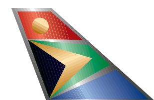
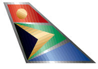
Gearing for growth

ANNUAL **REPORT** | **2006**





South African Airways

A STAR ALLIANCE MEMBER

Contents

Financial Highlights	2
Chairman's Statement	4
Chief Executive Officer's Report	10
Finance and Operations Review	20
Company Information	26
Statement by the Company Secretary	27
Report of the Independent Auditors	28
Directors' Report	29
Income Statement	40
Balance Sheet	41
Statement of Recognised Income and Expenses	42
Cash Flow Statement	43
Notes to the Annual Financial Statements	44

Vision

To be the carrier of choice in the markets we serve.

Values

Customer focused

Anticipating and striving to understand the unique needs of our customers through tailoring each interaction to their specific needs.

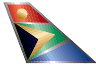
Accountability
Taking responsibility for individual and team actions, decisions and results by establishing clear plans and goals and measuring our progress against them while discerning a deeper purpose in one's everyday job.

Integrity
Practising 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 mentality 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 and reinforcing high quality performance standards and achieving excellence through implementing best practices.

Valuing our people
Committing to their satisfaction, development, and well-being, through treating them with respect, dignity and fairness.



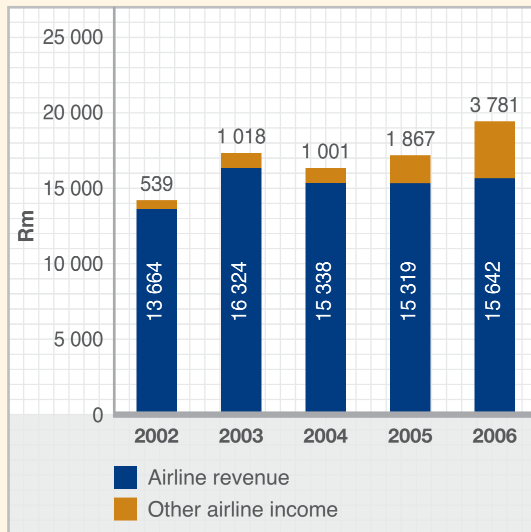
Financial Highlights

Key financial and operating data

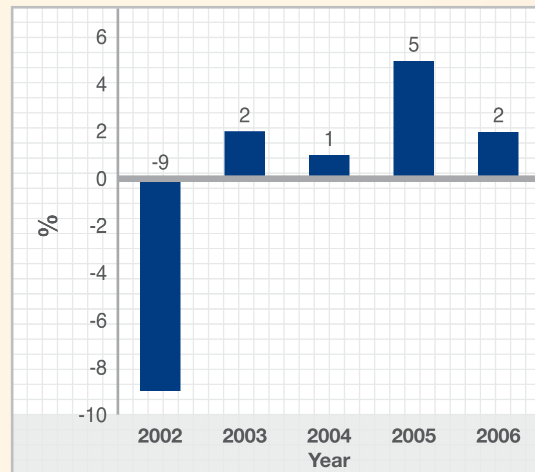
	2001/02+ R million	2002/03+ R million	2003/04+ R million	Restated 2004/05 R million	2005/06 R million
GROUP INCOME STATEMENT DATA					
Turnover	13 664	16 324	15 338	15 319	15 642
Total airline income	14 203	17 342	16 339	17 186	19 423
Net profit (loss) for the year	2 144	(5 977)	(8 610)	648	65
Headline earnings (loss) for the year	2 220	(5 985)	(4 820)	812	(239)
Earnings (loss) per share (cents)	69	(191)	(296)	22	2
Headline earnings (loss) per share (cents)	71	(191)	(166)	28	(8)
GROUP OPERATING DATA					
Capacity (million)					
Passenger Available Seat Kilometres (ASKs)	30 503	31 814	33 056	33 367	35 222
Traffic					
Revenue passenger kilometres (RPKs) (million)	20 466	21 769	22 306	23 505	24 488
Revenue passengers (thousands)	6 128	6 520	6 510	6 851	7 158
Cargo – tons flown (thousands)	132	139	166	176	185
Utilisation					
Passenger load factor (%)	67	68	67	70	70
Yield (R/RPK) – Passenger	0,55	0,63	0,58	0,56	0,54
Passenger revenue (R million) (including ATCL)	11 178	13 688	12 926	13 163	13 252
Yield (R/RPK) – Turnover	0,45	0,51	0,46	0,46	0,44
Yield (R/RPK) – Total airline income	0,47	0,55	0,49	0,52	0,55
Unit cost (R/ASKs)	0,49	0,53	0,49	0,49	0,54
Labour cost	0,08	0,09	0,09	0,10	0,09
Energy	0,09	0,11	0,09	0,10	0,14
Material cost	0,05	0,03	0,04	0,03	0,04
Depreciation and amortisation	0,01	0,01	0,02	0,01	0,02
Other operating costs	0,26	0,29	0,25	0,25	0,25

+SA GAAP

Turnover increases by 13%

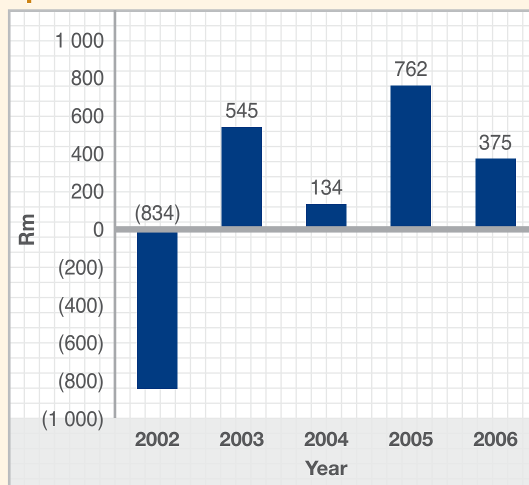


EBIT margin



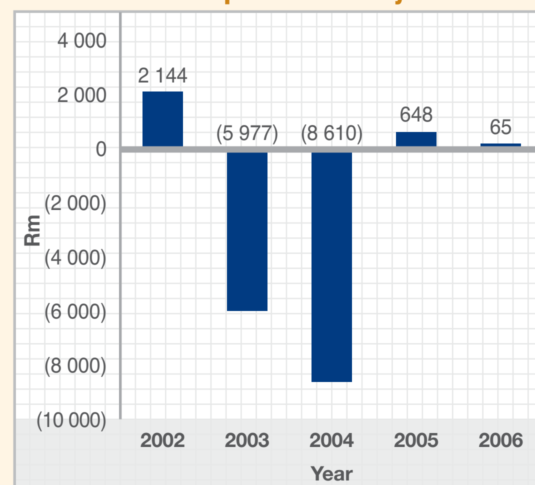
Gross profit (loss) before impairment

R375 million gross profit from airline operations



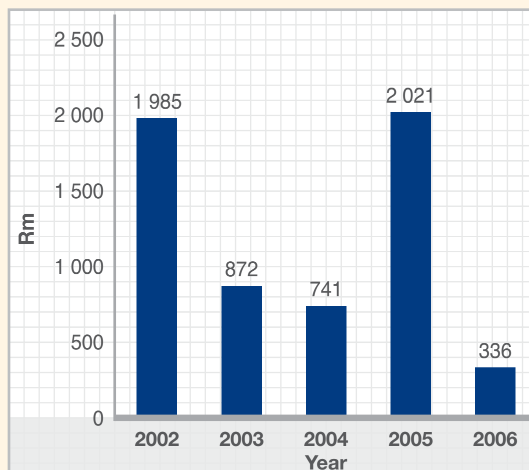
Net profit (loss) for the year

R65 million net profit for the year



Cash generated from operations

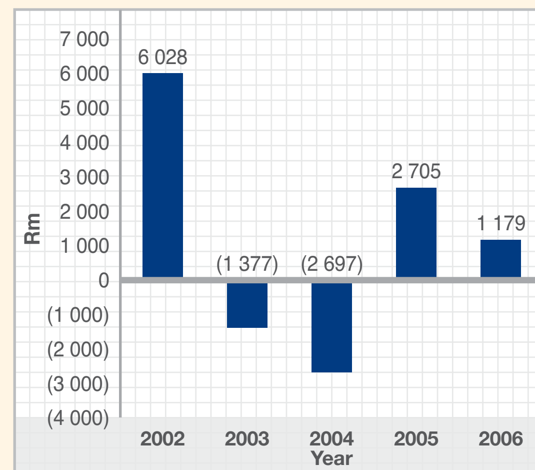
Improved working capital management enhances cash flows



Net assets employed

Compulsory convertible subordinated loan improves solvency

(R4 billion in 2005 – R1,6 billion repaid in 2006 = Balance R2,4 billion 2006)



SOUTH AFRICAN AIRWAYS
A STAR ALLIANCE MEMBER

Chairman's Statement

Professor Jakes G Gerwel | Chairman

Total airline income increased by 13%

Industry overview

Calendar year 2005 was a turbulent one for the airline industry everywhere. Record high fuel prices conspired with continued overcapacity to push more carriers into the red, while a change in customer behaviour globally meant low-cost carriers kept expanding their share of the market. In South Africa, more people took to the skies than ever before, thanks to a fast-growing economy and higher disposable income levels due to further tax cuts. However, this larger travelling public increasingly chose no-frills operators.

The International Air Transport Association (IATA) estimates that the global airline industry lost about US$6-billion in 2005, following losses of some US$36-billion between 2001 and 2004 in a continuing fall-out from the 9/11 attacks on the United States. IATA figures show international passenger traffic growth slowed to 7,6% in 2005 – around half the rate of expansion in 2004 – and international freight traffic grew just 3,2%.

In these difficult circumstances, more and more airlines recognised the benefits of joining global airline alliances. South African Airways (SAA) accelerated preparations for its long planned membership of the prestigious Star Alliance, which will help us achieve our vision of being the carrier of choice in the markets we serve. It will put us at the forefront of global airline standards and expedite our efforts to be the airline that brings the world to Africa and takes Africa to the world.

SAA's performance

In our home market, overall departures climbed more than 11% in the 12 months to the end of March 2006. SAA's passenger numbers rose 4,5% to nearly 7,2-million as the airline lost market share to the increasingly competitive low-cost carriers. Despite SAA's higher passenger load, passenger revenue edged up only 0,8% to R13-billion and yields fell 3,5%, translating into financial results which have not met the expectations of the Board or shareholders.

SAA reported a net profit of R65-million from R648-million in the 2004/05 financial year, which was restated to comply with recently adopted International Financial Reporting Standards.

The Board, though, is certain that management is working hard to attend to those problems impacting performance in the short term, as well as stepping up its cost-cutting drive to ensure the long-term sustainability and profitability of the airline. The executive team is responding decisively to the new market dynamics, and has proposed the launch of SAA's own low-cost carrier before the end of the 2006 calendar year. The Board has recently given its approval to the start-up, which will cater to the changing preferences of the domestic travelling public. More people are now willing to accept a "vanilla" airline service, without refreshments, meals and other comforts during their travel. More people are also taking up electronic reservations and flight payments, issuing their own e-tickets on the internet.

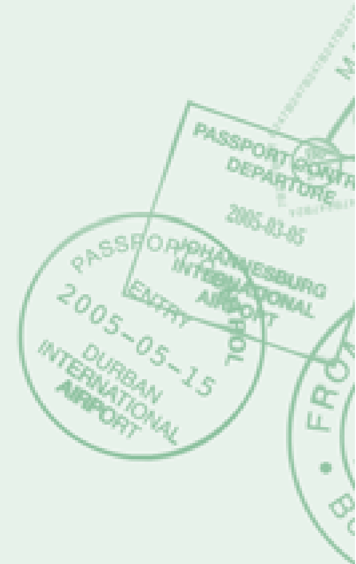
In the year under review, SAA actively and successfully sought to reduce sales and distribution costs, resulting in a sharp increase in sales by direct channels such as the *www.flysaa.com* website and telephone call centres. This, however, came at a cost to yields, as the average domestic sector fare dropped by around 11% due to a price war with established no-frills carriers.

In addition to the more competitive market conditions, SAA also faced rocketing oil prices. During the year, the fuel bill increased by half or some R1,7-billion to R4,9-billion, taking energy to more than a quarter of overall operating costs. However, we are pleased to report that a number of initiatives aimed at bringing these expenses down, without compromising strict safety standards, have produced considerable successes. Changes in the group's fuel policy and fuel procurement agreements – after negotiations with suppliers – have yielded significant savings of some R73-million. Other cost-cutting initiatives and efficiency improvements continue to drive down the airline's cost base as part of the targeted three-year R1,6-billion cut in operating expenses launched in November 2004.

SAA's five-year fleet renewal programme was completed, and this, along with the signing of two sale and leaseback agreements, reduced capital expenditure substantially and strengthened the balance sheet. During the year, SAA repaid Transnet Limited R1,6-billion of the R4,0-billion compulsory convertible subordinated loan provided in the previous year. Transnet also agreed to convert to shares the remaining R2,4-billion loan.

Transnet unbundling

In the new financial year, Transnet's stake in SAA will be transferred to the Government of South Africa's Department of Public Enterprises. It is anticipated that this process will be finalised by 31 December 2006. While SAA is grateful for the generous support extended by Transnet over the years, we believe our separation will be a beneficial move which adds value to both entities. It will enable SAA to better stand on its own and allow Transnet to become a focused rail freight, ports and pipelines company.



Three-year customer service plan aims to make the entire travel experience a pleasure.

Winner of a number of prestigious awards throughout the year.

Sustainability

As the dominant airline in Southern Africa, SAA is committed to the principles of sustainable development. The group endeavours to be a trustworthy and caring corporate citizen, a fair and just employer, operating with respect for people and the planet, and in line with the tenets of sound corporate governance.

Labour relations

During the 2005/06 financial year, SAA experienced its biggest industrial action ever, which grounded operations for nearly a week. This brought into stark focus the importance of our people. Since then the group has stepped up its labour relations initiatives to ensure better communication with all staff everywhere. Customers also suffered from the strike, highlighting the need to further enhance customer service.

Customer service

We regard feedback from our customers as vital and have various customer service initiatives in place to improve our interactions with them. The airline has mapped out a new three-year customer service plan, which aims to make the entire travel experience we offer a pleasure.

We have already seen a significant decline in baggage related customer complaints since the beginning of the year due to the various baggage service initiatives started. We have also retrained a considerable portion of our workforce in improved customer service.

Awards

In recognition of these efforts, SAA continued to win a number of awards throughout the year. The one of which we are most proud is the 'Best Airline to Africa' accolade received at the Travel Weekly Global Awards in London in January. This is the 15th year in a row that SAA has won this honour, which – along with the other awards garnered in the year – serve as a real motivator to all SAA employees to constantly strive to improve everything we do.

One of SAA's major strengths is its strong brand. During the year this was again recognised, with the airline retaining the top spot in the domestic airlines category of the influential Sunday Times annual Top Brands survey.

Sponsorship

As part of our brand building we are pleased to have signed up South Africa's top four golfers – Ernie Els, Retief Goosen, Trevor Immelman and Tim Clark – for the next three years at the SAA Open – our main sponsorship event which now takes place every December. The SAA Open is the world's second oldest national open golf tournament after the British Open and we are proud to be associated with it.

We believe the return on investment of the airline's sponsorship of international events like this, and our recently announced sponsorship of the ATP tour, positions us to increase revenue through our core business, that of flying

customers. In addition, we are making a valuable contribution to promoting sport amongst the country's diverse social groupings as part of our broader corporate social responsibilities.

Corporate social investment

During the year, SAA launched its strategic plan for corporate social investment called 'The Wings of the Nation', devoting considerable time and resources to helping uplift the communities in which the group operates. More than R14,5-million was spent on a range of initiatives, focused on education, poverty alleviation, social and sports development and emergency assistance and relief work. A particular focus is on enhancing the country's skills in mathematics and science – two subjects vital to the development of the airline industry. Our flagship programme, the Vulindlela Aviation Awareness Programme, takes a mock-up of the inside of an aircraft to rural areas to raise understanding about the industry in less developed communities. SAA also participates in the annual 'Take a Girl Child to Work' campaign, showing young women what our business is all about.

HIV/Aids staff initiatives

Spending on employee health and wellbeing was also boosted during the year under review, with more than R2-million spent on various HIV/Aids initiatives to help staff infected and affected by the disease that arguably poses one of the greatest risks to South Africa's future. SAA signed up a consultancy to provide the airline with technical assistance on HIV/Aids workplace programmes, including workshops and support groups and peer education schemes. The peer educators help their colleagues deal with HIV/Aids both in and outside the workplace and play an important role in awareness and knowledge campaigns, more of which are planned in the year ahead.

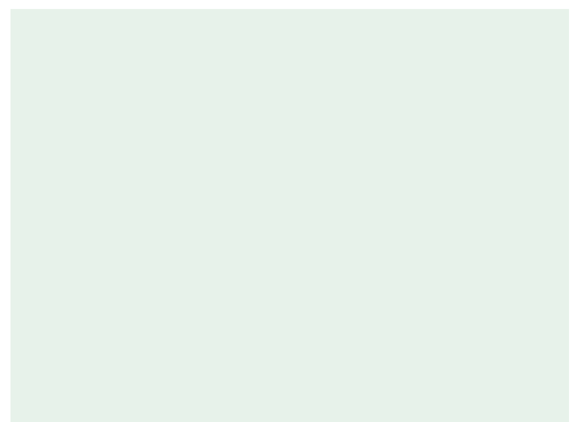
Corporate governance

The group continues to strive towards corporate governance excellence, ensuring that SAA works in line with the guidelines of the King II Code of Corporate Practices and Conduct in South Africa, as well as the Public Finance Management Act relating to public organisations.

Black economic empowerment

Allied to this is our commitment to broad-based black economic empowerment (BEE). The group views BEE as a business imperative to long-term growth. In the year under review, the SAA Tender Control Board, an internal board mandated to sanction tenders above R500 000, approved supplier contracts to the value of R66-million, of which R33-million was committed to BEE.

The group's BEE strategy will be presented to the Board later this year and will work to build on the already-solid gains accomplished in furthering the wider participation of the majority of our people in the economy. SAA would like to be a trailblazer in BEE in the transport arena and is working closely with other players in this sector to develop an industry charter to guide meaningful broad-based black economic empowerment.



Competition Commission

In the period under review, SAA agreed to pay the South African Competition Commission R100-million over two years to settle various complaints, launched more than two years ago. Rather than appeal the penalty, SAA decided to devote its energies to building awareness throughout the organisation of competition law. We recognise that this is an integral part of our business and are working hard to ensure full compliance in everything we do.

Board of Directors

During the year Professor Rigas Doganis retired from his non-executive position on SAA's Board of Directors. We thank Professor Doganis, a world-renowned expert on aviation matters, for his valuable input over the years. We welcome Peter Joubert, who joined as a non-executive director early in 2005/06 and whose positive contribution is already being felt. I would also like to thank all the other members of the Board for their counsel and dedication during the year and look forward to their continued support in the new year.

Looking forward

The International Air Transport Association expects airlines globally to lose US$2,2-billion in the 2006 calendar year, returning to profitability of a forecast US$7,2-billion in 2007, thanks to better economic prospects in Europe and Asia and an improving situation in the United States. However, it warns that the industry is still nowhere near sustainability, with airlines' return on capital invested remaining stubbornly low. Oil – trading at around US$70 a barrel at the time of writing – remains the wild card in any forecast.

Despite these challenges, SAA anticipates better financial results in 2006/07, as organisation-wide cost cuts gather momentum, the benefits of joining the Star Alliance start accumulating and we launch our own low-cost carrier.

The Board is cognisant of the obstacles the group faces and appreciates the extra effort needed by SAA people everywhere to achieve the airline's objectives. I would like to thank Khaya Ngqula and the more than 11 000 other SAA employees for their dedication and hard work during the year and expect no less in the year ahead. I am sure their efforts will not be without reward.

Professor Jakes Gerwel
Chairman

Various customer service initiatives to improve our interaction with customers.

Chief Executive Officer's Report

Dr Khaya Ngqula | Chief Executive Officer

Better, more efficient ways of running our business and pleasing our customers.

Gearing up for growth

The 2005/06 financial year was one of consolidation and intense preparation for SAA's historic admission to the Star Alliance of major international carriers. Our energies were devoted to gearing up our performance, policies and systems ahead of joining the Airline Network for Earth™, which will deliver innumerable benefits for SAA in the years ahead. As part of our *People, Patronage* and *Profit* strategy, enhancing customer service, re-aligning the skills of our staff to the needs of the business and cutting costs also remained firmly on the agenda.

We are pleased to report that the airline successfully fulfilled the 53 stringent joining requirements and became Star's 18th member early in the 2006/07 financial year.

In the year under review we realised sizeable cost reductions across the organisation, including successfully renegotiating burdensome contracts with suppliers, thereby locking in around R1,3-billion in savings over the next five years. These cost cuts should be given a further boost in the years ahead by the expected synergies of belonging to the top-ranked global airline alliance.

Although our earnings for the year were not as high as we would have liked, solid progress was made in our efforts to ensure the long-term sustainability and profitability of the group. In preparation for joining the Star Alliance, we at SAA have established better, more efficient ways of running our business and pleasing our customers. We acknowledge that there is still much work to do.

Staff

After a six-day-long strike in July, we settled with labour unions on a 5% increase in pensionable wages, medical and housing benefits and an additional 1% increase in non-pensionable allowances. We also signed a three-year agreement with our cabin crew and ground operations staff on employment conditions, giving them more flexibility on working hours, while increasing their allowances

and rest days. These agreements ensure stability and allow us to concentrate on the group's longer term objectives.

The industrial action served to highlight the importance of open communication channels between employees representing all sectors of the airline and management. Since then, all parties have worked hard to build better relations and mutual understanding.

During the year we also flattened the group's structure, making executives more accessible, in touch and accountable. After a period of change amongst our executives, we believe we now have the right executive team for the task at hand.

Strategic direction

The challenges facing our industry, detailed by the Chairman in his review, also gave us cause to re-assess our strategic direction. We believe that the long-term strategy of the group is broadly appropriate to safeguard the airline's future prosperity. However, as the Chairman has indicated, the domestic market's appetite for no-frills flights has prompted us to plan the launch, later this year, of our own low-cost carrier. This new airline will be operated at arm's length from the existing carrier, running off its own, lower cost base.

African network

Difficulties in securing so-called 'fifth-freedom' rights in Africa have also led to a re-assessment of our expansion plans on the continent. These have been frustrated by the lack of progress on the Yamoussoukro Decision to liberalise access to African air transport markets. The decision, signed in 1999, was due to be fully implemented by all states by August 2002.

As one of only three African airlines to pass IATA's Operational Safety Audit (IOSA), we understand our responsibility towards the people of the continent. The recent blacklisting from European skies of some 85 African carriers that the EU considers unsafe further underscores the importance of SAA's services to Africans everywhere. Although routes on the continent are being challenged by low-yield fares, these remain important to SAA, representing 16% of our revenue with only 9% of our available seat kilometres.

Yet political obstacles remain, and we are now enlisting the support of our Government in negotiations with other African governments in smoothing the way forward. However, we do not expect to add any new African destinations to our network in the year ahead after adding two new African cities to our schedule in 2005/06.

Air Tanzania Company Limited (ATCL)

We reviewed our 49% investment in ATCL during the year. A US$20-million injection in the carrier was made in November 2001 with the intention of setting up an East African hub which would contribute to SAA's growth strategy. However, this has not yielded sufficient benefits, and – with regret – the Board decided that ATCL will be sold and has been accounted for as a discontinued operation at year-end.

Cost cuts should be given a further boost in the years ahead by the expected synergies of belonging to the top-ranked global airline alliance.

Voyager has been improved and simplified, with the online ‘book by miles’ feature giving loyal customers more options.

Agents’ commission

During 2005/06 SAA reinforced its position as a market leader, taking some short-term pain to ensure the domestic industry’s long-term health. In line with international trends and efforts to improve transparency, we phased out commissions to travel agents, which had initially stood at around 7%. This was the responsible thing to do. At first, the trade directed business to our competition, before these other airlines followed suit, cutting commissions some six months later.

Safety

This process underscored the need more than ever to differentiate our offering. Ours is a solid value proposition, characterised by superior service, products and networks, which have recently been boosted by our membership of the Star Alliance. But above all, we believe our greatest competitive advantage lies in our safety standards, including the recently attained IOSA accreditation. This is an internationally recognised and accepted evaluation system designed to assess the safety and quality of the operational management and control systems of an airline. The Star Alliance demands of its members that they comply with the world’s most stringent safety and security standards, adding a further benefit to the airline: interaction and synergy in terms of safety and security.

Customer service

Service commitments to our customers were raised in the year, with numerous initiatives launched, including more frequent client satisfaction surveys and the introduction of forums across business units to more efficiently address any breaks in the service we provide. Audits by respected air transport research organisation Skytrax indicated that passengers had recently experienced improved service from SAA staff.

Voyager

Our Voyager frequent flyer programme has been upgraded and simplified, and the new ‘book by miles’ online feature is giving loyal customers more options. SAA’s increasingly popular *www.flysaa.com* website has undergone a revamp, resulting in superior functionality and ease of use. As a result, the website for the first time generated more than one million passenger sales in 2005/06, an increase of 182% on the previous year. Together with SAA’s other direct sales channels, more than 1,8-million passengers chose to purchase their tickets directly from SAA, contributing to substantial distribution cost savings.

Amadeus

We have boosted our service to the travel trade, upgrading our IT platforms and replacing our reservations system with the state-of-the-art Amadeus platform. This sophisticated new system will allow us to improve on delivery, offering consistent professional service to the travel industry with regard to flight bookings.

Fleet

Significant product and network improvements were achieved in the year with the delivery of five new aircraft: two long-haul A340-600s and three A319-100 twin jet short-haul aircraft. This completes our fleet renewal programme, providing the airline with a modern, young and environmentally friendly fleet.

Product

SAA's on-board product is rated amongst the world's best regarding comfort, quality and choice. For the second year running, Skytrax voted SAA's business class lie-flat seat the world's best. In an effort to ensure consistency, the airline will, by year-end, offer the award-winning seat on all long-haul flights served by our Airbus aircraft. To cater to the needs of those requiring medical attention, in March SAA introduced a stretcher facility on board its fleet. We believe that this will help satisfy growing demand, particularly to our African destinations.

Route development

The airline's network has been enhanced. As part of our strategy to connect Africa, we opened routes to Zanzibar, Tanzania and Livingstone, Zambia during the year. We are now proud to be the leader on the continent, serving 23 destinations. Outside Africa, we also boosted our network by adding flights to Washington and increasing to daily frequencies our flights between Cape Town and Frankfurt. Domestically, we stopped unprofitable flights between Port Elizabeth and Cape Town, Port Elizabeth and Durban and between Johannesburg and George.

New IT systems

Internally, SAA is doing things better. Our organisation-wide IT capacity upgrade included a new revenue accounting system called Rapid and the migration to the PegaSys system for the planning, scheduling and operations of all crew and aircraft. As part of the airline's Bambanani cost reduction initiatives, these projects will result in savings for the airline of more than R100-million per annum.

SAA Technical

Our maintenance subsidiary, South African Airways Technical (SAAT), did well to sign up more work from other airlines during the year. This is part of its drive to grow its client base so that, within three years, the servicing of SAA aircraft makes up just half of its revenues, from the current 75%. SAAT has recently sealed a number of agreements to convert to cargo configurations aircraft-owned by various leasing companies. It is also working on partnering with other major international maintenance organisations, so that each can focus on specific areas of specialisation and thereby bring down costs.

Our fleet renewal programme has been completed, providing the airline with a modern, young and environmentally friendly fleet.

SAA Cargo

South African Airways Cargo established a new strategy in the year which is targeting a more than doubling of freight revenue to R4,5-billion in five years. Acquiring a new MD 11 freighter this year to operate the Johannesburg-Accra-Nairobi-Amsterdam-New York-Accra-Johannesburg route is an important step towards tapping into growing demand from organisations operating in oil-rich West Africa.

Financial performance

During the year SAA's revenues did not keep up with increases in costs, resulting in a squeeze on margins and profits. The 13% increase in total airline income to R19,6-billion was driven mainly by increases in fuel levies charged in the year, due to fast rising oil prices, as well as the accelerated release of unused passenger tickets to revenue as a result of management improving revenue accounting during the year. However, the more important passenger revenue figure showed just a 0,8% increase to R13-billion even though passenger numbers rose 4,5% to nearly 7,2-million. This translated into a 3,5% fall in yields. The passenger load factor remained constant at 70%, while capacity – as measured by Available Seat Kilometres – rose by 5,6%.

Internally, we are doing things better, with IT developments resulting in savings of more than R100-million per annum.

The disappointing growth in passenger revenue reflects the increased competition from low-cost carriers in our home market. This resulted in a decrease in operating profit to R425-million from R927-million in 2004/05, when the figure had also been boosted by favourable fair value movements and translation gains. The group's operating margin slipped to 2,2% in 2005/06 from a restated 5,4% the previous year, versus our target to achieve an operating margin of 9%. Net profit dropped to R65-million from R648-million.

Apart from distribution costs and employee benefit expenses, costs rose across the board with total operating costs up some 14,6% to just over R19-billion. Significantly higher costs included spending on energy – up more than 50% to R4,9-billion as jet fuel prices spiralled upwards – and financing costs, as the international interest rates on which our leases are based, rose. In the previous financial year, interest earned on higher cash balances, mainly the Transnet loan, had also helped offset some of our financing costs. Excluding energy, the rise in overall group operating costs was broadly in line with inflation at around 5%. However unit costs, measured in rand per available seat kilometre, increased 13,9%.

The tonnage of cargo carried on SAA aircraft increased 5,1% to 185 000. Turnover from cargo and mail rose 7,3% to R1,6-billion, driven mainly by strong increases in cargo revenue on international and regional routes. However, the average cargo flight yields on these routes fell in the year, while those to domestic destinations rose.

Efficient working capital remains a priority for SAA and during the year the group recorded a net decrease in working capital of more than R1-billion.

Prospects

SAA has started 2006/07 on a positive footing, with our membership of the Star Alliance coming just 10 days into the new financial year. With this, SAA customers now have access to 842 destinations in some 152 countries and 15 500 departures every day. We firmly believe this will go a long way to boosting our revenues and further reducing expenditure.

Satisfied customers are our goal. Indicative of the importance we are giving to ensure this, in the new year the customer services portfolio is moving to within the CEO's office. So too is the management of the Bambanani programme, which has evolved from a cost-cutting initiative to one including a focus on revenue generation. Given the challenges of the market, the acceleration of this programme is absolutely imperative. In the year ahead we will manage capacity more dynamically – scaling back unprofitable routes and leveraging the Star Alliance network.

More focus will be given to building strategic relationships with corporates, growing our distribution channels to ensure convenience, ease and access for passengers, while enhancing our on-board product including entertainment, food and amenities.

At SAA, we have to continue to find smarter ways of improving efficiencies while never losing sight of our central purpose – offering superior service to our seven million customers. I would like to thank all our loyal employees for their dedication in achieving this objective. The year under review has been one of consolidation. We expect the year ahead to be one of growth.

Khaya Ngqula
Chief Executive Officer

SOUTH AFRICAN AIRWAYS
A STAR ALLIANCE MEMBER

The Board

Prof J Gerwel

Mr M V Moosa

Ms L Mojela

Ms A Kekana

Dr C Okeahalam

Ms M Ramos

Ms T Ramano

Adv M Moerane

Mr P Nkuna

Dr K Ngqula

Mr P Joubert

Prof Gert Johannes 'Jakes' Gerwel
Chairperson

Professor Gerwel is the Chancellor of Rhodes University and is the Chairperson of the Human Sciences Research Council (HSRC) and the Export Credit Insurance Corporate (ECIC). He taught at the University of the Western Cape where he subsequently was rector and vice-chancellor from 1987 to April 1994. From May 1994 to June 1999 he served as director-general in the Office of former President Mandela and secretary of the Cabinet in the Government of National Unity. He chairs the board of trustees of the Nelson Mandela Foundation, The Mandela Rhodes Foundation and the Institute for Justice and Reconciliation. He presently serves on the boards of Naspers, Old Mutual and Gold Fields. He is also non-executive chairperson of Brimstone Investment Corporation and Africon Engineering International.

Mr MV Moosa
Non-executive

Mr Moosa served as Minister of Constitutional Development up to 1999 and as Minister of Environment and Tourism from 1999 to 2004. He served as Chairperson of the United Nations Commission on Sustainable Development from 2002 to 2004 and hosted the UN World Summit on Sustainable Development in 2002. He also hosted the World Parks Congress in 2003. He is currently the Chairman of Eskom and of a black empowerment group, Lereko Investments and is also a non-executive board member of financial services group, Sanlam Limited.

Ms L Mojela
Non-executive

Ms Mojela is one of the founders and Group CEO of Women Investment Portfolio Holdings (Wiphold). She has held positions at Standard Corporate and Merchant Bank, the Development Bank of South Africa and the Lesotho National Development Corporation. She has a BCom from the University of Lesotho.

Ms A Kekana
Non-executive

Ms Kekana is currently the Chief Operating Officer of the Public Investment Corporation (PIC). She also serves on the Investment Committee of the Eskom Pension and Provident Fund and the boards of Pareto and PIC (as an executive member). Previously she held the position of Corporate Finance Director at UBS Warburg. During her term at UBS Warburg, she spent some time on secondment to the New York and London offices of UBS. She is a chartered accountant by profession.

Dr C Okeahalam
Non-executive

Dr Okeahalam is the Managing Director of Africa Growth Holdings (Pty) Limited, a private investment holding company. Prior to joining AGH, he was Professor of Finance at the University of the Witwatersrand. He has contributed extensively to a range of banking, finance and development issues in Africa. He is a non-executive director of Absa Corporate and Merchant Bank, Air Tanzania Company Limited and the Bond Exchange of South Africa. He holds a PhD in Economics from the University of London.

Ms M Ramos
Non-executive

Ms Ramos is the current Group Chief Executive of Transnet Limited. She previously held the position of Director-General of the National Treasury. Her background is in economics, majoring in monetary economics and macroeconomics. In 2001, she was awarded the Business Woman of the Year Award by the Businesswomen's Association of South Africa and also the Businessleader of the Year in 2005. She obtained an MSc in economics from the University of London.

Ms T Ramano
CFO

Ms Ramano was the Chief Financial Officer of SAA, having previously occupied the position of Chief Director: Asset Management in the National Treasury. Prior to that she occupied the positions of investment professional with Rand Merchant Bank Asset Management. She has a BCom degree from the University of Cape Town and is a registered chartered accountant. She resigned on 31 May 2006.

Adv M Moerane
Non-executive

Advocate Moerane is a senior counsel at the KwaZulu-Natal Bar and a Vice-Chairperson of the Competition Tribunal. He has enjoyed an eminent legal career and has acted for the State on a number of occasions in high profile cases including as counsel for then national director of public prosecutions, Bulelani Ngcuka at the Hefer Commission, the Health Department on the nevirapine issue and the Department of Home Affairs in the case around gay marriages, among other historically important matters. He was appointed to head an investigation into the fuel supplier shortage which occurred in December 2005.

Mr P Nkuna
Non-executive

Paul is the Chief Executive Officer of Mineworkers Investment Company (MIC). He began his career as a teacher before joining the mining industry in 1977. He joined NUM in 1984 and served as the Treasurer General for 10 years. He was instrumental in local government negotiations, and headed the Management Committee of the Brakpan Transitional Local Government as chairman (1994 -1997). Paul served in a number of executive structures within local government including the Gauteng Association of Local Government (GALA) and the South African Local Government Association (SALGA). He joined the MIC in 1997 as the executive chairman of the company and then assumed his position as CEO in 2003. He is the non-executive chairman for both Primedia (Ltd) and Mathomo (Ltd). He also serves on the boards of First Rand Ltd, BPSA (Pty) Ltd, Council for Geological Science, Tracker Investment Holdings (Pty) Ltd and Masana (Pty) Ltd.

Dr K Ngqula
CEO

SAA CEO Dr Ngqula 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. He is chairman of Mittal Steel Africa, serves on the World Wide board, and Elan Group and is a member of the United Nations Investment Committee. He has a BAdmin degree from University of Fort Hare and an Honourary Doctorate of Commerce from this university.

Mr P Joubert
Non-executive

Peter Joubert is the current chairman of BDFM Publishers (Pty) Limited, Munich Reinsurance Company of Africa Limited, Sandvik (Pty) Limited and of Protekon (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 20 years as Chief Executive and Chairman. He has served on the board of various top corporates and as chairman of various other companies, including Barprop, Delta Electrical Industries, Eagle Freight, Foodcorp, General Motors SA, Impala Platinum and Northern Engineering Industries. He has also been chairman of Roedean School and Chancellor of the Order of St John.

SOUTH AFRICAN AIRWAYS
A STAR ALLIANCE MEMBER

The Executive Team

Dr Khaya Ngqula

Tryphosa Ramano

Thelma Melk

Vishnu Naicker

Nomfanelo Magwentshu

Viwe Mlenzana

Captain Colin Jordaan

Patrick Dlamini

Jan Blake

Louisa Zondo

Resignations

Tryphosa Ramano
Chief Financial Officer – 31 May 2006

Dan Moeti
Chief Risk Officer – 30 March 2006

Molebatsi Moagi
General Manager Sales, Marketing, Voyager – 31 May 2006

Dr Khaya Ngqula
CEO

SAA CEO Dr Ngqula has a BAdmin degree from University of Fort Hare and an Honourary Doctorate of Commerce from this university. He is chairman of Mittal Steel Africa, serves on the World Wide board, and Elan Group and is a member of the United Nations Investment Committee. 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.

Ms T Ramano
CFO

Ms Ramano was the Chief Financial Officer of SAA, having previously occupied the position of Chief Director: Asset Management in the National Treasury. Prior to that she occupied the positions of investment professional with Rand Merchant Bank Asset Management. She has a BCom degree from the University of Cape Town and is a registered chartered accountant. She resigned on 31 May 2006.

Thelma Melk
Company Secretary

Thelma holds law degrees and is educated in labour relations, corporate governance and company direction. As the Company Secretary she provides a secretarial service and corporate governance council to the SAA Board, the CEO and the executive team. Previously she was the group company secretary for the SABC and worked for Transnet.

Vishnu Naicker
Chief Risk Officer (CRO)

Vishnu has a strong background in economics, accounting and financial management. At SAA he is the CRO and is also responsible for the Facilities, Financial Planning (including CAPEX) and Internal Audit Portfolios. His career spans extensive experience with corporates such as the Barlow Rand Group and Altech.

Nomfanelo Magwentshu
General Manager Business Development

Nomfanelo has a MBA from GIBS and a BSC Hons (Statistics) from the University of Natal, Pietermaritzburg, BSc (mathematics and statistics) from University of Transkei (Eastern Cape), and attended a programme for management development at the UCT Graduate School of Business. At SAA she is responsible for long-term planning (including corporate strategy, new business and fleet planning), alliances, aero-political affairs, network planning and scheduling as well as revenue management and pricing. Before SAA she worked for the Standard Corporate and Merchant Bank's Corporate Banking Division as an account executive, as Director in the DG's office in the Department of Public Enterprises, as Business Planning Manager at Metrorail and as survey analyst for Hay Management consultants.

Viwe Mlenzana
General Manager Human Resources

Viwe studied Social Sciences and Human Resources at both the University of Fort Hare and University of Port Elizabeth. He has extensive experience in human resources and has worked for companies such as Firestone, Ford Motor Company of Southern Africa and the Receiver of Revenue before joining SAA.

Captain Colin Jordaan
General Manager Operations

Colin studied aeronautical engineering at Wits University and captains the Airbus A340. He is also a rated test pilot on this and other aircraft. At SAA he is responsible for the flight operations of the airline including pilots, cabin crew and flight technical and is chairman of the flight operations group of the International Air Transport Association. Before this he held the positions of Chief Technical Pilot and Strategic Planning Manager SAA Flight Operations.

Patrick Dlamini
General Manager SAA Cargo

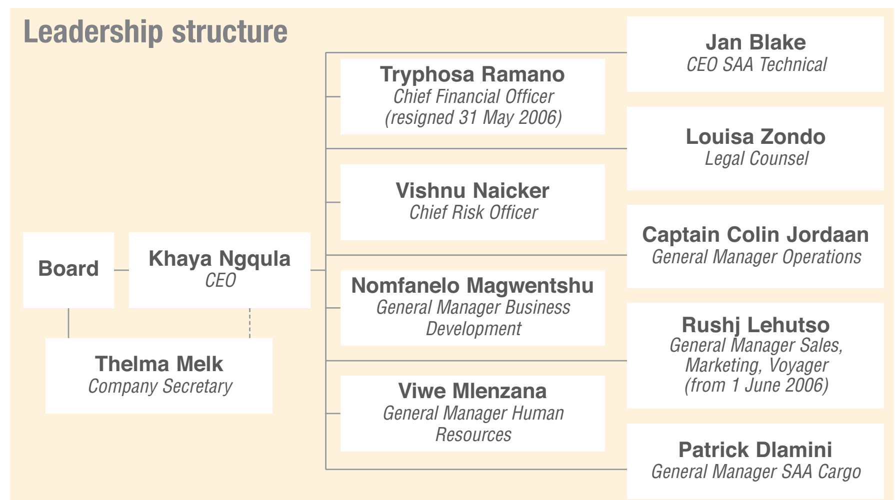
Patrick has a BCom Accounting degree from the University of Durban-Westville and completed the Wits Business School Executive Programme. He was appointed as General Manager of SAA's Cargo operations in 2004. Before he worked for Transnet as an audit manager and was the previous chief operations officer at South African Ports Authority and also business unit manager.

Jan Blake
CEO SAA Technical

Jan is a chartered accountant. He was appointed as CEO of SAA's Technical division that handles all maintenance work for the airline. Before this he was chief financial officer at SAAT and headed SAA's operations. Before SAA he was with Flitestar, the XPS division of the Rennies Group and worked for Iscor.

Louisa Zondo
Legal Counsel

Louisa holds a BProc degree (University of the North, Turfloop) an LLB (University of the Natal, Durban) and an LLM (London School of Economics) and is an advocate of the High Court of South Africa. She is SAA's General Counsel. Before 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 for the Preparatory Commission. She practised as an Advocate at the Johannesburg and Durban Bar. Her work experience includes roles as a Deputy Executive Director in The Secretariat of the Constitutional Assembly and as CEO of The South African Human Rights Commission.



SOUTH AFRICAN AIRWAYS
A STAR ALLIANCE MEMBER

Finance and Operations Review

SAA achieved meaningful cost savings as part of the Bambanani programme.

Revenue and earnings

SAA operated in a really difficult market during the financial year with only the regional/Africa sector showing growth year-on-year. Labour disruptions in July and the increasing impact of the low-fare operators resulted in a 11% reduction in the domestic yield for revenue passengers. The international business was affected by the later-than-expected commencement of flights to Washington, Zanzibar and Livingstone.

During the year, passenger revenue remained flat at just over R13-billion, while revenue passenger numbers increased 4,5%. Average yields dropped by 3,5%. Lower-than-anticipated revenue was recorded even though there was a 5,6% increase in capacity, while the average load factor remained constant at 70%.

Freight and mail revenue increased 7,9% to R1 609-million thanks to strong increases in cargo revenue on international and regional routes. Turnover from technical services rose by more than a quarter to R470-million in the year.

Other airline income increased to R3 781-million from R1 867-million the previous year. The rise was largely due to higher fuel levies charged to offset the sharp increase in fuel costs, as well as the accelerated release to revenue of unused passenger tickets and air waybills.

Domestic direct sales increased to 50% of total sales from 32% a year earlier. Even though this was at a cost to yields, SAA will continue to develop sales through its website and call centres in line with international trends, while working to enhance yield management. The higher proportion of direct sales helps achieve savings on distribution costs as well as an improvement in cash flows.

SAA's gross profit margin from airline operations deteriorated from 3,4% to 2,0% in the 2005/06 financial year mainly due to the increase in the oil price. This was mitigated to a degree by group-wide cost-cutting initiatives.

The margin on earnings before interest and tax (EBIT) decreased from 5,4% (restated according to IFRS) to 2,2% due to flat revenues, an increase in costs, and accelerated depreciation due to the adoption of International Financial Reporting Standards (IFRS).

SAA's operating profit dropped to R425-million from R927-million in 2004/05. The favourable fair value movements and translation gains of the previous year

were not repeated in the current year as the nature of SAA's foreign assets and liabilities changed, as a consequence of the settlement of some foreign loans.

Net profit declined to R65-million in 2005/06 from R648-million in 2004/05. A headline loss of R239-million was recorded in the current financial year (R812-million headline profit in 2004/05).

The table below details the group's performance compared to targets.

Ratio	2006	Target
EBITDAR* margin (before fair value movement)	16,1%	20,0%
EBIT margin	2,2%	9,0%
Capital structure (shareholders' equity: total assets)	8,4%	30,0%
Net interest cover (times)	1,4	2,5

** Earnings before interest, tax, depreciation, amortisation and rentals (leases)*

Costs

Operating costs increased by 14,6% in the year, due mainly to a 51,5% increase in energy costs from R3 257-million to R4 933-million. In the year under review, the monthly average oil price was US$58,43 per barrel compared to US$40,54 per barrel a year earlier. The airline recovered a net realised cash inflow from fuel hedging of R292-million during the year. In an effort to control fuel costs, SAA has hedged 40% of its anticipated fuel uplift at an average oil price of US$65 for the forthcoming year.

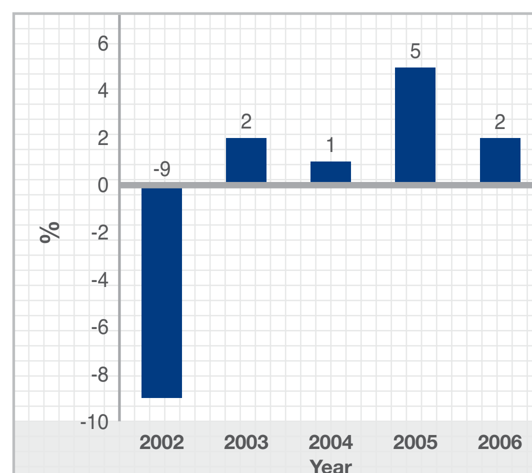
Excluding energy costs, operating costs increased by 5,6%, which is broadly in line with inflation. Distribution costs declined by 10,2% mainly due to a reduction of the base commission paid to travel agents. Labour costs declined 5% despite a 6% increase in the total pay packet of unionised labour. This is largely attributable to the payment of severance packages in the previous year and strict control of placements in vacancies that were considered non-critical.

Material costs rose by a third from R1 106-million to R1 466-million due to the significant increase in the number of engine services required during the year and the cost of preparing lease aircraft for return to their lessors on expiry of the lease agreements. Included in other operating costs is a provision for R100-million relating to a settlement with the Competition Commission.

The 24% increase in the depreciation charge was mainly due to the introduction in the balance sheet of three A340-300e aircraft delivered during the year under review.

In March 2006, SAA signed a sale and leaseback agreement for two A340-600s as part of efforts to restructure the balance sheet, thus reducing the residual value risk. The gross proceeds of R1,3-billion were used to repay foreign debt and fund operational activities. As a result, SAA reduced its cost of funding.

In March 2006, the SAA agreed to discontinue the investment in Air Tanzania



SAA's treasury will continue to ensure that competitive funding rates are obtained for short-term working capital requirements.

Company Limited (ATCL) and treat the stake in the loss-making East African carrier as a discontinued operation.

Cash flow and balance sheet

Despite flat revenues in the year, the group managed to generate cash from operations of R336-million. Efficient working capital remains a priority for SAA and during the year the group recorded a net decrease in working capital of R1 057-million.

The fleet renewal programme was completed during the year and as a result capital expenditure was reduced substantially from R1 964-million to R335-million. SAA has also introduced a new capital expenditure framework which has assisted in curbing unnecessary spending.

During the year the Board agreed with Transnet to alter the nature of the Compulsory Convertible Subordinated Loan (CCSL) of R4,0-billion by repaying R1,6-billion. Total capital and reserves decreased by some R1,5-billion to nearly R1,2-billion mainly as a result of this repayment. Transnet has agreed to convert the balance of the CCSL to shares in SAA.

Management has further improved its revenue accounting systems during the year and this has resulted in an acceleration in the release of prescribed tickets and air waybills to revenue of R1 028-million from R423-million in the previous year.

Long-term debt of R1 443-million was repaid during the 2005/06 financial year.

Adequate facilities are in place to meet peak borrowing requirements. In the 2005/06 financial year, the group did not use the borrowing facilities of R1,5-billion available from Transnet.

Aircraft fleet

SAA continued to strengthen its fleet and associated network in 2005/06 by introducing more of the world's best aircraft for business and leisure travelling. SAA took delivery of two Airbus A340-600 aircraft and three Airbus A319-100 aircraft.

At the date of the balance sheet, SAA had a fleet of 75 aircraft. The airline owns 14 aircraft and leases 61. Of the total, four have been leased out to other airlines. The table below details SAA's fleet profile as at the balance sheet date.

		31 March 06			31 March 05			Change in
	Aircraft type	Owned	Leased	**Total**	Owned	Leased	**Total**	**FY05/06**
Passenger	Boeing 737-200	–	5	5	–	10	10	-5
	Boeing 737-800[1]	–	21	21	–	21	21	
	Boeing 747-200SP[2]	2	–	2	2	–	2	
	Boeing 747-300[2]	3	–	3	3	–	3	
	Boeing 747-400	2	5	7	3	5	8	-1
	Airbus A340-200	–	6	6	–	6	6	
	Airbus A340-300e[3]	3	3	6	3	3	6	
	Airbus A340-600	4	5	9	6	1	7	2
	Airbus A319-100	–	11	11	–	8	8	3
Cargo	Boeing 737-200F	–	2	2	–	2	2	
	Boeing 727-200F	–	2	2	–	2	2	
	HS 748F	–	1	1	–	–	–	1
		14	61	75	17	58	75	

Notes
1. One aircraft is sub-leased
2. Aircraft out of service. Disposal process under way
3. Three aircraft are leased out

The Amadeus reservation system was successfully implemented in March 2006.

Bambanani programme

In November 2004 the Board of Directors approved a new corporate strategy based on *People, Patronage* and *Profit*. The turnaround strategy is being implemented through the Bambanani programme, the central features of which are cost cutting and yield enhancement.

The group is pleased to announce the following Bambanani achievements:

- Renegotiation of loans and leases with a saving of R135-million in the year under review.
- Sale and leaseback of two A340-600s with a positive net present value thus reducing the residual value risk associated with the ownership of aircraft.
- The renegotiation of onerous return conditions for two Boeing 747-400s which have been sold to the International Lease Finance Corporation.
- The implementation of the interim solution of the Rapid revenue accounting system. Full implementation is expected in August 2006 when significant savings and revenue enhancements should be realised.
- The successful implementation of the Amadeus reservation system in March 2006.
- The renegotiation of 'Power by the Hour' engine agreements with Lufthansa resulting in cost savings.
- The reduction of the base commission to travel agents from 7% to 1%, realising a further saving.
- The renegotiation of fuel procurement agreements and the strict management of fuel burn-out rates.

For the year under review, costs were cut by more than R500-million, compared to a target of R900-million set for the year.

Annual Financial Statements Contents

Company Information	26
Statement by the Company Secretary	27
Report of the Independent Auditors	28
Directors’ Report	29
Income Statement	40
Balance Sheet	41
Statement of Recognised Income and Expenses	42
Cash Flow Statement	43
Notes to the Annual Financial Statements	44

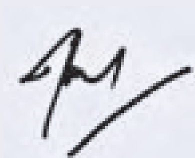
The annual financial statements on pages 40 to 115 were approved by the Board of Directors on 2 June 2006.

Company Information

DIRECTORS	Prof GJ Gerwel	Chairman
	Dr K Ngqula	Chief Executive Officer
	Ms MMT Ramano	Chief Financial Officer (resigned 31 May 2006)
	Prof R Doganis (Greek)	(resigned 17 March 2006)
	Mr PG Joubert	(appointed 27 May 2005)
	Adv MTK Moerane	
	Ms LM Mojela	
	Mr MV Moosa	
	Dr CC Okeahalam (Nigerian)	
	Ms A Ngwezi	
	Mr AP Nkuna	
	Ms MDCDNC Ramos	
COMPANY SECRETARY	Ms T Melk	
REGISTERED OFFICE	Airways Park Jones Road Johannesburg International Airport Kempton Park 1627	Private Bag X13 Johannesburg International Airport Kempton Park 1627
COUNTRY OF INCORPORATION	South Africa	
REPORTING CURRENCY	South African Rand (ZAR)	
JOINT AUDITORS	Deloitte & Touche Private Bag X6 Gallo Manor 2052	APF Incorporated PO Box 260144 Excom 2023
BANKERS	Standard Bank Limited Nedbank, a division of Nedcor Limited Citibank of South Africa (Proprietary) Limited	
HOLDING COMPANY	Transnet Limited	
COMPANY REGISTRATION NUMBER	1997/022444/07	

Statement by the Company Secretary

The Company Secretary, Ms T Melk, certified that the company has lodged with the Registrar of Companies all such returns as are required for a private company in terms of the Companies Act, 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
2 June 2006

SECRETARY

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

Report of the Independent Auditors

TO THE MEMBERS OF SOUTH AFRICAN AIRWAYS (PROPRIETARY) LIMITED

We have audited the annual financial statements of South African Airways (Proprietary) Limited and the group set out on pages 29 to 115 for the year ended 31 March 2006. These annual financial statements of South African Airways (Proprietary) Limited and the group are the responsibility of the South African Airways (Proprietary) Limited's accounting authority. Our responsibility is to express an opinion on these financial statements based on our audit. The performance information is the responsibility of the accounting authority. Our responsibility is to express an opinion on whether the performance information furnished in terms of sub-section 55(2)(a) of the Public Finance Management Act, 1 of 1999, as amended, is fair in all material respects and on a basis consistent with that of the preceding year.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The audit was also planned and performed to obtain reasonable assurance that our duties in terms of sections 27 and 28 of the Public Audit Act, 25 of 2004, have been complied with. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management and evaluating the overall annual financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the annual financial statements fairly present, in all material respects, the financial position of South African Airways (Proprietary) Limited and the group at 31 March 2006 and the results of their operations and cash flows for the year then ended, in accordance with International Financial Reporting Standards, and in the manner required by the Companies Act, 61 of 1973 in South Africa, the Public Finance Management Act, 1 of 1999, as amended, and the Public Audit Act, 25 of 2004.

EMPHASIS OF MATTER

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

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

The transactions of South African Airways (Proprietary) Limited and the group that came to our attention during the audit were in all material respects in accordance with the mandatory function of South African Airways (Proprietary) Limited, as determined by law or otherwise, with the exception of four matters detailed in the Directors' report on page 36. These matters relate to the ability of the current procurement system to ensure goods and services are procured fairly, equitably, transparently, competitively and cost-effectively, the prevention, identification and reporting of all fruitless and wasteful expenditure and the shareholder's compact with Transnet Limited. The exceptions detailed above evidence that SAA is currently not in compliance with the PFMA which is, in itself, a breach of the PFMA.

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

Deloitte & Touche	**APF Inc**
Andrew Mackie	*Mahen Naidoo*
Partner	*Partner*
2 June 2006	2 June 2006

Directors' Report

INTRODUCTION

The directors have pleasure in presenting their report, which forms part of the annual financial statements of the company and of the group, for the year ended 31 March 2006. The audited 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 2 to these financial statements. The accounting policies are supported by reasonable and prudent judgements and estimates.

This report and the audited financial statements are submitted in accordance with the statutory requirements of the Public Finance Management Act 1 of 1999 (PFMA) and the Companies Act. In the opinion of the directors, the financial statements fairly present the financial position of South African Airways (Proprietary) Limited (SAA) and its subsidiaries as at 31 March 2006, and the results of their operations and cash flow information for the year then ended.

NATURE OF BUSINESS AND COMPANY STRUCTURE

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

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

SAA is a subsidiary of Transnet Limited (refer to note on inspection in terms of section 258 of the Companies Act, below). The staff and management of SAA, through the mechanism of three different share incentive schemes, hold the minority shareholding in the company. SAA's share capital is divided into five classes of shares which are held as follows:

Class of ordinary share – R1 each	Shareholder	Authorised	Issued
Class A	Transnet Limited	9 000 000 000	1 876 033 440
Class B	Transnet Limited	3 000 000 000	625 344 480
Class C	Transnet Limited	1 500 000 000	312 672 240
Class D	Transnet Limited	750 000 000	156 336 120
Class E	Share scheme members and SAA Share Incentive Trust	750 000 000	156 336 120
Total		15 000 000 000	3 126 722 400

All classes of shares rank equally and any unissued shares are under the control of the directors until the 2006 Annual General Meeting.

Inspection in terms of section 258 of the Companies Act

Pursuant to complaints received by the Minister of Trade and Industry (the Minister) on 8 October 2004, the Minister instituted an investigation into the affairs of the company since its incorporation. In summary, the inspectors appointed were requested to report upon:

- Certain irregularities with regard to the dealings of share options and shares issued in terms of the company's employee share schemes;
- The reasons for delays in producing annual financial statements, and not holding annual general meetings timeously; and
- Whether or not the directors and management properly discharged of their duties and responsibilities.

In addition, in terms of a letter dated 12 October 2004, the director of Commercial Investigations of the Department of Trade and Industry advised the inspectors that, although the Minister's mandate indicated specific issues that must be included in the investigation, it was also expected that the inspectors should report on any criminal offences as prescribed by the Companies Act which might have come to the inspectors' attention during their investigation.

The inspectors issued their report late in 2005. The main facts and conclusions from that report, which are set out below, dealt with the South African Airways Employee Share Trust, and the three share schemes falling under that trust:

- Transactions were entered into and conducted prior to the formal appointment of the trustees.
- As a result of the foregoing, the share transactions of the share schemes falling under the trust were invalid.
- Directors and management, as a consequence of the trustees’ failure to fulfil their roles as trustees, assumed the role of trustees and purported to make decisions on behalf of the trust, thus possibly invalidating the valuations performed and acted upon.
- The rules of the incentive scheme were purportedly amended by the trustees, to effectively allow for sales to be made at any time, although they had no mandate to do so.
- There were a number of irregularities with regard to the appointment of valuers who needed to be appointed in terms of the three share schemes falling under the trust.
- Certain valuations were not conducted timeously.
- Incorrect prices were used on occasions for purchases and sales.
- Certain share purchase and sale transactions were carried out outside of the sale periods laid down in the rules of the three share schemes.

With respect to possible contraventions of the Companies Act, the inspectors set out a list of contraventions, as required under their terms of reference, but concluded that they did not regard any of the contraventions as being material.

In setting out their recommendations, the inspectors noted that, although they were mandated only in regard to the incentive scheme, the sales under all three schemes are invalid.

They recommended that the trust should:

- Recover moneys from incentive scheme participants to whom payment was made.
- Tender to the participants the return of the shares.
- Pay over moneys collected to Transnet and SAA in settlement of their loans.

However, the inspectors concluded by saying that “While the above is recommended, Transnet, SAA, the present trustees and all three scheme participants could endeavour to settle the claims arising from the above invalidity”.

The Board and trustees of the South African Airways Employee Share Trust have considered the inspectors’ report and are formulating a plan to regularise the transactions of all three share schemes, in full consultation with the parties affected. At the same time, management of the company is in the process of attending to the Companies Act and possible PFMA contraventions set out in the inspectors’ report.

Recapitalisation by the issue of 6 089 291 874 shares of R1 each to Transnet Limited and 9 403 474 to certain E class shareholders

During the course of the 2004 financial year, 6 089 291 874 shares were issued to Transnet and during the 2005 financial year, a further 9 403 474 shares were issued to certain class ‘E’ shareholders, both at a price of R1 per share. Transnet’s consideration for the share issue was utilised in part to repay their previously subordinated loans of R4 100 000 000, the balance being utilised to partly fund the settlement of the company’s hedge book at that time.

In order to carry out the aforementioned transactions, the Articles of Association of the company had to be amended to allow for the possibility of the ‘A’, ‘B’, ‘C’ and ‘D’ class shareholders holding more than 95% of the issued share capital of the company.

DIRECTORS

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

Name		Date of appointment (A)/resignation (R)	Number of Board meetings attended	Number of audit comm meetings attended	Number of FRIC meetings attended	Number of nominations, governance and remuneration meetings attended
Prof GJ Gerwel (Chairman)	N	27 August 2004 (A)	8	–	–	1
Dr K Ngqula (CEO)	E	27 August 2004 (A)	7	4	2	3
Ms MMT Ramano (CFO)	E	31 May 2006 (R)	8	5	4	2
Prof R Doganis (Greek)	N	17 March 2006 (R)	3	–	–	3
Adv MTK Moerane	N	10 September 2003 (A)	6	4	–	3
Ms LM Mojela	N	27 August 2004 (A)	6	–	4	–
Mr MV Moosa	N	27 August 2004 (A)	4	–	–	–
Dr CC Okeahalam (British)	N	10 September 2003 (A)	8	6	4	–
Ms A Ngwezi	N	1 September 2004 (A)	6	4	–	–
Mr AP Nkuna	N	10 September 2003 (A)	5	–	–	3
Ms MDCDNC Ramos	S	14 January 2004 (A)	8	5	4	3
Mr PG Joubert	N	27 May 2005 (A)	8	–	–	

Appointment dates reflected are the initial dates of appointment and do not reflect reappointment dates.

E – Executive director
N – Non-executive director
S – Shareholder representative

The Board met on eight (8) occasions during the financial year.

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

The Financial, Risk and Investment Management Committee (FRIC) met on four (4) occasions during the financial year.

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

Directors' and employees' interest in contracts
No director or senior executive of the group has any material interests in contracts or conflict of interest that may affect the group or his or her position in SAA.

RESULTS FOR THE YEAR UNDER REVIEW

Net profit attributable to the equity holders of the parent amounted to R65-million, against a restated net profit of R691-million in the previous year.

Management has further improved its revenue accounting systems during the year and this has resulted in an acceleration in the release of tickets and air waybills to revenue from R423-million in the 2005 year to R1 028-million in 2006.

EVENTS SUBSEQUENT TO BALANCE SHEET DATE

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

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.

BOARD OF DIRECTORS

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

In terms of the memorandum and the Articles of Association the Board meets at least eight (8) times a year and is responsible for overall company strategy, acquisitions and disinvestments, 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.

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

All directors receive a regular supply of information about the company so that they are equipped to participate knowledgeably in Board meetings. With the Chairman's approval, management prepare 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 get inducted on the business of the company. The appointment and removal of the Secretary is a matter for the Board as a whole. Independent professional advice would be available to directors in appropriate circumstances, at the company's expense.

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

Delegation of authority

The ultimate responsibility of the company's operations rests with the Board of Directors. The Board retains control through a governance structure of Board committees. These committees provide focus on specific areas of Board responsibility.

In addition, authority has been delegated to the Chief Executive Officer to manage the business and affairs of the company. The company's Executive Committee assists the Chief Executive Officer to manage the business of the company when the Board is not in session, subject to the statutory limits and the Board's limits on the delegation of authority to the Chief Executive Officer.

Board committees

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

The three Board committees established are as follows:

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

Audit Committee

The Audit Committee is comprised of four (4) independent directors, namely Dr Charles Okeahalam, Advocate Marumo Moerane, Ms Albertina Ngwezi and Ms Maria Ramos.

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

Both internal and joint external auditors have free 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 six (6) occasions during the financial year.

Financial, Risk and Investment Management Committee (FRIC)

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 four (4) occasions during the financial year.

Risk management and internal control

The Board is responsible for the company's system of risk management and internal control and for reviewing its effectiveness. A workable and realistic system can only be designed to manage, rather than eliminate, the risk of failure to achieve business objectives and, therefore, can only provide reasonable and not absolute assurance against material misstatement or loss.

SAA's financial risk management activities operate within a Board approved Financial Risk Management Policy. The focus of the policy is on the key financial risks facing the airline namely jet fuel price risk, currency risk, interest rate risk, credit risk, and liquidity risk. The Financial Risk Management Policy also stipulates the governance framework within which financial risks are managed. In addition to the FRIC, detailed above, the Financial Risk Subcommittee (FRSC) meets on a bi-weekly basis to review SAA's financial risks and proposed risk management strategies.

During the year the directors reviewed the need for SAA to have its own internal audit function, independent from Transnet. A decision was taken to establish a full internal audit and risk management function reporting directly to the Chief Risk Officer with an indirect reporting line to the Chief Executive Officer and the Audit Committee. Ernst & Young has been appointed as internal auditor and to assist the company in setting out the internal audit division.

SAA implemented a treasury operation and appointed a Group Treasurer in January 2006. SAA Group Treasury completed the first phase of the implementation of treasury systems at SAA in April 2006, with final implementation expected to be completed in June 2006.

Jet fuel price risk

The company's fuel risk management strategy aims to provide the airline with protection against sudden and significant increases in the oil price while ensuring that the airline is not competitively disadvantaged in the event of a fall in the oil price.

During the financial year under review, the oil price traded at an average price of US$58,43 per barrel compared to a budgeted oil price of US$45 per barrel. SAA's policy is to hedge a minimum of 40% and a maximum of 60% of fuel uplift on a 12-month rolling basis. SAA managed the risk of fuel price volatility through hedging in the energy markets, and realised an average price of US$50,45 per barrel in IPE Brent terms during the financial year from hedging activities. This resulted in net realised cash inflows from fuel hedging to the amount of R292-million. At the balance sheet date, SAA had 42% of its fuel uplift hedged over the next financial year at a weighted average price of approximately US$62 per barrel.

Foreign currency risk

The group generates a surplus in the euro, sterling and many other markets where it does business, while there is a shortfall in the US dollar market. The reason for a deficit in the US dollar is primarily due to the profile of capital expenditure, together with ongoing operating lease and fuel payments denominated in US dollars. As a result, the group is exposed to foreign exchange rate movements. The policy of the group in terms of currency is to hedge on a 12-month rolling basis.

The South African rand remained relatively stable against the US dollar during the financial year, starting the year at around R6,24 against the US dollar and ending the year at approximately R6,17. This overall stability masks intra-year volatility, with the trading range of the rand against the US dollar ranging between R5,96 and R6,92 over the financial year. SAA's policy is to hedge between 50% and 75% of its net foreign currency exposure, and as at balance sheet date, SAA had hedged 75% of its net foreign exchange exposure for the next financial year at an exchange rate of approximately R6,23 against the US dollar.

Financing and interest rate risk

Most of the group's debt is aircraft related, reflecting the capital intensive nature of the airline industry and the attractiveness of aircraft as security to lenders and other financiers. These factors are also reflected in the medium to long-term maturity profiles of the group's loans and finance leases. Low capital expenditure compared to the previous two years has meant that the requirements for new financing have been limited. In March 2006, two Airbus 340-600s were sold and leased back in order to eliminate the currency, interest and residual value risk.

As at 31 March 2006, approximately 41% of the group's borrowings were at fixed rates and 59% were at floating rates, with 65% being USD denominated and 35% being rand denominated. This proportion of fixed debt has increased from 25% at 31 March 2005 as the group focused its early debt repayments on floating rate debt, leaving fixed rate debt intact.

The group's borrowings are predominantly denominated in US dollars and rands. The rand is the measurement currency, whilst a substantial proportion of the group's fixed assets are priced and transacted in US dollars.

Liquidity and investment risk

The group maintained adequate liquidity throughout the year. Cash generated from operations together with low capital expenditure and the sale and leaseback transaction allowed us to repay foreign loans of US$140-million and R1 600-million of debt with Transnet. The group has a line of credit of R1 500-million from Transnet and has not drawn on it to any significant extent during the financial year. Surplus funds are invested in low risk, high quality, short-term, liquid instruments, usually bank deposits and money market funds as prescribed in the Financial Risk Management Policy.

Credit Risk is managed by limiting the aggregate exposure to any individual counterparty, taking into account its credit rating. Such counterparty exposures are regularly reviewed and adjusted as necessary. Accordingly, the possibility of material loss arising in the event of non-performance by counterparties is considered to be unlikely.

Internal controls

In accordance with the PFMA, the Board is accountable for internal control. The Board under the custodianship of the Chief Executive Officer has the responsibility for maintaining a sound system of internal control that supports the achievement of the airline's objectives, and for reviewing its effectiveness. The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve these objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing risk management process designed to identify the principal risks to the achievement of the organisation's objectives; to evaluate the nature and extent of those risks; and to manage them efficiently, effectively and economically. The system of internal control is underpinned by compliance with the relevant corporate and governance legislation with primary focus on:

- Governance
- Financial management
- Risk management

SAA plans to ensure a full re-evaluation of its internal control system during the 2006/07 financial year, in order to meet the relevant PFMA guidelines that govern state-owned entities. This takes into account the time required to implement control improvements that the Board has deemed necessary.

The actions taken so far include:

- The organisation has undertaken a self-assessment exercise against the core controls assurance standards (governance, financial management and risk management). An action plan has been developed and is in the process of being implemented to meet any gaps.
- The organisation has in place arrangements to monitor, as part of its risk identification and management processes, compliance with other key standards, including relevant controls assurance standards covering areas of potentially significant organisational risk.

In addition to the actions outlined above, by the end of the 2006/07 year it is planned to:

- Develop an organisation-wide risk register covering areas of financial, operational and governance risks. This register will use a 'common currency' of risk rating and will present a true picture of significant risks to the company.
- Develop a system for escalating significant risks identified to Board level on a timely basis.
- Develop and implement a risk management report for regular presentation to the Board.

Nominations, Governance and Remuneration Committee

The Nominations, Governance and Remunerations Committee is made up of the following members: Advocate MTK Moerane, Ms M Ramos, Mr P Nkuna and Prof R Doganis.

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

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

Remuneration of directors

The remuneration of directors has been included in note 39 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 company.

HEALTH, SAFETY AND ENVIRONMENTAL ISSUES

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

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

During the year under review numerous projects were undertaken such as the completion and certification of SAA as an IOSA (IATA Operational Safety Audit) registered carrier and the acceptance of the SAA Corporate Emergency Response Manual and Alarm Notification procedures by Star Alliance in November 2005.

In addition, SAA ensured the completion of numerous aviation security programmes required by international regulatory authorities for operations to international destinations.

SAA operations underwent and endured a number of regulatory audits from international civil aviation authorities and recorded zero non-compliance and delivered successfully on a number of strategic business initiatives which include 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.

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 South African Civil Aviation Authority.

While these security requirements have not impacted aircraft utilisation, they have impacted on our business. The company has invested significantly in facilities, equipment, and technology to make SAA a customer-focused airline.

CODE OF ETHICS

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

HIV/AIDS

SAA runs a number of HIV/Aids programmes; from the provision of anti-retroviral treatment to all employees who require it, at no cost to that employee, to awareness campaigns, which coincide with the HIV/Aids calendar throughout the year. SAA is still facing the challenge in building the capacity of managers and team leaders in dealing with the disease in the workplace, and is in the process of rolling out the HIV/Aids programme to all SAA stations.

PFMA

SAA began a process of improving its governance structures and processes in conformance with the provisions of the PFMA. PFMA compliance is one of the key business requirements that the group wishes to improve on in the next year.

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

The SAA Board reports the following contraventions, which came to its attention during the current year.

Procurement system

Section 51(1)(a)(iii) of the PFMA requires the procurement system to be fair, equitable, transparent, competitive and cost-effective. SAA has reviewed its current processes and is at present drafting a revised procurement policy and introducing a new procurement system in order to address any shortcomings.

Fruitless and wasteful expenditure

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

SAA is not aware of any material fruitless and wasteful expenditure which has been incurred in the current year. However, in the light of the potential gaps in the procurement system mentioned above, SAA is not confident that it is fully compliant with all the requirements of the PFMA regarding the prevention, identification and reporting of all fruitless and wasteful expenditure in terms of sections 51 and 55 of the act.

Shareholders' compact

In pursuance of its objective to promote good corporate governance in state-owned enterprises, a shareholders' compact has been drafted and submitted to Transnet for review. Discussions between Transnet and the Department of Public Enterprises have been ongoing over the last 18 months, however, these discussions have not been finalised. As the terms of the shareholder compact have not been finalised between SAA and Transnet, performance information and other criteria normally reported as required by section 55(2) of the PFMA have not been reported.

Legislation

Section 51(1)(h) of the PFMA requires that SAA complies with the PFMA and any other legislation applicable to the company (also refer to inspection in terms of section 258 of the Companies Act). The contraventions detailed above evidence that SAA is currently not in complete compliance with the PFMA which is, in itself, a breach of the PFMA. SAA is not aware of any other areas of material non-compliance with any legislation applicable to the company. The Board of Directors has commissioned an extensive global exercise to obtain a complete list of all legislation which is applicable to the company and will ensure processes are put in place to monitor such compliance in the future.

Reporting

SAA is unaware of any areas of non-compliance, other than those noted above, and will be reporting in terms of the PFMA to the holding company, which will coordinate an overall submission to the Minister of Public Enterprises.

CHANGES IN ACCOUNTING PRESENTATION

As reported in last year's annual report, the group has taken a decision in line with the parent company, Transnet, to adopt International Financial Reporting Standards (IFRS) for the financial year ending 31 March 2006. Conversion from SA GAAP to IFRS has necessitated changes to the group's accounting policies and related disclosures.

The group has adopted all the standards that are applicable to it. As a result of the adoption of IFRS, the comparatives for the year ending 31 March 2005 have been restated (refer note 45).

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 39 of these annual financial statements titled "Related-Party Transactions".

The performance information as envisaged in subsection 55(2)(a) of the PFMA and section 28(1)(c) of the Public Audit Act 25 of 2004, has not been included in the annual financial statements. The Board considers that the company has complied with the provisions of sections 51, 54 and 55 of the PFMA, other than those matters referred to on page 36, throughout the period under review and up to the date of the approval of these financial statements. The Board and management have taken steps to ensure that the areas of non-compliance are addressed in the next financial year.

STAKEHOLDER RELATIONS

The group is committed to communicating its latest reviewed or audited financial information to its employees, shareholders, local and international stakeholders. We also maintain ongoing dialogue and sharing of financial information with the Government and parent company, Transnet, bolstering transparency and disclosure.

The Chief Executive Officer, with senior management, regularly communicate with stakeholders by organising meetings with management and staff; visits to 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, in line with its parent company, Transnet, issues a detailed interim and final results publication, despite being an unlisted company and, therefore, not being a statutory requirement.

GOING CONCERN

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

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

The SAA Board has determined that the group has adequate credit facilities in the short to medium term, which includes access to a R1,5-billion credit line from its holding company for as long as the company remains a subsidiary of Transnet. In addition to this, there is a R2,4-billion compulsory convertible subordinated loan, which strengthens the confidence that the company can address the risks highlighted.

The directors of the company confirm that it is their belief that the company is a going concern and that its obligations will continue to be met in the normal course of business.

SPECIAL RESOLUTIONS TAKEN DURING THE YEAR

There were no special resolutions taken by the shareholders during the financial year.

UNBUNDLING OF SAA FROM TRANSNET

As reported in the previous year's annual report, in terms of Transnet's strategy, SAA is considered non-core. We are pleased to report that after extensive preparatory work, a draft agreement has been presented to Government (Department of Public Enterprises) for its consideration. It is anticipated that upon agreement being reached on the draft, the transfer to Government will become unconditional within a minimum period of nine (9) months from agreement signature date.

DIVIDENDS PAID AND RECOMMENDED

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

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The directors are required, by the Companies Act, Act 61 of 1973, and the PFMA to prepare annual financial statements which fairly present, in all material respects, the financial position of the company and the group at 31 March 2006 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.

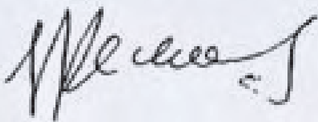
The directors have every reason to believe that the group and the company have adequate resources in place to continue in operation for the foreseeable future. The directors are satisfied that South African Airways (Proprietary) Limited (SAA) is a going concern and have continued to adopt the going-concern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

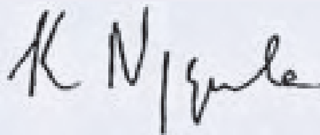
The external auditors, Deloitte & Touche and APF Inc, are jointly responsible for independently auditing and reporting on the annual financial statements in conformity with International Standards on Auditing. Their report on the annual financial statements in terms of the Companies Act, the PFMA and the Public Audit Act, 25 of 2004 appears on page 28.

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

In preparing the company and group annual financial statements set out on pages 40 to 115, unless otherwise disclosed, the company and group have complied with International Financial Reporting Standards, the Companies Act and the reporting requirements of the PFMA and have used the appropriate accounting policies supported by reasonable and prudent judgements and estimates. The directors are of the opinion that these annual financial statements fairly present, in all material respects, the financial position of the company and the group at 31 March 2006, 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

Dr K Ngqula
Chief Executive Officer

2 June 2006

Income Statement for the year ended 31 March 2006

	Notes	Group 2006 R million	Restated Group 2005 R million	Company 2006 R million	Restated Company 2005 R million
REVENUE	6	19 559	17 402	19 175	17 113
Turnover	6	15 642	15 319	15 168	14 946
Other airline income	7	3 781	1 867	3 674	1 777
Total airline income		19 423	17 186	18 842	16 723
Operating costs		19 028	16 605	18 458	16 404
Aircraft lease costs	11	1 897	1 543	1 897	1 537
Accommodation and refreshments		599	423	812	647
Depreciation and amortisation	11	842	676	803	640
Distribution costs		1 551	1 728	1 553	1 725
Electronic data costs		529	480	528	424
Energy		4 933	3 257	4 910	3 234
Employee benefit expenses	8	3 282	3 459	2 348	2 445
Material		1 466	1 106	1 962	1 757
Navigation, landing and parking fees		977	875	977	875
Impairment (reversal) write off	9	(20)	181	35	580
(Profit) loss on sale and scrapping of property, aircraft and equipment	11	(257)	25	(259)	30
Other operating costs		3 229	2 852	2 892	2 510
Profit before fair value movements and translation gains	11	395	581	384	319
Fair value movements and translation gains	12	30	346	30	335
Operating profit		425	927	414	654
Finance costs	10	(437)	(402)	(435)	(399)
Interest received	10	136	216	333	390
Profit before taxation		124	741	312	645
Taxation	13	(12)	(2)	(11)	–
Profit for the year from continuing operations		112	739	301	645
Loss for the year from discontinuing operation	14	(47)	(91)	–	–
Profit for the year		65	648	301	645
Attributable to:					
Equity holders of the parent		65	691	301	645
Minority interest	15	–	(43)	–	–
		65	648	301	645

Balance Sheet as at 31 March 2006

	Notes	Group 2006 R million	Restated Group 2005 R million	Company 2006 R million	Restated Company 2005 R million
ASSETS					
Non-current assets					
Property, aircraft and equipment	17	8 257	10 015	7 443	9 155
Intangible assets	18	8	3	8	3
Investment in subsidiaries	19	–	–	2	2
Investments and long-term assets	20	484	564	485	564
Total non-current assets		8 749	10 582	7 938	9 724
Current assets					
Investment in subsidiaries	19	–	–	1 520	1 073
Non-current assets and disposal group held for sale	21	153	–	98	–
Inventories	22	463	532	64	85
Refundable amounts	23	–	236	–	236
Accounts receivable	24	2 874	2 848	2 391	2 380
Derivative financial assets	41	180	199	180	199
Short-term portion of investments and long-term assets	20	126	207	125	200
Cash and cash equivalents	25	1 444	2 624	1 462	2 633
Total current assets		5 240	6 646	5 840	6 806
TOTAL ASSETS		13 989	17 228	13 778	16 530
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital	26, 27	2 893	2 893	3 127	3 127
Non-distributable reserves	26	6	4	6	2
Accumulated losses	26	(10 216)	(10 281)	(10 446)	(10 747)
Equity relating to disposal group held for sale	21	7	–	–	–
Shareholders' deficit		(7 310)	(7 384)	(7 313)	(7 618)
Holding company loan	27, 28	6 089	6 089	6 089	6 089
Holding company compulsory convertible loan	28	2 400	4 000	2 400	4 000
Equity attributable to holders of the parent		1 179	2 705	1 176	2 471
Minority interest	15	–	–	–	–
Total capital and reserves		1 179	2 705	1 176	2 471
Non-current liabilities					
Long-term loans	29	4 248	5 608	4 240	5 599
Other long-term liabilities	30	63	63	–	–
Employee benefit obligations	31	88	116	88	116
Provisions	35	194	166	131	124
Total non-current liabilities		4 593	5 953	4 459	5 839
Current liabilities					
Bank overdraft	25	4	10	–	–
Air traffic liability	33	2 134	2 803	2 134	2 797
Accounts payable	34	4 289	3 990	4 372	3 718
Provisions	35	1 135	926	1 067	864
Taxation	13	12	–	11	–
Short-term portion of long-term loans	29	559	841	559	841
Liabilities included in disposal group held for sale	21	84	–	–	–
Total current liabilities		8 217	8 570	8 143	8 220
TOTAL EQUITY AND LIABILITIES		13 989	17 228	13 778	16 530

Statement of Recognised Income and Expenses for the year ended 31 March 2006

	Notes	Group 2006 R million	Restated Group 2005 R million	Company 2006 R million	Restated Company 2005 R million
Actuarial gains and losses					
– Actuarial loss allocated from the Transnet post-retirement medical benefit fund	38	(2)	–	(2)	–
– Actuarial gain from SAA (UK) defined benefit fund	38	8	2	8	2
Foreign currency translation reserve		7	1	–	–
Effect of changes in accounting policies					
– Adjustments to opening accumulated losses due to transition to IFRS	45	–	714	–	379
– Translation losses restated to zero IFRS 1 optional exemption	45	–	36	–	–
Income recognised directly in equity*		13	753	6	381
Profit after taxation for the period as restated		65	648	301	645
Total recognised income for the year		78	1 401	307	1 026
Attributable to:					
Equity holders of parent		78	1 444	307	1 026
Minority interest		–	(43)	–	–
		78	1 401	307	1 026

* *For detailed movement on equity refer to note 26*

Cash Flow Statement

for the year ended 31 March 2006

	Notes	Group 2006 R million	Restated Group 2005 R million	Company 2006 R million	Restated Company 2005 R million
CASH FLOW FROM OPERATING ACTIVITIES					
Cash generated from operations	42, 45	336	2 021	621	2 437
Interest received		136	216	333	390
Finance costs		(437)	(402)	(435)	(399)
Realised derivatives		292	(5 922)	292	(5 922)
Net cash inflow (outflow) from operating activities		327	(4 087)	811	(3 494)
CASH FLOW FROM INVESTING ACTIVITIES					
Replacement of property, aircraft and equipment		–	(165)	–	(142)
Additions to property, aircraft and equipment		(335)	(1 799)	(299)	(1 794)
Proceeds on sale of property, aircraft and equipment		1 408	17	1 414	13
Decrease in refundable amounts		236	1 496	236	1 496
Decrease in long-term assets		152	153	143	89
Additions to intangible assets		(5)	–	(5)	–
Increase in loans to subsidiaries		–	–	(515)	–
Net cash inflow (outflow) from investing activities		1 456	(298)	974	(338)
CASH FLOW FROM FINANCING ACTIVITIES					
External borrowings repaid		(1 443)	(3 273)	(1 442)	(3 273)
External borrowings raised		–	3 302	–	3 300
Related-party borrowings repaid		(1 600)	–	(1 600)	(568)
Related-party borrowings raised		–	4 000	–	4 000
Net cash (outflow) inflow from financing activities		(3 043)	4 029	(3 042)	3 459
NET DECREASE IN CASH AND CASH EQUIVALENTS		(1 260)	(356)	(1 257)	(373)
Foreign exchange effect on cash and cash equivalents		86	(7)	86	(7)
Cash and cash equivalents at the beginning of the year		2 614	2 977	2 633	3 013
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	25	1 440	2 614	1 462	2 633

Notes to the Annual Financial Statements

for the year ended 31 March 2006

1. STATEMENT OF COMPLIANCE

The consolidated financial statements of South African Airways (Proprietary) Limited (the company or group), as set out on pages 40 to 115, have been prepared in accordance with International Financial Reporting Standards.

2. FIRST TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The group has adopted International Financial Reporting Standards (IFRS) for the first time in the current year. These annual financial statements have been prepared in compliance with IFRS 1 – *First time adoption of the International Financial Reporting Standards*. As part of the adoption of IFRS the group has applied all IFRS effective for the period beginning on or after 1 January 2005.

An explanation of the effects of the transition to IFRS including the adoption of the new and revised standards is detailed in note 45. This note includes a reconciliation of equity at transition date and profit or loss for the comparative period (March 2005) reported under SA GAAP to those reported under IFRS.

In addition, the group has elected to adopt the amendments to IAS19 *Employee Benefits* issued in December 2004 in advance of their effective date of 1 January 2006. The impact of these amendments has been to expand the disclosures provided in these financial statements in relation to the group's defined benefit plan (refer to notes 38 and 39).

The following standards and interpretations which are likely to impact SAA were in issue but not yet effective.

- IFRS 7 Financial instruments: Disclosures
- IFRIC4 Determining whether an arrangement contains a lease

Management anticipate that the adoption of this standard and interpretation in future periods will have no material impact on the financial statements of the group.

The IASB is currently considering the appropriate accounting treatment of frequent flyer programmes and is expected to issue a new guideline in this regard in the next financial year. This may impact on the manner in which SAA accounts for revenue generated by the sale of Voyager miles.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

The group financial statements are presented in the South African rand as its reporting currency, which is the same as its functional currency, rounded to the nearest million. The consolidated financial statements have been prepared on an historical cost basis, except for measurement at fair value of certain financial instruments and certain items of property, aircraft and equipment as described further in the accounting policy notes below.

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

Basis of consolidation

Subsidiaries

Consolidated financial statements incorporate 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.

Interest in associates
An associate is an entity over which the group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity accounting method, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5 *Non-current assets held for sale and discontinued operations*. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the group's share of the net assets of the associate, less any impairment in the value of the individual investments. Losses of an associate in excess of the group's interest in that associate are not recognised.

Interest in joint ventures
A joint venture is a contractual arrangement whereby the group and other parties undertake an economic activity that is subject to joint control that is when the strategic financial and operating policy decisions relating to the activities require unanimous consent of the parties sharing control.

Where the group is a party to jointly controlled operations, the individual companies in the group recognises its share of assets, liabilities, expenses and income directly in its financial statements.

Where the group is a party to jointly controlled assets, the group recognises directly in the financial statements its share of jointly controlled assets, classified according to their nature, its share of liabilities incurred jointly with other ventures, its share of income from the sale of the output of the venture, together with its share of any expenses incurred by the venture. Liabilities and expenses incurred directly in respect of jointly controlled assets are accounted for on an accrual basis.

A jointly controlled entity is a joint venture arrangement that involves the establishment of a separate entity in which each venture has an interest. The group reports its interest in jointly controlled entities using a proportionate consolidation, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5 – *Non-current assets held for sale and discontinued operations*.

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 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.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency transactions

The individual 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 financial statements, the results and financial position of each entity are expressed in rands, which is the functional currency of the company, and the presentation currency for the consolidated financial statements.

In preparing the 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 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 air waybill sales, net of discounts, are initially recognised as current liabilities in the air Traffic Liability account and only recognised as revenue when the transportation service is provided. Commission costs are recognised in the same period as the revenue to which they relate.

Air tickets that remain unutilised after an eighteen-month period are released back 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.

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 based on the monthly engine flight hours. 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

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.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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, where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

The 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 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 was determined at the date of transition to IFRS, 1 April 2004 as the fair value of the land and buildings arrived at by applying the relevant property index to the property valuations done by professional qualified valuers in 2001.

Aircraft

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

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 stand-by 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 is 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***
Aircrafts and simulators	8 – 15
Buildings and structures	10 – 50
Furniture	5
Office equipment	5 – 6
Computer equipment	3 – 5
Light motor vehicles	5
General purpose vehicles	10
Containers	5
Machinery	15 – 20
Cabin loaders	10 – 20

Residual values

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

Capital work in progress

Capital work in progress relates to buyer furnished equipment (BFE) and pre-delivery payments (PDP) 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.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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 the shorter.

Aircraft

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

Accounting for leases

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

Group as lessee

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

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

The property held under finance lease and leased out under operating lease is classified as investment property and is measured at fair value.

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

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

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.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

Trade and other receivables

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

Cash and cash equivalents

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

Investments

All investments, including subsidiaries, associates and joint ventures, are recognised on a trade date basis and are initially recognised at cost, being the fair value of the financial instrument and including transaction costs directly associated with the investment except for financial assets or financial liabilities at fair value through profit and loss.

After initial recognition, the company's investment in subsidiaries, associates and joint ventures continue to be held at cost, and are reviewed annually for impairment.

After initial recognition, investments, which are classified as either at fair value through profit and loss (this includes trading assets as well as any other assets designated as such) or available for sale, are measured at fair value.

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

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

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

Interest-bearing loans and borrowings

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

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

Gains and losses on subsequent measurement

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

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

Derivative financial instruments

The group uses derivative financial instruments such as foreign currency contracts and options to hedge 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 stated at fair value.

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of the options is determined by reference to market values for the underlying commodity or foreign exchange rate.

Hedge accounting

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

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

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Hedge accounting (continued)

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

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

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

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

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

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.

Financial asset impairment

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

Pre-delivery payments and other aircraft deposits

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

This consideration will, if it is denominated in 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 in the future operating lease payments forms part of the consideration receivable. Any loss arising on re-measurement is classified as impairment.

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

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

Inventory

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

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

Provisions

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. 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.

Reimbursements

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

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

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

The benefit costs and obligations under the defined benefit funds are determined separately for each fund using the projected unit credit method for the Transnet Defined Benefit Pension Fund. 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.

3. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Pension benefits (continued)

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

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

Post-retirement medical benefits

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

Short and long-term benefits

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

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

Termination benefits

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

Share-based payments

The fair value of the amount payable to the employee in respect of cash-settled share-based payment transactions is recognised as an expense with a corresponding increase in liabilities. The fair value initially is measured at grant date and spread over the period during which the employees become unconditionally entitled to payment. The fair value is measured based on the binomial option pricing model, taking into account the terms and conditions upon which the instruments were granted. The liability is measured at each balance sheet date and at the settlement date. Any changes in the fair value of the liability are recognised in profit or loss as a finance cost.

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 which 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 ENTITY'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 financial statements.

Air traffic liability and revenue recognition

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

Due to system limitations effecting 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 revised its assumptions and judgement regarding the period over which the unutilised air tickets and air waybills are released to income from a three-year rolling period to 18 months. In making its judgement, management has considered the following:

- The successful 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 purchase. 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 change in assumptions and judgement in estimating the forward sales liability resulted in the release of R1 028-million to income in the current year. The amount released to income in 2005 was R423-million. In the future, management intends to apply the same judgement and estimation in respect of the air traffic liability. It is impractical to determine the future impacts of these estimates and judgements.

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. Those 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 R161-million (2005: R147-million). Refer to note 35 for details.

	Group 2006 R million	Restated Group 2005 R million	Company 2006 R million	Restated Company 2005 R million
6. REVENUE				
The analysis of revenue for the year is as follows:				
Turnover				
Passenger revenue	13 042	12 938	13 042	12 937
Freight and mail	1 609	1 491	1 608	1 491
Technical services	470	368	–	–
Voyager income (refer notes 5 and 35.5)	317	300	317	300
Commission received	204	222	201	218
Total turnover	15 642	15 319	15 168	14 946
Interest received (refer note 10)	136	216	333	390
Other airline income (refer note 7)	3 781	1 867	3 674	1 777
	19 559	17 402	19 175	17 113
Revenue from discontinuing operations (refer note 14)	230	253	–	–
	19 789	17 655	19 175	17 113
7. OTHER AIRLINE INCOME				
Other airline income is made up of the following items:				
Handling revenue	170	128	86	87
Income from leased assets	334	80	313	49
Release from prescribed tickets	1 018	401	1 018	401
Release from prescribed air waybills	10	22	10	22
Insurance recoveries	39	–	39	–
Fuel levies and other recoveries	2 210	1 236	2 208	1 218
	3 781	1 867	3 674	1 777
Other airline income from discontinuing operations (refer note 14)	20	18	–	–
	3 801	1 885	3 674	1 777

		Group 2006 R million	Restated Group 2005 R million	Company 2006 R million	Restated Company 2005 R million
8.	**EMPLOYEE BENEFIT EXPENSES**				
8.1	**Short-term employee benefits**				
	Personnel and labour costs	2 985	3 134	2 133	2 201
	Share-based payment expenses	2	2	2	2
	Contribution to pension funds	253	216	188	154
	Contribution to provident funds	25	28	25	28
	Contribution to post-retirement medical funds	41	52	24	33
		3 306	3 432	2 372	2 418
8.2	**Post-employment benefit * (note 38)**				
	Current service costs	(27)	1	(27)	1
	Interest cost	3	3	3	3
	Expected return on plan assets	(3)	(3)	(3)	(3)
	Past service costs	–	2	–	2
		(27)	3	(27)	3
8.3	**Long-term employee benefit expense**				
	Flight deck crew (FDC) disability benefits	3	24	3	24
	Subtotal	3 282	3 459	2 348	2 445
	Labour costs from discontinuing operations	34	31	–	–
	Total employee benefit expenses	3 316	3 490	2 348	2 445

* *These costs relate to other post-employment and other long-term employee benefit plans for the group. The post-employment benefit costs relating to Transnet pension fund, where SAA is a participating employer, have been disclosed only in the note for the pension fund as a whole. Transnet only allocates the portion of the employee benefit obligations, these costs have therefore not been allocated to individual companies within the Transnet group. Refer to note 38 for details of the financial position of the Transnet retirement fund.*

		Group 2006 R million	Restated Group 2005 R million	Company 2006 R million	Restated Company 2005 R million
9.	**IMPAIRMENTS**				
	Impairment of loan to SAA Share Trust	–	–	–	(38)
	Net reversal of impairment of aircraft, rotables and pre-delivery payments (PDPs)	46	24	46	24
	Reversal (increase) impairment of Zimbabwe net assets	1	(1)	1	(1)
	Impairment of goodwill	–	(116)	–	–
	Reversal of impairment of Buenos Aires net assets	–	6	–	6
	Impairment of carrying value of investment in subsidiaries (refer note 19)	–	–	(68)	(473)
	Impairment of accounts receivable	(27)	(87)	(14)	(91)
	Impairment of flight deck crew loan	–	(7)	–	(7)
	Net impairments reversal (write off)	20	(181)	(35)	(580)
10.	**NET FINANCE COSTS**				
10.1	**Finance costs**				
	Interest paid on overdraft	26	18	24	15
	Interest paid on long-term borrowings	411	276	411	276
	Interest paid to parent company	–	108	–	108
		437	402	435	399
10.2	**Finance income**				
	Interest received	136	216	333	390
	Net finance cost	301	186	102	9
11.	**PROFIT BEFORE FAIR VALUE MOVEMENTS AND TRANSLATION GAINS**				
	Profit before fair value movements and translation gains is stated after taking into account, amongst others, the following:				
	Auditors' remuneration				
	Audit fees – current year	17	15	16	14
	Underprovided in previous year	1	15	1	15
	Other services	3	2	3	2
	Total auditors' remuneration	21	32	20	31

	Group 2006 R million	Restated Group 2005 R million	Company 2006 R million	Restated Company 2005 R million
11. PROFIT BEFORE FAIR VALUE MOVEMENTS AND TRANSLATION GAINS (continued)				
Depreciation of property, aircraft and equipment				
Aircraft	768	601	766	599
Land, buildings and structures	49	30	25	7
Machinery, equipment and furniture	17	29	7	23
Vehicles and cabin loaders	5	7	3	3
Containers	3	3	2	2
Total depreciation	842	670	803	634
Amortisation of intangible assets (refer note 18)	–	6	–	6
	842	676	803	640
Depreciation from discontinuing operation	5	4	–	–
Total depreciation and amortisation	847	680	803	640
(Profit) loss on sale and scrapping of property, aircraft and equipment				
Property, aircraft and equipment	(257)	25	(259)	30
Profit on sale of assets from discontinuing operations (refer note 14)	(2)	–	–	–
Total (profit) loss on sale and scrapping of property, aircraft and equipment	(259)	25	(259)	30
Operating lease payments				
Aircraft	1 897	1 543	1 897	1 537
Equipment and vehicles	59	42	16	14
Properties	63	65	51	53
	2 019	1 650	1 964	1 604
Operating lease payments from discontinuing operations	32	40	–	–
Total operating lease payments	2 051	1 690	1 964	1 604
Research and development costs	1	2	1	1
Professional fees				
Managerial services	7	16	7	16
Technical services	96	166	70	141
Internal audit fees	13	–	13	–
Directors' emoluments and executive management emoluments are disclosed in the related parties note.				
Executive directors' and management remuneration:				
Salaries			6	10
Discretionary bonuses			3	–
Other			4	1

	Group 2006 R million	Restated Group 2005 R million	Company 2006 R million	Restated Company 2005 R million
11. PROFIT BEFORE FAIR VALUE MOVEMENTS AND TRANSLATION GAINS (continued)				
Non-executive directors' remuneration:				
Fees as directors			3	3
Other			1	–
Short-term employee benefit expenses (refer note 8.1)	3 306	3 432	2 372	2 418
Post-employment benefit expenses (refer note 8.2)	(27)	3	(27)	3
Long-term employee benefit expenses (refer note 8.3)	3	24	3	24
	3 282	3 459	2 365	2 449
Number of employees	11 524	11 601	7 574	7 684
12. FAIR VALUE MOVEMENTS AND TRANSLATION GAINS				
Foreign exchange gain (loss) on translation of:				
Foreign currency investments	8	(22)	8	(22)
Foreign currency denominated long-term loans	199	90	199	90
Net monetary assets and liabilities	(406)	66	(406)	55
Translation of foreign assets and liabilities	(199)	134	(199)	123
Derivative fair value gain:				
Realised gains on derivatives	292	–	292	–
Fair value adjustments as per note 41	(19)	211	(19)	211
Net derivative fair value gain	273	211	273	211
Option premiums amortised	(46)	–	(46)	–
Fair value gain on France Telecom shares	2	1	2	1
	30	346	30	335
Fair value gain (loss) from discontinuing operation (refer note 14)	2	(4)	–	–
Total fair value movements and translation gains	32	342	30	335
13. TAXATION				
South African normal taxation:				
Current taxation – current year	–	–	–	–
– prior year	12	–	11	–
Deferred taxation – prior year	–	2	–	–
	12	2	11	–

	Group 2006 R million	Restated Group 2005 R million	Company 2006 R million	Restated Company 2005 R million
13. TAXATION (continued)				
Reconciliation of the effective and the standard taxation charge:				
NPBT at 29% (2005: 30%)	36	222	90	194
Tax effect of non-taxable income	(26)	(16)	(26)	–
Tax effect of non-deductible expenses	94	74	114	70
Tax payable – prior year	12	–	11	–
Current year tax loss not recognised	398	178	327	161
Net temporary differences not recognised	(502)	(456)	(505)	(425)
Current year taxation charge	12	2	11	–

Estimated tax losses in the company available to be utilised against future taxable income amounts to R9 974-million (2005: R8 746-million). The group has tax losses of R11 200-million (2005: R9 856-million), which will be utilised against future taxable income.

14. DISCONTINUING OPERATIONS

The group made a decision to sell Air Tanzania Company Limited (ATCL), the subsidiary which has airline operations in Tanzania. The date of disposal is planned to take place within the next six months. All assets and liabilities attributable to ATCL have been reclassified as a disposal group held for sale (refer note 21).

The loss from discontinuing operations from 1 April to 31 March 2006 with comparatives is analysed as follows:

	Year ended 31 March 2006 R million	Year ended 31 March 2005 R million
Turnover	210	235
Other airline income	20	18
Total airline income	230	253
Operating costs	(281)	(337)
Loss from airline operations	(51)	(84)
Profit on sale of property, aircraft and equipment	2	–
Finance costs and fair value gain (loss)	2	(4)
Loss from discontinuing operations	(47)	(88)
Prior year adjustments due to effects of transition to IFRS	–	(3)
	(47)	(91)

During the year ATCL utilised R26-million (2005: R29-million) of the group's cash flow for operating activities, R4-million (2005: R27-million) for investing activities and R28-million (2005: R nil) in respect of financing activities.

15. MINORITY INTEREST

The minority interest related to the Air Tanzania Company Limited, SAA's subsidiary in Tanzania. These operations have been reclassified as discontinuing operations (refer note 14). There were no other minority interests within the group.

16. EARNINGS (LOSS) PER SHARE (CENTS)

	Group 2006	Restated Group 2005
Weighted average number of ordinary shares in issue (millions)	2 893	2 893
Weighted average number of ordinary shares to be in issue once 6 089-million shares are issued (refer note 27 and 28.2)	8 982	8 982
Diluted weighted average number of ordinary shares to be in issue once 6 089-million shares are issued and 2,4-billion (2005: 4-billion) loan is converted (refer note 27, 28.1 and 28.2)	11 382	12 982
Net profit for the year (R million)	65	648
Basic earnings per share (cents)	2	22
Earnings per share (cents) – adjusted for 6 089-million shares to be issued	1	7
Diluted earnings per share (cents)	0,6	5
Reconciliation between net profit for the year and headline (loss) profit (R million):		
Net profit for the year	65	648
Adjusted for:		
Net impairment of property, aircraft, equipment	(47)	23
Impairment of intangible assets and goodwill	–	116
(Profit) loss on sale and scrapping of property, aircraft and equipment	(257)	25
Headline (loss) profit for the year	(239)	812
Headline (loss) profit per share (cents)	(8)	28
Headline (loss) profit per share (cents) for 6 089-million shares to be issued	(3)	9
Diluted headline (loss) profit per share (cents)	(2)	6

Impact of changes in accounting policy

Changes in the group's accounting policies during the year are described in note 45. The impact of those changes to the operating results reported for 2005 are included below:

	Decrease on basic earnings per share 2005	Decrease on headline earnings per share 2005
Total impact of transition from SA GAAP to IFRS and other prior year restatements (cents)	4	4

The discontinuing operations have no material impact on earnings per share. The operating loss for the year was R47-million (2005: R91-million as restated).

Group (2006)	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
17. PROPERTY, AIRCRAFT AND EQUIPMENT							
COST							
Balance at 1 April 2005	13 779	1 444	376	61	28	608	16 296
Additions at cost	139	38	23	1	–	134	335
Disposals	(2 386)	(12)	(7)	(1)	–	–	(2 406)
Transfer from capital work in progress	35	8	3	–	–	(46)	–
Transfer to asset held for sale	(1 224)	–	–	–	–	–	(1 224)
Foreign exchange adjustment	(2)	(3)	–	–	–	–	(5)
Balance at 31 March 2006	10 341	1 475	395	61	28	696	12 996
Air Tanzania – held for sale (refer note 21.2)	(18)	(26)	(5)	–	–	–	(49)
Balance excluding Air Tanzania at 31 March 2006	10 323	1 449	390	61	28	696	12 947
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
Balance at 1 April 2005	5 436	30	213	41	21	542	6 283
Depreciation for the year	770	51	18	5	3	–	847
Impairment	24	–	–	–	–	(70)	(46)
Disposals	(1 245)	(8)	(1)	(1)	–	–	(1 255)
Transfer to assets held for sale	(1 126)	–	–	–	–	–	(1 126)
Foreign exchange adjustment	(2)	–	–	–	–	–	(2)
Balance at 31 March 2006	3 857	73	230	45	24	472	4 701
Air Tanzania – held for sale (refer note 21.2)	(5)	(4)	(2)	–	–	–	(11)
Balance excluding Air Tanzania at 31 March 2006	3 852	69	228	45	24	472	4 690
Carrying value at 31 March 2006	6 471	1 380	162	16	4	224	8 257

Group (2005)	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
17. PROPERTY, AIRCRAFT AND EQUIPMENT (continued)							
COST							
Balance at 1 April 2004	11 124	1 440	365	62	28	2 299	15 318
Additions at cost	913	4	15	1	3	1 028	1 964
Disposals	(221)	–	(2)	(2)	(3)	–	(228)
Transfer from capital work in progress to aircraft	1 962	–	–	–	–	(1 962)	–
Foreign exchange adjustment	–	–	1	–	–	–	1
Net refunds on PDPs	–	–	–	–	–	(757)	(757)
Balance at 31 March 2005	13 778	1 444	379	61	28	608	16 298
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
Balance at 1 April 2004	4 891	–	187	35	21	840	5 974
Depreciation for the year	605	30	29	7	3	–	674
Impairment	119	–	–	–	–	(298)	(179)
Disposals	(179)	–	(3)	(1)	(3)	–	(186)
Balance at 31 March 2005	5 436	30	213	41	21	542	6 283
Carrying value at 31 March 2005	8 342	1 414	166	20	7	66	10 015
Company (2006)							
COST							
Balance at 1 April 2005	13 745	724	137	29	28	589	15 252
Additions at cost	132	15	19	–	–	133	299
Disposals	(2 382)	(12)	(7)	(1)	–	–	(2 402)
Transfer from capital work in progress	35	8	3	–	–	(46)	–
Transfer to assets held for sale	(1 224)	–	–	–	–	–	(1 224)
Balance at 31 March 2006	10 306	735	152	28	28	676	11 925
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
Balance at 1 April 2005	5 423	7	82	23	21	542	6 098
Depreciation for the year	766	25	7	3	2	–	803
Impairment	24	–	–	–	–	(70)	(46)
Disposals	(1 237)	(8)	(1)	(1)	–	–	(1 247)
Transfer to assets held for sale	(1 126)	–	–	–	–	–	(1 126)
Balance at 31 March 2006	3 850	24	88	25	23	472	4 482
Carrying value at 31 March 2006	6 456	711	64	3	5	204	7 443

Company (2005)	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
17. PROPERTY, AIRCRAFT AND EQUIPMENT (continued)							
COST							
Balance at 1 April 2004	11 096	723	137	30	28	2 288	14 302
Additions at cost	913	1	2	1	3	1 016	1 936
Disposals	(221)	–	(2)	(2)	(3)	–	(228)
Transfer from capital work in progress to aircraft	1 958	–	–	–	–	(1 958)	–
Net refunds on pre-delivery payments	–	–	–	–	–	(757)	(757)
Balance at 31 March 2005	13 746	724	137	29	28	589	15 253
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
Balance at 1 April 2004	4 884	–	61	21	22	840	5 828
Depreciation for the year	599	7	23	3	2	–	634
Impairment	119	–	–	–	–	(298)	(179)
Disposals	(179)	–	(2)	(1)	(3)	–	(185)
Balance at 31 March 2005	5 423	7	82	23	21	542	6 098
Carrying value at 31 March 2005	8 323	717	55	6	7	47	9 155

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

Certain aircraft are encumbered as security for the financing thereof. The net book value of capitalised aircraft encumbered in respect of financing raised by the group amounts to R4 210-million (2005: R5 628-million).

Certain aircraft are held under suspensive sale agreements with title only passing to SAA once all obligations to the seller have been settled and the seller in turn has settled all its obligations under a finance lease, 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 R199-million (2005: R192-million) and the outstanding lease finance in regard thereto amounts to R100-million (2004: R181-million).

18. INTANGIBLE ASSETS AND GOODWILL

SAA's internet booking site – *www.flysaa.com* has been impaired to a carrying value of R3-million (2005: R3-million). The recoverable amount is based on the expected increase in net revenue after commission savings attributable to the internet booking site, discounted at SAA's cost of capital.

Goodwill arising from the acquisition of subsidiaries relates to the acquisition of Air Chefs (Pty) Limited (R35-million) and Air Tanzania Company Limited (R97-million). The goodwill has been impaired to nil.

	Software development R million	Internet booking site R million	Total intangible assets R million	Goodwill R million	Total intangible assets and goodwill R million
18. INTANGIBLE ASSETS AND GOODWILL (continued)					
Group					
COST					
Balance at 31 March 2005	189	39	228	132	360
Additions	5	–	5	–	5
Balance at 31 March 2006	194	39	233	132	365
ACCUMULATED AMORTISATION AND IMPAIRMENT					
Balance at 1 April 2004	183	36	219	16	235
Impairment for 2005	–	–	–	116	116
Amortisation for 2005	6	–	6	–	6
Balance at 31 March 2005 and 31 March 2006	189	36	225	132	357
Carrying value at 31 March 2006	5	3	8	–	8
Carrying value at 31 March 2005	–	3	3	–	3

	Software development R million	Internet booking site R million	Total intangible assets R million
Company			
COST			
Balance at 31 March 2005	189	39	228
Additions	5	–	5
Balance at 31 March 2006	194	39	233
ACCUMULATED AMORTISATION AND IMPAIRMENT			
Balance at 1 April 2004	183	36	219
Amortisation for 2005	6	–	6
Balance at 31 March 2005 and 31 March 2006	189	36	225
Carrying value at 31 March 2006	5	3	8
Carrying value at 31 March 2005	–	3	3

	Company 2006 R million	Restated Company 2005 R million
19. INVESTMENT IN SUBSIDIARIES		
Shares at cost	418	418
Amounts owing by subsidiaries	2 348	1 833
	2 766	2 251
Impairment of subsidiaries	(1 244)	(1 176)
	1 522	1 075

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

Air Tanzania Company Limited (ATCL) has been consolidated with effect from 2 December 2002 as the company gained effective control on this date. SAA considers that it has control due to the management agreements in place, which gives it power to govern the ATCL's operating and financial policies. In the current year ATCL has been reclassified as a discontinuing operation and a disposal group held for sale (refer note 14 and 21).

	Shares million	Issued shareholding %	Shares at cost R million	Net debt R million	Share of (loss) profit for the year R million
Analysis of 2006 holdings					
Air Chefs (Proprietary) Limited	*	100	72	37	(4)
Air Tanzania Company Limited	*	49	184	–	(47)
SAA City Centre (Proprietary) Limited	2	100	2	1	1
SAA Technical (Proprietary) Limited	160	100	160	2 310	(253)
Total investment			418	2 348	
Impairment			(416)	(828)	
			2	1 520	
Directors' valuation					
Air Chefs (Proprietary) Limited			–		
Air Tanzania Company Limited			–		
SAA City Centre (Proprietary) Limited			2		
SAA Technical (Proprietary) Limited			–		
			2		

* *Less than one million shares*

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

19. INVESTMENT IN SUBSIDIARIES (continued)

	Shares million	Issued shareholding %	Shares at cost R million	Net debt R million	Share of (loss) profit for the year R million
Analysis of 2005 holdings					
Air Chefs (Proprietary) Limited	*	100	72	1	(33)
Air Tanzania Company Limited	*	49	184	–	(91)
SAA City Centre (Proprietary) Limited	2	100	2	1	2
SAA Technical (Proprietary) Limited	160	100	160	1 831	(223)
Total investment			418	1 833	
Impairment			(416)	(760)	
			2	1 073	
Directors' valuation			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 and prime. The balances on the loan accounts fluctuate in concert with the financing requirements of the subsidiaries and are repayable on demand except as detailed below. The loans have therefore been classified as current assets in accordance with IAS1.

The loans to SAA Technical (Proprietary) Limited and Air Chefs (Proprietary) Limited have been subordinated in favour of creditors and impaired to the extent of technical insolvency.

20. INVESTMENTS AND LONG-TERM ASSETS

	Company 2006 R million	Restated Company 2005 R million
20.1 Long-term assets		
South African Airways Employee Share Trust	158	158
Impairment of the loan to South African Airways Employee Share Trust	(158)	(158)
	–	–

		Group 2006 R million	Restated Group 2005 R million	Company 2006 R million	Restated Company 2005 R million
20.	**INVESTMENTS AND LONG-TERM ASSETS (continued)**				
20.2	**Defeasance deposit** Arose in terms 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. The deposit will be fully utilised at the end of 2011 when the operating lease expires.	610	741	610	741
20.3	**Other deposits**	–	7	–	–
		610	748	610	741
20.4	**Investment in unlisted shares at cost**				
	SA Airlink (Proprietary) Limited	35	35	35	35
	Impairment of unlisted investment	(35)	(35)	(35)	(35)
		–	–	–	–
20.5	**Investment in listed shares**				
	Shares in France Telecom group sold during the year.	–	23	–	23
	Total investments and long-term assets	610	771	610	764
	Less: Short-term portion of:	(126)	(207)	(125)	(200)
	Defeasance deposit	(125)	(200)	(125)	(200)
	Other deposits	(1)	(7)	–	–
	Net investments and long-term assets	484	564	485	564
	Directors' valuation of unlisted investment	–	Nil	–	Nil
	Market value of listed investments	–	23	–	23
21.	**NON-CURRENT ASSETS AND DISPOSAL GROUP HELD FOR SALE**				
	Carrying value of aircraft held for sale (refer note 21.1)	98	–	98	–
	Carrying value of disposal group held for sale (refer note 21.2)	55	–	–	–
		153	–	98	–
	Liabilities classified as part of disposal group held for sale (refer note 21.2)	84	–	–	–

21. NON-CURRENT ASSETS AND DISPOSAL GROUP HELD FOR SALE (continued)

21.1 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 have been reclassified as non-current assets held for sale.

The carrying value of these aircraft at the date of reclassification was R98-million after recognising an impairment loss reversal of R42-million.

21.2 Disposal group held for sale and discontinuing operations

The Board of Directors made a decision to discontinue with the airline operation in Tanzania in March 2006. The approval of this decision by the Transnet Board of Directors and the Department of Trade and Industry in terms of the PFMA was still outstanding at year-end, however, the decision to dispose has been formally announced. The negotiations with the Tanzanian Government, the buyer, have commenced and will be concluded after year-end. SAA is planning to transfer ownership of Air Tanzania to the Tanzanian Government within the next six months. Air Tanzania has been disclosed as a discontinuing operation (refer note 14) and the assets and liabilities have been reclassified as a disposal group held for sale as from 31 March 2006. In compliance with IFRS 5 – *Non-current assets held for sale and discontinued operations*, prior year figures have not been reclassified to reflect the reclassification as a disposal group held for sale as presented in the current year. The assets and liabilities attributable to Air Tanzania as at 31 March 2006 are analysed below.

	Group 2006 R million
Assets	
Land and buildings	22
Aircraft	13
Machinery, equipment and vehicles	3
Inventories	1
Accounts receivable	15
Bank and cash	1
Total assets reclassified as disposal group held for sale	55
Liabilities	
Other long-term liabilities	22
Air traffic liability	5
Accounts payable	57
Total liabilities reclassified as disposal group held for sale	84
Equity	
Foreign currency translation reserve and general non-distributable reserve	7

	Group 2006 R million	Restated Group 2005 R million	Company 2006 R million	Restated Company 2005 R million
22. INVENTORIES				
Consumables	116	152	64	85
Maintenance inventory	343	376	–	–
Work in progress	4	4	–	–
	463	532	64	85
Classified as part of disposal group held for sale (refer note 21.2)	1	–	–	–
	464	532	64	85

Inventory is stated net of a provision for slow moving inventory of R331-million (2005: R355-million) for maintenance inventory and R8-million (2005: R8-million) for consumables.

	Group 2006 R million	Restated Group 2005 R million	Company 2006 R million	Restated Company 2005 R million
23. REFUNDABLE AMOUNTS				
Refundable deposit arising on A319 – 100 PDPs	–	236	–	236
	–	236	–	236

The pre-delivery payments (PDPs) made to secure the manufacture and delivery of A319 – 100 aircraft have been disclosed as short-term receivables as the company entered into operating leases for these aircraft. These have been received in the current year.

	Group 2006 R million	Restated Group 2005 R million	Company 2006 R million	Restated Company 2005 R million
24. ACCOUNTS RECEIVABLE				
Net trade accounts receivable	1 771	1 439	1 729	1 454
Pre-payments and other receivables	1 103	1 409	662	926
	2 874	2 848	2 391	2 380
Classified as part of disposal group held for sale (refer note 21.2)	15	–	–	–
	2 889	2 848	2 391	2 380
25. CASH AND CASH EQUIVALENTS				
Short-term investments				
Call deposits				
US dollar denominated	866	180	866	180
Euro denominated	–	255	–	255
Pound sterling denominated	–	423	–	423
	866	858	866	858

		Group 2006 R million	Restated Group 2005 R million	Company 2006 R million	Restated Company 2005 R million
25.	**CASH AND CASH EQUIVALENTS (continued)**				
	Bank and other cash balances				
	Holding company current account	326	1 636	326	1 636
	Domestic bank accounts	(125)	(232)	(125)	(228)
	Foreign bank accounts	377	362	395	367
		578	1 766	596	1 775
	Overdraft	(4)	(10)	–	–
	Total cash and cash equivalents	1 440	2 614	1 462	2 633
	Classified as part of disposal group held for sale (refer note 21.2)	1	–	–	–
		1 441	2 614	1 462	2 633

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.

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

		Group 2006 R million	Restated Group 2005 R million	Company 2006 R million	Restated Company 2005 R million
26.	**RECONCILIATION OF SHARE CAPITAL, RESERVES AND ACCUMULATED LOSSES**				
26.1	**Share capital**				
	Balance at the beginning of the year	2 893	8 982	3 127	9 216
	Prior year adjustment (refer to Directors' report and note 27)	–	(6 089)	–	(6 089)
	Balance at end of the year as restated	2 893	2 893	3 127	3 127

	General non-distributable reserve		Foreign currency translation reserve		Actuarial gains and losses		Total	
	Group R million	Company R million	Group R million	Company R million	Group R million	Company R million	Group R million	Company R million
26. RECONCILIATION OF SHARE CAPITAL, RESERVES AND ACCUMULATED LOSSES (continued)								
26.2 Non-distributable reserves								
Balance at 1 April 2004 as previously stated	1	–	(36)	–	–	–	(35)	–
Prior year restatement due to effects of transition to IFRS (refer note 45)	–	–	36	–	–	–	36	–
Balance at 1 April 2004 as restated	1	–	–	–	–	–	1	–
Translation gains	–	–	1	–	–	–	1	–
Actuarial gains	–	–	–	–	2	2	2	2
Balance at 31 March 2005 as restated	1	–	1	–	2	2	4	2
Translation gain	–	–	5	–	–	–	5	–
Actuarial gains	–	–	–	–	4	4	4	4
Balance at 31 March 2006	1	–	6	–	6	6	13	6
Non-distributable reserve reclassified as disposal group held for sale	(1)	–	(6)	–	–	–	(7)	–
Balance at 31 March 2006	–	–	–	–	6	6	6	6

		Company R million	Company R million
26.	**RECONCILIATION OF SHARE CAPITAL, RESERVES AND ACCUMULATED LOSSES (continued)**		
26.3	**Accumulated losses**		
	Balance at 1 April 2004	(11 686)	(11 771)
	Prior year restated due to effects of transition to IFRS (refer note 45.1)	714	379
	Balance at 1 April 2004 as restated	(10 972)	(11 392)
	Profit as restated	691	645
	Profit as previously stated	966	864
	Prior year restated due to effects of transition to IFRS (refer note 45.2)	(275)	(219)
	Balance at 31 March 2005 as restated	(10 281)	(10 747)
	Profit for the year	65	301
	Balance at 31 March 2006	(10 216)	(10 446)

		Group 2006 R million	Restated Group 2005 R million	Company 2006 R million	Restated Company 2005 R million
27.	**SHARE CAPITAL**				
	Authorised				
	9 000 000 000 class A ordinary shares of R1 each	9 000	9 000	9 000	9 000
	3 000 000 000 class B ordinary shares of R1 each	3 000	3 000	3 000	3 000
	1 500 000 000 class C ordinary shares of R1 each	1 500	1 500	1 500	1 500
	750 000 000 class D ordinary shares of R1 each	750	750	750	750
	750 000 000 class E ordinary shares of R1 each	750	750	750	750
		15 000	15 000	15 000	15 000
	Issued				
	1 876 033 440 class A ordinary shares of R1 each	1 876	1 876	1 876	1 876
	625 344 480 class B ordinary shares of R1 each	625	625	625	625
	312 672 240 class C ordinary shares of R1 each	313	313	313	313
	156 336 120 class D ordinary shares of R1 each	156	156	156	156
	156 336 120 class E ordinary shares of R1 each	157	157	157	157
	Less treasury shares on consolidation of share trust	(234)	(234)	–	–
		2 893	2 893	3 127	3 127

Please refer to the section of the Directors' report dealing with the inspection carried out in terms of section 258 of the Companies Act, and specifically the validity of the recapitalisation issue of 6 098 695 348 shares.

The recapitalisation did not give rise to a valid issue of shares to Transnet Limited and the E class shareholders, notwithstanding their payment for the shares, as the relevant resolution taken by the E class shareholders was ineffective.

27. SHARE CAPITAL (continued)

As a result of the foregoing, the comparative figures have been amended, to reverse the transactions recorded in the annual financial statements of the prior year. By agreement with Transnet Limited the shares will be issued as soon as practical after the financial year-end.

All shares in the classes A to D are held by the holding company, Transnet Limited, and enjoy the same rights. The class E shares are held either by employees directly or by the South African Airways Employee Share Trust and enjoy the same rights as classes A to D. All unissued shares are under the control of the directors until the 2006 Annual General Meeting.

	Group 2006 R million	Restated Group 2005 R million	Company 2006 R million	Restated Company 2005 R million
28. HOLDING COMPANY LOANS				
28.1 Holding company compulsory convertible loan				
Balance at beginning of the year	4 000	–	4 000	–
Loan advanced during the year	–	4 000	–	4 000
Repaid during the year	(1 600)	–	(1 600)	–
Balance at end of the year	2 400	4 000	2 400	4 000

The above amount was advanced by the holding company, Transnet Limited, to address the net shareholders' deficits that existed in the company and the group from 31 March 2004. The nature of this advance is a compulsory convertible subordinated loan.

In terms of IAS32: *Financial Instruments, Disclosure and Presentation,* as this loan is interest free and convertible to equity, it is considered to be a compound instrument, comprising solely an equity component of R2 400-million (2005: R4 000-million).

By agreement with Transnet Limited, having regard to the financial position of the company and the group, the loans are to be converted into 2 400 000 000 shares of R1 each, as soon as practical after the financial year-end.

	Group 2006 R million	Restated Group 2005 R million	Company 2006 R million	Restated Company 2005 R million
28.2 Holding company loan				
Balance at beginning of the year as previously stated	–	–	–	–
Prior year adjustment (refer note 27 and Directors' report)	6 089	6 089	6 089	6 089
Balance at beginning and end of the year as restated	6 089	6 089	6 089	6 089

	Group 2006 R million	Restated Group 2005 R million	Company 2006 R million	Restated Company 2005 R million
29. LONG-TERM LOANS				
Secured loans				
External loans	4 807	6 449	4 799	6 440
The loans are repayable as follows:				
On demand or within one year	559	841	559	841
Two to five years	1 674	2 011	1 674	2 011
Later than five years	2 574	3 597	2 566	3 588
	4 807	6 449	4 799	6 440
Less: Current portion repayable on demand or within one year included in current liabilities	(559)	(841)	(559)	(841)
	4 248	5 608	4 240	5 599
Analysis of borrowings by currency:				
Rand denominated				
Domestic loans	2 812	3 027	2 804	3 018
US$ denominated				
Foreign loans	1 995	3 422	1 995	3 422
	4 807	6 449	4 799	6 440

The domestic secured loans bear an effective interest rate of 10,3% (2005: 10,3%), and represent loans secured over aircraft (refer note 17).

The foreign secured loans in US$ bear interest between LIBOR + 2% and LIBOR flat and are secured over aircraft and capitalised lease improvements (refer note 17) and the refundable amounts (refer note 23).

Included in foreign loans are capitalised lease liabilities to the amount of R100-million (2005: R151-million). Foreign currency denominated capitalised lease liabilities bear interest between 2% and 6% per annum. These liabilities are repayable over periods ranging between 2005 and 2012.

	Group 2006 R million	Restated Group 2005 R million	Company 2006 R million	Restated Company 2005 R million
30. OTHER LONG-TERM LIABILITIES				
Holding company loan to share trust	63	63	–	–
Classified as part of the liability held for disposal (refer note 21.2)	22	–	–	–
	85	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 which is not considered likely in the foreseeable future.

	Note	Group 2006 R million	Restated Group 2005 R million	Company 2006 R million	Restated Company 2005 R million
31. EMPLOYEE BENEFIT OBLIGATIONS	38				
Post-retirement medical benefits		42	46	42	46
FDC pension fund		5	5	5	5
FDC disability benefits		35	24	35	24
Transnet Pension Fund		2	28	2	28
Share-based payment liability		4	2	4	2
SAA (UK) pension fund		–	11	–	11
		88	116	88	116
32. DEFERRED TAXATION					
The net unrecognised deferred tax comprises:					
Temporary differences in respect of property, aircraft and equipment		(1 430)	(963)	(1 326)	(944)
Doubtful debts		90	80	85	80
Air traffic liability and other deferred income		491	915	491	913
Provisions		569	530	536	510
Prepayments		(16)	(37)	(16)	(37)
Maintenance reserve payments		254	151	254	151
Differences due to mark-to-market of financial instruments		(52)	(58)	(52)	(68)
Other assets		14	(1)	12	(1)
Tax losses		3 247	2 858	2 892	2 536
		3 167	3 475	2 876	3 140
Deferred tax asset not recognised		(3 167)	(3 475)	(2 876)	(3 140)
		–	–	–	–

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

	Group 2006 R million	Restated Group 2005 R million	Company 2006 R million	Restated Company 2005 R million
33. AIR TRAFFIC LIABILITY				
Net air traffic liability	2 134	2 803	2 134	2 797
Classified as part of the liability held for disposal (refer note 21.2)	5	–	–	
	2 139	2 803	2 134	2 797

This balance represents the unrealised income resulting from tickets and air waybills sold but not yet utilised. The balance includes the value of coupons sold by SAA, which will be flown and claimed in future periods by code-share and inter-line 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.

	Group 2006 R million	Restated Group 2005 R million	Company 2006 R million	Restated Company 2005 R million
34. ACCOUNTS PAYABLE				
Trade creditors	746	806	924	778
Other payables	3 386	3 044	3 358	2 844
Accruals				
Interest accrual	55	57	55	57
Power plant accrual	102	44	35	–
Insurance accrual	–	39	–	39
	4 289	3 990	4 372	3 718
Classified as part of the liabilities held for sale (refer note 21.2)	57	–	–	–
	4 346	3 990	4 372	3 718

35. PROVISIONS	Provision for return conditions (1)	Provision for onerous contracts (2)	Provision for accumulated leave (3)	Provision for bonuses (4)	Provision for frequent flyer liability (5)	Provision FDC salary parity adjustment (6)	Total
Group							
Carrying amount at 1 April 2005 as previously stated	308	42	220	92	147	–	809
Provision raised relating to prior year (refer note 45)	–	–	113	–	–	170	283
Restated carrying amount at 1 April 2005	308	42	333	92	147	170	1 092
Raised during the year	22	12	68	169	34	208	513
Utilised during the year	–	(42)	(37)	(177)	(20)	–	(276)
Carrying amount at 31 March 2006	330	12	364	84	161	378	1 329
Less: Portion disclosed as short term	330	–	182	84	161	378	1 135
Non-current portion at 31 March 2006	–	12	182	–	–	–	194
Company							
Carrying amount at 1 April 2005 as previously stated	308	42	172	73	147	–	742
Provisions raised relating to prior year	–	–	76	–	–	170	246
Restated carrying amount at 1 April 2005	308	42	248	73	147	170	988
Raised during the year	22	–	44	112	34	208	420
Utilised during the year	–	(42)	(30)	(118)	(20)	–	(210)
Carrying amount at 31 March 2006	330	–	262	67	161	378	1 198
Less: Portion disclosed as short term	330	–	131	67	161	378	1 067
Non-current portion at 31 March 2006	–	–	131	–	–	–	131

35. PROVISIONS (continued)

35.1 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.

35.2 Onerous contracts

These arose from the lease obligations on the 737-200 aircraft. The provision was estimated based on the future lease payment commitments. The lease term expired in the current year. No further payments will occur relating to the onerous contract. The onerous contracts raised in the current year relate to the power by the hour contract. The benefits expected from this contract are less than the unavoidable amounts payable over the term of the contract.

35.3 Accumulated leave provision

The provision mainly relates to the accumulated leave days due to employees. The prior year adjustment relates to the portion of leave days that are non-cumulative in terms of the human resources policy, but becomes due and payable on resignation, based on past experience (refer note 45 for details of the prior year adjustment).

35.4 Service bonus

This consists of a thirteenth cheque payable to all employees for the period worked ie if the employee completed a full year. If an employee works part of the year (ie starts mid-way through the year or leaves before bonuses are paid), the employee is entitled to the thirteenth cheque pro rata for the months worked. The service bonus is paid annually in November. Flight crew receive their bonus in April and not November.

35.5 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 (also refer to note 5).

35.6 Provision for FDC maintenance of parity

The provision arises from an agreement between SAA and the SAA Pilots Association. In terms of the agreement SAA undertook to remunerate the pilots at the rates that will put them in an equitable position in comparison to their international counterparts. The equitable position is determined based in an agreed selection of airlines which are used as the benchmark. The remuneration increases are deemed to be final once they have been agreed upon between the parties through the negotiations or the arbitration process.

36. 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.

Description	12 months US$ million	1 to 2 years US$ million	2 to 3 years US$ million	3 to 4 years US$ million	4 to 5 years US$ million	Greater than 5 years US$ million	Total US$ million
Lease commitments covered by the defeasance deposit (refer note 20.2)	23	27	25	24	23	2	124
Uncovered lease commitments	208	199	186	182	160	440	1 375
Total foreign currency-based lease commitments	231	226	211	206	183	442	1 499

	Group 2006 R million	Restated Group 2005 R million	Company 2006 R million	Restated Company 2005 R million
36. COMMITMENTS (continued)				
Capital commitments contracted in Euro	18	–	18	–
Capital commitments contracted in US$	6	378	6	378
	24	378	24	378
The total capital commitments are expected to be incurred as follows:				
On demand or within one year	24	313	24	313
Two to five years	–	65	–	65
	24	378	24	378
Operating lease commitments for aircraft, property, equipment and vehicles are expected to be incurred as follows:				
On demand or within one year	1 976	1 743	1 976	1 741
Two to five years	7 482	5 378	7 482	5 378
Later than five years	4 269	5 507	4 269	5 507
Total	13 727	12 628	13 727	12 626
Accruals (prepayments)	2	(2)	2	(2)
	13 729	12 626	13 729	12 624
Rand-based capital commitments:				
Authorised but not yet contracted	13	9	13	9
Authorised and contracted	–	–	–	
	13	9	13	9

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

		Company 2006 R million	Company 2005 R million
37.	**CONTINGENT LIABILITIES**		
37.1	**Guarantees**		
	Guarantees and letters of credit provided in the normal course of business	428	473
37.2	**Competition Commission investigations**		
	The Competition Commission is investigating certain aspects of SAA's compliance with the Competition Act at various periods. Should an adverse ruling be issued against SAA, the maximum penalty in each case is up to 10% of the relevant year's total revenue.		
	SAA is committed to defend all actions brought against the group.		
37.3	**US Department of Justice – Anti-trust Division inquiry**		
	SAA received a subpoena from the US Department of Justice (DoJ) – Anti-trust Division to provide information and documentation in respect of a price fixing inquiry in progress within the United States. The allegation is that SAA may have been involved in price fixing in respect of its cargo operations in the US and 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 has initiated the process of engaging with the DoJ in regard to the subpoena.		
	Price fixing is a criminal offence in the United States and if found guilty, SAA exposure may include a penalty of up to US$10-million and possible civil claims which may arise from the matter.	60	–
37.4	**Other court cases pending**		
	There are numerous other court cases in which SAA is a defendant. SAA's maximum exposure in this regard is estimated at	50	2

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.

37.5 The South African Revenue Services assessments for tax years 2000 up to 2003

South African Revenue Services (SARS) raised queries on SAA's tax returns for the tax years 2000, 2001, 2002 and 2003. Subsequently an assessment was issued by SARS for these periods. SAA has objected to the assessments and is awaiting the final outcome of the objection.

38. EMPLOYEE BENEFIT INFORMATION

38.1 Transnet Pension benefits

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

38. EMPLOYEE BENEFIT INFORMATION (continued)

38.1 Transnet Pension benefits (continued)

Transnet has three pension funds, namely:

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

Except for the Transnet Retirement Fund, the latest actuarial valuations for the funds were performed at 31 March 2006.

38.1.1 Transnet Retirement Fund

The fund was structured as a defined contribution fund from 1 December 2000. All employees of Transnet Limited are eligible members of the fund. There were 63 967 members (2005: 64 803) at 31 March 2006. 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 Transnet group's contributions for the period to 31 March 2006 amounted to R862-million (2005: R793-million).

38.1.2 Transnet Pension Fund

The fund is a closed defined benefit pension fund. Members are current employees of the Transnet group who elected to remain as members of the fund at 1 November 2000 and pensioner members who retired subsequent to that date. There were 12 267 members (2005: 9 217) at 31 March 2006. 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 principal actuarial assumptions used were as follows:

	2006 %	2005 %
Discount rate	7,50	8,50
Salary increases		
Inflation	4,00	4,00
Promotional	1,50	1,50
Pension increases		
First three years	2,00	2,00
After three years	2,00	2,00
Expected return on assets	10,00	10,75
Actual return on assets	34,30	22,20

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

	2006 R million	2005 R million
Benefit asset/liability		
Present value of obligation	(6 204)	(4 950)
Fair value of plan assets	6 391	4 818
Surplus (deficit)	187	(132)
Unrecognised asset	(187)	–
Net liability per the balance sheet	–	(132)

38. EMPLOYEE BENEFIT INFORMATION (continued)

38.1.2 Transnet Pension Fund (continued)

This is the defined benefit plan that shares the risks between various entities under the control of Transnet, the sponsoring employer of the plan. SAA's portion of the net defined benefit cost allocated by Transnet amounted to R24-million (2005: R26-million). The agreement between Transnet and SAA is that any deficit or liability arising from the Transnet Pension Fund, incurred prior to 31 March 1999 is for the account of Transnet Limited. All provisions attributable to retirement benefit costs relating to pension and medical aid liabilities for periods of service after 1 April 1999 are the responsibility of SAA. The future contributions to the fund for 2007 is estimated at R155-million.

The allocation of the net defined benefit costs was based on the actuarial assumptions which were considered appropriate should an individual company decide to move its assets and liabilities out of the fund after taking into consideration the pooling effect and the inherent cross-subsidisation within the fund. Transnet is in the process of unbundling SAA from the group in the following financial year. The accrued benefit obligations relating to SAA were determined using the membership demographic data. The planned assets were thereafter allocated to individual participating employers on a basis that is proportional to the accrued liabilities.

Reconciliation of movement in net liability:

	2006 R million	2005 R million
Movements in the net liability recognised in the balance sheet		
Opening net liability	(132)	(165)
Expense	(45)	(53)
Actuarial gains recognised in equity	209	(73)
Contributions paid	155	159
Asset not recognised	(187)	–
Closing net liability	–	(132)
Reconciliation of movement in benefit liability		
Opening benefit liability	(4 950)	(4 199)
Service cost	(151)	(132)
Interest cost	(419)	(403)
Actuarial losses	(920)	(490)
Benefits paid	236	274
Closing benefit liability	(6 204)	(4 950)
Reconciliation of movement in fair value of plan assets		
Opening fair value of plan assets	4 818	4 034
Expected return	525	482
Actuarial gains	1 129	417
Contributions by employer charged to the income statement	87	92
Contributions by members	68	67
Benefits paid	(236)	(274)
Closing fair value of plan assets	6 391	4 818

38. EMPLOYEE BENEFIT INFORMATION (continued)

38.1.2 Transnet Pension Fund (continued)

	2006 %	2005 %
The major category of plan assets as a percentage of total plan assets are:		
Equity	71	67
Property	6	3
Bonds	15	18
Cash	8	12
Total	100	100

Summary of actuarial valuation results for past periods:

	2006 R million	2005 R million	2004 R million	2003 R million	2002 R million
Present value of defined benefit obligation	(6 204)	(4 950)	(4 199)	(4 111)	(2 983)
Fair value of plan assets	6 391	4 818	4 034	3 120	3 228
Surplus (deficit)	187	(132)	(165)	(991)	245
Asset not recognised	(187)	–	–	–	–
Total	–	(132)	(165)	(991)	245

The amounts recognised in the income statement are as follows:

	2006 R million	2005 R million
Current service costs	(151)	(132)
Interest on obligation	(419)	(403)
Expected return on plan assets	525	482
Total	(45)	(53)
Charge to the statement of recognised income and expense		
Actuarial gain (loss)	22	(73)
The cumulative actuarial losses recognised in equity	(344)	(364)

38.1.3 Flight Deck Crew (FDC)

The liability relates to additional benefits to members of the Flight Deck Crew (FDC), who are employees of SAA. These additional pension benefits a re required to equate to the increases that would have been applied to the total cost of employment for the years commencing 16 March 1999 to 16 March 2000. This liability was recognised for the first time in 2003.

	2006	2005
Balance at the beginning and end of the year	(5)	(5)

38. EMPLOYEE BENEFIT INFORMATION (continued)

38.2 Medical benefits

38.2.1 Transnet employees post-retirement medical benefits

Transnet group has an arrangement with its employees whereby Transnet subsidises their members.

The post-retirement medical benefits obligation relates to Transnet continuation and in-service members, who are members of Transmed, who retired after 31 March 1990 or are still employees of Transnet.

Transnet subsidises continuation and in-service members 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.

On termination of membership with Transnet on retirement, the Transnet continuation member loses the right to any future subsidy.

To enable the Transnet group to fully provide for such post-retirement medical aid liabilities, since April 2000 actuarial valuations are obtained annually, as required by IAS19: Employee Benefits. There are no assets held to fund the obligation.

Allocation of liability to SAA group

The net benefit costs are allocated to subsidiaries of Transnet based on the demographic distribution of the 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 2006.

The table below summarises the components of net benefit expense recognised in both the income statement and balance sheet in the Transnet group as at 31 March 2006 for the Transnet employees.

The principal actuarial assumptions used were as follows:

	2006 %	2005 %
Discount rate	7,5	8,5

	2006 R million	Restated 2005 R million
Net benefit liability		
Present value of unfunded benefit obligations	883	808
Change in present value of defined benefit obligations are as follows:		
Opening liability	808	741
Service costs	13	12
Interest cost	67	62
Actuarial losses	44	41
Benefits paid	(49)	(48)
Benefit liability at year-end	883	808

The liability allocated to SAA amounted to R42-million (2005: R46-million) as disclosed in note 31.

38. EMPLOYEE BENEFIT INFORMATION (continued)

38.3 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 63rd birthday falls before 1 July 2013.

Benefits for a 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 16 active members and 21 pensioners as at 31 March 2006.

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

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

Actuarial valuation

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 IAS19: *Employee Benefits* in March 2006. The fund had a surplus of R3-million at that date.

The employers' pension contributions for the financial year to 31 March 2007 are expected to amount to approximately R5-million. These exclude employers' pension contributions to the money purchase section, the group life premiums which are paid by the employer and the administration expenses which are paid by the employer.

The principal actuarial assumptions used were as follows:

	Valuation at 2006 %	Valuation at 2005 %
Discount rate	4,9	5,3
Expected return on assets	5,9	6,3
Price inflation	3,0	3,0
Expected rate of salary increases	5,5	5,5
Pension increases in payment		
Pre-April 1997 (4%)	3,0	3,0
Post-April 1997 (5%)	3,0	3,0
Pension increases during deferment	3,0	3,0

38. EMPLOYEE BENEFIT INFORMATION (continued)

The results of the actuarial valuation are as follows:

	2006 R million	2005 R million
Benefit asset/liability		
Present value of obligation	55	58
Fair value of plan assets	58	48
Surplus (deficit)	3	(10)
Unrecognised asset	(3)	–
Net liability recognised in the balance sheet	–	10
Changes in the present value of defined benefit obligations are as follows:		
Defined benefit obligations at beginning of the year	58	55
Service cost	1	1
Interest cost	3	3
Interest return	–	–
Actuarial loss recognised in equity	(1)	–
Exchange differences on foreign plans	(5)	–
Benefits paid	(1)	(1)
Closing defined benefit obligations	55	58
Changes in the fair value of plan assets are as follows:		
Fair value of plan assets at beginning of the year	48	43
Expected return	3	3
Contributions by employer	4	1
Actuarial gain recognised in equity	9	2
Exchange differences on foreign plans	(5)	–
Benefits paid	(1)	(1)
Fair value of plan assets at end of the year	58	48

The fair value of plan assets at the balance sheet date is analysed as follows:

The major categories on plan assets as a percentage of total plan assets

	2006 %	2005 %
Equity instruments	84	82
Debt instrument	9	6
Property	–	–
Other assets	7	12
	100	100

38. EMPLOYEE BENEFIT INFORMATION (continued)

The amounts recognised in the profit or loss are as follows:

	2006 R million	2005 R million
Current service costs	1	1
Interest on obligation	3	3
Expected return on plan assets	(3)	(3)
	1	1

38.4 SAA (German) pension fund benefits

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

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

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

Group 3: All new employees who joined SAA after 1 January 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 all the 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 employer contributes 100% and the employee makes no contribution towards this retirement plan.

The contributions for the next financial year, March 2007, are estimated at R2-million.

Actuarial valuation

Actuarial valuations in terms of the rules of the scheme are done at intervals not exceeding three years to determine its financial position. The most recent actuarial valuation of plan assets and the present value of the defined benefit obligation were carried out in April 2006 using the projected unit credit method.

The results of the actuarial valuation showed that the scheme was fully funded.

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

	Valuation at 2006 %	Valuation at 2005 %
Discount rate	5,1	5,1
Expected rate of salary increases	2	2
Future pension increases	3	3

38. EMPLOYEE BENEFIT INFORMATION (continued)

38.4 SAA (German) pension fund benefits (continued)

The results of the actuarial valuation are as follows:

	2006 R million	2005 R million
Benefit asset/liability		
Present value of obligation	122	126
Insurance policy (expected payout value)	162	168
Net over insured balance not recognised	40	42

Insurance policy (Expected payout value)

The insurance policy payout values expected per category of employees determined by Prorente, the reinsurer for the German Scheme are R162-million (2005: R168-million) at end of March 2006. This policy is taken out exclusively to fund the retirement benefit obligations for SAA employees in Germany when they reach the retirement age of 63.

Changes in the present value of defined benefit obligations are as follows:	2006 R million	2005 R million
Defined benefit obligations at beginning of the year	126	122
Service cost	2	2
Interest cost	6	6
Exchange differences on foreign plans	(8)	–
Benefits paid	(4)	(4)
Closing defined benefit obligations	122	126

38.5 Flight Deck Crew (FDC) disability benefit

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

The actuarial valuation for this liability was performed for the first time in March 2006. In terms of IAS19 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.

The service costs and interest cost for 2007 are expected to amount to R4-million.

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

	Valuation at 2006 %	Valuation at 2005 %
Discount rate	7,75	8,78
Expected rate of salary increases	6,99	7,07
Future pension increases	4,89	4,97

38. EMPLOYEE BENEFIT INFORMATION (continued)

38.5 FDC disability benefit (continued)

The results of the actuarial valuation are as follows:

	2006 R million	2005 R million
Net benefit liability		
Present value of unfunded benefit	35	24
Changes in the present value of defined benefit obligations are as follows:		
Benefit obligation at start of the year	24	19
Service cost	4	1
Interest cost	4	2
Actuarial loss	3	2
Benefits paid	–	–
Benefit obligation at end of the year	35	24
This benefit liability is currently unfunded. SAA is in the process of securing insurance cover which will be solely for the funding of these benefit obligations as they become due.		
The amounts recognised in the profit or loss are as follows:		
Service cost	2	1
Interest cost	2	2
Past service amendments	–	–
Expected return on assets	–	–
Recognised actuarial loss	2	1
Total periodic cost	6	4
Reconciliation of unrecognised actuarial loss (gain)		
Unrecognised loss (gain) at start of the year	–	–
Actuarial loss arising in current year	2	1
Actuarial loss amortised in current year	(2)	(1)
Unrecognised loss (gain) at end of the year	–	–

38.6 Share-based payments

Cash-settled share-based payments

SAA (Pty) Limited operates via the South African Airways Employee Share Trust, three share incentive schemes, namely the Flight Deck Crew (FDC) Share Scheme, the Share Incentive Scheme and the Employee Share Ownership Programme. These schemes were created for the benefit of the employees of SAA. These schemes have been classified as cash – settled shares because the employees can, 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 after taking into account the amendment to the share capital pursuant to the invalid issue of shares in terms of the recapitalisation as set out in note 26, 27 and 28.

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.

38. EMPLOYEE BENEFIT INFORMATION (continued)

38.6 Share-based payments (continued)

Cash-settled share-based payments (continued)

As set out in the Directors' report under the heading "inspection in terms of sections 258 of the Companies Act" certain findings and conclusions, regarding the share trust, highlighted in the inspectors' report, hold that the trading of shares in all three of the schemes are invalid. The report recommends that the trust should recover monies from incentive scheme participants to which 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 is recommended, Transnet, SAA, the present trustees and all three scheme participants should endeavour to settle the claims arising from the invalid trading of shares. The trustees of the South African Airways Employee Share Trust have considered the inspectors' report and are formulating a plan to regularise the transactions of all three share schemes, in full consultation with the parties affected.

However, a plan has not yet been finalised. The details set out below in respect of all three schemes are presented as if all transactions to date were valid.

(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:

	2006 Number of shares	2005 Number of shares
Employees	36 763 634	37 005 085
South African Airways Share Trust	3 386 366	3 144 915
	40 150 000	40 150 000

(b) Share incentive scheme

The scheme granted two types of share, 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.

Management may elect to sell their shares (as soon as they vest) at the last prevailing market price or hold them until the next annual sale period commences. The lapse date of all the options is 31 December 2008. The incentive scheme operates 58 018 060 E class shares for the benefit of management. These shares are held as follows:

	2006 Number of shares	2005 Number of shares
Participants	12 500	12 500
Advanced to the ESOP scheme	35 000 000	35 000 000
South African Airways Share Trust	23 005 560	23 005 560
	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 per share. These shares vested over a three-year period and were fully vested as at 31 March 2004.

38. EMPLOYEE BENEFIT INFORMATION (continued)

38.6 Share-based payments (continued)

Cash-settled share-based payments (continued)

Employees may elect to sell their shares at the last prevailing market price or hold them until the next annual sale period commences. The options not exercised on 31 March 2007 lapse.

The ESOP scheme was allocated 58 168 060 E class shares on inception and an additional 63 735 224 options were allocated to members in terms of the SAA rights issue when members holding shares and the trust purchased an additional 9 403 474 shares, although the validity of the issue of these shares is to be regularised as more fully described in note 26, 27 and 28.

	2006 Number of shares	2005 Number of shares
Participants	1 797 976	1 662 114
South African Airways Share Trust	91 370 084	91 505 946
	93 168 060	93 168 060
Advanced by share incentive scheme	35 000 000	35 000 000
	58 168 060	58 168 060

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

FDC Scheme

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

	2006 Number of shares	2005 Number of shares
The share incentive scheme		
Outstanding at the beginning of the year	22 195 401	29 696 964
Exercised during the year	–	–
Expired during the year	(8 775 000)	(7 501 563)
Outstanding at the end of the period	13 420 401	22 195 401

	2006		2005	
	Number of share options	Weighted average exercise price	Number of share options	Weighted average exercise price
Employee share ownership programme				
Outstanding at the beginning of the year	30 667 439	–	33 133 968	–
Exercised during the year	–	–	(51 450)	1
Expired during the year	(1 306 226)	–	(2 415 079)	–
Outstanding at the end of the period	29 361 213	–	30 667 439	–

38. EMPLOYEE BENEFIT INFORMATION (continued)

Cash-settled share-based payments (continued)

38.6 Share-based payments (continued)

The outstanding options at the end of the year have a remaining contractual life of one year (Employee Share Ownership Programme) and 2,8 years (share incentive scheme).

Share-based payment liability

	Group		Company	
	2006 R million	2005 R million	2006 R million	2005 R million
Fair value at the beginning of the year	2	–	2	–
Increase in fair value during the year	2	2	2	2
Fair value at the end of the year	4	2	4	2

The fair value of the liability for all share schemes was determined with reference to the total number of shares held by members at the latest determined value per share. As the option strike price is significantly higher than the latest value per share, no liability in respect to the outstanding options has been recognised. The total intrinsic value for vested share options at the end of the period was R3 884 461 and (R1 607 951 2005).

The expense recognised for the period arising from share-based payments amounts to R2-million (2005: R2-million).

38.7 HIV/Aids benefits

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

38.8 Travel benefits

The company offers certain air-travel benefits to both current employees and retirees. As a percentage of the face value of the air-ticket is normally paid in respect of the benefit, (with such percentage exceeding the marginal cost of supplying the service) and as the ticket is only issued on a "stand-by" basis, with fare-paying passengers always having preference, employees or retirees may only fly if there is available space on the flight. The company therefore does not incur any incremental costs in providing this benefit and therefore no liability is recognised.

39. RELATED-PARTY TRANSACTIONS

The holding company of the group is Transnet Limited, a company incorporated in the Republic of South Africa. Transnet Limited is wholly owned by the Department of Public Enterprises, a South African Government National Department. The Transnet group 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 are 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 arm's length transactions. The revenue from the sale of tickets that are not reported in terms of these contracts have not been disclosed as it is, and will continue to be impossible to quantify these sales due to the nature of the distribution network. In addition, there is no requirement or obligation for any related party to purchase its tickets from SAA with the result that SAA's relationship with these parties has no impact on related-party sales and would not negatively impact results should the relationship be terminated.

39. RELATED-PARTY TRANSACTIONS (continued)

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 Transnet Limited group. The transactions entered into by entities within SAA are eliminated on consolidation. The significant transactions and balances outstanding at 31 March 2006 entered into between SAA and entities outside the group are as follows:

The group contributes to the Transnet Pension Fund which is under common control with Transnet Limited and other fellow subsidiaries. Further details of the Transnet Pension Funds' assets, liabilities and contributions are disclosed under note 38.1.

	Sale of goods/services		Amount receivable from related parties		Purchase of goods/services		Amounts payable to related parties		Other transactions#	
	2006 R million	2005 R million	2006 R million	2005 R million	2006 R million	2005 R million	2006 R million	2005 R million	2006 R million	2005 R million
Group										
Related party transactions and outstanding balances										
Holding company	38 370	64 445	326 718	1 643 720	(46 237)	(64 560)	(2 463 013)	(4 063 566)	38 395	12 238
Fellow subsidiaries	186 925	89 888	134 914	46 337	(265 183)	(261 007)	(126 073)	(81 139)	(14 368)	(11 507)
State controlled entities	123 202	132 985	379	1 132	(493 198)	(372 102)	(21 770)	(16 658)	–	–
National Government departments	227 147	257 344	5 251	7 222	(246 447)	(219 646)	(18 173)	(41 385)	–	–
Post-employment benefit	980	779	–	–	–	–	–	–	–	–
Key management personnel	180	131	–	–	–	–	–	–	–	–
Total	576 804	545 572	467 262	1 698 411	(1 051 065)	(917 315)	(2 629 029)	(4 202 748)	24 027	731

39. RELATED-PARTY TRANSACTIONS (continued)

	Sale of goods/services		Amount receivable from related parties		Purchase of goods/services		Amounts payable to related parties		Other transactions#	
	2006 R million	2005 R million	2006 R million	2005 R million	2006 R million	2005 R million	2006 R million	2005 R million	2006 R million	2005 R million
Company										
Related-party transactions and outstanding balances										
Holding company	38 370	64 445	326 718	1 643 720	(40 333)	(57 818)	(2 463 024)	(4 063 452)	38 395	12 238
Fellow subsidiaries	171 218	79 471	130 126	42 598	(259 075)	(251 349)	(120 450)	(78 036)	(19 067)	(26 944)
Subsidiaries and joint ventures	884	1 186	1 763 977	1 464 977	(1 653 202)	(1 700 126)	(19 573)	(13 560)	–	–
State controlled entities	112 465	84 180	12	19	(481 477)	(358 553)	(21 583)	(15 576)	–	–
National Government departments	227 147	257 341	5 251	7 222	(243 364)	(212 922)	(32 186)	(28 467)	–	–
Post-employment benefit	980	779	–	–	–	–	–	–	–	–
Key management personnel	180	131	–	–	–	–	–	–	–	–
Total	551 244	487 533	2 226 084	3 158 536	(2 677 451)	(2 580 768)	(2 656 816)	(4 199 091)	19 328	(14 706)

1. Amounts receivable represents short-term and long-term amounts receivable.

2. Amounts payable represents short-term and long-term amounts payable.

 # Other transactions with related parties include:

- *Interest received amounting to R38,4-million (2005: R12,2-million) received from the parent company. Terms of finance are disclosed in note 28 to the financial statements.*
- *Bad debts expensed of R14 368 (2005: R11 507).*

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

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

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

Guarantees outstanding by SAA on other state-controlled entities outside of the Transnet group amounted to R27,8-million in 2006, these guarantees expire during the 2006 calendar year.

39. RELATED-PARTY TRANSACTIONS (continued)

Details on subordination of loans by SAA (to its subsidiaries) amounting to R828-million (2005: R760-million) are included in note 19 on investments in subsidiaries.

Key management personnel compensation is set out below:

Board of Directors	Fees 2006 R thousand	Fees – other services[1] 2006 R thousand	Allowances 2006 R thousand	Total 2006 R thousand
Non-executive				
Doganis R (Resigned March 2006)	505	–	–	505
Gerwel G	500	–	–	500
Joubert PG	250	–	–	250
Moerane M	360	–	–	360
Mojela LM	350	–	–	350
Moosa V	300	–	–	300
Ngwezi A	310	–	–	310
Nkuna P	310	–	–	310
Okeahalam C	360	609	–	969
Ramos M*	–	–	–	–
Total	3 245	609	–	3 854

1. *Relates to work done over and above that of a normal director. The amount refers to the last two financial years and relates to services provided as Chairman of the share trust as well as being SAA's representative on the ATCL Board.*

	Short-term employee benefits							
	Salaries 2006 R thousand	Allowances 2006 R thousand	Fund contributions 2006 R thousand	Bonuses[2] and profit sharing 2006 R thousand	Post-employment benefits 2006 R thousand	Termination benefits 2006 R thousand	Other long-term benefits 2006 R thousand	Total 2006 R thousand
Executive Directors								
Ngqula K**	3 625	–	1 375	1 850[3]	–	–	–	6 850
Ramano MMT**	1 976	194	229	1 500	–	–	–	3 899
Mabandla O	–	–	–	–	–	2 050	–	2 050
Total	5 747	168	1 585	3 350	–	2 050	–	12 799
Executive Committee								
Blake J	1 012	84	–	439	–	–	–	1 535
Dlamini P	751	115	77	257	–	–	–	1 200
Jordaan CF	1 179	291	258	–	–	–	–	1 728
Magwentshu N	890	120	93	387	–	–	–	1 490
Mlenzana V	803	224	79	274	–	–	–	1 380
Moagi MN	804	180	104	–	–	–	–	1 088
Moeti PD	1 254	138	108	–	–	–	–	1 500

39. RELATED-PARTY TRANSACTIONS (continued)

Key management personnel compensation is set out below: (continued)

	Short-term employee benefits							
	Salaries 2006 R thousand	Allowances 2006 R thousand	Fund contributions 2006 R thousand	Bonuses[2] and profit sharing 2006 R thousand	Post-employment benefits 2006 R thousand	Termination benefits 2006 R thousand	Other long-term benefits 2006 R thousand	Total 2006 R thousand
Executive Committee								
Naicker VK	715	139	66	80	–	–	–	1 000
Zondo LB	1 500	–	–	–	–	–	–	1 500
Kona V	230	49	21	–	–	1 454	–	1 754
Acton K	954	–	88	–	–	5 500	–	6 542
Tabane OJJ	768	210	90	391	–	–	–	1 459
Qata N	492	98	46	–	–	–	–	636
Hamilton-Manns A	92	–	–	–	–	–	–	92
Ramkissoon R	1 583	–	–	–	–	–	–	1 583
Total	13 027	1 648	1 030	1 828	–	6 954	–	24 487

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

** *Ngqula K and Ramano T are executive directors of the Board as well as members of the Executive Committee.*

2. *Relate to bonuses for the previous financial year.*
3. *Bonus paid for a six-month operational period in the previous financial year.*

Board of Directors	Fees 2005 R thousand	Fees – other services 2005 R thousand	Allowances 2005 R thousand	Total 2005 R thousand
Non-executive				
Doganis R	530	–	–	530
Gerwel G	250	–	–	250
Moerane M	510	–	–	510
Mojela LM	150	–	–	150
Moosa V	150	–	–	150
Ngwezi A	160	–	–	160
Nkuna P	300	–	–	300
Okeahalam C	400	–	–	400
Ramos M	–	–	–	–
Mokgabudi T[4]	208	–	–	208
Total	2 658	–	–	2 658

4. *Relate to past directors' fees (2004)*

39. RELATED-PARTY TRANSACTIONS (continued)

Key management personnel compensation is set out below: (continued)

	Short-term employee benefits Salaries 2006 R thousand	Allowances 2006 R thousand	Fund contributions 2006 R thousand	Bonuses and profit sharing 2006 R thousand	Post-employment benefits 2006 R thousand	Termination benefits 2006 R thousand	Other long-term benefits 2006 R thousand	Total 2006 R thousand
Executive Directors								
Ngqula K	2 180	–	115	–	–	–	–	2 295
Ramano MMT	1 283	206	136	–	–	–	–	1 625
Viljoen A	4 695	160	–	–	–	–	–	4 855
Mabandla O	1 753	264	84	–	–	–	–	2 101
	9 911	630	335	–	–	–	–	10 876
Executive Committee								
Blake J	843	84	–	–	–	–	–	927
Qata N	806	168	76	–	–	–	–	1 050
Kona V	648	250	65	–	–	–	–	963
Tabane OJJ	514	345	71	–	–	–	–	930
Magwentshu N	382	88	39	–	–	–	–	509

	Short-term employee benefits Salaries 2005 R thousand	Allowances 2005 R thousand	Fund contributions 2005 R thousand	Bonuses and profit sharing 2005 R thousand	Post-employment benefits 2005 R thousand	Termination benefits 2005 R thousand	Other long-term benefits 2005 R thousand	Total 2005 R thousand
Executive Committee								
Zondo LB	250	–	–	–	–	–	–	250
Meintjies A	69	6	5	–	–	–	–	80
Van Jaarsveld J	1 030	56	314	–	–	6 500	–	7 900
Mabizela O	1 172	66	50	–	–	–	–	1 288
Bulder R	775	121	75	–	–	–	–	971
Ramkissoon R	2 327	72	84	–	–	–	–	2 483
Hamilton-Manns A	1 102	–	–	–	–	–	–	1 102
Total	9 918	1 256	779	–	–	6 500	–	18 453

	Foreign amount 2006 Million	Restated Foreign amount 2005 Million	Company 2006 R million	Restated Company 2005 R million
40. 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 dollar	20	70	124	436
Euro	7	15	52	121
UK pound	6	6	64	70
Hong Kong dollar	14	12	11	10
Danish krone	5	4	5	4
Zimbabwe dollar	1 231	139	–	–
Canadian dollar	2	1	11	5
Swiss franc	2	3	9	14
Australian dollar	1	1	4	5
Brazilian real	11	11	31	26
Thai baht	19	8	3	1
Malawi kwacha	75	57	3	3
Zambian kwacha	1 395	2 569	3	3
Other			20	154
			340	852
Accounts payable				
US dollar	22	17	136	106
Euro	7	6	52	50
UK pound	5	3	54	31
Swiss franc	1	1	5	6
Zimbabwe dollar	66 500	1 907	7	2
Australian dollar	–	–	–	1
Cape Verde escudo	39	23	3	2
Other			65	38
Accounts payable			322	236
Accounts receivable as above			340	852
Net exposure			18	616

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

41. FINANCIAL RISK MANAGEMENT

Currency risk management

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 SAA are foreign revenues earned at operating unit level, aircraft financing transactions and the covariance risks inherent in SAA's revenue and cost streams. SAA's approach to foreign currency risk management is to protect the group and its shareholders against exchange rate volatility and adverse movements in the exchange rate of the rand in relation to other currencies that SAA is exposed to. SAA has Board approval 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. SAA's policy on foreign exchange risk management is to hedge between 50% and 75% of its exposure on a 12-month rolling basis.

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	2006	2005
United States dollar (USD)	6,18	6,22
Euro	7,48	8,09
Pound sterling (GBP)	10,73	11,74

Interest rate risk management

Interest rate risk is the risk of loss as a result of 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 SAA's floating aircraft funding structures;
- The opportunity cost of funding at a higher rate in a declining interest rate environment due to SAA's fixed funding structures; and
- The bulk of SAA's interest rate exposure is as a result of US dollar 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. SAA 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.

Jet fuel price risk management

Jet fuel consumption is SAA's biggest cost contributor. 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 SAA pays for physical jet fuel purchased around the globe. SAA hedges its jet fuel price risk exposures using derivative financial instruments. All derivative contracts are marked to market and are cash settled. SAA's risk policy permits the organisation to hedge its jet fuel price risk exposures using the following underlying products: IPE Brent Crude Oil, IPE GasOil 0,5%S, GasOil FOB ARAB Gulf 0,5%S and Jet Kerosene 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.

Liquidity risk

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

41. FINANCIAL RISK MANAGEMENT (continued)

Credit risk

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

Risk management systems

SAA is in the process of implementing a risk management system with advanced analytics to assist SAA's risk department to accurately measure the diverse risks that the company faces. The key for this tool is its ability to handle jet fuel price risk exposures using commodity pricing models and the aggregation of all the other risks to enable SAA to have a firm-wide view of its financial risks. It is anticipated that implementation will be completed in May 2006.

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 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 once per quarter. The FRIC is supported by the Financial Risk Subcommittee (FRSC) which meets on a bi-weekly basis. The FRSC is chaired by the Chief Financial Officer and its membership is made up of key professionals from within SAA and Transnet.

		Forward exchange contracts R million	Currency options R million	Cross currency swaps R million	Interest rate swaps R million	Jet fuel derivatives R million	Total R million
Market values of hedging instruments							
Opening balances – 31 March 2004		(4 506)	(261)	(1 189)	–	22	(5 934)
Made up as follows	Assets	–	–	–	–	23	23
	Liabilities	(4 506)	(261)	(1 189)	–	(1)	(5 957)
Fair value adjustments reported in net profit		(2)	–	–	–	213	211
Derivatives settled		4 508	261	1 189	–	(36)	5 922
Closing balances – 31 March 2005		–	–	–	–	199	199
Made up as follows	Assets	–	–	–	–	199	199
	Liabilities	–	–	–	–	–	–
Opening balances – 1 April 2005		–	–	–	–	199	199
Made up as follows	Assets	–	–	–	–	199	199
	Liabilities	–	–	–	–	–	–
Fair value adjustments reported in net profit		–	14	–	–	(33)	(19)
Closing balances – 31 March 2006		–	14	–	–	166	180
Made up as follows	Assets	–	14	–	–	166	180
	Liabilities	–	–	–	–	–	–

41. FINANCIAL RISK MANAGEMENT (continued)

Fair value of financial instruments

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

Refundable amounts

The refundable amounts are to secure the manufacture and delivery of aircraft. This represents the present value of the expected future proceeds to be received from the lessor when the aircraft are delivered. Present value is determined by applying the weighted average cost of capital of 17%. Refer to note 23 for further information.

Investment in unlisted shares

The investment in the unlisted shares is held as an ancillary investment, and is not considered a material holding to the group. The value of the shares has been impaired to zero, as the directors believe that no future cash flows will be derived from this company.

Investment in listed shares

The investment in listed shares was held as an ancillary investment, and was not considered a material holding to the group with the result that it was sold in the current year. The fair value was determined using the appropriate market value.

Derivative assets and liabilities

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

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

	Amortised cost		Fair value	
	2006 R million	2005 R million	2006 R million	2005 R million
Financial assets				
Loans and receivables originated from the enterprise financial assets				
Defeasance deposit	–	–	610	741
Other deposits	–	7	*	*
Refundable amounts	–	–	–	236
Accounts receivable	2 888	2 843	*	*
Short-term investments	992	858	*	*
Cash and cash equivalents	575	1 756	*	*
Available for sale financial assets				
Investment in listed shares	–	–	–	23
Held for trading financial assets				
Derivative asset	–	–	180	199
Financial liabilities				
Long-term liabilities	4 807	6 449	–	–
Air traffic liability	2 139	2 803	–	–
Accounts payable	4 172	4 687	–	–

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

	Group 2006 R million	Restated Group 2005 R million	Company 2006 R million	Restated Company 2005 R million
42. RECONCILIATION OF PROFIT TO CASH GENERATED FROM OPERATIONS				
Profit for the year	65	648	301	645
Adjusted for:				
Taxation charge	12	2	11	–
Impairment of goodwill	–	116	–	–
Amortisation of intangible assets	–	6	–	6
Depreciation	847	674	803	634
Provision for onerous lease contracts	(42)	42	(42)	42
Finance costs	437	402	435	399
Interest received	(136)	(216)	(333)	(390)
Impairment of assets	(47)	(179)	(47)	(179)
Impairment of share trust loan	–	–	–	38
Impairment – other	–	157	–	157
Impairment of subsidiaries	–	–	68	473
Non-cash flow movement in Air Tanzania	–	2	–	–
Net (profit) loss on sale and scrapping of property, aircraft and equipment	(257)	25	(259)	30
Release from air traffic liability	(1 028)	(423)	(1 028)	(423)
Impairment of accounts receivable	27	78	14	92
Unrealised foreign exchange on defeasance deposits	–	19	2	19
Non-cash movement on non-distributable reserves	2	–	4	–
Release from passenger tax provision	(160)	–	(160)	–
Non-cash, movement on disposal group	7	–	–	–
Employee benefit obligations (decrease) increase	(28)	10	(28)	10
Derivative market movements/effects	(273)	(211)	(273)	(211)
Unrealised foreign exchange loss on investments	(1)	1	2	(4)
Unrealised foreign exchange gain on revaluation of loans	(199)	(90)	(199)	(90)
Unrealised foreign exchange loss on security deposits	9	2	9	2
Unrealised foreign exchange (loss) gain on cash and cash equivalents	(86)	7	(86)	7
Foreign exchange effect on assets	5	–	–	–
Foreign exchange effect on working capital	125	(13)	125	(13)
Operating (loss) income before working capital changes	(721)	1 059	(681)	1 244
Working capital changes	1 057	962	1 302	1 193
Decrease (increase) in inventories	68	(9)	21	(20)
(Increase) decrease in accounts receivable	(68)	(335)	(25)	241
Increase in accounts payable	517	859	814	523
Increase in air traffic liability	364	434	365	436
Increase in long and short-term provisions	301	–	252	
Foreign exchange effect on working capital	(125)	13	(125)	13
Cash generated from operations	336	2 021	621	2 437

43. CHANGES IN ACCOUNTING POLICY

The changes in accounting policies and restatements of prior year has been dealt with in note 45 dealing with the explanation of the transition to International Financial Reporting Standards.

	2006 R thousand	2005 R thousand
44. DIRECTORS' EMOLUMENTS FOR SAA SUBSIDIARIES		
SAA City Centre (Proprietary) Limited		
Mr TJ Nzima		
Salary	826	–
Retirement fund contributions	63	–
Allowances	126	–
Incentive bonus	214	–
	1 229	–
Mr M Stoltzing		
Salary	–	865
Allowances	–	49
	–	914
SAA Technical (Proprietary) Limited		
Mr J Blake		
Salary	1 012	843
Allowance	84	84
Incentive bonus	439	–
	1 535	927
Mr R Ramkissoon		
Salary	1 583	2 411
Fringe benefits	–	72
	1 583	2 483
Air Chefs (Proprietary) Limited		
All executives of Air Chefs (Proprietary) Limited are shareholder representatives from SAA (Proprietary) Limited and consequently no emoluments are paid by Air Chefs (Proprietary) Limited with the exception of:		
Ms J September		
Salary	700	–
Retirement fund contributions	76	–
Allowances	258	–
Incentive bonus	433	–
	1 467	–

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

45. EXPLANATION OF TRANSITION TO IFRS AND PRIOR YEAR ERRORS

As stated in note 2 these are the first annual financial statements for the SAA group prepared in accordance with International Financial Reporting Standards (IFRS).

The accounting policies detailed in note 3 have been applied in preparing the financial statements for the year ending 31 March 2006, the comparative information and the preparation of an opening IFRS balance sheet at 1 April 2004, the group's transition date.

In preparing the comparative information and the opening balance sheet, the group has adjusted amounts reported previously in the financial statements prepared in accordance with SA GAAP. An explanation of how the transition from SA GAAP to IFRS has affected the group's financial position, financial performance and cash flows is set out in reconciliations and the explanatory notes below.

There were no changes in the deferred tax asset or liability as SAA had not recognised a deferred tax asset under SA GAAP in 2005. No deferred tax asset has been raised under IFRS.

	As at transition date of 1 April 2004			As at 31 March 2005 End of the latest period presented under SA GAAP		
	SA GAAP R million	Effect of transition to IFRS and prior year errors R million	IFRS opening balance sheet R million	SA GAAP R million	Effect of transition to IFRS and prior year errors R million	IFRS R million
45.1 Reconciliation of equity						
Group						
Property, aircraft and equipment	8 494	853	9 347	9 216	799	10 015
Intangible assets and goodwill	125	–	125	3	–	3
Investments and long-term assets	814	–	814	564	–	564
Total non-current assets	9 433	853	10 286	9 783	799	10 582
Inventories	523	–	523	535	(3)	532
Refundable amounts	1 267	–	1 267	236	–	236
Accounts receivable	2 464	(1)	2 463	2 843	5	2 848
Derivative financial assets	23	–	23	199	–	199
Short-term portion of investments and long-term assets	130	–	130	207	–	207
Cash and cash equivalents	3 047	–	3 047	2 624	–	2 624
Total current assets	7 454	(1)	7 453	6 644	2	6 646
Total assets	16 887	852	17 739	16 427	801	17 228
Long-term loans	4 580	–	4 580	5 608	–	5 608
Other long-term liabilities, employee benefit obligations and provisions	209	64	273	250	95	345
Total non-current liabilities	4 789	64	4 853	5 858	95	5 953

	As at transition date of 1 April 2004			As at 31 March 2005 End of the latest period presented under SA GAAP		
	SA GAAP R million	Effect of transition to IFRS and prior year errors R million	IFRS opening balance sheet R million	SA GAAP R million	Effect of transition to IFRS and prior year errors R million	IFRS R million
45. EXPLANATION OF TRANSITION TO IFRS AND PRIOR YEAR ERRORS (continued)						
45.1 Reconciliation of equity (continued)						
Group						
Bank overdraft	70	–	70	10	–	10
Derivative financial liabilities	5 957	–	5 957	–	–	–
Air traffic liability	2 792	–	2 792	2 803	–	2 803
Accounts payable and provisions	4 005	38	4 043	4 687	229	4 916
Short-term portion of long-term loans	1 971	–	1 971	841	–	841
Total current liabilities	14 795	38	14 833	8 341	229	8 570
Total liabilities	19 584	102	19 686	14 199	324	14 523
Total assets less total liabilities	(2 697)	750	(1 947)	2 228	477	2 705
Share capital	8 982	(6 089)	2 893	8 982	(6 089)	2 893
Non-distributable reserves	(35)	36	1	(34)	36	2
Actuarial gains and losses recognised directly to equity	–	–	–	–	2	2
Accumulated (losses) profit	(11 686)	714	(10 972)	(10 720)	439	(10 281)
Holding company loan and compulsory convertible loan	–	6 089	6 089	4 000	6 089	10 089
Minority interest	42	–	42	–	–	–
Total equity	(2 697)	750	(1 947)	2 228	477	2 705

	As at transition date of 1 April 2004			As at 31 March 2005 End of the latest period presented under SA GAAP		
	SA GAAP R million	Effect of transition to IFRS and prior year errors R million	IFRS opening balance sheet R million	SA GAAP R million	Effect of transition to IFRS and prior year errors R million	IFRS R million
45. EXPLANATION OF TRANSITION TO IFRS AND PRIOR YEAR ERRORS (continued)						
45.1 Reconciliation of equity (continued)						
Company						
Property, aircraft and equipment	7 992	481	8 473	8 711	444	9 155
Intangible assets and goodwill	10	–	10	4	(1)	3
Investment in subsidiaries	981	–	981	1 075	(1073)	2
Investments and long-term assets	781	–	781	564	–	564
Total non-current assets	9 764	481	10 245	10 354	(630)	9 724
Investment in subsidiaries	–	–	–	–	1 073	1 073
Inventories	65	–	65	85	–	85
Refundable amounts	1 267	–	1 267	236	–	236
Accounts receivable	2 585	–	2 585	2 374	6	2 380
Derivative financial assets	23	–	23	199	–	199
Short-term portion of investments and long-term assets	130	–	130	200	–	200
Cash and cash equivalents	3 048	–	3 048	2 633	–	2 633
Total current assets	7 118	–	7 118	5 727	1 079	6 806
Total assets	16 882	481	17 363	16 081	449	16 530
Non-current liabilities						
Long-term loans	4 571	–	4 571	5 599	–	5 599
Other long-term liabilities, employee benefit obligations and provisions	124	64	188	163	77	240
Total non-current liabilities	4 695	64	4 759	5 762	77	5 839
Air traffic liability	2 784	–	2 784	2 797	–	2 797
Accounts payable and provisions	3 995	38	4 033	4 363	219	4 582
Bank overdraft	35	–	35	–	–	–
Derivative financial liabilities	5 957	–	5 957	–	–	–
Short-term portion of long-term loans	1 971	–	1 971	841	–	841
Total current liabilities	14 742	38	14 780	8 001	219	8 220
Total liabilities	19 437	102	19 539	13 763	296	14 059
Total assets less total liabilities	(2 555)	379	(2 176)	2 318	153	2 471
Share capital	9 216	(6 098)	3 118	9 225	(6 098)	3 127
Actuarial gains and losses recognised directly to equity	–	–	–	–	2	2
Accumulated (losses) profit	(11 771)	379	(11 392)	(10 907)	160	(10 747)
Holding company loan and compulsory convertible loan	–	6 098	6 098	4 000	6 089	10 089
Total equity	(2 555)	379	(2 176)	2 318	153	2 471

45. EXPLANATION OF TRANSITION TO IFRS AND PRIOR YEAR ERRORS (continued)

Transition to IFRS

1. IFRS 1 – *First time adoption of International Financial Reporting Standards,* makes a provision for certain optional exemptions to the general principles of retrospective application. SAA has elected the following optional exemptions.

1.1 The option to measure an item of property, plant and equipment at the date of transition to IFRS at its fair value and use that fair value as its deemed cost at that date.

The group has applied this option to land and buildings only. As at 1 April 2004 land and buildings has been measured at deemed cost, being fair value at that date. This resulted in the cost of land and buildings being increased by R786-million for the group and R413-million for company under IFRS. The group will, however, continue to apply the cost model on subsequent measurement as detailed in its accounting policy (note 2).

1.2 The option to restate cumulative translation differences arising on the translation of foreign operations to zero at the date of transition to IFRS.

The foreign currency translation reserve of R36-million for the group and nil for the company, which existed at 1 April 2004 the transition date, has been restated to zero. The group policy on foreign currency translation differences is detailed under accounting policies (note 2).

2. Under SA GAAP property, aircraft and equipment was depreciated as a single unit. Under IFRS land and buildings and aircraft's significant components that have different useful lives have been separately identified and depreciated. This resulted in a decrease in depreciation of R134-million at transition date (2005: increase of R213-million) for the group and R135-million (2005: increase of R196-million) for the company.

3. The impairment losses have been increased by R248-million at transition date (2005: decrease of R47-million) due to impairment reversals on aircraft after taking into account the IFRS restated carrying value.

4. Obsolete rotables were identified and written off. This resulted in a decrease of the carrying value of rotables by R15-million at transition date (2005: increase of R2-million) for the group. The financial impact at company level was the same as that of the group.

5. Under SA GAAP the aircrafts' major inspections and overhauls, known as D checks were expensed immediately as incurred. Under IFRS these costs have been identified as significant costs of an aircraft, and have therefore been capitalised and depreciated. This resulted in an increase in the cost of aircraft by R196-million at transition date (2005: increase of R110-million) for both group and company.

6. Under SA GAAP discount received was accounted for as other operating income. Under IFRS, discount received is adjusted for against the cost of inventories, in order to reduce the cost of inventories to cost net of discounts. This resulted in the cost of inventories adjusted by nil at transition date (2005: decreased by R3-million) for the group. The effect on company level was below R1-million.

7. The adoption of IFRS 2 for the first time in the financial year ending 31 March 2006 has resulted in the recognition of an expense with a corresponding credit taken to employee benefit obligations. This resulted in employee benefit expenses and obligations being adjusted by nil at transition date (2005: increase of R2-million) for group. The effects at company level were the same as those of the group.

8. There was a decrease of R1-million at transition date (2005: nil) due to the reclassification of the buyer furnished equipment (BFE) from accounts receivable to property, plant and equipment under IFRS.

45. EXPLANATION OF TRANSITION TO IFRS AND PRIOR YEAR ERRORS (continued)

9. During the year, the South African Institute of Chartered Accountants issued a circular clarifying the application of the smoothing of operating lease payments. It was clarified that the smoothing adjustment should be determined by aggregating all fixed rentals including any fixed escalations over the lease term to get the amount that must be recognised as lease rentals in the income statement. This clarification resulted in the group changing its accounting policy from the cash basis to straight-line method of accounting for operating leases.

   The financial impact was an accrual of an additional R4-million of operating lease costs at transition date (2005: prepayment of R6-million) for the group. The financial impact at company level was the same as that of the group.

Prior year errors

10. Under SA GAAP the flight deck crew disability top-up benefits were not recognised as part of employee benefits. An amount of R24-million for the disability top-up has been recognised as part of employee benefit obligations (refer to note 31 and 38).

11. An amount of R170-million relating to the flight deck crew salary parity agreement was not recognised under SA GAAP in the prior year. This amount has been recognised in the current year as a prior year adjustment.

12. In the previous year, the provision for leave pay was determined based on cumulative leave days only. In terms of the airline's leave policy, SAA has a constructive obligation to pay employees for non-cumulative leave days if they resign. As a result, an additional provision of R113-million was recognised in the current year.

The effect of the above adjustments on equity are summarised as follows:

		Group		Company	
	Note	1 April 04 R million	31 March 05 R million	1 April 04 R million	31 March 05 R million
Total equity under SA GAAP		(2 697)	2 228	(2 555)	2 318
Restatement of land and buildings for fair value as deemed cost	1.1	786	786	413	413
Depreciation due to component accounting and increased residual values.	2	134	(79)	135	(61)
Cost of aircraft major inspection and overhaul expensed now capitalised	5	196	306	196	306
Write-off of rotables	4	(15)	(13)	(15)	(13)
Impairment reversal on aircraft	3	(248)	(201)	(248)	(201)
Total adjustment to property, aircraft and equipment		853	799	481	444
Discount received adjusted against cost of inventories	6	–	(3)	–	–
Reclassification of BFE to property, aircraft and equipment	8	(1)	(1)	–	–
Change from cash basis to straight-line basis of accounting for operating lease costs	9	(4)	2	(4)	2
Share-based payment expenses and liability recognised in terms of IFRS 2	7	–	(2)	–	(2)
Flight deck crew disability benefit	10	(17)	(24)	(17)	(24)
Leave pay provision	11	(69)	(113)	(69)	(76)
Flight deck crew salary parity adjustment	12	–	(170)	–	(170)
Pension benefits adjustment		(12)	(11)	(12)	(12)
Shares reversed (refer note 27)		–	–	–	(9)
Net adjustment to equity		750	477	379	153
Total equity under IFRS		(1 947)	2 705	(2 176)	2 471

45. EXPLANATION OF TRANSITION TO IFRS AND PRIOR YEAR ERRORS (continued)

45.2 Reconciliation of profit or loss

	As at 31 March 2005 End of the latest period presented under SA GAAP		
	SA GAAP R million	Effect of transition to IFRS and prior year errors R million	IFRS* R million
Group			
Revenue	17 658	(3)	17 655
Operating costs	16 673	272	16 945
Aircraft lease costs	1 585	(6)	1 579
Accommodation and refreshments	442	–	442
Depreciation and amortisation	471	211	682
Distribution costs	1 766	–	1 766
Electronic data costs	486	–	486
Energy	3 345	–	3 345
Employee benefit expenses	3 266	224	3 490
Material	1 141	–	1 141
Impairments	141	(47)	94
Navigation, landing and parking fees	890	–	890
Loss on sale and scrapping of property, aircraft and equipment	25	–	25
Other operating costs	3 115	(110)	3 005
Profit before fair value movements and translation gains	985	(275)	710
Fair value movements and translation gains	342	–	342
	1 327	(275)	1 052
Operating profit			
Net finance costs	(402)	–	(402)
Taxation	(2)	–	(2)
Profit for the year	923	(275)	648
Attributable to minority	43	–	43
Attributable to shareholders of the parent	966	(275)	691
Profit per share (cents)	11	–	8
Headline profit per share (cents) – adjusted	13	–	10

* *These values include the full impact of ATCL on a line by line basis.*

45. EXPLANATION OF TRANSITION TO IFRS AND PRIOR YEAR ERRORS (continued)

45.2 Reconciliation of profit or loss (continued)

	As at 31 March 2005 End of the latest period presented under SA GAAP		
	SA GAAP R million	Effect of transition to IFRS and prior year errors R million	IFRS* R million
Company			
Revenue	17 113	–	17 113
Operating costs	16 185	219	16 404
Aircraft lease costs	1 543	(6)	1 537
Accommodation and refreshments	647	–	647
Depreciation and amortisation	445	195	640
Distribution costs	1 725	–	1 725
Electronic data costs	424	–	424
Energy	3 234	–	3 234
Employee benefit expenses	2 272	187	2 459
Material	1 757	–	1 757
Impairments	536	(47)	489
Navigation, landing and parking fees	875	–	875
Loss on sale and scrapping of property, aircraft and equipment	30	–	30
Other operating costs	2 697	(110)	2 587
Profit before fair value movements and translation gains	928	(219)	709
Fair value movements and translation gains	335	–	335
Operating profit	1 263	(219)	1 044
Net finance costs	(399)	–	(399)
Profit for the year	864	(219)	645

45. EXPLANATION OF TRANSITION TO IFRS AND PRIOR YEAR ERRORS (continued)

45.3 Explanation of material adjustments to the cash flow statement for 31 March 2005.

	Group R million	Company R million
Cash generated from operations under SA GAAP	1 911	2 317
IFRS adjustment to profit before tax and minority interest	(275)	(219)
Additional depreciation charge from land, buildings and aircraft.	211	195
Impairment reversal	(47)	(47)
Share-based payments and provisions non-cash movements	224	197
Operating income before working capital changes	2 024	2 443
Movements in working capital	(3)	(6)
Decrease in inventory due to discount received adjusted against inventories	3	–
Increase in accounts receivable due to change from cash basis to straight-line method of accounting for operating leases	(6)	(6)
Cash generated from operations under IFRS	2 021	2 437
Interest received	216	390
Interest paid	(402)	(399)
Realised derivatives	(5 922)	(5 922)
Cash flow from operating activities under IFRS	(4 087)	(3 494)

Cash flow from investing activities were increased by an amount of R110-million (R110-million company) due to major inspection and overhaul costs capitalised as a significant component of aircraft under IFRS. These costs were expensed under SA GAAP. Except for the above effects on the cash flow from operating activities and cash flow from investing activities there were no other effects on cash flows from investing and financing activities due to the transition to IFRS.

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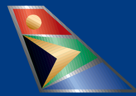

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