-term benefits***

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

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

***Termination benefits***

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits when it has demonstrated its commitment 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.

***Related parties***

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

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

## 4. CRITICAL JUDGEMENTS IN APPLYING THE GROUP'S ACCOUNTING POLICIES

In the process of applying the group's accounting policies, which are described above, management has made the following judgements that have the most significant effect on the amounts recognised in the annual financial statements.

**Air traffic liability and revenue recognition**

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

Due to system limitations in the past affecting SAA's ability to accurately compute the forward sales liability on a ticket-for-ticket basis, management applied a conservative approach in accounting for tickets sold but not yet flown. Industry norms indicate a non-utilisation rate of between 0% and 3%. Management's estimates made around the expected percentage of tickets sold that will not be flown was 2% for passenger tickets and 4% for miscellaneous charge orders. The estimates are based on past experience as well as trends within the airline industry.

Management has used the same assumptions and judgement regarding the period over which the unutilised air tickets and airway bills are released to income as in the previous year which is an 18-month rolling period. In making its judgement, management has considered the following:

- The implementation of a new sales based revenue accounting system that makes it possible to accurately determine what part of this liability could be taken to revenue each financial year.
- The terms and conditions of the air tickets as stipulated in the IATA air ticket rules. In terms of the rules, an air ticket is valid for a period of 12 months from the date of first flight. If it is not utilised within this period, it expires.
- Interline settlement and rejections can, however, take longer than 12 months to be processed.

The assumptions and judgement in estimating the forward sales liability resulted in the release of R373-million to income in the current year. The amount released to income in 2007 was R693-million. It is impractical to determine the future impacts of these estimates and judgements.

**Useful lives and residual values of property, aircraft and equipment**

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

## 5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

**Provision for frequent flyer**

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

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

The carrying amount of the provision for Voyager miles was estimated at R190-million (2007: R152-million). Refer to note 40 for details.

**Power by the hour (PBTH)**

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

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

At year-end, SAA Technical has recorded a prepayment of R446-million (2007: R523-million).

# Notes to the annual financial statements continued

for the year ended 31 March 2008

| | | Group 2008 R million | Group 2007 R million | Company 2008 R million | Company 2007 R million |
|---|---|---|---|---|---|
| **6.** | **REVENUE** | | | | |
| | The analysis of revenue for the year is as follows: | | | | |
| | **Turnover** | | | | |
| | Passenger revenue | **16 527** | 14 230 | **15 963** | 14 069 |
| | Freight and mail | **1 765** | 1 829 | **1 765** | 1 829 |
| | Technical services | **336** | 410 | **72** | 37 |
| | Voyager income (notes 5 and 40) | **327** | 371 | **327** | 371 |
| | Commission received | **315** | 181 | **310** | 178 |
| | **Total turnover** | **19 270** | 17 021 | **18 437** | 16 484 |
| | Interest received (note 10) | **254** | 128 | **372** | 318 |
| | Other airline income (note 7) | **2 987** | 3 503 | **3 028** | 3 555 |
| | **Revenue** | **22 511** | 20 652 | **21 837** | 20 357 |
| | Revenue from discontinued operations (note 14) | **92** | 190* | **–** | – |
| | | **22 603** | 20 842 | **21 837** | 20 357 |

* *Included in revenue from discontinued operations in 2007 is an amount of R105-million relating to Air Tanzania Company Limited.*

| | | Group 2008 R million | Group 2007 R million | Company 2008 R million | Company 2007 R million |
|---|---|---|---|---|---|
| **7.** | **OTHER AIRLINE INCOME** | | | | |
| | Other airline income is made up of the following items: | | | | |
| | Handling revenue | **81** | 94 | **95** | 88 |
| | Income from leased assets | **273** | 329 | **326** | 369 |
| | Release from prescribed tickets | **366** | 683 | **366** | 683 |
| | Release from prescribed air waybills | **7** | 10 | **7** | 10 |
| | Insurance recoveries | **12** | 26 | **12** | 26 |
| | Fuel levies and other recoveries | **2 248** | 2 361 | **2 222** | 2 379 |
| | | **2 987** | 3 503 | **3 028** | 3 555 |
| | Other airline income from discontinued operations (note 14) | **92** | 97† | **–** | – |
| | | **3 079** | 3 600 | **3 028** | 3 555 |

† *Included in the other airline income from discontinued operations is an amount of R12-million relating to Air Tanzania Company Limited.*

| | | Group 2008 R million | Group 2007 R million | Company 2008 R million | Company 2007 R million |
|---|---|---|---|---|---|
| **8.** | **EMPLOYEE BENEFIT EXPENSES** | | | | |
| 8.1 | **Short-term employee benefits** | | | | |
| | Personnel and labour costs | **3 014** | 2 931 | **2 175** | 2 116 |
| | Contribution to pension funds | **230** | 256 | **174** | 193 |
| | Contribution to provident funds | **29** | 28 | **28** | 28 |
| | Contribution to post-retirement medical funds | **51** | 53 | **36** | 38 |
| | | **3 324** | 3 268 | **2 413** | 2 375 |
| 8.2 | **Post-employment benefit expenses*** | | | | |
| | Current service costs | **36** | 3 | **36** | 3 |
| | Interest cost | **105** | 8 | **105** | 6 |
| | Expected return on plan assets | **(164)** | – | **(164)** | – |
| | Past-service costs | **–** | 21 | **–** | 21 |
| | Foreign exchange (gains) losses | **(3)** | – | **(3)** | – |
| | | **(26)** | 32 | **(26)** | 30 |
| | Total | **3 298** | 3 300 | **2 387** | 2 405 |
| | Labour costs from discontinued operations | **89** | 82 | **–** | – |
| | Total employee benefit expenses | **3 387** | 3 382 | **2 387** | 2 405 |

* *These costs relate to other post-employment and other long-term employee benefit plans for the group. The post-employment benefit costs relating to SAA subfund of the Transport Pension Fund have been disclosed in note 43.1. In the prior year the SAA group was a participating employer in the Transnet pension fund.*

| | | Group 2008 R million | Group 2007 R million | Company 2008 R million | Company 2007 R million |
|---|---|---|---|---|---|
| **9.** | **IMPAIRMENT WRITE-OFF (REVERSAL)** | | | | |
| | Impairment of loans and receivables held at amortised costs | | | | |
| | Reversal of impairment of loan to SAA Share Trust | **–** | – | **–** | (9) |
| | Reversal of impairment on amounts collected from pilots | **–** | (4) | **–** | (4) |
| | Impairment (reversal) of accounts receivable | **48** | (1) | **45** | (2) |
| | Impairment of defeasance deposit | **8** | – | **8** | – |
| | Impairment of other assets | | | | |
| | Impairment of carrying value of investment in subsidiaries (note 18) | **–** | – | **32** | – |
| | Net reversal of impairment of maintenance reserve | **–** | (13) | **–** | (13) |
| | Impairment of property, aircraft and equipment | **86** | – | **86** | – |
| | Net impairments write-off (reversal) | **142** | (18) | **171** | (28) |
| | Impairment from discontinued operations | **1** | (1) | **–** | – |
| | | **143** | (19) | **171** | (28) |
| **10.** | **FINANCE COSTS AND INVESTMENT INCOME** | | | | |
| **10.1** | **Finance costs** | | | | |
| | The interest paid related to financial liabilities held at amortised cost as detailed below: | | | | |
| | Interest paid on overdraft | **14** | 37 | **14** | 37 |
| | Interest paid on long-term borrowings | **367** | 367 | **367** | 367 |
| | Interest on obligations under finance leases | **3** | 4 | **3** | 4 |
| | Other interest expense | **–** | – | **58** | – |
| | | **384** | 408 | **442** | 408 |
| **10.2** | **Investment income** | | | | |
| | Interest received was derived from: | | | | |
| | Loans and receivables (defeasance deposit) | **33** | 41 | **33** | 41 |
| | Cash and bank balances | **43** | 63 | **43** | 63 |
| | Other financial assets | **178** | 24 | **296** | 214 |
| | | **254** | 128 | **372** | 318 |
| **10.3** | **Recognised directly in equity** | | | | |
| | Interest paid on government-guaranteed loan classified as a dividend | **137** | – | **137** | – |
| **11.** | **LOSS BEFORE FAIR VALUE MOVEMENTS AND TRANSLATION GAINS (LOSSES)** | | | | |
| | Loss before fair value movements and translation gains (losses) is stated after taking into account, among others, the following: | | | | |
| | Auditors' remuneration | | | | |
| | Audit fees – current year | **17** | 19 | **13** | 18 |
| | Under provided in previous year | **–** | 2 | **–** | 2 |
| | Other services | **–** | 1 | **–** | 1 |
| | Total auditors' remuneration | **17** | 22 | **13** | 21 |

# Notes to the annual financial statements continued

for the year ended 31 March 2008

| | Group 2008 R million | Group 2007 R million | Company 2008 R million | Company 2007 R million |
|---|---|---|---|---|
| **11. LOSS BEFORE FAIR VALUE MOVEMENTS AND TRANSLATION GAINS (LOSSES) (continued)** | | | | |
| Depreciation of property, aircraft and equipment | | | | |
| Aircraft and simulators | **704** | 659 | **701** | 657 |
| Land, buildings and structures | **39** | 38 | **18** | 17 |
| Machinery, equipment and furniture | **44** | 30 | **29** | 16 |
| Vehicles and cabin loaders | **3** | 4 | **1** | 2 |
| Containers | **3** | 3 | **3** | 3 |
| Total depreciation | **793** | 734 | **752** | 695 |
| Amortisation of intangible assets (note 17) | **30** | 7 | **30** | 7 |
| | **823** | 741 | **782** | 702 |
| Depreciation from discontinued operations | **3** | 3 | **–** | – |
| Total depreciation and amortisation | **826** | 744 | **782** | 702 |
| (Profit) loss on sale of property, aircraft and equipment | | | | |
| Profit on property, aircraft and equipment | **(13)** | (34) | **(13)** | (34) |
| Scrapping costs | **5** | 37 | **7** | 38 |
| Total (profit) loss on sale and scrapping of property, aircraft and equipment | **(8)** | 3 | **(6)** | 4 |
| Operating lease payments | | | | |
| Aircraft | **3 012** | 2 514 | **3 011** | 2 514 |
| Equipment and vehicles | **24** | 48 | **18** | 17 |
| Properties | **66** | 60 | **62** | 58 |
| | **3 102** | 2 622 | **3 091** | 2 589 |
| Operating lease payments from discontinued operations | **16** | 15 | **–** | – |
| Total operating lease payments | **3 118** | 2 637 | **3 091** | 2 589 |
| Professional fees | | | | |
| Managerial services | **7** | 8 | **7** | 8 |
| Technical services | **267** | 138 | **253** | 116 |
| Internal audit fees | **12** | 19 | **6** | 19 |
| Directors' emoluments and executive management emoluments are disclosed in the related parties note 44. | | | | |
| Short-term employee benefit expenses (note 8.1) | **3 403** | 3 268 | **2 492** | 2 375 |
| Post-employment benefit expenses (note 8.2) | **(105)** | 32 | **(105)** | 30 |
| | **3 298** | 3 300 | **2 387** | 2 405 |
| The following restructuring costs have been included in the loss for the year: | | | | |
| Grounding Boeing 747-400 fleet | **935** | – | **935** | – |
| Labour costs | **154** | – | **154** | – |
| Other restructuring costs | **256** | – | **256** | – |
| | **1 345** | – | **1 345** | – |

| | Group 2008 R million | Group 2007 R million | Company 2008 R million | Company 2007 R million |
|---|---|---|---|---|
| **12. FAIR VALUE MOVEMENTS AND TRANSLATION GAINS (LOSSES)** | | | | |
| Foreign exchange gain (loss) on translation of: | | | | |
| Foreign currency investments | **102** | 104 | **102** | 104 |
| Foreign currency-denominated long-term loans | **59** | (284) | **15** | (284) |
| Net monetary assets and liabilities | **23** | 246 | **20** | 149 |
| Translation of foreign assets and liabilities | **184** | 66 | **137** | (31) |
| Fair value gain on derivative assets held for trading: | | | | |
| Realised gains on derivatives | **154** | 201 | **154** | 201 |
| Fair value on derivative financial assets | **156** | (132) | **156** | (132) |
| Net fair value gain on derivative assets held for trading | **494** | 135 | **447** | 38 |
| Option premiums amortised | **(95)** | (95) | **(95)** | (95) |
| Total fair value movements and translation gains (losses) | **399** | 40 | **352** | (57) |
| **13. TAXATION** | | | | |
| South African normal taxation: | | | | |
| Current taxation – current year | **–** | (1) | **–** | – |
| – prior year | **17** | (41) | **17** | (41) |
| Deferred taxation – current year | **(20)** | – | **(28)** | – |
| – prior year | **18** | – | **–** | – |
| | **15** | (42) | **(11)** | (41) |
| Reconciliation of the effective and the standard taxation charge: | | | | |
| Loss before taxation at 29% | **358** | 256 | **305** | 238 |
| Tax effect of non-taxable income | **–** | 45 | **–** | 43 |
| Tax effect of non-deductible expenses | **(254)** | (38) | **(251)** | (33) |
| Tax payable – current year | **(28)** | – | **(28)** | – |
| Tax payable – prior year | **17** | (41) | **17** | (41) |
| Current year temporary differences not recognised | **(337)** | (265) | **(393)** | (227) |
| Assessed loss utilised | **443** | 33 | **339** | – |
| Current year tax loss not utilised | **(203)** | (32) | **–** | (21) |
| Release of deferred tax raised in equity | **–** | – | **–** | – |
| Deferred tax not raised in the prior year | **19** | – | **–** | – |
| Current year tax charge | **15** | (42) | **(11)** | (41) |
| Estimated tax losses available to be utilised against future taxable income | **9 642** | 11 404 | **8 849** | 10 293 |

**14. DISCONTINUED OPERATIONS**

The discontinued operations relate to the disposal of Air Tanzania Company Limited in the prior year and the planned disposal of Airchefs (Pty) Limited, a 100% owned subsidiary of SAA. Airchefs (Pty) Limited has been reclassified as a disposal group held for sale in the current year. Detailed below is profit relating to discontinued operations.

| | Group 2008 R million | Group 2007 R million |
|---|---|---|
| Disposal of Air Tanzania Company Limited (refer 14.1 below) | **–** | 42 |
| Planned disposal of Airchefs (Pty) Limited (refer 14.2 below) | **3** | 7 |
| Total profit on discontinued operations | **3** | 49 |

# Notes to the annual financial statements continued

for the year ended 31 March 2008

## 14. DISCONTINUED OPERATIONS (continued)

### 14.1 Disposal of Air Tanzania Company Limited

The group signed a sale agreement to dispose of Air Tanzania Company Limited, a subsidiary, on 31 August 2006. The carrying amounts of assets and liabilities at date of disposal are disclosed in note 21.

The profit for the previous year from discontinued operations is analysed as follows:

| | Period ended 31 August 2006 R million |
|---|---|
| Turnover | 93 |
| Other airline income | 12 |
| Total airline income | 105 |
| Operating costs | (117) |
| Loss from airline operations | (12) |
| Finance costs and fair value gain | 1 |
| Loss from discontinued operations | (11) |
| Profit on sale of subsidiary | 53 |
| Profit for the year from discontinued operations | 42 |

At the date of disposal Air Tanzania Company Limited utilised R6-million of the group's cash flow for operating activities, Rnil for investing activities and Rnil in respect of financing activities.

### 14.2 Planned disposal of Airchefs (Pty) Limited

The group took a decision to sell the business of Airchefs (Pty) Limited, a subsidiary, whose nature of business is the supply of airline catering services. The date of disposal is planned to take place within the next seven months. The specified group of assets and liabilities earmarked for sale has been reclassified as a disposal group held for sale (note 22).

The profit from discontinued operations for the period ended 31 March 2008, with comparatives, is analysed as follows:

| | **31 March 2008** | 31 March 2007 |
|---|---|---|
| Revenue net of intercompany transactions | **92** | 85 |
| Operating costs | **(88)** | (77) |
| Operating profit before finance costs | **4** | 8 |
| Finance costs | **(1)** | (1) |
| Profit from discontinuing operations | **3** | 7 |

There was no material cash flow impact from the discontinued operations.

| | | Group 2008 | Group 2007 |
|---|---|---|---|
| **15.** | **BASIC LOSS PER SHARE (CENTS)** | | |
| | Weighted average number of ordinary shares in issue (millions) | **11 343** | 7 127 |
| | Net loss for the year (R million) | **(1 085)** | (883) |
| | Basic loss per share (cents) | **(10)** | (12) |

The discontinued operations and disposal group held for sale had no material impact on loss per share.

- Air Tanzania Company Limited at the date of disposal had an operating loss for the 2007 year of R11-million.
- Airchefs (Pty) Limited had a net profit of R3-million (2007: R7-million) in the current year.

| | Group 2008 | Group 2007 |
|---|---|---|
| Weighted average number of shares in issue: | | |
| Ordinary shares at the beginning of the year | **11 343** | 2 893 |
| Adjustment for: assumed convertible debt | **–** | 1 200 |
| – recapitalisation issue* | **–** | 3 044 |
| – "share buy-back"** | **–** | (10) |
| | **11 343** | 7 127 |

** The conversion and recapitalisation took place in September 2006.*

*** The "share buy-back" took place in December 2006.*

# Notes to the annual financial statements continued

for the year ended 31 March 2008

| | Aircraft and simulators R million | Land, buildings and structures R million | Machinery, equipment and furniture R million | Vehicles and cabin loaders R million | Containers R million | Capital work in progress R million | Total R million |
|---|---|---|---|---|---|---|---|
| **16. PROPERTY, AIRCRAFT AND EQUIPMENT** | | | | | | | |
| **Group (2008)** | | | | | | | |
| **COST** | | | | | | | |
| Balance at 1 April 2007 | 10 530 | 1 455 | 473 | 61 | 33 | 504 | 13 056 |
| Additions at cost | 117 | 8 | 40 | 3 | – | 11 | 179 |
| Disposals | (33) | – | (4) | (2) | – | – | (39) |
| Transfer from capital work in progress | 5 | – | – | – | – | (5) | – |
| Transfer to asset held for sale | – | (4) | – | – | – | – | (4) |
| **Balance at 31 March 2008** | **10 619** | **1 459** | **509** | **62** | **33** | **510** | **13 192** |
| **Airchefs held for sale** | **–** | **(37)** | **(25)** | **(14)** | **–** | **(6)** | **(82)** |
| **Balance excluding Airchefs** | **10 619** | **1 422** | **484** | **48** | **33** | **504** | **13 110** |
| **ACCUMULATED DEPRECIATION AND IMPAIRMENT** | | | | | | | |
| Balance at 1 April 2007 | 4 397 | 106 | 253 | 49 | 27 | 472 | 5 304 |
| Depreciation for the year | 704 | 40 | 45 | 4 | 3 | – | 796 |
| Impairment loss | 86 | – | – | – | – | – | 86 |
| Disposals | (15) | – | (3) | (2) | – | – | (20) |
| **Balance at 31 March 2008** | **5 172** | **146** | **295** | **51** | **30** | **472** | **6 166** |
| **Airchefs held for sale** | **–** | **(9)** | **(20)** | **(11)** | **–** | **–** | **(40)** |
| **Balance excluding Airchefs** | **5 172** | **137** | **275** | **40** | **30** | **472** | **6 126** |
| **Carrying value excluding Airchefs at 31 March 2008** | **5 447** | **1 285** | **209** | **8** | **3** | **32** | **6 984** |
| **Group (2007)** | | | | | | | |
| **COST** | | | | | | | |
| Balance at 1 April 2006 | 10 323 | 1 449 | 390 | 61 | 28 | 696 | 12 947 |
| Additions at cost | 160 | 9 | 91 | 1 | 5 | 3 | 269 |
| Disposals | (96) | (3) | (8) | (1) | – | – | (108) |
| Transfer from capital work in progress | 195 | – | – | – | – | (195) | – |
| Transfer to asset held for sale | (52) | – | – | – | – | – | (52) |
| Balance at 31 March 2007 | 10 530 | 1 455 | 473 | 61 | 33 | 504 | 13 056 |
| Airchefs held for sale | – | (35) | (21) | (14) | – | (1) | (71) |
| Balance excluding Airchefs | 10 530 | 1 420 | 452 | 47 | 33 | 503 | 12 985 |
| **ACCUMULATED DEPRECIATION AND IMPAIRMENT** | | | | | | | |
| Balance at 1 April 2006 | 3 852 | 69 | 228 | 45 | 24 | 472 | 4 690 |
| Depreciation for the year | 659 | 39 | 31 | 5 | 3 | – | 737 |
| Disposals | (88) | (2) | (6) | (1) | – | – | (97) |
| Transfer to assets held for sale | (26) | – | – | – | – | – | (26) |
| Balance at 31 March 2007 | 4 397 | 106 | 253 | 49 | 27 | 472 | 5 304 |
| Airchefs held for sale | – | (9) | (19) | (11) | – | – | (39) |
| Balance excluding Airchefs | 4 397 | 97 | 234 | 38 | 27 | 472 | 5 265 |
| Carrying value excluding Airchefs 31 March 2007 | 6 133 | 1 323 | 218 | 9 | 6 | 31 | 7 720 |

| | Aircraft and simulators R million | Land, buildings and structures R million | Machinery, equipment and furniture R million | Vehicles and cabin loaders R million | Containers R million | Capital work in progress R million | Total R million |
|---|---|---|---|---|---|---|---|
| **16. PROPERTY, AIRCRAFT AND EQUIPMENT (continued)** | | | | | | | |
| **Company (2008)** | | | | | | | |
| **COST** | | | | | | | |
| Balance at 1 April 2007 | 10 501 | 743 | 200 | 29 | 33 | 498 | 12 004 |
| Additions at cost | 114 | 4 | 23 | – | – | – | 141 |
| Disposals | (33) | – | (3) | (1) | – | – | (37) |
| Transfer from capital work in progress | 5 | – | – | – | – | (5) | – |
| Transfer to assets held for sale | – | (4) | – | – | – | – | (4) |
| **Balance at 31 March 2008** | **10 587** | **743** | **220** | **28** | **33** | **493** | **12 104** |
| **ACCUMULATED DEPRECIATION AND IMPAIRMENT** | | | | | | | |
| Balance at 1 April 2007 | 4 402 | 38 | 97 | 27 | 26 | 472 | 5 062 |
| Depreciation for the year | 701 | 18 | 29 | 1 | 3 | – | 752 |
| Impairment loss (note 9) | 86 | – | – | – | – | – | 86 |
| Disposals | (15) | – | (3) | (1) | – | – | (19) |
| **Balance at 31 March 2008** | **5 174** | **56** | **123** | **27** | **29** | **472** | **5 881** |
| Carrying value at 31 March 2008 | **5 413** | **687** | **97** | **1** | **4** | **21** | **6 223** |
| **Company (2007)** | | | | | | | |
| **COST** | | | | | | | |
| Balance at 1 April 2006 | 10 306 | 735 | 152 | 28 | 28 | 676 | 11 925 |
| Additions at cost | 155 | 10 | 55 | 1 | 5 | – | 226 |
| Disposals | (86) | (2) | (7) | – | – | – | (95) |
| Transfer from capital work in progress | 178 | – | – | – | – | (178) | – |
| Transfer to assets held for sale | (52) | – | – | – | – | – | (52) |
| Balance at 31 March 2007 | 10 501 | 743 | 200 | 29 | 33 | 498 | 12 004 |
| **ACCUMULATED DEPRECIATION AND IMPAIRMENT** | | | | | | | |
| Balance at 1 April 2006 | 3 850 | 24 | 88 | 25 | 23 | 472 | 4 482 |
| Depreciation for the year | 657 | 17 | 16 | 2 | 3 | – | 695 |
| Transfer to assets held for sale | (26) | – | – | – | – | – | (26) |
| Disposals | (79) | (3) | (7) | – | – | – | (89) |
| Balance at 31 March 2007 | 4 402 | 38 | 97 | 27 | 26 | 472 | 5 062 |
| Carrying value at 31 March 2007 | 6 099 | 705 | 103 | 2 | 7 | 26 | 6 942 |

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

Certain aircraft are encumbered as security for the financing thereof. The net book value of capitalised aircraft encumbered in respect of financing raised by the group amounts to R3,69-billion (2007: R3,90-billion).

Certain aircraft are held under suspensive sale agreements with title only passing to SAA once all obligations to the seller have been settled and the seller in turn has settled all its obligations under a finance lease, these events are expected to occur simultaneously.

The category of aircraft includes the refurbishment costs of both the owned and leased aircraft. This refurbishment is amortised over the shorter of the useful life of the refurbished equipment or the lease term of the leased aircraft. The net book value of the improvements amounts to Rnil (2007: R180-million) and the outstanding lease finance in regard thereto amounts to R40-million (2007: R59-million). Due to the decision to ground the Boeing 747-400s, the lease improvements have been depreciated in full in the current year.

# Notes to the annual financial statements continued

for the year ended 31 March 2008

| | Software development R million | Internet booking site R million | Total intangible assets R million | Goodwill* R million | Total intangible assets and goodwill R million |
|---|---|---|---|---|---|
| **17. INTANGIBLE ASSETS** | | | | | |
| **Group (2008)** | | | | | |
| **COST** | | | | | |
| Balance at 1 April 2007 | 293 | 39 | 332 | 35 | 367 |
| Additions | 38 | – | 38 | – | 38 |
| **Balance at 31 March 2008** | **331** | **39** | **370** | **35** | **405** |
| **ACCUMULATED AMORTISATION AND IMPAIRMENT** | | | | | |
| Balance at 1 April 2007 | 196 | 36 | 232 | 35 | 267 |
| Amortisation for 2008 | **30** | **–** | **30** | **–** | **30** |
| **Balance at 31 March 2008** | **226** | **36** | **262** | **35** | **297** |
| Carrying value at 31 March 2008 | **105** | **3** | **108** | **–** | **108** |
| **Group (2007)** | | | | | |
| **COST** | | | | | |
| Balance at 1 April 2006 | 194 | 39 | 233 | 132 | 365 |
| Additions | 99 | – | 99 | – | 99 |
| Disposals Air Tanzania Company Limited (ATCL) | – | – | – | (97) | (97) |
| Balance at 31 March 2007 | 293 | 39 | 332 | 35 | 367 |
| **ACCUMULATED AMORTISATION AND IMPAIRMENT** | | | | | |
| Balance at 1 April 2006 | 189 | 36 | 225 | 132 | 357 |
| Disposal Air Tanzania Company Limited | – | – | – | (97) | (97) |
| Amortisation for 2007 | 7 | – | 7 | – | 7 |
| Balance at 31 March 2007 | 196 | 36 | 232 | 35 | 267 |
| Carrying value at 31 March 2007 | 97 | 3 | 100 | – | 100 |

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

| | Software development R million | Internet booking site R million | Total intangible assets R million |
|---|---|---|---|
| **Company (2008)** | | | |
| **COST** | | | |
| Balance at 1 April 2007 | 293 | 39 | 332 |
| Additions | 34 | – | 34 |
| **Balance at 31 March 2008** | **327** | **39** | **366** |
| **ACCUMULATED AMORTISATION AND IMPAIRMENT** | | | |
| Balance at 1 April 2007 | 196 | 36 | 232 |
| Amortisation for 2008 | **30** | **–** | **30** |
| **Balance at 31 March 2008** | **226** | **36** | **262** |
| Carrying value at 31 March 2008 | **101** | **3** | **104** |

| | | Software development R million | Internet booking site R million | Total intangible assets R million |
|---|---|---|---|---|
| **17.** | **INTANGIBLE ASSETS (continued)** | | | |
| | **Company (2007)** | | | |
| | **COST** | | | |
| | Balance at 1 April 2006 | 194 | 39 | 233 |
| | Additions | 99 | – | 99 |
| | Balance at 31 March 2007 | 293 | 39 | 332 |
| | **ACCUMULATED AMORTISATION AND IMPAIRMENT** | | | |
| | Balance at 1 April 2006 | 189 | 36 | 225 |
| | Amortisation for 2007 | 7 | – | 7 |
| | Balance at 31 March 2007 | 196 | 36 | 232 |
| | Carrying value at 31 March 2007 | 97 | 3 | 100 |

SAA's internet booking site – www.flysaa.com – has been impaired to a carrying value of R3-million (2007: R3-million).

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

| | | **Company 2008 R million** | Company 2007 R million |
|---|---|---|---|
| **18.** | **INVESTMENT IN SUBSIDIARIES** | | |
| | Shares at cost | **570** | 234 |
| | Amounts owing by subsidiaries | **2 648** | 2 542 |
| | | **3 218** | 2 776 |
| | Impairment of investment in subsidiaries | **(1 092)** | (1 060) |
| | | **2 126** | 1 716 |
| | Presented as part of non-current assets | **338** | 2 |
| | Presented as part of current assets | **1 788** | 1 714 |

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

| **Analysis of 2008 holdings** | Shares Million | Issued shareholding % | Shares at cost R million | Net debt R million | Share of (loss) profit for the year R million |
|---|---|---|---|---|---|
| Airchefs (Pty) Limited | * | 100 | 72 | 44 | 3 |
| SAA City Centre (Pty) Limited | 2 | 100 | 2 | (5) | – |
| SAA Technical (Pty) Limited | 160 | 100 | 160 | 2 609 | (85) |
| Tulca (Pty) Limited, trading as Mango | * | 100 | 336 | – | (1) |
| Total investment | | | 570 | 2 648 | |
| Impairment | | | (232) | (860) | |
| | | | 338 | 1 788 | |
| **Directors' valuation**** | | | | | |
| Airchefs (Pty) Limited | | | – | | |
| SAA City Centre (Pty) Limited | | | 2 | | |
| SAA Technical (Pty) Limited | | | – | | |
| Tulca (Pty) Limited, trading as Mango | | | 495 | | |
| | | | 497 | | |

** Less than one million shares.*

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

# Notes to the annual financial statements continued

for the year ended 31 March 2008

| | Shares Million | Issued shareholding % | Shares at cost R million | Net debt R million | Share of (loss) profit for the year R million |
|---|---|---|---|---|---|
| **18. INVESTMENT IN SUBSIDIARIES (continued)** | | | | | |
| **Analysis of 2007 holdings** | | | | | |
| Airchefs (Pty) Limited | * | 100 | 72 | 37 | 7 |
| SAA City Centre (Pty) Limited | 2 | 100 | 2 | 1 | 1 |
| SAA Technical (Pty) Limited | 160 | 100 | 160 | 2 435 | 5 |
| Tulca (Pty) Limited, trading as Mango | * | 100 | – | 69 | (61) |
| Total investment | | | 234 | 2 542 | |
| Impairment | | | (232) | (828) | |
| | | | 2 | 1 714 | |
| **Directors' valuation** | | | | | |
| Airchefs (Pty) Limited | | | – | | |
| SAA City Centre (Pty) Limited | | | 2 | | |
| SAA Technical (Pty) Limited | | | – | | |
| Tulca (Pty) Limited, trading as Mango | | | – | | |
| | | | 2 | | |

** 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. The balances on the loan accounts fluctuate in line with the financing requirements of the subsidiaries and are repayable on demand except as detailed below. The loans have therefore, been classified as current assets in accordance with IAS 1.

The loan to SAA Technical (Pty) Limited, has been subordinated in favour of the group's creditors until their assets exceed their liabilities. The loans, where required, have been impaired to the extent of the continued technical insolvency of the company.

| | **Company 2008 R million** | Company 2007 R million |
|---|---|---|
| **19. INVESTMENTS** | | |
| **19.1 Investment in Share Trust** | | |
| South African Airways Employee Share Trust | **157** | 157 |
| Impairment of the loan to South African Airways Employee Share Trust | **(157)** | (157) |
| | **–** | – |

| | Group 2008 R million | Group 2007 R million | Company 2008 R million | Company 2007 R million |
|---|---|---|---|---|
| **19. INVESTMENTS (continued)** | | | | |
| **19.2 Defeasance deposit** | **461** | 568 | **461** | 568 |
| The defeasance deposit arose on the back of the sale and operating leaseback of two Boeing 747-400s. These deposits are held in two US$ denominated bank accounts bearing interest at 6,77% per annum. The capital and interest earned on the deposits will be used to pay the related lease payments. As a result of management decision to ground the Boeing 747-400s in November 2007, the full deposit will be utilised to settle the obligations arising from termination of the lease contracts within the next financial year. The initial maturity date of the operating lease was 2011. | | | | |
| The defeasance deposit has therefore, been reclassified from held-to-maturity investments to loans and receivables in the current year. | | | | |
| | **461** | 568 | **461** | 568 |
| ***Less:* Short-term portion of investment** | **(461)** | (148) | **(461)** | (148) |
| **Presented as part of non-current asset** | **–** | 420 | **–** | 420 |
| **19.3 Investment in unlisted shares at cost** | | | | |
| SA Airlink (Pty) Limited | **35** | 35 | **35** | 35 |
| Impairment of unlisted investment | **(35)** | (35) | **(35)** | (35) |
| Directors' valuation of unlisted investment | **–** | – | **–** | – |
| **20. NON-CURRENT ASSETS AND DISPOSAL GROUP HELD FOR SALE** | | | | |
| Carrying value of aircraft held for sale (note 20.1) | **64** | 90 | **64** | 90 |
| Carrying value of land and buildings (note 20.2) | **4** | – | **4** | – |
| Carrying value of disposal group held for sale (note 22) | **69** | 44 | **–** | – |
| | **137** | 134 | **68** | 90 |
| Liabilities classified as part of disposal group held for sale (note 22) | **43** | 40 | **–** | – |

**20.1 Aircraft**

Management made a decision to dispose of certain aircraft with the date of sale determined to be 30 April 2006, the date of the planned delivery to the buyer. These aircraft were reclassified as "non-current assets held for sale" in the prior year. In the current year, one aircraft was scrapped and a second one was sold. The sale of the remaining aircraft is under way and is expected to be finalised within the current financial year. In addition, two new aircraft (SIV and SIW) were acquired with the view to immediately dispose of them. These aircraft will continue to be held as non-current asset held for sale as management is still committed to their disposals within the next financial year.

**20.2 Land and buildings**

Management has made a decision to dispose of certain land and buildings in the current year. These have been reclassified as non-current assets held for sale.

# Notes to the annual financial statements continued

for the year ended 31 March 2008

## 21. DISPOSAL OF A SUBSIDIARY

In the prior year, Air Tanzania Company Limited was disclosed as a discontinued operation and the assets and liabilities were reclassified as a disposal group held for sale as from 31 March 2006. The disposal of Air Tanzania Company Limited was concluded and the sale agreement signed on 31 August 2006, on which date control of Air Tanzania Company Limited passed to the acquirer. Refer to note 14 for the profit and loss from discontinued operations.

| The net assets of Air Tanzania Company Limited at the date of disposal were as follows: | At disposal date R million |
|---|---|
| **Assets** | |
| Land and buildings | 39 |
| Inventories | 1 |
| Accounts receivable | 9 |
| Bank and cash | 5 |
| Total assets reclassified as disposal group held for sale | 54 |
| **Liabilities** | |
| Other long-term liabilities | 35 |
| Air traffic liability | 7 |
| Accounts payable | 81 |
| Total liabilities reclassified as disposal group held for sale | 123 |
| **Equity** | |
| Foreign currency translation reserve and general non-distributable reserve | – |
| Net liabilities on disposal | 69 |
| Foreign currency translation reserve (FCTR) realised on disposal | (16) |
| Profit on disposal of Air Tanzania Company Limited | 53 |
| **Net cash outflow arising on disposal** | |
| Cash consideration received | – |
| Cash and cash equivalents disposed of | (5) |

| | **March 2008 R million** | March 2007 R million |
|---|---|---|
| **22. DISCONTINUED OPERATIONS AND DISPOSAL GROUP HELD FOR SALE** | | |
| The net assets of Airchefs (Pty) Limited at the end of March 2008, the date it was reclassified as disposal group held for sale are as detailed below: | | |
| **Assets** | | |
| Land, building and structures | **28** | 26 |
| Machinery, equipment and furniture | **5** | 2 |
| Vehicles and cabin loaders | **3** | 3 |
| Capital work in progress | **6** | 1 |
| Inventories | **8** | 6 |
| Accounts receivable | **19** | 6 |
| | **69** | 44 |
| **Liabilities** | | |
| Long-term loans | **(2)** | (6) |
| Accounts payable | **(37)** | (31) |
| Provision for leave | **(2)** | (2) |
| Bank overdrafts | **(2)** | (1) |
| | **(43)** | (40) |
| **Net current assets** | **26** | 4 |

| | Group 2008 R million | Group 2007 R million | Company 2008 R million | Company 2007 R million |
|---|---|---|---|---|
| **23. INVENTORIES** | | | | |
| Consumables | **136** | 141 | **95** | 91 |
| Maintenance inventories | **294** | 359 | **3** | – |
| Capital work in progress | **20** | 9 | **–** | – |
| | **450** | 509 | **98** | 91 |
| Classified as part of disposal group held for sale (note 22) | **8** | 6 | **–** | – |
| | **458** | 515 | **98** | 91 |
| Inventories are stated net of a provision for obsolete inventories of R348-million (2007: R259-million) and for slow-moving consumables of R3-million (2007: R3-million). | | | | |
| **24. REIMBURSEMENT RIGHT** | | | | |
| Insured post-employment benefit reimbursement right for German staff (note 43.4) | **112** | 112 | **112** | 112 |
| | **112** | 112 | **112** | 112 |
| **25. ACCOUNTS RECEIVABLE** | | | | |
| Gross accounts receivable | **3 007** | 2 484 | **2 961** | 2 403 |
| Allowance for impairment (note 26) | **(292)** | (266) | **(276)** | (250) |
| Net trade receivable and other receivables | **2 715** | 2 218 | **2 685** | 2 153 |
| Prepayments and other receivables | **760** | 1 403 | **276** | 872 |
| Net trade receivables and other receivables | **3 475** | 3 621 | **2 961** | 3 025 |
| Classified as part of disposal group held for sale (note 22) | **19** | 6 | **–** | – |
| | **3 494** | 3 627 | **2 961** | 3 025 |

The accounts receivable is analysed below based on the risk profile group linked to the nature of the distribution network and the nature of operations within the group.

| | **2008** | | | | 2007 | | | |
|---|---|---|---|---|---|---|---|---|
| **Group** | **Gross amount R million** | **Current not yet past due R million** | **Past due but not impaired R million** | **Impaired amount R million** | Gross amount R million | Current not yet past due R million | Past due but not impaired R million | Impaired amount R million |
| Impairment class to be shown | | | | | | | | |
| Airline passenger operation | | | | | | | | |
| BSP* | **1 007** | **875** | **–** | **132** | 826 | 713 | – | 113 |
| Credit card | **201** | **201** | **–** | **–** | 332 | 332 | – | – |
| GSA** | **109** | **63** | **9** | **37** | 107 | 67 | 12 | 28 |
| Stations | **31** | **8** | **–** | **23** | 25 | 8 | 1 | 16 |
| Cargo freight and mail | **397** | **205** | **158** | **34** | 382 | 195 | 135 | 52 |
| Airline catering | **13** | **13** | **–** | **–** | 13 | 12 | 1 | – |
| Airline passenger low-cost carrier | **–** | **–** | **–** | **–** | – | – | – | – |
| Travel services | **5** | **1** | **3** | **1** | 20 | 1 | 17 | 2 |
| Technical maintenance | **62** | **43** | **4** | **15** | 94 | 55 | 25 | 14 |
| Other trade debtors | **1 182** | **987** | **145** | **50** | 685 | 515 | 129 | 41 |
| | **3 007** | **2 396** | **319** | **292** | 2 484 | 1 898 | 320 | 266 |
| **Company** | | | | | | | | |
| BSP* | **1 007** | **875** | **–** | **132** | 826 | 713 | – | 113 |
| Credit card | **201** | **201** | **–** | **–** | 332 | 332 | – | – |
| GSA** | **109** | **63** | **9** | **37** | 107 | 67 | 12 | 28 |
| Stations | **31** | **8** | **–** | **23** | 25 | 8 | 1 | 16 |
| Cargo | **397** | **205** | **158** | **34** | 382 | 195 | 135 | 52 |
| Other trade debtors | **1 216** | **1 021** | **145** | **50** | 731 | 561 | 129 | 41 |
| | **2 961** | **2 373** | **312** | **276** | 2 403 | 1 876 | 277 | 250 |

* *Billing and Settlement Plan.*

** *General Sales Agents.*

# Notes to the annual financial statements continued

for the year ended 31 March 2008

| | Group 2008 R million | Group 2007 R million | Company 2008 R million | Company 2007 R million |
|---|---|---|---|---|
| **26. RECONCILIATION OF IMPAIRMENT OF ACCOUNTS RECEIVABLE** | | | | |
| Balance at beginning of the year | **(266)** | (260) | **(250)** | (232) |
| Amounts utilised for write-offs | **22** | 32 | **19** | 32 |
| Reversal of impairments | **2** | 20 | **–** | 8 |
| Provision raised | **(50)** | (58) | **(45)** | (58) |
| **Balance at end of the year** | **(292)** | (266) | **(276)** | (250) |

The trade receivables portfolio impairment loss relates to:

- debtors in dispute which are provided for immediately when they become known;
- defaulting Billing and Settlement Plan (BSP), General Sales Agents (GSA) that have exceeded 90 days past their due date; and
- omission and errors due to uncaptured sales.

Included in the impairment loss were the following debtors which were individually impaired for various reasons as detailed below:

- Air Tanzania Company Limited loan account and fuel trading accounts amounting to R26-million in the current and prior year, due to default by the airline.
- IATA suspended airlines including airlines such as Ghana Airways, Anset and Sabena amounting to R18-million in the current and prior year.

| | Jet fuel derivatives R million | Currency options R million | Forward contracts R million | Total R million |
|---|---|---|---|---|
| **27. DERIVATIVE FINANCIAL ASSETS** | | | | |
| **Group and company** | | | | |
| **2008** | | | | |
| Derivative financial assets carried at fair value through profit and loss | | | | |
| Fair value at 1 April 2007 | 48 | – | – | 48 |
| Made up as follows: | | | | |
| Assets | 58 | – | – | 58 |
| Liabilities | (10) | – | – | (10) |
| Fair value adjustments reported in net profit | 10 | 73 | 73 | 156 |
| **Fair value at 31 March 2008** | **58** | **73** | **73** | **204** |
| **Group and company** | | | | |
| **2007** | | | | |
| Fair value at 1 April 2006 | 166 | 14 | – | 180 |
| Made up as follows: | | | | |
| Assets | 166 | 14 | – | 180 |
| Liabilities | – | – | – | – |
| Fair value adjustments reported in net profit | (118) | (14) | – | (132) |
| Fair value at 31 March 2007 | 48 | – | – | 48 |

| | Group 2008 R million | Group 2007 R million | Company 2008 R million | Company 2007 R million |
|---|---|---|---|---|
| **28. CASH AND CASH EQUIVALENTS** | | | | |
| **Short-term investments** | | | | |
| Call deposits | | | | |
| US$ denominated | **1 060** | 409 | **1 060** | 409 |
| Euro denominated | **–** | 19 | **–** | 19 |
| Pound sterling denominated | **–** | 14 | **–** | 14 |
| | **1 060** | 442 | **1 060** | 442 |
| **Bank and other cash balances** | | | | |
| Transnet current account | **–** | 432 | **–** | 432 |
| Domestic bank accounts | **3 678** | 1 045 | **3 594** | 936 |
| Foreign bank accounts | **655** | 445 | **665** | 468 |
| | **4 333** | 1 922 | **4 259** | 1 836 |
| Cash and cash equivalents | **5 393** | 2 364 | **5 319** | 2 278 |
| Overdraft | **(1)** | – | **–** | – |
| Total cash and cash equivalents | **5 392** | 2 364 | **5 319** | 2 278 |
| Classified as part of disposal group held for sale (note 22) | **(2)** | (1) | **–** | – |
| | **5 390** | 2 363 | **5 319** | 2 278 |

Cash and cash equivalents consist of cash on hand, balances with banks and investments in money market instruments. Cash and cash equivalents included in the cash flow statement are as detailed above.

The cash injections from the government subordinated loan amounting to R2,86-billion (2007: R1,30-billion) is restricted, the use of which is subject to approval from the shareholder.

| | Group 2008 R million | Group 2007 R million | Company 2008 R million | Company 2007 R million |
|---|---|---|---|---|
| **29. RECONCILIATION OF SHARE CAPITAL, RESERVES AND ACCUMULATED LOSSES** | | | | |
| **29.1 Share capital** | | | | |
| Balance at 1 April 2007 | **11 343** | 2 893 | **11 577** | 3 127 |
| Conversion of compulsory convertible loan | **–** | 2 400 | **–** | 2 400 |
| Recapitalisation issue | **–** | 6 089 | **–** | 6 089 |
| *Less:* Shares bought back | **–** | (39) | **–** | (39) |
| **Balance at 31 March 2008** | **11 343** | 11 343 | **11 577** | 11 577 |
| **29.2 Shareholder restructuring fund** | | | | |
| Balance at 1 April 2007 | **–** | – | **–** | – |
| Raised during the year | **653** | – | **653** | – |
| **Balance at 31 March 2008** | **653** | – | **653** | – |

During the year the group received a contribution from the shareholder to support certain restructuring initiatives.

# Notes to the annual financial statements continued

for the year ended 31 March 2008

| | General non-distributable reserve Group R million | General non-distributable reserve Company R million | Actuarial gains and losses Group R million | Actuarial gains and losses Company R million | Total Group R million | Total Company R million |
|---|---|---|---|---|---|---|
| **29. RECONCILIATION OF SHARE CAPITAL, RESERVES AND ACCUMULATED LOSSES (continued)** | | | | | | |
| **29.3 Non-distributable reserves** | | | | | | |
| **2008** | | | | | | |
| Balance at 1 April 2007 | 20 | 20 | 6 | 6 | 26 | 26 |
| Actuarial gains | – | – | (69) | (69) | (69) | (69) |
| **Balance at 31 March 2008 (note 30)** | **20** | **20** | **(63)** | **(63)** | **(43)** | **(43)** |
| **2007** | | | | | | |
| Balance at 1 April 2006 | – | – | 6 | 6 | 6 | 6 |
| Gain on share buy-back | 20 | 20 | – | – | 20 | 20 |
| Balance at 31 March 2007 | 20 | 20 | 6 | 6 | 26 | 26 |

| | **Group 2008 R million** | **Company 2008 R million** |
|---|---|---|
| **29.4 Accumulated losses** | | |
| **Balance at 1 April 2006** | **(10 216)** | **(10 446)** |
| Loss for the year | **(883)** | **(861)** |
| **Balance at 1 April 2007** | **(11 099)** | **(11 307)** |
| Loss for the year | **(1 088)** | **(927)** |
| Dividend paid on government subordinated loan classified as an equity instrument | **(137)** | **(137)** |
| Profit for the year from discontinued operations | **3** | **–** |
| **Balance at 31 March 2008** | **(12 321)** | **(12 371)** |

| | | **Group 2008 R million** | Group 2007 R million | **Company 2008 R million** | Company 2007 R million |
|---|---|---|---|---|---|
| **30. SHARE CAPITAL** | | | | | |
| *Authorised* | | | | | |
| 9 000 000 000 | class A ordinary shares of R1 each | **9 000** | 9 000 | **9 000** | 9 000 |
| 3 000 000 000 | class B ordinary shares of R1 each | **3 000** | 3 000 | **3 000** | 3 000 |
| 1 500 000 000 | class C ordinary shares of R1 each | **1 500** | 1 500 | **1 500** | 1 500 |
| 750 000 000 | class D ordinary shares of R1 each | **750** | 750 | **750** | 750 |
| 750 000 000 | class E ordinary shares of R1 each | **750** | 750 | **750** | 750 |
| | | **15 000** | 15 000 | **15 000** | 15 000 |
| *Issued* | | | | | |
| 7 237 946 291 | class A ordinary shares of R1 each | **7 238** | 7 238 | **7 238** | 7 238 |
| 2 412 648 764 | class B ordinary shares of R1 each | **2 413** | 2 413 | **2 413** | 2 413 |
| 1 206 324 382 | class C ordinary shares of R1 each | **1 206** | 1 206 | **1 206** | 1 206 |
| 603 662 191 | class D ordinary shares of R1 each | **603** | 603 | **603** | 603 |
| 117 797 056 | class E ordinary shares of R1 each | **117** | 117 | **117** | 117 |
| *Less:* Treasury shares and impairment losses arising on consolidation of Share Trust | | **(234)** | (234) | **–** | – |
| | | **11 343** | 11 343 | **11 577** | 11 577 |

All shares in the classes A to D are held by the South African Government, which is represented by Department of Public Enterprises and enjoys the same rights. In the prior year, SAA purchased the shares held by the E class shareholders and the outstanding E class share options, for a total consideration of R29-million. The share buy-back resulted in SAA acquiring 38,5-million R1 par value E class shares, for a total consideration of R18,9-million, these shares remained held in the Share Trust in the current and prior year. This gave rise to a non-distributable reserve of R19,6-million, reflected in note 29.3 as part of general non-distributable reserve in the current and prior year.

| | Group 2008 R million | Group 2007 R million | Company 2008 R million | Company 2007 R million |
|---|---|---|---|---|
| **31. TRANSNET LOANS** | | | | |
| **31.1 Transnet compulsory convertible loan** | | | | |
| Balance at beginning of the year | – | 2 400 | – | 2 400 |
| Converted to share capital during the year | – | (2 400) | – | (2 400) |
| **Balance at end of the year** | – | – | – | – |
| The above amount was advanced by Transnet Limited before it sold its entire shareholding to the South African Government as represented by the Department of Public Enterprises, to address the net shareholders' deficit that existed in the company and the group from 31 March 2004. The nature of this advance was a compulsory convertible subordinated loan. | | | | |
| **31.2 Transnet company loan** | | | | |
| Balance at beginning of the year | – | 6 089 | – | 6 089 |
| To shares validly issued in current year | – | (6 089) | – | (6 089) |
| **Balance at end of the year** | – | – | – | – |
| **32. SUBORDINATED LOAN GUARANTEED BY GOVERNMENT** | | | | |
| Balance at beginning of the year | 1 300 | – | 1 300 | – |
| Raised during the year | 1 564 | 1 300 | 1 564 | 1 300 |
| **Balance at end of the year** | 2 864 | 1 300 | 2 864 | 1 300 |

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

The loan of R1,3-billion bears interest at an aggregate of three months JIBAR plus 35-basis points and is payable quarterly from June 2007 at the sole discretion of the issuer. This loan has been classified as an equity instrument and interest paid accounted for as a dividend.

The loan of R1,56-billion bears interest at an aggregate of three months JIBAR plus 140-basis points and is payable quarterly from June 2008 at the sole discretion of the issuer. This loan has been classified as an equity instrument and interest paid will be accounted for as a dividend.

| | Group 2008 R million | Group 2007 R million | Company 2008 R million | Company 2007 R million |
|---|---|---|---|---|
| **33. LONG-TERM LOANS** | | | | |
| Secured loans | | | | |
| External loans | 4 109 | 4 475 | 4 109 | 4 475 |
| The loans are repayable as follows: | | | | |
| On demand or within one year | 590 | 554 | 590 | 554 |
| Two to five years | 2 218 | 2 227 | 2 218 | 2 227 |
| Later than five years | 1 301 | 1 694 | 1 301 | 1 694 |
| | 4 109 | 4 475 | 4 109 | 4 475 |
| *Less:* Current portion repayable on demand or within one year included in current liabilities | (590) | (554) | (590) | (554) |
| | 3 519 | 3 921 | 3 519 | 3 921 |

# Notes to the annual financial statements continued

for the year ended 31 March 2008

| | Group 2008 R million | Group 2007 R million | Company 2008 R million | Company 2007 R million |
|---|---|---|---|---|
| **33. LONG-TERM LOANS (continued)** | | | | |
| Analysis of borrowings by currency: | | | | |
| Rand denominated | | | | |
| Domestic loans * | **2 240** | 2 529 | **2 240** | 2 529 |
| US$ denominated | | | | |
| Foreign loans | **1 869** | 1 946 | **1 869** | 1 946 |
| | **4 109** | 4 475 | **4 109** | 4 475 |
| Classified as part of disposal group held for sale (note 22) | **2** | 6 | **–** | – |
| | **4 111** | 4 481 | **4 109** | 4 475 |

** Domestic secured loans amounting to R449-million bear a fixed interest rate of 11,8% (2007: 11,8%), and represent loans secured over aircraft (note 16). The balance of the loans bears interest at JIBAR plus a margin ranging from 1,48% to 2,4%.*

The foreign secured loans in US$ bear interest between LIBOR + 0,02% and LIBOR flat and are secured over aircraft and capitalised lease improvements (note 16).

| | Group 2008 R million | Group 2007 R million | Company 2008 R million | Company 2007 R million |
|---|---|---|---|---|
| **34. FINANCE LEASE OBLIGATIONS** | | | | |
| No later than one year | **41** | 35 | **40** | 34 |
| Later than one year and not later than five years | **–** | 26 | **–** | 25 |
| | **41** | 61 | **40** | 59 |
| *Less:* Future finance charges | **(1)** | (2) | **–** | – |
| Present value of minimum lease payments | **40** | 59 | **40** | 59 |
| Presented as non-current liabilities | **–** | 25 | **–** | 25 |
| Presented as current liabilities | **40** | 34 | **40** | 34 |
| Finance lease liabilities relate to the in-flight entertainment system installed into the Boeing 747-400s aircraft and are denominated in US$ and bear interest between 2% and 6% per annum. As a result of management's decision to ground the Boeing 747-400s in November last year and to terminate the lease contracts within the next financial year, these liabilities are expected to be repaid within the next 12 months and have been reclassified to current liabilities. | | | | |
| **35. OTHER LONG-TERM LIABILITIES** | | | | |
| Holding company loan to Share Trust | **63** | 63 | **–** | – |
| | **63** | 63 | **–** | – |
| The holding company loan to the Share Trust 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 is repayable on the winding up of the Share Trust. At the date of this report there is no intention to wind up the Share Trust with the result that it has been classified as long term. | | | | |
| The Share Incentive Scheme Trust now resides with DPE, following the transfer of control from Transnet to DPE. | | | | |

| | | Group 2008 R million | Group 2007 R million | Company 2008 R million | Company 2007 R million |
|---|---|---|---|---|---|
| **36.** | **EMPLOYEE BENEFIT OBLIGATIONS** | | | | |
| | Post-retirement medical benefits | **33** | 42 | **33** | 42 |
| | FDC pension fund | **–** | 5 | **–** | 5 |
| | FDC disability benefits | **–** | 35 | **–** | 35 |
| | SAA (Germany) pension fund obligation | **175** | 175 | **175** | 175 |
| | | **208** | 257 | **208** | 257 |
| | Refer to note 43 for more information. | | | | |
| **37.** | **DEFERRED TAXATION** | | | | |
| | The net unrecognised deferred tax comprises: | | | | |
| | Temporary differences in respect of property, aircraft and equipment | **(1 537)** | (1 686) | **(1 446)** | (1 586) |
| | Doubtful debts | **80** | 77 | **75** | 72 |
| | Air traffic liability and other deferred income | **790** | 742 | **774** | 726 |
| | Provisions | **761** | 679 | **759** | 624 |
| | Prepayments | **(19)** | (22) | **(19)** | (22) |
| | Maintenance reserve payments | **473** | 388 | **473** | 388 |
| | Differences due to mark-to-market of financial instruments | **(57)** | 14 | **(57)** | (14) |
| | Other assets | **(9)** | (2) | **(9)** | (2) |
| | Assessed loss | **2 700** | 3 307 | **2 479** | 2 985 |
| | | **3 182** | 3 497 | **3 029** | 3 171 |
| | Deferred tax asset not recognised | **(3 154)** | (3 497) | **(3 029)** | (3 171) |
| | Deferred tax asset recognised | **28** | – | **–** | – |
| | It is the group's policy to only recognise deferred tax assets if it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised. The deferred tax asset recognised in the current year related to Mango. | | | | |
| **38.** | **AIR TRAFFIC LIABILITY** | | | | |
| | Net air traffic liability | **2 938** | 2 600 | **2 890** | 2 546 |
| | This balance represents the unrealised income resulting from tickets and airway bills sold, but not yet utilised. The balance includes the value of coupons sold by SAA, which will be flown and claimed in future periods by code share and interline partners. The liability is of a short-term nature and is reflected as a current liability. Refer to note 4 for the critical judgements applied by management to the value and recognition of this liability. | | | | |
| **39.** | **ACCOUNTS PAYABLE** | | | | |
| | Trade payables | **860** | 801 | **1 042** | 949 |
| | Other payables | **4 173** | 3 784 | **4 338** | 3 771 |
| | Accruals | **104** | 248 | **61** | 149 |
| | Interest accrual | **54** | 62 | **54** | 62 |
| | Power plant accrual | **50** | 186 | **7** | 87 |
| | | **5 137** | 4 833 | **5 441** | 4 869 |
| | Classified as part of the liabilities held for sale (note 22) | **37** | 31 | **–** | – |
| | | **5 174** | 4 864 | **5 441** | 4 869 |

# Notes to the annual financial statements continued

for the year ended 31 March 2008

| | Provision for return conditions (1) R million | Provision for onerous contracts (2) R million | Provision for accumulated leave (3) R million | Provision for service bonus (4) R million | Provision for frequent flyer liability (5) R million | Total R million |
|---|---|---|---|---|---|---|
| **40. PROVISIONS** | | | | | | |
| **Group** | | | | | | |
| Carrying amount at 1 April 2007 | 425 | 132 | 420 | 98 | 152 | *1 227 |
| Raised during the year | 175 | 1 053 | 176 | 65 | 120 | 1 589 |
| Utilised and released during the year | – | (120) | (225) | (72) | (82) | (499) |
| Carrying amount at 31 March 2008 | **600** | **1 065** | **371** | **91** | **190** | **2 317** |
| *Less:* Portion disclosed as short-term | **(199)** | **(1 065)** | **(371)** | **(91)** | **(190)** | **(1 916)** |
| **Non-current portion at 31 March 2008** | **401** | **–** | **–** | **–** | **–** | **401** |
| **Company** | | | | | | |
| Carrying amount at 1 April 2007 | 425 | 132 | 326 | 81 | 152 | 1 116 |
| Raised during the year | 175 | 1 147 | 125 | 68 | 120 | 1 635 |
| Utilised and released during the year | – | (120) | (169) | (72) | (82) | (443) |
| Carrying amount at 31 March 2008 | **600** | **1 159** | **282** | **77** | **190** | **2 308** |
| *Less:* Portion disclosed as short-term | **(199)** | **(1 159)** | **(282)** | **(77)** | **(190)** | **(1 907)** |
| **Non-current portion at 31 March 2008** | **401** | **–** | **–** | **–** | **–** | **401** |

* *Included in the carrying amount at 1 April 2007, is an amount of R2-million which relates to liabilities included as part of the disposal group held for sale (Airchefs (Pty) Limited).*

### 40.1 Provision for return conditions

The provision for aircraft return conditions is raised when the obligating event that triggers the return conditions occurs. The provision is the estimated costs to be incurred by SAA for those aircraft that have fallen short of meeting the return conditions, in order to reinstate them to expected redelivery conditions. The outflow of economic benefits to meet this obligation only occurs when the aircraft due to be returned to the lessor does not meet the return conditions during the normal course of business.

### 40.2 Provision for onerous contracts

The onerous contract raised during the year related to the early termination of the operating leases on Boeing 747-400s, due to the management decision to ground these aircraft in November 2007. Management has taken a decision to return these aircraft earlier than per lease contract term. The onerous lease has been determined as the lower of the net costs for fulfilling the lease contract and the termination costs. The lease asset arising on the smoothing has also been reversed.

The onerous lease contract included in the provision raised, related to leases between SAA and its subsidiary. The amounts receivable are onerous due to the currency and interest rate impact.

A further onerous contract raised in the prior year relates to the MD11 freighter lease contract. The MD11 aircraft was leased by SAA Cargo to fly to Kenya.

### 40.3 Provision for accumulated leave

The provision relates to the accumulated leave days due to employees.

### 40.4 Provision for service bonus

This consists of a 13th cheque payable to all employees for the period worked ie if the employee completed a full year. If an employee works part of the year (ie starts mid-way through the year or leaves before bonuses are paid), the employee is entitled to the 13th cheque pro rata for the months worked. The service bonus is paid annually in November. Flight crew receive their bonus annually in April.

### 40.5 Provision for frequent flyer liability

The airline provides for the estimated incremental costs, which are expected to be incurred as a result of an assumed level of redemption of frequent flyer miles earned. The provision is reduced to reflect the outstanding obligation as members redeem awards or as their entitlement to awards expires (note 5).

## 41. COMMITMENTS

Included in the operating lease commitments are the following US$-based lease commitments. Currency risks associated with these commitments are not hedged. The table below sets out the foreign denominated lease commitments.

| | 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 |
|---|---|---|---|---|---|---|---|
| **Description** | | | | | | | |
| Uncovered lease commitments | 169 | 169 | 160 | 120 | 95 | 362 | 1 075 |
| Total foreign currency based lease commitments | 169 | 169 | 160 | 120 | 95 | 362 | 1 075 |

*The lease commitments pertaining to the grounding of Boeing 747-400s have been reflected as an onerous lease provision (note 40.2) – the lease commitment reflected above are in respect of the remaining fleet, leased under operating leases.*

| | **Group 2008 R million** | Group 2007 R million | **Company 2008 R million** | Company 2007 R million |
|---|---|---|---|---|
| Operating lease commitments for property, aircraft, equipment and vehicles are expected to be incurred as follows: | | | | |
| On demand or within one year | **1 684** | 2 341 | **1 684** | 2 341 |
| Two to five years | **5 545** | 7 376 | **5 545** | 7 376 |
| Later than five years | **2 929** | 3 434 | **2 929** | 3 434 |
| Total | **10 158** | 13 151 | **10 158** | 13 151 |
| **Lease receivables** | | | | |
| Within one year | **7** | – | **7** | 133 |
| Within two to five years | **1** | – | **1** | 501 |
| | **8** | – | **8** | 634 |

| | **Group 2008** | Restated Group 2007 | **Company 2008** | Restated Company 2007 |
|---|---|---|---|---|
| Capital commitments contracted in Euro | **–** | * | **–** | * |
| Capital commitments contracted in US$ | **727** | 727 | **727** | 727 |
| | **727** | 727 | **727** | 727 |
| Rand-based capital commitments: | | | | |
| Authorised but not yet contracted | **–** | 61 | **–** | 61 |
| Authorised and contracted | **–** | 32 | **–** | 32 |
| | **–** | 93 | **–** | 93 |

* *Commitments in Euros were equivalent to R1-million in 2007.*

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

# Notes to the annual financial statements continued

for the year ended 31 March 2008

## 41. COMMITMENTS (continued)

As noted in the director's report, during 2002, SAA entered into an agreement with Airbus to purchase 15 A320 aircraft. During 2004, SAA sent a letter to Airbus requesting cancellation of this purchase agreement. Airbus acknowledged receipt of the letter but were silent on the cancellation itself, hence it would appear therefore that this agreement is still valid. SAA at the time believed that the price paid for the cancellation was the forfeiture of the PDP's made. The PFMA approval was withdrawn on the premise that the contract was cancelled.

As the purchase agreement is still applicable, SAA is currently under negotiation with Airbus in terms of the escalation in the purchase price which is unfavourable to SAA. SAA is considering various options to minimise the financial impact of the agreement.

With the approval of the Board, negotiations commenced with Airbus at which point it became clear that the agreement at the current purchase price will be onerous on SAA as the expected escalated delivery price in terms of the agreement will exceed the market-related price.

In addition, during May 2008, SAA issued a Request for Information (RFI) to Airbus and Boeing for its longer-term fleet plan as approved by the SAA Board at its meeting in March 2008.

It was tentatively agreed with Airbus that further discussions around the conditions of the A320 purchase agreement would continue although SAA's preference is that the 15 aircraft covered by the A320 purchase be included in the longer-term fleet plan under the Request for Information (RFI).

Government's approval has still to be obtained for the fleet plan bearing in mind that this was perceived to be previously cancelled. Should SAA elect not to pursue the purchase, both International Aero Engines (IAE) and Airbus may consider their legal rights in terms of the agreement pursuant to which, cancellation penalties may be imposed on SAA. The payment of the PDPs due early July, will depend on the outcome of the negotiations. Should SAA elect to continue with the purchase of the aircraft, reversal of the prior year impairment would be necessary.

| | **Group 2008 million** | Group 2007 million |
|---|---|---|
| **42. CONTINGENT LIABILITIES AND UNQUANTIFIABLE EXPOSURES** | | |
| **42.1 Guarantees** | | |
| Guarantees and letters of credit provided in the normal course of business | **R473** | R493 |
| **42.2 Competition Commission investigations – Domestic** | | |
| Comair referred a complaint on its own to the Competition Tribunal in regard to SAA's Voyager Programme and Corporate Agreements. This was after the Competition Commission had investigated the complaint and reached the decision not to refer it to the Tribunal. Should the Tribunal issue an adverse ruling against SAA, it has the competency to impose a penalty up to a maximum of 10% of the relevant year's total revenue. SAA is defending the matter. | **–** | – |
| **42.3 Competition Law investigations – International** | | |
| The US Department of Justice (DoJ) Anti-trust Division, has issued subpoenas for SAA to provide information and documentation in respect of a price-fixing inquiry in progress within the USA. The allegation is that SAA may have been involved in price-fixing in respect of its cargo operation in the USA. The DoJ is investigating this allegation in respect of several other airlines globally. SAA is confident about its prospects of success in refuting the allegations and continues to liaise with the DoJ through its legal representation in the USA and to provide the documentation subpoenaed by the DoJ. Price-fixing is a criminal offence in the USA and if found guilty, SAA's exposure may include a penalty of up to US$10-million. SAA continues with its preparation to defend the matter in the event that an indictment is nevertheless issued against SAA. | **US$10** | US$10 |

| | Group 2008 R million | Group 2007 R million |
|---|---|---|
| **42. CONTINGENT LIABILITIES AND UNQUANTIFIABLE EXPOSURES (continued)** | | |
| **42.3 Competition Law investigations – International (continued)** | | |
| Civil claims in the USA normally arise from anti-trust investigations of the nature reported above. In this regard, SAA has received notification that the plaintiffs in a district court class action have included SAA as a defendant. The action relates to alleged conspiracy and price-fixing in the air cargo industry by airlines and various cargo operators through the introduction and implementation of fuel, security, and/or war surcharges. At this stage SAA awaits receipt of legal process and is not yet able to establish the specific cause of action and possible exposure. SAA is however ready to defend the matter and has instructed lawyers in this regard. | **–** | – |
| In December 2006 SAA received notification from the European Commission in Brussels (EU) that the EU had initiated a worldwide investigation into alleged anti-competitive conduct by airlines in respect of cargo surcharges and rates. SAA submitted information required by the Commission and awaits further communication from the EU in regard to this investigation. While SAA is protecting its rights in the course of the investigation, SAA's Legal Counsel advise that it is not yet possible to assess what the exposure might be in respect of this investigation which is expected to unfold over a considerable length of time. | **–** | – |
| In March 2007 SAA received notification that the Australian Competition and Consumer Commission (ACCC) had initiated an investigation into allegations that SAA may have colluded with other airlines, internationally, in the alleged fixing of fuel, and war/security surcharges as well as general freight rates. In the same notice, SAA was required to furnish information to the ACCC. SAA has secured legal representation to protect its rights in the course of the investigation. As is the case with the EU investigation, SAA is not yet in a position to assess the extent of the exposure that may attach to this investigation. In regard to this as well as the EU investigation, SAA expects that civil action may arise from the investigation, as has happened with the investigation by the US, DoJ. | **–** | – |
| On 31 March 2008, SAA's Legal Counsel handling the EU investigation received a letter from the Swiss Competition Commission Authority advising that SAA is one of the airlines that would be investigated in respect of the cartel activities within the air freight services industry. SAA was required to furnish their response to the letter. The notification is similar to the one issued by the EU Commission and required the submission of documentation. Preparation for the submission of the relevant documentation is under way and SAA has engaged legal representation in Switzerland. | **–** | – |
| **42.4 Other court cases pending** | | |
| There are various other court cases in which SAA is a defendant. SAA's maximum exposure in this regard is estimated at | **50** | 50 |
| SAA is also exposed to liabilities associated with changes in the regulatory framework governing travel agent agreements and the collection of taxes, fees and charges, globally. SAA cannot quantify the value of these potential exposures. | | |
| **42.5 The South African Revenue Service employees' tax audit for the tax years 2006 and 2007** | | |
| The South African Revenue Service has conducted an employees' tax audit at SAA for the tax years 2006 and 2007. | **–** | – |
| A payment to the South African Revenue Service was made subsequent to year-end, and an objection was submitted concurrently. | | |

# Notes to the annual financial statements continued

for the year ended 31 March 2008

## 43. EMPLOYEE BENEFIT INFORMATION

### 43.1 SAA group pension benefits

The group offers pension benefits through defined benefit pension funds and defined contribution funds. The Transport Pension Fund was previously known as Transnet Pension Fund, the name was amended in November 2005. The Transnet Pension Fund Amendment Act restructured the Transport Pension Fund into a multi-employer umbrella type pension fund. From the date this Act came into operation, all existing members, pensioners, dependent pensioners, liabilities, assets, rights and obligations of the Transport Pension Fund are attributable to a subfund.

The amended rules of the fund established a subfund in the name of South African Airways (Pty) Limited (SAA group) from 1 April 2006. A further subfund in the name of South African Rail Commuter Corporation Limited was established with effect from 1 May 2006. The third subfund currently in existence is the Transnet subfund.

The SAA group also offers post-retirement medical benefits to its employees through various funds of its own.

#### *43.1.1 Transnet Retirement Fund (TRF)*

The fund was structured as a defined contribution fund from 1 December 2000. All employees of SAA employed before 1 April 2007 are eligible members of the fund. There were six members at 31 March 2008. Actuarial valuations are done, at intervals not exceeding three years, to determine its financial position. An actuarial valuation was performed at 31 March 2005. The actuaries were satisfied with the status of the members' credit account then. The group's contributions for the period to 31 March 2008 amounted to R150-million.

#### *43.1.2 SAA subfund of the Transport Pension Fund*

The fund is a closed defined benefit pension fund. Members are current employees of the SAA group who elected to remain as members of the fund at 1 November 2000 and pensioner members who retired subsequent to that date. There were 781 active members (2007: 977) and 203 pensioners (2007:180) at 31 March 2008. 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 relates to the required future service costs only.

The benefits for the members of the fund are determined based on the formula below:

A member with at least 10 years' pensionable service is entitled to the following benefits on attaining the minimum retirement age, an annual pensionable salary equal to average pensionable salary multiplied by pensionable service, multiplied by the accrual factor plus a gratuity equal to 1/3 of annual pension multiplied by the gratuity factor. A member with less than 10 years of pensionable service is entitled to a gratuity equal to twice the member's own contributions without interest on attaining the age limit.

The asset split between three subfunds were calculated to 31 March 2008, based on the proportional allocation of benefit liabilities to be transferred to each subfund, and presented to the Board of the fund. The physical split is still to be agreed by the principal employers and subfund boards. The SAA subfund assets have been estimated to 31 March 2008 based on various items as follows:

- The contribution and the annuities paid split have been based on the subfunds average salary roll versus the funds' total average salary roll.
- The transfers received and transfers to have been allocated based on the subfunds proportional liability.
- The lump sum benefit payments have been allocated based on the release of actuarial liabilities to exits from each subfund.
- The investment income has been allocated based on the opening asset split and cash flows.

The results of the actuarial valuation for the SAA subfund of the Transport Pension Fund are disclosed in 2008, whereas the results of the Transnet group as a whole were disclosed for the year-end 2007. As the separation of the Transport Pension Fund into subfunds had not been finalised in the prior year, the information for the whole fund was disclosed in 2007.

The group's contributions for the period to 31 March 2008 are estimated to be R6-million.

| | 2008 % | 2007 % |
|---|---|---|
| **43. EMPLOYEE BENEFIT INFORMATION (continued)** | | |
| *43.1.2 SAA subfund of the Transport Pension Fund (continued)* | | |
| The principal actuarial assumptions used were as follows: | | |
| Discount rate | **8,56** | 7,75 |
| Inflation | **5,34** | 4,50 |
| Salary increases | | |
| Inflation | **6,84** | 4,50 |
| Pension increases | | |
| First three years | **2,00** | 2,00 |
| After three years | **2,00** | 2,00 |
| Expected return on assets | **11,40** | 10,15 |

| | 2008 R million | 2007 R million |
|---|---|---|
| **Benefit asset/liability** | | |
| Present value of obligation | **(1 207)** | (6 257) |
| Fair value of plan assets | **1 599** | 7 875 |
| Surplus | **392** | 1 618 |
| Unrecognised asset | **(392)** | (1 618) |
| Net liability per the balance sheet | **–** | – |
| **Reconciliation of movement in benefit liability** | | |
| Opening benefit liability 1 March 2007 | **(1 299)** | (6 204) |
| Service cost | **(34)** | (167) |
| Interest cost | **(98)** | (460) |
| Actuarial gain | **130** | 324 |
| Benefits paid | **94** | 250 |
| Closing benefit liability | **(1 207)** | (6 257) |
| **Reconciliation of present value of obligation at the beginning of the year** | | |
| Opening benefit liability 1 March 2007 | | (6 257) |
| Other participating employer's subfunds | | 4 958 |
| SAA subfund opening liability | | (1 299) |
| **Reconciliation of movement in fair value of plan assets** | | |
| Opening fair value of plan assets 1 March 2007 | **1 634** | 6 391 |
| Expected return | **157** | 645 |
| Actuarial (losses) gain | **(127)** | 940 |
| Contributions | **29** | 149 |
| Benefits paid | **(94)** | (250) |
| Closing fair value of plan assets | **1 599** | 7 875 |
| **Reconciliation of fair value of plan assets at the beginning of the year** | | |
| Opening fair value of plan assets 1 March 2007 | | 7 875 |
| Other participating employer's subfunds | | (6 241) |
| SAA subfund opening fair value of plan assets | | 1 634 |

# Notes to the annual financial statements continued

for the year ended 31 March 2008

| | 2008<br>% | 2007<br>% |
|---|---|---|
| **43. EMPLOYEE BENEFIT INFORMATION (continued)** | | |
| *43.1.2 SAA subfund of the Transport Pension Fund (continued)* | | |
| The major categories of plan assets as a percentage of total plan assets are: | | |
| Equity | **65** | 65 |
| Property | **10** | 10 |
| Bonds | **20** | 20 |
| Cash | **5** | 5 |
| Total | **100** | 100 |

The amounts recognised in the SAA group income statement for 2008 and those recognised in the Transnet income statement are disclosed for 2007.

| | 2008<br>R million | 2007<br>R million |
|---|---|---|
| Current service costs | **34** | 167 |
| Interest on obligation | **98** | 460 |
| Expected return on plan assets | **(157)** | (645) |
| | **(25)** | (18) |
| *43.1.3 Flight Deck Crew (FDC)* | | |
| The liability relates to additional benefits to members of the FDC, who are employees of SAA. These additional pension benefits are required to equate to the increases that would have been applied to the total cost of employment for the years commencing 16 March 1999 to 16 March 2000. This liability has been settled in full in the current year. | | |
| This liability was recognised for the first time in 2003. | | |
| Balance at beginning and end of year | **(5)** | (5) |
| Liability settled | **5** | – |
| | **–** | (5) |

### 43.2 Medical benefits

*43.2.1 SAA group employees' post-retirement medical benefits*

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

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

SAA subsidises continuation and in-service members with a fixed amount of R213 per month in retirement. The amount is fixed irrespective of the number of dependants on the medical scheme. Dependants of members who die while in service continue to receive this amount.

To enable the SAA group to fully provide for such post-retirement medical aid liabilities, since April 2000 actuarial valuations are obtained annually, as required by IAS 19 Employee Benefits. There are no assets held to fund the obligation. In the previous years the result of the actuarial valuation for Transnet group as a whole were disclosed. This was due to a lack of accurate split of liabilities and also due to the fact that SAA was a participating member in the Transnet Pension Fund. After restructuring and sale by Transnet of its entire shareholding to the South African Government, SAA liabilities have been separately valued from those of Transnet Limited.

## 43. EMPLOYEE BENEFIT INFORMATION (continued)

### 43.2 Medical benefits (continued)

*43.2.1 SAA group employees post-retirement medical benefits (continued)*

**Allocation of liability to SAA group**

The net benefit costs are allocated to subsidiaries of Transnet based on the demographic distribution of the Transmed medical scheme members across units.

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

The projected unit credit method has been used for the purposes of determining an actuarial valuation of post-retirement medical benefits as at 31 March 2008.

The table below summarises the components of net benefit expense recognised in both the income statement and balance sheet for the SAA group as at 31 March 2008 for SAA group employees.

The principal actuarial assumptions used were as follows:

| | **2008 %** | 2007 % |
|---|---|---|
| Discount rate | **9,36** | 7,75 |

| | **R million** | R million |
|---|---|---|
| **Net benefit liability** | | |
| Present value of unfunded benefit obligations | **33** | 42 |
| **Change in present value of defined benefit obligations are as follows:** | | |
| Opening liability | **41** | 50 |
| Service costs | **1** | 3 |
| Interest cost | **3** | 1 |
| Actuarial gain | **(10)** | (10) |
| Benefits paid | **(2)** | (2) |
| Benefit liability at year-end | **33** | 42 |
| Amounts recognised in the income statement | | |
| Current service costs | **1** | – |
| Interest on obligation | **3** | – |
| | **4** | – |

### 43.3 SAA (UK) pension fund benefits

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

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

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

The fund had 11 (2007: 13) active members, of which only 4 (2007: 5) were still accruing final salary benefits deferred members and 26 (2007: 25) pensioners as at 31 March 2008.

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

# Notes to the annual financial statements continued

for the year ended 31 March 2008

## 43. EMPLOYEE BENEFIT INFORMATION (continued)

### 43.3 SAA (UK) pension fund benefits (continued)

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

**Actuarial valuations**

Actuarial valuations are carried out at intervals not exceeding three years, to determine the financial position of the final salary section. The fund was valued using the projected unit credit method as required by IAS 19 Employee Benefits in March 2008. The fund had a surplus of R34-million (2007: R19,5-million) at that date.

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

The principal actuarial assumptions used were as follows:

| | **Valuation at 2008 %** | Valuation at 2007 % |
|---|---|---|
| Discount rate | **6,9** | 5,4 |
| Expected return on assets | **7,9** | 6,4 |
| Price inflation | **3,6** | 3,3 |
| Expected rate of salary increases | **4,1** | 5,8 |
| Pension increases in payment | | |
| Pre-April 1997 (4%) | **3,6** | 3,3 |
| Post-April 1997 (5%) | **3,6** | 3,3 |
| Pension increases during deferment | **3,6** | 3,3 |

| | **2008 R million** | 2007 R million |
|---|---|---|
| The results of the actuarial valuation are as follows: | | |
| **Benefit asset/liability** | | |
| Present value of obligation | **(66)** | (68) |
| Fair value of plan assets | **100** | 87 |
| Surplus | **34** | 19 |
| Unrecognised asset | **(34)** | (19) |
| Net liability recognised in the balance sheet | **–** | – |
| Changes in the present value of defined benefit obligations are as follows: | | |
| Defined benefit obligations at beginning of the year | **68** | 55 |
| Service cost | **1** | 1 |
| Interest cost | **4** | 3 |
| Actuarial gain | **(14)** | (5) |
| Exchange loss on foreign plans | **9** | 17 |
| Benefits paid | **(2)** | (3) |
| Closing defined benefit obligations | **66** | 68 |

## 43. EMPLOYEE BENEFIT INFORMATION (continued)

### 43.3 SAA (UK) pension fund benefits (continued)

| | 2008 R million | 2007 R million |
|---|---|---|
| Changes in the fair value of plan assets are as follows: | | |
| Fair value of plan assets at beginning of the year | **87** | 58 |
| Expected return | **7** | 5 |
| Contributions by employer | **8** | 7 |
| Actuarial (loss) gain | **(12)** | 2 |
| Exchange gain on foreign plans | **12** | 18 |
| Benefits paid | **(2)** | (3) |
| Fair value of plan assets at end of the year | **100** | 87 |

| | 2008 % | 2007 % |
|---|---|---|
| The fair value of plan assets at the balance sheet date is analysed as follows: | | |
| The major categories of plan assets as a percentage of total plan assets | | |
| Equity instruments | **81** | 80 |
| Debt instrument | **19** | 20 |
| Other assets | **–** | – |
| | **100** | 100 |

| | 2008 R million | 2007 R million |
|---|---|---|
| The amounts recognised in the profit or loss are as follows: | | |
| Current service costs | **1** | 1 |
| Interest on obligation | **4** | 3 |
| Expected return on plan assets | **(7)** | (5) |
| Foreign exchange (gain) loss | **(3)** | 1 |
| | **(5)** | – |
| Change to statement of recognised income and expenditure | | |
| Actuarial gains at beginning of the year | **8** | 8 |
| Actuarial loss recognised | **(2)** | – |
| Cumulative actuarial gain recognised in equity | **6** | 8 |

| | 2008 R million | 2007 R million | 2006 R million | 2005 R million |
|---|---|---|---|---|
| Summary of actuarial valuation results for past periods: | | | | |
| Present value of defined benefit obligation | **(66)** | (68) | (55) | (58) |
| Fair value of plan assets | **100** | 88 | 59 | 41 |
| Surplus (deficit) | **34** | 20 | 4 | (17) |
| Asset not recognised | **(34)** | (20) | (4) | – |
| Total | **–** | – | – | (17) |

# Notes to the annual financial statements continued

for the year ended 31 March 2008

## 43. EMPLOYEE BENEFIT INFORMATION (continued)

### 43.4 SAA (German) pension fund benefits

SAA operates a retirement plan for its German-based permanent employees. The scheme is a defined benefit fund. The scheme consists of three groups, which are entitled to different benefits as follows:

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

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

**Group 3:** All new employees who joined SAA after 1 January 1988.

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

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

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

As a result, the insurance policy is accounted for as a reimbursement right and recognised as a separate asset at its fair value. In terms of paragraph 104D of IAS 19 Employee Benefits, the fair value of the reimbursement right is deemed to be the present value of the related obligation. The benefit obligation was recognised in full.

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

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

**Actuarial valuations**

Actuarial valuations in terms of the rules of the scheme are done at intervals not exceeding three years, to determine its financial position. There was no valuation performed in the current year.

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

| | Valuation at 2007 % |
|---|---|
| Discount rate | 4,5 |
| Expected rate of salary increases | 2 |
| Future pension increases | 4,5 |
| Expected return on reimbursement right | – |

| | 2008 R million | 2007 R million |
|---|---|---|
| **43. EMPLOYEE BENEFIT INFORMATION (continued)** | | |
| **43.4 SAA (German) pension fund benefits (continued)** | | |
| The results of the actuarial valuation are as follows: | | |
| **Benefit asset/liability** | | |
| Present value of obligation | **175** | 175 |
| Plan assets | **–** | – |
| Benefit obligation recognised | **175** | 175 |
| Changes in the present value of defined benefit obligations are as follows: | | |
| Defined benefit obligations at beginning of the year not recognised | **122** | 122 |
| Service cost | **15** | 15 |
| Interest cost | **8** | 8 |
| Exchange differences on foreign plans | **35** | 35 |
| Benefits paid | **(5)** | (5) |
| Closing defined benefit obligations | **175** | 175 |
| **Reimbursement right** | | |
| Fair value of reimbursement right at end of the year | **112** | 112 |

The insurance policy was taken to finance the full liability of the benefit obligations at retirement age. When each employee covered by the insurance policy retires, SAA receives a lump sum amount that is expected to fund the employee benefits as determined based on the life expectancy of the insured. SAA uses these funds to fund the pension benefits.

| | 2008 R million | 2007 R million |
|---|---|---|
| The amounts recognised in the profit or loss are as follows: | | |
| Current service costs | **–** | 3 |
| Interest on obligation | **–** | 8 |
| Past service costs | **–** | 21 |
| | **–** | 32 |

**Fixed deposit**

Recognised as part of the cash equivalents (note 28) is an investment raised from the proceeds paid by the insurer to fund pensioners' benefit obligations. The cash available did not qualify as plan assets in terms of IAS 19 Employee Benefits. This cash amounted to R62,1-million at the end of 2008 (2007: R38,3-million).

**43.5 Flight Deck Crew (FDC) disability benefit**

SAA has an agreement with the FDC members who are on permanent employment to top up the disability benefits payable by the Transnet defined contribution fund. In terms of the rules of the Transnet defined contribution fund all employees are entitled to 75% of the members pensionable salary payable when a member becomes disabled before the normal retirement age of 63. The agreement with the FDC members is for SAA to pay a further 25% in addition to what the member would receive from the pension fund in the case of disability. The members or SAA make no additional contribution towards these benefits, these benefits are therefore unfunded.

The actuarial valuation for this liability was performed in March 2007. In terms of IAS 19 Employee Benefits, the disability benefits should be recognised as part of other long-term employment benefits. The benefits should be measured based on the same principles applicable to a defined benefit fund. The actuarial valuation was performed using the projected unit credit method.

In the past SAA have recognised the full obligation in the financial statements as there was no planned assets or an insurance cover in place for these promised benefits. In 2007, SAA took an insurance policy to cover the 25% additional benefit to pilots, which resulted in SAA having a legal or constructive obligation to fund the disability benefit.

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

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

SAA has therefore derecognised the full disability obligation.

# Notes to the annual financial statements continued

for the year ended 31 March 2008

| | Valuation at 2007 % |
|---|---|
| **43. EMPLOYEE BENEFIT INFORMATION (continued)** | |
| **43.5 FDC disability benefit (continued)** | |
| The principal actuarial assumptions used as at the balance sheet date were as follows: | |
| Discount rate | 8,40 |
| Expected rate of salary increases | 7,78 |
| Future pension increases | 5,68 |

| | 2007 R million |
|---|---|
| The results of the actuarial valuation are as follows: | |
| **Net benefit liability** | |
| Present value of unfunded benefit | 35 |
| Changes in the present value of defined benefit obligations are as follows: | |
| Benefit obligation at beginning of year | 35 |
| Service cost | 2 |
| Interest cost | 2 |
| Actuarial gain | (4) |
| Benefit obligation at end of year | 35 |

**43.6 Share-based payments**

**Cash-settled share-based payments**

SAA (Pty) Limited during the current and prior year operated, 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 (ESOP). These schemes were created for the benefit of the employees of SAA. These schemes were classified as cash-settled shares because the employees could, at their discretion exercise the option and immediately sell them back to the Trust for cash. These share options pertain to 156 336 120 E class shares of SAA.

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

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

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

## 43. EMPLOYEE BENEFIT INFORMATION (continued)

### 43.6 Share-based payments (continued)

**Cash-settled share-based payments (continued)**

The Share Incentive Scheme Trust now resides with the DPE, following the transfer of control from Transnet to the DPE.

**(a) FDC share scheme**

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

| | **2008 Number of shares** | 2007 Number of shares |
|---|---|---|
| Employees | **–** | – |
| South African Airways Share Trust | **40 150 000** | 40 150 000 |
| | **40 150 000** | 40 150 000 |

**(b) Share incentive scheme**

The scheme granted two types of shares, ie joining and promotional shares to management. The promotional shares had a 12-month vesting period and the joining shares had a 24-month vesting period. Vesting was calculated from 1 April 1999 or when the employee joined the company. The employees could exercise these options at 25% per annum after vesting took place. These shares are held as follows:

| | **2008 Number of shares** | 2007 Number of shares |
|---|---|---|
| Participants | **–** | – |
| Advanced to the ESOP scheme | **–** | – |
| South African Airways Share Trust | **58 018 060** | 58 018 060 |
| | **58 018 060** | 58 018 060 |

**(c) Employee Share Ownership Programme (ESOP)**

This scheme was implemented in March 2001, granting employees in service of SAA on or before 1 April 1999 options to purchase shares at R1,00 per share. These shares vested over a three-year period and were fully vested as at 31 March 2004. These shares are held as follows:

| | **2008 Number of shares** | 2007 Number of shares |
|---|---|---|
| Participants | **–** | – |
| South African Airways Share Trust | **93 168 060** | 93 168 060 |
| | **93 168 060** | 93 168 060 |

Details of the share options movements during the year are as follows:

**FDC scheme**

All share options under the FDC Scheme were exercised in terms of the FDC option agreement between Transnet and the SAA Pilots Association.

| | **2008 Number of shares** | 2007 Number of shares |
|---|---|---|
| **The Share Incentive Scheme** | | |
| Outstanding at the beginning of the year | **–** | 13 420 401 |
| Expired during the year | **–** | – |
| Settled during the year | **–** | (13 420 401) |
| Outstanding at end of the year | **–** | – |
| **Employee Share Ownership Programme** | | |
| Outstanding at beginning of year | **–** | 29 361 213 |
| Expired during the year | **–** | – |
| Settled during the year | **–** | (29 361 213) |
| Outstanding at the end of the year | **–** | – |

# Notes to the annual financial statements continued

for the year ended 31 March 2008

| | Group 2008 R million | Group 2007 R million | Company 2008 R million | Company 2007 R million |
|---|---|---|---|---|
| **43. EMPLOYEE BENEFIT INFORMATION (continued)** | | | | |
| **43.6 Share-based payments (continued)** | | | | |
| **Share-based payment liability** | | | | |
| Fair value at the beginning of the year | – | 4 | – | 4 |
| Increase in fair value during the year | – | – | – | – |
| Share buy-back settlement | – | (4) | – | (4) |
| Fair value at the end of the year | – | – | – | – |

### 43.7 HIV/Aids benefits

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

### 43.8 Travel benefits

The group offers certain air-travel benefits to both current employees and retirees. As a percentage of the face value of the air-ticket is normally paid in respect of the benefit, (with such percentage exceeding the marginal cost of supplying the service) and as the ticket is only issued on a "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 group therefore does not incur any incremental costs in providing this benefit and therefore no liability is recognised.

## 44. RELATED PARTY TRANSACTIONS

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

The revenue from the sale of tickets to related parties has been quantified based on the information available from frequent flyer corporate contracts entered into with the group. The frequent flyer participants qualify for some rebates when reaching a specified qualifying limit, which are similar to all other third parties who participate in this frequent flyer programme for corporates. Other ticket sales with related parties were made on terms equivalent to those that prevail in arms' length transactions. The revenue from the sale of tickets that are not reported in terms of these contracts have not been disclosed as it is, and will continue to be, impossible to quantify these sales due to the nature of the distribution network. In addition, there is no requirement or obligation for any related party to purchase its tickets from SAA with the result that SAA's relationship with these parties has no impact on related party sales and would not negatively impact results should the relationship be terminated.

Included in accounts payable is an amount of R294-million relating to leases entered into at the beginning of the financial year with a subsidiary of SAA.

The group and its subsidiaries, in the ordinary course of business, enter into various other sales, purchase and service agreements with other parties within the SAA (Pty) Limited group. The transactions entered into by entities within SAA are eliminated on consolidation.

## 44. RELATED PARTY TRANSACTIONS (continued)

| | Sale of goods/services | | Amounts receivable from related parties | | Purchases of goods/services | | Amounts payable to related parties | | Other transactions | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| | **R 000** | R 000 | **R 000** | R 000 | **R 000** | R 000 | **R 000** | R 000 | **R 000** | R 000 |
| **Group** | | | | | | | | | | |
| **Related party transactions and outstanding balances** | | | | | | | | | | |
| Holding company | **2 227** | 1 296 | **–** | – | **–** | – | **–** | – | **(136 928)*** | – |
| State-controlled entities | **103 383** | 411 043 | **821** | 553 796 | **(830 893)** | (1 186 255) | **(4 390)** | (129 086) | **–** | 41 574 |
| National government departments | **197 788** | 174 112 | **–** | 118 | **(1 241)** | (4 056) | **(30)** | (98 463) | **–** | – |
| Post-employment benefit (Transnet pension funds) | – | 889 | **–** | – | **–** | – | **–** | – | **–** | – |
| Key management personnel | **1 180** | 93 | **–** | – | **–** | – | **–** | – | **–** | – |
| Total | **304 578** | 587 433 | **821** | 553 914 | **(832 134)** | (1 190 311) | **(4 420)** | (227 549) | **(136 928)** | 41 574 |

| | Sale of goods/services | | Amounts receivable from related parties | | Purchases of goods/services | | Amounts payable to related parties | | Other transactions | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| | **R 000** | R 000 | **R 000** | R 000 | **R 000** | R 000 | **R 000** | R 000 | **R 000** | R 000 |
| **Company** | | | | | | | | | | |
| **Related party transactions and outstanding balances** | | | | | | | | | | |
| Holding company | **2 227** | 1 299 | **–** | – | **–** | – | **–** | – | **(136 928)*** | – |
| Subsidiaries and joint ventures | **205 510** | 1 564 | **2 662 149** | 1 180 338 | **(2 150 414)** | (2 182 945) | **(603 152)** | (137 322) | **(105 855)** | 338 003 |
| State-controlled entities | **81 289** | 347 630 | **5** | 553 796 | **(740 768)** | (4 056) | **(3 102)** | (128 321) | **–** | 41 574 |
| National government departments | **197 788** | 174 511 | **–** | 118 | **(1 240)** | (1 150 333) | **(30)** | (98 463) | **–** | – |
| Post-employment benefit (Transnet Pension Funds) | **–** | 889 | **–** | – | **–** | – | **–** | – | **–** | – |
| Key management personnel | **1 180** | 93 | **–** | – | **–** | – | **–** | – | **–** | – |
| Total | **487 994** | 525 986 | **2 662 154** | 1 734 252 | **(2 892 422)** | (3 337 334) | **(606 284)** | (364 106) | **(242 783)** | 379 577 |

- Amounts receivable represent short- and long-term amounts receivable
- Amounts payable represents short- and long-term amounts payable

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

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

Services rendered to related national government departments relate mainly to transportation services. Services received from related national government departments included training, personnel services and management services.

# Notes to the annual financial statements continued

for the year ended 31 March 2008

## 44. RELATED PARTY TRANSACTIONS (continued)

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

Guarantees held by SAA on other state-controlled entities outside of the Transnet group, which were outstanding as at 31 March 2006 expired in the current year.

Details on subordination of loans by SAA (to its subsidiaries) amounting to R860-million (2007: R828-million) are included in note 18 on investments in subsidiaries.

**Key management personnel compensation is set out below:**

| | Fees **2008** **R 000** | Fees 2007 R 000 |
|---|---|---|
| **Board of Directors** | | |
| **Non-executive** | | |
| Gerwel G | **500** | 500 |
| Joubert PG | **300** | 300 |
| Modise B | **320** | 75 |
| Mojela LM | **360** | 400 |
| Moerane M | **–** | 230 |
| Moosa V | **–** | 150 |
| Du Plessis F | **350** | 75 |
| Okeahalam C | **–** | 210 |
| Ngwezi A | **–** | 310 |
| Nkuna PE | **–** | 160 |
| Whitehouse M | **320** | 75 |
| Schrempp J | **310** | 75 |
| Moyo N | **304** | 75 |
| Kalyan KP | **358** | 75 |
| Semenya IAM * | **10** | 20 |
| Dikgale TJ | **–** | 20 |
| Total | **3 132** | 2 750 |

** SAA City Centre (Pty) Limited.*

| | Salaries **2008** **R 000** | Allowances **2008** **R 000** | Fund contri-butions **2008** **R 000** | Bonuses[1] and profit sharing **2008** **R 000** | Post-employ-ment benefits **2008** **R 000** | Termination benefits **2008** **R 000** | Other long-term benefits **2008** **R 000** | Retention[2] premium **2008** **R 000** | Total **2008** **R 000** |
|---|---|---|---|---|---|---|---|---|---|
| **Short-term employee benefits** | | | | | | | | | |
| **Executive directors** | | | | | | | | | |
| Ngqula K* | **3 743** | **–** | **1 449** | **–** | **–** | **–** | **–** | **688** | **5 880** |
| Griffiths G* | **793** | **40** | **–** | **–** | **–** | **–** | **–** | **–** | **833** |
| Patel K | **641** | **320** | **106** | **–** | **–** | **–** | **–** | **250** | **1 317** |
| Total | **5 177** | **360** | **1 555** | **–** | **–** | **–** | **–** | **938** | **8 030** |

## 44. RELATED PARTY TRANSACTIONS (continued)

| | Salaries 2008 R 000 | Allowances 2008 R 000 | Fund contri-butions 2008 R 000 | Bonuses[1] and profit sharing 2008 R 000 | Termination benefits 2008 R 000 | Other long-term benefits 2008 R 000 | Retention[2] premium 2008 R 000 | Total 2008 R 000 |
|---|---|---|---|---|---|---|---|---|
| **Short-term employee benefits** | | | | | | | | |
| **Executive Committee** | | | | | | | | |
| Blake J | **1 096** | **–** | **–** | **–** | **–** | **–** | **–** | **1 096** |
| Melk T | **978** | **96** | **130** | **–** | **–** | **–** | **160** | **1 364** |
| Dlamini P | **776** | **105** | **135** | **–** | **–** | **–** | **140** | **1 156** |
| Jordaan CF | **1 131** | **94** | **180** | **–** | **–** | **–** | **–** | **1 405** |
| Magwentshu N | **573** | **45** | **57** | **–** | **500** | **–** | **–** | **1 175** |
| Else CR | **945** | **99** | **90** | **–** | **–** | **–** | **220** | **1 354** |
| Smyth FC | **1 504** | **109** | **219** | **–** | **–** | **–** | **275** | **2 107** |
| Naicker VK | **1 253** | **139** | **108** | **–** | **–** | **–** | **206** | **1 706** |
| Zondo LB | **1 387** | **158** | **–** | **–** | **–** | **–** | **425** | **1 970** |
| Lehutso JLR | **1 030** | **–** | **95** | **–** | **–** | **–** | **186** | **1 311** |
| Bulunga B | **919** | **150** | **113** | **–** | **–** | **–** | **330** | **1 512** |
| Bekker PJ | **892** | **63** | **85** | **–** | **–** | **–** | **–** | **1 040** |
| Total | **12 484** | **1 058** | **1 212** | **–** | **500** | **–** | **1 942** | **17 196** |

| | 2007 | 2007 | 2007 | 2007 | 2007 | 2007 | 2007 | 2007 |
|---|---|---|---|---|---|---|---|---|
| **Executive Directors** | | | | | | | | |
| Ngqula K* | 3 570 | – | 1 430 | – | – | – | – | 5 000 |
| Ramano MMT* | 345 | 32 | 44 | – | 2 635 | – | – | 3 056 |
| Griffiths G* | 2 175 | 110 | – | – | – | – | – | 2 285 |
| Total | 6 090 | 142 | 1 474 | – | 2 635 | – | – | 10 341 |
| **Executive Committee** | | | | | | | | |
| Blake J | 1 067 | 28 | – | 6 | – | – | – | 1 101 |
| Melk T | 1 110 | 24 | 113 | – | – | – | – | 1 247 |
| Dlamini P | 777 | 106 | 133 | – | – | – | – | 1 016 |
| Jordaan CF | 1 578 | 183 | 265 | – | – | – | – | 2 026 |
| Magwentshu N | 1 093 | 120 | 140 | 5 | – | – | – | 1 358 |
| Mlenzana V | 731 | 119 | 88 | – | 261 | – | – | 1 199 |
| Moagi MN | 134 | 30 | 26 | – | 623 | – | – | 813 |
| Moeti PD | – | – | – | – | 365 | – | – | 365 |
| Naicker VK | 1 305 | 139 | 105 | – | – | – | – | 1 549 |
| Zondo LB | 1 387 | 158 | – | – | – | – | – | 1 545 |
| Lehutso JLR | 939 | – | 86 | – | – | – | – | 1 025 |
| Bulunga B | 79 | 13 | 8 | – | – | – | – | 100 |
| Bekker PJ | 775 | 70 | 78 | – | – | 3 | – | 926 |
| Total | 10 975 | 990 | 1 042 | 11 | 1 249 | 3 | – | 14 270 |

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

*[1] Relate to bonuses for the 2007 financial year.*

*[2] Retention premium was approved by the Remuneration Committee and is payable over a three-year period with a clawback clause in the event of resignation.*

# Notes to the annual financial statements continued

for the year ended 31 March 2008

| | Group 2008 R million | Group 2007 R million | Company 2008 R million | Company 2007 R million |
|---|---|---|---|---|
| **45. RECONCILIATION OF LOSS TO CASH GENERATED FROM OPERATIONS** | | | | |
| Loss for the year | **(1 085)** | (883) | **(927)** | (861) |
| Adjusted for: | | | | |
| Taxation charge | **(15)** | 42 | **11** | 41 |
| Depreciation | **796** | 744 | **752** | 702 |
| Amortisation of intangible assets | **30** | – | **30** | – |
| Increase in onerous contact provision | **933** | 132 | **1 027** | 132 |
| Finance costs | **384** | 408 | **442** | 408 |
| Interest received | **(254)** | (128) | **(372)** | (318) |
| Impairment of assets less maintenance reserve write-back | **124** | (11) | **119** | (11) |
| Impairment of Share Trust loan | **–** | – | **–** | (9) |
| Impairment of subsidiaries | **–** | – | **32** | – |
| Net (profit) loss on sale and scrapping of property, aircraft and equipment | **(8)** | 3 | **(6)** | 4 |
| Release from air traffic liability | **(373)** | (693) | **(373)** | (693) |
| Impairment of accounts receivable | **19** | (6) | **20** | (6) |
| Profit on disposal of ATCL | **–** | (53) | **–** | – |
| Non-cash movement on non-distributable reserves | **(97)** | 20 | **(97)** | 20 |
| Release from passenger tax provision | **(108)** | (110) | **(108)** | (110) |
| Employee benefit obligations (decrease) increase | **(49)** | 57 | **(49)** | 57 |
| Derivative market movements | **(310)** | (69) | **(310)** | (69) |
| Unrealised foreign investments | **–** | (81) | **–** | (81) |
| Unrealised foreign exchange gain on revaluation of loans | **134** | 284 | **134** | 284 |
| Unrealised foreign exchange loss on security deposits | **(58)** | (104) | **(58)** | (104) |
| Unrealised foreign exchange loss on cash and cash equivalents | **(102)** | (117) | **(102)** | (117) |
| Foreign exchange effect on working capital | **(23)** | 218 | **(20)** | 121 |
| Cash generated (applied to) operating activities before working capital changes | **(62)** | (347) | **145** | (610) |
| Working capital changes | **1 450** | 663 | **1 594** | 760 |
| Decrease (increase) in inventories | **57** | (52) | **(7)** | (27) |
| Decrease (increase) in accounts receivable | **82** | (741) | **19** | (628) |
| Increase in accounts payable | **418** | 747 | **680** | 645 |
| Increase in air traffic liability | **711** | 1 161 | **717** | 1 105 |
| Increase (decrease) in long and short-term provisions | **159** | (234) | **165** | (214) |
| Foreign exchange effect on working capital | **23** | (218) | **20** | (121) |
| Cash generated from operations | **1 388** | 316 | **1 739** | 150 |

## 46. RISK MANAGEMENT

### 46.1 Governance structure

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

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

**Risk management department**

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

**Risk management systems**

SAA has implemented a risk management system with advanced analytics to assist SAA's risk department to accurately measure the diverse risks that the company faces. The key for this tool is its ability to handle jet fuel price risk exposures using commodity pricing models and the aggregation of all the other risks to enable SAA to have a firm wide view of its financial risks.

The capital risk and financial risk management is described below.

### 46.2 Capital risk management

The group manages its capital to ensure that entities in the group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the group consists of share capital, government subordinated guaranteed loans that are classified as equity instruments. The non-distributable reserves includes general reserves and government restructuring funds, which are ring-fenced for funding of the groups restructuring activities to ensure that the entity returns to profitability with financial performance metrics similar to those of its world-class peers. The distributable reserve is mainly the returned earnings, which in the current year is an accumulated loss. The debt included long-term interest-bearing borrowings and short-term borrowings including accounts payable and bank overdrafts.

The cash injection from the government subordinated loan amounting to R2,86-billion is restricted for funding of the restructuring programme.

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

**Aircraft and engine financing**

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

SAA management applies utmost care in managing the continued availability of aircraft financing arrangements.

**Gearing ratio**

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

# Notes to the annual financial statements continued

for the year ended 31 March 2008

| | March 2008 R million | March 2007 R million |
|---|---|---|
| **46. RISK MANAGEMENT (continued)** | | |
| The group's gearing ratio at year-end was as follows: | | |
| Debt* | **12 539** | 12 381 |
| Cash and cash equivalents | **(5 393)** | (2 364) |
| Net debt | **7 146** | 10 017 |
| Equity** | **2 496** | 1 570 |
| Net debt to equity ratio | **3:1** | 6:1 |
| Equity before government subordinated loan | **(368)** | 270 |
| Net debt to equity before government subordinated loan ratio (%) | **105** | 97 |

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

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

### 46.3 Financial instruments categories

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 annual financial statements depending on their classification.

| | Note | Amortised cost* 2008 R million | Amortised cost* 2007 R million | Fair value 2008 R million | Fair value 2007 R million |
|---|---|---|---|---|---|
| **FINANCIAL ASSETS** | | | | | |
| Loans and receivables | | | | | |
| Defeasance deposit | 19 | **461** | 568 | * | * |
| Accounts receivable | | **3 475** | 3 621 | * | * |
| Cash and cash equivalents | | **5 392** | 2 364 | * | * |
| **Held-for-trading financial assets** | 27 | | | | |
| **Derivative assets** | | | | | |
| Jet fuel commodity derivatives | | **–** | – | **58** | 48 |
| Forward contracts | | **–** | – | **73** | – |
| Options and swaps | | **–** | – | **73** | – |
| **FINANCIAL LIABILITIES** | | | | | |
| Long- and short-term liabilities | 33 | **4 109** | 4 475 | **–** | – |
| Finance lease obligations | | **40** | 59 | **–** | – |
| Accounts payable | 39 | **5 137** | 4 833 | **–** | – |
| Holding company loan to Share Trust | 35 | **63** | 63 | **–** | – |
| **Held-for-trading financial liabilities** | | | | | |
| **Derivative liabilities** | | | | | |
| Jet fuel commodity derivatives | | **–** | – | **20** | 10 |

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

**Fair value of financial instruments**

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

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

The investment in the unlisted shares is held as an ancillary investment, and is not considered a material holding to the group. The value of the shares has been impaired to zero in the prior years. The directors' valuation based on the dividends yield model is utilised to determine fair value of this investment at each reporting date. This was considered an appropriate valuation basis as the group hold a minority interest of less than 5%.

## 46. RISK MANAGEMENT (continued)

**Derivative assets and liabilities**

The derivative assets and liabilities are entered into to manage group exposure to foreign currency, interest rates and jet fuel price risks. The group derivatives include Brent oil and Brent oil commodity derivatives entered mainly to manage jet fuel price risk, the forward contracts and call options. All these instruments are quoted on the market, and their fair value is therefore determined based on quoted market prices at specific dates.

Foreign currency forward contracts are measured using the quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

The group has not entered into any derivative transactions to manage interest rate risk in the current year. SAA has adopted a conservative policy in managing the interest rate risk.

All other financial assets and liabilities are measured at amortised cost.

**Financial risk management**

The fundamental objective of financial risk management at SAA is to protect and, where possible, improve on future budgeted and forecast cash flows, and the financial performance and financial position of the group, by:

- protecting the group from adverse market movements that manifest as financial downside for the business and endanger stakeholders (shareholder, employees, the community), and threaten the sustainability and competitive position and reputational risk of the SAA group in the market;
- reducing the volatility and resultant uncertainty of operating revenues and cash flows that result from financial market volatility; and
- providing some price stability through improving the transparency of price mechanisms.

The main financial market risks faced by group are liquidity, credit risk, market risk which consist of interest rate risk, currency risk and commodity price risk.

The Board has a clear financial risk management policy with clearly defined objectives, this policy present a framework and control environment that sets the limits within which management can leverage their experience and knowledge of the business together with financial risk management skills and a degree of innovation, to manage and mitigate financial risk on a day-to-day basis.

**Liquidity risk**

Liquidity risk is the risk that the group does not meet its financial obligations on a cost-effective and a timeous basis, and could result in reputational damage should a default occur.

The cash management and liquidity risk management processes are aimed at ensuring that the group is managing its cash resources optimally, has sufficient funds to meet its day-to-day financial obligations, has established prudent limits on the percentage of debt that can mature in any financial year, is investing any cash surpluses in an appropriate and authorised way and has sufficient facilities in place to provide its required forecast liquidity requirement.

The principles for cash and liquidity management at SAA as group are as follows:

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

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

The group has access to liquidity facilities that sufficiently cover the group’s latest budgeted/forecast and “worst case” liquidity requirements (as determined by stress testing the budget/forecast) over a 12-month rolling period.

# Notes to the annual financial statements continued

for the year ended 31 March 2008

## 46. RISK MANAGEMENT (continued)

**Liquidity risk (continued)**

Presented below are the maturity analyses:

**Group and company – 31 March 2008**

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

| | Carrying amount | Contractual amount | Less than 1 month | 1 – 3 months | 3 – 6 months | 6 months to 1 year | 1 – 5 years | 5+ years |
|---|---|---|---|---|---|---|---|---|
| **Non-derivative financial liabilities** | | | | | | | | |
| US$ denominated secured loans | 231 | 277 | – | 16 | 50 | 16 | 115 | 80 |
| US$ denominated finance lease obligations | 5 | 5 | – | – | 5 | – | – | – |
| Total | 236 | 282 | – | 16 | 55 | 16 | 115 | 80 |
| ZAR denominated secured loans* | 2 240 | 3 151 | – | 147 | 123 | 228 | 1 807 | 846 |
| Accounts payable | 5 137 | 5 137 | 5 137 | | | | | |
| Holding company loan to Share Trust | 63 | 63 | – | – | – | – | – | – |
| Total | 7 440 | 8 351 | 5 137 | 147 | 123 | 228 | 1 807 | 846 |
| **Derivative financial instruments** | | | | | | | | |
| Fixed swaps | (20) | (20) | – | (16) | (3) | (1) | – | – |
| Fixed swaps | 22 | 22 | – | 9 | 8 | 5 | – | – |
| Forward contracts | 73 | 458 | 42 | 170 | 128 | 118 | – | – |
| | 95 | 480 | 42 | 179 | 136 | 123 | – | – |
| **Group and company – 31 March 2007** | | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | | |
| US$ denominated secured loans | 269 | 325 | – | 21 | 5 | 25 | 194 | 80 |
| US$ denominated finance lease obligations | 8 | 8 | – | 1 | 1 | 2 | 4 | – |
| Total | 277 | 333 | – | 22 | 6 | 27 | 198 | 80 |
| ZAR denominated secured loans* | 2 529 | 3 710 | – | 152 | 130 | 277 | 2 305 | 846 |
| Accounts payable | 4 833 | 4 833 | 4 833 | | | | | |
| Holding company loan to Share Trust | 63 | 63 | – | – | – | – | 63 | – |
| Total | 7 425 | 8 606 | 4 833 | 152 | 130 | 277 | 2 368 | 846 |
| **Derivative financial instruments** | | | | | | | | |
| Collar | (6) | (6) | (4) | – | (3) | (3) | – | – |
| Fixed swaps | (4) | (4) | – | – | – | – | – | – |
| | (10) | (10) | (4) | – | (3) | (3) | – | – |
| Collar | 13 | 13 | 1 | 2 | 5 | 5 | – | – |
| Fixed swaps | 42 | 42 | 6 | 12 | 16 | 8 | – | – |
| | 55 | 55 | 7 | 14 | 21 | 13 | – | – |

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

## 46. RISK MANAGEMENT (continued)

**Facilities held for Boeing 747-400s lease commitments and unfunded post-employment benefit obligations**

The defeasance deposit is utilised mainly to fund the operating lease commitments relating to Boeing 747-400s, this was previously reported as held-to-maturity financial instrument category. Due to a decision by the Board to ground the whole Boeing 747-400s fleet, the defeasance deposit would be utilised to settle the outstanding liabilities and lease termination penalties and, any shortfall would be funded from the companies cash and cash equivalents. Management expect to finalise the termination arrangements and return these aircraft within the next three months after end of the financial year.

The fixed deposit amounting to R56,8-million that is utilised mainly to fund the unfunded pension obligation relating to the Germany outstation employees and is not available for any other short- or long-term cash requirements. The deposit is created from the proceeds of the insurance policy lump sum payout when the employee reaches retirement. (Refer employee benefit note 43.4.)

**Undrawn commitment**

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

**Credit risk management**

Credit risk is the risk of losses (realised or unrealised) arising from a counterparty defaulting on a financial market instrument where the group is a party to the transaction or failure to service debt according to contractual terms. Credit risk encompasses both the direct risk of default and the risk of deterioration of creditworthiness and the respective concentration risk.

The objectives of managing counterparty risk are to avoid contracting with any party that is not of an acceptable credit standing, formulate evaluation criteria of potential counterparties and implementing monitoring measures and control processes for counterparty risk.

The group is exposed to a number of types of counterparty risk as part of its normal business operations as described below:

*Investment risk*

Cash balances and investments held in a range of local and offshore bank accounts, in a range of currencies, which form part of SAA's cash management and revenue collection infrastructure.

*Committed funding facilities*

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

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

*Marginal risk*

The group makes use of derivative instruments in the foreign exchange, interest rate and commodity markets to mitigate the risk of adverse changes in cash flow and earnings that result from fluctuations in the financial markets. Counterparty risk arises on these derivative instruments when the hedging positions with counterparties have a positive net present value to SAA and are providing SAA with protection against adverse market movements in future. In this scenario SAA would lose the protection if the counterparty defaults on its obligation and SAA will have to replace this protection with similar hedging transactions at a higher cost. It is also important to note that, in the event that a counterparty goes into liquidation and its marginal risk position (net present value) is positive (an asset to the counterparty) with SAA, the company may be called on by the creditors of the counterparty to crystallise and settle the positions in question earlier than anticipated.

Counterparties are grouped in two major groups from a credit risk perspective:

*Rated counterparties*

Local and international banking and financial institutions, which are rated by major ratings agencies, and whose financial information is audited, accurate and readily available. The assessment of rated counterparties follows the guidelines as set out in the Treasury Regulations issued in terms of the Public Finance Management Act of 1999, as amended, section 31.3, with further refinements in the approach to scoring and ranking of approved counterparties.

# Notes to the annual financial statements continued

for the year ended 31 March 2008

## 46. RISK MANAGEMENT (continued)

*Unrated counterparties*

SAA needs to deal with and hold bank accounts in various exotic locations (where there are sales points and stations) with local banking institutions that may not be rated and for which there is very little or no financial information available. This is typically the case where there is no representation of any of the rated counterparties in such a location and SAA has to use an unrated counterparty to fulfil normal operational banking requirements, or where it is agreed by the Board as a prerequisite for specific operating bases. The group has therefore a very restricted mandate when dealing with any unrated counterparties.

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

**Loans and receivables credit risk**

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

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

**Maximum exposure to credit risk**

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

| | **Group 2008 R million** | Group 2007 R million | **Company 2008 R million** | Company 2007 R million |
|---|---|---|---|---|
| Cash and cash equivalents | **5 393** | 2 364 | **5 319** | 2 278 |
| Loans and receivables – defeasance deposit | **461** | 568 | **461** | 568 |
| Derivatives financial assets held for trading | **204** | 48 | **204** | 48 |
| Accounts receivable | **3 475** | 3 621 | **2 961** | 3 025 |

The table below shows the credit limits and cash on deposit balances of major counterparties at the balance sheet date using the Standard and Poor's credit rating symbols.

| **Counterparty** | Location | Rating | Credit limit R million | **2008 Carrying amount R million** | 2007 Carrying amount R million |
|---|---|---|---|---|---|
| **Group and company** | | | | | |
| Foreign financial institutions | | | | | |
| ABN Amro Bank NV Group | Netherlands | AA– | 300 | **201** | 2 |
| Barclays Bank | UK | AA+ | 455 | **213** | 1 |
| Calyon Group | France | AA | 525 | **372** | 45 |
| Citibank NA Group | USA | AA | 975 | **623** | 422 |
| Societé Generalé Group | France | AA– | 425 | **352** | 145 |
| Standard Chartered Bank Group | UK | A+ | 90 | **45** | 14 |
| JP Morgan Chase Bank Group | USA | A+ | 525 | **119** | – |
| Domestic financial institutions | | | | | |
| Absa Group | RSA | AAA | 520 | **470** | – |
| Investec Group | RSA | AA– | 125 | **50** | 23 |
| FirstRand Holdings Group | RSA | AA+ | 800 | **651** | 7 |
| Nedbank Group Limited | RSA | AA | 300 | **228** | 20 |
| Standard Bank Group | RSA | AA+ | 975 | **2 421** | 172 |
| Transnet current account | RSA | AAA | – | **–** | 1 300 |

There were no changes in the approved credit limit in the current year. There are no items past due or impaired.

## 46. RISK MANAGEMENT (continued)

The accounts receivables are analysed below based on the risk profile group linked to the nature of distribution network and the nature of operation within the group.

| | 2008 Carrying amount R million | 2008 Current – not yet past due R million | 2008 Past due but not impaired R million | 2007 Carrying amount R million | 2007 Current – not yet past due R million | 2007 Past due but not impaired R million |
|---|---|---|---|---|---|---|
| **Group** | | | | | | |
| Airline passenger operation | | | | | | |
| BSP | **875** | **875** | **–** | 713 | 713 | – |
| Credit card | **201** | **201** | **–** | 332 | 332 | – |
| GSA | **72** | **63** | **9** | 79 | 67 | 12 |
| Stations | **8** | **8** | **–** | 9 | 8 | 1 |
| Cargo freight and mail | **363** | **205** | **158** | 330 | 195 | 135 |
| Airline catering | **13** | **13** | **–** | 13 | 12 | 1 |
| Airline passenger low-cost carrier | **–** | **–** | **–** | – | – | – |
| Travel services | **4** | **1** | **3** | 18 | 1 | 17 |
| Technical maintenance | **47** | **43** | **4** | 80 | 55 | 25 |
| Other trade debtors | **1 132** | **987** | **145** | 644 | 515 | 129 |
| | **2 715** | **2 396** | **319** | 2 218 | 1 898 | 320 |
| **Company** | | | | | | |
| BSP | **875** | **875** | **–** | 713 | 713 | – |
| Credit card | **201** | **201** | **–** | 332 | 332 | – |
| GSA | **72** | **63** | **9** | 79 | 67 | 12 |
| Stations | **8** | **8** | **–** | 9 | 8 | 1 |
| Cargo freight and mail | **363** | **205** | **158** | 330 | 195 | 135 |
| Other trade debtors | **1 166** | **1 021** | **145** | 690 | 561 | 129 |
| | **2 685** | **2 373** | **312** | 2 153 | 1 876 | 277 |

The past due but not impaired can be analysed further in terms of ageing as follows:

| | Group 2008 R million | Group 2007 R million | Company 2008 R million | Company 2007 R million |
|---|---|---|---|---|
| 30 – 60 days | **115** | 166 | **114** | 123 |
| 61 – 90 days | **49** | 28 | **44** | 28 |
| 91 – 120 days | **155** | 126 | **154** | 126 |
| Total | **319** | 320 | **312** | 277 |

# Notes to the annual financial statements continued

for the year ended 31 March 2008

| | Foreign currency amount | Carrying amount R 000 | Currency Profit (loss) impact +18% – 18% US$ R 000 | +7% –7% Euro R 000 | +7% –7% GBP R 000 |
|---|---|---|---|---|---|
| **46. RISK MANAGEMENT (continued)** | | | | | |
| **Loans and receivable sensitivity analysis** | | | | | |
| **Accounts receivable 31 March 2008** | | | | | |
| US$ denominated | **24 587** | **198 966** | **34 187** | **–** | **–** |
| EUR denominated | **22 973** | **248 302** | **–** | **12 986** | **–** |
| GBP denominated | **6 681** | **106 394** | **–** | **–** | **3 788** |
| | | | **34 187** | **12 986** | **3 788** |
| **Accounts receivable 31 March 2007** | | | | | |
| US$ denominated | 33 000 | 239 415 | 43 572 | – | – |
| EUR denominated | 11 000 | 106 572 | – | 6 348 | – |
| GBP denominated | 9 000 | 128 488 | – | – | 4 803 |
| | | | 43 572 | 6 348 | 4 803 |

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

**Market risk**

Market risk comprises currency risk, interest rate risk and other price risk.

Set out below is the impact of market risk on the group's annual financial statements.

**Currency risk**

Foreign exchange risk is the risk of loss as a result of adverse movements in currency exchange rates. The biggest contributors to currency risk for the group are foreign revenues earned at operating unit level, aircraft financing transactions and the covariance risks inherent in group's revenue and cost streams. The group's approach to foreign currency risk management is to protect the group and its shareholder against exchange rate volatility and adverse movements in the exchange rate of the rand in relation to other currencies that the group is exposed to. The Board made a decision to manage its foreign exchange risk exposures on a net exposure basis, ie taking into account the different currencies it receives in its revenue stream, the different currencies in which its cost base is denominated, and the underlying natural hedges that exist in its business operations. Foreign exchange risk management is managed through the use of cash collection and conversion strategies and approved derivative financial instruments which are marked to market on a daily basis. The group's policy on foreign exchange risk management is to hedge between 50% and 75% of its exposure on a 12-month rolling basis.

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

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

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

## 46. RISK MANAGEMENT (continued)

**Currency risk (continued)**

– The foreign versus domestic currency funding decision (loans/leases) should always consider current foreign currency risk management position and practices, since these decisions are a significant source of foreign currency exposure for the group.

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

***Foreign exchange basis risk***

The group collects revenues in approximately 30 currencies other than ZAR, EUR, GBP and US$. The foreign risk of exotic currencies cannot be practically managed at the local currency level, therefore the cash management structure rolls local currency balances up into hard currency pool accounts on a weekly basis. Currency risk exposures are managed at the hard currency level ie in US$, GBP and EUR versus ZAR.

The group did not have any derivatives, which qualified for hedge accounting in the current or prior year.

**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 per unit of foreign currency:

| | **2008** | 2007 |
|---|---|---|
| United States dollar (US$) | **8,09** | 7,23 |
| Euro | **12,78** | 9,63 |
| Pounds sterling (GBP) | **16,09** | 14,17 |

# Notes to the annual financial statements continued

for the year ended 31 March 2008

| | Foreign amount 2008 million | Foreign amount 2007 million | Rand amount 2008 R million | Rand amount 2007 R million |
|---|---|---|---|---|
| **46. RISK MANAGEMENT (continued)** | | | | |
| **46.5 Uncovered foreign monetary items** | | | | |
| The following debtors and creditors amounts included in the balance sheet have not been covered by forward exchange contracts: | | | | |
| Accounts receivable | | | | |
| US$ | **25** | 33 | **198** | 242 |
| Euro | **23** | 11 | **293** | 106 |
| UK pound | **7** | 9 | **107** | 126 |
| Hong Kong dollar | **21** | 17 | **21** | 16 |
| Danish krone | **3** | 4 | **5** | 5 |
| Zimbabwean dollar | **–** | 7 | **–** | – |
| Canadian dollar | **1** | 5 | **8** | 33 |
| Swiss franc | **1** | 2 | **12** | 9 |
| Australian dollar | **7** | 4 | **49** | 22 |
| Brazilian real | **3** | 6 | **13** | 21 |
| Thailand baht | **12** | 7 | **4** | 2 |
| Malawian kwacha | **252** | 126 | **14** | 7 |
| Other | **–** | – | **68** | 43 |
| | | | **792** | 632 |
| Accounts payable | | | | |
| US$ | **9** | 32 | **75** | 235 |
| Euro | **11** | 5 | **135** | 49 |
| UK pound | **3** | 5 | **53** | 69 |
| Swiss franc | **–** | 1 | **–** | 4 |
| Zimbabwean dollar | **–** | 777 | **–** | 22 |
| Australian dollar | **2** | 1 | **14** | 4 |
| Cape Verde escudo | **67** | 3 | **7** | 1 |
| Other | **–** | – | **44** | 46 |
| | | | **(328)** | (430) |
| Accounts receivable as above | | | **792** | 632 |
| Net exposure | | | **464** | 202 |

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

**46.5 Uncovered foreign monetary items**

**Interest rate risk**

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

- Increased cash costs in an increasing interest rate environment due to the group's floating aircraft funding structures.
- The opportunity cost of funding at a higher rate in a declining interest rate environment due to group's fixed funding structures.
- The bulk of group's interest rate exposure is as a result of US$ denominated aircraft financing structures. This portfolio is made up of operating leases, finance leases, and loans. The portfolio is highly sensitive to the movement of US interest rates. The group is continually monitoring and adjusting its fixed/floating ratio to adapt to the changing dynamics of its business operations and protect its income statement and balance sheet.

## 46. RISK MANAGEMENT (continued)

### 46.5 Uncovered foreign monetary items (continued)

**Interest rate risk (continued)**

The objectives of managing interest rate risk are to:

- design appropriate funding structures (fixed versus floating, and local versus foreign currency) through the Funding and Capex Committee.
- Reduce the cost of capital.
- Minimising the effect of interest rate volatility on group's financing expenditure.
- Manage the ratio of floating rate exposures to fixed rate exposures.
- Obtain optimal investment returns on surplus cash, whilst ensuring that credit risk is managed.
- Ensure that appropriate levels of liquidity are maintained, while remaining within the guidelines set by this policy.
- Ensure efficiency by restructuring interest rate exposure as and when necessary.

**Other price risk (jet fuel price risk)**

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

SAA currently consumes approximately 750 000 barrels (120-million litres) of jet fuel per month. This means that any change in price will have a significant impact on the group's performance.

The objectives of managing jet fuel price risk are to:

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

The group manages its jet fuel price risk exposures using derivative financial instruments. All derivative contracts are marked to market and are cash settled. The group's risk policy permits the organisation to manage its jet fuel price risk exposures using the underlying products such as (International Crude Exchange) ICE Brent Crude Oil, ICE Gas Oil 0,5%s, Gas Oil, FOB ARAB Gulf 0,5%s and Jet Kerosene (North West Europe) NWE. It is SAA's policy to hedge between 40% and 60% of its jet fuel price risk exposures on a 12-month rolling basis.

### 46.6 Sensitivity analysis

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

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

# Notes to the annual financial statements continued

for the year ended 31 March 2008

| | Foreign currency amount | Carrying amount R 000 | Currency *Profit (loss) impact –18% US$ R 000 | Currency Profit (loss) impact +18% US$ R 000 | Commodity price-derivatives Profit (loss) impact –27% Brent R 000 | Commodity price-derivatives **Profit (loss) impact +27% Brent R 000 |
|---|---|---|---|---|---|---|
| **46. RISK MANAGEMENT (continued)** | | | | | | |
| **46.6 Sensitivity analysis (continued)** | | | | | | |
| **31 March 2008** | | | | | | |
| **DERIVATIVE FINANCIAL INSTRUMENTS** | | | | | | |
| ICE Brent commodity derivatives | | | | | | |
| Asian call | **5 959** | **48 227** | **(8 287)** | **8 287** | **(20 222)** | **60 462** |
| Synthetic call | **1 490** | **(12 058)** | **(2 072)** | **2 072** | **(31 922)** | **84 494** |
| ICE Gas Oil commodity derivatives | | | | | **–32% gas oil** | **+32% gas oil** |
| Fixed swap | **2 665** | **21 563** | **(3 705)** | **3 705** | **(34 237)** | **34 237** |
| Forward exchange contracts | **63 732** | **73 191** | **(94 266)** | **94 266** | **–** | **–** |
| European call options | **65 720** | **72 569** | **(55 348)** | **80 470** | **–** | **–** |
| | **139 566** | **203 492** | **(163 678)** | **188 800** | **(86 381)** | **179 193** |
| **Sensitivity analysis** | | | | | | |
| **31 March 2007** | | | | | | |
| ICE Brent commodity derivatives | | | | | | |
| Asian call | 415 | 3 009 | (548) | 548 | (267) | 48 348 |
| Collar | 1 179 | 8 | (1) | 1 | (5 791) | 6 726 |
| ICE Gas Oil commodity derivatives | | | | | | |
| Fixed swap | 5 231 | 37 952 | (6 907) | 6 907 | (222 303) | 222 292 |
| Collar | 906 | 6 573 | (1 196) | 1 196 | (62 505) | 65 262 |
| | 7 731 | 47 542 | (8 652) | 8 652 | (290 866) | 342 628 |

* *Annual volatility – defined as the US$/ZAR volatility in % terms.*

** *Annual volatility – defined as the Brent/gas oil forward points in % terms.*

| | Foreign currency amount | Carrying amount R 000 | Currency *Profit (loss) impact R 000 | Currency Profit (loss) impact R 000 | Interest rate Profit (loss) impact R 000 | Interest rate **Profit (loss) impact R 000 |
|---|---|---|---|---|---|---|
| **46. RISK MANAGEMENT (continued)** | | | | | | |
| **46.6 Sensitivity analysis (continued)** | | | | | | |
| **31 March 2008** | | | | | | |
| **NON-DERIVATIVE FINANCIAL INSTRUMENTS** | | | | | | |
| **US$ denominated financial instruments** | | | **–18% US$** | **+18% US$** | **–137 bps US$** | **+137 bps US$** |
| Secured borrowing – LIBOR floating debt | **230 994** | **1 869 252** | **(336 465)** | **336 465** | **(25 526)** | **25 526** |
| Accounts payable | **9 300** | **75 261** | **(13 547)** | **13 547** | **–** | **–** |
| Total financial liabilities | **240 294** | **1 944 513** | **(350 012)** | **350 012** | **(25 526)** | **25 526** |
| Defeasance deposit | **56 982** | **461 107** | **(82 999)** | **82 999** | **(6 297)** | **6 297** |
| Call deposit | **131 000** | **1 060 084** | **(190 815)** | **190 815** | **(14 476)** | **14 476** |
| Total financial assets | **187 982** | **1 521 191** | **(273 814)** | **273 814** | **(20 773)** | **20 773** |
| **Sensitivity analysis** | | | | | | |
| **31 March 2007** | | | | | | |
| **US$ denominated financial instruments** | | | –17% US$ | +17% US$ | –130 bps US$ | +130 bps US$ |
| Secured borrowings – LIBOR floating debt | 277 129 | 2 010 574 | (341 798) | 341 798 | (25 983) | 25 983 |
| Accounts payable | 32 000 | 232 160 | (39 467) | 39 467 | – | – |
| Total financial liabilities | 309 129 | 2 242 734 | (381 265) | 381 265 | (25 983) | 25 983 |
| Defeasance deposit | 78 290 | 568 000 | (96 560) | 96 560 | (7 340) | 7 340 |
| Call deposit | 56 375 | 409 000 | (69 530) | 69 530 | (5 286) | 5 286 |
| Total financial assets | 134 665 | 977 000 | (166 090) | 166 090 | (12 626) | 12 626 |

* *Annual volatility – defined as US$/ZAR volatility in % terms.*

** *Annual volatility – defined as US$/ZAR forward points in basis points terms.*

Secured borrowings – JIBAR floating debt amounting to R2,24-billion (2007: R2,53-billion) is expected to have an impact on profit and loss of R19-million (2007: R31-million) up/down if the interest rate changes by 131-basis point either way.

| **31 March 2008** | Foreign currency amount | Carrying amount R 000 | Currency +7% –7% Euro/US$ R 000 | Currency +7% –7% GBP/US$ R 000 | Interest rate 56 bps Euro R 000 | Interest rate 68 bps GBP R 000 |
|---|---|---|---|---|---|---|
| **Denominated in Euro and GBP** | | | | | | |
| Accounts payable * | | | | | | |
| Euro | **10 609** | **114 641** | **5 996** | **–** | **–** | **–** |
| GBP | **3 319** | **52 853** | **–** | **1 882** | **–** | **–** |
| | | **167 494** | **5 996** | **1 882** | **–** | **–** |

# Notes to the annual financial statements continued

for the year ended 31 March 2008

| | Foreign currency amount | Carrying amount R 000 | Currency +7% –7% GBP/US$ R 000 | Currency +7% –7% Euro/US$ R 000 | Interest rate 56 bps Euro R 000 | Interest rate 68 bps GBP R 000 |
|---|---|---|---|---|---|---|
| **46. RISK MANAGEMENT (continued)** | | | | | | |
| **46.6 Sensitivity analysis (continued)** | | | | | | |
| **31 March 2007** | | | | | | |
| **NON-DERIVATIVE FINANCIAL INSTRUMENTS** | | | | | | |
| **Denominated in Euro and GBP** | | | | | | |
| Accounts payable * | | | | | | |
| Euro | 5 000 | 48 442 | – | 2 885 | – | – |
| GBP | 5 000 | 71 382 | 2 668 | – | – | – |
| | | 119 824 | 2 668 | 2 885 | – | – |
| Call deposits | | | | | | |
| Euro | 1 961 | 19 000 | – | 1 132 | 106 | – |
| GBP | 981 | 14 000 | 523 | – | – | 95 |
| | | 33 000 | 523 | 1 132 | 106 | 95 |

** The group does not incur any interest on accounts payable.*

**Lease commitments**

The group lease commitments are denominated in US$ and with a floating LIBOR rate linked component. Therefore these are exposed to both interest rate risk and foreign currency risk. This is considered to be a major unrecognised exposure, which is estimated to amount to US$175-million with interest rate ranging from 2 – 5% LIBOR rate as per lease contracts.

**Foreign defined benefit obligations**

The group is also exposed to foreign currency risk relating to its foreign defined benefit obligations. The German pension fund obligation is denominated in Euro and the UK pension obligation is denominated in GBP. Any movement in currency based on the above mentioned changes in US$ and GBP would further impact the group's exposure to foreign currency risk.

## 47. IFRIC 13 CUSTOMER LOYALTY PROGRAMMES

In August 2007, the International Financial Reporting Interpretations Committee issued IFRIC 13 Customer Loyalty Programmes. The interpretation should be applied for annual periods beginning on or after 1 July 2008. The interpretation in its current form will have a significant impact on SAA's annual financial statements. SAA management believe that the disclosure below will provide useful information to SAA's financial statement users to understand the significant impact of the interpretation.

IFRIC 13 was drafted to clarify and conclude on paragraph 13 of IAS 18 Revenue. This paragraph requires that it is in some instances necessary to apply the recognition criteria to the separately identifiable components of a single transaction in order to reflect the substance of the transaction. SAA is affected by this interpretation because SAA operates a loyalty programme referred to as Voyager (for passenger customers) and Frequent Freighter (for cargo customers). In terms of these programmes customers earn Voyager miles or kilo points when they join the programme and use the services of SAA. The accumulated miles entitle the passengers and cargo customers to free airline tickets and other awards when required miles are achieved.

Currently SAA is recognising as income the full consideration of the sales price of a ticket. When IFRIC 13 becomes effective SAA will be required to recognise the two components of the sales price separately. Component one will be the value of the consideration received for the actual service rendered and component two will be the fair value of the miles accumulated as a result of the sale of the ticket. Component one will be recognised as revenue as per the revised accounting policy. Component two will be deferred until such time that the award credits are redeemed and SAA fulfils its obligations to supply awards.

Had the provisions of IFRIC 13 been applied as at 31 March 2008 a Voyager liability of R1,28-billion would have been raised.

## 48. DIRECTORS EMOLUMENTS FOR SAA SUBSIDIARIES

| | 2008 R 000 | 2007 R 000 |
|---|---|---|
| **SAA City Centre (Pty) Limited** | | |
| Mr TJ Nzima | | |
| Salary | **1 861** | 953 |
| Retirement fund contributions | **53** | 77 |
| Allowances | **–** | 52 |
| | **1 914** | 1 082 |
| **SAA Technical (Pty) Limited** | | |
| Mr J Blake | | |
| Salary | **730** | 1 067 |
| Allowance | **–** | 28 |
| Incentive bonus | **–** | 6 |
| | **730** | 1 101 |
| Mr CR Else | | |
| Salary | **118** | – |
| Allowance | **4** | – |
| Retirement fund contributions | **11** | – |
| Retention premium | **22** | – |
| | **155** | – |
| **Airchefs (Pty) Limited** | | |
| All executives of Airchefs (Pty) Limited are shareholder representatives from SAA (Pty) Limited and consequently no emoluments are paid by Airchefs (Pty) Limited with the exception of: | | |
| Ms J September* | | |
| Salary | **882** | 766 |
| Retirement fund contributions | **54** | 88 |
| Allowances | **81** | 240 |
| Incentive bonus | **–** | – |
| | **1 017** | 1 094 |
| **Tulca (Pty) Limited — trading as Mango** | | |
| Mr N Bezuidenhout | | |
| Normal fees as director | **97** | 17 |
| Salary | **1 130** | 394 |
| Commission | **–** | 5 |
| | **1 227** | 416 |

** Resigned during the current financial year.*

# Notes

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