Information page

for the year ended 31 March 2007

DIRECTORS	Prof GJ Gerwel	Chairman (appointed 27 August 2004)
	Dr K Ngqula	CEO (appointed 27 August 2004)
	Mr G Griffiths	CFO (appointed 23 February 2007)
	Ms MMT Ramano	(resigned 31 May 2006)
	Adv F du Plessis	(appointed 24 October 2006)
	Mr PG Joubert	(appointed 27 May 2006)
	Ms KP Kalyan	(appointed 24 October 2006)
	Mr BIL Modise	(appointed 24 October 2006)
	Adv MTK Moerane	(resigned 24 October 2006)
	Ms LM Mojela	(appointed 27 August 2004)
	Mr MV Moosa	(resigned 24 October 2006)
	Dr ND Moyo	(appointed 24 October 2006)
	Ms A Kekana (nee Ngwezi)	(resigned 8 March 2007)
	Mr AP Nkuna	(resigned 24 October 2006)
	Dr CC Okeahalam (British)	(resigned 24 October 2006)
	Ms MDCDNC Ramos	(resigned 24 October 2006)
	Prof JE Schrempp	(appointed 24 October 2006)
	Mrs MM Whitehouse	(appointed 24 October 2006)
COMPANY SECRETARY	Ms T Melk	
REGISTERED OFFICE	Airways Park Jones Road OR Tambo International Airport Kempton Park 1627	
	Private Bag X13 OR Tambo International Airport Kempton Park 1627	
COUNTRY OF INCORPORATION	Republic of 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	

** Effective control of SAA was transferred to the Department of Public Enterprises (DPE) on 31 March 2007.*

The actual transfer of shares will take place following the signing of the SAA Bill by the President and the transfer of guarantees from Transnet Limited to the DPE.

Statement by the Company Secretary

for the year ended 31 March 2007

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

4 June 2007

SECRETARY

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

Report of the independent auditors

To the members of South African Airways (Proprietary) Limited

We have audited the group and company annual financial statements of South African Airways (Proprietary) Limited which comprise the directors' report, the balance sheet and consolidated balance sheet at 31 March 2007, and the income statement and consolidated income statement, statement of recognised income and expenses and consolidated statement of recognised income and expenses and cash flow statement and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out on pages 19 to 81.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the performance information in accordance with section 55(2)(a) of the Public Finance Management Act 1 of 1999 and the Companies Act of South Africa respectively. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. The audit was also planned and performed to obtain reasonable assurance that our duties in terms of section 27 and 28 of the Public Audit Act, 25 of 2004, have been complied with. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion the financial statements present fairly, in all material respects, the financial position of South African Airways (Proprietary) Limited and the group as at 31 March 2007, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards, the Companies Act of South Africa and the Public Finance Management Act 1 of 1999, as amended, and the Public Audit Act, 25 of 2004.

Emphases of matter

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

Going concern

The directors have disclosed details of the group's intended restructuring programme on pages 20 and 26 of their report. The long-term sustainability of the airline is dependent on the successful implementation and approval of the restructuring plan.

Public Finance Management Act 1 of 1999 (PFMA) and Public Audit Act, 25 of 2004 (PAA)

We draw your attention to the disclosure of the group's PFMA non-compliance made on pages 24 and 25 of the directors' report.

Compliance with legislation relating to financial matters

South African Airways (Proprietary) Limited and the group have put processes and systems in place to identify all legislation applicable to it as well as a monitoring plan to ensure compliance with this legislation. As disclosed in the directors' report on page 25, as these systems are not yet fully implemented, the group cannot conclude that it has complied with all applicable legislation relating to financial matters, financial management and other related matters.

Deloitte & Touche

Deloitte & Touche

Andrew Mackie
Partner

4 June 2007

APF Inc

APF Inc

Mahen Naidoo
Partner

4 June 2007

Directors' report

for the year ended 31 March 2007

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 2007. 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 3 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 2007, and the results of their operations and cash flow information for the year then ended.

1. NATURE OF BUSINESS AND COMPANY SHAREHOLDING

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.

Results for the year under review

Net losses attributable to the equity holders of the parent amounted to R883-million, against a net profit of R65-million in the previous year. The current performance of the group is being addressed through the restructure strategy noted below.

1.1 Inspection in terms of section 258 of the Companies Act and the reissue of 6 089 291 874 ordinary shares of R1 each

During the 2006 financial year, the Minister of Trade and Industry ("Minister") issued his report, compiled in terms of section 258 of the Companies Act, resulting from an enquiry into the affairs of the SAA Employee Share Trust. The report invalidated the 2004 share issue, arising from the R6-billion recapitalisation, which occurred in 2004. In addition, a number of irregularities were identified with respect to the affairs of the SAA Employee Share Incentive Trust.

In order to regularise the affairs of the Employee Share Trust and the R6-billion share issue, SAA entered into a settlement agreement with Transnet and the SAA restructuring labour caucus ("settlement agreement"). In terms of the settlement agreement, SAA purchased the shares held by the E class shareholders (Employee Share Trust) and settled the outstanding E class share options, for a total consideration of R29-million. The share buyback resulted in SAA acquiring 38,5-million R1 par value E class shares, for a total consideration of R18,9-million. This gave rise to a non-distributable reserve of R19,6-million, reflected in SAA's equity at 31 March 2007. The balance of the purchase consideration, representing the settlement of the E class share options and repayment of specific invalid issues, has been appropriately expensed to personnel costs.

In addition, in terms of the settlement agreement, the E class shareholders agreed to support, and vote in favour of, the exercise to lawfully reissue the R6-billion share capital in terms of the 2004 recapitalisation and the conversion of the R2,4-billion share issue in respect of the conversion of the compulsory convertible subordinated loan granted by Transnet.

1.2 Conversion of the Transnet R2,4-billion compulsory convertible loan (CCL)

As reported previously, SAA issued a R4-billion CCL to Transnet in July 2004. This loan was convertible to equity when the necessary legal and statutory requirements were met. During the previous financial year, R1,6-billion of the total loan was repaid to Transnet prior to conversion. The balance of the loan, amounting to R2,4-billion was converted to equity in the current financial year resulting in the issue of an additional 2,4-billion shares at par value of R1.

1.3 R1.3-billion guarantee provided by the Department of Public Enterprises (DPE)

SAA was partly recapitalised at year-end by securing a R1,3-billion subordinated loan from a South African financial institution. This is the first step in the recapitalisation process and the proceeds were used to strengthen the financial position of SAA. Simultaneously, a guarantee was provided by the South African government. SAA can elect, at any stage and for whatever reason, not to repay the interest or capital due to the financier, at which time the claims are automatically ceded to the government in terms of the guarantee. Should the government settle any capital or interest due to SAA's election not to make payment to the financier, they will have no recourse to SAA.

In accordance with IAS39: *Financial Instruments – Recognition and Measurement* ("IAS39"), the guarantee and the subordinated loan agreement have been assessed as one instrument, because they were entered into at the same time and in contemplation of one another. The loan has been classified as an equity instrument.

2. RESTRUCTURING OF SAA

As a result of increased global and domestic airline activity, coupled with the challenges faced by the introduction and growth in low fare airline carriers, SAA has been forced to review its structures and core businesses in order to remain competitive, profitable and the airline of choice on the African continent.

During November 2006, an independent low fare airline (Mango) was introduced by SAA into the domestic market in order to address the demands of the local public for low-cost air travel.

Further, in order to address the longer-term strategy of SAA the Board approved management's recommendation to introduce Seabury Incorporated ("Seabury"), specialist aviation consultants, to assist with the review, formalisation and implementation of a turnaround plan to address the strategies for the long term.

To date, a review of the group infrastructure, business activities and performance measures relative to global best practice has been completed. The Board has approved the proposed plan for restructure and work has commenced on certain aspects of the implementation.

It is anticipated that various short-term initiatives will be implemented during the course of the current financial year and all the restructuring processes will be completed within the next 18 months.

The intention of the restructuring is that SAA achieve substantial and sustainable profitability and is in a position to take superior advantage of the 2010 Soccer World Cup opportunities.

3. DIRECTORS

There has been a significant change in the composition of the Board of directors during the current financial year. Below are two tables that reflect the make-up of the Board as at 1 April 2006 and 31 March 2007 respectively.

SAA Board of directors at 1 April 2006 Name		Date of appointment (A)/ resignation (R)	Number of Board meetings attended	Number of Audit Committee meetings attended	Number of FRIC meetings attended	Number of Nominations, Governance and Remuneration meetings attended
Prof GJ Gerwel (Chairman)	N	27 August 2004 (A)	5	–	–	–
Dr K Ngqula (CEO)	E	27 August 2004 (A)	6	–	–	–
Ms LM Mojela	N	27 August 2004 (A)	3	–	4	–
Mr PG Joubert	N	27 May 2005 (A)	6	–	2	–
Ms MMT Ramano (CFO)	E	31 May 2006 (R)	1	–	–	–
Adv MTK Moerane	N	24 October 2006 (R)	2	3	–	3
Mr MV Moosa	N	24 October 2006 (R)	1	–	–	–
Dr CC Okeahalam (British)	N	24 October 2006 (R)	2	3	2	–
Mr AP Nkuna	N	24 October 2006 (R)	2	–	–	2
Ms MDCDNC Ramos	S	24 October 2006 (R)	2	3	–	2
Ms A Ngwezi	N	8 March 2007 (R)	1	2	–	–

SAA Board of directors at 31 March 2007 Name		Date of appointment (A)/ resignation (R)	Number of Board meetings attended	Number of Audit Committee meetings attended	Number of FRIC meetings attended	Number of Nominations, Governance and Remuneration meetings attended
Prof GJ Gerwel (Chairman)	N	27 August 2004 (A)	5	–	–	–
Dr K Ngqula (CEO)	E	27 August 2004 (A)	6	–	–	–
Ms LM Mojela	N	27 August 2004 (A)	3	–	4	–
Mr PG Joubert	N	27 May 2005 (A)	6	–	2	–
Adv F du Plessis	N	24 October 2006 (A)	2	2	–	–
Ms KP Kalyan	N	24 October 2006 (A)	2	–	–	–
Mr BIL Modise	N	24 October 2006 (A)	2	–	–	–
Dr ND Moyo	N	24 October 2006 (A)	2	1	–	–
Prof JE Schrempp	N	24 October 2006 (A)	–	–	–	–
Mrs MM Whitehouse	N	24 October 2006 (A)	3	1	1	–
Mr G Griffiths	E	23 February 2007 (A)	1	–	–	–

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 six (6) occasions during the financial year.

The Audit Committee met on five (5) 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.

4. 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.

5. CORPORATE GOVERNANCE

SAA is committed to ongoing improvements to its corporate governance processes in line with international best practice, the PFMA and King II Code of Corporate Practices and Conduct. As part of this commitment to corporate governance and compliance with the provisions of the PFMA, the SAA Board of directors and management are continually introducing processes and procedures to ensure that all reported weaknesses are addressed in order to achieve full compliance, for the benefit of all stakeholders.

6. BOARD OF DIRECTORS

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

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 is led by the non-executive Chairman while 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 comprised at least one executive director and eight non-executive directors. The composition of the Board at financial year-end was two executive 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.

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.

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

6.1 Delegation of authority

The ultimate responsibility for 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.

6.2 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

6.2.1 Audit Committee

From October 2006, the Audit Committee comprised three (3) independent directors, namely Dr ND Moyo, Mrs MM Whitehouse and the Chairperson Adv F du Plessis. Prior to this date, Dr C Okeahalam, Adv M Moerane, Ms A Ngwezi and Ms MDCDNC Ramos served as the independent directors.

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 preapprove the audit fees.

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

The committee met on five (5) occasions during the financial year.

6.2.2 Financial, Risk and Investment Management Committee (FRIC)

The FRIC Committee comprises Ms LM Mojela (Chairman), Mr PG Joubert and Mrs MM Whitehouse who replaced Ms MDCDNC Ramos in October 2006.

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.

6.2.3 Nominations, Governance and Remuneration Committee

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

This 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 policies 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 remuneration of directors has been included in note 40 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.

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

7. 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.

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 the International Air Transport Association (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 on 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.

8. CODE OF ETHICS

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

9. HIV/AIDS

SAA runs a number of HIV/Aids programmes: from the provision of antiretroviral 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.

10. PFMA

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

Both management and the office of the Chief Risk Officer closely monitor controls and actions taken to correct deficiencies as they are identified. Furthermore, the Board receives assurance from the Audit Committee, which derives its information, in part, from regular internal and external audit reports and, where considered necessary, from other reports on risk and internal control throughout the group.

SAA has implemented governance structures and processes in conformance with the provisions of the PFMA. PFMA compliance is one of the key legislative programmes that is monitored at both Board and executive levels. As indicated in the 2005/2006 annual report the office of the Chief Risk Officer has finalised the process of integrating the PFMA compliance programmes with activity undertaken within the company.

Non-compliance with the PFMA is viewed very seriously by the Board and will be dealt with according to the relevant prescripts.

Whilst the Board of Directors is encouraged by the significant improvements undertaken by management in implementing sound financial management practices and good corporate governance, the following contraventions came to the Board's attention during the current financial year.

10.1 Procurement system

Section 51(1)(a)(iii) of the PFMA requires the procurement system to be fair, equitable, transparent, competitive and cost-effective. Substantial progress has been made towards improving the procurement processes within SAA. However, there are legacy contracts and arrangements approved long before the implementation of the enhanced procurement system, against which payments have been made during the year. Accordingly, SAA is unable to claim full compliance with section 51 of the PFMA. It is envisaged that the current review and enhancement of systems will significantly address these historical issues and ensure future compliance with section 51 of the PFMA. This matter continues to be a high priority for resolution by the Board.

10.2 Irregular, fruitless and wasteful expenditure

Sections 51 and 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.

In the light of the internal control weaknesses, SAA is not confident that it is fully compliant with all the requirements of the PFMA regarding the prevention and disclosure of irregular expenditure in terms of section 51(b)(ii) of the Act.

A report covering any known instances of fruitless, wasteful and irregular expenditure, together with other contraventions of the PFMA, will be incorporated in a submission to the Minister of Public Enterprises, in due course.

10.3 Shareholders' compact

For the year under review, a shareholders' compact, as required by Treasury Regulation 29, was not in place due to the impending unbundling of SAA from Transnet and the finalisation of SAA's restructuring and corporate plan. In the absence of the shareholders' compact, performance information has not been included in the annual report as envisaged by section 55(2) of the PFMA.

10.4 Legislation

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

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

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

Four key areas were then identified as focus areas for the next financial year to ensure compliance. These areas are:

- The PFMA.
- Companies Act – a programme for compliance has been designed but not yet implemented.
- Income Tax Act – compliance programme under way.
- Procurement Act – the compliance department aims to meet with each head of department to determine when the procurement issues affecting their departments will be addressed.

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

10.5 Internal control

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

10.6 Reporting

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

11. COMPLIANCE STATEMENT

This report is presented in terms of Treasury Regulation 28.1 of the PFMA, as amended. The prescribed disclosure of emoluments in terms of Treasury Regulation 28.1.1 is reflected under the heading "Remuneration of directors" above and under note 40 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 in the PFMA section above, 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.

12. 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.

The Chief Executive Officer, with senior management, regularly communicates 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 issues detailed final results, despite being an unlisted company and, therefore, not being a statutory requirement.

13. 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; and
- domestic and International competition from the growth in low fare carriers.

Significant losses have been incurred during the current year under review which has resulted in the commencement of a restructuring programme, assisted by the Seabury consultants, to address the ever-changing risks associated with the airline industry as a whole.

After implementing the defensive strategy to low-cost carrier threats by launching Mango and based on continuous analysis, SAA identified that a fundamental restructuring is needed to align the business with all the challenges it faces. The analysis showed the way SAA operates is unsustainable. Current cost cutting and revenue enhancement programmes have proven to be unsuccessful in delivering the expected benefits with costs escalating, market share constant or declining, yields declining and product failing to show a return on investment due to competitive pressures.

SAA identified that it must overhaul its entire business if it wants to survive and it needs to do this through the theme of "Simplify, rightsize, re-skill and incentivise".

This restructuring is more than just financial recapitalisation or organisational structural changes – the entire business model is being overhauled – strategy, processes, people and systems.

On 1 March 2007 the SAA Board gave SAA management approval to embark upon a corporate-wide restructuring plan to return to profitability with financial performance metrics similar to those of its world-class peers.

SAA has identified three categories of initiatives in order to achieve most of the turnaround: (i) *Global initiatives* are those that involve many different departments of SAA and across the entire company in their impact; (ii) *Revenue initiatives* are those that are specifically targeted to improve revenues and are recommended to be implemented across various regions of SAA's route structure; (iii) *Departmental initiatives* are certain cost improvement programmes that have been identified on a departmental basis. Some of these departmental initiatives are budgetary in nature, meaning that a reduction in spend is required in order to achieve the cost savings. Other departmental initiatives require a negotiation or renegotiation of an existing contract or a contract that may be opened due to its natural expiration or provisions permitting renegotiation or rebidding. The remaining departmental initiatives require process changes and/or training in order to deliver on the required outcome.

All these initiatives are mapped to very specific timelines and have to be achieved within the next 12 to 18 months. A dedicated implementation team, led by a dedicated chief restructuring executive, is monitoring and ensuring implementation. The implementation team is also supported by a risk team to assist with early detection of barriers to SAA achieving its goals.

Initial benefits have already been captured through strict cash conservation measures and closing down of all spending that is not for essential goods and services required to operate SAA in a safe and reliable manner.

The implementation of the plan will incur substantial once-off costs. It is anticipated that the sourcing of these funds will be through a final recapitalisation from the DPE.

The short-term liquidity requirement of the group has been addressed by the introduction of the R1,3-billion equity injection. Additional commercial facilities of R855-million are also available, placing SAA in a liquid position for the short term.

The SAA Board has no reason to believe that the restructuring programme will not return the group to profitability. However, this is dependent on:

- the successful implementation of the initiatives;
- government and appropriate PFMA approvals; and
- receipt of appropriate government funding.

Due to the material uncertainty above, the directors' assessment of the going concern of SAA, is dependent on the successful fulfilment of the matters referred to above.

14. SPECIAL RESOLUTIONS TAKEN DURING THE YEAR

A special resolution approving the buyback of E Class shares as noted in 1.1 above was taken by the shareholders during the financial year.

15. UNBUNDLING OF SAA FROM TRANSNET

As reported in the previous year's annual report, in terms of Transnet's strategy, SAA was considered non-core. We are pleased to report that effective transfer of control from Transnet to the Department of Public Enterprises took place on 25 March 2007, although the company is still awaiting formal approval and signing of the SAA Bill from the President and other formalities until legal title passes.

16. DIVIDENDS PAID AND RECOMMENDED

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

17. 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 present fairly the financial position of the company and the group at 31 March 2007 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 judgments and estimates which are reasonable and prudent;
- state whether applicable accounting standards have been followed; and
- prepare the annual financial statements on the going-concern basis unless it is inappropriate to presume that the group and/or the company will continue in business for the foreseeable future.

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

The directors have every reason to believe that the group and the company have adequate resources in place to continue in operation for the foreseeable future, subject to the comments noted above in "going concern". The directors have continued to adopt the going concern 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 accordance with International Standards on Auditing. Their reports on the annual financial statements in terms of the Companies Act and Public Audit Act, 25 of 2004 appear on page 18.

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 have been implemented that are appropriate for the effective operation of the business. Theses systems and processes continue to be refined.

In preparing the company and group annual financial statements set out on pages 28 to 81, 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 present fairly, the financial position of the company and the group at 31 March 2007, 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

4 June 2007

Income statement

for the year ended 31 March 2007

	Note	**Group 2007 R million**	Group 2006 R million	**Company 2007 R million**	Company 2006 R million
REVENUE	6	**20 737**	19 264	**20 357**	18 880
Turnover	6	**17 021**	15 347	**16 484**	14 873
Other airline income	7	**3 588**	3 781	**3 555**	3 674
Total airline income		**20 609**	19 128	**20 039**	18 547
Operating costs		**21 252**	18 733	**20 712**	18 163
Aircraft lease costs	11	**2 514**	1 897	**2 514**	1 897
Accommodation and refreshments		**652**	599	**872**	812
Depreciation and amortisation	11	**744**	842	**702**	803
Distribution costs		**1 409**	1 256	**1 404**	1 258
Electronic data costs		**472**	529	**467**	528
Energy		**5 740**	4 933	**5 647**	4 910
Employee benefit expenses	8	**3 382**	3 282	**2 405**	2 348
Material		**1 654**	1 466	**2 419**	1 962
Navigation, landing and parking fees		**1 056**	977	**1 039**	977
Impairment (reversal) write-off	9	**(19)**	(20)	**(28)**	35
Loss (profit) on sale and scrapping of property, aircraft and equipment	11	**3**	(257)	**4**	(259)
Other operating costs		**3 645**	3 229	**3 267**	2 892
(Loss) profit before fair value movements and translation gains (losses)	11	**(643)**	395	**(673)**	384
Fair value movements and translation gains (losses)	12	**40**	30	**(57)**	30
Operating (loss) profit		**(603)**	425	**(730)**	414
Finance costs	10	**(408)**	(437)	**(408)**	(435)
Interest received	10	**128**	136	**318**	333
(Loss) profit before taxation		**(883)**	124	**(820)**	312
Taxation	13	**(42)**	(12)	**(41)**	(11)
(Loss) profit for the year from continuing operations		**(925)**	112	**(861)**	301
Profit (loss) for the year from discontinued operation	14	**42**	(47)	**–**	–
(Loss) profit for the year		**(883)**	65	**(861)**	301
Attributable to:					
Equity holders of the parent		**(883)**	65	**(861)**	301
Basic (loss) earnings per share (cents)	15	**(12)**	2	**–**	–
Diluted (loss) earnings per share (cents)	15	**(12)**	0.6	**–**	–

Balance sheet

at 31 March 2007

	Note	**Group 2007 R million**	Group 2006 R million	**Company 2007 R million**	Company 2006 R million
ASSETS					
Non-current assets					
Property, aircraft and equipment	16	**7 752**	8 257	**6 942**	7 443
Intangible assets	17	**100**	8	**100**	8
Investment in subsidiaries	18	**–**	–	**2**	2
Investments and long-term assets	20	**420**	484	**420**	485
Reimbursement right	23	**112**	–	**112**	–
Total non-current assets		**8 384**	8 749	**7 576**	7 938
Current assets					
Investment in subsidiaries	18	**–**	–	**1 714**	1 520
Non-current assets and disposal group held for sale	21	**90**	153	**90**	98
Inventories	22	**515**	463	**91**	64
Accounts receivable	24	**3 627**	2 874	**3 025**	2 391
Derivative financial assets	42	**48**	180	**48**	180
Short-term portion of investments and long-term assets	20	**148**	126	**148**	125
Cash and cash equivalents	25	**2 364**	1 444	**2 278**	1 462
Total current assets		**6 792**	5 240	**7 394**	5 840
TOTAL ASSETS		**15 176**	13 989	**14 970**	13 778
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital	26,27	**11 343**	2 893	**11 577**	3 127
Non-distributable reserves	26	**26**	6	**26**	6
Accumulated losses	26	**(11 099)**	(10 216)	**(11 307)**	(10 446)
Equity relating to disposal group held for sale	21	**–**	7	**–**	–
Shareholders' equity (deficit)		**270**	(7 310)	**296**	(7 313)
Transnet loan	28	**–**	6 089	**–**	6 089
Transnet compulsory convertible loan	28	**–**	2 400	**–**	2 400
Government subordinated guaranteed loan	29	**1 300**	–	**1 300**	–
Total capital and reserves		**1 570**	1 179	**1 596**	1 176
Non-current liabilities					
Long-term loans	30	**3 952**	4 248	**3 946**	4 240
Other long-term liabilities	31	**63**	63	**–**	–
Employee benefit obligations	32	**257**	88	**257**	88
Provisions	36	**770**	194	**723**	131
Total non-current liabilities		**5 042**	4 593	**4 926**	4 459
Current liabilities					
Bank overdraft	25	**1**	4	**–**	–
Air traffic liability	34	**2 600**	2 134	**2 546**	2 134
Accounts payable	35	**4 864**	4 289	**4 869**	4 372
Provisions	36	**457**	1 135	**393**	1 067
Taxation		**54**	12	**52**	11
Short-term portion of long-term loans	30	**588**	559	**588**	559
Liabilities associated with disposal group held for sale	21	**–**	84	**–**	–
Total current liabilities		**8 564**	8 217	**8 448**	8 143
TOTAL EQUITY AND LIABILITIES		**15 176**	13 989	**14 970**	13 778

Statement of recognised income and expenses

for the year ended 31 March 2007

	Group 2007 R million	Group 2006 R million	**Company 2007 R million**	Company 2006 R million
Actuarial gains and losses				
– Actuarial loss allocated from the Transnet post-retirement medical benefit fund	**–**	(2)	**–**	(2)
– Actuarial gain from SAA (UK) defined benefit fund	**–**	8	**–**	8
Foreign currency translation reserve	**–**	7	**–**	–
Gain on share buy-back	**20**	–	**20**	–
Income recognised directly in equity *	**20**	13	**20**	6
(Loss) profit for the year	**(883)**	65	**(861)**	301
Total recognised income and expense for the year	**(863)**	78	**(841)**	307
Attributable to:				
Equity holders of parent	**(863)**	78	**(841)**	307

* *For detailed movement on equity refer to note 26.2*

Cash flow statement

for the year ended 31 March 2007

	Note	Group 2007 R million	Group 2006 R million	Company 2007 R million	Company 2006 R million
CASH FLOW FROM OPERATING ACTIVITIES					
Cash generated from operations	43	**316**	336	**150**	621
Interest received		**128**	136	**318**	333
Finance costs		**(408)**	(437)	**(408)**	(435)
Realised derivatives		**201**	292	**201**	292
Net cash inflow from operating activities		**237**	327	**261**	811
CASH FLOW FROM INVESTING ACTIVITIES					
Additions to property, aircraft and equipment		**(269)**	(335)	**(226)**	(299)
Additions to assets held for sale		**(36)**	–	**(36)**	–
Proceeds on disposal of property, aircraft and equipment		**3**	1 408	**2**	1 414
Net proceeds on disposal of assets held for sale and subsidiary		**12**	–	**43**	–
Decrease in refundable amounts		**–**	236	**–**	236
Decrease in long-term assets		**227**	152	**227**	143
Additions to intangible assets		**(99)**	(5)	**(99)**	(5)
Increase in loans to subsidiaries		**–**	–	**(185)**	(515)
Net cash (outflow) inflow from investing activities		**(162)**	1 456	**(274)**	974
CASH FLOW FROM FINANCING ACTIVITIES					
Net cash outflow on share buy-back		**(39)**	–	**(39)**	–
External borrowings repaid		**(530)**	(3 043)	**(549)**	(3 042)
External borrowings raised		**1 300**	–	**1 300**	–
Net cash inflow (outflow) from financing activities		**731**	(3 043)	**712**	(3 042)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**806**	(1 260)	**699**	(1 257)
Foreign exchange effect on cash and cash equivalents		**117**	86	**117**	86
Cash and cash equivalents at beginning of year		**1 440**	2 614	**1 462**	2 633
CASH AND CASH EQUIVALENTS AT END OF YEAR	25	**2 363**	1 440	**2 278**	1 462

Notes to the annual financial statements

for the year ended 31 March 2007

1. Statement of compliance

The consolidated financial statements of South African Airways (Proprietary) Limited (the company or group), as set out on pages 28 to 81, have been prepared in accordance with International Financial Reporting Standards.

2. Standards and interpretation issued but not yet effective

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

- IFRS 7 Financial Instruments: Disclosure
- Amendments to IAS 1 Processes and Policies for managing capital
- IFRIC 8 Scope of IFRS 2
- IFRIC10 Interim Financial Reporting and impairment

Management anticipate that the adoption of these standards and interpretations in future periods will have no material financial impact on the amounts recognised in the financial statements of the group. However, the adoption may have a material impact on the disclosure in the financial statements of the group.

The International Accounting Standards Board is currently considering the appropriate accounting treatment of loyalty 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 from operating the Voyager, SAA's frequent flyer programme. Full details of the possible impact of any change are provided in note 44.

3. Basis of preparation and significant accounting policies

The group financial statements are presented in South African Rand which is the group's reporting and 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 as described further in the accounting policy notes below.

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

Basis of consolidation

Subsidiaries

Consolidated financial statements incorporate the financial statements of the company and the entities controlled by the company (subsidiaries). Control is achieved where the company has the power to govern the financial and operating policies of an entity 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.

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

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

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

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

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

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

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

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

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

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

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

Borrowing costs
Borrowing costs are expensed as and when incurred.

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

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

- the deferred tax balance arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss;
- 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 cost 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 manufacturer’s discount/credits, with subsequent additions to or renewal of exchangeable units also stated at cost. Cost includes any fair value gains or losses resulting from hedging instruments used to hedge the acquisition of the underlying asset, which qualify for hedge accounting. Where there are deferred payment terms, the cost is the cash price equivalent.

Other property, machinery and equipment

All other property, machinery and equipment including unit leading devices are stated at cost less accumulated depreciation and any recognised impairment losses. Equipment includes major spare parts and 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
Aircraft and simulators	8 – 15
Buildings and structures	10 – 50
Furniture	5
Office equipment	5 – 6
Computer equipment	3 – 5
Light motor vehicles	5
General purpose vehicles	10
Containers	5
Machinery	15 – 20
Cabin loaders	10 – 20

Residual values

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

Capital work in progress

Capital work in progress relates to buyer finished equipment (BFE) and predelivery 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.

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

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

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 equivalents consist 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 counterparty. 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 forecasted transaction.

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

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

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

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

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

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.

Predelivery payments and other aircraft deposits

Predelivery 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 predelivery payments will be remeasured to the present value of the consideration expected to be received from the ultimate lessor.

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

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

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

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

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.

Onerous contracts

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

Reimbursements

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

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 four 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 or similar valuation 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.

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

4. CRITICAL JUDGEMENTS IN APPLYING THE 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

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

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

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

- The implementation of a new sales-based revenue accounting system that makes it possible to accurately determine what part of this liability could be taken to revenue each financial year.
- The terms and conditions of the air tickets as stipulated in the IATA air ticket rules. In terms of the rules an air ticket is valid for a period of twelve 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 twelve months to be processed.

The assumptions and judgement in estimating the forward sales liability resulted in the release of R693-million to income in the current year. The amount released to income in 2006 was R1 028-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 R152-million (2006: R161-million). Refer to note 36 for details.

Power by the hour (PBTH)

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

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

At year-end, SAAT has recorded a prepayment of R523-million (2006: R355-million).

	Group 2007 R million	Group 2006 R million	Company 2007 R million	Company 2006 R million
6. REVENUE				
The analysis of revenue for the year is as follows:				
Turnover				
Passenger revenue	**14 230**	12 747	**14 069**	12 747
Freight and mail	**1 829**	1 609	**1 829**	1 608
Technical services	**410**	470	**37**	–
Voyager income (refer notes 5 and 36.5)	**371**	317	**371**	317
Commission received	**181**	204	**178**	201
Total turnover	**17 021**	15 347	**16 484**	14 873
Interest received (refer note 10)	**128**	136	**318**	333
Other airline income (refer note 7)	**3 588**	3 781	**3 555**	3 674
Revenue	**20 737**	19 264	**20 357**	18 880
Revenue from discontinued operation (refer note 14)	**105**	230	**–**	–
	20 842	19 494	**20 357**	18 880
7. OTHER AIRLINE INCOME				
Other airline income is made up of the following items:				
Handling revenue	**172**	170	**88**	86
Income from leased assets	**329**	334	**369**	313
Release from prescribed tickets	**683**	1 018	**683**	1 018
Release from prescribed airway bills	**10**	10	**10**	10
Insurance recoveries	**26**	39	**26**	39
Fuel levies and other recoveries	**2 368**	2 210	**2 379**	2 208
	3 588	3 781	**3 555**	3 674
Other airline income from discontinued operations (refer note 14)	**12**	20	**–**	–
	3 600	3 801	**3 555**	3 674
8. EMPLOYEE BENEFIT EXPENSES				
8.1 Short-term employee benefits				
Personnel and labour costs	**3 013**	2 985	**2 116**	2 133
Share-based payment expenses	**–**	2	**–**	2
Contribution to pension funds	**256**	253	**193**	188
Contribution to provident funds	**28**	25	**28**	25
Contribution to post-retirement medical funds	**53**	41	**38**	24
	3 350	3 306	**2 375**	2 372
8.2 Post-employment benefit expenses* (note 39)				
Current service costs	**3**	(27)	**3**	(27)
Interest cost	**8**	3	**6**	3
Expected return on plan assets	**–**	(3)	**–**	(3)
Past service costs	**21**	–	**21**	–
	32	(27)	**30**	(27)
8.3 Long-term employee benefit expense				
Flight deck crew (FDC) disability benefits	**–**	3	**–**	3
Subtotal	**3 382**	3 282	**2 405**	2 348
Labour costs from discontinued operation	**–**	34	**–**	–
Total employee benefit expenses	**3 382**	3 316	**2 405**	2 348

** 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 39 for details of the financial position of the Transnet retirement fund.*

		Group 2007 R million	Group 2006 R million	Company 2007 R million	Company 2006 R million
9.	**IMPAIRMENT (REVERSAL) WRITE-OFF**				
	Reversal of impairment of loan to SAA Share Trust	**–**	–	**(9)**	–
	Net reversal of impairment of maintenance reserve and assets held for sale	**(13)**	(46)	**(13)**	(46)
	Increase in impairment of Zimbabwe net assets	**–**	(1)	**–**	(1)
	Reversal of impairment on amounts collected from pilots	**(4)**	–	**(4)**	–
	Impairment of carrying value of investment in subsidiaries (refer note 18)	**–**	–	**–**	68
	(Reversal) impairment of accounts receivable	**(2)**	27	**(2)**	14
	Net impairments (reversal) write-off	**(19)**	(20)	**(28)**	35
10.	**NET FINANCE COSTS**				
	Finance costs				
	Interest paid on overdraft	**37**	26	**35**	24
	Interest paid on long-term borrowings	**371**	411	**373**	411
		408	437	**408**	435
	Finance income or investment income				
	Interest received	**128**	136	**318**	333
	Net finance costs	**280**	301	**90**	102
11.	**(LOSS) PROFIT BEFORE FAIR VALUE MOVEMENTS AND TRANSLATION GAINS (LOSSES)**				
	(Loss) profit before fair value movements and translation gains (losses) is stated after taking into account, amongst others, the following:				
	Auditors' remuneration				
	Audit fees – current year	**19**	17	**18**	16
	Underprovided in previous year	**2**	1	**2**	1
	Other services	**1**	3	**1**	3
	Total auditors' remuneration	**22**	21	**21**	20
	Depreciation of property, aircraft and equipment				
	Aircraft and simulators	**659**	768	**657**	766
	Land, buildings and structures	**39**	49	**17**	25
	Machinery, equipment and furniture	**31**	17	**16**	7
	Vehicles and cabin loaders	**5**	5	**2**	3
	Containers	**3**	3	**3**	2
	Total depreciation	**737**	842	**695**	803
	Amortisation of intangible assets (refer to note 17)	**7**	–	**7**	–
		744	842	**702**	803
	Depreciation from discontinued operation	**–**	5	**–**	–
	Total depreciation and amortisation	**744**	847	**702**	803
	Loss (profit) on sale and scrapping of property, aircraft and equipment				
	Property, aircraft and equipment	**3**	(257)	**4**	(259)
	Profit on sale of assets from discontinued operation (refer note 14)	**–**	(2)	**–**	–
	Total loss (profit) on sale and scrapping of property, aircraft and equipment	**3**	(259)	**4**	(259)

	Group 2007 R million	Group 2006 R million	Company 2007 R million	Company 2006 R million
11. (LOSS) PROFIT BEFORE FAIR VALUE MOVEMENTS AND TRANSLATION GAINS (LOSSES) (continued)				
Operating lease payments				
Aircraft	**2 514**	1 897	**2 514**	1 897
Equipment and vehicles	**53**	59	**17**	16
Properties	**70**	63	**58**	51
	2 637	2 019	**2 589**	1 964
Operating lease payments from discontinued operation	**–**	32	**–**	–
Total operating lease payments	**2 637**	2 051	**2 589**	1 964
Research and development costs	**–**	1	**–**	1
Professional fees				
Managerial services	**8**	7	**8**	7
Technical services	**138**	96	**116**	70
Internal audit fees	**19**	13	**19**	13
Directors' emoluments and executive management emoluments are disclosed in the related parties (note 40).				
Executive directors' remuneration:				
Salaries			**6**	6
Discretionary bonuses			**–**	3
Other			**4**	4
Non-executive directors' remuneration:				
Fees as directors			**3**	3
Other			**–**	1
Short-term employee benefit expenses (note 8.1)	**3 350**	3 306	**2 375**	2 372
Post-employment benefit expenses (note 8.2)	**32**	(27)	**30**	(27)
Long-term employee benefit expenses (note 8.3)	**–**	3	**–**	3
	3 382	3 282	**2 405**	2 348
Number of employees	**11 977**	11 524	**7 385**	7 574
12. FAIR VALUE MOVEMENTS AND TRANSLATION GAINS (LOSSES)				
Foreign exchange gain (loss) on translation of:				
Foreign currency investments	**104**	8	**104**	8
Foreign currency denominated long-term loans	**(284)**	199	**(284)**	199
Net monetary assets and liabilities	**246**	(406)	**149**	(406)
Translation of foreign assets and liabilities	**66**	(199)	**(31)**	(199)
Derivative fair value gain:				
Realised gains on derivatives	**201**	292	**201**	292
Fair value adjustments per note 42	**(132)**	(19)	**(132)**	(19)
Net derivative fair value gain	**69**	273	**69**	273
Option premiums amortised	**(95)**	(46)	**(95)**	(46)
Fair value gain on France Telecom shares	**–**	2	**–**	2
	40	30	**(57)**	30
Fair value gain from discontinued operation (refer note 14)	**–**	2	**–**	–
Total fair value movements and translation gains (losses)	**40**	32	**(57)**	30

	Group 2007 R million	Group 2006 R million	Company 2007 R million	Company 2006 R million
13. TAXATION				
South African normal taxation:				
Current taxation – current year	**1**	–	**–**	–
– prior year	**41**	12	**41**	11
	42	12	**41**	11
Reconciliation of the effective and the standard taxation charge:				
(Loss) profit before taxation at 29%	**(256)**	36	**(238)**	90
Tax effect of non-taxable income	**(45)**	(26)	**(43)**	(26)
Tax effect of non-deductible expenses	**38**	94	**33**	114
Tax payable – prior year	**41**	12	**41**	11
Assessed loss utilised	**(33)**	–	**–**	–
Current year tax loss not recognised	**32**	398	**21**	327
Net temporary differences not recognised	**265**	(502)	**227**	(505)
Current year taxation charge	**42**	12	**41**	11

Estimated tax losses in the company available to be utilised against future taxable income amounts to R10 293-million (2006: R9 974-million). The group has tax losses of R11 404-million (2006: R11 200-million), which will be utilised against future taxable income.

14. DISCONTINUED OPERATION

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

The profit (loss) for the year from discontinued operation is analysed as follows:

	Period ended 31 August 2006 R million	Year ended 31 March 2006 R million
Turnover	93	210
Other airline income	12	20
Total airline income	105	230
Operating costs	117	(281)
Loss from airline operations	(12)	(51)
Profit on sale of property, aircraft and equipment	–	2
Finance costs and fair value gain	1	2
Loss from discontinued operation	(11)	(47)
Profit on sale of subsidiary	53	–
Profit (loss) for the year from discontinued operation	42	(47)

During the year Air Tanzania Company Limited utilised R6-million (2006: R26-million) of the group's cash flow for operating activities, R Nil-million (2006: R4-million) for investing activities and R Nil (2006: R28-million) in respect of financing activities.

	Group 2007	Group 2006
15. (LOSS) PROFIT PER SHARE (CENTS)		
Weighted average number of ordinary shares in issue (millions)	**7 127**	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
Diluted weighted average number of ordinary shares to be in issue	**–**	11 382
Net (loss) profit for the year (R million)	**(883)**	65
Basic (loss) profit per share (cents)	**(12)**	2
(Loss) earnings per shares (cents)#	**–**	1
Diluted (loss) profit per share (cents)	**–**	0,6
Reconciliation between net (loss) profit for the year and headline (loss) profit		
Net (loss) profit for the year	**(883)**	65
Adjusted for:		
Net impairment of property, aircraft, equipment, PDPs and share trust loan	**(13)**	(47)
Loss (profit) on sale and scrapping of property, aircraft and equipment	**3**	(257)
Profit on disposal of subsidiary	**(53)**	–
Headline loss for the year	**(946)**	(239)
Headline loss per share (cents)	**(13)**	(8)
Headline loss per share (cents) adjusted for 6 089-million shares to be issued	**–**	(3)
Diluted headline loss per share (cents)	**–**	(2)
The discontinued operation had no material impact on (loss) earnings per share.		
The operating loss for the year was R11-million (2006: R47-million).		
Weighted average number of shares in issue:	**2007**	2006
Ordinary shares in issue at beginning of year	**2 893**	2 893
Adjustment for – assumed convertible debt*	**1 200**	–
– recapitalisation issue*	**3 044**	–
– share buy-back**	**(10)**	–
	7 127	2 893

The conversion and recapitalisation took place in September 2006

The share buy-back took place in December 2006

Represents (loss) earnings taking into account the number of shares: value including the 6 089-million shares invalidly issued in 2004

		Aircraft and simulators R million	Land, buildings and structures R million	Machinery, equipment and furniture R million	Vehicles and cabin loaders R million	Containers R million	Capital work in progress R million	Total R million
16.	**PROPERTY, AIRCRAFT AND EQUIPMENT**							
	Group (2007)							
	COST							
	Balance at 1 April 2006	10 323	1 449	390	61	28	696	12 947
	Additions at cost	160	9	91	1	5	3	269
	Disposals	(96)	(3)	(8)	(1)	–	–	(108)
	Transfer from capital work in progress	195	–	–	–	–	(195)	–
	Transfer to asset held for sale	(52)	–	–	–	–	–	(52)
	Balance at 31 March 2007	**10 530**	**1 455**	**473**	**61**	**33**	**504**	**13 056**
	ACCUMULATED DEPRECIATION AND IMPAIRMENT							
	Balance at 1 April 2006	3 852	69	228	45	24	472	4 690
	Depreciation for the year	659	39	31	5	3	–	737
	Disposals	(88)	(2)	(6)	(1)	–	–	(97)
	Transfer to assets held for sale	(26)	–	–	–	–	–	(26)
	Balance at 31 March 2007	**4 397**	**106**	**253**	**49**	**27**	**472**	**5 304**
	Carrying value at 31 March 2007	**6 133**	**1 349**	**220**	**12**	**6**	**32**	**7 752**
	Group (2006)							
	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

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

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 R3 900-million (2006: R4 210-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 R180-million (2006: R199-million) and the outstanding lease finance in regard thereto amounts to R100-million (2006: R181-million).

17. INTANGIBLE ASSETS

SAA's Internet booking site – www.flysaa.com has been impaired to a carrying value of R3-million (2006: R3-million).

Goodwill, amounts to R35-million (2006: R35-million), and arose on the acquisition of Air Chefs. The goodwill has been impaired to nil.

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

	Software development R million	Internet booking site R million	Total intangible assets R million	Goodwill R million	Total intangible assets and goodwill R million
Group					
COST					
Balance at 1 April 2006	194	39	233	132	365
Additions	99	–	99	–	99
Disposals (ATCL)	–	–	–	(97)	(97)
Balance at 31 March 2007	**293**	**39**	**332**	**35**	**367**
ACCUMULATED AMORTISATION AND IMPAIRMENT					
Balance at 1 April 2006	189	36	225	132	357
Disposal (ATCL)	–	–	–	(97)	(97)
Amortisation for 2007	**7**	**–**	**7**	**–**	**7**
Balance at 31 March 2007	**196**	**36**	**232**	**35**	**267**
Carrying value at 31 March 2007	**97**	**3**	**100**	**–**	**100**
Carrying value at 31 March 2006	5	3	8	–	8

	Software development R million	Internet booking site R million	Total intangible assets R million
Company			
COST			
Balance at 1 April 2006	194	39	233
Additions	99	–	99
Balance at 31 March 2007	**293**	**39**	**332**
ACCUMULATED AMORTISATION AND IMPAIRMENT			
Balance at 1 April 2006	189	36	225
Amortisation for 2007	**7**	**–**	**7**
Balance at 31 March 2007	**196**	**36**	**232**
Carrying value at 31 March 2007	**97**	**3**	**100**
Carrying value at 31 March 2006	5	3	8

	Company 2007 R million	Company 2006 R million
18. INVESTMENT IN SUBSIDIARIES		
Shares at cost	**234**	418
Amounts owing by subsidiaries	**2 542**	2 348
	2 776	2 766
Impairment of subsidiaries	**(1 060)**	(1 244)
	1 716	1 522

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

Air Tanzania Company Limited (ATCL) has been disposed of with effect from 31 August 2006. Note 14 contains detailed disclosure.

During the year the Group acquired 100% of Tulca (Proprietary) Limited at the date of its incorporation. Note 19 contains detailed disclosure.

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

* *Less than one million shares*

The above companies were valued by Vunani Capital, using a discounted cash flow model, in the prior year. No valuation was carried out during the current year as no significant circumstances, warranting a change in investment value, have occurred during the year.

	Shares	Issued shareholding	Shares at cost	Net debt	Share of (loss) profit for the year
	Million	%	R million	R million	R million
18. INVESTMENT IN SUBSIDIARIES (CONTINUED)					
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			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 loan to SAA Technical (Proprietary) Limited, Air Chefs (Proprietary) Limited and Tulca (Proprietary) Limited, trading as Mango, have been subordinated in favour of the companies' creditors until their assets exceed their liabilities. The loans, where required, have been impaired to the extent of the continued technical insolvency.

19. ACQUISITION OF A SUBSIDIARY

In November 2006, the Group acquired 100% of the issued share capital of Tulca (Proprietary) Limited, trading as Mango, at its incorporation for cash consideration of R1 000.

At that date Mango had no assets or liabilities. In addition to the consideration paid for the share capital, the group advanced a subordinated loan facility of R100-million to fund the operations of the subsidiary until it is in a position to fund its own operations. The details of the loan facility are disclosed in note 18.

	Company 2007 R million	Company 2006 R million
20. INVESTMENTS AND LONG-TERM ASSETS		
20.1 Long-term assets		
South African Airways Employee Share Trust	**157**	158
Impairment of the loan to South African Airways Employee Share Trust	**(157)**	(158)
	–	–

		Group 2007 R million	Group 2006 R million	Company 2007 R million	Company 2006 R million
20.	**INVESTMENTS AND LONG-TERM ASSETS (continued)**				
20.2	**Defeasance deposit**	**568**	610	**568**	610
	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.				
		568	610	**568**	610
20.3	**Investment in unlisted shares at cost**				
	SA Airlink (Proprietary) Limited	**35**	35	**35**	35
	Impairment of unlisted investment	**(35)**	(35)	**(35)**	(35)
	Total investments and long-term assets	**568**	610	**568**	610
	Less: Short-term portion of:	**(148)**	(126)	**(148)**	(125)
	Defeasance deposit	**(148)**	(125)	**(148)**	(125)
	Other deposits	**–**	(1)	**–**	–
	Net investments and long-term assets	**420**	484	**420**	485
	Directors' valuation of unlisted investment	**–**	–	**–**	–
21.	**NON-CURRENT ASSETS AND DISPOSAL GROUP HELD FOR SALE**				
	Carrying value of aircraft held for sale (note 21.1)	**90**	98	**90**	98
	Carrying value of disposal group held for sale (refer note 21.2)	**–**	55	**–**	–
		90	153	**90**	98
	Liabilities associated with disposal group held for sale (refer note 21.2)	**–**	84	**–**	–

21.1 Aircraft

Management made a decision to dispose of or donate certain aircraft with the date of sale determined to be 30 April 2006, the date of the planned delivery to the buyer. These aircraft were reclassified as non-current assets held for sale in the prior year. In the current year, one aircraft was donated and a second one was sold. The sale of the remaining aircraft is under way and is expected to be finalised within the current financial year. In addition, two aircraft, which were previously subleased to Air Tanzania, (SIV and SIW) were acquired in the current year with the intention to immediately dispose of them. These disposals are expected to occur with in the next financial year.

21.2 Disposal of a subsidiary

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

The net assets of Air Tanzania at the date of disposal and at 31 March 2006 were as follows:

	Disposal date Group 2007 R million	Group 2006 R million
Assets		
Land and buildings	**39**	22
Aircraft	**–**	13
Machinery, equipment and vehicles	**–**	3
Inventories	**1**	1
Accounts receivable	**9**	15
Bank and cash	**5**	1
Total assets reclassified as disposal group held for sale	**54**	55
Liabilities		
Other long-term liabilities	**35**	22
Air traffic liability	**7**	5
Accounts payable	**81**	57
Total liabilities reclassified as disposal group held for sale	**123**	84
Equity		
Foreign currency translation reserve and general non-distributable reserve	**–**	7
Net liabilities on disposal	**69**	
FCTR realised on disposal	**(16)**	
Profit on disposal of Air Tanzania	**53**	
Net cash outflow arising on disposal		
Cash consideration received	**–**	
Cash and cash equivalents disposed of	**(5)**	

	Group 2007 R million	Group 2006 R million	Company 2007 R million	Company 2006 R million
22. INVENTORIES				
Consumables	**147**	116	**91**	64
Maintenance inventory	**359**	343	**–**	–
Work in progress	**9**	4	**–**	–
	515	463	**91**	64
Classified as part of disposal group held for sale (refer note 21.2)	**–**	1	**–**	–
	515	464	**91**	64

Inventory is stated net of a provision for slow moving inventory of R259-million (2006: R331-million) for maintenance inventory and R3-million (2006: R8-million) for consumables.

		Group 2007 R million	Group 2006 R million	Company 2007 R million	Company 2006 R million
23.	**REIMBURSEMENT RIGHTS**				
	Germany Insured post-employment benefit reimbursement right (refer to note 39.4)	**112**	–	**112**	–
		112	–	**112**	–
24.	**ACCOUNTS RECEIVABLE**				
	Net trade accounts receivable	**2 223**	1 771	**2 153**	1 729
	Prepayments and other receivables	**1 404**	1 103	**872**	662
		3 627	2 874	**3 025**	2 391
	Classified as part of disposal group held for sale (refer note 21.2)	**–**	15	**–**	–
		3 627	2 889	**3 025**	2 391
25.	**CASH AND CASH EQUIVALENTS**				
	Short-term investments				
	Call deposits				
	US dollar denominated	**409**	866	**409**	866
	Euro denominated	**19**	–	**19**	–
	Pound sterling denominated	**14**	–	**14**	–
		442	866	**442**	866
	Bank and other cash balances				
	Transnet current account	**432**	326	**432**	326
	Domestic bank accounts	**1 045**	(125)	**936**	(125)
	Foreign bank accounts	**445**	377	**468**	395
		1 922	578	**1 836**	596
	Cash and cash equivalents	**2 364**	1 444	**2 278**	1 462
	Overdraft	**(1)**	(4)	**–**	–
	Total cash and cash equivalents	**2 363**	1 440	**2 278**	1 462
	Classified as part of disposal group held for sale (refer note 21.2)	**–**	1	**–**	–
		2 363	1 441	**2 278**	1 462

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 were 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 2007 R million	Group 2006 R million	Company 2007 R million	Company 2006 R million
26. RECONCILIATION OF SHARE CAPITAL, RESERVES AND ACCUMULATED LOSSES				
26.1 Share capital				
Balance at beginning of year	**2 893**	2 893	**3 127**	3 127
Conversion of compulsory convertible loan	**2 400**	–	**2 400**	–
Recapitalisation issue	**6 089**	–	**6 089**	–
Less: Share buy-back	**(39)**	–	**(39)**	–
Balance at end of year	**11 343**	2 893	**11 577**	3 127

	General non-distributable reserve Group R million	General non-distributable reserve Company R million	Foreign currency translation reserve Group R million	Foreign currency translation reserve Company R million	Actuarial gains and losses Group R million	Actuarial gains and losses Company R million	Total Group R million	Total Company R million
26.2 Non-distributable reserves								
Balance at 31 March 2005	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
Gain on share buyback	20	20	–	–	–	–	20	20
Balance at 31 March 2007	**20**	**20**	**–**	**–**	**6**	**6**	**26**	**26**

	Group R million	Company R million
26.3 Accumulated losses		
Balance at 31 March 2005	(10 281)	(10 747)
Profit for the year	65	301
Balance at 31 March 2006	(10 216)	(10 446)
Loss for the year	(883)	(861)
Balance at 31 March 2007	**(11 099)**	**(11 307)**

	Group 2007 R million	Group 2006 R million	Company 2007 R million	Company 2006 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				
7 237 946 291 (2006: 1 876 033 440) class A ordinary shares of R1 each	**7 238**	1 876	**7 238**	1 876
2 412 648 764 (2006: 625 344 480) class B ordinary shares of R1 each	**2 413**	625	**2 413**	625
1 206 324 382 (2006: 312 672 240) class C ordinary shares of R1 each	**1 206**	313	**1 206**	313
603 662 191 (2006: 156 336 120) class D ordinary shares of R1 each	**603**	156	**603**	156
117 797 056 (2006: 156 336 120) class E ordinary shares of R1 each	**117**	157	**117**	157
Less treasury shares and impairment losses arising on consolidation of share trust	**(234)**	(234)	**–**	–
	11 343	2 893	**11 577**	3 127

All shares in the classes A to D are held by the holding company, Transnet Limited, and enjoy the same rights. In terms of the E class settlement as noted in the directors' report, SAA purchased the shares held by the E class shareholders and the outstanding E class share options, for a total consideration of R29-million. The share buyback resulted in SAA acquiring 38,5-million R1 par value E class shares, for a total consideration of R18,9-million. This gave rise to a non-distributable reserve of R19,6-million, reflected in SAA's equity at 31 March 2007. The balance of the purchase consideration, representing the purchase of the E class share options and repayment of specific invalid issues, has been expensed to personnel costs.

	Group 2007 R million	Group 2006 R million	Company 2007 R million	Company 2006 R million
28. TRANSNET LOANS				
28.1 Transnet compulsory convertible loan				
Balance at beginning of year	**2 400**	4 000	**2 400**	4 000
Repaid during the year	**–**	(1 600)	**–**	(1 600)
Converted to share capital during the year	**(2 400)**	–	**(2 400)**	–
Balance at end of year	**–**	2 400	**–**	2 400
The above amount was advanced by the holding company, Transnet Limited, to address the net shareholders' deficit that existed in the company and the Group from 31 March 2004. The nature of this advance was a compulsory convertible subordinated loan.				
28.2 Transnet loan				
Balance at beginning of year	**6 089**	–	**6 089**	–
Transferred to loan on invalid share issue	**–**	6 089	**–**	6 089
To shares validly issued in current year	**(6 089)**	–	**(6 089)**	–
Balance at beginning and end of year as restated	**–**	6 089	**–**	6 089

	Group 2007 R million	Group 2006 R million	Company 2007 R million	Company 2006 R million
29. GOVERNMENT SUBORDINATED GUARANTEED LOAN				
Balance at beginning of year	**–**	–	**–**	–
Raised during the year	**1 300**	–	**1 300**	–
Balance at end of year	**1 300**	–	**1 300**	–

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

The loan bears interest at an aggregate of three months JIBAR plus 35 basis points and is payable quarterly from June 2007 at the sole discretion of the issuer. This loan has been classified as an equity instrument.

	Group 2007 R million	Group 2006 R million	Company 2007 R million	Company 2006 R million
30. LONG-TERM LOANS				
Secured loans				
External loans	**4 540**	4 807	**4 534**	4 799
The loans are repayable as follows:				
On demand or within one year	**588**	559	**588**	559
Two to five years	**2 256**	1 674	**2 252**	1 674
Later than five years	**1 696**	2 574	**1 694**	2 566
	4 540	4 807	**4 534**	4 799
Less: Current portion repayable on demand or within one year included in current liabilities	**(588)**	(559)	**(588)**	(559)
	3 952	4 248	**3 946**	4 240
Analysis of borrowings by currency:				
Rand denominated				
Domestic loans	**2 535**	2 812	**2 529**	2 804
US$ denominated				
Foreign loans	**2 005**	1 995	**2 005**	1 995
	4 540	4 807	**4 534**	4 799

The domestic secured loans bear an effective interest rate of 11,8% (2006: 10,3%), and represent loans secured over aircraft (refer note 16).

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

Included in foreign loans are capitalised lease liabilities to the amount of R59-million (2006: R100-million). Foreign currency denominated capitalised lease liabilities bear interest between 2% and 6% per annum. These liabilities are repayable over periods ranging between 2008 and 2012.

		Group 2007 R million	Group 2006 R million	Company 2007 R million	Company 2006 R million
31.	**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	**–**	–
		63	85	**–**	–
	The holding company loan to the share trust account was created when the E class shares were transferred into the employee share trust from the holding company. The loan is interest free and is repayable on the winding up of the share trust. At the date of this report there is no intention to wind up the share trust with the result that it has been classified as long term.				
32.	**EMPLOYEE BENEFIT OBLIGATIONS**				
	Post-retirement medical benefits	**42**	42	**42**	42
	FDC pension fund	**5**	5	**5**	5
	FDC disability benefits	**35**	35	**35**	35
	Transnet Pension Fund	**–**	2	**–**	2
	Share-based payment liability	**–**	4	**–**	4
	SAA (Germany) pension fund obligation	**175**	–	**175**	–
		257	88	**257**	88
	Refer to note 39 for more information.				
33.	**DEFERRED TAXATION**				
	The net unrecognised deferred tax comprises:				
	Temporary differences in respect of property, aircraft and equipment	**(1 686)**	(1 430)	**(1 586)**	(1 326)
	Doubtful debts	**77**	90	**72**	85
	Air traffic liability and other deferred income	**742**	491	**726**	491
	Provisions	**679**	569	**624**	536
	Prepayments	**(22)**	(16)	**(22)**	(16)
	Maintenance reserve payments	**388**	254	**388**	254
	Differences due to mark-to-market of financial instruments	**14**	(52)	**(14)**	(52)
	Other assets	**(2)**	14	**(2)**	12
	Assessed loss	**3 307**	3 247	**2 985**	2 892
		3 469	3 167	**3 171**	2 876
	Deferred tax asset not recognised	**(3 469)**	(3 167)	**(3 171)**	(2 876)
		–	–	**–**	–
	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. Consequently, no deferred tax asset has been raised.				
34.	**AIR TRAFFIC LIABILITY**				
	Net air traffic liability	**2 600**	2 134	**2 546**	2 134
	Classified as liability associated with assets held for disposal (refer note 21.2)	**–**	5	**–**	–
		2 600	2 139	**2 546**	2 134

This balance represents the unrealised income resulting from tickets and airway bills sold but not yet utilised. The balance includes the value of coupons sold by SAA, which will be flown and claimed in future periods by code-share and inter-line partners. The liability is of a short-term nature and is reflected as a current liability. Refer to note 4 for the critical judgements applied by management to the value and recognition of this liability.

	Group 2007 R million	Group 2006 R million	Company 2007 R million	Company 2006 R million
35. ACCOUNTS PAYABLE				
Trade creditors	**825**	746	**949**	924
Other payables	**3 791**	3 386	**3 771**	3 358
Accruals				
Interest accrual	**62**	55	**62**	55
Power plant accrual	**186**	102	**87**	35
	4 864	4 289	**4 869**	4 372
Classified as liability associated with assets held for sale (refer note 21.2)	**–**	57	**–**	–
	4 864	4 346	**4 869**	4 372

	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
36. PROVISIONS							
Group							
Carrying amount at 1 April 2006	330	12	364	84	161	378	1 329
Raised during the year	135	132	199	189	52	–	707
Utilised and released during the year	(40)	(12)	(143)	(175)	(61)	(378)	(809)
Carrying amount at 31 March 2007	**425**	**132**	**420**	**98**	**152**	**–**	**1 227**
Less: Portion disclosed as short term	–	–	(207)	(98)	(152)	–	(457)
Non-current portion at 31 March 2007	**425**	**132**	**213**	**–**	**–**	**–**	**770**
Company							
Carrying amount at 1 April 2006	330	–	262	67	161	378	1 198
Raised during the year	135	132	182	139	52	–	640
Utilised and released during the year	(40)	–	(118)	(125)	(61)	(378)	(722)
Carrying amount at 31 March 2007	**425**	**132**	**326**	**81**	**152**	**–**	**1 116**
Less: Portion disclosed as short term	–	–	(160)	(81)	(152)	–	(393)
Non-current portion at 31 March 2007	**425**	**132**	**166**	**–**	**–**	**–**	**723**

36.1 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.

36.2 Provision for onerous contracts

The onerous contract raised in the current year relates to the MD11 freighter lease contract. The MD11 aircraft was leased by SAA Cargo to fly to Kenya. Landing rights were not granted, therefore the aircraft is not being fully utilised. Negotiations are ongoing whereby a number of approvals are still required before the contract can be finalised.

36.3 Provision for accumulated leave

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

36. PROVISIONS (continued)

36.4 Provision for service bonus

This consists of a 13th cheque payable to all employees for the period worked ie if the employee completed a full year. If an employee works part of the year (ie starts mid-way through the year or leaves before bonuses are paid), the employee is entitled to the 13th cheque pro-rata for the months worked. The service bonus is paid annually in November. Flight crew receive their bonus in April and not November.

36.5 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).

36.6 Provision for FDC salary parity adjustment

The provision arose from an agreement between SAA and the SAA Pilots Association. In terms of the agreement SAA undertakes 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. In the prior year R378-million was provided for payment based on best estimates at that time. During the current financial year, the final amount to be settled was agreed at R164-million which was accordingly utilised against the provision, with the remaining R214-million being released back to income.

37. COMMITMENTS

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

	12 months US$ million	1 to 2 years US$ million	2 to 3 years US$ million	3 to 4 years US$ million	4 to 5 years US$ million	Greater than 5 years US$ million	Total US$ million
Description							
Lease commitments covered by the defeasance deposit (refer note 20.2)	25	24	23	17	–	–	89
Uncovered lease commitments	214	194	190	171	127	464	1 360
Total foreign currency based lease commitments	239	218	213	188	127	464	1 449

	Group 2007 R million	Group 2006 R million	**Company 2007 R million**	Company 2006 R million
Lease receivables				
(From Tulca (Proprietary) Limited trading as Mango)				
Within one year	**–**	–	**133**	–
Within two to five years	**–**	–	**501**	–
	–	–	**634**	–
Capital commitments contracted in Euro	**1**	18	**1**	18
Capital commitments contracted in US$	**8**	6	**8**	6
	9	24	**9**	24
The total foreign currency denominated capital commitments are expected to be incurred as follows:				
On demand or within one year	**9**	24	**9**	24
Two to five years	**–**	–	**–**	–
	9	24	**9**	24

		Group 2007 R million	Group 2006 R million	Company 2007 R million	Company 2006 R million
37.	**COMMITMENTS (continued)**				
	Operating lease commitments for aircraft, property, equipment and vehicles are expected to be incurred as follows:				
	On demand or within one year	**2 341**	1 976	**2 341**	1 976
	Two to five years	**7 376**	7 482	**7 376**	7 482
	Later than five years	**3 434**	4 269	**3 434**	4 269
	Total	**13 151**	13 727	**13 151**	13 727
	Accruals	**–**	2	**–**	2
		13 151	13 729	**13 151**	13 729
	Rand based capital commitments:				
	Authorised but not yet contracted	**61**	13	**61**	13
	Authorised and contracted	**32**	–	**32**	–
		93	13	**93**	13

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

		Group 2007 R million	Group 2006 R million
38.	**CONTINGENT LIABILITIES AND UNQUANTIFIABLE EXPOSURES**		
38.1	**Guarantees**		
	Guarantees and letters of credit provided in the normal course of business	**493**	428
38.2	**Competition Commission investigations**		
	Comair referred a complaint on its own to the Competition Tribunal with regard to SAA's Voyager Programme and Corporate Agreements. This was after the Competition Commission had investigated the complaint and reached the decision not to refer it to the Tribunal. Should the Tribunal issue an adverse ruling against SAA, it has the competency to impose a penalty up to a maximum of 10% of the relevant year's total revenue. SAA is defending the matter.		
	Nationwide has instituted civil action against SAA in which it claims damages that it alleges it suffered as a result of SAA's conduct which the Competition Tribunal found to be anticompetitive in July 2005. The claim is the first of its kind in the jurisprudence established by the Competition Act and SAA is defending the matter strenuously.	**155**	–
38.3	**Competition Law investigations internationally**		
	The US Department of Justice (DoJ) – Anti-trust Division has issued subpoenas for SAA to provide information and documentation in respect of a price fixing inquiry in progress within the USA. The allegation is that SAA may have been involved in price fixing in respect of its cargo operation in the USA. The DoJ is investigating this allegation in respect of several other airlines, globally. SAA is confident about its prospects of success in refuting the allegations and continues to liaise with the DoJ through its legal representation in the USA and to provide the documentation subpoenaed by the DoJ. Price fixing is a criminal offence in the USA and if found guilty, SAA's exposure may include a penalty of up to US$10-million.	**70**	60

	Group 2007 R million	Group 2006 R million
38. CONTINGENT LIABILITIES AND UNQUANTIFIABLE EXPOSURES (continued)		
Civil claims in the USA normally arise from anti-trust investigations of the nature reported above. In this regard, SAA has received notification that the plaintiffs in a district court class action have included SAA as a defendant. The action relates to alleged conspiracy and price fixing in the air cargo industry by airlines and various cargo operators through the introduction and implantation of fuel, security, and/or war surcharges. At this stage SAA awaits receipt of legal process and is not yet able to establish the specific cause of action and possible exposure. SAA is, however, ready to defend the matter and has instructed lawyers in this regard.		
In December 2006, SAA received notification from the European Commission in Brussels ("the EU") that the EU had initiated a worldwide investigation into alleged anticompetitive conduct by airlines in respect of cargo surcharges and rates. SAA submitted information required by the Commission and awaits further communication from the EU in regard to this investigation. While SAA is protecting its rights in the course of the investigation, it is not yet possible to assess what the exposure might be in respect of this investigation which is expected to unfold over a considerable amount of time.		
In March 2007, SAA received notification that the Australian Competition and Consumer Commission ("the ACCC") had initiated an investigation into allegations that SAA may have colluded with other airlines, internationally, in the alleged fixing of fuel, and war/security surcharges as well as general freight rates. In the same notice, SAA was required to furnish information to the ACCC. SAA has secured legal representation to protect its rights in the course of the investigation. As is the case with the EU investigation, SAA is not yet in a position to assess the extent of the exposure that may attach to this investigation. In regard to this as well as the EU investigation, SAA expects that civil action may arise from the investigation, as has happened with the investigation by the USA, DoJ.		
38.4 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**	50
SAA is also exposed to liabilities associated with changes in the regulatory framework governing travel agent agreements and the collection of taxes, fees and charges, globally. SAA cannot quantify the value of these potential exposures.		
38.5 The South African Revenue Services Employees' Tax audit for the tax years 2006 and 2007		
The South African Revenue Services has conducted an employees' tax audit at SAA for the tax years 2006 and 2007. SAA is awaiting the final outcome of the audit, where upon it will be in a position to assess any financial exposure to the group.		

39. EMPLOYEE BENEFIT INFORMATION

39.1 Transnet pension benefits

The Transnet Group offers pension benefits through two defined benefit pension funds and one defined contribution fund. SAA participates in the Transnet Retirement Fund and the Transnet Pension Fund only. 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.

Transnet has three pension funds, namely the:

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

Except for the Transnet Retirement Fund, the latest actuarial valuations for the funds were performed at 31 March 2007.

39. EMPLOYEE BENEFIT INFORMATION (continued)

39.1.1 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 63 165 members (2006: 63 967) at 31 March 2007. 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 2007 amounted to R1 155-million (2006: R862-million).

39.1.2 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 11 420 members (2006: 12 267) at 31 March 2007. 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:

	2007	2006
	%	%
Discount rate	**7,75**	7,50
Salary increases		
Inflation	**4,50**	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	**10,15**	10,00
Actual return on assets	**28,20**	34,30

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

Benefit asset/liability	**2007 R million**	2006 R million
Present value of obligation	**(6 257)**	(6 204)
Fair value of plan assets	**7 875**	6 391
Surplus	**1 618**	187
Unrecognised asset	**(1 618)**	(187)
Net liability per the balance sheet	**–**	–

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 R nil as the fund had a surplus at R1 618-million at end of the year (2006: R187-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 2008 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.

	2007 R million	2006 R million
39. EMPLOYEE BENEFIT INFORMATION (continued)		
Reconciliation of movement in benefit liability		
Opening benefit liability	**(6 204)**	(4 950)
Service cost	**(167)**	(151)
Interest cost	**(460)**	(419)
Actuarial gain (loss)	**324**	(920)
Benefits paid	**250**	236
Closing benefit liability	**(6 257)**	(6 204)
Reconciliation of movement in fair value of plan assets		
Opening fair value of plan assets	**6 391**	4 818
Expected return	**645**	525
Actuarial gains	**940**	1 129
Contributions by employer charged to the income statement	**83**	87
Contributions by members	**66**	68
Benefits paid	**(250)**	(236)
Closing fair value of plan assets	**7 875**	6 391

	2007 %	2006 %
The major category of plan assets as a percentage of total plan assets are:		
Equity	**65**	71
Property	**10**	6
Bonds	**20**	15
Cash	**5**	8
Total	**100**	100

	2007 R million	2006 R million
Benefit obligation and assets allocated to SAA are as follows:		
Pension benefit obligation	**1 155**	–
Fair value of plan assets	**1 454**	–
Surplus not recognised	**299**	–

The previous year allocations of assets and liabilities to subsidiaries are not available.

Summary of actuarial valuation results for past periods:

	2007 R million	2006 R million	2005 R million	2004 R million	2003 R million
Present value of defined benefit obligation	**(6 257)**	(6 204)	(4 950)	(4 199)	(4 111)
Fair value of plan assets	**7 875**	6 391	4 818	4 034	3 120
Surplus (deficit)	**1 618**	187	(132)	(165)	(991)
Asset not recognised	**(1 618)**	(187)	–	–	–
Total	**–**	–	(132)	(165)	(991)

	2007 R million	2006 R million
39. EMPLOYEE BENEFIT INFORMATION (continued)		
The amounts recognised in the Transnet income statement are as follows:		
Current service costs	**(167)**	(151)
Interest on obligation	**(460)**	(419)
Expected return on plan assets	**645**	525
Total	**18**	(45)
Charge to the statement of recognised income and expense		
Actuarial gain (loss)	**1 264**	(22)
The cumulative actuarial gain (loss) recognised in equity	**920**	(344)
39.1.3 Flight Deck Crew (FDC)		
The liability relates to additional benefits to members of the Flight Deck Crew (FDC), who are employees of SAA. These additional pension benefits are required to equate to the increases that would have been applied to the total cost of employment for the years commencing 16 March 1999 to 16 March 2000. This liability was recognised for the first time in 2003.		
Balance at the beginning and end of year	**(5)**	(5)

39.2 Medical benefits

39.2.1 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 2007.

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 2007 for the Transnet employees.

The principal actuarial assumptions used were as follows:

	2007	2006
Discount rate	**7,75**	7,5

	2007 R million	2006 R million
39. EMPLOYEE BENEFIT INFORMATION (continued)		
39.2.1 Transnet employees post-retirement medical benefits (continued)		
Net benefit liability		
Present value of unfunded benefit obligations	**761**	883
Change in present value of defined benefit obligations are as follows:		
Opening liability	**883**	808
Service costs	**65**	13
Interest cost	**19**	67
Actuarial (losses) gain	**(165)**	44
Benefits paid	**(41)**	(49)
Benefit liability at year-end	**761**	883

The liability allocated to SAA amounted to R42-million (2006: R42-million) as disclosed in note 32.

39.3 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 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 13 active members, 11 deferred members and 25 pensioners as at 31 March 2007.

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 2007. The fund had a surplus of R19,5-million at that date.

The employers' pension contributions for the financial year to 31 March 2008 are expected to amount to approximately R6,6-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 2007 %	Valuation at 2006 %
Discount rate	**5,4**	4,9
Expected return on assets	**6,4**	5,9
Price inflation	**3,3**	3,0
Expected rate of salary increases	**5,8**	5,5
Pension increases in payment		
Pre-April 1997 (4%)	**3,3**	3,0
Post-April 1997 (5%)	**3,3**	3,0
Pension increases during deferment	**3,3**	3,0

	2007 R million	2006 R million
39. EMPLOYEE BENEFIT INFORMATION (continued)		
39.3 SAA (UK) pension fund benefits (continued)		
The results of the actuarial valuation are as follows:		
Benefit asset/liability		
Present value of obligation	**68**	55
Fair value of plan assets	**87**	58
Surplus	**19**	3
Unrecognised asset	**(19)**	(3)
Net liability recognised in the balance sheet	**–**	–
Changes in the present value of defined benefit obligations are as follows:		
Defined benefit obligations at beginning of year	**55**	58
Service cost	**1**	1
Interest cost	**3**	3
Actuarial gains and losses	**(5)**	(1)
Exchange differences on foreign plans	**17**	(5)
Benefits paid	**(3)**	(1)
Closing defined benefit obligations	**68**	55
Changes in the fair value of plan assets are as follows:		
Fair value of plan assets at beginning of year	**58**	48
Expected return	**5**	3
Contributions by employer	**7**	4
Actuarial gains and losses	**2**	9
Exchange differences on foreign plans	**18**	(5)
Benefits paid	**(3)**	(1)
Fair value of plan assets at end of year	**87**	58

The major categories of plan assets as a percentage of total plan assets are as follows:

	2007 %	2006 %
Equity instruments	**80**	84
Debt instrument	**20**	9
Other assets	**–**	7
	100	100

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

	2007 R million	2006 R million
Current service costs	**1**	1
Interest on obligation	**3**	3
Expected return on plan assets	**(5)**	(3)
Surplus not recognised	**1**	–
	–	1
Charge to statement of recognised income and expense		
Actuarial gains and losses	**–**	8
Cumulative actuarial gain recognised in equity	**8**	8

39. EMPLOYEE BENEFIT INFORMATION (continued)

39.4 SAA (German) pension fund benefits

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

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

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

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

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

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

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

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

As a result the insurance policy was accounted for as a reimbursement right in the current year and recognised as a separate asset at its fair value. In terms of paragraph 104D of IAS19: Employee Benefits, the fair value of the reimbursement right is deemed to be the present value of the related obligation. The benefit obligation was recognised in full.

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

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

Actuarial valuation

Actuarial valuations in terms of the rules of the scheme are done at intervals not exceeding three years, to determine its financial position. The most recent actuarial valuation of plan assets and the present value of the defined benefit obligation were carried out in April 2007 using the projected unit credit method.

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

	Valuation at 2007	Valuation at 2006
	%	%
Discount rate	**4,5**	5.1
Expected rate of salary increases	**2**	2
Future pension increases	**4,5**	3
Expected return on reimbursement right		

The results of the actuarial valuation are as follows:

Benefit asset/liability	**2007**
	R million
Present value of obligation	**175**
Plan assets	**–**
Benefit obligation recognised	**175**

	2007 R million	
39. EMPLOYEE BENEFIT INFORMATION (continued)		
39.4 SAA (German) pension fund benefits (continued)		
Changes in the present value of defined benefit obligations are as follows:		
Defined benefit obligations at beginning of year not recognised	**122**	
Service cost	**15**	
Interest cost	**8**	
Exchange differences on foreign plans	**35**	
Benefits paid	**(5)**	
Closing defined benefit obligations	**175**	
Reimbursement right		
Fair value of reimbursement right at end of year	**112**	
The insurance policy was taken to finance the full liability of the benefit obligations at retirement age. When each employee covered by the insurance policy retires, SAA receives as a lump sum amount that is expected to fund the employee benefits as determined based on the life expectancy of the insured. SAA uses these funds to fund the pension benefits.		
The amounts recognised in the profit or loss is as follows:		
Current service costs	**3**	
Interest on obligation	**8**	
Past service costs	**21**	
	32	

Fixed deposit

Recognised as part of the cash equivalents (note 25) is an investment raised from the proceeds paid by the insurer to fund pensioners' benefit obligations. The cash available did not qualify as plan assets in terms of IAS19. This cash amounted to R38,2-million at the end of 2007 (2006: R29,7-million).

39.5 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 in March 2007. In terms of IAS19: Employee Benefits, the disability benefits should be recognised as part of other long-term employment benefits. The benefits should be measured based on the same principles applicable to a defined benefit fund. The actuarial valuation was performed using the projected unit credit method.

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

	Valuation at 2007 %	Valuation at 2006 %
Discount rate	**8,40**	7,75
Expected rate of salary increases	**7,78**	6,99
Future pension increases	**5,68**	4,89

		2007	2006
		R million	R million
39.	**EMPLOYEE BENEFIT INFORMATION (continued)**		
39.5	**FDC disability benefit (continued)**		
	The results of the actuarial valuation are as follows:		
	Net benefit liability		
	Present value of unfunded benefit	**35**	35
	Changes in the present value of defined benefit obligations are as follows:		
	Benefit obligation at beginning of year	**35**	24
	Service cost	**2**	4
	Interest cost	**2**	4
	Actuarial loss	**(4)**	3
	Benefit obligation at end of year	**35**	35
	The amounts recognised in the profit or loss are as follows:		
	Service cost	**2**	4
	Interest cost	**2**	4
	Recognised actuarial loss	**(4)**	3
	Total period cost	**–**	11

39.6 Share-based payments

Cash-settled share-based payments

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

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

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

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

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:

	2007	2006
	Number of shares	Number of shares
Employees	**–**	36 763 634
South African Airways Share Trust	**40 150 000**	3 386 366
	40 150 000	40 150 000

39. EMPLOYEE BENEFIT INFORMATION (continued)

39.5 FDC disability benefit (continued)

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. These shares are held as follows:

	2007	2006
	Number of shares	Number of shares
Participants	**–**	12 500
Advanced to the ESOP scheme	**–**	35 000 000
South African Airways Share Trust	**58 018 060**	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 R1,00 per share. These shares vested over a three-year period and were fully vested as at 31 March 2004. These shares are held as follows:

	2007	2006
	Number of shares	Number of shares
Participants	**–**	1 797 976
South African Airways Share Trust	**93 168 060**	91 370 084
	93 168 060	93 168 060
Advanced by Share Incentive Scheme	**–**	(35 000 000)
	93 168 060	58 168 060

Details of the share options movements during the year are as follows:		
FDC scheme		
All share options under the FDC scheme were exercised in terms of the FDC option agreement between Transnet and the SAA Airline pilots association.		
The share incentive scheme		
Outstanding at the beginning of year	**13 420 401**	22 195 401
Expired during the year	**–**	(8 775 000)
Settled during the year	**(13 420 401)**	–
Outstanding at end of year	**–**	13 420 401
Employee share ownership programme		
Outstanding at the beginning of year	**29 361 213**	30 667 439
Expired during the year	**–**	(1 306 226)
Settled during the year	**(29 361 213)**	–
Outstanding at end of period	**–**	29 361 213

	Group		**Company**	
	2007	2006	**2007**	2006
	R million	R million	**R million**	R million
Share-based payment liability				
Fair value at beginning of year	**4**	2	**4**	2
Increase in fair value during the year	**–**	2	**–**	2
Share buyback settlement	**(4)**	–	**(4)**	–
Fair value at end of year	**–**	4	**–**	4

39. EMPLOYEE BENEFIT INFORMATION (continued)

39.7 HIV/Aids benefits

The company 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.

39.8 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 "standby" 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.

40. RELATED-PARTY TRANSACTIONS

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

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 2007 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 39.

	Sale of goods/services		Amounts receivable from related parties		Purchases of goods/services		Amounts payable to related parties		Other transactions#	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	R 000	R 000	**R 000**	R 000	**R 000**	R 000	**R 000**	R 000	**R 000**	R 000
GROUP										
Related party transactions and outstanding balances										
Holding company	**1 296**	27	**–**	–	**–**	–	**–**	–	**–**	–
State controlled entities	**411 043**	348 497	**553 796**	462 011	**(1 186 255)**	(804 618)	**(129 086)**	(2 610 856)	**41 574**	24 027
National government departments	**174 112**	227 120	**118**	5 251	**(4 056)**	(246 447)	**(98 463)**	(18 173)	**–**	–
Post-employment benefit (Transnet pension funds)	**889**	981	**–**	–	**–**	–	**–**	–	**–**	–
Key management personnel	**93**	180	**–**	–	**–**	–	–	–	**–**	–
Total	**587 433**	576 805	**553 914**	467 262	**(1 190 311)**	(1 051 065)	**(227 549)**	(2 629 029)	**41 574**	24 027

	Sale of goods/services		Amounts receivable from related parties		Purchases of goods/services		Amounts payable to related parties		Other transactions#	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006	**2007**	2006
	R 000	R 000	**R 000**	R 000	**R 000**	R 000	**R 000**	R 000	**R 000**	R 000
40. RELATED-PARTY TRANSACTIONS (continued)										
Company										
Related-party transactions and outstanding balances										
Holding company	**1 299**	27	**–**	–	**–**	–	**–**	–	**–**	–
Subsidiaries and joint ventures	**1 564**	884	**1 180 338**	1 763 977	**(2 182 945)**	(1 653 202)	**(137 322)**	(19 573)	**338 003**	19 328
State controlled entities	**347 630**	322 053	**553 796**	456 856	**(4 056)**	(780 885)	**(128 321)**	(2 605 057)	**41 574**	–
National government departments	**174 511**	227 120	**118**	5 251	**(1 150 333)**	(243 364)	**(98 463)**	(32 186)	**–**	–
Post-employment benefit	**889**	980	**–**	–	**–**	–	**–**	–	**–**	–
Key management personnel	**93**	180	**–**	–	**–**	–	**–**	–	**–**	–
Total	**525 986**	551 244	**1 734 252**	2 226 084	**(3 337 334)**	(2 677 451)	**(364 106)**	(2 656 816)	**379 577**	19 328

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 amounting to R19,6-million (2006: R38,4-million) received from the parent company.*
- *Bad debts expensed of R22 925 (2006: R14 368).*

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

Details on subordination of loans by SAA (to its subsidiaries) amounting to R828-million (2006: R828-million) are included in note 18 on investments in subsidiaries.

40. RELATED-PARTY TRANSACTIONS (continued)

Key management personnel compensation is set out below:

	Fees
	2007
	R 000
Board of directors	
Non-executive	
Gerwel G	500
Joubert PG	300
Semenya IAM*	20
Modise B	75
Moerane M	230
Mojela LM	400
Moosa V	150
Kekana A	310
Nkuna P	160
Okeahalam C	210
Dikgale TJ*	20
Du Plessis F	75
Whitehouse M	75
Schrempp J	75
Moyo N	75
Kalyan KP	75
Total	2 750

* *SAA City Centre (Proprietary) Limited*

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

* *Ngqula K and Griffiths G are executive directors of the Board as well as members of the Executive Committee. Similarly, Ramano MMT before her resignation.*

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

	Fees	Fees – other services[2]	Allowances	Total
	2006	2006	2006	2006
	R 000	R 000	R 000	R 000
40. RELATED-PARTY TRANSACTIONS (continued)				
Board of Directors				
Non-executive				
Doganis R	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
Total	3 245	609	–	3 854

2 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.

Key management personnel compensation is set out below:

	Short-term employee benefits: Salaries	Short-term employee benefits: Allowances	Fund contri-butions	Bonuses[3] and profit sharing	Post-employment benefits	Termination benefits	Other long-term benefits	Total
	2006	2006	2006	2006	2006	2006	2006	2006
	R 000	R 000	R 000	R 000	R 000	R 000	R 000	R 000
Executive directors								
Ngqula K	3 625	–	1 375	1 850	–	–	–	6 850
Ramano MMT	1 976	194	229	1 500	–	–	–	3 899
Mabandla O	–	–	–	–	–	2 050	–	2 050
	5 601	194	1 604	3 350	–	2 050	–	12 799
Executive Committee								
Blake J	1 012	84	–	439	–	–	–	1 535
Melk T	966	–	101	–	–	–	–	1 067
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
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	13 993	1 648	1 131	1 828	–	6 954	–	25 554

3 Relate to bonuses for the 2005 financial year.

	Foreign amount 2007 Million	Foreign amount 2006 Million	Rand amount 2007 R million	Rand amount 2006 R million
41. 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	**33**	20	**242**	124
Euro	**11**	7	**106**	52
UK pound	**9**	6	**126**	64
Hong Kong dollar	**17**	14	**16**	11
Danish krone	**4**	5	**5**	5
Zimbabwe dollar*	**7**	1 231	**–**	–
Canadian dollar	**5**	2	**33**	11
Swiss franc	**2**	2	**9**	9
Australian dollar	**4**	1	**22**	4
Brazilian real	**6**	11	**21**	31
Thailand baht	**7**	19	**2**	3
Malawi kwacha	**126**	75	**7**	3
Zambian kwacha	**2 411**	1 395	**4**	3
Other			**43**	20
			636	340
Accounts payable				
US dollar	**32**	22	**235**	136
Euro	**5**	7	**49**	52
UK pound	**5**	5	**69**	54
Swiss franc	**1**	1	**4**	5
Zimbabwe dollar*	**777**	66 500	**22**	7
Australian dollar	**1**	–	**4**	–
Cape Verde escudo	**3**	39	**1**	3
Other			**46**	65
Accounts payable			**430**	322
Accounts receivable as above			**636**	340
Net exposure			**206**	18

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

* *The Zimbabwe dollar was devalued in July 2006.*

42. 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.

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

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

Year-end exchange rates

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

All expressed in the number of Rands per unit of foreign currency	2007	2006
United States dollar (USD)	**7,23**	6,18
Euro	**9,63**	7,48
Pounds sterling (GBP)	**14,17**	10,73

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.

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

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 biweekly basis. The FRSC is chaired by the Chief Financial Officer and its membership is made up of key professionals from within SAA and Transnet.

		Currency options	Jet fuel derivatives	Total
		R million	R million	R million

42. FINANCIAL RISK MANAGEMENT (CONTINUED)

Market values of hedging instruments

		Currency options R million	Jet fuel derivatives R million	Total R million
Group and company				
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)
Opening balances – 1 April 2006		14	166	180
Made up as follows:	Assets	14	166	180
	Liabilities	–	–	–
Fair value adjustments reported in net profit		(14)	(118)	(132)
Closing balances – 31 March 2007		–	48	48
Made up as follows:	Assets	–	48	48
	Liabilities	–	–	–

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:

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.

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	
	2007	2006	**2007**	2006
	R million	R million	**R million**	R million
Financial assets				
Loans and receivables originated from the enterprise financial assets				
Defeasance deposit	**–**	–	**568**	610
Other deposits	**–**	–	*****	*
Accounts receivable	**3 627**	2 889	*****	*
Short-term investments	**442**	866	*****	*
Cash and cash equivalents	**1 921**	578	*****	*
Available for sale financial assets				
Investment in listed shares	**–**	–	**–**	–
Held for trading financial assets				
Derivative asset	**–**	–	**48**	180
Financial liabilities				
Long-term liabilities	**3 952**	4 807		–
Air traffic liability	**2 600**	2 139		–
Accounts payable	**4 864**	4 346		–

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

	Group 2007 R million	Group 2006 R million	Company 2007 R million	Company 2006 R million
43. RECONCILIATION OF (LOSS) PROFIT TO CASH GENERATED FROM OPERATIONS				
(Loss) profit for the year	**(883)**	65	**(861)**	301
Adjusted for:				
Taxation charge	**42**	12	**41**	11
Depreciation	**744**	847	**702**	803
Provision for onerous lease contracts	**132**	(42)	**132**	(42)
Finance costs	**408**	437	**408**	435
Interest received	**(128)**	(136)	**(318)**	(333)
Impairment of assets less maintenance reserve write-back	**(11)**	(47)	**(11)**	(47)
Impairment of share trust loan	**–**	–	**(9)**	–
Impairment of subsidiaries		–	**–**	68
Net loss (profit) on sale and scrapping of property, aircraft and equipment	**3**	(257)	**4**	(259)
Release from air traffic liability	**(693)**	(1 028)	**(693)**	(1 028)
Impairment of accounts receivable and amounts collected from pilots	**(6)**	27	**(6)**	14
Unrealised foreign exchange on defeasance deposits	**–**	–	**–**	2
Profit on disposal of ATCL	**(53)**	–	**–**	–
Non-cash movement on non-distributable reserves	**20**	2	**20**	4
Release from passenger tax provision	**(110)**	(160)	**(110)**	(160)
Employee benefit obligations increase (decrease)	**57**	(28)	**57**	(28)
Derivative market movements	**(69)**	(273)	**(69)**	(273)
Unrealised foreign exchange loss on investments	**(81)**	(1)	**(81)**	2
Unrealised foreign exchange gain on revaluation of loans	**284**	(199)	**284**	(199)
Unrealised foreign exchange loss on security deposits	**(104)**	9	**(104)**	9
Unrealised foreign exchange loss on cash and cash equivalents	**(117)**	(86)	**(117)**	(86)
Foreign exchange effect on assets	**–**	5	**–**	–
Foreign exchange effect on working capital	**218**	125	**121**	125
Operating loss before working capital changes	**(347)**	(721)	**(610)**	(681)
Working capital changes	**663**	1 057	**760**	1 302
(Increase) decrease in inventories	**(52)**	68	**(27)**	21
Increase in accounts receivable	**(741)**	(68)	**(628)**	(25)
Increase in accounts payable	**747**	517	**645**	814
Increase in air traffic liability	**1 161**	364	**1 105**	365
Increase in long- and short-term provisions	**(234)**	301	**(214)**	252
Foreign exchange effect on working capital	**(218)**	(125)	**(121)**	(125)
Cash generated from operations	**316**	336	**150**	621

44. IMPACT OF IFRIC DRAFT INTERPRETATION D20

In September 2006, the International Financial Reporting Interpretations Committee issued an IFRIC draft interpretation D20: Customer Loyalty Programmes. At the end of the year 31 March 2007, the draft interpretation was still being debated and the final IFRIC on D20 had not been issued and the issue date had not been finalised. The interpretation in its current form will have significant impacts on SAA's financial statements. SAA management believes that the disclosure below will provide useful information to SAA financial statement users to understand the significant impact of the draft interpretation. Users are cautioned that the estimated impact may change significantly should the provisions of the final interpretation issued by the IASB in future be different from the draft interpretation.

44. IMPACT OF IFRIC DRAFT INTERPRETATION D20 (continued)

International Financial Reporting Interpretations Committee (IFRIC) of the IASB has considered the loyalty programmes offered by various companies and have reached the conclusion that paragraph 13 of IAS18 – Revenue, should be applied in the accounting treatment for loyalty programmes.

This paragraph requires that revenue recognition criteria be applied separately to separately identifiable components of a single transaction in order to reflect the substance of the transaction. SAA is affected by this interpretation because SAA operate a loyalty programme referred to as Voyager (for passenger customers) and Frequent Freighter (for cargo customers). In terms of this programme customers earn miles or kilo points when they join the programme and use the services of SAA. The accumulated miles entitle the passengers and cargo customers to free airline tickets and other awards when required miles are achieved.

SAA currently do not separate the revenue on the sale of ticket into two components, component one being the initial sale of the ticket and component two being the award miles earned. SAA currently applied a cost method to the loyalty programme (refer to note 5 and 36)

The draft IFRIC interpretation, if it is issued in its current form and becomes effective, will mean that instead of SAA recognising the full consideration of the sale of the ticket when the coupon is lifted, only a component of revenue relating to *component one* would be recognised when the coupon is first uplifted and the component relating to *component two* would continue to be deferred until the customer claims the awards promised or the award credits expire.

	2007	2006
	R 000	R 000
45. DIRECTORS' EMOLUMENTS FOR SAA SUBSIDIARIES		
SAA City Centre (Proprietary) Limited		
Mr TJ Nzima		
Salary	**953**	826
Retirement fund contributions	**77**	63
Allowances	**52**	126
Incentive bonus	**–**	214
	1 082	1 229
SAA Technical (Proprietary) Limited		
Mr J Blake		
Salary	**1 067**	1 012
Allowance	**28**	84
Incentive bonus	**6**	439
	1 101	1 535
Mr R Ramkissoon		
Salary	**–**	1 583
Fringe benefits	**–**	–
	–	1 583
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	**766**	700
Retirement fund contributions	**88**	76
Allowances	**240**	258
Incentive bonus	**–**	433
	1 094	1 467
TULCA (Proprietary) Limited – trading as Mango		
(for five-month period from 1 November 2006)		
Mr N Bezuidenhout		
Normal fees as director	**17**	–
Salary	**394**	–
Commission	**5**	–
	416	–


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Notes

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