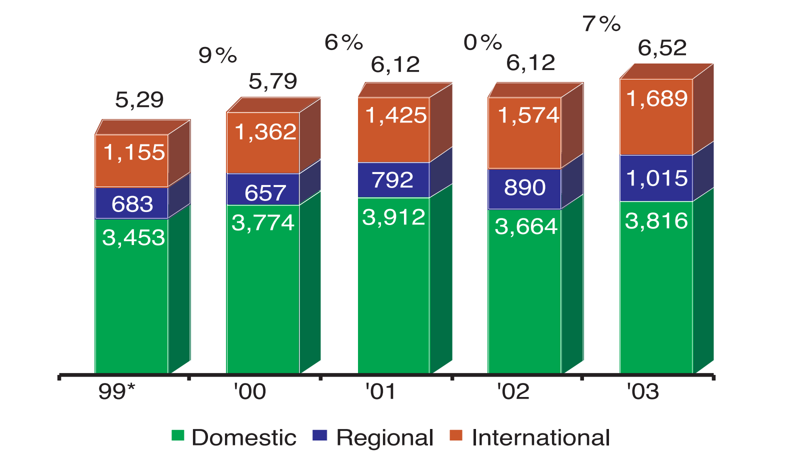
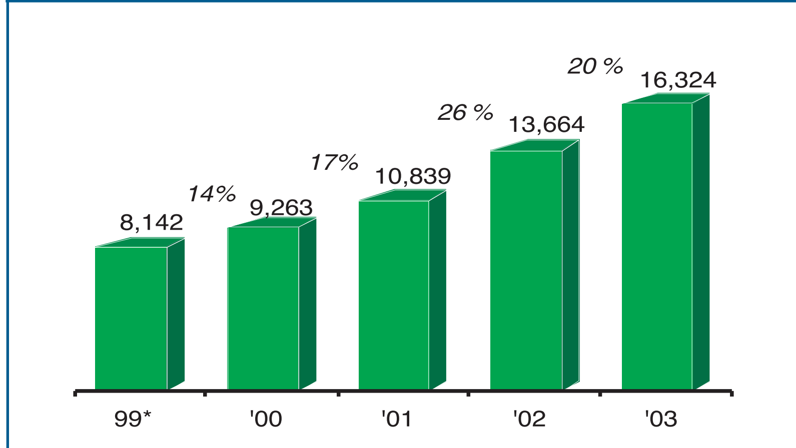
Revenue passenger growth defies industry slump (thousands)



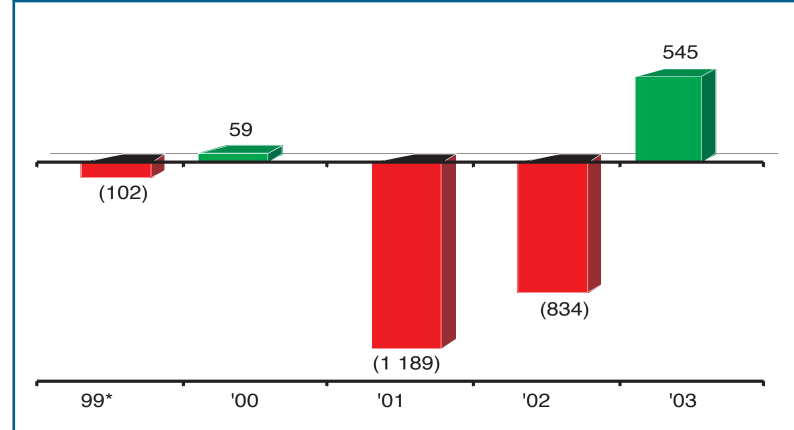
*Division of Transnet Limited

Growth in Core Revenue outperforms industry (R million)



*Division of Transnet Limited

2003 Record gross operating profit (R million)



*Division of Transnet Limited

SOUTH AFRICAN AIRWAYS

South African Airways (Proprietary) Limited

(Registration number 1997/022444/07)

AUDITED GROUP RESULTS FOR THE YEAR ENDED 31 MARCH 2003

Abridged group income statement

	Year ended 31 March 2003 R million	Year ended 31 March 2002 R million	% Change
Revenue	16 324	13 664	19.5%
Other operating income	1 018	486	
Total revenue	17 342	14 150	
Operating costs	(16 797)	(14 984)	12.1%
Operating costs excluding aircraft lease costs and depreciation	(14 818)	(13 346)	11.0%
Aircraft lease costs	(1 578)	(1 357)	16.3%
Depreciation	(401)	(281)	42.7%
Gross operating profit (loss)	545	(834)	
Net impairment of assets	(35)	(509)	
Restructuring cost	(69)	(68)	
Operating profit (loss) before profit on sale of assets	441	(1 411)	
Other non-operating income	97	541	
Profit on sale of aircraft and equipment	72	540	
Phase out costs on aircraft sold	–	(73)	
Insurance claims	25	74	
Operating profit (loss)	538	(870)	
Additional retirement benefit costs	–	(80)	
Profit (loss) before net finance cost and foreign translation (losses) gains	538	(950)	
Net finance cost	(263)	(133)	
Interest paid	(473)	(427)	
Interest received	210	294	
Profit (loss) before foreign translation (losses) gains	275	(1 083)	
Foreign translation (losses) gains	(6 472)	3 445	
Translation of foreign assets and liabilities	(1 068)	1 516	
Net derivative fair value (loss) gain	(5 383)	1 953	
Loss on revaluation of investment	(21)	(24)	
(Loss) profit before taxation and minority interest	(6 197)	2 362	
Taxation	218	(218)	
(Loss) profit after tax	(5 979)	2 144	
Minority interest	2	–	
Net (loss) profit for the year	(5 977)	2 144	
(Loss) earnings per share (cents)	(191)	69	
Headline (loss) profit per share	(192)	71	
Number of shares in issue	3 127	3 127	
Reconciliation of headline earnings			
Net (loss) profit for period	(5 977)	2 144	
Adjusted by:			
Profit on sale of aircraft and equipment	(72)	(540)	
Phase out costs on aircraft sold	–	73	
Loss on revaluation of investment	21	24	
Net impairment of assets	35	509	
Other	–	10	
Headline (loss) profit for period after net derivative fair value (loss) gain (AC133)	(5 993)	2 220	
Net derivative fair value loss (gain)	5 383	(1 953)	
Tax effect	–	218	
Translation of foreign assets and liabilities	1 068	(1 516)	
Normalised earnings (loss) adjusted for volatility of Rand	458	(1 031)	
Other operating income			
Revenue from prescribed tickets	145	59	
Revenue from prescribed air waybills	18	26	
Handling revenue	63	60	
Ticket insurance recoveries	193	–	
Lease income	43	50	
Discounts received	258	172	
Other miscellaneous income	298	119	
	1 018	486	

Abridged group balance sheet

	As at 31 March 2003 R million	As at 31 March 2002 R million
ASSETS		
Non-current assets	11 448	8 631
Property, aircraft and equipment	9 817	4 107
Intangible asset	145	27
Investments and long-term asset	1 345	2 291
Financial derivative asset	141	2 078
Deferred tax asset	–	128
Current assets	4 107	7 197
Inventories	503	433
Accounts receivable	2 392	2 222
Financial derivative asset	8	416
Short-term portion of long-term assets	187	237
Bank balances and cash	1 017	3 889
	15 555	15 828
EQUITY AND LIABILITIES		
Capital and reserves	(1 410)	6 028
Share capital	3 127	3 127
Hedging reserves	(1 446)	–
Foreign currency translation reserves	(19)	–
Non-distributable reserves	4	–
Accumulated (loss) profits	(3 076)	2 901
Minority interest	73	–
Non-current liabilities	6 428	3 361
Interest-bearing long-term liabilities	3 643	2 789
Pension fund liability	56	63
Financial derivative liability	2 729	163
Deferred tax liability	–	346
Current liabilities	10 464	6 439
Bank overdraft	224	–
Financial derivative liability	1 926	8
Air traffic liability	2 407	1 803
Accounts payable and short-term provisions	4 936	4 401
Short-term portion of long-term liabilities	971	227
	15 555	15 828

Impact of embedded derivatives

Total equity	(1 410)
Estimated fair value of net embedded derivatives	4 900
Estimated restated equity	3 490

These results are also available on our website at:

www.flysaa.com

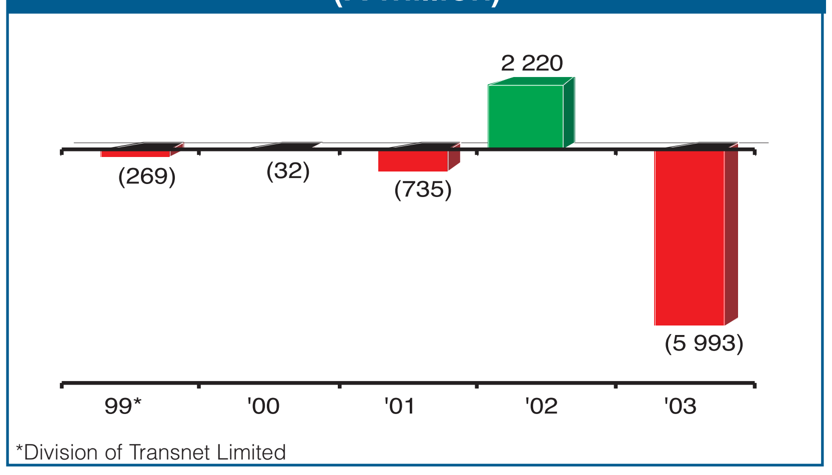
Abridged group cash flow statement

	Year ended 31 March 2003 R million	Year ended 31 March 2002 R million
Cash generated by operations before working capital changes	694	(840)
Working capital changes	409	1 827
Net finance cost	(263)	(133)
Net cash inflow from operating activities	840	854
Net cash outflow from investing activities	(5 792)	(438)
Net cash inflow from financing activities	2 804	436
(Decrease) increase in cash and cash equivalents	(2 148)	852
Cash and cash equivalents at beginning of year	3 889	2 038
Foreign exchange effect on cash and cash equivalents	(948)	999
Cash and cash equivalents at end of year	793	3 889

Abridged group statement of changes in equity

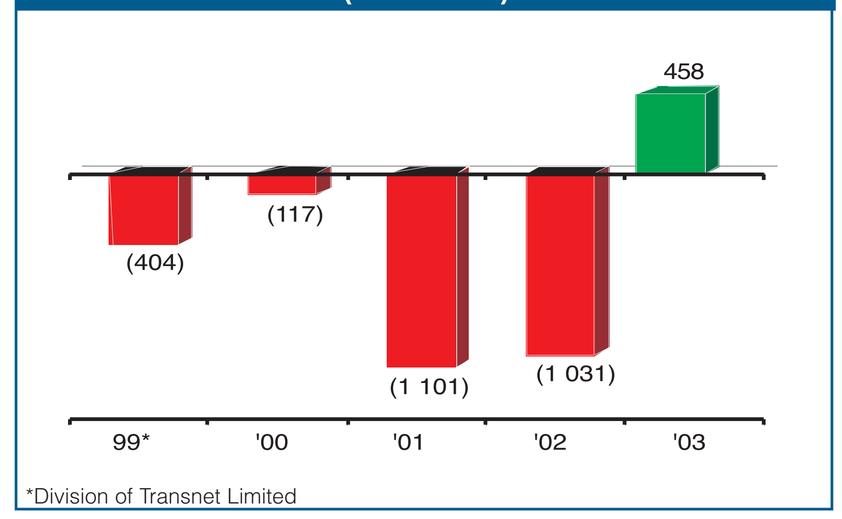
	As at 31 March 2003 R million	As at 31 March 2002 R million
Share capital	3 127	3 127
Hedging reserves	(1 446)	–
Fair value of hedging derivatives	(1 446)	–
Foreign currency translation reserve	(19)	–
Exchange difference on translation of foreign operation	(19)	–
Accumulated (loss) profit	(3 076)	2 901
At beginning of year	2 901	757
Net (loss) profit	(5 977)	2 144
Non-distributable reserves	4	–
Non-distributable reserve on acquisition of subsidiary	4	–

Headline earnings/(losses) – incl net derivative financial gain/(loss) (R million)



*Division of Transnet Limited

Normalised earnings positive (R million)



*Division of Transnet Limited

COMMENTARY

ACCOUNTING POLICIES

Accounting policies have been applied in accordance with South African Statements of Generally Accepted Accounting Practice ("GAAP"), which are consistent with prior years.

As stated in the previous year, the Transnet Group is in preparation for the adoption and implementation of accounting statement AC133, Financial Instruments: Recognition and Measurement, ("AC133"). Consistent with the prior year, SAA accounts for all derivative financial instruments on a mark-to-market basis. Derivative financial instruments, which include currency and commodity forward contracts and options as well as interest rate swap agreements, are recognised in the financial statements on inception. Changes in the fair value of derivative financial instruments that are designated and effective as hedges of future cash flows relating to firm commitments and forecasted transactions are recognised directly to equity. Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

For the current and previous financial year-ends SAA has not accounted for the effect of embedded derivatives. With effect from 1 April 2003, SAA has adopted the accounting statement AC133.

FINANCIAL AND OPERATING PERFORMANCE

The airline industry worldwide continues to go through its most difficult period in history. The forecast of the International Air Transport Association is that airlines worldwide are expected to incur losses of approximately US$10 billion for the 2003 year.

This downturn commenced before 11 September 2001, which event served to significantly accelerate and further worsen the decline in the industry. The subsequent war in Iraq, the outbreak of Severe Acute Respiratory Syndrome, (SARS), during the first quarter of 2003 as well as the worsening international economic climate has further added to the challenges facing the industry. This has resulted in many of the major carriers worldwide posting significant operating losses for the first and second quarters of 2003 despite the support provided by certain governments to the aviation industry of their respective countries. Such support included assistance to offset the cost of mandatory security modifications to aircraft. SAA did not receive any support during this traumatic time for the industry.

Despite this environment of rapidly falling demand as well as spiraling costs, SAA achieved a record gross operating profit of R545 million for the year under review compared to the prior year gross operating loss of R834 million. Revenue increased 19,5% while operating cost only increased by 12,1%. This arose as a result of SAA realigning its structures, improving customer service, improving revenue management and yields, controlling costs, enhancing operating efficiencies and embarking on renewing its fleet, all key deliverables of its Perfecting the Basics strategy.

This significant operating profit was negatively impacted by the strengthening of the Rand, as accounted for under the airline's current accounting policies, in relation to its net foreign monetary assets and derivative financial instruments. This is dealt with in greater detail below.

Service levels, both on the ground and on board, have been significantly improved and is evidenced by the favourable responses received from many of our regular travelers. These improvements in customer service have resulted in SAA winning the following five coveted awards – three awards from the Association for South African Travel Agents being: for Best African Airline, Best Domestic Airline and Best International Airline flying to South Africa; one from Skytrax: for Best airline in Africa; and one from OAG: for Best Airline in Africa.

The fleet renewal programme is well on track and the introduction of the Airbus product has already resulted in a significant positive impact on passenger comfort, operational efficiency as well as a major reduction in fuel consumption whilst dramatically increasing usable payloads to the destinations served by these aircraft.

Our marketing efforts which include sponsorships (SAA Supa 8, Cricket World Cup, SAA Golf Open, Special Olympics, World Summit on Sustainable Development) have continued to improve SAA's image as a world class carrier and serve to further reinforce our corporate social responsibility objectives.

Revenue

SAA increased revenue 19,5% (2002: 26,1%) for the year under review despite continued difficult global market conditions and a significant appreciation of the Rand in the last quarter of the financial year. The increase was mainly attributable to increased passenger and cargo revenue.

Passenger

Passenger revenue increased 22,5% to R13 688 million (2002: R11 178 million). The increase is mainly due to an improvement in yields and increase in number of passengers carried. Average yield improved 13,8% from R1 660 in 2002 to R1 889 in 2003. Revenue paying passengers carried increased 6,6% to 6,5 million (2002: 6,1 million) and capacity utilisation (load factor) also increased to 68,4% (2002: 67,0%). Approximately 55% of revenues are foreign currency denominated.

Cargo

SAA Cargo increased its revenue 12,4% to R1 567 million (2002: R1 394 million). The growth in revenue is mainly as a result of an increase in rates, and tonnages flown. The appreciation of the Rand in the last quarter also had a negative impact on Cargo's revenue.

Technical

Third party revenue has decreased 11,7% to R470 million (2002: R532 million). The decrease is as a result of significant maintenance contract work that was lost with the demise of the SAir Group and the appreciation of the Rand in the last quarter of the financial year. SAA is in the process of evaluating opportunities to improve third party revenue.

Voyager revenue and commissions received

Voyager revenue and commissions received increased 6,9% to R599 million (2002: R560 million).

Operating costs

Operating costs increased 12,1% to R16 797 million (2002: R14 984 million). The increase in operating costs was mainly attributable to higher fuel, labour, distribution, aircraft lease, and depreciation costs. Approximately 51% of operating costs, excluding aircraft lease costs, are US$ denominated. The increase in operating costs was offset to a certain extent by the Rand's appreciation against the US$ in the last quarter of the financial year ended 31 March 2003.

Fuel costs increased 16,0% from R2 807 million in the prior financial year to R3 255 million. The increase was as a consequence of higher fuel prices. This was partially offset by the appreciation of the Rand in the last quarter of the financial year and a profit earned on fuel hedges of R205 million (2002: R235 million).

Labour costs increased 11,5% to R2 888 million (2002: R2 589 million). The escalation in labour costs was mainly attributable to the Flight Deck Crew receiving an increase of 15% and an average increase of 9,0% for other staff.

Distribution costs (including commission paid to travel agents and reservation system charges) increased 20,8% to R2 088 million (2002: R1 728 million). The escalation is as a result of the increase in passenger and cargo revenue and remains at an average of 11,0% of revenue.

IT costs increased 38,4% from R450 million in the prior financial year to R623 million. The increase was as a result of the new agreement entered into with Electronic Data Services ("EDS") following the demise of the SAir Group (ultimate holding company of Atraxis Africa (Pty) Ltd). The airline is currently assessing alternative solutions to reduce costs.

Aircraft lease costs increased 16,3% to R1 578 million (2002: R1 357 million). The increase is attributable to new lease agreements entered into, in respect of 3 Boeing 737-800's and 2 Airbus A330-200 aircraft.

Impact of the strengthening of the Rand

In terms of its current accounting policies, SAA is required to account for the following items in its annual financial statements in addition to the results derived through the operations of the airline as detailed above:

1. revaluation of net foreign monetary assets at year-end; and
2. mark-to-market of derivative financial instruments at year-end (in preparation for the adoption of AC133).

The improvement in the operating results of the airline was adversely affected by a loss of R1 068 million, arising from the revaluation of SAA's net foreign monetary assets and by an unrealised negative 'mark-to-market' on SAA's hedge portfolio, amounting to R5 383 million, (which includes the reversal of the previous year's unrealised gain of R1 953 million), both as a result of the strengthening of the Rand. Due to the magnitude of these amounts it is necessary to explain the use of derivative financial instruments and the impact of a stronger Rand on SAA's results in more detail.

Net foreign monetary assets

Net foreign monetary assets consist of all SAA's foreign currency denominated assets at year-end, excluding fixed assets and inventories, less all amounts due to foreign creditors including loans. At 31 March 2002 the net foreign monetary assets of the airline were revalued at a Rand/US$ exchange rate of R11,38/US$1, the closing spot rate as at that date. This resulted in the airline "writing up" the value of these assets by R1 516 million, which amount was reflected as a foreign currency gain in the Income Statement for the 2002 financial year.

At 31 March 2003 the airline's net foreign monetary assets were revalued at R7,91/US$1 (an appreciation of 31% compared to the previous year-end), the closing rate as at that date. This resulted in SAA having to "write down" the value of these assets, compared to the previous year, by R1 068 million which amount has been reflected as a charge to the Income Statement against the R275 million net profit earned by the airline, from operations, for the year under review.

Mark-to-market of SAA's hedge portfolio

In terms of its business operations the airline is exposed to various financial risks. The most important and material of these risks is that of the airline's net exposure to the US$ as foreign inflows are insufficient to cover all foreign outflows. These exposures arise predominantly through entering into long term (10 to 12 years) US$ denominated financing and operating lease contracts, short term fuel exposures, as well as contractual obligations entered into for the acquisition of aircraft and equipment in US$. To address these risks, SAA executes a hedging program, utilising derivative financial instruments to protect it against adverse movements in the Rand/US$ exchange rates and to provide certainty of costs. This hedging programme requires SAA to hedge a minimum of 70% of its foreign currency exposure. Due to the significant strengthening of the Rand only 57% of these exposures have been hedged to date.

As mentioned above SAA is required, in terms of group accounting policies, to perform a mark-to-market valuation on all these hedges at the end of its financial year.

As at 31 March 2002 the total hedge portfolio of SAA reflected a positive mark-to-market value of R2 323 million of which R1 953 million was recorded as an unrealised net derivative fair value gain in the Income Statement of the airline for that year.

A 'mark-to-market' valuation in essence is the market value of the instruments being valued at a specific point in time.

Due to the significant strengthening of the Rand during the first quarter of 2003, the positive mark-to-market as at 31 March 2002 reversed into a negative mark-to-market of R4 506 million at 31 March 2003. This resulted in an unrealised net derivative fair value loss of R5 383 million (including the reversal of the previous year's positive mark-to-market) in the Income Statement against the R275 million net profit earned by the airline, from operations, for the year under review. The mark-to-market position is dependent on the Rand/US$ exchange rate as well as interest rate differentials between South Africa and the United States of America at the date the mark-to-market valuation is performed.

The unrealised negative mark-to-market position for 31 March 2003 should not detract from the improvement in operating performance achieved by SAA.

Deferred taxation

A deferred tax asset was not recognised during the current year. It is the company's policy to only recognised 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. A substantial portion of the unrecognised deferred tax asset arises from the mark-to-market of the derivative financial instruments and the reversal thereof is dependant on the Rand's performance against the US$. Due to the Rand's volatile performance in recent times and the uncertainty regarding its future value, the directors believe that it would not be prudent to recognise a deferred tax asset.

Headline and normalised earnings

For the year under review headline earnings, including the net derivative fair value (loss) gain have decreased from a profit of R2 220 million* in the prior year to a loss of R5 993 million.

SAA's headline earnings have been significantly impacted over the last two financial years as a result of the extreme Rand/US$ volatility. To understand SAA's actual performance from operations SAA's earnings need to be normalised for the effect of the impact of the volatility of the Rand. After excluding this effect SAA's "normalised earnings" improved from a loss of R1 031 million in the prior year to a profit of R458 million for the current financial year.

* The prior year headline profit of R2 288 million was restated to R2 220 million due to a change in the definition of headline earnings. Restructuring costs (2002: R68 million) are now considered to be part of headline earnings.

Fleet renewal programme

On 25th January 2003 SAA introduced into service the first of its new Airbus A340-600 aircraft, commencing the beginning of the implementation of the new fleet. The new Airbus fleet is significantly more fuel-efficient, has lower maintenance costs and offers more passenger comfort compared to the aircraft that they are replacing. As a result of an increase in passenger demand for seats between Europe and South Africa, SAA leased 2 Airbus A330-200's from British Midland International. These two aircraft are used on the Milan and Paris routes.

SAA currently operates a fleet of 64 (2002: 62) aircraft, which comprises 15 (2002: 14) owned aircraft and 49 (2002: 48) aircraft operated under operating lease agreements.

The remaining Airbus fleet ordered will be introduced into service as follows:

A319-100	–	11 aircraft to be delivered commencing in 2005
A320-200	–	15 aircraft to be delivered on expiry of Boeing 737-800 leases
A340-300e	–	6 aircraft to be delivered, 2 in Q1 2004, 1 in Q2 2004 and 3 in Q1 2005
A340-600	–	6 aircraft to be delivered, 1 in Q3 2003, 3 in Q4 2003 and 2 in 2005

The A340-200's will be leased on an interim basis (12-24 months) from Airbus. This will enable SAA to phase out its entire fleet of Boeing 747 "Classics", being the Boeing 747-300's, -200's and -SP's, over the next year.

SAA's total capital commitment for aircraft acquisitions amounts to US$1 716 million over a period of 10 years. These commitments will be financed through a combination of internal and external funding.

Africa Strategy

SAA has identified Africa as key for its future growth. It is currently positioning itself to establish hubs in West and East Africa. Significant progress has been made in this regard with the acquisition of a 49% stake in Air Tanzania in East Africa, effective 2 December 2002. In addition there was a significant increase in frequencies within Africa resulting in a 14,0% growth in revenue passengers carried. A new service to Dakar, onwards to New York, was introduced during the year.

Going Concern

The Directors of the company confirm that the company is a going concern and that its obligations will continue to be met in the ordinary course of business. As at year-end SAA had a net shareholders' deficit to the amount of R1 410 million as a result of the unrealised negative mark-to-market on derivative financial instruments. SAA's holding company, Transnet Limited, has subordinated its right to claim repayment of loans totaling R1 754 million, as at this date, until SAA's assets, fairly valued, exceeds its liabilities. In addition Transnet Limited has undertaken to provide additional subordinated loans up to a total facility of R4 100 million (which includes the R1 754 million), should it be required.

One of the significant requirements of the accounting statement AC133, is to identify, value and appropriately recognise embedded derivatives. This is in addition to hedge accounting, the revaluation of net monetary assets and mark-to-market adjustments of derivative financial instruments.

An extensive exercise was performed to identify and value the significant embedded derivatives. Based on the information available, this exercise identified net embedded derivative financial assets with an estimated value of approximately R4 900 million before any taxation adjustments.

The recognition of this value at 1 April 2003 effectively reverses the net shareholders' deficit at 31 March 2003 in terms of the AC133 transition adjustments.

Subsequent events

Due to the further strengthening of the Rand subsequent to year-end a further unrealised negative mark-to-market of R1 537 million was recorded by SAA as at 31 July 2003. This has resulted in a further increase in the shareholders' deficit on shareholders' equity which, at 31 July 2003, amounted to R3 682 million. This is before taking into account the fair value of embedded derivatives which at this date was estimated at R7,0 billion, resulting in SAA having positive shareholders' equity.

Outlook

The downturn in world economies, the impact of the Iraqi war and SARS have had a detrimental impact on the industry. Management has completed an extensive exercise aimed at optimising its route network, including the introduction of additional services to take advantage of growth opportunities. At the same time additional emphasis has been placed on the further reduction of costs and enhancing operating efficiencies. The ultra modern Airbus fleet being introduced plays a pivotal role in achieving the above cost reductions and operating efficiency enhancements. The continued attainment of the strategic objectives set out in the "Perfecting the Basics" strategy remains the core focus of management aimed at sustaining operating profitability.

Headline earnings will, however, continue to be affected by the volatility of the Rand.

For and on behalf of the Board

DMJ Ncube
Chairman

AN Viljoen
President and Chief Executive Officer

26 August 2003

Directors:
DMJ Ncube* (Chairman)
AN Viljoen (President and Chief Executive Officer)
SN Mabaso*, ME Mkwanazi*, Dr L Konar*, R Forson**
(*Non executive) (**Alternate)

Company secretary:
N Maqutu

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Airways Park, Jones Road
Johannesburg International Airport
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