

SOUTH AFRICAN AIRWAYS

PRELIMINARY ANNUAL FINANCIAL STATEMENTS

STATEMENT BY THE COMPANY SECRETARY

The Company Secretary, Ms Ruth Kibuuka, certifies that the company has lodged with the Companies and Intellectual Property Commission all such returns and notices as required for South African Airways SOC Ltd in terms of the Companies Act and that all such returns and notices are true, correct and up to date.

Signature to come

Ruth Kibuuka

Company Secretary

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DIRECTOR'S REPORT

INTRODUCTION

The directors have pleasure in presenting their report, which forms part of the annual financial statements of South African Airways SOC Limited (SAA) and its subsidiaries – "the Group" – for the year ended 31 March 2015.

The financial statements set out in this report have been prepared by management in accordance with International Financial Reporting Standards (IFRS), and are based on appropriate accounting policies adopted in terms of IFRS, as detailed in Note 1 to the annual financial statements. There have been no changes made to the accounting policies in the year under review. The accounting policies are supported by reasonable and prudent judgements and estimates as detailed in Notes 3 and 4. The audited financial statements are submitted in accordance with the statutory requirements of the Public Finance Management Act No 1 of 1999 (PFMA) (as amended) and the South African Companies Act No 71 of 2008.

The directors confirm that the annual financial statements present fairly the state of affairs and the business of the Group, and explain the transactions and financial position of the business of the Group for the year ended 31 March 2015.

NATURE OF THE BUSINESS AND COMPANY SHAREHOLDING

SAA is a state-owned company, incorporated in terms of the South African Airways Act no 5 of 2007. SAA has previously reported to the Minister of Public Enterprises, as supported by the Department of Public Enterprises (DPE). However, effective 12 December 2014, shareholder oversight was moved to the Minister of Finance as supported by National Treasury. The airline's principal activities include providing scheduled air services for the transportation of passengers, freight and mail to international, regional and domestic destinations. In fulfilling its mission to deliver commercially sustainable world-class air passenger and aviation services in South Africa, the African continent and our tourism and trading partners, SAA proudly operates to 34 destinations across the continent and provides a competitive, quality air transport service within South Africa and to major cities worldwide.

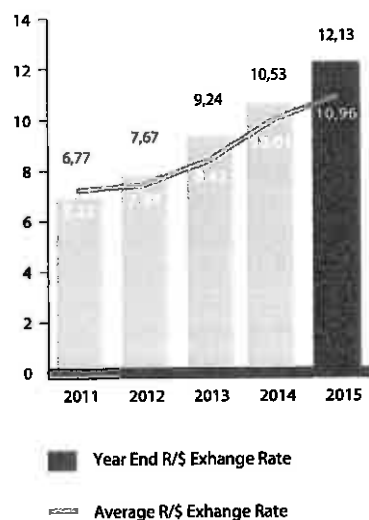
OVERVIEW OF OPERATING AND FINANCIAL RESULTS

Aviation in Africa has been affected by a number of factors, including political

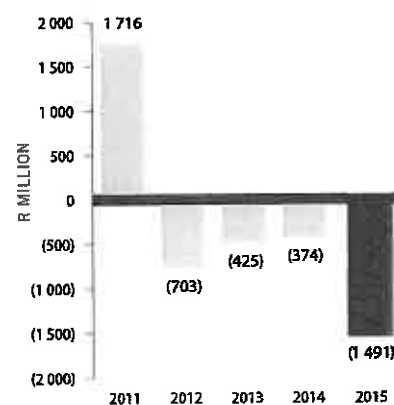
instability and the effects of Ebola, resulting in the passenger growth in the region remaining flat despite growth elsewhere in the world. SAA and its subsidiaries operate in highly competitive global markets, which have rapidly liberalised and consolidated in recent years, resulting in growing levels of competition, both in domestic and the regional (African) markets. Mid-hemisphere airlines are anticipating above average GDP growth for the continent and are aggressively building capacity and extending network reach. In addition, capacity within the intercontinental arena has increased, applying pressure on average fares. The outbreak of Ebola in West Africa during the year had a major negative impact on traffic to South Africa from the Americas, India and Asia.

The rand continued to weaken against all major currencies during the year. The decline in the rand against the dollar was ten percent for the year, while the cumulative effect over the past five years is a decline of 51 percent. This continues to have a significant impact on SAA, where approximately 60 percent of the Group's costs are foreign currency denominated whereas only 40 percent of revenues are earned in strong currencies. While fuel prices declined during the latter half of the year, the weakening rand negatively impacted on the operating expenses and the ultimate benefit to the airline. The negative net impact of the weaker currency on the operating result was approximately R0,8 billion (2014: R0,6 billion).

The graph below depicts the movement in the rand/dollar exchange rate over the past five years:



The challenging and competitive operating environment, coupled with the ever weakening rand, resulted in the Group delivering an operating loss of R1,5 billion which is significantly greater than the operating loss of R374 million reported in the previous financial year. The primary source of this decline in profitability, in addition to the impact of the weaker currency mentioned above, relates to pressures on revenue experienced during the current financial year. The graph below depicts the Group's operating result over the past five years.



The Group furthermore was required to recognised impairments to owned aircraft and aircraft inventory to the value of R1,9 billion. These impairments are primarily as a result of adjustments required to their estimated fair values.

Finance costs increased by 86 percent from R263 million in 2014 to R490 million in the current year. The increase is directly attributable to the increased reliance on shareholder guaranteed loan funding in the absence of any equity support by the shareholder. It is anticipated that this charge will continue to increase until the airline achieves a turnaround in its operating result.

After depreciation and impairments, finance costs, tax and items reflected in other comprehensive income the total comprehensive loss for the year is R4,7 billion compared to the prior year loss of R2,6 billion.

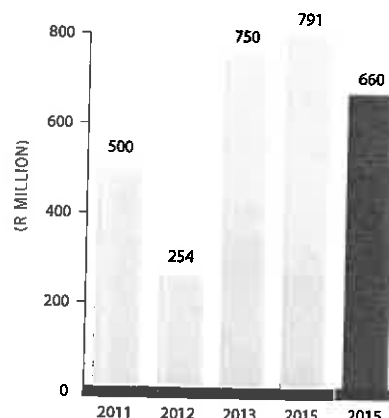
OPERATING PERFORMANCE

As mentioned above, the Group's operational result continues to suffer significantly as a result of the weakening rand. As a partial offset, the Group's cost compression efforts produced additional savings of R790 million during the financial year. Over the past three years this project has yielded sustainable cost savings in excess of R2,2 billion.

The SAA Group operations are segmented into three geographical areas and their respective contributions to the group's operating result are as follows:

1. DOMESTIC CONTRIBUTION

The graph below depicts the contribution from the Group's Domestic operations over the past five financial years:



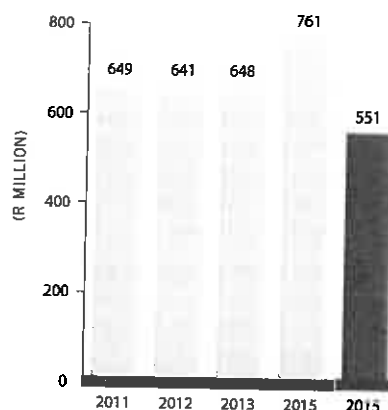
Domestic profit contribution reduced by 17 percent from R791 million in the previous financial year to R660 million in the current financial year.

During 2015 competition on SAA's domestic operations intensified with the market entry of two new low cost carriers on the Cape Town – Johannesburg route being of particular significance.

In addition, SAA experienced a marked decrease in connecting passenger numbers originating from intercontinental source markets as a consequence of the Ebola outbreak. This notwithstanding, SAA counteracted the full effect of these reductions with a strategic move to focus on growing its low cost capacity domestically and to further redeploy capacity into Regional operations with stronger growth prospects. This move stemmed additional losses in a mature and increasingly price-sensitive market.

2. REGIONAL CONTRIBUTION

The graph below depicts the contribution from the Group's Regional operations over the past five financial years:

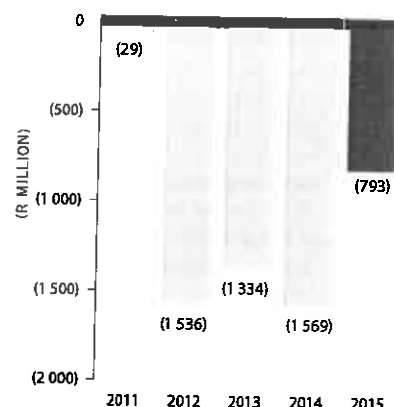


Despite a 28% decrease in contribution from the previous financial year, African flights remained profitable and healthy with a contribution of R551 million to the Group's operating results. (2014: R761 million) However, increased pressure from new low cost entrants (coupled with the detrimental effect of the Ebola outbreak on passenger traffic) negatively impacted profitability margins.

A number of African routes experienced excess capacity in relation to demand and increasing competition (in particular from Gulf and East African carriers) threatens Johannesburg's continued standing as a regional hub. Johannesburg is a regional gateway with a high proportion of origin-destination traffic as well as a sizable base of connecting traffic (almost all of which is transfer traffic involving SAA). A sizeable reduction in passenger traffic affects the entire South African aviation supply chain and it is imperative that immigration regulations (such as the requirement for transit visas) are formulated to facilitate the continued growth and competitiveness of SAA and the Johannesburg hub in an increasingly competitive environment.

3. INTERNATIONAL CONTRIBUTION

The graph below depicts the contribution from the Group's international operations over the past five financial years:



International operation's contribution significantly improved by 49 percent to a loss of R793 million from a loss of R1 569 million in the previous financial year. This improvement can mainly be attributed to the drop in SAA's jet fuel expenditure during the latter part of the year as well as a marginal increase in average fares as the US dollar continued to strengthen against the South African rand. Typically, the downward adjustment in average fares paid by passengers takes place after a few months' delay, given the average lead time of long haul ticket purchases. Load factors and unit fares were growing healthily for the first five months of the fiscal year, after which the Ebola outbreak unfortunately severely impacted inbound tourism. Significant reductions in traffic and average fares were experienced, particularly out of the Americas and Australasia which was reflected in reductions in load factors on a year-on-year basis.

DIRECTOR'S REPORT (CONTINUED)

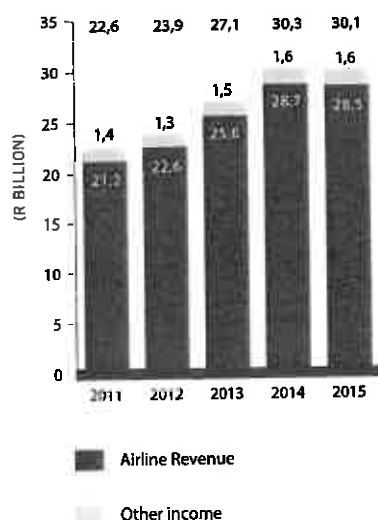
REVENUE

Total revenue remained flat, in line with that of the previous financial year. Airline revenue, the largest single component of revenue, declined by four percent (R0,8 billion) as a result of a decline in passenger numbers and a reduction in load factors. As mentioned above, passenger numbers were severely impacted by external factors such as the Ebola outbreak. The estimated revenue impact of Ebola on SAA's revenue for the year under review was approximately R0,5 billion. The negative impact of the reduced passenger numbers and load factors were partially offset by an increase in average fares, boosted by the weakening rand.

Revenue from SAAT reflected an increase of 10% for the year as the company, in line with its strategy, managed to source additional third party work.

The graph below depicts the Group revenue trend over the past five financial years:

TOTAL INCOME



OPERATING COSTS

Operating costs over the past financial year continued to be well controlled. However, as in the previous financial year, the weakening rand/dollar exchange rate has, once again, had a severe impact on the Group's operating costs. Despite the negative impact of the weakening exchange rate, total operating expenses increased by a below inflation rate three percent year-on-year which was positively assisted by lower fuel costs. In real terms, should the operating costs be adjusted to eliminate the negative currency movements, the airline actually reduced its operating costs from the

previous year by three percent which is further testimony to the successes of the cost compression programme.

COST COMPRESSION PROGRAMME

It is pleasing to note that, over and above baseline savings of just under R1 billion in the 2012/13 financial year and savings of R453 million in 2013/14, additional savings of R790 million have been achieved for the current financial year under review. This brings the cumulative sustainable savings since inception of the programme in 2012 to in excess of R2,2 billion.

During this period average non-fuel CASK reduced from 7,00 USc to an average of 5,75 USc, marginally 3% short of SAA's three year target of 5,6 USc.

Cost savings this past year included benefits from the discontinuance of the Sydney code share with Qantas, reduced aircraft lease rates and reductions in associated maintenance reserves and return condition provisions, other maintenance cost savings and more favourable negotiated procurement contract re-pricing.

Focus over this period has also been on improving the airline's aircraft utilisation, which is another leg of cost compression and relates largely to improved scheduling by better matching inbound and outbound traffic.

Unfortunately there were some other adverse pressures which partly negated the successes achieved as mentioned above. Some of these are, as mentioned previously in the report, increased competition, both from new entrants and reduced fares, health scares in Africa and certain legacy aircraft ownership issues.

Nevertheless, SAA remains resolute with various other strategic interventions to continue the momentum of cost compression in order to contribute towards SAA's longer term financial sustainability.

Various internal and external benchmarking exercises have been conducted over the years to evaluate SAA's costs relative to its closest competitors.

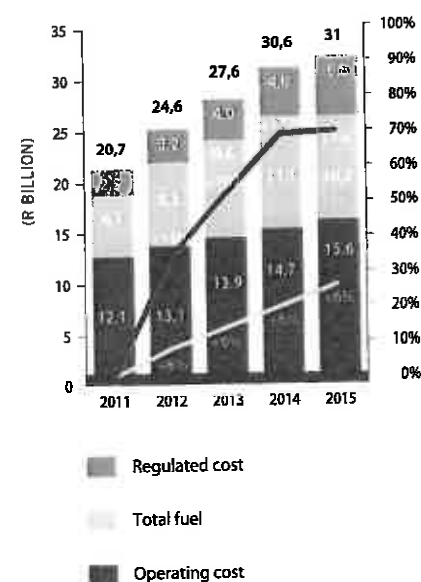
In the past SAA has adopted a programme-driven approach under the executive sponsorship of the Chief Financial Officer, involving the establishment of a Cost Compression Steering Committee and various cross functional forums. Although this structure will continue in a monitoring role, future emphasis will be the embedding of a cost compression culture throughout the company, in order to make cost-consciousness a systemic cultural element within the business.

OPERATING COSTS ANALYSIS

The graph below depicts the operating cost and fuel cost trend over the past five financial years.

FUEL AND REGULATED COSTS

While fuel and regulated costs have increased significantly year-on-year for all except the 2015/15 year, the increase in operating costs, which are costs over which management has influence to control, have only increased by six percent on an annual basis.

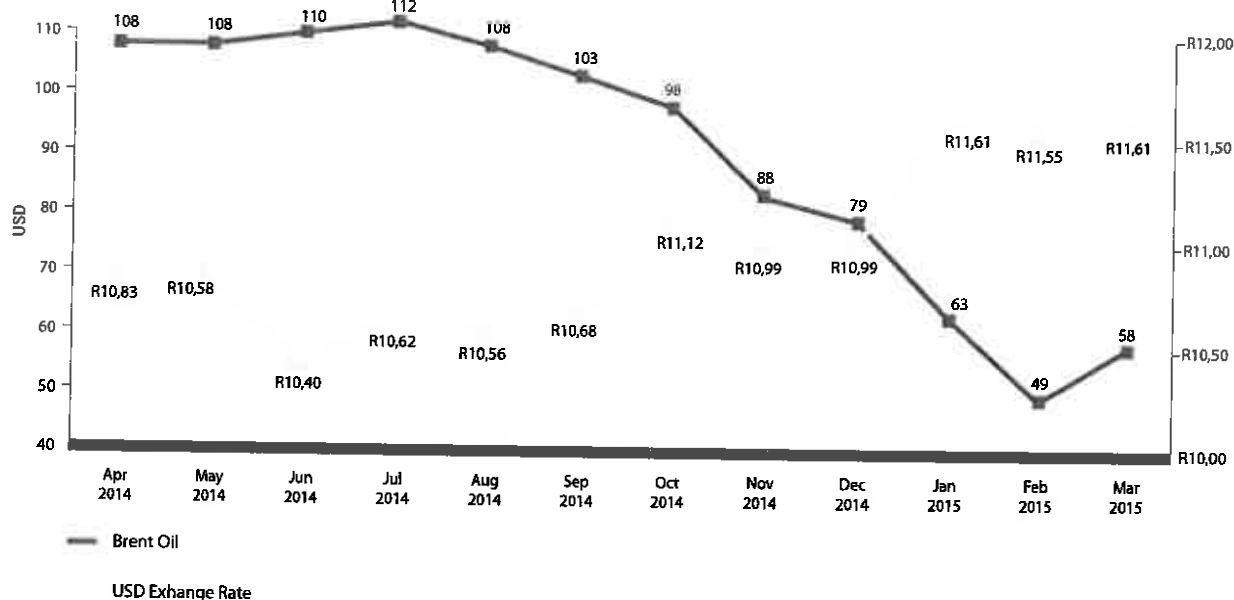


While the group has benefited from the lower fuel prices during the latter half of the current financial year, fuel costs still remain the single biggest cost contributor to the group at 32 percent (2014: 36 percent) of total operating expenses. Despite the 16 percent decrease in the average Brent Crude oil price for the financial year, total fuel costs only decreased by eight percent (R0,9 billion). As a result of the weaker rand and certain longer term hedge positions locked in at higher fuel prices, SAA was unable to take full advantage of the decline in fuel prices. Should the full impact of the exchange rate be eliminated the cost would, in fact, reflect a decrease of R1,7 billion (15 percent) over the previous financial year.

The one percent increase in regulated costs for 2015 is due to the positive benefits of lower fuel prices being offset by higher maintenance costs.

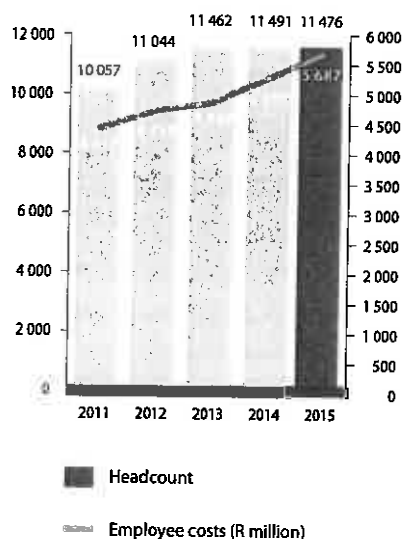
The graph below reflects the movement in the average dollar price of Brent crude oil and the average rand dollar exchange rate over the past 12 months. It is clear in this graph that SAA has not been able to fully benefit from sharply declining fuel prices due to the steady weakening of the rand.

BRENT OIL PRICE PER BARREL AND ZAR USD EXCHANGE RATE FOR THE PAST 12 MONTHS



EMPLOYEE COSTS

The graph below illustrates the trend in headcount and employee costs over the past five years:



Employee costs, which represent the second largest contributor to operating costs, increased by eight percent to R5,7 billion. The effective increase for all staff at SAA was six and a half percent and headcount, which

has remained relatively constant over the past three years, reduced marginally. The employment moratorium remained in place for the year under review and only critical vacancies were allowed to be filled. The weaker currency also negatively impacted employee costs paid to staff abroad as well as subsistence allowances denominated in hard currency. In addition, overtime at SAAT was higher than the previous year due to increased third party workload, while a reduction in recoveries from the TETA in the case of training lead to higher overall training expenses.

MAINTENANCE COSTS

Maintenance costs reflect an increase of R0,8 billion (32 percent) to R3,4 billion from R2,6 billion in the previous financial year. The majority of these costs are contract driven and, once again, impacted by the weaker rand. Should the impact of the exchange rate be eliminated, the increase translates to a 17 percent increase year-on-year. Costs have also increased as SAA's wide-body aircraft are aging and are more costly to maintain. Furthermore, as certain aircraft have been returned to their lessors, the return costs were higher than anticipated. Cognisance of this has been taken in reviewing the provision for lease liabilities required going forward. In addition, as tabled below, the group's fleet increased by two aircraft, accordingly impacting maintenance provisions for the year.

The maintenance cost furthermore includes increased maintenance costs relating to third parties which, in turn, delivered increased revenue to SAAT.

AIRCRAFT LEASE COSTS

Aircraft lease costs have increased by 11 percent from R2,5 billion in the previous financial year to R2,8 billion in the current financial year, primarily due to the impact of the weaker rand and the six additional A320 aircraft that were delivered during the financial year, as well as the full annual impact of the four A320 aircraft that were delivered in the previous financial year. While SAA took delivery of six A320 aircraft during the year, four aircraft were returned to the lessors and two aircraft were sub-leased to Mango. The total fleet therefore also increased by two aircraft with its consequential impact on the lease and maintenance costs.

Leased Fleet	2015	2014	Change
A330	6	6	–
B737	12	14	(2)
A319	8	11	(3)
A320	12	6	6
A340	10	11	(1)
Total SAA	48	48	–
B737	10	8	2
Total Mango	10	8	2
Total Group	58	56	2

DIRECTOR'S REPORT (CONTINUED)

NAVIGATION, LANDING AND PARKING FEES

Regulatory costs (which comprise navigation, landing and parking fees) have increased by seven percent from R2,1 billion in the previous year to R2,2 billion in the current financial year. The weaker currency once again has had an impact in this charge as a large portion of the costs are being charged in hard currency.

OTHER OPERATING COSTS

Commissions and network charges have decreased by nine percent from the previous financial year. This can be directly attributed to the decline in passenger revenue as well as a reduction in agent sales during the year.

Electronic data costs of R543 million are marginally lower than those of the previous financial year (R549 million). Significant savings were realised on the re-negotiation of IT desktop, network and facilities contracts, effectively offsetting increases in license and network costs.

Excluding the impact of energy, regulatory and maintenance costs which are, to a large extent, out of the direct influence of management, the Group's operating costs increased by six percent. This is inclusive of the impact of the weakening rand which emphasises the continued tight cost control maintained over controllable costs. Should the impact of currency be eliminated from these costs, the increase is only one percent.

NET IMPAIRMENTS

WIDE BODY FLEET

A deliverable of the 90 Day Action Plan was the revision of SAA's Network and Fleet Plan. The Plan was approved by the Board and included the possible replacement of the Group's owned A340 fleet. As a result, the useful lives of these aircraft had to be re-assessed. To the extent that this has reduced the anticipated remaining useful life of its owned A340 aircraft, the Group is required, in terms of IFRS, to adjust the book values of these aircraft. The result was

the recognition of impairments to the extent of R0,8 billion (2014: R0,8 billion) on these aircraft.

NARROW BODY FLEET

During the current financial year the airline took delivery of six new A320 narrow-body aircraft. The agreement for the outright purchase of 20 aircraft, which was originally entered into in 2002 and later re-negotiated in 2009, provided for annual escalations which resulted in the actual purchase price exceeding the market value of these aircraft at date of delivery. The financing of these aircraft was being facilitated by way of sale and leaseback transactions, which necessitated the impairment of each aircraft to market value at each delivery. As a result, impairments of R0,7 billion (2014: R0,4 billion) were recognised during the current financial year.

SAA has renegotiated this contract with Airbus to replace the remaining ten A320 aircraft with five new A330 aircraft. As a result, future likely impairments to the value of R1,4 billion have been avoided. To the extent that SAA may not fully recover the pre-delivery payments (PDPs) paid in respect of these ten aircraft, an impairment of R0,1 billion has been provided for.

INVENTORY

SAAT reviewed its inventory in the light of the new Fleet Plan and its third party work requirements. This review resulted in an impairment of R0,3 billion during the current financial year (2014: R0,2 billion), primarily in relation to spares for the aging A340 wide-body fleet.

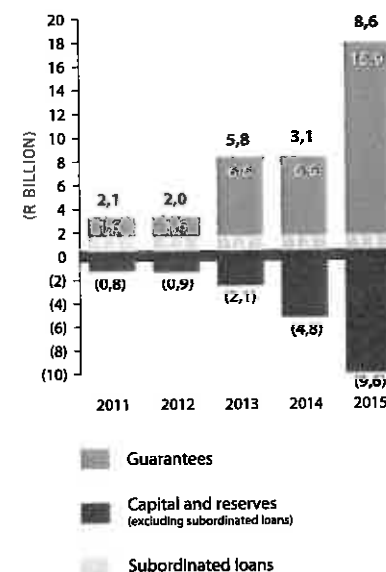
STATEMENT OF FINANCIAL POSITION EQUITY

Historically SAA had to operate with a weak balance sheet which, together with its operating losses incurred during the past four years, required additional assistance from its shareholder. In October 2012, the Group was granted a R5,1 billion shareholder guarantee to secure its continued operations until alternative forms

of shareholder support was received to restore the airline's capital and reserves position. During the 2014 financial year this guarantee was converted to a perpetual guarantee and thereafter, in December 2014, increased by an additional R6,5 billion.

Subsequent to the current financial year the Shareholder has approved a further perpetual guarantee of R3,9 billion to ensure that SAA remains solvent and has access to sufficient working capital to continue operating as a going concern. While this ensures there are sufficient guarantees to ensure SAA remains both liquid and solvent, the impact of the cost of increased borrowings on future profitability is significant. Total shareholder guarantees amount to R18,2 billion.

The graph below depicts the capital and reserves trend over the past five financial years.



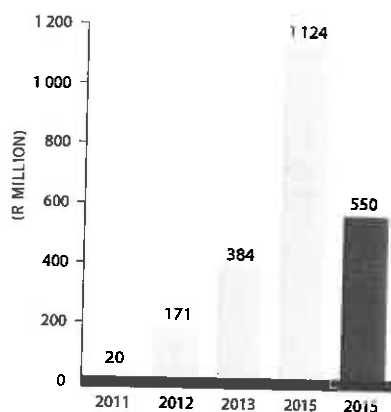
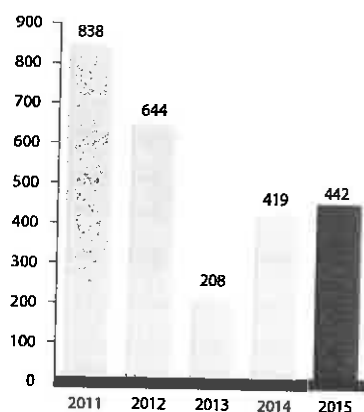
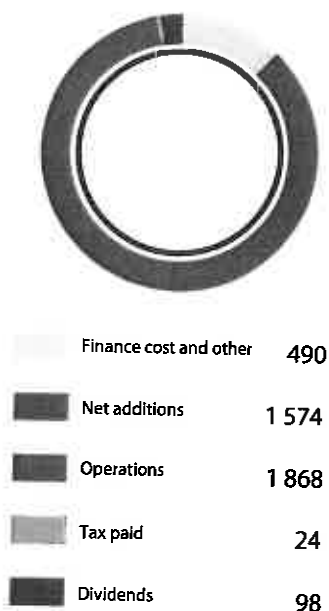
CASH FLOW

Cash and cash equivalents at the end of the financial year reduced by R47 million to a net overdraft position of R126 million (2014: R79 million).

SAA's cash position remained under pressure and, as a result, SAA was required to draw down R2,15 billion against

government guaranteed loans to meet its working capital and capital expenditure requirements. Cash outflows from operating activities increased from R0,4 billion to R2,3 billion in the current financial year which was largely due to the increased operating losses and higher interest charge due to increased loan funding.

It can further be noted that, over a period of five years, SAA has repaid loans to the value of R2,6 billion and paid R2,2 billion on aircraft PDPs (refer graphs below) which has further contributed to the erosion of the cash reserves over the period.

PDP SPEND TREND**2015 CASH INFLOW – R3 958M****2014 CASH INFLOW – R2 903M****LOANS REPAID TREND****2015 CASH OUTFLOW – R4 045M****2014 CASH OUTFLOW – R1 843M**

DIRECTOR'S REPORT (CONTINUED)

LONG-TERM LOANS

The increase in long-term loans of R3,0 billion compared to the previous financial year reflects SAA's efforts to manage its debt maturity profile. SAA's strategy is to consolidate its debt going forward and improve the maturity profile of its debt by obtaining funding with repayment terms at staggered intervals over the medium- to long-term.

PROVISIONS

The increase in the current portion of provisions and associated decrease in long-term portion of provisions year on year relates primarily to movements in the provision for lease liabilities relating to leased aircraft.

DERIVATIVES

The current liability of R346 million (2014: R3 million) relates to unrealised mark to market losses on fuel options at year end.

DEFERRED REVENUE ON TICKET SALES

The reduction of R0,6 billion in this balance, which represents the unrealised income resulting from tickets sold but not utilised, is directly linked to the reduction in forward sales bookings following the recent legislation relating to visas (eg the unabridged birth certificate).

TRADE AND OTHER RECEIVABLES

The increase in trade and other receivable balances of R0,6 billion relates to an increase in maintenance reserve balances.

NON-CURRENT PRE-PAYMENTS

PDPs that were paid in respect of the A320 aircraft acquisition transaction were reflected in capital work in progress. As a decision has been taken not to purchase the aircraft outright, in terms of SAA's accounting policies, the balance paid has been transferred to prepayments.

These balances relate to the non-current portion of these PDPs. In the prior year all the PDPs were reflected as current assets as they related to the aircraft delivered during 2014/15.

PROPERTY, AIRCRAFT AND EQUIPMENT

The balance on this account has reduced compared to the previous year due to the impairment of the A340 owned fleet, coupled with accelerated depreciation on this fleet and the transfer of the remaining PDPs from capital work in progress to receivables.

ECONOMIC VALUE ADDED

The table below clearly depicts the wealth created by SAA's activities during the year and how it was distributed. It also reflects group's contribution to the fiscus by way of the collection of indirect taxes.

GROUP ECONOMIC VALUE ADDED STATEMENT

for the year ended 31 March 2015

R MILLION	2015	2014
Total income	30 105	30 266
Cost of services	(25 909)	(25 383)
Value added	4 196	4 883
Income from investments	26	32
Wealth created by operations	4 222	4 915
Distribution of wealth		
Employees (salaries, wages and other benefits)	5 687	5 257
Government (income tax)	20	8
Providers of capital (interest)	588	350
Total wealth distributed	6 295	5 615
Wealth distribution funded through debt	(2 073)	(700)
Wealth created by operations	4 222	4 915
Dealings with government		
Gross contributions to government	20	8
Company taxes	4	5
Rates and taxes	37	37
Customs and excise duties	61	50
	(7)	(4)
Other government grants	54	46
Charged against group income	2 833	2 756
Collected on behalf of government		

GROUP OPERATING DATA

	2015	2014	2013	2012	2011
Capacity					
Available seat kilometres (ASKs) (millions)	33 562	33 999	33 441	32 423	32 378
Traffic					
Revenue passenger kilometres (RPKs) (millions)	24 523	25 606	24 880	23 217	22 661
SAA	21 814	23 124	22 901	21 509	21 181
Mango	2 709	2 482	1 979	1 708	1 480
Revenue passengers (thousands)	9 181	9 332	8 846	8 087	8 053
SAA	6 700	7 071	7 009	6 480	6 630
Mango	2 481	2 261	1 837	1 607	1 423
Cargo – tonnes flown (thousands)	131	132	133	142	129
Utilisation					
Passenger load factor (%)	73	75	74	72	70
Yield (passenger revenue/RPKs) – passenger	0,79	0,78	0,71	0,69	0,68
Passenger revenue (R million)	19 265	20 085	17 716	15 908	15 443
Yield (revenue/ASKs) – airline revenue	0,85	0,84	0,76	0,70	0,65
Yield (total income/ASKs) – total income	0,90	0,89	0,81	0,74	0,70
Unit cost (cost per available seat kilometre)	0,94	0,90	0,82	0,76	0,64
Labour cost	0,17	0,15	0,14	0,15	0,14
Energy	0,30	0,33	0,29	0,26	0,19
Material cost	0,11	0,08	0,07	0,05	0,04
Other operating costs	0,36	0,34	0,32	0,30	0,27

CRITICAL ISSUES FACING THE AIRLINE

SAA continues to deal with a number of critical issues that are elaborated on below. These include strategic and policy issues in respect of which the Directors wish to acknowledge the support received from National Treasury. The Group reported on these issues in its 2014 Annual Report with progress highlighted below.

Cash flow will remain a critical issue until such time as the airline receives an equity injection to reduce its expensive reliance on debt funding. This has already been addressed in the LTTS and engagements are continuing with the Shareholder in this regard.

AIRCRAFT ORDERS AND FLEET MODERNISATION

Critical to the success of the implementation of the LTTS and the airline's return to profitability is the replacement of the wide-body aircraft on international routes with more fuel efficient new generation aircraft.

The replacement of these aircraft will, however, be subject to a phase-in period, driven by the expiry of current leases and the availability of new generation aircraft. The process to acquire new wide body aircraft requires at least a lead time of approximately 18 months to two years. Over the past three years two tender attempts had been cancelled by the Shareholder. As a

result, with certain lease agreements nearing their expiry dates, SAA had no choice other than to consider extending these leases to ensure sufficient aircraft availability to meet its network requirements. Fortunately, with the significant reduction in fuel cost and the fact that the aircraft are nearing their end of economic life, SAA could leverage on that and were able to renegotiate significant reductions in lease rates and related maintenance reserves and return conditions by extending these leases.

As reported previously, SAA has entered into an agreement with Airbus for the delivery of 20 A320 aircraft, with deliveries scheduled from 2013 through to 2017. Delivery of the first ten aircraft has been taken and approval has been received from the Shareholder to renegotiate the contract to replace the remaining ten aircraft with five new A330 aircraft on operating lease, which are better suited to delivering the approved Network and Fleet Plan produced during the 90 Day Action Plan period. The restructuring of the contract will ensure that SAA avoids further impairment costs related to the A320 aircraft of R1,4 billion in 2016 and 2017.

COMPETITION MATTERS

The Company is currently defending three actions brought against it by Comair and the liquidators of Nationwide. The claims arose from the ruling of the Competition Tribunal that SAA contravened sections of the

Competition Act No 89 of 1998 in regard to the provisions of its agreements with travel agents between October 1999 and May 2001 ("the first period") and between 1 June 2001 and 31 March 2005 ("the second period"). Comair's claims, which have since been consolidated into a single action, relate to both the first and the second period, while the Nationwide claim relates to the second period only. The Comair matters have been set down for trial for 18 April 2016. SAA has extensively engaged its legal and economic experts in assessing its exposure and contingent liability and an appropriate financial provision has been made in its financial statements.

COMPLIANCE WITH THE PUBLIC FINANCE MANAGEMENT ACT (PFMA)

SAA as a state owned company and listed as Schedule 2 Major Public Entity in terms of the PFMA, (Act No 1 of 1999), the SAA Board as the accounting authority, has the responsibility of ensuring that SAA has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The design and implementation of effective controls has been delegated to the SAA executive management.

DIRECTOR'S REPORT (CONTINUED)

SAA has experienced an increase in PFMA non-compliance over the 2014/15 financial year compared to the 2013/14 financial year specifically as it relates to "Irregular spend without loss" and this is illustrated in the table below:

Category of PFMA non-compliance	2014/2015	2013/2014
Irregular spend without loss	R68,5m	R28,4m
Fruitless and wasteful expenditure	R52,7m	R19,2m
Loss due to criminal conduct	R0.00	R5,8m
Recoveries	R7,4m	R0.00

The irregular spend increase in the 2014/15 financial year is primarily due to expired contracts that have not been timeously renewed and/or extended. A number of interventions have been implemented in the 2014/15 financial year such as detailed below, with the impact to be realised in the 2015/16 financial year:

- The Contract Management department was moved to report into the Supply Chain Management Department to implement the contract management process/system and to monitor contacts.
- Implementation of the SAP Module for contract management.
- Provision of training in the African Regional stations and Domestic stations.

Fruitless and wasteful expenditure reflects R26,9 million in relation to penalties paid by SAAT in terms of the Tax Administration Act, which was the subject of an unsuccessful appeal, while R8,2 million arose from penalties for late PAYE, UIF and SDL payments by SAAT.

Management has instituted control measures such as disciplinary actions in all cases where there have been reportable PFMA contravention cases as part of mitigating PFMA non-compliance.

INTERNAL CONTROL

The Critical Financial Reporting Controls project, implemented some four years ago, and designed to address key financial control deficiencies in core financial processes has successfully addressed areas which were of concern. SAA continues to be fully compliant with section 51(1)(a)(i) and 51(1)(a)(ii) of the PFMA.

AIR SERVICE LICENCES: GUARANTEES

In terms of both the International Air Services Act No 60 of 1993, and the Domestic Air Services Act No 115 of 1990, all South African carriers are obliged to have a guarantee in place to cover passengers who have purchased tickets, but have not

yet travelled, against non-performance by the airline. Without a guarantee in place, SAA would not be permitted to operate any domestic or international routes. The required liability guarantee amount at the end of the current financial year has been calculated at R495 million (2014: R545 million). This decrease is directly related to the decrease in passenger tickets sold.

GOING CONCERN

As with previous years, SAA remains undercapitalised and needs to rely on shareholder guarantees for its funding. Four consecutive years of operating losses has further eroded the capital base and this continues to impact on the ability of the business to operate in a highly demanding and competitive industry. The current economic conditions create financial ambiguity; particularly relating to fluctuating currency rates and jet fuel prices.

The directors have assessed the short- to medium-term cash flow requirements of the airline. The timing and the extent of any possible shareholder support associated with the LTTS was also taken into consideration when determining the future liquidity of the Group.

During the financial year SAA received an additional R6,5 billion perpetual guarantee from its shareholder. Any guarantees from the shareholder will be reduced proportionately by any future capital injection provided by the Shareholder. Subsequent to the financial year a further perpetual guarantee of R3,9 billion was approved by the Shareholder. In the absence of the timing and extent of the expected shareholder support, these guarantees provide reasonable comfort that SAA would have the ability to continue operating as a going concern.

The directors are of the view that the guarantee support by its shareholder would be adequate for the going concern

requirement in the short-term, being 12 months from the date of approval of these annual financial statements. The directors, however, remain of the view that a more permanent appropriate capital structure is required for the airline.

LEGAL AND REGULATORY

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

SAA's process of developing, review and monitoring the Regulatory Universe is underpinned by the approved Compliance Policy and Framework which was informed by the adopted Enterprise Risk Management Methodology aligned to ISO31000. The alignment of Risk and Compliance Methodologies forms the building blocks towards an integrated reporting and Combined Assurance Framework.

The annual review and update of the SAA Consolidated Regulatory Universe was completed during the year and included outstations as well. To date there are four outstations that have been audited to ensure compliance with regulations in their respective jurisdictions.

SHAREHOLDER'S COMPACT

Key Performance Indicators (KPIs) have been created to monitor SAA's performance against the pre-determined objectives as agreed upon between the airline and the Shareholder. These KPIs are reported on a monthly and quarterly basis, with regular feedback sessions held with the Shareholder. The Net Retained Earnings of the SAA Group was the main performance indicator for the 2014/2015 financial year. Other supporting KPIs have been formulated to support the main KPI and are consistent with SAA's 2014/2017 Corporate Plan.

Key Performance area	Key performance indicator by 31 March 2015	FY 2015 Target	FY 2015 Actual	Explanations
Financial Value Creation	Net operating profit/(loss) (Excluding aircraft impairment)	R(1,156)m	R(2,144)m	KPI not achieved
	Net retained earnings movement	R(1,599)m	R(4,847)m	KPI not achieved
	Net cash flow from operating activities	R(43)m	R(3,364)m	KPI not achieved
	Cargo revenue as a percentage of operating revenue	5%	8%	KPI achieved
Customer Service	Customer satisfaction	84%	85%	KPI achieved
Fleet Utilisation	Daily block hours	10.7	10.29	KPI not achieved SAA did not achieve the target utilization of its aircraft. This is mainly as a result of unplanned maintenance on aircraft as well as flight schedule changes to optimize route profitability.
On-time Performance	On-time performance	86%	86%	KPI achieved
Safety	Implementation of Safety Management System as per CAA and ICAO requirements	70%	43%	KPI not achieved A safety system was acquired in March 2014 and the roll out thereof was slightly deferred.
Skills Development	Training spend	3% of personnel costs	3.11%	KPI achieved
	Cadets	30	4	KPI achieved
	Technician trainees	140	0	KPI achieved
	Sector specific interns	60	41	KPI achieved
Education / Aviation awareness / Other CSI initiatives	Total CSI budget	R7m	R3.75m	KPI not achieved This KPI was not achieved as a result of re-prioritising SAA's cash flow allocation.
Procurement	%Spend locally	75%	77%	KPI achieved
	Spend on BBBEE compliant companies as a % of local eligible spend	83%	94%	KPI achieved
	% of local spend on Black owned entities	15%	7%	KPI not achieved Although it was a focus for SAA to increase its spend on Black owned entities, the development of the supplier database was protracted.

DIRECTOR'S REPORT (CONTINUED)

Key Performance area	Key performance indicator by 31 March 2015	FY 2015 Target	FY 2015 Actual	Explanations
Energy Efficiency	Provide a plan relating to the Energy Self-sufficiency Programme delivering clean energy to the SAA Johannesburg campus through energy interventions such as hydrogen fuel cells, photo voltaic panels and gas turbines to be housed in the SAA Technical area by 31 March 2015.			KPI not achieved SAA is still in the process of selecting and appointing a panel of companies to provide the required energy efficiency and energy generation technologies and solutions to meet the needs of SAA. Once the panel is appointed 4 projects will immediately be released and implemented.
	Provide a plan for the supplementary clean energy and bio-fuels to Air Chems through an anaerobic digestion or gasification plant utilizing airport organic and other waste and waste from surrounding locations and properties (e.g. Pick 'n Pay) by 31 March 2015.			SAA and the World Wildlife Fund (WWF)-SA developed a contract to enable multiple programs including the supplementary energy program to be developed and discussed between SAA and the WWF. This contract is still subject to the finalisation of payment mechanisms.

EVENTS SUBSEQUENT TO THE STATEMENT REPORTING DATE

The CEO, Monwabisi Kalawe, resigned from the Board of SAA and all its subsidiary boards effective 22 April 2015.

COMPLIANCE STATEMENT

This report is presented in terms of the National Treasury Regulation 28.1 of the PFMA, as amended. The prescribed disclosure of emoluments in terms of National Treasury Regulation 28.1.1 is reflected in note 37 of these financial statements titled 'Related Parties'.

The performance information as envisaged in Subsection 55(2)(a) of the PFMA and Section 28(l)(c) of the Public Audit Act No 25 of 2004 has been incorporated into this report. By virtue of the matters referred to in this report, the Board does not consider that the company has fully complied with the provisions of Sections 51 and 57 of the PFMA throughout the period under review and up to the date of the approval of these annual financial statements.

The Board and management have taken and are continuing to take steps to ensure that the areas of non-compliance are addressed.

SPECIAL RESOLUTIONS PASSED DURING THE 2014/15 FINANCIAL YEAR

There was one special resolution taken during the 2014/15 financial year. The Shareholder was requested to approve the granting of financial assistance to subsidiaries in terms of section 45 of the Companies Act.

APPOINTMENT OF AUDITORS

At the Annual General Meeting held on 29 January 2015, the Company re-appointed Nkonki Inc. and PricewaterhouseCoopers Inc. as joint auditors for the 2014/15 financial year.

DIVIDENDS PAID AND RECOMMENDED

No dividends have been recommended, declared or paid for the current or prior financial year. The government guaranteed subordinated loan has been classified as equity in accordance with IAS 39 and the terms of the guarantee conditions. Accordingly, any interest which SAA has paid on this loan has been classified as dividends. For the current year, SAA paid interest, classified as dividends, of R98 million (2013: R87 million).

SHARE CAPITAL

Details of the share capital of the Group and Company are set out in note 27 to the annual financial statements.

BOARD COMPOSITION

At 31 March 2015 the Board consisted of six members, four independent non-executive directors and two executive directors. This Board came into office on 23 October 2014 following the resignation and/or removal of seven members of the previous Board. On 22 April 2015 the CEO resigned as a director of SAA and all its subsidiary boards. The Acting CEO, Nico Bezuidenhout, has not been appointed to the Board.

BOARD EFFECTIVENESS

South African Airways (the company) has put in place processes, frameworks and structures to ensure that the Board and all its committees operate effectively and efficiently. Adequate resources in terms of human resources and finances have been allocated to provide sustainable support to the Board.

Every financial year the performance of the Board and individual directors is evaluated with the assistance of an independent organisation. During the year under review, the evaluation was facilitated by Statucor (Pty) Ltd. The outcome of the assessment indicated that the Board was a well-functioning professional unit with high ethics and a strong regard for governance. Although no areas of concern were identified, a remedial action plan was developed with a view to addressing areas for improvement. Its implementation will be overseen by the Social, Ethics, Governance and Nominations Committee (SEGNCO) to which quarterly progress reports would be made.

The areas that were assessed in the period under review included the following:

- Board independence
- Strategy and company performance
- Compliance with laws and regulations
- Board responsibilities
- Board meetings
- Corporate culture
- Committees of the Board
- Key Corporate Governance Role Players
- Relationship between Board and management

- Succession planning
- Board composition

MEETINGS AND RELATED MATTERS

The Board meets regularly and retains full and effective management and control over the company. It, inter alia, approves and monitors the development and implementation of policies, strategies and the annual Board Work Plan.

The Board agenda is designed in a manner that enables the Board to focus on policies, strategy, performance monitoring, governance and related matters.

The directors have unrestricted access to all information, records and documents of the company to enable them to discharge their responsibilities and to take informed decisions.

The Board had 3 scheduled and 8 ad hoc meetings during the year under review. Information regarding the attendance of the meetings can be found on page 66.

BOARD COMMITTEES

In order to assist the Board and directors in discharging their duties and responsibilities, specific responsibilities have been allocated to the Board Committees listed below which have specific Terms of References. The Terms of Reference deal with or provide for issues such as the composition of Board Committees, duties and responsibilities and their scope of authority.

The executive directors and members of the executive management team have a standing invitation to attend meetings of the various Committees. Membership of the various Committees is outlined on page 66 to 67 of the annual report.

Due to the significant reduction in the number of directors, the Board took a decision in November 2014 to dissolve some of the Board Committees and maintain only statutory Committees such as the Audit Committee and the Social and Ethics Committee as well as Committees recommended by the King Report on Corporate Governance (King III), such as the Remuneration Committee.

AUDIT AND RISK COMMITTEE

The Committee is a statutory committee and meets at least four times a year and is primarily responsible for assisting the Board in carrying out its duties relating to appointment of auditors, the functions of the auditors, the non-audit services that the auditors may provide, annual financial statements, accounting policies and

procedures, internal controls, and the internal audit and risk management functions.

During the period under review, the Committee performed all its duties and responsibilities in terms of its Terms of Reference.

The Chief Executive Officer, Chief Financial Officer, representatives of the external auditors, internal audit, risk management team and members of the Finance Division attend every meeting of the Committee by invitation.

The external and internal auditors have unrestricted access to the Chairperson of the Committee, the Chairperson of the Board and non-executive directors. The Committee always met separately with the external auditors, the internal audit and management after every meeting of the Committee to discuss various matters of concern, if any.

The Committee had 4 scheduled meetings during the year under review. Information regarding the attendance of the meetings can be found on page 66.

FINANCE, INVESTMENT AND PROCUREMENT COMMITTEE

During the first quarter of the financial year, the mandate of this Committee (previously known as the Procurement and Tender Processes Committee) was extended to include financial planning and investment functions in addition to its procurement oversight role.

This Committee is responsible for ensuring that there are systems and procedures in place to ensure that goods and services are procured in a manner that is cost-effective, equitable, transparent and fair. It further ensures that financial planning and investment decisions are effective, efficient and in accordance with the strategic objectives of the company.

The Committee has terms of reference which sets out its functions and discharged all its duties in accordance with its terms of reference during the year under review. The Committee had 2 scheduled meetings during the year under review. The information regarding the attendance of the meetings can be found on page 66.

This Committee was dissolved in November 2014.

AD HOC COMMITTEE ON LITIGATION

This is an ad hoc committee that was established to serve as the principal conduit

of instruction and contact with the attorneys acting for SAA in the matter between SAA and its erstwhile CEO, Dr K Ngqula. It monitors and reports to the Board on progress in the litigation and advises the Board on strategic decisions to be made by the Board on the matter.

This Committee has its terms of reference which are reviewed annually. All its duties as set out in the terms of reference were performed during the year under review.

The Committee had no meetings during the year under review.

This Committee was dissolved in November 2014.

REMUNERATION AND HUMAN RESOURCES COMMITTEE

The Remuneration and Human Resources Committee has terms of reference which are reviewed annually. The main duties of the Committee include formulation, development and implementation of remuneration and human capital strategies, policies, plans and programmes for the entire SAA Group, excluding Mango.

All its duties as set out in the terms of reference were discharged.

The Committee had 3 scheduled meetings during the year under review. The information regarding the attendance of the meetings can be found on page 66.

LONG-TERM TURNAROUND STRATEGY COMMITTEE

The key functions of this Committee included overseeing the development and implementation of the Long-Term Turnaround Strategy and ensuring the successful implementation of the Long-Term Turnaround Strategy in accordance with the approved implementation plan.

Post approval of the Long-Term Turnaround Strategy by the Board during March 2013, the focus of the Committee shifted to overseeing effective implementation of the Strategy.

The Committee had 4 meetings and 1 ad hoc meeting during the year under review. The information regarding the attendance of the meetings can be found on page 66.

This Committee was dissolved in November 2014.

SOCIAL, ETHICS, GOVERNANCE AND NOMINATIONS COMMITTEE

The primary responsibility of this Committee is to perform the statutory functions of the

DIRECTOR'S REPORT (CONTINUED)

social ethics committee in terms of the Companies Act and to assist the Board with the appointment, induction and development of directors and other governance related matters.

This Committee has terms of reference. All its duties as set out in the terms of reference were discharged during the year under review.

It had 3 scheduled meetings during the year under review. The information regarding the attendance of the meetings can be found on page 44.

BOARD REMUNERATION

The remuneration of the Board members is determined in accordance with the Remuneration Guidelines issued by the Minister of Public Enterprises. The remuneration is only made up of a monthly retainer which is paid to the Board members for the services rendered to the company.

The details of the Board members' remuneration for the year under review are stated in Note 44 to the

INDEPENDENCE OF THE BOARD

The independence of the Board is achieved and maintained through a number of measures, including but not limited to the following:

- Board members being remunerated by paying them a retainer only. This discourages the members from having numerous meetings which may end up compromising their independence.
- Separation of the positions of the Chief Executive Officer and that of the Chairperson.
- The Board Committees being chaired by non-executive directors with only one Committee being chaired by the Chairperson of the Board, namely Segnco, in accordance with the King Code of Governance for South Africa.

- The Board having access to independent external advice at the cost of the company.
- The Board members being appointed for a period of three years, reviewable annually. The terms are limited to three terms of three years each which period is not regarded as too long to impact on their independence.

KING CODE OF GOVERNANCE PRINCIPLES FOR SOUTH AFRICA (KING III)

The company acknowledges that each principle recommended in the King III is of equal importance. In line with this acknowledgement, the Governance Unit of the company applied its mind to all principles with a view to integrating each one of them into the operations of the company. To this end, an integration action plan was developed wherein all principles were analysed and checked if they could be applied in the company given its operating environment.

The principles which are to be applied are systemically integrated into the company's operations, while explanations are recorded for those which can hardly be applied and these are available in the governance register which can be viewed on the company's website. The Company has also acquired a governance tool which will enable it to assess compliance with the King III principles and PFMA and take corrective measures where necessary.

PUBLIC FINANCE MANAGEMENT ACT 1 OF 1999, AS AMENDED (PFMA)

The PFMA is one of the legislation that SAA is required to comply with. The company has systems in place to ensure that it complies with this legislation. Its policies and procedures are responsive to the requirements of the PFMA and its

Regulations. With effect from 12 December 2014, the company reports to the National Treasury on compliance with the PFMA and the Treasury Regulations on a quarterly basis. During the period under review the company complied with the requirements.

CODE OF ETHICS

The company has a Code of Ethics by which all employees and Board members are bound. The company's Code of Ethics is underpinned by the company values.

COMPANY SECRETARY

The Company Secretary, inter alia, plays a significant role in providing strategic support and guidance to the Board; conducting induction of new directors; providing the board with relevant information on regulatory and legislative changes; providing guidance to directors individually and collectively on their duties and responsibilities to the company; providing guidance and advice to the Board on matters of ethics and good governance; facilitating and managing communication with the shareholder and stakeholders; facilitating and ensuring compliance with the Memorandum of Incorporation, King III, Companies Act, PFMA and other relevant legislation.

The directors have unrestricted access to the advice and services of the Company Secretary.

The Company Secretary ensured that all reports and returns to relevant supervisory institutions were submitted during the year under review.

DIRECTORS' MEETINGS

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the year, indicating the number of meetings attended by each director.

The following table sets out the composition of the Board committees and the number of directors' meetings (including meetings of committees) held during the year, together with the number of meetings attended by each director.

SAA Board of Directors at 31 March 2015	Date of appointment (A)/ resignation (R)	Board	ARC	FIPCO 1	REMCO	SEGNCO	AD HOC 1	LTTC 1
Total number of meetings held		11	4	2	3	3	0	5
Ms DC Myeni ^N (Chairperson)	28 September 2009 (A)	7			1	1		
Ms Y Kwinana ^N	2 December 2009 (A)	8	3	0		0		0
Mr A Mabizela ^N	22 October 2014 (R)	4			2	2		5
Mr A Khumalo ^N	16 October 2014 (R)	5	2	2				
Mr R Naithani ^{** N}	23 October 2014 (R)	3		2	2			2
Ms C Roskrige ^N	22 October 2014 (R)	5	2	2				
Ms B Mpondo ^N	17 October 2014 (R)	5		2	2		0	5
Ms R Lepule ^N	17 October 2014 (R)	5	2			2		4
Ms N Kubeka ^N	22 October 2014 (R)	4	1			2		
Mr AD Dixon ^N	23 October 2014 (A)	6	2		1	1		
Mr JE Tambi ^{*** N}	23 October 2014 (A)	6	2		1			
Mr M Kalawe ^E (CEO)	1 June 2013 (A)	6	1*	1*	1*	1*	0*	4*
Mr WH Meyer ^E (CFO)	13 June 2011 (A)	7	4*					

Legend

N = Non-executive director

E = Executive director

REMCO = Remuneration and Human Resources Committee

SEGNCO = Social, Ethics, Governance and Nominations Committee

ARC = Audit and Risk Committee

FIPCO = Finance, Investment and Procurement Committee

AD HOC = Ad Hoc Committee on Litigation

LTTC = Long-term Turnaround Strategy Committee

CEO = Chief Executive Officer

CFO = Chief Financial Officer

Footnote

* Attendance by invitation

** Indian national

*** Sierra Leonean national

1 Committee disbanded effective 3 November 2014

DIRECTOR'S REPORT (CONTINUED)

DIRECTORS' INTERESTS IN CONTRACTS

Directors' and employees' declarations of interests is a standing item at all meetings of the Board and its committees. Directors and employees are obliged to submit updated declarations once a year.

APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The directors confirm that the annual financial statements present fairly the financial position of the Company and the Group at 31 March 2015, and the results of their operations and cash flows for the year then ended. In preparing these annual financial statements, the directors are required to:

- Select suitable accounting policies and apply them consistently;
- Make judgements and estimates that 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 the financial position of the Group and the Company, with the exception of matters disclosed elsewhere in this report with respect to PFMA compliance.

The directors have every reason to believe that the Company and the Group have adequate resources in place to continue in operation for the foreseeable future, subject to the comments noted above.

The directors have continued to adopt the going-concern concept in preparing the annual financial statements. (Refer to going concern paragraph on page 60 of the Director's report and note 42 to the annual financial statements).

The joint external auditors, PricewaterhouseCoopers Inc. and Nkonki Inc, are responsible for independently auditing and reporting on the annual financial statements in conformity with International Standards on Auditing. Their report on the annual financial statements is in accordance with the terms of the Companies Act and the PFMA, and appears on page 44.

In preparing the Company and Group annual financial statements set out of pages

44 to 44, 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 has used the appropriate accounting policies supported by reasonable and prudent judgements and estimates. The directors confirm that these financial statements present fairly the financial position of the Company and the Group at 31 March 2015, 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:

Duduzile Myeni
Chairperson

44 August 2015

XX
Acting Chief Executive Officer

44 August 2015

The Audit and Risk committee (the Committee) is pleased to present its report in respect of the financial year ended 31 March 2015 in terms of its obligations according to Paragraph 3.1.13 of the Treasury Regulations issued in terms of section 51(1)(a)(ii) of the Public Finance Management Act, Act 1 of 1999, as amended by Act 29 of 1999 (PFMA).

The committee is independent and was appointed by the shareholder at the annual general meeting (AGM) held on 11 April 2015 in line with the legislative requirements. At the next AGM scheduled for 2 October 2015, the shareholder will be requested to appoint the members of the committee for the year ending 31 March 2016.

The committee constitutes both a statutory committee in terms of the section 77 of the PFMA, Companies Act and a committee of the South African Airways SOC Limited (SAA) Board in respect of duties assigned to it by the Board.

The committee discharges both its statutory and Board delegated responsibilities as outlined in the report below.

COMMITTEE MEMBERS AND ATTENDANCE AT MEETINGS.

The composition of the committee complies with the requirements of section 77 of the PFMA. The committee consists of 5 independent, non-executive directors and meets quarterly as per its Terms of Reference. The Group's Chief Executive Officer, Chief Financial Officer and Legal Counsel attend committee meetings by invitation. Furthermore Internal Audit, external auditor and other assurance providers of the Group are invited to every meeting. Details on the number of meetings held for the year and members attendances are set out on page 68. Biographical details of members are provided on pages 69 to 71.

ROLE AND RESPONSIBILITIES

The Committee role and responsibilities include its statutory duties as per the relevant provisions of the PFMA, Companies Act, 2008 as amended and the responsibilities assigned to it by the Board. The committee has adopted formal Terms of Reference approved by the Board, which are reviewed annually by the committee and the Board.

The committee has conducted its affairs in compliance with these Terms of Reference for the year ended 31 March 2015 and has discharged its responsibilities contained therein. The Terms of Reference are available on request from the Group Company Secretary whose contact details are provided on page 66 of this annual report.

The committee is satisfied that it has complied with its legal, regulatory, and other responsibilities.

STATUTORY DUTIES

The Committee has performed the following statutory duties:

EXTERNAL AUDITOR

The committee has satisfied itself that the external auditor, PricewaterhouseCoopers Inc. in joint venture with Nkonki Inc., was independent of the Group as set out in PFMA, section 90(2)(c) of the Companies Act, 2008 as amended, which includes consideration of compliance with criteria relating to independence or conflicts of interest as prescribed by the Independent Regulatory Board of Auditors. Requisite assurance was sought and provided by the external auditor that internal governance processes within PricewaterhouseCoopers Inc. and Nkonki Inc support and demonstrate their claim to independence.

The committee, in consultation with executive management, agreed to the engagement letter, terms, audit plan and budgeted audit fees for the 2014/15 financial year. The committee approved a written policy for the provision of non-audit services by the external auditor. The committee is not aware of any significant non-audit service that the external auditor provided during 2014/15 financial year.

The committee will consider the re-appointment of the current external auditor at the AGM in line with the legislative requirements. If the current external auditor is not re-appointed at the AGM, a formal procurement process for the external audit function will be embarked upon immediately thereafter.

INTERNAL FINANCIAL CONTROLS

An assessment of the effectiveness of the Group's system of internal controls, which includes internal financial controls, was

conducted by internal Audit during 2014/15 financial year. The Committee has observed that the overall control environment, including financial controls, has continued to improve during the year under review, in line with the trend observed in the previous reporting period. Based on the results of Internal Audit assessment, the information and the explanations provided by management and discussions held with external audit on the results of external audit, the committee concluded and advised the Board that nothing has come to its attention that would suggest that the Group's system of internal financial controls is not effective to form a basis for the preparation of reliable financial statements.

However, there are still some concerns with the level of internal controls within the operations where evidence of lapses of effective monitoring and enforcement by management were observed. Where internal controls did not operate effectively throughout the year, compensating controls and/or corrective action were implemented to eliminate or reduce the risks. This ensured that the Group's assets were safeguarded and proper accounting records maintained.

The effectiveness of the implemented measures to improve the control environment continues to be in constant state of improvement. Where irregular expenditure and fruitless and wasteful expenditure have occurred, this has been mainly a consequence of legacy tender processes and administrative delays. Since none of the reported breaches resulted in expenditure greater than the materiality threshold agreed with the shareholder, the Committee is confident that legacy areas of non-compliance are progressively eliminated towards full compliance. The Committee has resolved to ensure that the comprehensive implementation of and the adherence to the internal control environment reforms be expedited.

The 2014/15 audits of SAA's Information Technology (IT) environment has highlighted significant improvements compared to the previous reporting period. The Committee is satisfied that the Internal Audit Plan provides for sufficient IT audit coverage in the next three years.

The audits of SAA international outstations

REPORT OF THE AUDIT AND RISK COMMITTEE (CONTINUED)

have also highlighted some improvements compared to the previous reporting periods. The other specific focus area was the control environment in the baggage handling area. The internal audits and management reports regarding controls to curb baggage pilferage have highlighted significant improvements compared to previous periods. However, there were reported areas that still need further improvement to ensure baggage pilferage is eradicated completely.

The audit of predetermined objectives is a specific focus area for the Auditor General and the committee. The audits in this area indicated that there are effective internal controls. The Committee is satisfied that the Internal Audit Plan provides for sufficient audit coverage of this area in the next three years.

FINANCIAL STATEMENTS AND ACCOUNTING PRACTICES

The committee reviewed the annual consolidated financial statements of the Group and the annual financial statements of the Company as well as the accounting policies and practices of the Group and is satisfied that they comply with the relevant provisions of the PFMA and the International Financial Reporting Standards. The committee recommended the consolidated annual financial statements of the Group and annual financial statements of the Company to the Board for approval.

GOING CONCERN

The committee reviewed a documented assessment by management of the going concern premise of the Group and the Company before recommending to the Board that the Group and the Company could be considered a going concern for the foreseeable future.

EXPERTISE AND EXPERIENCE OF THE FINANCIAL DIRECTOR AND FINANCE FUNCTION

The committee has satisfied itself that the Group Financial Director has appropriate expertise and experience to fulfil his role. The committee is further satisfied with the appropriateness of the expertise and the adequacy of resources of the Group's finance function and the experience of senior members of the finance function.

DUTIES ASSIGNED BY THE BOARD

The committee has performed the following duties assigned to it by the Board:

INTERNAL AUDIT

South African Airways SOC Ltd has an in-house internal audit function. The Committee has an oversight responsibility for the Internal Audit function. As delegated by the Board, the committee reviews and approves the Internal Audit Charter annually. The Chief Audit Executive is appointed by the committee and has direct access to the committee, primarily through its Chairman. The Internal Audit function has the responsibility of reviewing and providing assurance on the adequacy of internal controls across the Group's operations, excluding Mango. It therefore plays an integral role in the governance of risk.

The 2014/15 financial year was the third year of the SAA in-house Internal Audit function after many years of outsourced internal audit function. The Committee is satisfied with the progress made in building an effective in-house internal audit function. The Committee will continue working closely with the Chief Audit Executive to ensure that the momentum is not lost.

The 2014/15 Internal Audit plan and budget were approved by the committee timely before the start of the financial year. Approximately 95% of planned audits were executed successfully. The very few internal audits not conducted were due to management not being ready for audits. These audits have been rolled over to 2015/16 financial year. Over and above the 95% of planned audits being conducted, a number of special ad-hoc audit requests were conducted by Internal Audit.

The Committee is satisfied with the three-year rolling internal audit plan in that there is a clear alignment with the major risks, adequate information systems coverage and a good balance between different categories of audits, i.e. risk-based audits, mandatory and follow up audits. This will however require building and maintaining the necessary capacity.

RISK GOVERNANCE

The Board has assigned the oversight of the Group's risk management function to the committee. The committee fulfils an oversight function regarding risks in all areas of the Group including operations, finance, fraud, information technology and ethics. For more detail on risk management and regulatory compliance refer to pages 66 to 68. An assessment of the effectiveness of

the Group's internal controls system was conducted by Internal Audit during the 2014/15 financial year. Based on this assessment and the ongoing oversight of the committee nothing came to the attention of the committee and the Board that would suggest that the prevailing system of risk management is not in all material respects effective.

WHISTLEBLOWING AND ETHICS

The committee evaluated the Code of Conduct and Anonymous reporting (Whistleblowing) policy, fraud prevention policy and fraud prevention plan. Internal Audit regularly reports to the committee on progress on fraud prevention plan and instances of alleged misconducts reported through anonymous Whistleblowing line. The committee regularly reports back to the Board in this regard in order to consider whether instances of whistleblowing and unethical behavior are appropriately dealt with.

INTEGRATED REPORTING

The committee considered the disclosures in the integrated annual report. It performed an oversight function of the integrated reporting process and recommended it to the Board for approval.

The committee considered the Group's combined assurance framework to the integrated reporting process. As the combined assurance framework is still in the process of being formalised and recognising that it is work-in-progress, the committee concluded that additional external assurance on the sustainability disclosures contained in the 2013/14 integrated annual report would not be appropriate until such time as the process has been embedded.

THE QUALITY OF IN-YEAR MANAGEMENT AND MONTHLY REPORTS/QUARTERLY REPORTS SUBMITTED IN TERMS OF THE PFMA

The Committee has noted and is satisfied with the content and quality of quarterly financial reports prepared and issued by SAA during the year under review, in compliance with the statutory reporting framework.

SPECIFIC FOCUS AREAS FOR 2015/16 FINANCIAL YEAR

Whilst the significant audit focus will be directed towards maintaining an effective

controls environment in the operational and financial controls environment, a specific focus will be directed towards the following areas:

- The implementation of the Long Term Turn Around Strategy (LTTS).
- Audit of predetermined objectives, i.e. areas where performance is not meeting targets.
- Information Technology control environment.
- Baggage handling processes.
- Anti-corruption and fraudulent activities and feedback on investigations.
- Compliance with the SAA Supply Chain Management Policy.
- Automation of manual operational and financial controls.
- Implementation of the combined assurance framework.

- Alignment of Internal audit and Risk management efforts.

MEETING WITH INTERNAL AND EXTERNAL AUDIT

During the year under review, the committee met with external audit and Internal Audit without management being present at a number of occasions. The committee also met with executive management without Internal audit or external audit. The committee also performed a performance review on itself, Internal Audit and external audit.

DISCHARGE OF RESPONSIBILITIES

The Committee agrees that the adoption of the going-concern premise is appropriate in

preparing the 2014/15 annual Group financial statements, with the consideration of the factors highlighted on page 66 of the Directors' Report. The Committee has therefore recommended the adoption of the annual financial statements by the Board of Directors on 6 July.

On behalf of the Audit and Risk Committee

Y Kwinana

Chairman

South African Airways SOC Limited Audit and Risk Committee

6 July August 2015

GROUP AND COMPANY STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the year ended 31 March 2015

R MILLION	Notes	GROUP		COMPANY	
		2015	2014	2015	2014
Total income		30 105	30 266	27 831	28 105
Airline revenue	5	28 513	28 702	26 127	26 459
Other income	6	1 592	1 564	1 704	1 646
Operating costs		31 586	30 640	29 328	28 733
Aircraft lease costs	7	2 840	2 548	2 795	2 498
Accommodation and refreshments		1 040	1 006	1 416	1 391
Commissions and network charges		1 461	1 606	1 375	1 529
Electronic data costs		543	549	530	536
Fuel and other energy costs		10 217	11 108	9 449	10 356
Employee benefit expenses	10	5 687	5 257	3 747	3 496
Maintenance costs		3 412	2 593	4 481	3 821
Navigation, landing and parking fees		2 207	2 067	1 980	1 878
Fair value and translation movements	12	25	(691)	11	(730)
Other operating costs		4 164	4 597	3 534	3 958
Operating loss before interest, tax, depreciation and amortisation	7	(1 481)	(374)	(1 487)	(628)
Depreciation and amortisation	8	(819)	(603)	(748)	(532)
Net impairment write-off	11	(1 894)	(1 375)	(1 635)	(1 286)
Net (loss)/gain on disposal of property, aircraft and equipment	9	(9)	40	(3)	33
Operating loss		(4 213)	(2 312)	(3 883)	(2 413)
Finance costs	13	(490)	(263)	(523)	(296)
Interest income	14	26	32	16	30
Loss before taxation		(4 677)	(2 543)	(4 390)	(2 679)
Taxation	15	(12)	(16)	-	-
Loss for the year		(4 689)	(2 559)	(4 390)	(2 679)
Other comprehensive income/(loss):					
Remeasurements of defined benefit plans*		(6)	(23)	(6)	(23)
Gains/(impairments) on property revaluations*		48	(13)	(47)	-
Change in value of available-for-sale financial asset**		3	5	3	5
Taxation related to components of other comprehensive income		(25)	-	-	-
Other comprehensive income/(loss) for the year net of taxation	16	20	(31)	(50)	(18)
Total comprehensive loss		(4 669)	(2 590)	(4 440)	(2 697)
Total comprehensive loss attributable to:					
Owners of the parent		(4 669)	(2 590)	(4 440)	(2 697)
		(4 669)	(2 590)	(4 440)	(2 697)

* This item may not subsequently be reclassified to profit or loss.

** This item may subsequently be reclassified to profit or loss.

GROUP AND COMPANY STATEMENT OF FINANCIAL POSITION

for the year ended 31 March 2015

		GROUP		COMPANY	
R MILLION	Notes	2015	2014	2015	2014
Assets					
Non-current assets					
Property, aircraft and equipment	17	4 623	6 371	3 269	5 136
Intangible assets	18	86	95	70	78
Investments in subsidiaries	19	—	—	1 122	1 122
Deferred tax asset	20	380	398	—	—
Amounts receivable from subsidiaries	22	—	—	1 440	1 347
Non-current prepayments	24	217	—	217	—
Retirement benefit asset	30	38	29	38	29
		5 344	6 893	6 156	7 712
Current assets					
Inventories	21	725	808	121	109
Derivatives	23	171	227	171	227
Trade and other receivables	24	6 809	6 263	6 518	5 974
Investments	25	18	15	18	15
Cash and cash equivalents	26	1 266	1 853	1 212	1 189
		8 969	9 166	8 040	7 514
Non-current assets held-for-sale and assets of disposal groups	17	63	63	63	63
Total assets		14 396	16 122	14 259	15 289
Equity and liabilities					
Equity					
Equity attributable to equity holders of parent					
Share capital	27	12 892	12 892	13 126	13 126
Reserves		917	897	483	543
Accumulated loss		(23 402)	(18 615)	(23 296)	(18 808)
		(9 593)	(4 826)	(8 677)	(5 139)
Subordinated loan guaranteed by government	28	1 300	1 300	1 300	1 300
		(8 293)	(3 526)	(8 377)	(3 839)
Liabilities					
Non-current liabilities					
Long-term loans	29	3 684	649	3 669	627
Retirement benefit obligation	30	91	73	91	73
Provisions	31	1 252	1 471	1 244	1 462
Deferred revenue on ticket sales	33	715	845	715	845
		5 742	3 038	5 719	3 007
Current liabilities					
Derivatives	23	346	3	346	3
Current tax payable		3	8	—	—
Trade and other payables	34	8 583	6 498	6 291	6 260
Provisions	31	332	176	332	176
Other short-term liabilities	32	63	63	—	—
Current portion of long-term loans	29	4 638	3 721	4 634	3 721
Deferred revenue on ticket sales	33	3 590	4 209	3 415	4 044
Bank overdraft	26	1 382	1 932	1 899	1 917
		16 947	16 610	16 917	16 121
Total liabilities		22 689	19 648	22 636	19 128
Total equity and liabilities		14 396	16 122	14 259	15 289

GROUP AND COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2015

R MILLION	Share capital	Other reserves	Revaluation reserve
GROUP			
Balance at 01 April 2013	12 892	(76)	811
Total comprehensive income for the year	—	(18)	(13)
Dividends paid on government subordinated loan classified as an equity instrument	—	—	—
Balance at 01 April 2014	12 892	(94)	798
Total comprehensive income for the year	—	(3)	23
Dividends paid on government subordinated loan classified as an equity instrument	—	—	—
Balance at 31 March 2015	12 892	(97)	821
COMPANY			
Balance at 01 April 2013	13 126	(76)	444
Total comprehensive income for the year	—	(18)	—
Dividends paid on government subordinated loan classified as an equity instrument	—	—	—
Balance at 01 April 2014	13 126	(94)	444
Total comprehensive income for the year	—	(3)	(47)
Dividends paid on government subordinated loan classified as an equity instrument	—	—	—
Balance at 31 March 2015	13 126	(97)	397

Shareholder restructuring fund	Total share capital and reserves	Accumulated loss	Shareholder's interest	Subordinated loan guaranteed by government	Total equity
193	13 820	(15 969)	(2 149)	1 300	(849)
—	(31)	(2 559)	(2 590)	—	(2 590)
—	—	(87)	(87)	—	(87)
193	13 789	(18 615)	(4 826)	1 300	(3 526)
—	20	(4 689)	(4 669)	—	(4 669)
—	—	(98)	(98)	—	(98)
193	13 809	(23 402)	(9 593)	1 300	(8 293)
193	13 687	(16 042)	(2 355)	1 300	(1 055)
—	(18)	(2 679)	(2 697)	—	(2 697)
—	—	(87)	(87)	—	(87)
193	13 669	(18 808)	(5 139)	1 300	(3 839)
—	(50)	(4 390)	(4 440)	—	(4 440)
—	—	(98)	(98)	—	(98)
193	13 619	(23 296)	(9 677)	1 300	(8 377)

GROUP AND COMPANY STATEMENT OF CASH FLOWS

for the year ended 31 March 2015

		GROUP		COMPANY	
R MILLION	Notes	2015	2014	2015	2014
Cash flows from operating activities					
Cash used in operations	38	(1 868)	(147)	(1 865)	(416)
Interest income		26	32	16	30
Finance costs		(490)	(263)	(523)	(296)
Realised gains from derivative financial instruments		205	316	205	316
Currency and jet fuel option premium spend		(173)	(320)	(173)	(320)
Tax paid	39	(24)	—	—	—
Net cash outflow from operating activities		(2 324)	(382)	(2 340)	(686)
Cash flows from investing activities					
Additions to property, aircraft and equipment	17	(4 323)	(3 129)	(4 232)	(3 058)
Proceeds on disposal of property, aircraft, equipment and intangible assets	17, 18	2 781	1 808	2 784	1 794
Additions to intangible assets	18	(32)	(21)	(26)	(11)
Net cash outflow from investing activities		(1 574)	(1 342)	(1 474)	(1 275)
Cash flows from financing activities					
External borrowings raised		4 342	3 290	4 341	3 289
External borrowings repaid		(442)	(419)	(438)	(416)
Dividends paid		(98)	(87)	(98)	(87)
Net cash inflow from financing activities		3 802	2 784	3 805	2 786
Net (decrease)/increase in cash and cash equivalents		(96)	1 060	(9)	825
Cash and cash equivalents at the beginning of the year		(78)	(1 100)	(728)	(1 511)
Foreign exchange effect on cash and cash equivalents		49	(39)	50	(42)
Cash and cash equivalents at the end of the year	26	(126)	(79)	(687)	(728)

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2015

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

The consolidated annual financial statements of South African Airways SOC Limited (the Group and the Company), have been prepared in accordance with International Financial Reporting Standards (IFRS), the Companies Act No. 71 of 2008 and the Public Finance Management Act No. 1 of 1999 (as amended) (PFMA). National Treasury has exempted major public entities under Schedule 2 of the PFMA from preparing financial statements according to SA GAAP (Generally Accepted Accounting Practice) in terms of Treasury Regulation 28.1.6 and section 79 of the PFMA until further notice. The Group annual financial statements are presented in South African rand, which is the Group's reporting currency, rounded to the nearest million. The Group annual financial statements have been prepared on an historical cost basis, except for measurement at fair value of certain financial instruments and the revaluation of land and buildings as described further in the accounting policy notes below.

The financial statements are prepared on the basis of the accounting policies applicable to a going concern. This basis presumes that the company will continue to receive the support of its shareholder and that the realisation of assets and settlement of liabilities will occur in the ordinary course of business. Full disclosure relating to the directors' going concern assessment can be found in note 44.

These accounting policies are consistent with the previous period.

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

BASIS OF CONSOLIDATION

SUBSIDIARIES

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

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.

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

FOREIGN CURRENCY TRANSACTIONS

For the purpose of the consolidated annual financial statements, the results and financial position of each entity are expressed in South African rand, which is the presentation currency for the consolidated annual financial statements.

In preparing the annual financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the ruling rates of exchange, which are taken as being the International Air Transport Association (IATA) five day average rate applicable to the transaction month. At each statement of financial position date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the statement of financial position 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 other comprehensive income.

For the purpose of presenting consolidated annual financial statements, the assets and liabilities of the Group's foreign operations (including comparatives) are expressed in rand using exchange rates prevailing on the statement of financial position 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 other comprehensive income 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 on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period.

REVENUE

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS

for the year ended 31 March 2015

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

RENDERING OF SERVICES

Revenue from the rendering of services shall be recognised by reference to the stage of completion of the transaction at the end of the reporting period. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity;
- the stage of completion of the transaction at the end of the reporting period can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably, recognised by reference to the stage of completion of the transaction at the end of the reporting date.

Revenue consists of passenger airline revenue, freight and mail revenue, revenue from technical services, Voyager income, commission received, the release of unutilised air tickets and fuel levies.

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 a 12-month period in respect of International and Regional tickets or a six month period in respect of Domestic tickets are released to revenue. The estimate is based on historical statistics and data that takes into account the terms and conditions for various ticket types.

FREQUENT FLYER PROGRAMME

SAA operates a frequent flyer programme, SAA Voyager, which provides a variety of awards to programme members based on a mileage credit for flights on SAA and other airlines that participate in the programme. Members can also accrue and redeem miles with non-airline programme partners. Cargo users accumulate equivalent awards relating to freight transported.

Consideration for the provision of Voyager awards consists of annual participation fees, service fees and the sale of miles to Voyager airline and non-airline partners, as well as a portion of the ticket price of SAA flights sold to Voyager members. The participation fees and service fees are recognised as revenue immediately when they become due and payable. The deferred revenue method has been adopted for revenue recognition relating to the sale of airline miles to airline and non-airline partners. Income arising from the sale of miles to airline and non-airline partners is accounted for as deferred revenue in the statement of financial position and only recognised as revenue when SAA fulfils its obligations by supplying free or discounted goods or services on redemption of the accrued miles.

SAA accounts for award credits issued on SAA flights as a separately identifiable component of the sales transaction in which they are earned. The consideration in respect of the initial sale is allocated to award credits based on their fair value and is accounted for as a liability (deferred revenue) in the consolidated statement of financial position. The fair value is determined with reference to the value of the awards for which miles have been redeemed during the last 12 months and is not adjusted for future changes in fair value. Revenue is recognised on unredeemed miles when they expire.

TECHNICAL MAINTENANCE

Revenue from maintenance services rendered external to the Group on a power by the hour basis is recognised as revenue when services are rendered based on maintenance events. Revenue is deferred until the maintenance event takes place. Other maintenance services rendered on a time and material basis are recognised as revenue when services are rendered by reference to the stage of completion of the transaction.

COMMISSION RECEIVED

SAA provides a ticketing service to other airlines. Commission is earned on interline transactions but is only recognised as revenue when the passenger utilises the ticket.

INTEREST INCOME

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

MAINTENANCE COSTS

OWNED AIRCRAFT

Major overhaul expenditure, including replacement spares and labour costs, is capitalised and amortised over the expected life between major overhauls. All other replacement spares and other expenditure relating to maintenance of owned fleet assets is charged to profit or loss on consumption or as incurred.

LEASED AIRCRAFT

Provision is made for aircraft maintenance expenditure which the Group incurs in connection with major airframe and engine overhauls on operating leased aircraft, where the terms of the lease imposes obligations on the lessee to have these overhauls carried

out. Provision for expenditure to meet the contractual return conditions is also included. The actual expenditure on the overhauls is charged against the provision when incurred. Any residual balance is transferred to profit or loss. All other replacement spares and other expenditure relating to maintenance of leased fleet assets is charged to profit or loss on consumption or as incurred.

POWER BY THE HOUR

Expenditure for engine overhaul costs covered by power by the hour (fixed rate charged per hour) maintenance agreements is charged to profit or loss over the life of the contract.

MAINTENANCE RESERVE: GROUP AND COMPANY 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 and Company for the qualifying maintenance expenditure incurred on aircraft if the Group and Company has a maintenance reserves credit. Maintenance reserves are recognised as an asset. The recoverability of the asset is assessed annually against the entity's ability to claim against future maintenance events. Where it is deemed that the entity will be unable to claim for a future maintenance event, the maintenance reserve payments are expensed accordingly.

Reimbursement amounts are only recognised as assets in respect of maintenance costs to be reimbursed if the work has been performed and it appears reasonable that the amounts claimed are recoverable in terms of the aircraft lease contract and based on the available balance in the maintenance reserve account.

The reimbursement amounts claimed from lessors in respect of qualifying maintenance are transferred to trade and other receivables until actually received.

MAINTENANCE RESERVE: COMPANY AS LESSOR

Where the company leases aircraft to a subsidiary company, appropriate maintenance payments are included in the lease agreements. The maintenance amounts received by the company are 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 by the company on receipt of a valid claim for reimbursement in respect of qualifying maintenance costs by the lessee.

TAXATION

Income tax expense represents the sum of the tax currently payable and deferred tax.

CURRENT TAX

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

DEFERRED TAX

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises on the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2015

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

TAXATION (CONTINUED)

CURRENT AND DEFERRED TAX FOR THE YEAR

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income, in which case, the current and deferred tax are also recognised in other comprehensive income. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

PROPERTY, AIRCRAFT AND EQUIPMENT

OWNED ASSETS

Land and buildings

Land and buildings are shown at fair value based on valuations performed by external independent valuers, less subsequent accumulated depreciation and accumulated impairment losses for buildings. Valuations are performed with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any accumulated depreciation and accumulated impairment losses at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

Aircraft

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

Other property, machinery and equipment

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

DEPRECIATION

Depreciation is not provided on assets in the course of construction or on land. All other property and equipment are depreciated by recording a charge to profit or loss, 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 lives 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, depreciation method and the useful life of each asset or component thereof is reviewed at least at each financial year end and any difference is treated as a change in accounting estimate in accordance with IAS 8.

The following annual rates are applicable:

Asset class	Useful lives
Aircraft and simulators	5 to 20 years
Buildings and structures	10 to 50 years
Furniture	10 years
Office equipment	5 to 10 years
Computer equipment	3 to 5 years
Light motor vehicles	5 years
General purpose vehicles	10 years
Containers	5 years
Machinery	15 to 20 years
Cabin loaders	10 to 20 years
Leased assets	Shorter period of lease or useful life.

RESIDUAL VALUES

The aircraft and its components have useful lives ranging from five to twenty years, with residual values of 20 percent on structures and engines. Residual values of all asset classes are reviewed annually.

CAPITAL WORK IN PROGRESS

Capital work in progress relates to buyer furnished equipment (BFE) and pre-delivery payments (PDPs) relating to aircraft still being constructed. These amounts are released from capital work in progress and recognised as part of the asset when the construction is complete. For further details on PDPs refer "Pre-delivery payments and other aircraft deposits".

EXCHANGEABLE UNITS

Exchangeable units are high value components that are classified as equipment and are depreciated accordingly. The cost of repairing such units is charged to profit or loss as and when incurred.

DISPOSAL OF ASSETS

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 profit or loss when the risks and rewards related to the assets are transferred to the buyer.

LEASEHOLD IMPROVEMENTS**LAND AND BUILDINGS**

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

AIRCRAFT

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

ACCOUNTING FOR LEASES

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

GROUP AS LESSEE

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Manufacturers' credits that 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 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 recognised as receivables at the amount of the company's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the company'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

Non-current assets and disposal groups are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held-for-sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2015

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

NON-CURRENT ASSETS HELD-FOR-SALE (CONTINUED)

Non-current assets (and disposal groups) classified as held-for-sale are measured at the lower of their previous carrying amount and fair value less cost of disposal.

INTANGIBLE ASSETS

INTANGIBLE ASSETS ACQUIRED SEPARATELY

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

INTANGIBLE ASSETS ACQUIRED IN A BUSINESS COMBINATION

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

AMORTISATION

Amortisation is recognised on a straight line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

Intangible assets assessed to have indefinite useful lives and goodwill are not amortised but are tested for impairment at each reporting period.

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

Intangible asset class	Useful lives
Application software	3 to 5 years
Internet booking site	5 years

DERECOGNITION OF INTANGIBLE ASSETS

An intangible asset is derecognised on disposal or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

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 whenever 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 including goodwill 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 statement of financial position 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 fair value less cost of disposal 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 profit or loss immediately. An impairment loss in respect of goodwill is not reversed in subsequent periods.

PRE-DELIVERY PAYMENTS (PDPs) AND OTHER AIRCRAFT DEPOSITS

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

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

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

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

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

FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are recognised when a Group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

FINANCIAL ASSETS

Financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss" (FVTPL), "held-to-maturity" investments, "available-for-sale" (AFS) financial assets and "loans and receivables". The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

LOANS AND RECEIVABLES

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

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

AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

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

After initial recognition, available-for-sale financial assets are measured at fair value with unrealised gains or losses being recognised directly in other comprehensive income.

With disposal of financial assets, the accumulated gains and losses recognised in other comprehensive income resulting from measurement at fair value are recognised in profit or loss. If a reliable estimate of the fair value of an unquoted equity instrument cannot be made, this instrument is measured at cost less any impairment losses.

NOTES TO THE GROUP AND COMPANY
ANNUAL FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2015

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS (CONTINUED)

AVAILABLE-FOR-SALE FINANCIAL ASSETS (CONTINUED)

Dividends received from these investments are recognised in profit or loss when the right of payment has been established. Fair value is determined as stated in Note 42.1.

HELD-TO-MATURITY INVESTMENTS

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Group has the positive intent and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest rate method less any impairment.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

After initial recognition, these financial assets are stated at fair value, with any resultant gain or loss recognised in profit or loss.

The net gain or loss recognised in profit or loss incorporates any dividend or interest on the financial asset. Fair value is determined as stated in Note 42.1.

DERIVATIVE FINANCIAL INSTRUMENTS

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

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

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

INVESTMENTS

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

CASH AND CASH EQUIVALENTS

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

HEDGE ACCOUNTING

The Group does not hedge account as its hedging activities do not meet the criteria for hedge accounting as set out in IAS 39.

EFFECTIVE INTEREST RATE METHOD

The effective interest rate method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest rate method basis for debt instruments other than those financial assets classified as at FVTPL.

IMPAIRMENT OF FINANCIAL ASSETS

Financial assets, other than those at FVTPL are assessed for indicators of impairment at each statement of financial position date. Financial assets are impaired where there is objective evidence that, because of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

For categories of financial assets, such as trade receivables, impairment is assessed on an individual basis. Any assets that are assessed not to be impaired on an individual basis are subsequently assessed for impairment on a portfolio basis. The assets are grouped in a portfolio, taking into consideration similar credit risk characteristics. The objective evidence of impairment for a portfolio

of receivables normally includes the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of between 60 to 90 days, depending on the defined credit risk assessment for each type of debtor. Any dispute of amount receivable from the debtor is also considered as part of impairment indicators. For more details refer to Note 24.

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

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

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

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-trading are sold, they are derecognised and a corresponding receivable is recognised at the date the Group commits the assets. Loans and receivables are derecognised on the day the risks and rewards of ownership are transferred.

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

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety (eg when the Group retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Group retains control), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

FINANCIAL LIABILITIES AND EQUITY INSTRUMENTS

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

EQUITY INSTRUMENTS

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

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

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

FINANCIAL LIABILITIES

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

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

Financial liabilities at fair value through profit or loss are classified as held-for-trading. A financial liability is classified as held-for-trading if it is a derivative not designated and effective as a hedging instrument. Financial liabilities held-for-trading are subsequently stated at fair value, with any gains and losses recognised in profit or loss. Fair value is determined in a manner described in Note 42.1.

NOTES TO THE GROUP AND COMPANY

ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2015

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS (CONTINUED)

INTEREST BEARING LOANS AND BORROWINGS

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

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

DERECOGNITION OF FINANCIAL LIABILITIES

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

INVENTORIES

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

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

PROVISIONS

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision will be reassessed at each statement of financial position 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 a provision due to the passage of time is recognised as an interest expense.

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

ONEROUS CONTRACTS

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

REIMBURSEMENTS

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

RESTRUCTURING PROVISION

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

PROVISION FOR LEASE LIABILITIES

For aircraft held under operating lease agreements, SAA is contractually committed to either return the aircraft in a certain condition or to compensate the lessor based on the actual condition of the airframe, engines and life-limited parts upon return. In order to fulfil such conditions of the lease, maintenance in the form of major airframe overhaul, engine maintenance checks, and restitution of major life-limited parts is required to be performed during the period of the lease and upon return of the aircraft to the lessor. The estimated airframe and engine maintenance costs and the costs associated with the restitution of major life-limited parts are accrued and charged to profit or loss over the lease term for this contractual obligation.

EMPLOYEE BENEFITS

PENSION BENEFITS

The Group operates two defined benefit funds as well as various defined contribution funds. The assets of each scheme are held separately from those of the Group and are administered by the schemes' trustees. The funds are actuarially valued by professional independent consulting actuaries.

The Group's contributions to the defined contribution fund are charged to profit or loss during the year in which they relate.

The benefit costs and obligations under the defined benefit fund are determined separately for each fund using the projected unit credit method. The benefit costs are recognised in profit or loss. Remeasurements of defined benefit plans are recognised in the period in which they occur outside of profit or loss in other comprehensive income.

Past service costs are recognised immediately in profit or loss.

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 immediately in profit or loss. The amount recognised in the statement of financial position 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 either to terminate the employment of current employees according to a detailed formal plan without the possibility of withdrawal or to provide termination benefits because of an offer made to encourage voluntary redundancy.

RELATED PARTIES

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

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.

COMPARATIVE FIGURES

Where necessary, comparative amounts have been adjusted in order to improve comparability. There is no impact on the loss for the year or net liabilities/assets as a result of these adjustments.

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2015

2. NEW STANDARDS AND INTERPRETATIONS

2.1 STANDARDS AND INTERPRETATIONS EFFECTIVE AND ADOPTED IN THE CURRENT YEAR:

In the current year the entity has adopted the following new standards and interpretations that are effective for the current financial year.

Standard/interpretation	Effective date: years beginning on or after	Summary of changes
Amendments to IAS 32 – <i>Financial Instruments: Presentation</i> , on financial instruments asset and liability offsetting	1 January 2014	The amendment enhances clarity on the offsetting of financial assets and liabilities on the statement of financial position.
Amendments to IFRS 10 – <i>Consolidated financial statements</i> , IFRS 12 and IAS 27 for investment entities	1 January 2014	The amendment results in many funds and similar entities being exempted from consolidating most of their subsidiaries in favour of measuring them at fair value through profit and loss. IFRS 12 amendment introduces disclosures that an investment entity needs to make.
IASB issues narrow-scope amendments to IAS 36 – <i>Impairment of assets</i> on recoverable amount disclosures	1 January 2014	The amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less cost of disposal.
Amendment to IAS 39 – <i>Financial instruments: Recognition and measurement</i> , on novation of derivatives and hedge accounting	1 January 2014	The IASB has amended IAS 39 to provide relief from discontinuing hedge accounting when novation of a hedging instrument to a CCP meets specified criteria. Similar relief will be included in IFRS 9, "Financial Instruments".
Amendment to IFRS 3 – <i>Business combinations</i>	Transactions occurring after 1 July 2014	The amendment is aimed at clarifying the contingent liability in terms of the definition of a financial instrument.
IFRIC 21 – <i>Levies</i>	1 January 2014	IFRIC 21, "Levies", sets out the accounting for an obligation to pay a levy that is not income tax.

2.2 STANDARDS AND INTERPRETATIONS NOT YET EFFECTIVE:

The Group has chosen not to early adopt the following standards and interpretations which have been published and are mandatory for the Group's accounting periods beginning on or after 1 April 2015 or later periods. The standards and interpretations included below only include those that the directors believe may have an impact on the Group, the quantum of which can not be reliably estimated.

Standard/interpretation	Effective date: years beginning on or after
Amendment to IAS 19 – <i>Employee benefits</i> , on defined benefit plans	1 July 2014
IFRS 14 – <i>Regulatory deferral accounts</i>	1 January 2016
Amendments to IAS 1 – <i>Presentation of financial statements</i> disclosure initiative	1 January 2016
Amendment to IAS 16 – <i>Property, plant and equipment</i> and IAS 38 – <i>Intangible assets</i> , on depreciation and amortisation	1 January 2016
Amendments to IAS 27 – <i>Separate financial statements</i> on equity accounting	1 January 2016
IFRS 15 – <i>Revenue from contracts with customers</i>	1 January 2017
IFRS 9 – <i>Financial Instruments (2009 & 2010)</i> <ul style="list-style-type: none"> Financial liabilities Derecognition of financial instruments Financial assets General hedge accounting 	1 January 2018
Amendment to IFRS 9 – <i>Financial instruments</i> , on general hedge accounting	1 January 2018
Amendment to IFRS 13 – <i>Fair value measurement</i>	1 July 2014

Standard/interpretation	Effective date: years beginning on or after
IAS 16 – <i>Property, plant and equipment</i> , and IAS 38 – <i>Intangible assets</i>	1 July 2014
IAS 24 – <i>Related party disclosures</i>	1 July 2014
IFRS 5 – <i>Non-current Assets Held-for-Sale and Discontinued Operations</i>	1 January 2016
IFRS 7 – <i>Financial Instruments: Disclosures</i>	1 January 2016
IAS 19 – <i>Employee Benefits</i>	1 January 2016

3. CRITICAL JUDGEMENTS IN APPLYING THE ENTITY'S ACCOUNTING POLICIES

USEFUL LIVES, DEPRECIATION METHOD AND RESIDUAL VALUES OF PROPERTY, AIRCRAFT AND EQUIPMENT

The Group assesses the useful lives, depreciation method and residual values of property, aircraft and equipment at each reporting date. During the year it was determined that the remaining useful lives and residual values of owned aircraft be amended as detailed below. The useful lives, residual values and the depreciation method of all other classes of assets remained unchanged as they were deemed to be appropriate.

CHANGE IN ESTIMATE

Included in the loss before tax is a change in estimate regarding the depreciation charge. The useful lives and the residual values of aircraft were reassessed during the current year and it was determined that there was only a maximum of six years remaining. The effect of the change in estimate is an increase in the loss before tax of R234 million. The carrying value of these aircraft would have been R1 678 million using the original estimate, the current carrying value of these aircraft using the amended estimate is now R1 444 million at year end. The cumulative effect of the change on the future periods will be an increase in the depreciation charge of R234 million.

MAINTENANCE RESERVES EXPENSED

Maintenance reserves prepayments unutilised at the expiry of the lease term are not refundable. The Group estimates the unutilised balance that is likely to remain at the end of the lease term based on planned events and assumed consumed life of leased aircraft and their components between year end and the lease expiry date and uses this estimate as the basis for expensing maintenance reserve payments. The recognition of the maintenance reserves assets and values thereof are subject to critical judgements followed by management.

VALUATION OF PROPERTIES

During the year, land and buildings were revalued, further details of the relevant critical judgements can be found in Note 17.

IMPAIRMENT OF ASSETS

Detail of the critical judgements made to determine the extent of impairment of assets required for the period under review can be found in Note 11.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position 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:

FREQUENT FLYER PROGRAMME

SAA accounts for award credits as a separately identifiable component of the sales transaction in which they are granted. The consideration in respect of the initial sale is allocated to award credits based on their fair value and is accounted for as a liability (deferred revenue) in the consolidated statement of financial position.

Estimation techniques are used to determine the fair value of award credits. The estimation technique applied considers the fair value of a range of different redemption options by reference to their cash selling prices, such as airfares on different routes and in different classes of travel as well as flight upgrades and partner rewards. A weighted average value per mile is derived based on past experience of the mix of rewards selected by Voyager members. A 12-month historical trend forms the basis of the calculations. The number of award credits not expected to be redeemed by members is also factored into the estimation of the fair value. Professional judgement is exercised by management due to the diversity of inputs that go into determining the fair value of the award credits and due to the possibility that the trend may change over time.

The carrying amount of long-term frequent flyer deferred revenue at year end was R715 million (2014: R845 million) and the carrying amount of short-term frequent flyer deferred revenue was R609 million (2014: R602 million). Please refer to Note 33 for more details regarding the frequent flyer deferred revenue.

NOTES TO THE GROUP AND COMPANY
ANNUAL FINANCIAL STATEMENTS (CONTINUED)
for the year ended 31 March 2015

R MILLION	Notes	GROUP		COMPANY	
		2015	2014	2015	2014
5. AIRLINE REVENUE					
The analysis of airline revenue for the year is as follows:					
Passenger revenue		19 265	20 085	17 406	18 341
Freight and mail		1 744	1 601	1 742	1 600
Technical services		701	637	188	147
Voyager income	33	484	480	484	480
Commission received		86	100	74	92
Release from prescribed tickets		372	366	372	366
Release from prescribed air waybills		28	—	28	—
Fuel levies		5 833	5 433	5 833	5 433
		28 513	28 702	26 127	26 459
6. OTHER INCOME					
Other income is made up of the following items:					
Handling revenue		134	121	58	60
Income from leased assets		69	64	305	238
Other recoveries*		1 389	1 379	1 341	1 348
		1 592	1 564	1 704	1 646
* Other recoveries comprise income associated with ticket cancellations, inter airline processing offsets and other miscellaneous income.					
7. OPERATING LOSS BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION					
Operating loss before interest, tax, depreciation and amortisation is stated after taking into account among others, the following:					
Operating lease payments					
Aircraft		2 840	2 548	2 795	2 498
Buildings		111	98	94	81
Equipment and vehicles		54	34	43	27
Total operating lease payments		3 005	2 680	2 932	2 606
Auditors' remuneration					
Audit fees – current year		13	15	9	10
Other regulatory audit services		1	1	1	1
Non-audit services		2	3	2	3
Total auditors' remuneration		16	19	12	14
Directors' emoluments and executive management emoluments are disclosed in Note 37.					
8. DEPRECIATION AND AMORTISATION					
Aircraft and simulators		(628)	(414)	(621)	(409)
Buildings and structures		(64)	(65)	(40)	(41)
Machinery, equipment and furniture		(72)	(75)	(48)	(46)
Vehicles and cabin loaders		(14)	(12)	(4)	(4)
Total depreciation	17	(778)	(566)	(714)	(500)
Amortisation of intangible assets	18	(41)	(37)	(34)	(32)
Total depreciation and amortisation		(819)	(603)	(748)	(532)

R MILLION		GROUP		COMPANY	
		2015	2014	2015	2014
Notes					
9.	NET (LOSS)/GAIN ON DISPOSAL OF PROPERTY, AIRCRAFT AND EQUIPMENT				
	Net (loss)/gain on disposal of property, aircraft and equipment comprises the following:				
	Profit on disposal of property, aircraft and equipment	-	208	-	190
	Loss on disposal of property, aircraft and equipment	(9)	(168)	(3)	(157)
		(9)	40	(3)	33
10.	EMPLOYEE BENEFIT EXPENSES				
10.1	SHORT-TERM EMPLOYEE BENEFIT EXPENSES				
	Personnel and labour costs	5 203	4 776	3 409	3 153
	Contribution to medical funds	66	61	45	40
		5 269	4 837	3 454	3 193
10.2	POST-EMPLOYMENT BENEFIT EXPENSES*				
	Contribution to pension funds	394	379	268	262
	Contribution to provident funds	57	50	57	50
	Current-service cost	18	18	18	18
	Interest cost	124	107	124	107
	Return on plan assets	(175)	(134)	(175)	(134)
		418	420	293	303
	Total employee benefit expenses	5 687	5 257	3 747	3 496
	* These costs relate to other post-employment and other long-term employee benefit plans for the Group. The post-employment benefit costs have been disclosed in Note 36.				
11.	NET IMPAIRMENT WRITE-OFF				
	Impairment of loans and receivables held at amortised cost				
	Reversal of impairment/(impairment) of accounts receivable	12	(32)	(3)	2
	Impairment of other assets				
	Impairment of investments in subsidiaries	19	-	-	(122)
	Impairment of loans to subsidiaries	22	-	(3)	(15)
	Impairment of PDPs	(121)	-	(121)	-
	Impairment of aircraft	(1 508)	(1 151)	(1 508)	(1 151)
	Impairment arising from write down of Inventory to NRV	(277)	(192)	-	-
		(1894)	(1 375)	(1 635)	(1 286)

IMPAIRMENT OF AIRCRAFT**WIDE-BODY FLEET**

A deliverable of the 90 Day Action Plan was the revision of SAA's Network and Fleet Plan. The plan was approved by the Board and included the possible replacement of the Group's owned A340 fleet. As a result, the useful lives of these aircraft had to be assessed. To the extent that this has reduced the anticipated remaining useful life of its owned A340 aircraft, the Group is required, in terms of IFRS, to adjust the book value of these aircraft. The result was the recognition of impairments to the extent of R827 million (2014: R782 million) on these aircraft.

The recoverable amount of these aircraft was their value in use as their fair value less costs of disposal are negligible. In assessing the value in use, the estimated future cash flows relating to these aircraft were discounted to their present value using a pre-tax discount rate of 16,2 percent (2014: 17,4 percent), which is the Group's weighted average cost of capital (WACC). This rate best reflects current market assessments of the time value of money and the risks specific to these assets.

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11. NET IMPAIRMENT WRITE-OFF (CONTINUED)

NARROW-BODY FLEET

During the current financial year the airline took delivery of six new A320 aircraft. The agreement for the outright purchase of 20 aircraft, which was originally entered into in 2002 and later re-negotiated in 2009, provided for annual escalations had resulted in the actual purchase price exceeding the market value of these aircraft at date of delivery. The financing of these aircraft was being facilitated by way of sale and leaseback transactions, which necessitated the impairment of each aircraft to market value on delivery date. As a result, impairments of R681 million (2014: R369 million) were recognised during the current financial year.

IMPAIRMENT OF INVENTORY

As a result of the decision to replace the Group's wide-body fleet, and in addition to the required impairment on its wide-body fleet, an impairment of R277 million (2014: R192 million) was recognised during the financial year on all inventory related items as a result of their write down to their net realisable value.

IMPAIRMENT OF PDPs

To the extent that SAA may not fully recover all PDPs paid in respect of the ten A320 aircraft that will be substituted by five A330 aircraft, an impairment of R121 million has been made.

	GROUP		COMPANY	
R MILLION	2015	2014	2015	2014
12. FAIR VALUE AND TRANSLATION MOVEMENTS				
Foreign exchange (gain)/loss on translation of:				
Foreign cash balances	(48)	39	(50)	42
Foreign currency denominated net receivables	(82)	(419)	(91)	(475)
Net monetary assets and liabilities	(211)	(235)	(215)	(221)
Translation of foreign assets and liabilities	(342)	(615)	(356)	(654)
Fair value loss/(gain) on derivative instruments held-for-trading:				
Realised gain on derivatives	(205)	(316)	(205)	(316)
Fair value loss on derivative financial instruments	572	240	572	240
Net fair value loss/(gain) on derivative instruments held-for-trading	367	(76)	367	(76)
Total fair value and translation movements	25	(691)	11	(730)
13. FINANCE COSTS				
The interest paid related to financial liabilities held at amortised cost is detailed below:				
Interest paid on long-term borrowings	(404)	(176)	(404)	(176)
Interest paid on overdraft	(86)	(87)	(81)	(84)
Other interest paid	-	-	(38)	(36)
	(490)	(263)	(523)	(296)
Recognised directly in equity				
Interest paid on subordinated loan guaranteed by government classified as a dividend	98	87	98	87
14. INTEREST INCOME				
Interest received was derived from:				
Cash and bank balances	24	29	14	27
Loans and receivables	2	3	2	3
	26	32	16	30

15.

R MILLION	GROUP		COMPANY	
	2015	2014	2015	2014
TAXATION				
Major components of the tax expense				
Current				
Local income tax – current year	(20)	(8)	-	-
Deferred				
Deferred tax – current year	8	(8)	-	-
Deferred tax recognised on components of other comprehensive income – current year	(25)	-	-	-
	(37)	(16)	-	-
Reconciliation of the tax expense				
Reconciliation between accounting loss and tax expense:				
Accounting loss	4 677	2 543	4 390	2 679
Tax at the applicable tax rate of 28% (2014: 28%)	1 310	712	1 229	750
Tax effect of adjustments on taxable income				
Tax effect of non-taxable income	-	35	-	-
Tax effect of non-deductible expenses	(336)	(328)	(300)	(328)
Current year temporary differences for which no deferred income tax asset was recognised	(260)	(248)	(73)	(204)
Tax losses for which no deferred income tax asset was recognised	(778)	(211)	(883)	(242)
Interest classified as a dividend – tax deductible	27	24	27	24
	(37)	(16)	-	-
Estimated tax losses available to be utilised against future taxable income	16 608	14 231	15 487	12 339

16.

R MILLION	GROUP		
	Gross	Tax	Net
OTHER COMPREHENSIVE INCOME/(LOSS)			
COMPONENTS OF OTHER COMPREHENSIVE INCOME/(LOSS)			
GROUP – 2015			
Movements in other reserves			
Remeasurement of SAA German Pension Fund	(24)	-	(24)
Remeasurement of SAA subfund of Transport Pension Fund	12	-	12
Remeasurement of post-retirement medical benefits	6	-	6
Change in value of available-for-sale financial asset	3	-	3
	(3)	-	(3)
Movements in revaluation reserve			
Gain on property revaluations	48	(25)	23
Total	45	(25)	20
GROUP – 2014			
Movements in other reserves			
Remeasurement of SAA German Pension Fund	(19)	-	(19)
Remeasurement of SAA subfund of Transport Pension Fund	(16)	-	(16)
Remeasurement of post-retirement medical benefits	12	-	12
Change in value of available-for-sale financial asset	5	-	5
	(18)	-	(18)
Movements in revaluation reserve			
Impairment on property revaluations	(13)	-	(13)
Total	(31)	-	(31)

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R MILLION	Gross	Tax	Net
16. OTHER COMPREHENSIVE INCOME/(LOSS) (CONTINUED)			
COMPONENTS OF OTHER COMPREHENSIVE INCOME/(LOSS)			
COMPANY – 2015			
Movements in other reserves			
Remeasurement of SAA German Pension Fund	(24)	–	(24)
Remeasurement of SAA subfund of Transport Pension Fund	12	–	12
Remeasurement of post-retirement medical benefits	5	–	5
Change in value of available-for-sale financial asset	3	–	3
	(3)	–	(3)
Movements in revaluation reserve			
Impairment on property revaluations	(47)	–	(47)
Total	(50)	–	(50)

R MILLION	Gross	Tax	Net
COMPONENTS OF OTHER COMPREHENSIVE INCOME/(LOSS)			
COMPANY – 2014			
Movements in other reserves			
Remeasurement of SAA German Pension Fund	(19)	–	(19)
Remeasurement of SAA subfund of Transport Pension Fund	(16)	–	(16)
Remeasurement of post-retirement medical benefits	12	–	12
Change in value of available-for-sale financial asset	5	–	5
	(18)	–	(18)

17. PROPERTY, AIRCRAFT AND EQUIPMENT

	2015			2014		
	Cost/ valuation	Accumulated depreciation	Carrying value	Cost/ valuation	Accumulated depreciation	Carrying value
GROUP						
Land	437	–	437	397	–	397
Buildings and structures	1 774	(300)	1 474	1 777	(236)	1 541
Machinery, equipment and furniture	894	(592)	302	872	(568)	304
Vehicles and cabin loaders	157	(82)	75	144	(69)	75
Aircraft and simulators	10 125	(7 972)	2 153	10 015	(6 619)	3 396
Containers	30	(30)	–	29	(29)	–
Capital work in progress	182	–	182	658	–	658
Total	13 599	(8 975)	4 623	13 892	(7 521)	6 371

	2015			2014		
	Cost/ valuation	Accumulated depreciation	Carrying value	Cost/ valuation	Accumulated depreciation	Carrying value
COMPANY						
Land	48	–	48	55	–	55
Buildings and structures	1 016	(224)	792	1 070	(185)	885
Machinery, equipment and furniture	486	(308)	177	469	(296)	173
Vehicles and cabin loaders	46	(25)	21	44	(22)	22
Aircraft and simulators	10 027	(7 953)	2 074	9 942	(6 605)	3 337
Containers	29	(29)	–	29	(29)	–
Capital work in progress	157	–	157	664	–	664
Total	11 809	(8 540)	3 269	12 273	(7 137)	5 136

R MILLION	Opening balance	Additions	Disposals	Transfers	Revaluations	Depreciation	Impairment loss	Total
GROUP – 2015								
Reconciliation								
Land	397	–	–	–	40	–	–	437
Buildings and structures	1 541	7	(20)	2	8	(64)	–	1 474
Machinery, equipment and furniture	304	47	–	23	–	(72)	–	302
Vehicles and cabin loaders	75	14	–	–	–	(14)	–	75
Aircraft and simulators	3 396	3 658	(2 770)	5	–	(628)	(1 508)	2 153
Containers	–	–	–	–	–	–	–	–
Capital work in progress	658	597	–	(1 073)	–	–	–	182
	6 371	4 323	(2 790)	(1 043)*	48	(778)	(1 508)	4 623

R MILLION	Opening balance	Additions	Disposals	Classified as held-for-sale	Transfers	Revaluations of PDPs	Depreciation	Impairment loss	Total
GROUP – 2014									
Reconciliation									
Land	453	–	–	(56)	–	–	–	–	397
Buildings and structures	1 584	22	(3)	(7)	10	–	(65)	–	1 541
Machinery, equipment and furniture	307	47	(6)	–	31	–	(75)	–	304
Vehicles and cabin loaders	50	38	(1)	–	–	–	(12)	–	75
Aircraft and simulators	4 059	2 278	(1 695)	–	319	–	(414)	(1 151)	3 396
Containers	–	–	–	–	–	–	–	–	–
Capital work in progress	1 129	744	–	–	(1 337)	122	–	–	658
	7 582	3 129	(1 705)	(63)	(977)*	122	(566)	(1 151)	6 371

R MILLION	Opening balance	Additions	Disposals	Transfers	Revaluations	Depreciation	Impairment loss	Total
COMPANY – 2015								
Reconciliation								
Land	55	–	–	–	(7)	–	–	48
Buildings and structures	885	5	(20)	2	(40)	(40)	–	792
Machinery, equipment and furniture	173	30	–	23	–	(48)	–	177
Vehicles and cabin loaders	22	3	–	–	–	(4)	–	21
Aircraft and simulators	3 337	3 628	(2 787)	5	–	(821)	(1 508)	2 074
Containers	–	–	–	–	–	–	–	–
Capital work in progress	664	566	–	(1 073)	–	–	–	157
	5 136	4 232	(2 787)	(1 043)*	(47)	(714)	(1 508)	3 269

* This amount represents the balance of PDPs transferred to prepayments.

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R MILLION	Opening balance	Additions	Disposals	Classified as held-for-sale	Transfers	Revaluations of PDPs	Depreciation	Impairment loss	Total
17. PROPERTY, AIRCRAFT AND EQUIPMENT (CONTINUED)									
COMPANY – 2014									
Reconciliation									
Land	111	–	–	(56)	–	–	–	–	55
Buildings and structures	912	15	(2)	(7)	8	–	(41)	–	885
Machinery, equipment and furniture	171	21	(2)	–	29	–	(46)	–	173
Vehicles and cabin loaders	7	19	–	–	–	–	(4)	–	22
Aircraft and simulators	4 019	2 253	(1 694)	–	319	–	(409)	(1 151)	3 337
Containers	–	–	–	–	–	–	–	–	–
Capital work in progress	1 125	750	–	–	(1 333)	122	–	–	664
	6 345	3 058	(1 698)	(63)	(977)*	122	(500)	(1 151)	5 136

* This amount represents the balance of PDPs transferred to prepayments.

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

Certain aircraft are encumbered as security for the financing thereof. The carrying value of capitalised aircraft encumbered in respect of financing raised by the Group amounts to R1,4 billion (2014: R1,6 billion).

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

The category of aircraft includes the refurbishment costs of both the owned and leased aircraft. This refurbishment is amortised over the shorter of the useful life of the refurbished equipment or the lease term of the leased aircraft. For more information regarding the impairment of aircraft, refer to Note 11.

For both (a) land and buildings held using the revaluation approach and (b) the non-current asset held-for-sale, the fair value was determined by an independent external valuation expert during the first quarter of the financial year, using the income capitalisation method of valuation. The utilisation of the property in terms of its industrial use is considered to be its highest and best use. A capitalisation rate of 12 percent was used in the valuation with comparative rentals in the area being applied in the model. As the valuation includes significant unobservable inputs, it is classified as level 3 in the fair value hierarchy.

Asset and disposal groups held-for-sale are as follows:

NON-CURRENT ASSETS HELD-FOR-SALE

R MILLION	GROUP		COMPANY	
	2015	2014	2015	2014
Carrying value of land and buildings held-for-sale	63	63	63	63
	63	63	63	63

	2015			2014		
	Cost/valuation	Accumulated amortisation/impairment	Carrying value	Cost/valuation	Accumulated amortisation/impairment	Carrying value

18. INTANGIBLE ASSETS

GROUP						
Software development	557	(474)	83	525	(433)	92
Internet booking site	39	(36)	3	39	(36)	3
Goodwill*	35	(35)	–	35	(35)	–
Total	631	(545)	86	599	(504)	95

	2015			2014		
	Cost/ valuation	Accumulated amortisation/ impairment	Carrying value	Cost/ valuation	Accumulated amortisation/ impairment	Carrying value
COMPANY						
Software development	517	(450)	67	491	(416)	75
Internet booking site	39	(36)	3	39	(36)	3
Total	556	(486)	70	530	(452)	78

R MILLION	Opening balance	Additions	Amortisation	Total
GROUP – 2015				
Reconciliation				
Software development	82	32	(41)	83
Internet booking site	3	–	–	3
Goodwill*	–	–	–	–
	95	32	(41)	86

R MILLION	Opening balance	Additions	Amortisation	Total
GROUP – 2014				
Reconciliation				
Software development	108	21	(37)	92
Internet booking site	3	–	–	3
Goodwill*	–	–	–	–
	111	21	(37)	95

R MILLION	Opening balance	Additions	Amortisation	Total
COMPANY – 2015				
Reconciliation				
Software development	75	26	(34)	67
Internet booking site	3	–	–	3
	78	26	(34)	70

R MILLION	Opening balance	Additions	Amortisation	Total
COMPANY – 2014				
Reconciliation				
Software development	96	11	(32)	75
Internet booking site	3	–	–	3
	99	11	(32)	78

* The goodwill arose from the acquisition of Air Chefs SOC Limited and has been impaired in full.

R MILLION	COMPANY	
	2015	2014
19. INVESTMENTS IN SUBSIDIARIES		
Shares at cost	2 404	2 404
Impairment of investments in subsidiaries	(1 282)	(1 282)
	1 122	1 122

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19. INVESTMENTS IN SUBSIDIARIES (CONTINUED)

Subsidiary	Place of incorporation	Nature of business
Mango Airlines SOC Limited	South Africa	Airline business
SAA Technical SOC Limited	South Africa	Maintenance of aircraft
Air Chefs SOC Limited	South Africa	Airline catering
South African Airways City Center SOC Limited	South Africa	Travel agency

Name of company	Shares	PERCENTAGE HOLDING		R MILLION SHARES AT COST	
		2015	2014	2015	2014
Mango Airlines SOC Limited	1 120	100	100	336	336
SAA Technical SOC Limited	200	100	100	1 960	1 960
Air Chefs SOC Limited	100	100	100	106	106
South African Airways City Center SOC Limited	1 000	100	100	2	2
				2 404	2 404
Impairment of investment in subsidiaries				(1 282)	(1 282)
				1 122	1 122

All subsidiary undertakings are included in the consolidation. The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from the proportion of ordinary shares held. The parent company does not have any shareholdings in the preference shares of subsidiary undertakings included in the Group. The net aggregate losses in subsidiaries for the year amounted to R214 million (2014: R132 million).

20. DEFERRED TAX ASSET

R MILLION	GROUP		COMPANY	
	2015	2014	2015	2014
Temporary differences in respect of property, aircraft and equipment	(1 015)	(1 286)	(830)	(1 090)
Doubtful debts	20	38	25	28
Air traffic liability and other deferred income	838	1 085	799	973
Provisions	1 370	1 258	1 097	1 120
Prepayments	(38)	(67)	(38)	(41)
Differences due to changes in fair value of financial instruments	(51)	(63)	(51)	(63)
Leased assets	4	6	—	—
Computed tax loss	4 650	3 985	4 336	3 455
	5 788	4 956	5 340	4 382
Deferred tax asset not recognised	(5 408)	(4 558)	(5 340)	(4 382)
Deferred tax asset recognised	380	398	—	—

Recognition of deferred tax asset

Deferred tax assets are recognised for tax loss carry forwards to the extent that the realisation of the related tax benefit through future taxable income is probable. The Group did not recognise deferred tax assets of R5,4 billion (2014: R4,6 billion) in respect of losses amounting to R16,6 billion (2014: R14,2 billion) that can be carried forward against future taxable income. It is anticipated that there will be sufficient taxable income in future periods to support the recognition of the deferred tax asset reflected above.

21.

R MILLION	GROUP		COMPANY	
	2015	2014	2015	2014
INVENTORIES				
Maintenance inventories	1 178	1 092	--	--
Work in progress	61	19	--	--
Consumables	178	165	121	109
	1 417	1 276	121	109
Impairment of Inventories	(692)	(468)	--	--
	725	808	121	109
Reconciliation of impairment of inventories				
Opening balance	(468)	(289)	--	--
Reversal of previous write downs to NRV	--	13	--	--
Write down of Inventories recognised as an expense during the year	(224)	(192)	--	--
Closing balance	(692)	(468)	--	--

The write down of inventories in the current year relates to the impairment of obsolete aircraft spares. This stock has been impaired to its net realisable value.

22.

R MILLION	COMPANY	
	2015	2014
AMOUNTS RECEIVABLE FROM SUBSIDIARIES		
SUBSIDIARIES		
SAA Technical SOC Limited	1 262	1 169
Air Chefs SOC Limited	178	178
South African Airways City Center SOC Limited	18	15
	1 458	1 362
Impairment of loans to subsidiaries	(18)	(15)
	1 440	1 347

The amounts receivable from the subsidiaries are interest free. These balances fluctuate in line with the financing requirements of the subsidiaries and there are no fixed terms of repayment.

23.

DERIVATIVES

GROUP AND COMPANY

R MILLION	Jet fuel options	Currency derivatives	Jet fuel forward exchange contracts and swaps	Total
Fair value at 1 April 2014	79	125	20	224
Assets	79	128	20	227
Liabilities	--	(3)	--	(3)
Amounts spent on premiums	70	103	--	173
Fair value movements for the year ended 31 March 2015	(94)	(112)	(366)	(572)
Fair value at 31 March 2015	55	116	(346)	(175)
Assets	55	116	--	171
Liabilities	--	--	(346)	(346)

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	GROUP		COMPANY	
R MILLION	2015	2014	2015	2014
24. TRADE AND OTHER RECEIVABLES				
Gross accounts receivable	2 830	2 896	2 642	2 738
Allowance for impairment	(98)	(125)	(81)	(90)
	2 732	2 771	2 561	2 648
Prepayments	4 077	3 492	3 957	3 326
	6 809	6 263	6 518	5 974
Reconciliation of impairment of trade and other receivables				
Opening balance	(125)	(128)	(90)	(125)
Reversal of Impairments/(impairments)	12	(32)	(3)	2
Amounts utilised for write-offs	15	35	12	33
Closing balance	(98)	(125)	(81)	(90)

The trade receivables portfolio impairment loss relates to:

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

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

R MILLION	Gross amount	Current not yet past due	Past due but not impaired	Impaired amount
GROUP – 2015				
BSP	945	924	12	9
Credit card	208	186	16	6
GSA	105	92	9	4
Stations	19	13	–	6
Cargo freight and mail	342	165	152	25
Airline catering	4	3	–	1
Travel services	5	2	3	–
Technical maintenance	227	156	56	15
Alliance partners	235	127	108	–
Voyager	71	39	32	–
Default debtors	31	–	–	31
Other trade debtors	638	606	31	1
	2 830	2 313	419	98
COMPANY – 2015				
BSP	945	924	12	9
Credit card	208	186	16	6
GSA	105	92	9	4
Stations	19	13	–	6
Cargo freight and mail	342	165	152	25
Alliance partners	235	127	108	–
Voyager	71	39	32	–
Default debtors	31	–	–	31
Other trade debtors	686	655	31	1
	2 842	2 201	360	81

R MILLION	Gross amount	Current not yet past due	Past due but not impaired	Impaired amount
GROUP – 2014				
BSP	1 057	1 044	7	6
Credit card	260	250	5	5
GSA	96	95	(2)	3
Stations	5	2	–	3
Cargo freight and mail	111	53	26	32
Airline catering	15	8	7	–
Travel services	3	3	–	–
Technical maintenance	182	117	30	35
Alliance partners	373	230	143	–
Voyager	93	47	46	–
Default debtors	40	–	–	40
Other trade debtors	661	630	30	1
	2 896	2 479	292	125
COMPANY – 2014				
BSP	1 057	1 044	7	6
Credit card	260	250	5	5
GSA	96	95	(2)	3
Stations	5	2	–	3
Cargo freight and mail	111	53	26	32
Alliance partners	373	230	143	–
Voyager	93	47	46	–
Default debtors	40	–	–	40
Other trade debtors	703	672	30	1
	2 738	2 393	255	90

R MILLION	GROUP		COMPANY	
	2015	2014	2015	2014
Past due but not impaired can be analysed further in terms of aging as follows:				
30 to 60 days	228	–	208	–
61 to 90 days	19	114	6	95
91 to 120 days	64	37	38	37
+120 days	108	141	108	123
	419	292	360	255
Included in other receivables are amounts in respect of maintenance payments made to lessors. Refer to the accounting policies section for details of the treatment of these claims.				
Maintenance reserve receivable	3 996	3 555	3 996	3 555
Maintenance reserve payments expensed	(2 029)	(2 175)	(2 029)	(2 175)
	1 967	1 380	1 967	1 380
Credit quality of trade and other receivables				
Trade receivables can be analysed based on historical collections performance as follows:				
Trade receivables				
Trade debtors with no history of default	2 205	2 356	2 093	2 270
Trade debtors where there have been isolated instances of default but no loss suffered	108	123	108	123
	2 313	2 479	2 201	2 393

Collateral held

BSP debtors are credit-vetted by IATA, which holds a guarantee appropriate to the level of risk identified. Should an agent be in default with IATA, the guarantee is encashed and apportioned between the creditor airlines. SAA holds additional guarantees of R66 million in respect of local GSA debtors and R118 million in respect of Cargo debtors and Cargo GSAs.

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	GROUP		COMPANY	
R MILLION	2015	2014	2015	2014
24. TRADE AND OTHER RECEIVABLES (CONTINUED)				
NON-CURRENT PREPAYMENTS				
Pre-delivery payments (PDPs)	217	–	217	–
In accordance with the accounting policy, in the event that it is unlikely that the underlying aircraft will be purchased at the expected delivery date, but will be leased under an operating lease, the related PDPs will be transferred to receivables. The amount above represents the long-term portion of such PDPs.				
	GROUP		COMPANY	
R MILLION	2015	2014	2015	2014
25. INVESTMENTS				
Investment in unlisted shares				
SA Airlink (Pty) Limited	35	35	35	35
Impairment of unlisted investment	(17)	(20)	(17)	(20)
	18	15	18	15
Investment in share trust				
South African Airways Employee Share Trust	–	–	157	157
Impairment of the loan to South African Airways Employee Share Trust	–	–	(157)	(157)
	–	–	–	–
26. CASH AND CASH EQUIVALENTS				
Cash and cash equivalents consist of:				
Foreign bank accounts	1 043	861	1 044	865
Domestic bank accounts	(1 290)	(1 140)	(1 852)	(1 793)
Short-term investments – call deposits (US\$ and EURO denominated)	121	200	121	200
Total cash and cash equivalents	(126)	(79)	(687)	(728)
Current assets	1 266	1 853	1 212	1 189
Current liabilities	(1 392)	(1 932)	(1 899)	(1 917)
	(126)	(79)	(687)	(728)
Cash and cash equivalents consist of cash on hand, balances with banks and short-term deposits which can be accessed within three months at most. Cash and cash equivalents included in the cash flow statement are as detailed above.				
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
Reconciliation of number of shares issued:				
Opening balance	12 892	12 892	13 126	13 126
Issued				
8 786 771 465 Class A ordinary shares of R1 each	8 787	8 787	8 787	8 787
2 412 563 822 Class B ordinary shares of R1 each	2 413	2 413	2 413	2 413
1 206 281 911 Class C ordinary shares of R1 each	1 206	1 206	1 206	1 206
603 140 956 Class D ordinary shares of R1 each	603	603	603	603
117 578 806 Class E ordinary shares of R1 each	117	117	117	117
Less: Treasury shares	(234)	(234)	–	–
	12 892	12 892	13 126	13 126
All shares in the classes A to D are held by the South African Government, represented by the Department of Finance, and enjoy the same rights. The E class shares are held by the South African Airways Employee Share Trust.				

28.

R MILLION	GROUP		COMPANY	
	2015	2014	2015	2014
SUBORDINATED LOAN GUARANTEED BY GOVERNMENT				
Balance at the beginning of the year	1 300	1 300	1 300	1 300
Repaid during the year	—	—	—	—
Balance at the end of the year	1 300	1 300	1 300	1 300

The loan was obtained 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 shareholders' right to participation. Should SAA elect not to make payment, the government guarantee will become effective.

The loan of R1,3 billion bears interest at an aggregate of three months JIBAR plus 150 basis points and is payable quarterly from June 2007 at the sole discretion of the issuer. This loan has been classified as an equity instrument and interest paid accounted for as a dividend.

29.

R MILLION	GROUP		COMPANY	
	2015	2014	2015	2014
LONG-TERM LOANS				
Secured loans				
External loans	8 322	4 370	8 303	4 348
The loans are repayable as follows:				
On demand or within one year	4 638	3 721	4 634	3 721
Two to five years	169	648	154	627
Later than five years	3 515	1	3 515	—
	8 322	4 370	8 303	4 348
Less: current portion repayable on demand	(4 638)	(3 721)	(4 634)	(3 721)
	3 684	649	3 669	627
The carrying amounts of long-term loans are denominated in the following currencies:				
Rand denominated domestic loans*	7 991	3 831	7 972	3 809
US\$ denominated foreign loans**	331	539	331	539
	8 322	4 370	8 303	4 348

* Domestic secured loans bear interest at JIBAR plus a margin ranging from 0,60% to 3,50% and are secured over aircraft (Note 17).

** The foreign secured loans in US\$ bear interest at a fixed interest rate ranging from 4,17% to 4,33% and are secured over aircraft (Note 17).

30.

RETIREMENT BENEFITS				
Post-retirement medical benefits	(29)	(33)	(29)	(33)
Retirement benefit obligation	(62)	(40)	(62)	(40)
Retirement benefit asset	38	29	38	29
	(53)	(44)	(53)	(44)
Non-current assets	38	29	38	29
Non-current liabilities	(91)	(73)	(91)	(73)
	(53)	(44)	(53)	(44)

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31.

PROVISIONS

GROUP – 2015

Reconciliation

	Opening balance	Additions	Utilised during the year	Reversed during the year	Currency revaluation	Total	Current portion	Non-current portion
Provision for lease liabilities ⁽¹⁾	1 387	413	(534)	–	110	1 376	332	1 044
Other provisions ⁽²⁾	260	18	(12)	(58)	–	208	–	208
	1 647	431	(546)	(58)	110	1 584	332	1 252

	Opening balance	Additions	Utilised during the year	Currency revaluation	Total	Current portion	Non-current portion
GROUP – 2014							
Reconciliation							
Provision for lease liabilities ⁽¹⁾	1 261	280	(325)	171	1 387	176	1 211
Other provisions ⁽²⁾	192	68	–	–	260	–	260
	1 453	348	(325)	171	1 647	176	1 471

	Opening balance	Additions	Utilised during the year	Reversed during the year	Currency revaluation	Total	Current portion	Non-current portion
COMPANY – 2015								
Reconciliation								
Provision for lease liabilities ⁽¹⁾	1 378	413	(533)	–	110	1 368	332	1 036
Other provisions ⁽²⁾	260	18	(12)	(58)	–	208	–	208
	1 638	431	(545)	(58)	110	1 576	332	1 244

	Opening balance	Additions	Utilised during the year	Currency revaluation	Total	Current portion	Non-current portion
COMPANY – 2014							
Reconciliation							
Provision for lease liabilities ⁽¹⁾	1 252	280	(325)	171	1 378	176	1 202
Other provisions ⁽²⁾	192	68	–	–	260	–	260
	1 444	348	(325)	171	1 638	176	1 462

(1) For aircraft held under operating lease agreements, SAA is contractually committed to either return the aircraft in a certain condition or to compensate the lessor based on the actual condition of the airframe, engines and life-limited parts upon return. In order to fulfil such conditions of the lease, maintenance in the form of major airframe overhaul, engine maintenance checks, and restitution of major life-limited parts, is required to be performed during the period of the lease and upon return of the aircraft to the lessor. The estimated airframe and engine maintenance costs and the costs associated with the restitution of major life-limited parts, are accrued and charged to profit or loss over the lease term for this contractual obligation.

(2) Other provisions include, but are not limited to, amounts set aside to settle claims against the Group/Company arising in the course of its operations. The amounts provided are unlikely to differ materially from the anticipated final settlement amounts. Further information regarding individual claim amounts have not been provided as they may prejudice the Group/Company in its ongoing litigation. Further information has been disclosed in the Directors' report.

32.

OTHER SHORT-TERM LIABILITIES

Shareholder loan to South African Airways Employee Share Trust

	GROUP		COMPANY	
R MILLION	2015	2014	2015	2014
	63	63	–	–

The Shareholder loan to the South African Airways Employee Share Trust was created when the E class shares were transferred into the South African Airways Employee Share Trust from the Shareholder. The loan is interest free and is repayable on the winding up of the South African Airways Employee Share Trust. SAA has started the process to wind up the South African Airways Employee Share Trust and the process is expected to be completed during the 2015/16 financial year and therefore has been classified as short-term.

R MILLION	GROUP		COMPANY	
	2015	2014	2015	2014
33. DEFERRED REVENUE ON TICKET SALES				
Frequent flyer deferred revenue – long-term	715	845	715	845
Net air traffic liability – short-term	2 981	3 607	2 806	3 442
Frequent flyer deferred revenue – short-term	609	602	609	602
	3 590	4 209	3 415	4 044

AIR TRAFFIC LIABILITY

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

FREQUENT FLYER DEFERRED REVENUE

Deferred revenue relates to the frequent flyer programme and represents the fair value of the outstanding credits. Revenue is recognised when SAA fulfils its obligations by supplying free or discounted goods or services on the redemption of award credits. Refer to Notes 1 and 4 for more information.

R MILLION	GROUP		COMPANY	
	2015	2014	2015	2014
34. TRADE AND OTHER PAYABLES				
Trade payables	1 378	1 280	1 574	1 404
Other payables*	5 205	5 218	4 717	4 856
	6 583	6 498	6 291	6 260

* Other payables comprise accruals processed in the normal course of business and ticket taxes received in advance.

35. COMMITMENTS**AUTHORISED CAPITAL EXPENDITURE**

Already contracted for but not provided for

Capital commitments – contracted in US\$	969	822	969	822
	969	822	969	822

Capital commitments relate to the Airbus A320 orders and the amount disclosed includes escalations to the 2018 financial year.

Operating leases – as lessee (expense) (Rand million)

Operating lease commitments for property, aircraft, equipment and vehicles are expected to be incurred as follows:

– within one year	2 746	2 261	2 746	2 261
– in second to fifth year inclusive	6 260	4 451	6 260	4 451
– later than five years	4 144	1 275	4 144	1 275
	13 150	7 987	13 150	7 987

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.

Uncovered lease commitments (US\$ million)

– within one year	212	196	212	196
– in second to fifth year inclusive	488	372	488	372
– later than five years	342	121	342	121
	1 042	689	1 042	689

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for the year ended 31 March 2015

36. EMPLOYEE BENEFIT INFORMATION

36.1 SAA GROUP PENSION BENEFITS

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

The amended Rules of the Fund establish a subfund in the name of South African Airways SOC Limited (SAA Group) from 1 April 2006. A further subfund in the name of South African Rail Commuter Corporation Limited was established with effect from 1 May 2006. The third subfund currently in existence is the Transnet subfund.

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

EXPOSURE TO RISKS

The risks faced by the Group as a result of the post-employment benefit obligation can be summarised as follows:

- **Inflation:** The risk that future CPI inflation is higher than expected and uncontrolled.
- **Longevity:** The risk that pensioners live longer than expected and thus their pension benefit is payable for longer than expected.
- **Open-ended, long-term liability:** The risk that the liability may be volatile in the future and uncertain.
- **Future changes in legislation:** The risk that changes to legislation with respect to the post-employment liability may increase the liability for the Group.
- **Future changes in the tax environment:** The risk that changes in the tax legislation governing employee benefits may increase the liability for the Group.
- **Administration:** Administration of this liability poses a burden to the Group.

36.1.1 TRANSNET RETIREMENT FUND (TRF)

The fund was structured as a defined contribution fund from 1 November 2000. All employees of SAA are eligible members of the fund. There were 5 200 members (2014: 5 449) at 31 March 2015. Actuarial valuations are done, at intervals not exceeding three years, to determine its financial position. The last actuarial valuation was performed at 31 March 2015. The actuaries were satisfied with the status of the members' credit account then. The Group's contributions for the period to 31 March 2015 amounted to R424 million (2014: R402 million).

36.1.2 SAA SUBFUND OF THE TRANSPORT PENSION FUND

The fund is a closed defined benefit pension fund. Members are current employees of the SAA Group who elected to remain as members of the fund at 1 November 2000 and pensioner members who retired subsequent to that date. There were 83 active members (2014: 99) and 300 pensioners (2014: 296) at 31 March 2015. An actuarial valuation was done as at 31 March 2015 based on the projected unit credit method.

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

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

The asset splits between the three subfunds were calculated, based on the proportional allocation of benefit liabilities to be transferred to each subfund, and presented to the Board of the fund. The physical split has been agreed by the principal employers and the subfunds' Boards.

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in each territory. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 63.

The Group expects to make a contribution of R6,7 million (2015: R7,3 million) to the defined benefit plan during the next financial year.

PERCENT	2015	2014
Principal actuarial assumptions used:		
Discount rate	7,75	8,65
Inflation	6,47	6,37
Salary increases		
Inflation	6,47	7,37
Pension increases		
First three years	4,10	2,99
After three years	4,10	2,99

R MILLION	2015	2014
Benefit asset		
Present value of obligation	(1 625)	(1 365)
Fair value of plan assets	2 132	2 001
Surplus	507	636
Asset not recognised	(469)	(607)
Net asset per the statement of financial position	38	29
Reconciliation of movement in present value of obligation		
Opening benefit liability at the beginning of the year	(1 365)	(1 380)
Service cost	(10)	(12)
Interest cost	(111)	(94)
Remeasurement	(319)	(39)
Benefits paid	184	165
Member contributions	(4)	(5)
Closing present value of obligation	(1 625)	(1 365)
Reconciliation of fair value of plan assets		
Opening fair value of plan assets	2 001	1 827
Return on plan assets	166	124
Remeasurement	139	203
Employer's contributions	6	7
Benefits paid	(184)	(165)
Member contributions	4	5
Closing fair value of plan assets	2 132	2 001
PERCENT	2015	2014
The major categories of plan assets as a percentage of total plan assets are:		
Equity	38	34
Property	9	7
Bonds	26	27
Cash	8	5
International	23	27
Total	100	100
R MILLION	2015	2014
Current-service cost	10	12
Interest on obligation	111	94
Return on plan assets	(166)	(124)
	(45)	(18)

The plan has a surplus that is not recognised on the basis that future economic benefits are not available to the Group in the form of a reduction in future contributions or a cash refund.

The net remeasurement gain on this defined benefit plan of R12 million (2014: loss R16 million) per Note 16 is arrived at by reducing the net remeasurement loss of R180 million (2014: gain R164 million) above by R192 million (2014: R180 million), which is the net change in the surplus asset that may not be recognised per the actuarial valuation.

As at the last valuation date, the present value of the defined benefit obligation was comprised of approximately R476 million (2014: 451 million) relating to active employees, R20 million (2014: RNil) relating to deferred members and R1129 million (2014: R914 million) relating to members in retirement.

The plan assets are primarily invested in equities and bonds (with a majority in equities). This exposes the Fund to a slight concentration of market risk. If the plan assets are not adequate or suitable to fund the liabilities of the fund (and the nature thereof) the Group will be required to fund the balance, hence exposing the Group to risks on the investment return.

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36. EMPLOYEE BENEFIT INFORMATION (CONTINUED)

36.1 SAA GROUP PENSION BENEFITS (CONTINUED)

36.1.2 SAA SUBFUND OF THE TRANSPORT PENSION FUND (CONTINUED)

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	IMPACT ON DEFINED BENEFIT OBLIGATION		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1%	Decrease by 8,9%	Increase by 10,5%
Inflation rate	1%	Increase by 8,2%	Decrease by 7,3%
Pension increase rate increased to 5,5%	1,4%	Decrease by 15,7%	N/A

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

36.2 MEDICAL BENEFITS

36.2.1 SAA GROUP EMPLOYEES' POST-RETIREMENT MEDICAL BENEFITS

The Group has an arrangement with its employees whereby SAA subsidises its members for post-retirement medical benefits. The post-retirement medical benefits obligation relates to SAA Group continuation and in-service members who are members of Transnet, and who retired after 31 March 1990 or are still employees of SAA; employees who participate in the Discovery Health Medical Scheme; and those who do not belong to a medical scheme.

There were 412 continuation members (2014: 702) and 5255 in-service members (2014: 5574) at 31 March 2015. The expected retirement age is 63 years and there is no allowance for early retirement. The average age of the continuation members was 69,4 years (2014: 69,6 years) and the average age of the in-service members was 41,9 years (2014: 41,2 years) at 31 March 2015. The Group expects to make a contribution of R1,1 million (2015: R1,9 million) to the defined benefit plan during the next financial year.

	2015	2014
Eligible in-service members:		
Male	2 914	2 985
Female	2 341	2 589
Average age (years)	41,9	41,2
Average past service (years)	15,2	14,4
Eligible continuation members:		
Male	363	563
Female	49	139
Average age (years)	69,4	69,6

SAA subsidises continuation and in-service members with a fixed amount of R213 (2014: R213) per month in retirement. The amount is fixed irrespective of the number of dependants on the medical scheme. Dependants of members who die while in-service continue to receive this amount. To enable the SAA Group to fully provide for such post-retirement medical aid liabilities, since April 2000 actuarial valuations are obtained annually, as required by IAS 19: Employee Benefits. There are no assets held to fund the obligation.

Risks involved in maintaining the post-employment healthcare obligation

The risks faced by SAA as a result of the post-employment healthcare obligation can be summarised as follows:

- **Longevity:** The risk that pensioners live longer than expected and thus their healthcare benefit is payable for longer than expected.
- **Open-ended, long-term liability:** The risk that the liability may be volatile in the future and uncertain.
- **Future changes in legislation:** The risk that changes to legislation with respect to the post-employment healthcare liability may increase the liability for SAA.
- **Future changes in the tax environment:** The risk that changes in the tax legislation governing employee benefits may increase the liability for SAA.
- **Perceived inequality by non-eligible employees:** The risk of dissatisfaction of employees who are not eligible for a post-employment healthcare subsidy.
- **Administration:** Administration of this liability poses a burden to SAA.
- **Enforcement of eligibility criteria and rules:** The risk that eligibility criteria and rules are not strictly or consistently enforced.

Allocation of liability to SAA Group

The net benefit costs are allocated to subsidiaries of Transnet based on the demographic distribution of the Transnet 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 economic assumptions have been set in relation to the duration of the liability as at 31 March 2014 of 13,4 years. The duration of the liability as at 31 March 2015 is 15,5 years.

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in each territory. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 63.

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 2015.

The table below summarises the components of net benefit expense recognised in both the statement of profit or loss and other comprehensive income and the statement of financial position for the SAA Group as at 31 March 2015 for SAA Group employees.

The principal actuarial assumptions used were as follows:

PERCENT	2015	2014
Discount rate	8,37	8,94
R MILLION	2015	2014
Net benefit liability		
Present value of unfunded benefit obligations	29	33
Changes in the present value of defined benefit obligations are as follows:		
Opening liability	33	43
Service cost	1	1
Interest cost	3	3
Remeasurement	(6)	(12)
Benefits paid	(2)	(2)
Benefit liability at year end	29	33
Amounts recognised in the statement of profit or loss and other comprehensive income		
Current-service cost	1	1
Interest on obligation	3	3
	4	4

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	IMPACT ON DEFINED BENEFIT OBLIGATION		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	1%	Decrease by 12,4%	Increase by 15,5%
Discount rate	2%	Decrease by 22,5%	Increase by 35%
Expected retirement age	1 year	Decrease by 6,2%	Increase by 6,8%
Expected retirement at 60 years of age	3 years	N/A	Increase by 21,9%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

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36. EMPLOYEE BENEFIT INFORMATION (CONTINUED)

36.3 SAA GERMAN PENSION FUND BENEFITS

SAA operates a retirement plan for its permanent employees based in Germany. 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 1989.

The benefits payable to groups 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.

The Group expects to make a contribution of R2,6 million (2015: R3,1 million) to the defined benefit plan during the next financial year.

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 March 2015 using the projected unit credit method.

Assumptions regarding future mortality are set based on actuarial advice in accordance with published statistics and experience in each territory. These assumptions translate into an average life expectancy in years for a pensioner retiring at age 63.

	VALUATION	
PERCENT	2015	2014
Principal actuarial assumptions used:		
Discount rate	1,68	3,3
Salary increases	1,0	2,0
Pension increases per three years	3,0	4,5
R MILLION	2015	2014
Benefit liability		
Present value of obligation	(338)	(325)
Fair value of plan assets	276	285
Net liability per the statement of financial position	(62)	(40)
Reconciliation of movement in present value of obligation		
Opening benefit liability at the beginning of the year	325	246
Service cost	7	5
Interest cost	10	10
Exchange differences on foreign plans	(39)	58
Benefits paid	(13)	(15)
Remeasurement	48	21
Closing present value of obligation	338	325
Reconciliation of fair value of plan assets		
Opening fair value of plan assets	285	234
Exchange differences on foreign plans	(31)	52
Return on plan assets	8	10
Remeasurement	24	2
Benefits paid	(14)	(16)
Employer's contribution	3	3
Closing fair value of plan assets	276	285

PERCENT	2015	2014
The major categories of plan assets as a percentage of total plan assets are:		
Equity	28	26
Cash	49	50
Other	23	24
Total	100	100

R MILLION	2015	2014
Current-service cost	7	5
Interest on obligation	10	10
Return on plan assets	(9)	(10)
	8	5

As at the last valuation date, the present value of the defined benefit obligation was comprised of approximately R111 million (2014: 106 million) relating to active employees, R21 million (2014: R25 million) relating to deferred members and R206 million (2014: R194 million) relating to members in retirement.

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	IMPACT ON DEFINED BENEFIT OBLIGATION		
	Change in assumption	Increase in assumption	Decrease in assumption
Discount rate	0,5%	Decrease by 7,4%	Increase by 8,4%
Salary increase rate	0,5%	Increase by 1,8%	Decrease by 1,7%
Pension increase rate	0,5%	Increase by 1,8%	Decrease by 1,8%

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the statement of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

36.4 FLIGHT DECK CREW (FDC) DISABILITY BENEFIT

SAA has an agreement with FDC members who are on permanent employment to top up the disability benefits payable by the Transnet Retirement Fund and the SAA Retirement Fund. In terms of the rules of the Transnet Retirement Fund all employees are entitled to 75 percent 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 percent 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, and these benefits are therefore unfunded.

In the past, SAA has recognised the full obligation in the financial statements as there were no plan assets or insurance cover in place of these promised benefits. In 2007, SAA took an insurance policy to cover the 25 percent additional benefit to pilots, which resulted in SAA no longer having a legal or constructive obligation to fund the disability benefit.

	NUMBER OF SHARES	
	2015	2014

36.5 SHARE-BASED PAYMENTS

36.5.1 FDC SHARE SCHEME

The FDC Share Scheme was created for flight deck crew members and Transnet Limited allocated 40 150 000 E class ordinary R1,00 shares of SAA to the scheme. These shares are held as follows:

South African Airways Employee Share Trust	3 431 418	3 431 418
	3 431 418	3 431 418

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		NUMBER OF SHARES	
		2015	2014
36.	EMPLOYEE BENEFIT INFORMATION (CONTINUED)		
36.5	SHARE-BASED PAYMENTS (CONTINUED)		
36.5.2	SHARE INCENTIVE SCHEME		
The scheme granted two types of shares, ie joining and promotional shares to management. The promotional shares had a 12-month vesting period and the joining shares had a 24-month vesting period. Vesting was calculated from 1 April 1999 or when the employee joined the company. The employees could exercise these options at 25 percent per annum after vesting took place. These shares are held as follows:			
South African Airways Employee Share Trust		23 005 660	23 005 660
		23 005 660	23 005 660
36.5.3	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:			
South African Airways Employee Share Trust		91 141 728	91 141 728
		91 141 728	91 141 728
36.6	EMPLOYEE WELLNESS PROGRAMME		
The Group offers employees and their immediate families access to an holistic health and wellness programme, providing life skills, awareness, counselling and education programmes to promote healthy lifestyles and coping skills. The programme is aimed at providing support covering a whole range of health and medical conditions, including HIV and Aids.			
36.7	TRAVEL BENEFITS		
The Group offers certain air travel benefits to both current employees and retirees. 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 the ticket is only issued on a "standby" basis, with fare paying passengers always having preference. Employees and retirees may only fly if there is available space on the flight.			

37. RELATED PARTIES

The SAA Group has applied the exemption under paragraph 25 of IAS 24 to government related entities. South African Airways SOC Limited (SAA) is owned by the Department of Finance, a South African Government National Department. SAA is a Schedule 2 Public Entity in terms of the Public Finance Management Act No.1 of 1999 (as amended) (PFMA). Its related parties therefore constitute the Department of Finance, its subsidiaries, some major public entities falling under Schedule 2 of the PFMA and key management personnel.

Public entities that are classified as Schedule 2 major public entities are omitted from detailed disclosure as per paragraphs 25 and 26 of IAS 24. The exemption also applies to the Department of Finance. The only significant transaction that was entered into with the Department of Finance was a R1,3 billion subordinated loan guaranteed by government. Refer to Note 28 for more details.

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 the same benefits as 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 has 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.

Liabilities include an amount of R248 million (2014: R187 million) relating to leases entered into with a subsidiary of SAA.

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

	GROUP		COMPANY	
	2015	2014	2015	2014
R THOUSAND				
RELATED PARTY BALANCES				
Amounts receivable from related parties*				
Subsidiaries	—	—	1 440 357	1 347 219
Public entities	27	8	27	8
	27	8	1 440 384	1 347 227

R THOUSAND	GROUP		COMPANY	
	2015	2014	2015	2014
Amounts payable to related parties**				
Subsidiaries	–	–	374 732	579 981
Public entities	52 154	56	50 998	32
	52 154	56	425 730	580 013
<p>* Amounts receivable represent short- and long-term amounts receivable.</p> <p>** Amounts payable represent short- and long-term amounts payable.</p>				
RELATED PARTY TRANSACTIONS				
Sales of goods/services				
Subsidiaries	–	–	510 558	402 868
Public entities	116	98	116	98
	116	98	510 674	402 966
Purchases of goods/services				
Subsidiaries	–	–	3 143 302	4 207 968
Public entities	1 369 870	1 140 708	762 448	668 269
	1 369 870	1 140 708	3 905 750	4 876 237
Other transactions				
Shareholder*	97 766	87 231	97 766	87 231
Subsidiaries	–	–	37 713	35 707
Key management personnel**	42 926	39 222	25 925	20 659
	140 692	126 453	161 404	143 597

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

** Long- and short-term employee benefits paid to executive members. Executive members' emoluments of subsidiaries that form part of the SAA Group Executive Committee are disclosed in Note 43. The short-term employee benefits reflected below refer to members of the SAA Company who are also members of the SAA Group Executive Committee.

	DIRECTORS FEES AND TRAVEL BENEFITS				DIRECTORS FEES AND TRAVEL BENEFITS			
	FEES		NUMBER OF FLIGHTS		FEES		NUMBER OF FLIGHTS	
	R'000	INTERNATIONAL	DOMESTIC	REGIONAL	R'000	INTERNATIONAL	DOMESTIC	REGIONAL
	2015				2014			
Key management personnel compensation is set out below:								
Board of Directors								
Non-executive								
L Nkosi-Thomas ¹	–	–	–	–	417	1	13	1
DC Myeni	846	–	2	–	828	1	5	–
Y Kwinana	463	–	12	4	510	–	10	6
A Khumalo ²	206	–	18	–	396	–	20	2
R Lepule ³	221	–	2	–	405	–	–	–
B Mpondo ³	225	–	9	–	461	–	9	–
N Kubeka ⁴	195	–	2	–	349	–	12	–
A Mabizela ⁴	213	–	3	–	382	–	2	–
C Roskrug ⁴	220	6	15	–	349	–	17	–
R Nalithani ⁵	240	–	–	–	382	–	–	–
AD Dixon ⁶	171	–	–	–	–	–	–	–
JE Tambi ⁶	181	1	–	–	–	–	–	–
	3 181	7	63	4	4 479	2	88	9

1. Resigned 23 February 2014.

2. Resigned 16 October 2014.

3. Resigned 17 October 2014.

4. Resigned 22 October 2014.

5. Removed 23 October 2014.

6. Appointed 23 October 2014.

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37. RELATED PARTIES (CONTINUED)

In terms of the Group's travel benefits policy as referred to in note 36.7, key management personnel and board members are entitled to utilise surplus capacity on flights at a nominal cost to the beneficiaries and at no loss of revenue to the Group. This benefit ceased for Board members effective from the date of the AGM held on 30 January 2015.

R THOUSAND	Salaries	Allowances	Fund contributions	Total
Short-term employee benefits 2015				
Executive directors¹				
M Kalawe	4 553	—	—	4 553
N Bezuidenhout ²	168	—	—	168
WH Meyer	3 661	—	—	3 661
	8 380	—	—	8 380
Executive Committee				
BK Parsons ³	264	—	—	264
ME Mpshe	2 368	—	217	2 585
TP Makhetha	2 669	—	—	2 669
Z Ramasia	2 320	—	167	2 487
K Phohleli ⁴	255	—	—	255
U Fikelepi	2 000	—	—	2 000
P Ncala	2 845	—	—	2 845
S Bosc ⁵	2 409	956	—	3 365
L Jiya ⁶	1 075	—	—	1 075
	16 205	956	384	17 545

1. Executive directors of the Board are also members of the Executive Committee.

2. Appointed as Acting CEO effective 30 October 2014.

3. Removed 30 April 2014 due to change in Executive Committee structure.

4. Appointed to the Executive Committee in an acting capacity until 30 June 2014.

5. Appointed 1 July 2014.

6. Appointed 1 October 2014.

R THOUSAND	Salaries	Allowances	Fund contributions	Other	Total
Short-term employee benefits 2014					
Executive directors¹					
M Kalawe ²	3 794	—	—	—	3 794
N Bezuidenhout ³	106	—	—	—	106
WH Meyer	3 464	—	—	—	3 464
Total	7 364	—	—	—	7 364
Executive committee					
BK Parsons	1 749	—	—	—	1 749
ME Mpshe	2 240	—	205	—	2 445
TP Makheta	2 525	—	—	—	2 525
F Thabethe ⁴	789	137	77	—	1 003
M Papa ⁵	1 038	144	87	—	1 269
Z Ramasia	1 618	—	120	—	1 738
K Phohleli ⁶	451	—	—	—	451
U Fikelepi ⁷	667	—	—	—	667
P Ncala ⁸	948	—	—	500 ⁹	1 448
Total	12 025	281	489	500	13 295

1. Executive directors of the Board are also members of the Executive Committee.

2. Appointed 1 June 2013.

3. Appointed as Acting CEO until 31 May 2013.

4. Appointed to the Executive Committee in an acting capacity until 31 October 2013.

5. Appointed to the Executive Committee in an acting capacity until 22 October 2013.

6. Appointed to the Executive Committee in an acting capacity effective 23 October 2013.

7. Appointed 1 November 2013.

8. Appointed 1 December 2013.

9. This payment relates to a sign-on bonus received at commencement of employment.

	TRAVEL BENEFITS 2015 NUMBER OF FLIGHTS			TRAVEL BENEFITS 2014 NUMBER OF FLIGHTS		
	International	Domestic	Regional	International	Domestic	Regional
Executive directors						
M Kalawe ¹	2	62	—	1	54	2
N Bezuidenhout ²	3	—	4	—	5	—
W H Meyer	5	20	—	9	16	—
	10	82	4	10	75	2
Executive Committee						
BK Parsons ³	—	—	—	10	4	2
ME Mpshe	5	16	—	5	15	—
TP Makhetha	4	—	—	4	9	—
F Thabethe ⁴	—	—	—	—	8	4
M Papa ⁵	—	—	—	—	7	—
Z Ramasia	13	35	10	19	23	3
K Phohlele ⁶	3	16	—	—	—	—
U Fikelepi ⁷	1	16	—	—	9	—
P Ncala ⁸	7	—	—	2	—	—
S Bosc ⁹	3	4	—	—	—	—
L Jiya ¹⁰	—	13	2	—	—	—
	36	100	12	41	76	9

1. Appointed 1 June 2013.
2. Appointed as Acting CEO effective 12 February 2013 until 31 May 2013 and then appointed again in an acting capacity effective 30 October 2014.
3. Removed 30 April 2014 due to change in Executive Committee structure.
4. Appointed to the Executive Committee in an acting capacity until 31 October 2013.
5. Appointed to the Executive Committee in an acting capacity until 22 October 2013.
6. Appointed to the Executive Committee in an acting capacity effective 23 October 2013 until 30 June 2014.
7. Appointed 1 November 2013.
8. Appointed 1 December 2013.
9. Appointed 1 July 2014.
10. Appointed 1 October 2014.

38.

CASH USED IN OPERATIONS

R MILLION	GROUP		COMPANY	
	2015	2014	2015	2014
Loss before taxation	(4 677)	(2 543)	(4 390)	(2 679)
Adjustments for:				
Depreciation and amortisation on property, aircraft and equipment	778	566	714	500
Net loss/(gain) on disposal of property, aircraft and equipment	9	(40)	3	(33)
Amortisation of intangible assets	41	37	34	32
Impairment of aircraft	1 508	1 151	1 508	1 151
Impairment of loans to subsidiaries	—	—	3	15
Derivative market movements	367	(76)	367	(76)
Impairment of investments in subsidiaries	—	—	—	122
Interest income	(26)	(32)	(18)	(30)
Finance costs	490	263	523	296
Release from air traffic liability	(400)	(366)	(400)	(366)
Movement in employee benefit obligations	18	30	18	30
(Reversal of impairment)/impairment of accounts receivables	(12)	32	3	(2)
Non-cash movement on retirement benefit plans	(6)	(23)	(6)	(23)
Movement in non-current assets classified as held-for-sale	—	(57)	—	(63)
Release from passenger tax levies	(301)	(412)	(301)	(412)
Unrealised foreign exchange gain on PDPs	—	(122)	—	(122)
Unrealised foreign exchange loss on revaluation of loans	52	76	52	76
Unrealised foreign exchange (gain)/loss on cash and cash equivalents	(49)	39	(50)	42
Movement in retirement benefit asset	(9)	6	(9)	6
Transfer of PDPs from Capital WIP to current prepayments	826	977	826	977
Changes in working capital:				
Inventories	83	123	(12)	10
Trade and other receivables	(534)	(1 815)	(643)	(1 621)
Trade and other payables	336	1 099	332	889
Air traffic liability	(226)	966	(236)	891
Frequent flyer deferred revenue	(123)	(220)	(123)	(220)
Provisions	(63)	194	(62)	194
	(1 868)	(147)	(1 865)	(416)

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R MILLION	GROUP		COMPANY	
	2015	2014	2015	2014
39. TAX PAID				
Movement in the deferred tax balance in the current year	18	-	-	-
Movement in the current tax payable balance in the current year	(5)	-	-	-
Current tax recognised for the year	(37)	-	-	-
	(24)	-	-	-

R MILLION	Notes	Fair value		Total
		Financial liabilities at amortised cost	through profit or loss held-for-trading*	
40. FINANCIAL LIABILITIES BY CATEGORY				
Set out below is an analysis of all of the Group's financial liabilities that are carried at either fair value or amortised cost in the annual financial statements depending on their classification:				
GROUP – 2015				
Long- and short-term liabilities	29	8 322	-	8 322
Shareholder loan to share trust	32	63	-	63
Trade and other payables	34	3 021	-	3 021
Bank overdraft	26	1 392	-	1 392
Jet fuel forward exchange contracts and swaps	23	-	346	346
		12 798	346	13 144

R MILLION	Notes	Fair value		Total
		Financial liabilities at amortised cost	through profit or loss held-for-trading*	
GROUP – 2014				
Long- and short-term liabilities	29	4 370	-	4 370
Shareholder loan to share trust	32	63	-	63
Trade and other payables	34	3 211	-	3 211
Bank overdraft	26	1 932	-	1 932
Currency derivatives	23	-	3	3
		9 576	3	9 579

* Financial instruments held at fair value are level two instruments. A separate analysis has not been provided for the Company, as the numbers do not differ significantly from the Group numbers.

R MILLION	Notes	Fair value			Total
		Loans and receivables	through profit or loss held-for-trading*	Available-for-sale	
41. FINANCIAL ASSETS BY CATEGORY					
Set out below is an analysis of all of the Group's financial assets that are carried at either fair value or amortised cost in the annual financial statements depending on their classification:					
GROUP – 2015					
Currency derivatives	23	-	116	-	116
Jet fuel options	23	-	55	-	55
Trade and other receivables	24	6 734	-	-	6 734
Cash and cash equivalents	26	1 266	-	-	1 266
Investment in SA Airlink (Pty) Limited	25	-	-	18	18
		8 000	171	18	8 189

R MILLION	Notes	Loans and receivables	Fair value through profit or loss held-for-trading*	Available-for- sale	Total
GROUP – 2014					
Jet fuel forward exchange contracts and swaps	23	–	20	–	20
Currency derivatives	23	–	128	–	128
Jet fuel options	23	–	79	–	79
Trade and other receivables	24	6 152	–	–	6 152
Cash and cash equivalents	26	1 853	–	–	1 853
Investment in SA Airlink (Pty) Limited	25	–	–	15	15
		8 005	227	15	8 247

* Financial instruments held at fair value are level two instruments. A separate analysis has not been provided for the Company, as the numbers do not differ significantly from the Group numbers.

42. RISK MANAGEMENT

42.1 FINANCIAL INSTRUMENTS CATEGORIES

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

The investment in the unlisted shares is held as an ancillary investment and is not considered a material holding to the Group. The value of the shares was impaired to zero but in the previous three financial years the impairment was reversed by a total of R15 million. There was a further reversal of R3 million in the current financial year. The investment is classified as a level 2 financial instrument. A valuation of the investment was conducted during the year on the net asset value and based on the results of SA Airlink's latest audited financial statements. The impairment has been reversed limited to SAA's 2,95% shareholding in SA Airlink.

Derivative assets and liabilities

The derivative assets and liabilities are entered into to manage Group exposure to foreign currency, interest rates and jet fuel price risks. The Group derivatives include Fixed contracts, Vanilla European and Asian options, Swaps, Call Spreads and Collars, which are entered into mainly to manage foreign currency exchange risk and jet fuel price risk. The fair values of the derivative instruments are determined based on observable inputs into valuation models.

Foreign currency forward contracts are mainly entered into to manage foreign currency exchange risk and are measured using the quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts.

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

Fixed swaps are valued using a simple discounted cash flow calculation. Asian options are valued using a combination of the Black Scholes and Black 76 formulas, where the inputs into the pricing model are the expected arithmetic average and the variance of the expected arithmetic average of the underlying. The treasury system used for the foreign currency hedges is SunGard Quantum and SunGard Kiodex for the Fuel commodity derivatives.

42.2 GOVERNANCE STRUCTURE

The SAA Board is charged with the responsibility of managing the airline's financial risks. It is assisted by the Audit and Risk Committee, which reviews all the financial risks of the organisation, as well as key financial decisions. The Audit and Risk Committee is a committee of the Board and it meets at least once per quarter and is supported by the Financial Risk Subcommittee (FRSC) which meets on a monthly basis. The FRSC is chaired by the Chief Financial Officer and its membership is made up of key representatives: Chief Risk Officer, Group Treasurer, Corporate Finance, Head Cash Management, Chief Dealer, Risk Manager, Financial Risk Manager, Fuel Management, Head Financial Accounting and CFO's of all the subsidiaries.

RISK MANAGEMENT SYSTEMS

SAA has implemented a Treasury risk analytical system with advanced analytics to assist SAA's Front Office in the hedging decisions in the hedging portfolios. 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 view of its financial risks in the treasury environment.

The capital risk and financial risk management is described below.

42.3 CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of share capital and a government subordinated guaranteed loan that is classified as an equity instrument. The non-distributable reserves include general reserves and government restructuring funds, which are ring fenced for funding of the Group's restructuring activities to ensure that the entity returns to profitability with financial performance metrics similar to those of its world class peers. The debt includes long-term interest bearing borrowings and short-term borrowings, including accounts payable and bank overdrafts.

The Group uses short-term investment instruments to ensure continued funding of operations.

Refer to the going concern details as per the Directors' report, which notes the concern in respect of the risk that SAA is largely undercapitalised.

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42. RISK MANAGEMENT (CONTINUED)

42.3 CAPITAL RISK MANAGEMENT (CONTINUED)

AIRCRAFT AND ENGINE FINANCING

Recent aircraft financing has been conducted using a sale and leaseback mechanism as a financing transaction. This type of structure is able to limit on balance sheet debt whilst acquiring much needed assets.

42.4 FINANCIAL RISK MANAGEMENT

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

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

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

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

LIQUIDITY RISK

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

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

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

- Transactional banking relationships must be reviewed every five years. SAA Treasury is responsible for the recommendation of bankers, and the Board, and through the normal tendering process within SAA, the Board will give final approval.
- All requests for the opening and closing of bank accounts and the management of bank account signatories are to be reviewed and approved by the Chief Financial Officer and the Group Treasurer; and
- Prudent cash management practices must be implemented, including the use of a centralised, pooled cash management bank account structure and systems, and the maintenance of minimum cash balances at operational level.

All companies within the Group are included in the cash management structure and form part of the cash and liquidity management practices of the Group.

COMMITTED FUNDING FACILITIES

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

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

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

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

R MILLION	Carrying principal amount*	Contractual amount*	Less than 1 month	1 to 3 months	3 to 6 months	6 to 12 months	1 to 5 years	Over 5 years
GROUP – 31 MARCH 2015**								
Non-derivative financial liabilities								
US\$ denominated secured loans (in ZAR)	331	337	–	150	–	187	–	–
Total US\$ denominated loans (in ZAR)	331	337	–	150	–	187	–	–
ZAR denominated secured loans	7 891	8 051	–	60	43	4 230	3 718	–
Accounts payable	6 583	6 583	–	6 583	–	–	–	–
Shareholder loan to share trust	63	63	–	–	–	63	–	–
Total (ZAR)	14 637	14 697	–	6 643	43	4 293	3 718	–
Derivative financial instruments								
Fuel – Asian options	55	55	20	–	31	4	–	–
FX – currency options	81	81	18	9	33	21	–	–
Forward exchange contracts – assets	35	35	5	24	5	1	–	–
Fuel – swap liabilities	(346)	(346)	(137)	(18)	(181)	–	–	–
Total (ZAR)	(175)	(175)	(94)	15	(122)	26	–	–
GROUP – 31 MARCH 2014**								
Non-derivative financial liabilities								
US\$ denominated secured loans (in ZAR)	539	554	–	134	–	130	290	–
Total US\$ denominated loans (in ZAR)	539	554	–	134	–	130	290	–
ZAR denominated secured loans	3 831	3 887	–	62	39	3 428	358	–
Accounts payable	6 498	6 498	–	6 498	–	–	–	–
Shareholder loan to share trust	63	63	–	–	–	63	–	–
Total (ZAR)	10 392	10 448	–	6 560	39	3 491	358	–
Derivative financial instruments								
Fuel – Asian options	79	79	6	20	18	35	–	–
FX – currency options	97	97	10	17	47	23	–	–
Forward exchange contracts – assets	28	28	7	20	3	(2)	–	–
Fuel – swap assets	20	20	5	4	7	4	–	–
Total (ZAR)	224	224	28	61	75	60	–	–

* The carrying principal amount excludes interest while the contractual amount includes interest. This is applicable to non-derivative financial liabilities.

** A separate liquidity analysis has not been provided for the Company, as the numbers do not differ significantly from the Group numbers.

NOTES TO THE GROUP AND COMPANY

ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2015

42. RISK MANAGEMENT (CONTINUED)

42.4 FINANCIAL RISK MANAGEMENT (CONTINUED)

OTHER RISKS

Interest rate risk

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

- Increased cash costs in an increasing interest rate environment due to the Group's floating aircraft funding structures;
- The opportunity cost of funding at a higher rate in a declining interest rate environment due to the Group's fixed funding structures; and
- The bulk of the Group's interest rate exposure is as a result of US\$ denominated aircraft financing structures.

This portfolio is made up of operating leases and loans. The portfolio is highly sensitive to the movement of US interest rates. The Group is continually monitoring and adjusting its fixed/floating ratio to adapt to the changing dynamics of its business operations and to protect its statement of profit or loss and other comprehensive income and statement of financial position.

The objectives of managing interest rate risk are to:

- design appropriate funding structures (fixed versus floating, and local versus foreign currency) through the Treasury and Finance departments;
- reduce the cost of capital;
- minimise the effect of interest rate volatility on the Group's financing expenditure;
- manage the ratio of floating rate exposures to fixed rate exposures;
- obtain optimal investment returns on surplus cash, while ensuring that credit risk is managed;
- ensure that appropriate levels of liquidity are maintained, while remaining within the guidelines set by this policy; and
- ensure efficiency by restructuring interest rate exposure as and when necessary.

The Group is exposed to changes in interest rates on floating rate debt and cash deposits. Interest rate risk on borrowings and leases is managed through determining the right balance of fixed and floating debt within the financing structure. To manage the interest rate exposure, the Group Treasury keeps a reasonable amount of foreign cash deposits to offset to some degree the finance charges. The current SAA Group policy limits the maximum interest rate exposure to fixed debt at 75 percent and floating debt at 50 percent. As at 31 March 2015, the current interest rate exposure to fixed debt is 53 percent and 47 percent in respect of floating debt. Market conditions are considered when determining the desired balance of fixed and floating rate debt. The sensitivities of the Group's floating interest rate debt and cash deposits are calculated using the annualised volatility over the last five years.

42.5 CREDIT RISK MANAGEMENT

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

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

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

INVESTMENT RISK

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

MARGINAL RISK

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

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

RATED COUNTERPARTIES

Local and international banking and financial institutions, which are rated by major ratings agencies, and whose financial information is readily available.

UNRATED COUNTERPARTIES

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

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

LOANS AND RECEIVABLES CREDIT RISK

The Group is exposed to credit risk relating to the nature of the distribution network for airline operations. The Group airline distribution network includes BSPs (these are IATA accredited travel agents) and general sales agents (GSAs) who are used in countries where there are no IATA accredited travel agents. Credit card debtors arise from the customers paying their fares using credit cards and the Group has to recover the money through the credit card financial institutions clearing houses globally.

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

UNDRAWN COMMITMENT

SAA issued a R100 million debt facility to Mango, a wholly owned subsidiary, in 2007. This facility remains open for Mango to utilise at its own discretion as and when it needs cash funding. SAA does not expect Mango to utilise this facility within the next 12 months. There were no other undrawn commitments at year end.

MAXIMUM EXPOSURE TO CREDIT RISK

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

R MILLION	GROUP		COMPANY	
	2015	2014	2015	2014
Financial instruments				
Cash and cash equivalents	1 266	1 853	1 212	1 189
Amounts receivable from subsidiaries*	—	—	1 440	1 347
Derivative assets held-for-trading	171	227	171	227
Trade and other receivables	6 734	6 152	6 498	5 888
Investments	18	15	18	15

* These amounts are not past due or impaired.

IMPACT ON OTHER COMPONENTS OF EQUITY IN RAND*					
	Foreign currency amount '000	Carrying amount R'000	+25% -25% US\$ R'000	+15% -15% Euro R'000	+14% -14% GBP R'000
Financial instruments					
Accounts receivable					
31 MARCH 2015					
US\$ denominated	233 623	2 834 343	708 586	—	—
EUR denominated	22 134	288 159	—	46 105	—
GBP denominated	6 010	108 037	—	—	15 125
			708 586	46 105	15 125

IMPACT ON OTHER COMPONENTS OF EQUITY IN RAND*					
	Foreign currency amount '000	Carrying amount R'000	+28%* -28% US\$ R'000	+17%* -17% Euro R'000	+14%* -14% GBP R'000
Financial instruments					
Accounts receivable					
31 MARCH 2014					
US\$ denominated	264 919	2 790 256	781 272	—	—
EUR denominated	17 272	250 497	—	42 584	—
GBP denominated	7 452	130 783	—	—	18 310
			781 272	42 584	18 310

* The percentages used are based on the average movement over the past four years.

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

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42. RISK MANAGEMENT (CONTINUED)

42.6 MARKET RISK MANAGEMENT

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

Set out below is the impact of market risk on the Group's annual financial statements:

CURRENCY RISK

Foreign exchange risk is the risk of loss as a result of adverse movements in currency exchange rates. The biggest contributors to currency risk for the Group are foreign revenues earned at operating unit level, aircraft financing transactions and the covariance risks inherent in the Group's revenue and cost streams. The Group's approach to foreign currency risk management is to protect itself against exchange rate volatility and adverse movements in the exchange rate of the rand in relation to other currencies that the Group is exposed to. The Board made a decision to manage its foreign exchange risk exposures on a net exposure basis, ie taking into account the different currencies it receives in its revenue stream, the different currencies in which its cost base is denominated, and the underlying natural hedges that exist in its business operations. Foreign exchange risk management is managed through the use of cash collection and conversion strategies and approved derivative financial instruments which are marked to market on a daily basis. The Group's policy on foreign exchange risk management is to hedge between 50 percent and 75 percent of its exposure on a 18 month rolling basis.

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

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

- Source currencies for revenue and costs (US\$, GBP and EUR);
- Both direct and indirect foreign exposure. Indirect foreign exposure is where SAA pays in ZAR, but the exposure is determined by using a US\$ price, for example jet fuel uplifted in South Africa;
- Volatility of the rand versus US\$, GBP and EUR and the correlation between these currencies; and
- Foreign currency exposures are determined from the 18 month rolling ZAR and foreign cash budget. Foreign currency risk will be monitored and managed under the following principles:
 - The net foreign currency position will be monitored on a monthly basis by obtaining the net foreign currency position in all currencies from the 18 month rolling cash budget, including forecast foreign cash balances;
 - The accuracy of forecast revenues and costs are of critical importance when determining net foreign currency exposure. Management should take care to establish the levels of confidence in achieving forecast revenues and costs on an ongoing basis when designing hedging strategies; and
 - The foreign versus domestic currency funding decision (loans/leases) should always consider current foreign currency risk management position and practices, since these decisions are a significant source of foreign currency exposure for the Group.

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

FOREIGN EXCHANGE RISK

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

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

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

	2015	2014
Exchange rates used expressed in the number of rands per unit of foreign currency:		
United States dollar (US\$)	12,13	10,53
Euro (EUR)	13,02	14,50
Pounds sterling (GBP)	17,98	17,55

FIGURES IN MILLIONS	FOREIGN AMOUNT		RAND AMOUNT	
	2015	2014	2015	2014
FOREIGN CURRENCY EXPOSURE AT STATEMENT OF FINANCIAL POSITION DATE				
The following debtors and creditors amounts included in the statement of financial position have not been covered by forward exchange contracts:				
Accounts receivable				
US Dollar	234	265	2 834	2 790
Euro	22	17	288	250
UK Pound	6	7	108	131
Hong Kong Dollar	11	17	17	23
Danish Krone	2	2	3	4
Swiss Franc	1	1	15	16
Australian Dollar	4	4	38	35
Brazilian Real	24	23	90	105
Thai Baht	4	3	1	1
Malawian Kwacha	413	491	11	13
Other	-	-	457	420
			3 862	3 788
Accounts payable				
US Dollar	48	60	584	634
Euro	18	15	248	214
UK Pound	2	3	43	44
Australian Dollar	4	4	36	37
Benin CFA Franc BCEAO	18	10	-	-
Other	-	-	182	162
			(1 091)	(1 091)
Accounts receivable as above			3 862	3 788
Net exposure			2 771	2 697

The Group reviews its foreign currency exposure, including commitments on an ongoing basis. The Company expects to hedge foreign exchange exposure with foreign exchange contracts and currency options.

PRICE RISK ASSOCIATED WITH COMMODITIES

Jet fuel consumption is SAA's biggest cost contributor, representing approximately 32 percent of the Group's cost base. Jet fuel prices have a high level of uncertainty caused by supply shocks, demand patterns, currency fluctuations, market sentiment and political events. Jet fuel price risk is the risk of increased cash cost of jet fuel due to an increase in the prices of the various jet fuel product prices that the Group pays for physical jet fuel purchased around the globe.

SAA currently consumes approximately 107 million litres (2014: 108 million litres) of jet fuel per month. This means that any change in price will have a significant impact on the Group's performance.

The objectives of managing jet fuel price risk are to:

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

The Group manages its jet fuel price risk exposures using derivative financial instruments. All derivative contracts are marked to market and are cash settled. The Group's risk policy permits the organisation to manage its jet fuel price risk exposures using the underlying products such as International Crude Exchange (ICE) Brent Crude Oil, ICE Gas Oil 0,5 percent, Gas Oil, Western Texas Intermediate (WTI), FOB ARAB Gulf 0,5 percent and Jet Kerosene (North West Europe) NWE. It is SAA's policy to hedge a maximum of 60 percent of its jet fuel price risk exposures on an 18 month rolling basis with no minimum hedge percentage.

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ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2015

42. RISK MANAGEMENT (CONTINUED)

42.6 MARKET RISK MANAGEMENT (CONTINUED)

SENSITIVITY ANALYSIS

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

The following sensitivity analysis was determined based on the 12-month horizon with reasonable possible change at year end. Management has determined the reasonable possible change using market input and historical data. The 12 months was considered appropriate as the Group only publishes its results annually and has reasonable expectations for uncertainties in the 12-month horizon. For internal reporting to the Audit and Risk Committee, a one month horizon is utilised.

			CURRENCY*		COMMODITY PRICE DERIVATIVES*	
	Foreign currency amount '000	Carrying amount R'000	Profit/(loss) impact -25% US\$ R'000	Profit/(loss) impact +25% US\$ R'000	Loss impact -13% Brent -24% WTI -27% gas oil -23% jet fuel R'000	Profit impact +13% Brent +24% WTI +27% gas oil +23% jet fuel R'000
GROUP AND COMPANY**						
Derivative financial instruments						
31 MARCH 2015**						
ICE Brent commodity derivatives						
Fixed swaps – liabilities	(9 181)	(111 378)	27 845	(27 845)	111 378	(111 378)
Asian floor	1 108	13 439	(3 360)	3 360	(13 439)	13 439
Call spreads	345	4 184	(1 046)	1 046	(2 234)	2 118
NYMEX WTI commodity derivatives						
Fixed swaps – liabilities	(19 371)	(235 008)	59 752	(59 752)	25 677	(12 869)
Asian put option	3 033	36 793	(9 198)	9 198	(4 716)	1 616
US\$ foreign exchange derivatives						
Forward exchange contracts – assets	–	35 296	(115 885)	115 885	–	–
European options	–	81 179	(131 486)	263 230	–	–
		(175 496)	(174 378)	306 122	116 867	(108 875)
GROUP AND COMPANY**						
Derivative financial instruments						
31 MARCH 2014**						
ICE Brent commodity derivatives						
Fixed swaps	1 865	19 646	(5 501)	5 501	(85 974)	85 974
Asian cap	1 135	11 958	(3 348)	3 348	(6 054)	47 375
Collars	149	1 569	(439)	439	(6 296)	10 610
Call spreads	6 189	65 188	(18 253)	18 253	(63 130)	89 209
US\$ foreign exchange derivatives						
Forward exchange contracts – assets	–	28 594	(17 612)	17 612	–	–
European call options	–	96 752	(33 081)	40 034	–	–
		223 707	(78 234)	85 187	(161 454)	233 168

* The percentages are based on the average movement over the past four years.

** A separate sensitivity analysis has not been provided for the Company, as the numbers do not differ significantly from the Group numbers.

R MILLION	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
Fair value hierarchy and fair value measurements of all financial assets and liabilities held at fair value:				
GROUP AND COMPANY				
31 MARCH 2015				
Assets				
Jet fuel options	–	55	–	55
Currency derivatives	–	116	–	116
Liabilities				
Jet fuel forward exchange contracts and swaps	–	346	–	346

R MILLION	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
GROUP AND COMPANY				
31 MARCH 2014				
Assets				
Jet fuel options	–	79	–	79
Currency derivatives	–	128	–	128
Jet fuel forward exchange contracts and swaps	–	20	–	20
Liabilities				
Currency derivatives	–	3	–	3

FAIR VALUE MEASUREMENTS

The fair values of jet fuel options, currency derivatives and jet fuel forward exchange contracts and swaps are valued using a market approach. Inputs into the fair value measurement, include interest rates and yield curves at commodity quoted intervals, interest rates and applied volatilities. There was no change in the fair value measurement during the current financial year.

FAIR VALUE HIERARCHY

The table above analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identifiable assets and liabilities;
- Level 2: Inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (ie from prices) or indirectly (ie derived from prices); and
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	CURRENCY¹		INTEREST RATE¹	
	Foreign currency amount '000	Carrying amount R'000	Profit/(loss) impact -25% US\$ R'000	Profit/(loss) impact +25% US\$ R'000
			Profit/(loss) impact -14 BPS US\$ -60 BPS ZAR R'000	Profit/(loss) impact +14 BPS US\$ +60 BPS ZAR R'000

GROUP AND COMPANY**Non-derivative financial instruments****31 MARCH 2015**

Secured borrowing – LIBOR floating debt (US\$ denominated)	27 307	331 289	82 822	(82 822)	464	(464)
Secured borrowing – JIBAR floating debt (ZAR denominated)	–	7 990 186	–	–	47 941	(47 941)
ZAR based cash and cash equivalents (net overdraft)	–	1 289 854	–	–	7 739	(7 739)
Accounts payable (US\$ denominated)	48 170	584 405	146 101	(146 101)	–	–
Total financial liabilities		10 195 734	228 923	(228 923)	56 144	(56 144)
Foreign cash and cash equivalents (Favourable cash – US\$ equivalent)	95 986	1 164 508	(291 127)	291 127	(1 630)	1 630
Total financial assets	95 986	1 164 508	(291 127)	291 127	(1 630)	1 630

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ANNUAL FINANCIAL STATEMENTS (CONTINUED)**

for the year ended 31 March 2015

			CURRENCY ¹	INTEREST RATE ¹		
	Foreign currency amount '000	Carrying amount R'000	Profit/(loss) impact -28% US\$ R'000	Profit/(loss) impact +28% US\$ R'000	Profit/(loss) impact -11 BPS US\$ -56 BPS ZAR R'000	Profit/(loss) impact +11 BPS US\$ +56 BPS ZAR R'000
42. RISK MANAGEMENT (CONTINUED)						
42.6 MARKET RISK MANAGEMENT (CONTINUED)						
GROUP AND COMPANY						
Non-derivative financial instruments						
31 MARCH 2014						
Secured borrowing – LIBOR floating debt (US\$ denominated)	51 158	538 692	150 834	(150 834)	593	(593)
Secured borrowing – JIBAR floating debt (ZAR denominated)	–	3 815 489	–	–	21 367	(21 367)
ZAR based cash and cash equivalents (net overdraft)	–	1 139 758	–	–	6 383	(6 383)
Accounts payable (US\$ denominated)	60 204	634 095	177 547	(177 547)	–	–
Total financial liabilities		6 128 034	328 381	(328 381)	28 343	(28 343)
Foreign cash and cash equivalents (Favourable cash – US\$ equivalent)	100 776	1 061 169	(297 127)	297 127	(1 167)	1 167
Total financial assets	100 776	1 061 169	(297 127)	297 127	(1 167)	1 167
					IMPACT ON OTHER COMPONENTS OF EQUITY IN RAND¹	
	Foreign currency amount '000	Carrying amount R'000	+16% -16% Euro/US\$ R'000	+14% -14% GBP/US\$ R'000		
GROUP AND COMPANY						
Non-derivative financial instruments						
31 MARCH 2015						
Denominated in Euro and GBP²						
Accounts payable – EUR		18 867	245 625	39 300	–	–
Accounts payable – GBP		2 390	42 966	–	–	6 015
			288 591	39 300		6 015
					IMPACT ON OTHER COMPONENTS OF EQUITY IN RAND¹	
	Foreign currency amount '000	Carrying amount R'000	+17% -17% Euro/US\$ R'000	+14% -14% GBP/US\$ R'000		
GROUP AND COMPANY						
Non-derivative financial instruments						
31 MARCH 2014						
Denominated in Euro and GBP²						
Accounts payable – EUR		14 731	213 643	36 319	–	–
Accounts payable – GBP		2 488	43 665	–	–	6 113
			257 308	36 319		6 113

1. The percentages used are based on the average movement over the past four years.

2. The Group does not incur any interest on accounts payable.

LEASE COMMITMENTS

The Group lease commitments are mainly denominated in US\$. Some of these commitments are fixed while some have a floating LIBOR rate linked component. SAA is therefore through its lease commitments exposed to both interest rate risk and foreign currency risk. Interest rates on these leases are linked to 1,3 and 6 months LIBOR rates. These are not specifically hedged but are considered part of the net exposure for hedging purposes on foreign exchange.

FOREIGN DEFINED BENEFIT OBLIGATIONS

The Group is also exposed to foreign currency risk relating to its foreign defined benefit obligations. The German Pension Fund obligation is denominated in Euro. Any movement in currency based on this fund and reasonable possible changes in the Euro would further impact the Group exposure to foreign currency risk and SAA hedges this exposure on a net portfolio hedge basis.

43.

R THOUSAND

2015

2014

DIRECTORS' EMOLUMENTS FOR SAA SUBSIDIARIES**Executive directors' emoluments****Mango Airlines SOC Limited****Mr N Bezuidenhout**

Salary

1 653

2 630

Performance bonus

2 766

2 845

4 419

5 475

Ms M Ebersohn¹

Salary

-

928

Performance bonus

454

458

454

1 386

Ms P Luhabe²

Salary

1 184

Performance bonus

1 091

2 275

Ms M Labuschagne³

Salary

1 224

Performance bonus

439

1 663

SAA Technical SOC Limited**Mr M Zwane**

Salary

3 325

3 126

Allowance

360

360

3 685

3 486

Mr S Zulu⁴

Salary

-

930

Termination benefits

-

895

Retirement fund contributions

-

46

-

1 871

Mr D Erriah⁵

Salary

705

705

Air Chefs SOC Limited**Ms A Crooks⁶**

Salary

954

Leave pay paid out

92

Termination benefits

1 914

2 960

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ANNUAL FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 March 2015

	R THOUSAND	2015	2014
43. DIRECTORS' EMOLUMENTS FOR SAA SUBSIDIARIES (CONTINUED)			
Mr M Muller²			
Salary		—	943
Retirement fund contributions		—	84
Leave pay paid out		—	166
Allowance		—	38
			1 231
Mr M Kemp⁴			
Salary	1 222		482
Retirement fund contributions	122		44
Allowance	621		85
	1 965		611
Mr L Hudson⁵			
Salary	950		—
South African Airways City Center SOC Limited			
Ms GB Koyana			
Salary	852		1 434
Allowance	33		109
	885		1 543
1. Resigned 14 January 2014.			
2. Appointed 28 March 2014.			
3. Appointed 26 August 2014.			
4. Resigned 23 October 2013.			
5. Appointed 6 November 2014.			
6. Resigned 30 September 2013.			
7. Resigned 24 January 2014.			
8. Appointed as Acting CEO effective 1 November 2013.			
9. Appointed 13 August 2014.			
	R THOUSAND	2015	2014
Non-executive directors' emoluments			
Mango Airlines SOC Limited			
Mr P Krusche ¹⁰		—	54
Mr R Wally	514		485
Mr T Adams	158		142
Mr A Khumalo ¹¹	77		145
Dr R Naithani ¹²	58		112
Ms L Barnard ¹³	54		—
	861		938
SAA Technical SOC Limited			
Mr M Kalawe ¹⁴		—	—
Ms Y Kwinana	281		128
Mr B Mpondo ¹⁵	328		601
Mr A Mabizela ¹⁶	72		128
Mr BK Parsons ¹⁷		—	—
Dr JE Tambi ¹⁸	19		—
	700		857

R THOUSAND	2015	2014
Air Chefs SOC Limited		
Mr M Kalawe ¹⁴	—	—
Ms N Kubeka ¹⁶	249	445
Mr A Mabizela ¹⁹	—	26
Adv L Nkosi Thomas ¹⁹	—	26
Ms C Roskrugs ¹⁶	48	8
Mr N Vlok ²⁰	—	—
	297	505
South African Airways City Center SOC Limited		
Mr M Kalawe ¹⁴	—	—
Ms C Roskrugs ¹⁶	160	320
Dr R Naithani ¹²	33	65
Ms N Kubeka ¹⁶	36	65
Ms Y Kwinana ²¹	10	—
Mr T Lehasa ²²	—	—
	239	450

10. Resigned 23 October 2013.

11. Resigned 16 October 2014.

12. Removed 23 October 2014.

13. Appointed 15 September 2014.

14. Appointed 1 June 2013.

15. Resigned 17 October 2014.

16. Resigned 22 October 2014.

17. Appointed 2 December 2014.

18. Appointed 6 February 2015.

19. Resigned 8 July 2013.

20. Appointed 7 January 2015.

21. Appointed 4 December 2014.

22. Appointed 6 January 2015.

44. GOING CONCERN

As with previous years, SAA remains undercapitalised. Three consecutive years of operating losses have further eroded the capital base and this continues to impact on the ability of the business to operate in a highly demanding and competitive environment. The lack of capital has hindered the Directors' ability to invest in newer and more fuel efficient aircraft and left the company less able to cope with the significant volatility in foreign exchange rates and the price of jet fuel.

During the 2013 financial year SAA received a R5 billion guarantee from its shareholder in terms of which SAA had the right to utilise R1,5 billion for working capital requirements while the remaining R3,5 billion could only be accessed should certain pre-determined critical economic thresholds be met. To assist with its ongoing working capital requirements and to strengthen its balance sheet, the shareholder gave an assurance to the company on 29 November 2013 that this guarantee, which was previously scheduled to expire on 30 September 2014, has been converted to a perpetual guarantee which would, in the event of future capitalisation, reduce proportionately.

On 22 December 2014, SAA received a further R6,488 billion perpetual guarantee for working capital requirements from its shareholder. This additional guarantee has conditions attached to it requiring SAA to, among other operational and governance enhancements, provide its shareholder with a comprehensive implementation for a 90 day action plan for delivering targeted savings.

On 25 August 2014, the shareholder granted SAA an additional perpetual guarantee of R3 851 billion to ensure SAA would meet its liquidity and solvency requirements in short-term.

The guarantees above are, in addition to the existing R1,6 billion perpetual guarantee. These guarantees provide reasonable comfort that SAA will have the ability to continue as a going concern in the foreseeable future.

In their assessment, the Directors have taken the future cash flow requirements of the airline into account and are of the view that the financial support extended by its shareholder through the guarantees is adequate for the going concern requirement in the short-term, being 12 months from the date of approval of these annual financial statements. The Directors, however, remain of the view that a more appropriate capital structure is required for the airline and set out their proposals to the shareholder in the Long-term Turnaround Strategy which was presented in April 2013.

