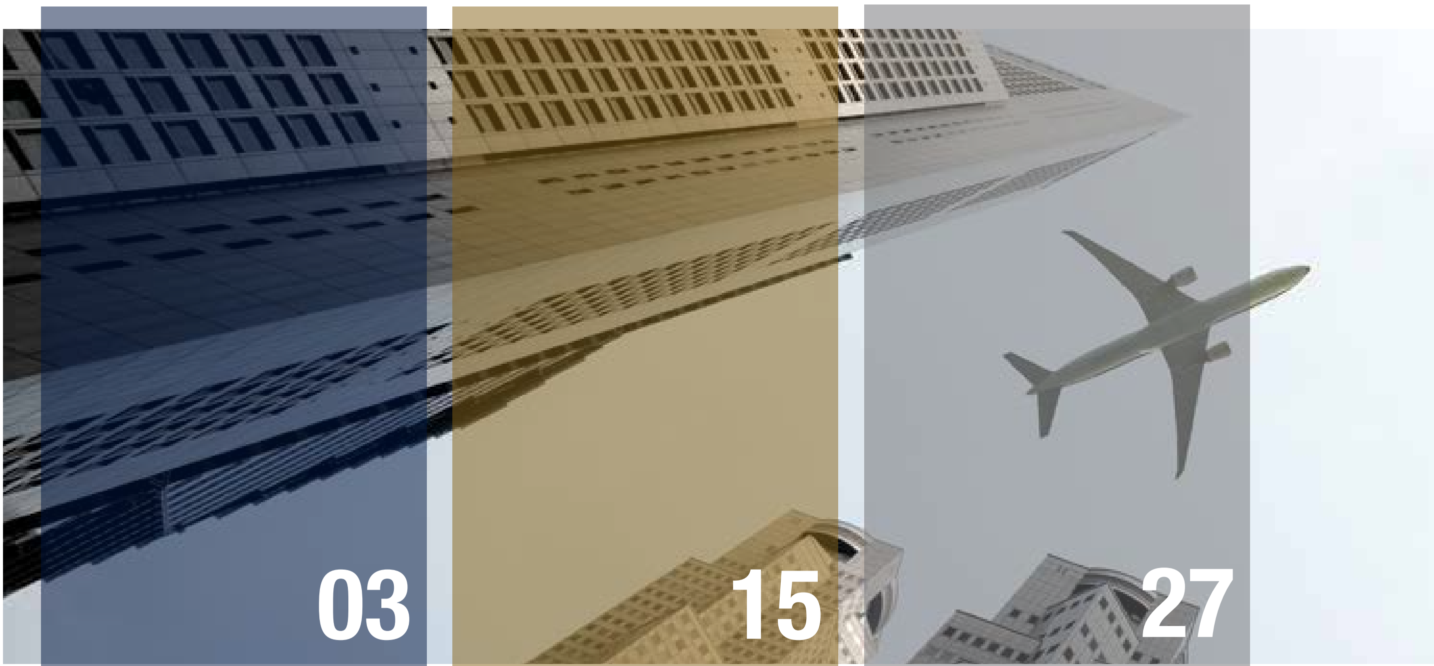
SOUTH AFRICAN AIRWAYS

A STAR ALLIANCE MEMBER

INTEGRATED ANNUAL REPORT FOR THE YEAR ENDED **2016**



About this report

This integrated report reviews SAA's economic, operational, and environmental performance for the year from 1 April 2015 to 31 March 2016. It follows the Company's 2015 integrated report, issued in September 2016, following the delay in signing off the 2014/15 Annual Financial Statements due to the outstanding 'going concern' sign off by the auditors, which was dependent on a government guarantee. The report details SAA's financial statements and provides material information concerning strategy, governance frameworks and performance for the year under review, detailing our progress against strategic objectives.

The integrated report is published in line with the King Code on Corporate Governance, the Companies Act, Act no 71 of 2008 the Public Finance Management Act, Act no 1 of 1999 and with reference to the frameworks defined in the International Integrated Reporting Council.

Materiality

Materiality has been applied in determining the content and disclosure in the report, ensuring the report is both concise and relevant to SAA's shareholder and stakeholder. Material issues are considered to be those that could affect the Company's ability to create value over short, medium and long term, including matters that have significant financial impact and are likely to have a significant impact on the current and projected revenue and profitability of the business.

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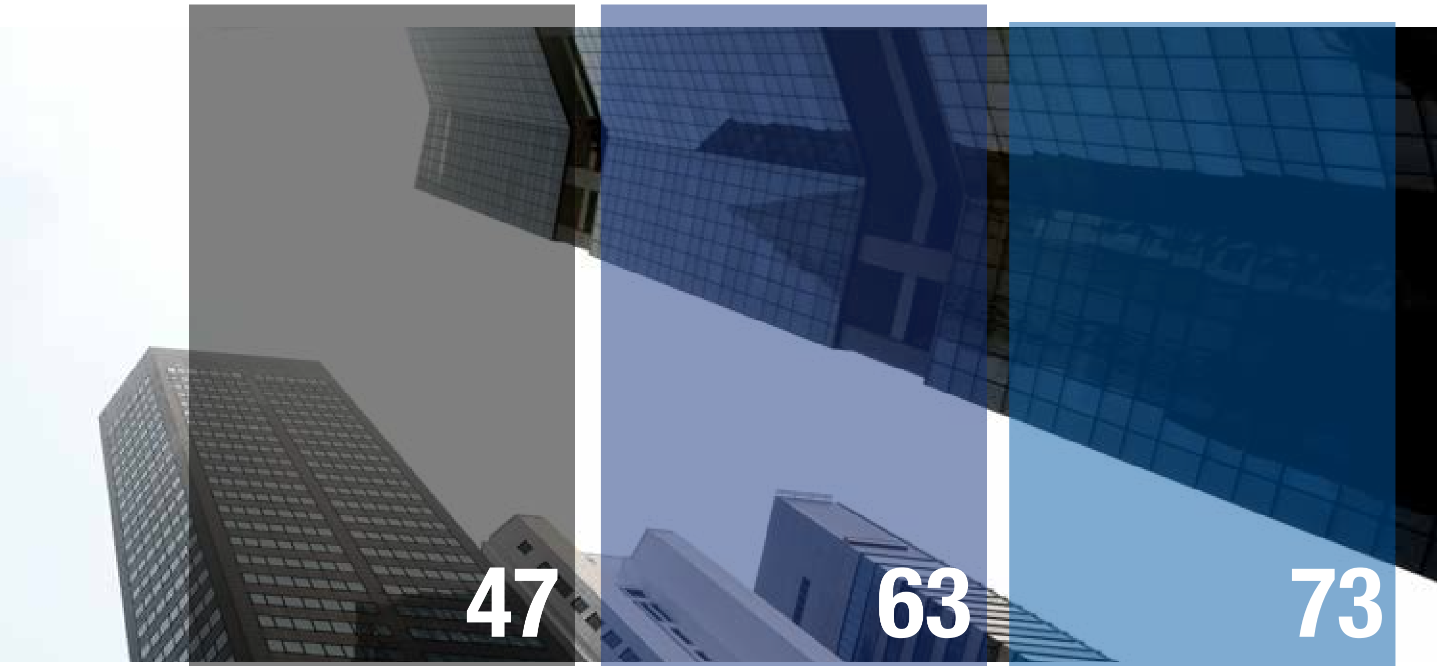


Statement of responsibility

The Audit and Risk Committee acknowledges its responsibility on behalf of the Board to ensure the integrity of the SAA Integrated Report for 2016. The committee has accordingly reviewed and recommended the report to the Board, who approved the Integrated Report for the financial year ended 31 March 2016.

D Myeni
Chairperson
South African Airways SOC Limited

Y Kwinana
Chairperson
South African Airways SOC Limited
Audit and Risk Committee

Navigation

This integrated report is cross-referenced with other sources of information as shown below.

More information about SAA and its activities can be found on the Company's website www.flysaa.com


SOUTH AFRIC
flysaa.com

03

Organisational Overview

Organisational Overview

Organisational Overview

SAA is South Africa's national flag carrier and the continent's most awarded airline. For over 80 years, SAA has been transporting passengers and cargo from South Africa. SAA serves 56 destinations, in partnership with SA Express, SA Airlink and its low cost carrier, Mango, within South Africa and across the continent, and nine intercontinental routes. It is a member of the largest international airline network, Star Alliance. SAA provides related services through the Group and its wholly owned subsidiaries: SAA Technical, Mango, and AirChefs, the catering entity of SAA.

Key metrics for 2015/2016

6 920 697 total passengers

77% passenger load factor

28 409 million available seat kilometres

114 000 tonnes of freight

53% cargo load factor

53 578 flights in the year

Two new routes launched: Accra to Washington DC and Johannesburg to Abuja, Nigeria

New code share agreement with Air China; expanded code share agreements with Air Mauritius and Jet Airways

2,5 million Voyager members

15 000 miles issued every minute and 10 000 miles redeemed simultaneously

10 706 employees

R9,2 billion contribution to the country's GDP annually (2013 Oxford Study)

R39,5 million annual training spend

Awards

World Travel Awards™ 2015

Africa's Leading Airline (21 consecutive years) – SAA

Africa's leading in-flight magazine – Sawubona, SAA's in-flight magazine

Africa's Leading Low-Cost Airline – Mango

Skytrax

4-Star rating (14 consecutive years) – SAA

Best Airline in Africa – SAA

Best Airline Staff in Africa (4 consecutive years) – SAA

Best Low-Cost Airline in Africa – Mango

Aircraft Technology Engineering and Maintenance Awards

Best Line Maintenance Provider for 2015 – SAA Technical

Sunday Times Generation Next Survey Awards

'coolest' domestic airline – SAA

South African Tourism Ubuntu Awards in New York City

"Top Producing Airline" honouring travel providers in North America that excel at promoting travel to South Africa – SAA

Air Cargo News

Top three African Cargo Airlines

Nkonki SOC Integrated Reporting Awards

SAA's 2014 Integrated Report was ranked sixth

Sunday Times Top Brands Awards

Best Domestic Airline – 1st SAA, 2nd Mango
South Africa's Top Low-Cost Airline consumer brand – Mango

Business Traveller Africa Awards

Best African Airline Award – SAA (9th consecutive year)
Best African Regional Short-Haul Airline – SAA
Best African Long-Haul Airline – SAA

Global Traveller Wines on the Wings Airline wine competition

Best Sparkling Wines International Business Class – 3rd SAA
Best Red Wine International Business Class 5th SAA

Global Traveller Magazine, GT Tested Reader's survey

Best Airline in Africa – SAA (12th consecutive year)

Organisational Overview (continued)

3-Year financial Highlights

SAA's Mandate

Mandate

SAA's mandate is to "engage in passenger airline and cargo transport services, air charter services and other related services" in support of the state's desire "to promote air links with the Republic's main business, trading and tourism markets within the African continent and internationally" as defined in the SAA Act, Act No 5 of 2007 and reconfirmed in the signed FY16 Shareholder's Compact, drafted by National Treasury in its capacity as the SAA Shareholder Ministry.

SAA is required to pursue this mandate in a manner that is financially sustainable, while being compliant with applicable operational regulations and legislation, inclusive of laws and regulations aimed at transformation, skills development and employment equity.

SAA's mandate defines the Company's geographic area of focus ("within the African continent and internationally"), while prescribing both cargo and passenger offerings along with their related services, as well as the targeting of both the business and leisure segments.

SAA's development mandate requires the Company to contribute to the broader socio-economic objectives of South Africa through contribution to GDP, fostering job creation, skills development and an enabler to the tourism industry.

Total income	Operating costs	Operating profit/ (loss) before interest, tax, depreciation and amortisation	Cost compression saving
R30 385m 2015: R30 105m 2014: R30 266m	**R30 034m** 2015: R32 546m 2014: R30 640m	**R351m** 2015: (R2 441m) 2014: (R374m)	**R1 111m** 2015: R790m 2014: R435m

Vision and Mission

Vision

Africa's leading world-class airline

Mission

To deliver **commercially sustainable world-class air passenger** and **aviation services** in South Africa, the African continent and our tourism and trading partners

Strategic Objectives

To support **South Africa's National Developmental Agenda**

To **achieve and maintain** commercial sustainability

To provide **excellent customer service**

To achieve **consistent, efficient** and **effective operations**

To foster **performance excellence**

Our values

Safety

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

Valuing its people

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

Customer-focused

Striving to meet the unique needs of customers (internally and externally) by tailoring each interaction to suit their specific needs.

Accountability

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

Integrity

Practising the highest standards of ethical behaviour in all lines of work and maintaining credibility by ensuring that SAA's actions consistently match its words.

Excellence in performance

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

Organisational Overview (continued)

ACHIEVE SHAREHOLDER VALUE

Our Business Activities

SAA is a vertically – integrated diversified airline group providing passenger and cargo transport services, supported by operations across the airline value chain.

SAA

KEY ENABLERS

Strategic planning | Customer services | Human resources | Information technology services | Shareholder and stakeholder relations | Environmental sustainability | Legal, risk and compliance | Procurement | Finance

SAA

A full-service network carrier with an operational focus on the African continent as well as on inter-continental services, targeting both business and leisure traffic flows

COMMERCIAL
- Sales
- Revenue management
- Network planning
  - Supported by marketing, ancillary revenue, alliances, Product development

OPERATIONS
- Airport operations
- Flight operations
- In-flight services
- Global Operations Control Centre
- Group Safety
- Quality Assurance
- Group Security Services
- Maintenance Standards

CARGO
Dedicated to commercial freight

VOYAGER
Africa's strongest airline revenue-based loyalty programme

SUBSIDIARIES

SAA TECHNICAL
Africa's largest aircraft maintenance, repair and overhaul business

MANGO
A low-cost carrier primarily operating in the South African domestic market

AIRCHEFS
A catering business operating in Johannesburg, Cape Town and Durban

SATC
A retail travel business with franchises in South Africa and other African states

Organisational Overview (continued)

Snapshot of SAA's markets in 2015/2016

SAA's financial position and performance should be viewed in light of the current market dynamics it is exposed to. This can be both macro-economic indicators and aviation specific variables.

Domestic

Macro-economic	Aviation
• Sluggish economic growth of South African economy • Weakening rand • Political uncertainty • Rising interest rates	• Increasing competition from low-cost carriers • Oversupply in the market • Price sensitivity

Regional

Macro-economic	Aviation
• Some countries facing intense economic pressure (Nigeria, Angola) • Lack of available foreign currency in some of our destinations • Depreciation of currencies • Downturn in oil and gas exploration industries	• Emergence of low cost carriers (Mozambique, Tanzania, Zimbabwe) • Increasing supply from Middle Eastern carriers • Yamoussoukro Decision to be implemented in 2017

International

Macro-economic	Aviation
• Decline in global commodity demand • Weak Brazilian economy • Slowdown in Chinese economy • Geopolitical concerns due to terror attacks and European migrant crisis	• Unintended consequences of immigration regulations • Increasing competition from Middle Eastern carriers

Group value added statement

for the year ended 31 March 2016

R' million	2015/2016	2014/2015
Total income	**30 385**	30 105
Cost of services	**(24 212)**	(26 859)
Value added	**6 173**	3 246
Income from investments	**26**	26
Wealth created by operations	**6 199**	3 272
Distribution of wealth		
Employees (salaries, wages and other benefits)	**5 822**	5 687
Government (income tax)	**2**	20
Providers of capital (interest)	**971**	588
Total wealth distributed	**6 795**	6 295
Wealth distribution funded through debt	**(596)**	(3 023)
Wealth created by operations	**6 199**	3 272
Dealings with government		
Gross contributions to government		
Company taxes	**2**	20
Rates and taxes	**5**	4
Customs and excise duties	**32**	37
	39	61
Other government grants	**(9)**	(7)
Charged against group income	**30**	54
Collected on behalf of government	**2 875**	2 833

Strategic Objectives

The strategic objectives set out in the Corporate Plan are aimed at achieving and maintaining commercial sustainability over the next three years. In 2015/2016 SAA made steady progress towards achieving its strategic objectives. The table below shows some of SAA's achievements.

Strategic objective	Achievements 2015/2016	Goals 2017/2018
1. To support South Africa's National Developmental Agenda	• Contribution to GDP • People employed • Localisation/industrialisation • Tax contributions • Transformation • Enterprise development • Support tourism industry	• Engage with the Shareholder to drive an improved whole of State approach to aviation.
2. To achieve and maintain commercial sustainability	Optimising SAA's revenue potential through network remediation: • Network remediation • Implemented action plans • Closure of loss making routes • Temporary reduction in flights to Brazil • Opening of new routes	• Assessment of the international network • Improvement in network and inter-connectivity at the existing hub • Maintain growth of Mango domestic capacity • Further African growth • Enhancement of Star Alliance
	African Growth Strategy • Created a team to focus on African growth • Strengthened West African presence with Washington DC Accra route and Ghanaian partnerships • New route to Abuja Nigeria opened • Increased frequencies to some destinations in Sub Saharan Africa • Optimised central Africa network	• Entrench and enhance Africa footprint • Introduce intercontinental destinations to maintain SAA's competitive advantage • Progressively grow a sustainable regional network • Increase attractiveness of SAA's global network • Expanding to new regional markets by partnering with local operators • Develop underserved markets
	Cost Compression • Achieved a cost saving of R1,1 billion despite devaluation of the rand • Head count rationalisation • Renegotiated airline leases and engine contracts	• Focus on identified key areas such as, cost of aircraft
3. To provide excellent customer service	• Customer Experience Framework monitors customer service landscape • Customer relationship management tools implemented to better profile customer needs • Enhanced and new projects • Voyager changed to revenue based frequent flyer programme	• Continuously innovate and invigorate product • Deeper analysis of customers expectations and aspirations • Further improved Voyager offering
4. To achieve consistent, efficient and effective operations	• Optimisation of the support services with new enabling technology systems implemented	• Continued optimisation of the support services that affect every aspect of the Company • Develop strategic approach to debt to ensure sustainability • Improve governance and leadership structures
5. To foster performance excellence	• Introduced performance management • Executive performance assessed	• Succession planning

Organisational Overview (continued)

SAA at a Glance

Operational overview

6 continents
25 countries
4 domestic destinations (from Johannesburg)
21 African routes, serving 25 destinations
9 International routes to 7 countries
Average of 18 daily flights between Johannesburg and Cape Town
1,330 Star Alliance destinations
6 920 697 passengers
10 706 employees
114 000 tonnes of cargo

Fleet

SAA fleet 53 (50 SAA; 3 Cargo freighters)

8 A319-100s

12 A320-200s

8 A340-300

9 A340-600s

7 B737-800s

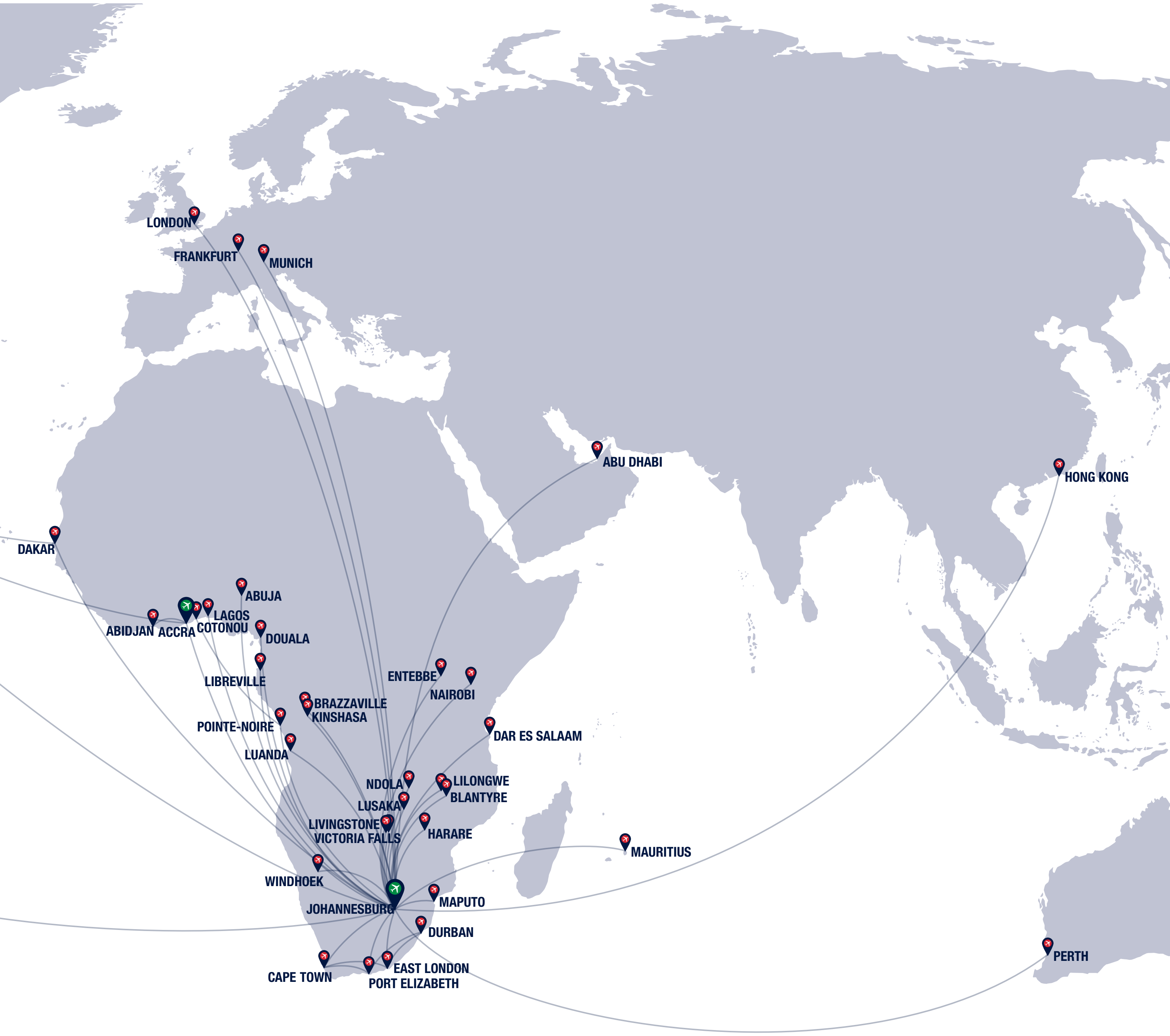
6 A330-200s

3 B737-Freighters

SAA and its subsidiaries operate in highly competitive global markets with the core airline market rapidly liberalising and consolidating resulting in growing levels of competition

SAA Group

R30 billion total annual revenue	63 aircraft	8 domestic destinations	26 regional destinations	9 international destinations
	SAA 50, Mango 10, and SAA Cargo 3	SAA 5, Mango 7, with some markets served by both airlines	SAA 25 Mango 1	served by SAA



114 000 tonnes of cargo	10 706 staff employed	11 million meals	2,5 million	9,9 million
carried annually by SAA cargo 8,43 percent of the company's revenue	33 percent of staff are represented in Labour groups at SAA and 25 percent at SAA Technical	prepared annually by AirChefs	Voyager members	passengers carried annually SAA 6,9 million Mango 3,0 million

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Leadership

Leadership

Board of Directors

DUDUZILE MYENI (52)
Chairperson

Secondary Teachers' Diploma (Commerce), Advanced Business Management Diploma, Institutions Leadership and Management Development Certificate

Ms Myeni was appointed to the Board of SAA in September 2009 and to the Board of AirChefs in April 2010. She is the current President of AfricaWater Association (AfWA), Chairperson of South African Association of Water Utilities (SAAWU), Mhlathuze Water Board and the Executive Chairperson of the Jacob G Zuma Foundation.

A seasoned businesswoman, an entrepreneur and a philanthropist, she was the founder and CEO of Skills Dynamics, consulting for various blue-chip companies such as BHP Billiton, RBM and others. She has previously served on the Board of Absa Bank, was a board member of Trade and Investment KwaZulu-Natal, a South African trade and inward investment promotion agency and was a Deputy President of the Zululand Chamber of Commerce and Industry. In 2001 she was nominated by Investec Private Bank and Sunday Tribune for a Woman Entrepreneur award, and was a winner of the SABC 3/Shoprite Checkers Woman of the Year Award in the Education Category. She was also the first woman to win the prestigious South African Philanthropist Award in 2007. In 2009, she was nominated as Businesswoman of the Year by the South African Chamber of Commerce (SACCI). She is one of the founding members and a stalwart of the Black Business Council. Ms Myeni has been an honorary member of Lattice (USA) since 2007 and is a current member of the Institute.

YAKHE KWINANA (51)
Non-executive Director

CA(SA), BCompt (Hons) (Unisa), BCom (Hons) University of Transkei, Diploma in Banking, Institute of Banking, Higher Diploma in Computer Auditing (Wits University)

Appointed to the Board in December 2009, Ms Kwinana is Chairperson of SAA's Audit and Risk Committee and was Chairperson of SAA's Finance, Financial Risk and Investment Committee prior to its merger with the Audit Committee in early 2011, as well as a Director of SAA Technical. She is a finance and auditing specialist and previously served on the boards of the Air Services Licensing Council, the Debt Collectors' Council and the South African State Information Technology Agency (SITA) as Chairperson of the Audit and Risk Committee. She is currently Managing Director of Kwinana & Associates.

DR JOHN TAMBI (60)
Non-executive Director

PhD Transportation Planning & Engineering (Polytechnic Institute of New York University), Specialisation: the planning and design of airports and other transport facilities, MSc Transportation Planning and Engineering (Polytechnic Institute of New York University), MBA (Master of Business Administration) (Embry-Riddle Aeronautical University); MAS (Master of Aeronautical Science) (Embry-Riddle Aeronautical University), BSc Aerospace Technology (Indiana State University), CPL/IR: Commercial Pilot's Licence, Instrument and Multi-Engine Ratings, (Oxford Air Training School) Fellow of the African Scientific Institute (ASI).

Duduzile Myeni, Yakhe Kwinana

Dr Tambi is a transport infrastructure expert with more than 30 years of project management, planning, engineering, training, policy development, and economic analysis experience, with specialisation in air, road, sea and rail transport modes. He is currently the Senior Advisor on Transport Infrastructure for the NEPAD Planning and Coordinating Agency, responsible for regional and continental transport programmes and projects, as well as the Coordinator of the Presidential Infrastructure Champion Initiative. He has served in senior and executive positions in the management of airports, ports, rail and transportation facilities, including the Port Authority of New York and New Jersey, and in major international consulting firms. He has also served as an independent consultant to national governments, the United Nations and international lending institutions. Dr Tambi was the Chairman and Transport Expert for the United Nations Monitoring Group for Somalia and the UN Panel of Experts for Somalia respectively (United Nations Security Council Resolutions: 1519, 1558 and 1474). He is a registered aviation and transportation expert with the African Development Bank, the International Civil Aviation Organisation, the United Nations Economic Commission for Africa, and the United Nations headquarters in New York.

He also has operational experience as an airline pilot and has acted as a consultant to several airlines. He has over 30 professional publications on the aviation and transport infrastructure sectors and is a key resource person in the African aviation field.

ANTHONY DIXON (69)
Non-executive Director

CA(SA), CTA. (University of Natal), Executive Development Programme (Wits Business School)

Mr Dixon has extensive work experience spanning almost five decades in key positions such as CEO, CFO and Business Development manager of companies such as Coopers and Lybrand (CEO – KZN), Megacor Holdings (CEO), Guardian National Insurance Company Limited (Group Financial Director), Santam (Head: Business Development) and Alacrity

Dr John Tambi, Anthony Dixon, Musa Zwane, Wolf Meyer, Phumeza Nhantsi,

Financial Services Limited. He joined the Institute of Directors as Executive Director from 2003 to 2008 and besides being a non-executive director of SAA, is currently also a non-executive director of the Board of Consolidated Infrastructure Group (CIG), Santova Limited and The Pivotal Fund Limited. He has previously held directorships in a number of blue chip companies. Mr Dixon was a member of the King Committee on Corporate Governance (2003 to 2013) and has fulfilled a number of other professional functions.

Resigned 30 October 2015

MUSA ZWANE (53)
Acting CEO

Qualifications: MBA (University of Pretoria), MAP (Wits University), MSc (Industrial Chemistry) (Shippensburgh University, USA)

Mr Zwane was appointed as Acting CEO of the SAA Group in November 2015. Previously he was CEO of SAA Technical (SAAT) as from November 2010. Prior to that, he spent 14 years at Sasol, having joined in 1996 and most recently holding the position of Managing Director of Sasol Gas and serving on various boards within the Sasol Group. He also held a range of other posts in the Group, among them, General Manager: Heating Fuels at Sasol Oil (2001) and General Manager: Sales and Marketing at Sasol Gas (2005). He was a member of the executive team at Sasol Synthetic Fuels. Before joining Sasol, Mr Zwane was Chemical Services Manager with Eskom and a Senior Research Scientist with AECI. He is also a director of iGas (CEF Group of companies), ROMPCO and Airlink.

WOLF MEYER (55)
Chief Financial Officer

BPL (University of the Free State), BCompt (Hons) (Unisa), CA(SA)

Mr Meyer was appointed Chief Financial Officer of the SAA Group in June 2011. Prior to that, he was Chief Financial Officer at the Land and Agricultural Development Bank of South Africa and part of the team responsible for the successful turnaround of the Land Bank. He previously served as Chief Financial Officer of private equity company Brait SA for five years and, prior to that, held senior financial positions in several financial institutions. He has a strong financial background and extensive local and international listing experience. His career began in 1987 when he commenced his articles with Ernst & Young.

Resigned 16 November 2015

PHUMEZA NHANTSI (37)
Interim Chief Financial Officer

BCom (Financial Accounting), Post-Graduate Diploma in Management Accounting, BComm Honours (Natal), CA(SA), RA

Ms Nhantsi was appointed as SAA's Interim Chief Financial Officer in November 2015. She is a Director at SizweNtsalubaGobodo, the fifth-largest accounting firm in Southern Africa and the largest black-owned and managed firm. She was temporarily seconded from SizweNtsalubaGobodo to SAA.

Ms Nhantsi has extensive experience in the financial services arena, and specifically, one of her key clients at the firm, is Denel SOC Ltd, which is where she gathered institutional knowledge in the aviation space. She has more than 10 years' experience in the aviation industry. She is a member of the Policy Committee (Board equivalent) and a member of the Remuneration Committee at her firm. She has also been nominated by their CEO to a Gender Affairs position for the firm.

She is the lead engagement partner of Denel SOC Ltd and within the Denel group, she is responsible for the signing of the following entities: Denel Group (Denel SOC Ltd), Denel Aviation, Denel Aero structures, and Denel Land Systems.

Leadership (continued)

Executive Committee

RUTH KIBUUKA (53)

Company Secretary

BA (Hons) (Economics and Social Administration) (Makerere University, Uganda), CIS Diploma Fellow of the Chartered Secretaries Southern Africa institute (CSSA), Fellow of the Chartered Institute of Business Management

Ms Kibuuka provides company secretarial services to the Board of Directors and committees of the Board of SAA, the boards of SAA's subsidiaries (excluding Mango), as well as the SAA Executive and other governance forums. Ms Kibuuka has 30 years' experience that straddles both accounting and corporate governance in both the public and private sectors. She joined SAA in February 2009 from Export Credit Insurance Corporate of South Africa, where she held positions of Company Secretary and Financial Controller. Ms Kibuuka started her career at the then Ciskei Peoples Development Bank, where she held various positions including that of Company Secretary. She has held amongst others the position of Group Accountant at Fedics Group Services.

Ruth Kibuuka, Zukisa Ramasia

ZUKISA RAMASIA (53)

General Manager: Operations

Senior Secondary Teachers Diploma (Walter Sisulu University);BA (English and Psychology (Vista University), Honours in Human Resources Development (RAU), IATA Diploma in Airline Operations, Leadership Development Programme (GIBS)

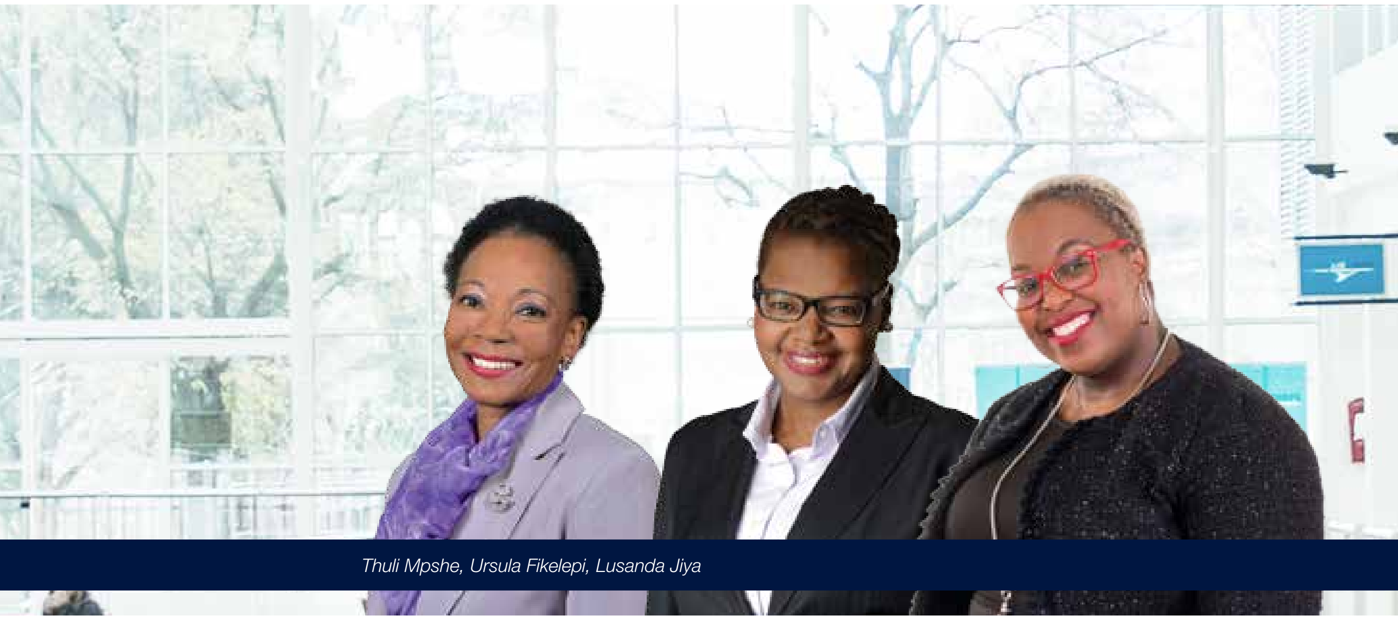
Ms Ramasia has had an illustrious career of more than 24 years in airline operations in roles such as Cabin Crew Daily Operations Manager, Senior Manager of Crew Movement and Global Operations Control Centre Head. Her skill lies in ensuring operational efficiency through effective planning for on-time departures and arrivals during normal and irregular operations, identifying bottlenecks and providing optimum solutions. Since 2014, Ms Ramasia has been responsible for SAA's overall global operations portfolio, which comprises SAA's flight and cabin operations, airport operations, ground handling, lounges, on-board logistics and inventory, aviation safety and security, as well as SAA's Global Operations Control Centre. She currently serves on the Board of Directors of Aviation Coordination Services (ACS).

THULI MPSHE (56)

General Manager: Human Resources

BCom (Unisa), Post-graduate Certificate in Business Management (Warwick University), Board Leadership Programme (GIBS), Executive Women's Development Programme (GIBS), International Licentiate Diploma (Institute of Bankers in South Africa), Associate Banking Diploma (Institute of Bankers in South Africa)

Ms Mpshe started her career in banking and worked at two of the three top banks in South Africa. Between 2001 and 2003, she was Executive Manager: Human Resources at SAA Cargo and Executive Manager: Human Resources for SAA's operations department. From 2003 to 2010, she was Executive Director: Human Resources at Makro, part of Massmart Holdings, and then rejoined SAA in September 2010 in her current role. She served as a council member of the University of Zululand for seven years and Chairperson of the Board for Kids Haven, a home for street children in Benoni, for seven years.



Thuli Mpshe, Ursula Fikelepi, Lusanda Jiya

URSULA FIKELEPI (43)

General Manager Legal, Risk and Compliance

BA (Rhodes University), LLB (University of Cape Town), Fulbright Scholar, LLM in Intellectual Property Law (University of New Hampshire), MBA (GIBS), fellow of the CyrusVance Fellowship of the Bar Association of New York

An admitted attorney, Ms Fikelepi completed her articles with Webber Wentzel, remaining at the firm until appointed a Senior Associate. She spent time as a visiting lawyer at Sullivan & Cromwell LLP and Goldman Sachs & Co in New York City where she worked on corporate finance transactions, mergers and acquisitions and intellectual property law contracts. In 2005 Ms Fikelepi joined the Department of Public Enterprises as Director: Corporate Finance Legal Advisor, in which role, among other responsibilities, she advised on various corporate finance transactions, including the unbundling of non-core SOC assets, and the ultimate establishment of SAA and Infraco as stand-alone SOCs. After her promotion to Deputy Director-General: Legal, Governance and Risk, she led and participated in the governance and oversight of SOC Boards. Prior to her present position at SAA, she joined Absa Bank in 2011 as Chief Operations Officer: Group Legal, where she focused on establishing, and implementing governance processes, legal management information, legal financial management, legal risk management, legal strategy and operations for Absa Legal. Ms Fikelepi has held board membership both in the public and private sector.

LUSANDA JIYA (50)

General Manager Shareholder and Stakeholder Relations

BA, HDE (Rhodes), BEd, MA (KZN), MBA (GIBS Pretoria)

Ms Jiya leads the Stakeholder Relations, Communication, Transformation, Environmental Affairs, and Corporate Social Investment functions at SAA. An experienced stakeholder relations and communication professional, she joined the SAA Group in October 2014, bringing 24 years working experience at senior management and executive level in stakeholder relationship management, marketing and communication, business development, public relations, fundraising and project management, in both the public and private sectors. Her work experience cuts across a number of industries, namely utilities (water and sanitation), low income housing finance, energy (petroleum and electricity), IT, public relations and education. Ms Jiya is also a Director of SchoolNet South Africa.

Leadership (continued)

NICO BEZUIDENHOUT (39)
Chief Executive Officer Mango Airlines

Mr Bezuidenhout joined Mango as one of the architects of its business case 12 months before the airline took to the skies. Appointed as CEO in 2006, he launched the airline into an unstable market, weathered the impact of the global financial crisis two years into its operation and achieved profitability in the majority of its completed full fiscals with an aggregate balance sheet over time indicating continued cash positivity and profitability.

Mr Bezuidenhout led the creation and transformation of South Africa's youngest airline into one of the market's most well-loved airline brands. Recognised as a subject matter expert, Mr Bezuidenhout regularly speaks at conferences and seminars around the world, while continually driving innovation at home. Under his leadership Mango not only achieved profitability in record time, but also doubled its fleet and route network, grew market share, and established the most extensive distribution and payment method acceptance system in the industry with Mango continuing to occupy pole position in reputation, transformation and active social participation. Prior to his engagement at Mango, Mr Bezuidenhout launched SAA's first e-commerce platform following a successful career in the music industry, first as tour financial manager for Big Concerts and later as founding member and Chief Operating Officer of ticketing business Ticketweb.

MARTIN KEMP (47)
Acting CEO AirChefs

BCom (Unisa)

Mr Kemp started his career at Transnet, working for the Spoornet and Autonet divisions. He subsequently joined SAA where he has filled various roles in the Human Resources and Operations fields over a period of 23 years. As an HR practitioner he has worked in general HR management and employee relations. In operations he has been responsible for cabin crew operations, operations training and in-flight services. He has been with AirChefs for the past two and a half years.

TLELI MAKHETHA (56)
General Manager: Cargo

BCom (Unisa), LLB (Wits), Advanced Executive Programme (Unisa), Wolfson Programme (Cambridge)

An admitted attorney, Mr Makhetha was appointed GM of SAA Cargo in December 2010. He was previously with SAA Cargo as Executive Manager: Networks and Alliances and later Executive Vice President from 2001 to 2004. Prior to that, he has at various times served as Legal Advisor at JCI, Executive Manager: Fuel (Coal) Procurement at Eskom, Executive Director at Safair and Divisional Secretary (Aviation Division) at Imperial Holdings. Before re-joining SAA, he consulted to a number of organisations as a business coach. He has previously served on IATA's Cargo Committee for four years until 2014.

Nico Bezuidenhout, Martin Kemp

PHINDA NCALA (54)
Chief Information Officer

BSc (Management Information Systems) (Bridgewater State University, Massachusetts USA)

Mr Ncala was appointed Chief Information Officer of SAA in December 2013. Prior to that, he spent three years as CIO at Neotel (2010), where he was a member of the executive team. Before joining Neotel, he worked at the MTN Group, which he joined through one of the operations at its start-up phase, remaining with the company as it grew into a well-established and profitable business. Beginning with the company in Swaziland, he worked at various operations in Africa as CIO, serving as a member of the executive team and on a number of committees. In 2005, Mr Ncala was seconded to MTN Uganda as CIO for a period of six years. Prior to 1998, he worked for various banks at management level within their information technology divisions.

ARSON MALOLA-PHIRI (54)
Acting Chief Executive Officer: SAAT

MSc (Finance), BCom (Accounting), Diploma in Business Studies

Mr Malola-Phiri was appointed Acting CEO at SAAT in November 2015. He was previously with SA Express Airways as General Manager: Commercial and later General Manager: Regional Expansion. Prior to that, he served in various senior and executive roles at Standard Bank: Corporate & Investment Banking and Barclays Africa.

Tleli Makhetha, Phinda Ncala, Arson Malola-Phiri, Josua du Plessis, Aaron Munetsi

JOSUA DU PLESSIS (42)
Acting Chief Strategic Officer

BSc (PUCHE), Hon. BSc (PUCHE), MCom (RAU)

Mr Du Plessis has more than 20 years' experience in the aviation industry with a career spanning multiple areas that include Airline IT Systems, Airline Operations, Crew Scheduling, Global Operations, MRO and Group Strategy at South African Airways and Swiss Air. The last few years he has been managing multiple strategic projects including a Cost Compression programme for the Group. He is also the Head of the Project Management Office, which is monitoring the implementation of the Long-Term Turnaround Strategy. He is currently the Chair of the IATA Airline Cost Management Group.

AARON MUNETSI (55)
Acting General Manager: Commercial

Diploma Airline Management (IATA), Executive Development Programme (University of Zimbabwe), Diploma Marketing Management (Damelin Management College), Strategic Management (WITS Graduate School of Management), LDP (Gordon Institute of Business Studies)

Mr Munetsi was appointed as Acting General Manager Commercial in December 2015. For the previous five years he held the position of Regional General Manager - Africa and Middle East. He is responsible for all the Commercial activities that generate revenue for the airline. Aspects such as Sales, Revenue Management, Pricing, Distribution, Marketing, Network Planning, Alliances and Ecommerce form part of his portfolio.

Over the more than 15 years he has been with the company he has held various positions in the Africa and Middle East region. He is known in the industry for his role in developing SAA's African footprint and operations on the continent.

Mr Munetsi's aviation career spans more than 30 years. He is passionate about the development and growth of African aviation in general and SAA in particular. Mr Munetsi rose through the ranks, starting with sales and marketing roles in South Africa before he ventured abroad where he worked with Sharaf Travel in Dubai, who is SAA's GSA in the UAE. He then relocated to Nigeria where he served as SAA's Country Manager for four years. During that time, he motivated for the establishment of the Dakar route. He also negotiated and secured buy-in for the first ever commercial agreement between African airlines, which enabled SAA and Nigeria Airways to cooperate on the Lagos to New York route, a venture that proved very successful.

Demand for his experience and knowledge of the continent saw Mr Munetsi take senior positions, such as Executive Manager for East Africa and West Africa, where he coordinated the growth and expansion of SAA's footprint in countries such as Ethiopia, Uganda, Tanzania and Kenya. In 2008 he took up the challenge of Regional Manager for North, West and Central Africa, where he managed the commencement of services to Gabon and Cameroon. He further proposed and led the negotiation for the introduction of intra-African operations, such as Libreville to Douala and the Accra to Abidjan route.

Message from the Chair

The Board and management of SAA are committed to building a solid foundation for SAA's future success and short- to medium-term stability.

Every year we revalidate the Long-Term Turnaround Strategy (LTTS) and update our strategic plan to navigate the political, economic, and social environment in which we operate. Many of the challenges SAA faced in the 2015/2016 financial year, and going forward, are similar to those in 2013, when the LTTS was launched. However, there have also been considerable changes in our operating context. Volatility in the exchange rate, the drop in fuel price and an intensifying competitive landscape, are the most significant impacts on our environment.

During the past three years implementation progress was achieved in many areas of the LTTS, but some of the major interventions required did not materialise including an equity injection and resolution on the State Aviation Holding Company.

SAA still continued to experience changes in management with three acting CEOs and changes also occurring with the CFO, CSO, GM: Commercial, CPO. However, SAA was able to continue with the implementation of the LTTS and kept the momentum on the critical items as defined in the Corporate Plan.

SAA continues to deliver excellent products and service, as is corroborated by the numerous awards the Group received during the year. Retention of SAA's 4-Star ranking for the 14th consecutive year demonstrates that the airline's place in the global aviation world is secure. SAA is an innovator and continues to invest in the latest technology to enhance passengers' experience. A number of new products and services were introduced during the year.

Cost compression

Cost Compression remained a key focus area and delivered pleasing results. Despite challenges in some areas of the business we reached our target with R1,1 billion saved. The two areas that contributed most to savings – negotiations of the extension of aircraft leases at lower rates and the renegotiations of engine contracts, both saving costs that will extend over three years. SAA will continue to optimise efficiencies throughout every aspect of the Company. Instilling a cost-conscious culture is essential as it is the most effective means of ensuring sustainable bottom-line results. The cost compression programme continues to focus on the cost of fleet, the cost of people, the cost of aircraft MRO as well as the cost of our capital structure.

The headcount rationalisation process was concluded in the year under review. A total of 336 people across SAA and SAAT, took voluntary severance packages. The process was successfully finalised without any employees being retrenched.

The remediation of the route network and fleet plan gained traction. We took delivery of 10 A320s and will take delivery of new A330-300 aircraft. The rationalisation of two international routes, being Mumbai and Beijing had a positive impact on the airline's performance for the year. An extensive study of the current plan identified a wide range of improvement opportunities that will significantly curb losses and position the airline for future growth. The new routes added during the year are proving successful. In addition, SAA's reach continued to grow through the establishment of partnerships and code sharing.

Aviation is a vital catalyst for Africa's economic growth and social advancement as it connects countries, markets and facilitates trade, connecting Africa to global supply chains. Optimising SAA's African network and improving inter-connectivity on the continent are imperative to secure the airline's position as the leading African airline. We want to improve intra-African connectivity and see the continent contribute more to global aviation than the current 3 percent.

SAA connects South Africa to its major trade and tourism partners and, in doing so, supports 34 000 jobs in our country, as well as contributing R9,2 billion, or approximately 0,3 percent to the country's GDP every year, based on the 2013 Oxford Study.

The launch of the Accra Washington DC route and the agreement with Africa World Airlines, substantially strengthened SAA's presence in West Africa. Voyager's partnership with Ecobank to launch the first co-branded credit card in Ghana, will further increase our presence in West Africa.

Transformation

Despite the high barriers to entry in the aviation industry, SAA is committed to developing and supporting inclusive supplier sourcing and procurement. As national carrier we intend to lead transformation in South African aviation supplier development. In partnership with the Department of Trade and Industry (DTI) the airline will source potential suppliers and provide training and development. We are confident that the successful implementation of the new three-year SAA Supplier Development Programme will increase supply of consumables sourced from empowered enterprises by 50 percent by the end of 2018.

The Board and management of SAA are committed to building a solid foundation for SAA's future success and short- to medium-term stability.

Environmental responsibility

We are very proud to be a frontrunner in the aviation industry in environmental sustainability. SAA is one of only two global carriers to have received Stage 2 recognition for the IATA Environmental Assessment Programme. SAA was also accepted as a member of the Swiss-based Roundtable on Sustainable Biomaterials. Our biofuels project, Project Solaris, which transforms tobacco oil to jet fuel, has since received the Roundtable on Sustainable Biomaterials certification, certified for environmental and social sustainability. This certification ensures that future fuels contribute to reductions in CO_2 and are environmentally sustainable and contribute social and economic benefits to our rural economy where it is needed most.

I would like to thank all our employees for their commitment, hard work and for remaining resolute in what was a difficult year at times. The support from all our stakeholders, the Board members and particularly from our Shareholder is much appreciated.

D Myeni
Chairperson

South African Airways SOC Limited
18 September 2016

Leadership (continued)

CEO Report

The 2015/2016 year, started with a clear path ahead: the implementation of the 90-Day Action Plan, a roadmap designed to return SAA to relative stability and set the stage for full implementation of the LTTS. The 90-Day Action Plan comprised six pillars, including to immediately address the liquidity of the business, resolution of future funding, a full review of its high level governance framework, correction of governance defects, the reorganisation and optimisation of assets and the implementation of an effective communication plan.

In response to the changing macroeconomic environment, SAA has developed a three-year Corporate Plan to support the achievement of its strategic objectives. This represents the practical implementation of the LTTS. The Corporate Plan projects a profit of R954 million at an EBITDA level to be achieved in year 2017/2018.

The Corporate Plan is designed to build strategic awareness and create strategic alignment across the airline. The plan takes into account the key factors within the current operating environment, while providing focus and clarity on how SAA will achieve the five strategic objectives defined in the LTTS, in the next three years. These strategic objectives are set out on page 11 and our efforts in working to achieve them are described throughout the report.

SAA's position of relative stability at year-end speaks to the success of the 90-Day Action Plan. Achieving stability will allow us to concentrate on building on our commercial activities going forward.

Financial performance

The performance for the year is pleasing in that despite the volatility of the rand, the airline posted an actual loss of R1,5 billion, not far off the budgeted R1,4 billion, compared to R5,6 billion in the previous year. This achievement irrespective of the unexpected currency volatility demonstrates the robustness of the budget and reflects its integrity.

The tremendous pressure that the income statement has been under was somewhat relieved. Overall, results benefited from the decline in fuel price, lower impairment costs and foreign exchange gains. However, the dramatic depreciation of the rand countered gains from the drop in oil price. With a significant cost base in hard currency, the negative impact of the rand's weakness outweighs gains. The ZAR/USD exchange rate declined by 23 percent compared to the average in the previous year. This has a significant impact, with 57 percent of the Group's operating costs denominated in foreign currencies. The currency is not expected to recover to previous levels in the near-term. We will be investigating initiatives to ease the Group's exposure and increase revenue in hard currency.

The drop in the oil price has also intensified difficulties in repatriation of money from some of the oil-rich African countries in which we operate. IATA is playing an active a role in addressing the issue and SAA has nominated a member of the finance department to be elected to the IATA Treasury Group, which is dealing with the issue. SAA has also made satisfying inroads by engaging directly with the governments in these countries. A related issue, although not one with a material impact as yet, is fuel shortages at some destinations on the African continent.

The Cost Compression Programme entered its fourth year. SAA achieved the targeted R1,1 billion cost saving bringing the accumulative result of R3,3 billion for the four years.

SAA relies heavily on guarantees from the government as the Company is undercapitalised. While SAA is appreciative of the government's guarantees, the unintended consequence is that when the interest rate goes up this will have considerable impact on the balance sheet. In the year under review, R861 million was paid in interest. SAA is looking at initiatives to reduce interest and for now we continue to focus on improving revenue.

Number one priority

Safety is of paramount importance in the aviation industry. Our safety record is recognised as among the best in the world, and is the best in Africa. We continually strive to maintain our standards focusing on quality assurance and other measures that contribute to the safe flying of our fleet. Taking cognisance of what has happened around the world in the last few years, we continue to hone our focus on the safety of our passengers and products. SAA also recognises the importance of cyber security and is cooperating with the necessary security agencies in South Africa and internationally.

Recognition of excellence

SAA is recognised globally not only for its proud safety record but also for its quality customer service, and the airline received a number of awards during the year under review. Awards demonstrate that the airline can rightfully stand its ground as one of the leading airlines in the world, despite the challenges it faces. Awards also engender a sense of pride in the airline from customers and airline employees alike. The long list of awards, which SAA wins annually, spans a spectrum of disciplines, from Best Airline in Africa, for on-board catering to service delivery.

The airline has retained its 4-Star ranking for 14 years in a row, and was awarded Best Airline in Africa for 14 consecutive years at the Skytrax Awards. Feedback from SAA's customers also ensured that SAA walked away with the award for Best Airline Staff in Africa for the fourth time. Mango, SAA's low-cost carrier, received the award for Best Low-Cost Airline in Africa. Subsidiary SAA Technical won the prestigious title as the Best Line Maintenance Provider for 2015 at the annual Aircraft Technology Engineering and Maintenance Awards.

Our safety record is recognised as among the best in the world, and is the best in Africa.

Looking ahead

In the year ahead we are expecting five new aircraft that are more fuel-efficient. We remain committed to improving our global reach either with our own aircraft or through partners such as Star Alliance. We believe that there is the potential to expand our network and will consider new routes as opportunities arise.

Thank you

I would like to thank our employees for their commitment to ensuring that over this difficult year our customers continued to receive the best products and services and that the airline continued to meet demand. SAA remains a multi award winning airline and an innovative company. Our achievements this year are testament to all that our employees bring to the Company.

M Zwane
Acting CEO

South African Airways SOC Limited
18 September 2016

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Performance Overview

Performance Overview

Performance against the shareholder compact

Each year, in consultation with the shareholder, SAA agrees on its performance objectives, measures and indicators, as well as annual targets, in line with the Public Finance Management Act, 1999.

SAA Commercial

2015/2016 Highlights

- Revenue increased
- Passenger numbers just short of last year
- Improved yield
- Reduced costs
- Created ancillary revenue streams
- New Routes: Accra – Washington, Abuja
- Increased frequency: Harare, Mauritius
- Additional Alliance partners

SAA Commercial is the revenue-generating centre of the Company. The key objectives of the division are the strategic utilisation of SAA's resources to effectively capitalise on the market and actualise the corporate plan.

SAA Commercial operates through three key departments:

- Sales
- Revenue Management
- Network Planning

Supported by:

- Marketing
- Ancillary revenue
- Alliances – utilising relationship to add revenue
- Product development

Strategic focus

Network planning is an integral part of an airline's revenue generation capabilities. It defines the product offering, cost structure and revenue potential. It determines the most efficient use of the fleet, capitalises on partnership agreements and opens new growth markets. SAA Commercial has a central role to play in strengthening SAA's strategic position in Africa to capitalise on the rapid economic growth on the continent.

SAA Commercial is a key contributor maintaining the airline's competitive advantage in Africa by continuous optimisation of schedules and introducing intercontinental destinations.

Customer service starts with the first interaction with the customer, which is the realm of the sales and marketing departments. Network and scheduling contribute to customer service providing inter-connectivity between network segments and routes that meet customers' needs. The fleet plan needs to take into account modern technology and the consumer product preference.

The network plan feeds into the day-to-day operations of the airline and is a key contributor to on-time performance overall. Safety is of paramount importance.

Overview of 2015/2016

Operationally SAA Commercial achieved important milestones that have bolstered SAA's long-term sustainability. Management is optimistic that the airline has turned a corner and will begin to deliver improved results year-on-year.

SAA Commercial's performance in the 2015/2016 year was commendable, given the difficult global economic environment. Competition remained fierce with continued pressure on airfares, with no annual increase despite exchange rate fluctuations. SAA operates in a commoditised market in Africa. In 2015/2016 this was exacerbated by excess capacity stemming from the impact on our trading markets following the decline of the commodities market and the decreasing oil price. Domestically, the weak rand took its toll on out-bound traffic. In the first quarter the new visa rules relating to children travelling caused a drop in international travellers to South Africa.

Challenges in some of the markets in South America had a significant impact on our performance.

The positive effect of network changes and optimisations are evident in SAA's operating performance for the year under review compared to the previous year. This was achieved mostly through the elimination of loss-making routes and an

increased sales effort. The drop in the oil price provided some relief although it was offset by currency weakness to some extent.

Network plan

A solid network plan is the most important enabler in the aviation industry. This spans destinations, scheduling and equipment. As part of the 90-Day Action Plan SAA reviewed and optimised its Network and Fleet Plan to ensure commercial sustainability. The revised plan is intended to strengthen SAA's competitiveness in a price sensitive market, entrench the airline in fast growing African markets and leverage partnerships to maintain intercontinental service offerings.

The recommendations of the new fleet plan include equipping SAA and Mango with appropriate fleet solutions that increase market competitiveness. The new A330 aircraft, which are in production, will provide an effective medium-haul solution. The A330s will also replace the A340 on some routes to reduce costs.

The closure of loss making direct flights between Johannesburg and Beijing and Johannesburg and Mumbai realised considerable savings, while maintaining connectivity through alliance partners. SAA launched its first direct flight between Johannesburg and Abu Dhabi at the end of the previous year. However, this route was closed on 1 March 2016 due to losses. The rerouting of the New York all season non-stop flight proved popular with capacity and profitability significantly increasing. SAA re-established a presence in China through code sharing with Air China.

SAA has also grown its sub-Saharan African network due to strong commercial demand adding more flights between Johannesburg and Maputo, Harare and Mauritius among others. South African Airways and Air Mauritius concluded an agreement that will see a broadening of its code share agreement to enhance greater connectivity between the continent, South Africa, Mauritius and other inter-continental routes.

During the year SAA celebrated 80 years of flying to Maputo, Mozambique and 20 years of flying between Johannesburg and Dar Es Salaam, Tanzania.

In the 2015/2016 financial year, SAA significantly strengthened its position in West Africa, with the introduction of a flight from Accra, Ghana to Washington DC, USA.

The Ghanaian government granted SAA traffic rights, which enables the airline to offer a direct flight from Ghana to the USA. The majority of customers in Ghana travel via Europe to reach North America, so the new route considerably reduces travel times. The maiden flight landed in Washington on 5 August 2015, and the route has since performed very well. In addition SAA entered into a bi-lateral code share agreement with Ghana's fastest growing airline, Africa World Airlines. SAA's customers in Accra can now seamlessly connect to other destinations in Ghana such as Kumasi, Takoradi, and Tamale as well as to Lagos, Nigeria. In March 2016 SAA and JetBlue Airways expanded their code share agreement to also include flights between Washington DC and Accra. The new code share flights on the Washington DC-Accra route is a further expansion of the successful code share services that SAA and JetBlue previously introduced to Johannesburg, Cape Town, Durban, Port Elizabeth and East London in South Africa and Dakar, Senegal in West Africa.

In January 2016, SAA further enhanced its African footprint with the introduction of a flight to Abuja, representing a second entry point to Nigeria. Abuja flights have been scheduled for seamless connectivity into SAA's inter-continental route network to destinations such as Perth, Hong Kong and Sao Paulo. Nigeria is one of the fastest growing air travel markets in West Africa.

We will also be enhancing our Central African route network. The distance and density of these markets led to fleet adjustments and combining of markets. This frees up fleet and allows for additional flights to busy routes such as Mauritius and Harare.

Performance Overview (continued)

African Growth Strategy

Growing the airline's African network and improving inter-connectivity on the continent is a key strategic objective as set out in the LTTS. SAA's African Growth Plan focuses on further bolstering the airline's strong presence on the continent and connectivity through its international route network.

Africa's potential aviation market is massive, fuelled by the fastest growing economies in the world, rapid urbanisation, unprecedented infrastructure development and a burgeoning middle class. SAA is a leading carrier on the African continent and plays a significant role in the aviation industry.

The airline plays a crucial role in driving aviation traffic growth and economic development. However, there is increasing competition on the continent from Ethiopian Airlines and Middle Eastern airlines that are aggressively growing market share. In addition, many global airlines have identified the African market as a growth opportunity. Successful implementation of SAA's African Growth Strategy is vital for the airline to maintain its position on the continent. To ensure that the strategy remains on track the SAA Board has appointed a dedicated team to focus on unlocking growth potential. The team has highlighted SAA's strategic position as crucial to creating value, enhancing its footprint and remaining operationally competitive. Key enablers are an extended regional network, connected intercontinental destinations and growing SAA brand's footprint in the high-growth sub-Saharan region.

SAA's regional market is fast developing in terms of throughput volumes. The airline is focusing on entrenching its position in available markets and those that are profitable. SAA's 2015/2016 Zambian operation was the most profitable closely followed by Nigeria.

Sales

Sales are inextricably linked to the quality of the product or service offered. SAA is known for its extensive route network, schedule integrity, service delivery and on-time performance. The airline's 4-Star Airline ranking, which it has maintained for the past 14 years, demonstrates that SAA delivers world-class products and service to customers. A 4-Star Airline rating confirms that the airline provides a good standard of products and staff service across all travel categories, including: cabin seating, safety standards, cabin cleanliness, comfort amenities, catering, tax-free sales, reading materials, in-flight entertainment, and staff service.

SAA's marketing team is continually enhancing the product and service offerings, focusing on the customer experience. In depth market research provides a depth of information regarding customer expectations and aspirations. During the year a number of initiatives were introduced to augment customer experience. (See Customer Service on page 49 for more detail.)

SAA has a diversified international sales team, covering the airlines three distinct markets: domestic, regional and international. Each market is unique with specific dynamics and requires a targeted strategy, which is underpinned by overall company strategy. SAA harnesses innovative technology to manage its markets effectively.

Scheduling is key to building high volumes. SAA schedules take into account seamless connectivity to regional or international flights through OR Tambo, SAA's hub. All routes come through the hub to support the international market. The airline uses pricing strategies to entice customers to book early and get the best service.

SAA Voyager is an important tool for retaining and rewarding regular customers.

The domestic market is mature and a commoditised, low-fare, high volume market. As the national carrier SAA has a significant share of the local market. However, it is a very competitive environment and therefore needs constant attention. SAA's domestic network showed resilience in the year under review, despite new entrants in the market and increased competition for low cost carriers. Sales engagements with major stakeholders and targeted pricing initiatives enabled SAA to recapture market share and high-value corporate travel spend.

The regional market, which encompasses the African continent, is developing rapidly. The airline targets markets with the most potential and the Network Planning team works diligently to schedule all SAA flights to its best advantage. SAA plays a specific role in Africa and has established strong relations with host countries, diplomatically and at government level. Targeting the regional market is more complex due to its diversity. In contrast to the domestic market it is characterised by premium fares, small volumes and low frequencies.

An A320 has been deployed on the longer regional flights as it is more economically suitable.

The international market is under intense pressure, it is very competitive and SAA competes against airlines that are well entrenched in their markets. In addition, SAA is operating from a rand base in a dollar environment. However, SAA has proven that it is able to compete in the international market and performance in a number of these markets is turning around. London is improving on a month-to-month basis, coming from a loss. This has been achieved by strategic work on the ground with the UK travel industry, as well as ensuring scheduling integrity.

During the year under review SAA started an initiative targeting African's living abroad, who have naturalised but visit their home countries. SAA connected directly with these communities, for example, Zimbabweans in London and West Africans in Washington. SAA sales teams have been successful in engaging with these communities, and growing the airline's market.

Sales take a three-tier strategic approach to growing and maintaining SAA's markets. The objectives in core markets are to grow revenue and market share and extend the customer base. In adjacent markets, which are those the airline does not operate in, SAA looks for ways to link to other markets in close proximity. Transformational markets, are those new to SAA, where the airline can partner with other airlines to provide customers connectivity to other destinations.

SAA secured sponsorship agreements that demonstrate its leadership in the aviation industry as well as its place in the heart of South Africans. Early in 2016 SAA clinched a five year football sponsorship deal with Bafana Bafana, the South African Men's Senior National Team, as the team's official airline. In 2015 SAA was the official carrier for World Routes, where route development professionals in the airline, airports and tourism and government stakeholder industries met to plan and discuss new and existing global air services. The airline was also the official host country carrier for Africa's largest inbound and outbound show, WTM® Africa 2015, where a selection of exhibitors, visitors and hosted buyers from around the world visited Cape Town.

Looking ahead

A number of new routes are under consideration, within Africa and to Europe and Asia. West Africa will remain a focus as SAA develops a hub in the region.

Performance Overview (continued)

SAA Operations

2015/2016 Highlights
- Cost savings of R40,7 million
- SAA retained its 4-Star Skytrax Ranking
- Opened VIA, a new domestic lounge at OR Tambo
- ICAO-approved Safety Management System implemented
- Enhanced IATA Operational Safety (E-IOSA) audit completed

SAA Operations is the customer facing and logistics centre of the Group, responsible for the procedures, technology, training, services, safety measures and practices that ensure that the airline meets its operational targets and standards.

SAA Operations functions through:
- Airport Operations
- Flight Operations
- In-flight Services
- Global Operations Control Centre
- Group Safety
- Quality Assurance
- Group Security Services
- Maintenance Standards

Strategic focus

SAA Operations shapes and supports the product SAA customers experience, which contributes to the commercial sustainability of the airline. Consistent, efficient and effective operations and excellent customer service are vital contributors to the quality of the product.

KPI's

Airport operational efficiency is measured primarily through the internationally accepted standard, On-Time Performance.

On-Time Performance:

Target of 86 percent
2016: 88,63 percent

Safety

The implementation of an ICAO-approved Safety Management System (SMS) has enabled all processes and systems to be monitored and managed applying a risk-based approach in a highly complex aviation environment.

Overview of 2015/2016

Cost compression

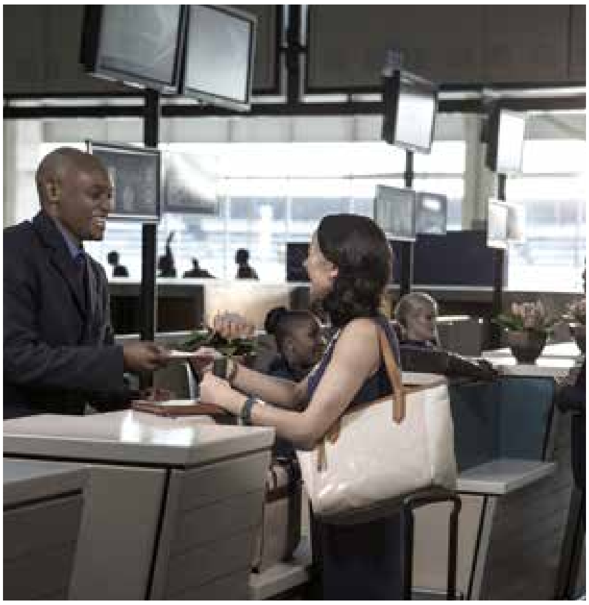
SAA Operations achieved a cost saving of R40,7 million against a target of R24,5 million. Cost savings were attained in a number of areas, including international and domestic airport operations, the global operations control centre, flight operations and in-flight services.

Skytrax 4 Star rating

SAA retained its 4-Star Skytrax Ranking for the 14th consecutive year. Skytrax is an independent, global airline-rating organisation that measures quality excellence in the air transport industry throughout the world. Ratings are awarded after detailed product and service standards audits. SAA has maintained quality levels throughout what has been a challenging year for the airline, delivering world-class product and service standards to its customers, making this 4-Star Airline ranking well deserved.

Airport operations

Airport Operations includes airport ticket sales, passenger check-in, boarding, lounges, arrivals and baggage handling worldwide. Airport Operations measures its effectiveness based on the Skytrax service evaluations and adjusts its operations as required to ensure excellent and cost effective operations.



Achievements

- **Abuja Route**
  SAA's Abuja route was launched in February at a successful event celebrating SAA's new route. SAA now flies to Nnamdi Azikiwe International Airport in Abuja, Nigeria's capital, three times a week. The new route's ground operations are running smoothly and efficiently.

Awards:

- SAA won the Ask Afrika airlines category
- OR Tambo International Airport won the ACSA feather award
- SAA won the Best Airline in the category Efficiency of Check-in Staff by Airport Terminal Operations Ltd (ATOL)
- VIA Lounge won the International Lux Design

Lounge improvements

SAA, in a public private partnership with Investec Private Bank SA, opened the world class VIA domestic lounge in October 2015. The contemporary and stylish lounge is situated in the domestic departure area of OR Tambo International Airport, SAA's hub. It features ample and comfortable seating areas, quality, fresh cuisine, a rotating art gallery showcasing South African artists, a kids' area, the Junior Pilots, runway views and high speed internet.

Skytrax audit feedback was very positive: "This new facility for SAA represents a significant upgrade to the customer experience and performs at a standard that is close to Best Practice. For a domestic lounge service its standard is close to 5 star". SAA received an award for International Lux Design for the VIA Lounge, competing against some of the top destinations in the world such as Emirates First and Business Class Lounges, China Airline VIP Lounge, Fraport VIP Lounge, Global Club and SUMMUM Private Jet Lounge.

Flight operations

Flight Operations includes SAA pilots, training, standards, maintenance standards and flight planning/navigation. SAA continues to focus on its highly regarded Training Department, which is proactive and forward thinking.

Achievements

- **Cross Qualification: A330 and A340**
  SAA operates two types of aircraft on some routes. This requires different pilots, each trained for a specific aircraft. Looking to improve efficiencies and costs the airline has been testing the viability of operating the A320 and A330 as a common fleet. This has yielded positive results with A340/A330 crew cross qualifying onto the A320 and then conducting A320/A330 Mixed Fleet Flying. SAA will now move to the next phase, which is cross-qualifying A320 crew onto the A330 to conduct A330/A320 Mixed Fleet Flying. Mixed Fleet Flying enables the optimal usage of human resources, increasing productivity and flexibility.

In-flight services

Inflight Services includes SAA cabin crew and the in-flight inventory necessary for all on-board logistics. SAA's cabin crew is key to consistently providing a safe and appealing product on-board. As the on-board face of SAA, the airline highly values their ability to handle challenging situations and still ensure an excellent experience for customers. The Cabin Crew are instrumental in SAA's position as a highly awarded airline internationally. SAA will continue to focus on meeting customers' increasing expectations by further investing in crew training.

Performance Overview (continued)

Achievements

- **Samsung Tablets**
  In September 2015, SAA introduced Samsung Galaxy Tablets for Business Class customers travelling to and from Mauritius on narrow-body aircraft. The tablets will be implemented on other long haul regional routes during 2016.

Recognition

- Cabin Crew Aviation Medicine Training was recognised for its exceptional performance in the Star newspaper and Southern Africa Resuscitation Council Newsletter.

Global Operations Control Centre

Global Operations Control Centre (GOCC) includes operations control, crew movement, flight dispatch, departure control, ramp and logistics and 'flight following' radio. GOCC will continue evaluating the optimal control centre infrastructure and systems to ensure that its operations are world class.

Achievements

- **Centralised Departure Control**
  Departure control processes, which were traditionally conducted at every station, have been centralised at 11 stations to increase automation and productivity.

Group Safety

SAA has an excellent safety record maintained through continuous world-class training and rigorous quality control processes that ensure that every flight meets the stringent standards of the regulatory bodies.

Achievements

- **Safety Management System (SMS)**
  The implementation of an ICAO-approved Safety Management System (SMS) has enabled monitoring and management of all processes and systems, applying a risk-based approach suitable for the highly complex aviation environment.

Quality Assurance

SAA strives to exceed the minimum quality assurance standards at all times, including maintaining its IATA Operational Safety Audit (IOSA) registration. SAA successfully completed its sixth IOSA renewal audit in September 2015 and is currently preparing for the seventh audit in May 2017. SAA has successfully implemented the IATA Safety Audit for Ground Operations (ISAGO) over the last two years and has completed 11 ISAGO audits with a team of four certified and highly commended ISAGO auditors. The airline maintains its Air Operator Certificate (AOC) and the license to operate, through adherence to stringent internal audits and upholding the inherent safety culture.

Achievements

- Full implementation of the ISAGO programme within SAA, with cost saving benefits through audit sharing amongst ISAGO pool members.

Group Security Services

Group Security Services is responsible for preventing acts of unlawful interference perpetrated against SAA and protecting facilities, staff and assets from general crime internally and externally through the following:

- Developing and implementing Security & AVSAF Policies, Procedures and Systems to secure and safeguard all SAA Civil Aviation Operations from unlawful interference, and introducing appropriate security measures to protect passengers, baggage, cargo, employees and company property
- Identifying, measuring and advising on operational and physical security trends, risks and processes
- Implementing sound security threat and risk management principles in all Group Security Services' operational processes and procedures
- Conducting objective, effective and professional criminal investigations and employee vetting, to prevent theft, fraud, pilferage and any illegal, unlawful actions against SAA

Achievements

- **Baggage Pilferage**
  The rate of reported and confirmed baggage pilferage cases have steadily decreased during the year and remain at a fairly average rate. The formal deployment of the Group Security Services (GSS) Tactical Patrol Unit, post rationalisation, will allow for additional processes and measures to further combat baggage theft and pilferage.

Flight Technical and Maintenance Standards

Flight Technical provides specialist support to Flight Operations and other departments within SAA such as Network Planning, Operations Control Centre, Flight Dispatch and Departure Control. Flight Technical includes the Simulator department that provides world-class simulator devices used by Flight Operations and third party airlines for pilot training.

SAA Maintenance Standards continue to ensure that SAA aircraft are in an airworthy condition. The airline maintains proper oversight and control of all maintenance through monitoring and analysis to ensure the airworthiness of SAA aircraft.

Achievements

- **Electronic Flight Bag**
  SAA received approval from SA Civil Aviation Authority (CAA) for the implementation of the iPad Electronic Flight Bag. The iPad greatly improves efficiency in the calculation of aircraft performance and the management of documentation. There is an associated decrease in costs directly proportional to the reduction in large quantities of paper manuals.

Looking ahead

Flight Technical will continue to develop the Electronic Flight Bag to leverage the potential efficiencies of electronic documentation and communication.

Automation

- **Auto Bag Drop Trials**
  An Auto Bag Drop allows passengers to drop off their own bags without the assistance of an agent. The Auto Drop unit automatically checks baggage weight and size allowances, prints a bag tag if necessary, checks for non-conveyable and multiple bags, and securely channels the bag into the baggage handling system. SAA has scheduled trials for Auto Bag Drops in Hong Kong for October 2016 and trials in Frankfurt are at the planning stage but are expected in mid-2017. In London trials are expected in 2017/18 but SAA is currently participating in workshops related to the implementation.

- **Self Bag Tagging trials**
  Self Bag Tagging allows passengers to print their own baggage tags, including home printing where permitted, this will be rolled out via self-service machines at SAA stations (where permitted). This will commence in Hong Kong and São Paulo in October/November 2016 with Frankfurt to follow by mid 2017.

- **Automated Documentation Check**
  Implementation of Automated Documentation Check for visas and passports, to verify and reduce Visa infringements, is planned for February 2017 with trials to commence in Frankfurt from August/September 2016.

Performance Overview (continued)

SAA Voyager

2015/2016 Highlights

- First revenue-based frequent flyer programme in Africa operational for a full year
- 31,4 percent of SAA passengers are active SAA Voyager members
- Total of 2,5 million SAA Voyager members
- 15 000 Miles issued every minute
- 10 000 Miles redeemed every minute.
- Benefits of programme changes realised.
- Charitable organisations received a total of eight million donated Miles
- Co-branded SAA Voyager Gold and Platinum MasterCard Credit Cards launched in Ghana.

Vision

Africa's leading world-class Loyalty Programme.

Mission

To reward and recognise our loyal members through the delivery of a commercially sustainable, best in its class loyalty programme in South Africa and the African Continent.

SAA Voyager is the largest airline loyalty programme on the African continent. The programme has more than 2,5 million members earning Miles which can be spent with 68 programme partners. These include 27 airline partners in the Star Alliance global network and 11 non-Star Alliance airlines, car rental partners, hotel and resort partners and lifestyle, retail and financial partners. SAA Voyager offers five tiers - Blue, Silver, Gold, Platinum and Lifetime Platinum, each providing preferential treatment and prestige.

The programme serves as the frequent flyer programmes for SAA, SA Express and Airlink Proprietary Limited. Mango is a high customer-value ranked redemption partner of the programme.

Launched over 20 years ago, SAA Voyager has successfully provided a competitive advantage in the market, attracting and retaining high-value and high-yield customers.

In February 2015, SAA Voyager introduced significant changes to the programme to enhance its value proposition and secure customer retention in the highly competitive market. Miles earned changed from a basis of 'distance travelled' to a 'revenue-spend' earning structure for flights operated by SAA. The changes attach a transparent economic value to the Mile – 1 Mile for every R1,60 spent.

Strategic focus

SAA Voyager's strategic focus is to attract and retain SAA customers by providing a product that differentiates SAA in a very competitive market by recognising their loyalty and rewarding them fairly through earning and spending of Miles. SAA Voyager is a key element of SAA's customer value proposition, which contributes to the commercial sustainability of the Group.

SAA Voyager further augments customer service offerings, enriches operations and plays a vital role in performance excellence. The evolution of the programme is supporting the African growth strategy by providing an attractive incentive to existing and new customers on the African continent, and increase the programme's regional relevance.

Overview of 2015/2016

The 2015/2016 year was the first full year that SAA Voyager has operated as a revenue-based airline loyalty programme. The Division's performance for the year reflects the success of restructuring with retained earnings of R272,2 million – exceeding expectations, 38,9 percent ahead of targets.

The ratio of member spend to SAA passengers was 29,8 percent compared to the target of 28 percent for the year, which can be attributed to an improved customer value proposition.

Active members increased 15 percent globally and 35 percent in Africa. To give context to this, a mature loyalty programme on average would increase 11 percent in a year. Miles redeemed for SAA travel, equalled 72 percent of the total number of Miles redeemed by active programme members.

African revenue flown by active programme members increased by a significant 36,3 percent indicating that the programme changes were to the benefit of SAA's LTTS. The strategic change in how Miles are earned is beneficial to all members but particularly to those travelling on the African continent as distances are shorter, but ticket prices are at a premium. SAA Voyager will contribute to securing SAA's African footprint and contribute to driving the Group's African growth strategy.

The programme changes were supported by the implementation of administrative changes to the operation of the programme and the effective management of the business model and its financials. The latter contributed R66,9 million towards SAA Voyager's bottom-line for the 2015/2016 year.

SAA Voyager's ongoing member research confirms that the growth in both earning and spending of Miles is attributed directly to the positive changes made in both product and service levels.

Other initiatives were introduced during the year, such as the introduction of JourneyBlitz redemption seat sales where members enjoy discounts of up to 85 percent on SAA-operated flights. With a new partnership between SAA Voyager and Tourvest announced during the year, members can now earn Miles when buying duty free products, either on-board all SAA-operated International flights and Regional flights exceeding two hours flying time, or through the online duty free shopping facility.

While SAA encourages Voyager members to use their Miles, if they are unable to and the Miles are due to expire, members have the opportunity to donate their Miles to charities. The charity organisations which SAA Voyager supports are the Reach For A Dream Foundation, Wings and Wishes and the World Wide Fund For Nature. (Read more on page 56).

Looking ahead

In the year ahead, SAA Voyager will continue to actively recruit new members to drive growth in the programme. In addition, mobility product enhancements will continue, shaped by members' needs and regional focus. The launch of part-cash part-mile payments, where members can use Miles to settle any portion of their journey, will provide additional flexibility and increase active membership.

Performance Overview (continued)

SAA Cargo

2015/2016 Highlights

- Accra Washington DC route boosts cargo volumes
- 100 percent e-Freight penetration in the domestic market
- Significant improvement in e-Freight penetration in the international and regional markets
- Ranked 30th in the world for e-AWB – IATA measure for progress in implementing e-Freight
- SAA Cargo moved a record number of horses by charter to Mauritius
- SAA Cargo was named among the top three African airlines at the Air Cargo Airline of the Year Awards 2016

Vision

To be "Africa's leading Air Cargo Services provider".

Mission

To deliver commercially sustainable world class Air Cargo services in South Africa, the African continent and our trading partners.

SAA Cargo moves general cargo, perishables, courier, express and mail globally. SAA carries most of its airfreight in its airliners using the belly space of SAA's passenger flights for cargo carriage. It also has a fleet of two dedicated freight aircraft, with two more on order. SAA Cargo transports livestock, human remains, dangerous goods, and vulnerable and valuable cargo as part of its special services and it offers an *ad hoc* charter service for more urgent deliveries. SAA Cargo leverages interlines and partnerships in accessing key markets to provide customers with extensive reach and seamless connectivity worldwide.

Strategic focus

The implementation and execution of the freighter strategy continues to be an area focus. Delays in the implementation have created a challenge in terms of service consistency.

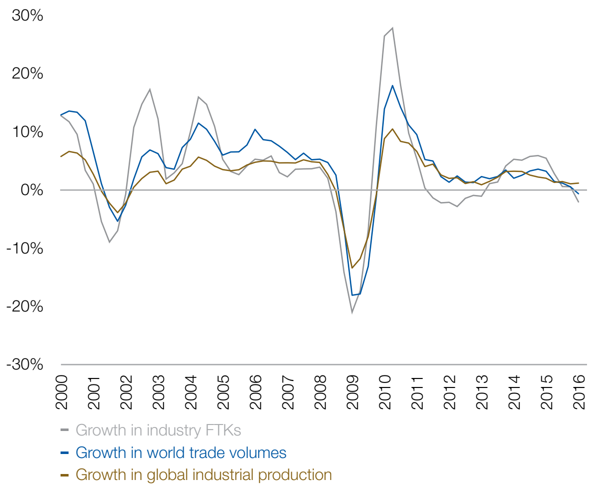
With increasingly competitive markets and shortening global supply chains efficiency is a key enabler. SAA Cargo is at the forefront of the industry in terms of adopting e-freight implementation, with the local market completely covered.

Overview of 2015/2016

The 2015/2016 financial year was tough for SAA Cargo and the industry in general. Despite this SAA Cargo achieved its targeted 8 percent revenue as a percentage of total Airline revenue, and achieved 88 percent against a 75 percent benchmark for cargo flown as booked. The revenue performance can be attributed to price increases and the weakening of the ZAR/USD exchange rate, as 64 percent of revenue was inbound. Volumes, however, dropped considerably. Revenue from Europe was predominately derived from purchase of capacity, on which SAA Cargo maintains a profitable margin.

Demand in the airfreight market is closely aligned with global trade performance. Weak global trade resulted in a steady decrease in airfreight volumes globally through 2015.

Air freight growth vs. world trade and industrial production growth – year-on-year, quarterly series, (%)



Sources: IATA Economics, IATA Monthly Statistics, Netherlands CPB

Trade between South Africa and South America shrunk dramatically as the Brazilian economy faced a variety of challenges. Other factors such as the political uncertainty and a protracted customs strike, which prevented the processing of cargo going beyond São Paulo, also had a negative effect. SAA's route to São Paulo provides an important channel in the global supply chain for products targeting Portuguese-speaking consumers.

The termination of the Beijing and Mumbai routes has a significant impact on cargo volumes.

Areas of the African market were also challenging as the top consumer markets, Nigeria and Angola, were subdued. The drop in international oil revenue and a shortage of foreign exchange in these countries curtailed demand for consumer goods. However, trade to Accra, Ghana remained strong and SAA Cargo was able to further capitalise on this lucrative market with the addition of the Accra Washington route.

E-freight implementation

IATA's e-freight programme modernises air cargo processes with digitised standard documents adapted for electronic commerce. This promotes efficiencies and enhances security, eliminating the need for multiple data entry, reducing errors and enabling advance data transmission to the authorities.

SAA Cargo is at the forefront of the industry, and in the Top 30 airlines in terms of implementing e-Freight. SAA domestic flights are now 100 percent electronically based. SAA Cargo was rated 30th in the world, with an international penetration of 31 percent in terms of eAWB, which is the IATA measure for progress in implementing e-Freight. The division aims to achieve over 50 percent penetration internationally by the end of the current financial year through implementation with major customers and activation on more of SAA's regional routes.

Security and compliance

SAA Cargo successfully underwent a number of audits during the year, including the annual United States' Transport Security Administration audit, the South African Civil Aviation Authority audit and the Australian Aviation Authority audit. All authorities found the levels of safety compliance to be acceptable.

SAA Cargo was the first African airline to be awarded "green" status. This accreditation means EU cargo carried from South Africa is not subject to additional security requirements on entry.

Awards

SAA Cargo was named among the top three African airlines at the Air Cargo News Airline of the Year Awards 2016 in London. The airline awards are based on the voting results of more than 18 000 supply chain professionals over a two-month period. Shippers, the beneficial owners of the goods, and their logistics partners vote on the publication's website for the airline that provided the best overall customer experience and for the best service provider in each region.

Looking ahead

The outlook for the year ahead is muted. The global economy is expected to remain sluggish, given the contraction in the Chinese economy along with recent challenges faced in the European Union. IATA forecasts less than a 3 percent increase in demand globally in 2016. Total cargo revenues are expected to shrink slightly to $50,8 billion next year from $52,2 billion in 2015 even as volume grows to 52,7 million tonnes from 51,3 million tonnes.

Key oil based economies within Africa such as Nigeria and Angola have been severely impacted by the collapse in the oil price resulting in a significant reduction in import volumes.

Widespread consolidation in the logistics and freight-forwarding sector is likely to shake up the industry, affecting long-standing relationships with cargo carriers.

Subsidiaries
SAA Technical

2015/2016 Highlights

- Awarded Best Line Maintenance Provider for 2015 at the annual Aircraft Technology Engineering & Maintenance Awards – voted by customers
- Commissioning of high speed grinder for 737 engine overhaul
- Commissioning of automatic shot peening machine
- Upgrade to facilities to build capabilities
- Increased efficiency resulting from organisational restructuring

Vision

To be Africa's leading world-class Maintenance Repair and Overhaul facility.

SAA Technical is a world-class Maintenance Repair and Overhaul (MRO) aircraft maintenance facility servicing both local and international airlines. It is the largest and most advanced full service provider in Africa, with 70 years experience with uninterrupted full FAA (Federal Aviation Administration) and EASA (European Aviation Safety Agency) certification.

Main Services

- Minor line maintenance
- Major heavy maintenance
- Component and repair cycle workshops
- Machine shops
- Component shops
- Accessory shops
- Landing gear

SAA Technical also offers an extensive apprentice programme aimed at training apprentices for its own business and the wider-aviation industry.

Strategic focus

Maintenance costs are one of the largest cost items that is semi-controllable. It is in this regard that SAA Technical is striving to reduce the unit cost to SAA by growing its third party revenue whilst focusing on improving business processes.

SAA Technical intends on expanding its operations to include a fifth base maintenance facility in a strategically located African destination. In addition to which, the Company is expanding its offering and customer value proposition at its Johannesburg facility. The Jet Engine overhaul facility will enable SAA to insource maintenance on SAA and Mango aircraft resulting in foreign spend reduction.

Overview of 2015/2016

During the year, SAA Technical underwent an organisational redesign with a view to improving efficiencies and customer service. As part of the restructuring process the number of crews was reduced in the operations with the resultant efficient utilisation of staff and increased flexibility and control.

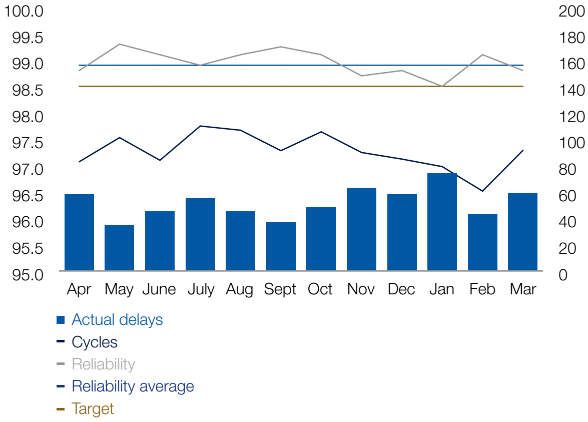
Further to the restructuring process and in a bid to improve efficiency and flexibility, SAA Technical is currently implementing a programme to introduce broader licencing cover for its Engineers. This will entail Engineers going through a bridging training programme to enable them to obtain licences for more than one discipline. This will result in the increased flexibility

of the workforce, efficiency of operations and create further opportunities for employee development.

In line with MRO Global trends SAA Technical is pursuing opportunities in the use of parts manufacturer approval (PMA) parts. SAA Technical has to date realised considerable savings from changing to the use of PMA parts in non-critical areas such as cabin fittings.

SAA Technical continues to achieve globally benchmarked dispatch reliability targets albeit a slight dip in performance post the restructuring process in the last part of 2015. Dispatch reliability is a measure of the competence of a maintenance service, using the number of delays per 100 departures as an indicator.

Dispatch reliability



During the year under review SAA Technical experienced an exponential growth in third party work which meant that a number of customers had to be turned away due to lack of capacity. However, plans to expand capacity, in a number of key areas, are underway. Line and Base maintenance facilities will be expanded to accommodate additional work planned for the next year and beyond with auxiliary power unit (APU) workshop to be opened in 2018.

Looking ahead

SAA Technical is planning to open new line stations to service regional and international operators at selected airports in Africa. The Company is also pursuing non-aviation work to augment traditional MRO revenue streams, especially in the Workshops space.

Performance Overview (continued)

Mango

2015/2016 Highlights

- Celebrates 10 years of operation
- Over three million passengers transported during the year, up 21 percent
- 86 percent departure on-time performance

Mango is a low-cost carrier wholly-owned by SAA. The airline is entrenched as a significant roleplayer in domestic aviation and one of the most recognisable brands in the South African market. Mango's network incorporates the majority of domestic trunk routes and the African leisure route, Zanzibar. In the 10 years of operation the airline has grown from four aircraft with a golden triangle network to 10 aircraft and a nation-wide network.

A decade of achievements

- In excess of 17 million passengers transported
- Bloemfontein and Cape Town routes developed to profitability
- Sunday Times Top Brands and Generation Next surveys have rated Mango the top low-cost carrier, and just behind SAA in the overall category since its third year of operation
- Twenty-three PRISM Awards for Corporate Communications
- ACSA Feather Awards at all the airports operated
- Three times World Travel Awards as the Best African Low-Cost Airline
- Two times Skytrax Awards as Best African Low-Cost Airline
- Budgie Award for Marketing
- In-flight magazine Juice has received several Publishers' Awards and Merits

Strategic focus

Governance remains a key focus at Mango. For the second consecutive year the airline continued to make gains in its already exemplary performance. Governance at the airline ticks every box in terms of the guidelines set out in King III and the upcoming King IV. In terms of Broad-Based Black Economic Empowerment plans, Mango achieved its Level 2 status and continues to lead the industry in transformation. A key focus area has been flight deck transformation, and the airline's programme has overachieved with more than a 10 percent target of total pilot body now comprising HDI and B-BBEE incumbents.

Overview of 2015/2016

In the year under review, Mango recorded a net loss for only the second time in 10 years of overall solid performances. The loss reflects the impact of the generally depressed market resulting from South Africa's slow economic growth, the decline in code share revenues and the entry of a new low-cost airline to the market. The new market entrant effectively diluted revenue by lowering fares to unsustainable levels. While load factors remained good, the opportunity cost was an unprofitable average fare.

Despite the bottom line losses, Mango delivered a solid operational and commercial performance. Using the conversion model as a basis for marketing activity, analytics suggests that Mango continues to reach greater numbers within its customer universe with the ultimate impact on forecast growth

in transactional engagement with consumers. Mango carried three million passengers during the year, representing a 21 percent increase on the prior year.

While overall CASK was up 8,7 percent costs were effectively contained with Mango achieving 14 percent saving compared to the previous financial year. Savings were realised on fuel due to the low oil prices, although this was eroded somewhat by the weakness of the rand. The major increase in costs can be attributed to dollar-related expenditure.

Reliability measured in departure on-time performance stands at 86 percent, an achievement of note.

Mango's social investment campaigns continue to deliver highly visible, reputational and scorecard enhancing initiatives that include ongoing Career Days for learners, in particular underprivileged and previously disadvantaged individuals. Mango also supported the Joburg Ballet Township Development Programme during the year and was engaged in the Proudly South Africa Buy Local Summit, helping develop cooperative vegetable gardens in communities.

South African Travel Centre (SATC)

SATC is a wholly-owned subsidiary of the South African Airways Group, and functions as a consortium of independently owned and operated travel management companies and agencies with a nationwide presence in South Africa as well as in selected countries in Africa.

SATC has been subject to ongoing strategic efforts on the part of the group to divest itself of the company. As a result of the widespread knowledge of the decision of the group to divest, there has also been a reduction in the number of franchisees associated with the company.

There are 30 franchisees that still form part of SATC consortium. As at 1 April 2016, SATC management finalised the negotiations for SATC to affiliate all its preferred deals under XL Travel. This is part of the retention strategy to allow SATC franchisees access to a wider pool of suppliers and potential overrides earnings. This will also allow SATC to enhance its value proposition and ability to attract potential new members.

The Section 54 PFMA application for submission to National Treasury has been finalised.

Performance Overview (continued)

AirChefs

2015/2016 Highlights

- Achieved ISO 22000 certification at all of the AirChefs operations
- Successful implementation of the restructuring process
- Achieved R24,9 million in employee cost savings for the year
- On time performance at 99 percent
- Awarded business by Eskom Aviation, Proflight Zambia and CargoLogic Air
- Top five award in Food Services category for best managed company by Top 500
- Improvement in B-BBEE rating

Vision

Africa's leading world-class catering company.

Mission

Deliver commercially sustainable airline catering services in South Africa and Africa.

AirChefs is primarily an airline catering company, with central production units in Johannesburg, Cape Town and Durban, and SAA as its largest client. AirChefs also services SA Express, Mango, Air Botswana, Proflight Zambia and Cargo Logic. Recently the company has leveraged its airline capability to diversify into the wider food market providing catering to corporate clients, ready-made meals for contract caterers and other food service offerings.

The company is a wholly-owned subsidiary of the SAA Group, with its own Board comprising two executive directors, the CEO and CFO, and two non-executive directors, from SAA's Board.

Strategic focus

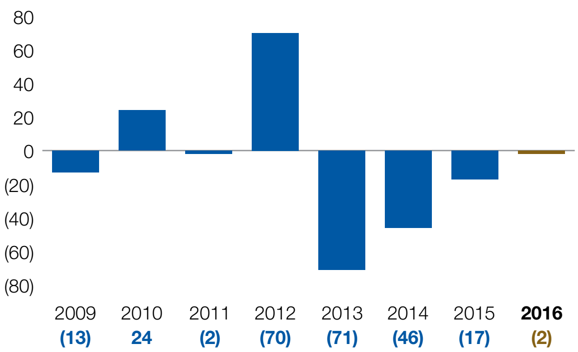
AirChefs strategic focus is to drive revenue growth and return the Company to profitability, in line with the LTTS. AirChefs has struggled to secure new business competing with international caterers that offer global discounts. Since the introduction of the LTTS the Company has been overhauled. Improved processes and systems have been introduced that have resulted in more efficient operations and a better quality product. AirChefs is moving to non-traditional revenue sources to secure new business and boost revenue and profitability. However, considerable investment is needed to address current infrastructure and the cost of maintenance of equipment. As SAA is unable to provide the capital injection needed to create sustainable growth a Request For Information was sent to the market in November 2015 to explore possible strategic partnerships. These will be evaluated and presented to the Board and National Treasury.

Overview of 2015/2016

During the year AirChefs received an ISO 22000 food safety certification. ISO 22000 specifies the requirements for a food safety management system that includes interactive communication, system management, and prerequisite programmes. The standard focuses on supply chain assurance, has management system principles embedded, and is aligned with Hazard Analysis of Critical Control Points (HACCP) principles and with Codex Alimentarius.

The financial performance of AirChefs has improved considerably. The Company achieved a loss of R0,5 million for the year, excluding restructuring costs and arbitration awards relating to prior periods.

Net profit/(loss) for the period (Rm)



*- Excluding restructuring costs

2014 vs 2013 = **34% improvement**
2015 vs 2014 = **64% improvement**
2016 vs 2015 = **86% improvement**

The graph indicates the achievements of the past couple of years.

The restructuring process was successfully implemented. Cost saving on restructuring of R24,9 million exceeded the target of R21 million. Cost savings of R8,2 million on procurement, adjusted for the impact of the drought, compared to a target of R9 million.

AirChefs secured new business from Eskom Aviation, Cargo Logic and Proflight Zambia.

Looking ahead

AirChefs plans to grow its operations in the domestic market and into Africa. The Company will continue to look for opportunities for diversification to reduce reliance on SAA and the airline catering business.

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Our Key Business Enablers

Our Key Business Enablers

Customer Services

2015/2016 Achievements

- **Awarded three Customer Satisfaction Awards from Skytrax:**
  - **SAA** – 'Best Airline in Africa'
  - **SAA** – 'Best Airline Staff in Africa'
  - **Mango** – 'Best Low-Cost Airline in Africa'

Customer Services encapsulates the experience of the customer from the first contact to the end of their journey and beyond, to building loyalty and retention.

Providing excellent customer service is one of SAA's strategic objectives and a core value for the airline. World-class, reliable customer service is central to SAA's performance and long-term sustainability.

Strategic focus

Excellent Customer Service is one of the five strategic objectives of the LTTS. To enhance customer experience and create value, SAA has ongoing initiatives to refine processes and improve interactions with the employees that represent the business and brand.

Continued monitoring of service measures such as, on-time performance, Contact Centre service levels and baggage pilferage rates, are key focus areas within SAA.

Maintaining and improving customer satisfaction is increasingly complex as customers' expectations change. Customers expect more flexibility in packages, a comfortable wait before embarking, an enjoyable journey that includes good food and in-flight entertainment and they will share their experience on social media, good or bad.

Overview 2015/2016

During the year initiatives to improve people and processes at the airline covered the following areas:

- Better profiling of employees
- Enhancing employee behaviour
- Customer service training
- Service efficiency statistics analysis
- Improving employee morale
- On-time performance

Measuring Customer Satisfaction

Customer feedback is very important in improving the customer experience.

During the year the Salesforce service module solution, was implemented. This will provide deeper insight into customer perceptions and expectations. Currently the system is managing customer complaints. SAA takes all customer complaints very seriously. In addition to addressing the complaint with the customer, the airline incorporates the feedback into improving the overall customer experience.

SAA is using the system to introduce new service metrics, which will allow a further analysis of factors such as customer effort.

Customer service is measured against the following KPIs:

- Customer Efficiency Score
- Customer Satisfaction Score
- Social Media (positive sentiment)

Customer Efficiency Score

The Customer Efficiency Score is calculated against effective business management.

For the 2015/2016 year the score was 78 percent compared to a target of 82 percent.

Customer efficiency score 2015/2016

Customer satisfaction score

The customer satisfaction score takes into consideration service within SAA's control and calculates a final customer satisfaction score by measuring it against performance.

Customer satisfaction score 2015/2016

Shared services support strategy to create sustainable value

Social Media (positive sentiment)

Positive sentiment is calculated by analysing all forms of media related to SAA and from this a customer sentiment value is derived.

The target is 70 percent.

Refreshing service delivery

SAA introduced the following customer service enhancements during the year 2015/2016:

- Step-Up is a product that gives customers the opportunity to upgrade their seat from Economy Class to Business Class through a bidding system
- Electronic Cabin Bag provides relevant customer related information to the cabin crew so that they can provide the best experience to travellers
- Secure credit card transactions and duty-free shopping throughout the flight on aircraft with SatAuth solutions
- Samsung in-flight entertainment on tablets on SAA's Mauritius and Kenya routes
- VIA lounge is a new domestic lounge at OR Tambo International Airport
- Family check-in services at OR Tambo International Airport for families traveling with small children during the holiday periods
- Unaccompanied Minors Campaign to ensure that the children's experience is seamless
- Mobile boarding passes
- Frequent Traveller's Medical Card for passengers with disabilities, stable medical conditions or special needs
- Introduced the best local wine and South African Méthode Cap Classique sparkling wine
- Improved meals
- Supporting local award winning movies by offering a wide selection on the in-flight entertainment programming, Airscape
- Partnerships with retailers Pick n Pay, Ackermans and PEP for ticket purchases
- Modernising the customer interfacing facilities at SAA Cargo

Customer Complaints

1. **EXECUTIVE SUMMARY**

Customer complaints are of significant importance to South African Airways.

They benefit the organisation by identifying:

- vital areas of service improvements;
- improvement in policies and procedures;
- improvements in customer communication and often elevate important news straight to the top. Leaders and senior management learn quickly about service issues of importance to our customers, thus supporting service education to all levels of employment.

A total of 13 591 complaints were received for the 2015/2016 financial year, which equates to 0,2 percent of the total passengers carried.

Service vision

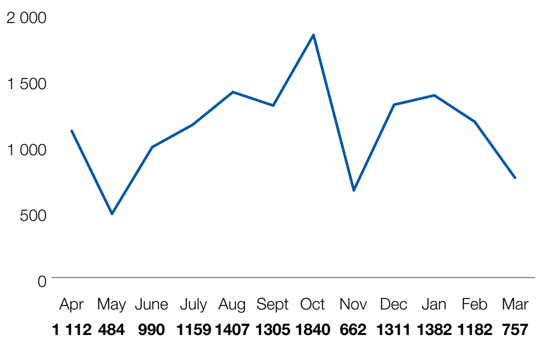
We aim to become the most awarded airline for customer service excellence out of Africa to the world and from the world to Africa.

Service culture

Inspiring the world with the warmest African Hospitality.

Figure 1 below illustrates the number of complaints received per month. Trending categories of concern as indicated by our customers include:

Figure 1: Number of complaints received for the financial year



Looking ahead

Customer Service will continue to improve the SAA experience through monitoring and analysing data from customer feedback.

More comprehensive analysis of customer insights will be enabled by utilising online data. In addition, corporate sales trends and statistics will be used to improve new product offerings.

Our Key Business Enablers (continued)

Human Resources

2105/2016 Highlights

- Integrated Performance Management Framework Policy approved by the Board
- Group Remuneration Policy approved by the Board
- HR IT solution implemented
- Executive Talent Review Committee established
- Succession Management Talent Pool for Level 2 management constituted
- Strategic and operational KPIs aligned
- eLearning platform to cater for mandatory and compliance training launched
- SAA accredited by IATA as a Regional Training partner for Southern Africa

Human Resources (HR) strategic purpose is to create a high performance, values-based culture to deliver commercially sustainable outcomes in line with the LTTS.

HR is responsible for building a talent pipeline not only for SAA but for the South African aviation industry. HR includes the SAA Academy of Learning, which offers youth development programmes including:

- Graduate Programme, a strategic initiative aimed at creating a talent pipeline for critical areas within SAA's business as well as for the aviation sector in general
- Internship Programme, an opportunity to gain business skills in the aviation industry through valuable work experience for a limited period
- Cabin Crew Skills Programme, a programme providing tuition towards attaining a SACAA Cabin Crew Member Licence
- Technical Apprenticeship Programmes, apprenticeships in 11 trade disciplines relating to aviation maintenance
- Workplace Experience Programme - an opportunity given to young graduates to gain skills for them to be employable in future.

Following the 90-Day Action Plan, HR embarked on the process of right-sizing SAA's human capital. This aligns with LTTS KPI – the establishment of an effective staff complement that will ensure financial stability and improved executive management.

Performance Management was identified as one of the key pillars in the successful turnaround of the Group.

SAA recognises that a well-trained workforce is key to delivering on its mandate and maximising the strategic and economic contribution it makes to the country.

Overview 2015/2016

Headcount Rationalisation

The Headcount Rationalisation process at SAA and SAA Technical began in April 2015. A total of 242 Voluntary Severance Packages were approved at SAA and 94 at SAA Technical. In addition, 27 approved positions were frozen at SAA. 253 positions at SAA and 106 at SAA Technical will not be filled. Vacancies left by terminations may also not be filled, depending on the operational need attached to the specific position.

The net result was a reduction of 631 positions at SAA and 375 at SAA Technical (including vacancies left by terminations). This rendered a saving of R134,4 million compared to the target of R181 million. The balance will be realised in 2016/2017. The process was successfully finalised without any employees being retrenched.

Performance Management

In 2015/2016 HR focused on improving the alignment of strategic and operational KPIs. This started with the consolidation of the strategic objectives into a strategy map to engender group-wide awareness and understanding of the critical success factors in creating shareholder value. Strategic KPIs were then cascaded into Level 1 and 2 managers' scorecards to ensure alignment. Workshops were conducted throughout the year to reiterate the performance management objectives and assist managers with performance contracting, monitoring and reviewing.

Continuous Business Improvement

During the year HR introduced new technology to enable performance excellence. SAP Human Capital Management (HCM) Optimisation replaced systems and processes that were still largely paper-based and labour-intensive. The legacy system was prone to unacceptable levels of validation errors and utilised staff resources on low value activities. The HCM solution has the agility to support organisational strategies and satisfy employee expectations. Moving to the cloud will facilitate the standardisation of HR processes and reduce the cost of HR service delivery. The new system will transform the way SAA attracts, hires, retains talent and supports the SAA workforce.

Group Remuneration Philosophy

The new Group Remuneration Philosophy, which provides guidance on remuneration policies and practices in relation to performance, was approved by the Board. The employee reward philosophy and strategic approach is aimed at attracting, motivating and retaining high calibre individuals with skills that contribute towards the sustainability and competitiveness of the Group. The Group Remuneration Philosophy incorporates a holistic approach, implementation, interpretation and application of the reward concept at SAA, including all matters governing Regional and International Stations. The non-financial reward system, which forms a component of the Group Remuneration Philosophy, is planned for implementation by 31 March 2017.

Talent Management

To mitigate SAA's leadership pipeline risk, succession management was a key focus in talent management during 2015/2016. An Executive Talent Review Committee was formally established and the Succession Management Talent Pool for Level 2 managers was constituted. This is an accelerated development programme aimed at ensuring the talent pool is ready and independently competent to operate at Level 2 management within 36 months. The first year focused on the candidates' intra-personal skills sets. The second year will focus on project management and provide exposure to, and the development of business acumen.

A new on-line recruitment system was launched. This is the first step in automating an end-to-end recruitment process and creating a paperless recruitment environment. Going forward SAA will increasingly use social media platforms for recruitment to reduce dependence on recruitment agencies and lower recruitment costs.

To enhance SAA's brand as an employer, externally and internally, the Careers Website received an interim make over. The final redesign will be unveiled when SAA launches its new intranet site. SAA's career management marketing collateral, promoting aviation as a career of choice and SAA as an employer of choice, was also redesigned. The new material, to be distributed at career fairs, tertiary institutions and youth development events, is designed to effectively connect with potential employees, particularly the youth. The SAA leadership framework has been revised and will be integrated into the business. The framework will be used during recruitment, assessments and career development.

Learning and Development

SAA Academy of Learning

SAA Academy of Learning continuously strives to assist in realising the vision "to be Africa's world-class airline". During the year the academy implemented a number of new training and development initiatives to enhance employees existing skills and develop new skills. The eLearning platform ensures that SAA's widely spread workforce can access training at any location and at suitable times. The focus of the eLearning modules during the year was on compliance and functional training.

IATA Accreditation

SAA Academy of Learning was granted "Regional Training Provider" status by IATA, allowing SAA to provide IATA courses to all airlines within the SADC region. This initiative contributes to HR's cost compression and revenue generating strategy.

Bursaries

SAA's Bursary Policy supports employees, who do not have a relevant undergraduate qualification, in attaining a Diploma or a Degree. In the year under review SAA awarded a total of 405 bursaries to employees.

Learnerships

SAA continues to offer accredited programmes and is currently offering selected employees in the Finance Department the opportunity to participate in Nationally Accredited Accounting Learnerships.

Cadet Pilot Training Programme

55 Youth participated in the Cadet Development programme and acquired Frozen Airline Transport Pilot Licenses (ATPL) that included 250 flying hours. This initiative contributed to building scarce aviation skills, in particular pilots, and in doing so also contributed to the National Growth Path and youth skills development. In addition, SAA Academy of Learning and SA Express have partnered to enable SAA employees who have acquired the Frozen ATPL to log the required 1 500 flying hours. Five cadets are in the process of building the required flying hours with SA Express, addressing the transformation challenges in the flight deck.

A number of other successful cadet pilots have found positions in the market with feeder airlines, where they are also increasing their flying hours. Once the required flying hours are obtained the cadets will be invited to the Flight Operations Selection Board to apply for a position as a First Officer.

Employee Wellbeing

SAA's Employee Assistance Programme called "Heartbeat" is a holistic programme that supports the human resources and human capital strategy by enhancing customer focus, accountability, integrity, safety and performance excellence through addressing people-related concerns both proactively and reactively. Heartbeat provides all employees and their dependents with a fully-funded personal support programme. In addition, the programme provides a supportive role, and complements, the services of the Medical department. SAA continues to ensure that the wellness programmes keep pace with the continually changing workplace.

The Heartbeat programme provided immense support and assistance during the rationalisation process and continues to assist affected employees. The total engagement of the Heartbeat Programme for the year under review was 1 959 employees. The two most common presenting problems were stress and anxiety, which were managed accordingly.

SAA appointed Healthi Choices in September 2014, a leading independent provider of integrated wellbeing lifestyle and loyalty programmes to administrate the "Heartbeat" programme.

Our Key Business Enablers (continued)

Medical Services
SAA Medical Services is committed to ensuring employees' wellness and reducing absenteeism. In an attempt to reduce poor sick leave records and monitoring of sick leave trends, on time capturing of sick notes was initiated during the year. SAA Medical Services also renewed its licence required by the Department of Health to offer family planning services onsite.

In December 2015, Arwyp Airport Clinic at OR Tambo International Airport closed. SAA Medical Services capitalised on the opportunity to increase revenue by providing yellow fever vaccinations to passengers. During the year the unit also acquired a dispensing licence, in compliance with Department of Health and HPCSA, to enable SAA Medical Service to continue offering the service of loading medical bags for aircraft, for SAA and other airlines. In addition SAA Medical Services facilitated securing a licence from the Department of Agriculture for the purchase and use of disinfectant spray for aircraft.

Employment Equity
As a responsible corporate social citizen SAA continues to ensure that its workforce is representative of the demographic profile of the country. Employment Equity Targets for SAA are guided by the Employment Equity Act and the industry Department of Transport (DOT) charter. SAA is proud to announce that it has exceeded both SAA and DOT targets for the Top Management level. SAA is committed to creating a pool of suitably qualified employees to serve as a feeder to management levels, through focused training and development programmes.

SAA Employee Equity Report FY01 April 2015 to 31 March 2016

DOL Categories	South Africans								Foreign		
	Male				Female				Male	Female	Totals
	African	Coloured	Indian	White	African	Coloured	Indian	White			
Top Management (Target)	3	0	0	1	3	0	0	0	1	0	8
Top Management (Actual)	3	0	0	0	4	0	0	0	1	0	8
Senior Management (Target)	27	1	5	17	19	5	2	7	1	1	85
Senior Management (Actual)	17	2	4	18	9	5	1	6	2	1	65
Middle Management & Professionally Qualified (Target)	22	54	74	675	138	26	26	135	3	1	1 154
Middle Management & Professionally Qualified (Actual)	142	44	69	618	92	19	34	125	2	1	1 146
Skilled Technical (Target)	190	55	33	106	203	50	42	120	0	1	800
Skilled Technical (Actual)	151	42	31	83	184	50	30	96	0	1	668
Semi-Skilled (Target)	1 369	230	68	209	1 485	322	145	353	14	21	4 216
Semi-Skilled (Actual)	981	177	59	170	1 372	263	119	270	8	16	3 435
Unskilled (Target)	10	1	0	0	9	2	0	0	0	0	22
Unskilled (Actual)	2	0	0	0	4	0	0	0	0	0	6
Total (Target)	1 621	341	180	1 008	1 857	405	215	615	19	24	6 285
Total (Actuals)	1 296	265	163	889	1 665	337	184	497	13	19	5 328

Top Management			
DOT Target	SAA Target	SAA Status	Comment
43%	75%	87,5% (4 Female, 3 Male)	Both DOT and SAA Targets have been exceeded.
Senior Management			
DOT Target	SAA Target	SAA Status	Comment
43%	69,4%	58,4% (23 Male,15 Female)	The DOT's target has been exceeded and SAA's target has not been met.
Pilots			
DOT Target	SAA Target	SAA Status	Comment
8%	21%	19,1% (133 Males and 11 Females)	Industry target as set by DOT exceeded, however, SAA failed to meet its target

Information Technology Services

2015/2016 Highlights

- SAA Information Technology Services achieved full alignment with SAA's business requirements
- Completed the roll-out of Electronic Flight Bags and Electronic Cabin Bags
- Revenue Accounting system fully functional

Information Technology Services (ITS) designs, develops and supports the back and front-end technology used across SAA. This ranges from innovative initiatives that enhance customer experience, to management systems that improve efficiencies and accountability in SAA's business, to the Company's global communication network.

ITS responsibilities include:

- Passenger solutions
- Airport solutions
- IT governance and security
- Security operations
- Enterprise Resource Planning financial systems
- Project Management Office
- IT Strategy and Enterprise Architecture

ITS's support services also extend to SAA's subsidiaries. The ITS department outsources some functions. SITA Aero supports communications and desktop services. Hewlett Packard Enterprise Services is responsible for the infrastructure of the datacentre.

Strategic focus

ITS is a critical business enabler across the Group. The aviation industry is technology driven and is evolving more rapidly than ever. In the year under review the ITS team completed a two-year technical transformation programme, aligned with the LTTS. All initiatives are now completed with cloud-based solutions and new systems replacing legacy infrastructure. This represents a significant investment that will enhance efficiencies and effectiveness throughout the Group.

ITS is now fully aligned with SAA's business requirements. A new three-year commercially sustainable Application and Technology Architecture Roadmap, aligned with the LTTS, has been introduced.

Overview of 2015/2016

Technology and automation are changing the way customers interact with airlines. At SAA digital transformation continued to gain momentum.

Mobility is a key force driving information management solutions and with this comes specific physical and cyber security requirements. SAA is working with its alliance partners to ensure that it employs best practice when enhancing information security.

Key projects

Customer Relationship Management Solution

A Customer Relationship Management Solution was implemented during the year. This has enhanced the management of customer complaints, which is having a positive impact on customer satisfaction. Phase 2 of the project will be introduced in the year ahead. This will develop more granular customer relationships and result in sales efficiencies.

Revenue Accounting System

A Revenue Accounting system has been implemented that will provide additional functionality on passenger booking revenue fitting the complexity of SAA's business.

E-Commerce

The flySAA Internet Booking Engine was implemented. This facilitates the introduction of the new ancillary services, such as reserving seats and bidding for upgrades. The flysaa.com mobi website was enhanced to make it compatible with smartphones and mobile devices.

Digital transformation

A number of digital solutions were introduced to complement SAA's products and services and to provide customers with the mobility they have come to expect. A mobile application for SAA flights was launched that can be used for bookings and allows the customer to download their boarding pass on to their mobile device. Another new service is the SMS notification system used to communicate flight delays and for post departure customer surveys.

A content management capability for the SAA website was implemented. This will enhance the information gathered from the website allowing for meaningful analysis.

Through a partnership with Samsung Electronics South Africa, SAA now offers Samsung tablets as an in-flight multimedia system in Business Class on some regional flights.

Management Information Systems Dashboard Development

The management information dashboards were implemented in various parts of the business. Dashboards monitoring performance reporting per KPI are now in place. Customer service dashboard reporting has been introduced to monitor customer satisfaction.

A Route Profitability Forecast Report has been developed to include the CEO requirements for budget information, actual historical revenue and provide collaboration functionality on the report.

In addition, IT implemented company scorecard reporting. This measures KPIs in-line with the Shareholders Compact in a dashboard form, for enhanced reporting.

Contract Life Cycle Management

A Contract Life Cycle Management system was implemented. The automated system will mitigate and reduce risks related to contract management and ensure that contracts are in place for all suppliers.

Electronic Flight Bag and Electronic Cabin Bag

The roll-out of the Electronic Flight Bags to the Flight Deck and the Electronic Cabin Bags to the cabin crew was completed during the year.

AMOS

Phase 1 of the SAA Technical Maintenance Repair Operations system has successfully gone live.

SAP Human Capital Management

The HCM Optimisation programme will provide a market-leading cloud HCM solution, using the SAP® ERP HCM and SAP Success Factors functionalities.

Our Key Business Enablers (continued)

Shareholder and Stakeholder Relations

2015/2016 Highlights

- R483 678 Corporate Social Responsibility (CSR) spend
- SAA published second edition of Story Power magazine, in partnership with Nal'ibali Literacy Project
- Accepted as member of the Roundtable on Sustainable Biomaterials

Shareholder and Stakeholder Relations is responsible for stakeholder relations, communication, CSR, Transformation and Environmental Sustainability programmes at SAA.

Stakeholder relations is charged with positioning SAA's brand by managing its reputation and increasing the confidence of the shareholders in SAA's capability to deliver on its strategic intent.

Communications is responsible for internal and external communications across the Group (excluding Mango), as well as the production of corporate publications such as the airline's in-flight magazine Sawibona and annual reports.

Transformation and Environmental Sustainability provides strategic counsel primarily through policy formulation and implementation oversight of group-wide efforts to comply with B-BBEE requirements, including reporting and support of the government's broader socio-economic transformation agenda.

Strategic focus

SAA is committed to developing a stakeholder inclusive approach, aligned with the recommendations of King III of 2009 and with consideration of King IV. SAA is an integral part of South African society and relies on society and the environment in which it operates for growth and sustainability. SAA recognises that reputation influences behaviour, which in turn has an impact on the business' performance. The Stakeholder Relations unit's role is to provide strategic counsel to the business and facilitate implementation of stakeholder engagements. It has been tasked with providing the Board oversight of the Group's relationships, as a foundation to building relationships that lead to mutual confidence and support. This is the first step towards enhancing SAA's responsiveness to stakeholders.

Overview 2015/2016

Shareholder and Stakeholder Relations

Shareholder and Stakeholder Relations' role forms part of the value chain for managing business risk at SAA. Reputational risk remains an area that should enjoy attention as failure to deliver on stakeholders' expectations on the key attributes poses a serious threat to the company's reputation and whether or not stakeholders are willing to behave supportively towards the company. Reputation risk is incorporated into the Group Risk Register to ensure that the risks are managed proactively.

During the year SAA created internal forums to mobilise a culture shift and drive change in the approach to stakeholder engagement. Stakeholder engagement happens across the Group and SAA employees are encouraged to understand their role and build mutually beneficial relationships.

Policy, procedures and implementation frameworks have been developed and a compilation of SAA's stakeholder groups is underway.

One of the challenges facing Shareholder Relations is that while National Treasury is responsible for shareholder oversight, it is the airline's Shareholder, government as a whole, with all the overlapping interests of many of its diverse ministries and departments that remains a central stakeholder. It is meeting and managing these multiple interests that thus comprise a primary focus of SAA's Stakeholder Relations.

Communications

Communication was set as one of the six interventions at the introduction of the 90-Day Action Plan in December 2014, a recovery plan aimed at steering SAA back in full implementation of the Long-Term Turnaround Strategy (LTTS). Over the period in review, communication continued to improve on SAA Group communications, as improving communications was set as one of six interventions at the introduction of its 90-Day Action Plan.

To improve communications SAA has been re-engineering its internal and external communication efforts to more effectively communicate with all direct and indirect stakeholders and South African citizens, in line with the implementation of the LTTS.

Monthly media analysis explores the media reputation of SAA and related issues in global and local TV, print and online news. It looks at image trends regarding the airline to provide an informed perspective on media and communications opportunities. Media analysis shows that SAA's Corporate Communications positioned SAA's core business well in the media. This is in the context of route network changes, scheduling, destinations and route anniversaries. In particular, the airline's campaigns on route launches, Accra to Washington DC, as well as Johannesburg to Abuja, received positive media coverage in South Africa and the markets SAA sought to influence. Other areas of excellence that received positive coverage in the media included CSI initiatives such as SiVulindlela Aviation Awareness Programme, awards and personnel profiling in various professional disciplines.

Internal Communications (IC) continued its strategic focus of keeping SAA employees informed and engaged by making use of a number of communication tools to reach the global SAA work force. The general approach is to simultaneously issue all external communiqués to SAA employees, so that they stay abreast of what is communicated to the outside world. Face-to-face interaction is an important tool in employee communications and interactive feedback sessions were arranged as regularly as possible to inform employees of important developments within the company. Where employees were directly affected such as with the Headcount Rationalisation process, the company implemented a focused communication plan that addressed the affected audiences and canvassed relevant issues in detail. Feedback sessions proved to be mutually beneficial and the Company has gained useful insights from these popular engagement sessions.

Transformation

Transformation includes compliance reporting on all aspects of B-BBEE and localisation as well as Environmental Sustainability and Corporate Social Investment. These areas, which share the common purpose of ensuring a positive impact of SAA's operations on the socio-economic and natural environment, all fall within the ambit of Shareholder and Stakeholder Relations.

In line with the strategic counsel function of the Shareholder and Stakeholder unit, the Group Transformation unit is positioned to provide policy direction and tools to aid execution and corporate reporting across the broader spectrum of transformation requirements. The responsibility for implementation of the specific elements comprising B-BBEE, vests with the airline's operational divisions, for example, Preferential Procurement at Global Supply Chain Management (GSM) [please see page 60], Employment Equity and Skills Development at Human Resources [please see page 52].

The establishment of a dedicated Group Transformation function in the previous financial year heralded the beginning of a new era for SAA. In 2015/2016 important milestones were reached that focused primarily on laying the strategic foundation and policy framework for the airline's transformation efforts. These milestones include:

- Development and Board approval of a Group Transformation Policy in tandem with an amended Supply Chain Management Policy
- In line with the LTTS, incorporated Environmental Sustainability (Green Procurement) into the Board approved Supply Chain Management Policy
- Board approval and roll out of the Group CSR Policy
- Supported by GSM, incorporated Procurement Transformation into key GSM business processes through the development and introduction of transformation as a standard element of all domestic open tender evaluation criteria
- Improved reporting to the Social Ethics Governance and Nominations Committee (SEGNCO) on all the elements of the B-BBEE scorecard
- Shaping the industry transformational landscape by contributing substantially to the revision of the Aviation Sub-sector B-BBEE Codes, which have now been gazetted in terms of section 9(5) of the B-BBEE Act (2003) by the Minister of Trade and Industry as Notice No 2 of 2016 Gazette no 39744
- Attaining a 95 percent proportion of Total Domestic Procurement Spend from B-BBEE compliant suppliers as at 31 March 2016, relative to 92 percent in the previous financial year.

With the policy and business process foundation in place, SAA is better positioned to integrate transformation into the airline's business infrastructure. The Group is driven by a transformation philosophy that establishes SAA as an organ of state, considerate of the broader public sector procurement regulatory framework, and a leading South African entity that proactively seeks more innovative and creative ways of pursuing higher levels of sustainable transformation, particularly for the long-term benefit of Designated B-BBEE beneficiaries and our natural environment.

Corporate Events

The management and execution of events – predominantly focused on new routes launched or milestones reached – and events that support key strategic stakeholder engagements. This function is handled by a team of three people within Shareholder and Stakeholder Relations, who also form part of a four member Corporate Social Responsibility (CSR) team.

Events executed during the period under review included:

- Two inaugural route launches, one between Accra and Washington DC, with events both in Accra and Washington and the second Johannesburg to Abuja.
- Four media conferences were hosted, three in Johannesburg and one in Abuja
- Arranged three Group Supplier Engagement Summits, in Midrand, Johannesburg, Mafikeng and Port Elizabeth
- AFRAA Stakeholder Convention in Johannesburg
- Association of South African Travel Agents (ASATA) Sales Conference in Durban
- Send-off event for the Trek4Mandela Expedition at OR Tambo International Airport
- Hosted the biofuel Round Table Conference at SAA Head office, Airways Park

Corporate Social Responsibility

As the national carrier SAA is mindful of its responsibility to be a beneficial and caring corporate citizen and support and uplift communities. Despite limited resources SAA has built strong partnerships and found creative ways of delivering against its mandate. SAA through its CSR activities supports skills development and employment opportunities to spur economic growth. All projects are aligned with SAA's CSR policy to focus on four main areas:

- Strengthening education especially around maths, science and technology
- Response to natural disasters
- Medical emergencies that require air transport
- Caring for our environment

Key projects

Nal'ibali Literacy Project: Research shows that only five percent of parents read to their children (PRAESA). In December 2015 SAA once again partnered with the Nal'ibali national reading-for-enjoyment campaign, to encourage families flying during the holidays to enjoy reading together. SAA produced a second edition of its Story Power magazine as well as onboard entertainment videos that encourage reading. To celebrate the new edition, 20 young people from the Soweto-based Nal'ibali reading club, Mighty Stars, were invited to place the first copies of the magazine in the seat pockets of an SAA aircraft at a launch event held at SAA Technical in Johannesburg. The project received support from Flight Operations with two senior pilots in attendance. Poet, Ms Natalia Molebatsi, was invited to read and bring alive an extract from the Story Power magazine at the launch of the Nal'ibali initiative on 9 December 2015. A mobile library with 300 books covering a range of topics was donated to the reading club.

Kidney Beanz Trust is an NGO that supports children with life-threatening kidney disease, based at Morningside Medi-Clinic and Charlotte Maxeke Academic Hospital in Johannesburg. SAA contributed 20 domestic compassionate tickets to the Trust to transport children on dialysis.

Our Key Business Enablers (continued)

SAA Voyager Contribution to CSR

Voyager donates miles to the following organisations:

- Wings and Wishes, to assist with the transportation of sick people to clinics or treatment centres
- Reach for a Dream, to enable children with life threatening illnesses to travel to their dreams
- World Wild Fund, SAA Voyager members donated more than 8,2 million Miles over the past financial year towards the conservation work done by WWF, saving more than R525 000 in travel costs

The following information is the total miles (millions) for each of our beneficiaries donated by Voyager members:

Donation account name	Miles donated for 2015/16 (millions)
Reach for a Dream Foundation	10 075
Wings and Wishes	461 555
World Wildlife Fund	822 761
Grand total	1 294 391

SAA Cargo Contribution to CSI

During 2015/2016 financial year SAA Cargo (airfreight) made the following contribution:

Company name	Beneficiary name	% Black beneficiaries	Shipment type	Route	Kg	Date resolved	Amount donated
Sakhikamva Foundation	Youth interested in aerospace industry	100%	Donated items (clothing and school material)	PLZ-CPT	112	21 May 2015	**R225**
Food4Africa UK	KZN South Coast Creches	100%	Books	LHR-JNB	500	30 July 2015	**R25 368**
Hewlett Packard Enterprise	Missionary kids in CPT	100%	Donated school items	LHR-CPT	250	5 November 2015	**R10 630**
Ajuma Foundation	Kids in Ajuma Nairobi Kenya	100%	Donated toys	JNB-NBO	6 157	7 December 2015	**R258 594**
Ithemba Lethu	Orphaned babies – Durban	100%	Breast milk	CPT-DUR	89	22 January 2016	**R3 470**
							R298 287

Aviation Awareness

SAA CSR supported by SAA Technical, SAA Training and Development, SAA Cargo and Mango participated in several career days and air shows in the country, reaching over 60 000 scholars. In the previous financial year, September 2014, we launched our flagship project called, 'SiVulindlela'. The programme is targeted at grade 8 to 11 learners, and aims to expose learners (using a mobile container that simulates an aircraft) to the aviation industry and the career opportunities that exist. For many, this sector is far removed from their realities due to socio-economic circumstances. During the year under review, the team, mainly SAA employees who volunteer their time, participated at the following Aviation Awareness platforms:

- 2015 International Civil Aviation Day (ICAD), hosted by the Department of Transport, and approximately 1 500 scholars attended the air show and career awareness presentations from different high schools in the Mafikeng District.
- Dundee Air Show: SAA and SAA Technical provided three Harvard's (aircraft) and the SiVulindela Truck with corporate mementoes for the 750 learners who attended.
- Transport Education and Training Authority (TETA) Career Day: SAA participated at the event in Mafikeng and provided information on careers in aviation to more than 2 000 learners in attendance.
- Swartkop Air Show: Mango Airlines participated in the career day attended by approximately 5 000 learners
- The fourth Ingquza Hill Career Expo: SAA Technical exhibited at this career expo between 14 and 18 July 2015.
- Cell C's "Take a Girl Child to Work Day": SAA hosted 25 learners at SAA Technical. The Girls were from Bokamoso High School in Hammanskraal.
- Gauteng Career Indaba: SAA's participation was led by our Human Resources Department. The indaba attracted over 7 800 learners over two days from 18 to 19 May 2015.
- Youth Transport Career Expo: SAA participated at the Department of Transport's Joint Aviation Awareness Programme (JAAP), in Queenstown on 22 June 2015.

Old Cabin Crew Suitcase Project

Old cabin crew suitcases are usually returned to the SAA stores in exchange for new one. These suitcases are in a fairly good condition and are donated to charitable organisations. Two hundred and ninety bags were donated to children's homes/ orphanages and to the aged.

Old SAA Furniture

SAA donated old airport lounge furniture worth approximately R100 000 to the Gauteng Department of Education, who in turn donated it to schools in need.

Staff Volunteerism

SAA's employees are encouraged to volunteer in projects that support SAA's CSR vision. SAA Employees at all levels donate their time, food, clothing and provide school uniforms to organisations/initiatives that we supported.

Environmental Sustainability

As a State-owned Company tasked to deliver on the National Developmental Mandate of Government for the benefit of the citizens of South Africa, SAA has undertaken to operate in a manner that has the least amount of impact on the natural environment possible. SAA has a robust 10-year strategy to significantly reduce the impact of operations on the planet and to become a leading South African corporate in the war on climate change.

SAA has several key programmes designed to ensure that environmental sustainability is integrated throughout the airline and is a top priority.

IATA Environmental Assessment Programme (IEnvA)

This stringent environmental assessment programme allows airlines to simplify regulatory compliance, demonstrate good governance and ensure the highest level of environmental sustainability. SAA has been part of this process from its genesis and currently chairs the IEnvA Oversight Working Group.

The IEnvA programme assesses environmental performance against sustainability standards across a broad range of disciplines, including, but not limited to, the management of air quality and emissions, noise, fuel consumption and operational efficiency, recycling, energy efficiency, sustainable procurement, and biofuel utilisation.

Because of the complexity and global presence of airlines, as well as the number of role-players and touch points, IEnvA implementation follows a phased approach:

Stage 1

Stage 1 ensures an airline has developed the foundation and framework for its environmental management system. Stage 1 also certifies an airline has identified and complied with its environmental legal requirements.

Stage 2

Stage 2, the highest level of IEnvA assessment, ensures that an airline has implemented all of the IEnvA programme standards, identified and mitigated its significant environmental impacts and has set performance targets. Stage 2 also certifies that an airline has developed processes for monitoring and reviewing its performance against its targets and objectives, thus driving environmental efficiency.

In January 2015 SAA became one of only two global carriers to achieve Stage 2 status on the programme and SAA has retained the Stage 2 status and worked to further improve environmental impacts within the programme. The IEnvA standards set down will serve as a guideline for 240 other airlines around the world.

Our Key Business Enablers (continued)

Project Solaris – A focus on the future

The airline, together with partners Boeing, SunChem and SkyNRG, launched a biofuels project named Project Solaris after the tobacco plant used. Developed at Marble Hall in Limpopo, the project saw the harvesting of its first crop, comprising 50 hectares of the nicotine-free Solaris tobacco plant, in December 2014.

With its seed oils processed into jet fuel, the biofuel offers a possible lifecycle reduction of up to 50 percent in carbon emissions. Beyond this advantage, an optimised supply chain could reduce overall emission by up to 75 percent. The new technology also has a broader social benefit by supporting skills transfer, job creation and the expansion of opportunities for South Africans in the agro-innovation sector, thereby playing a role in fulfilling the airline's developmental mandate.

SAA joined the Roundtable on Sustainable Biomaterials (RSB) as a full member in 2015 and has also been elected to sit on Chamber 3 of the RSB that assists in refining and developing sustainability standards for the industry. RSB approval is considered the 'gold standard' in sustainability in biomaterials.

SAA works very closely with the WWF-SA on a range of environmental sustainability projects and WWF-SA has been commissioned by the Boeing Company to undertake a comprehensive biofuel study centred on Project Solaris to understand any unintended consequences of the program- both positive and negative.

More than 1 600 passenger flights all over the world have taken place using biofuel since its approval in 2011, and SAA has plans to use fuel from the first few Project Solaris crops that are certified by the Roundtable to power a domestic flight. Aside from the benefits to SAA in reduced emissions, the social and economic benefits to South Africa are simply astounding.

Energy, reduction, recycling, collaboration

SAA has implemented a Group wide effort to reduce energy consumption by utilising energy efficient technologies within all buildings and commercial properties while investigating methods of generating clean energy for the group to further reduce the impact on the environment. This, coupled with recycling programmes and other initiatives already underway is expected to have positive environmental and financial outcomes for SAA in the near future.

A number of strategic relationships have been formalised with key environmental stakeholders in South Africa and these will be formally launched in 2016. These relationships help SAA to monitor and implement continuous improvements to the environmental sustainability programme ensuring that all bases have been comprehensively covered.

Legal, Risk and Compliance

2015/2016 Highlights

- Implemented combined assurance reporting
- Approval of the reviewed Group Risk Management Policy and Framework
- Approval of Risk Appetite and Tolerance Framework Policy by the Board
- Approval of Legal Utilisation and Litigation Management Policy and Framework
- Implementation of a compliance tool to improve compliance assessment and reporting
- Institutionalisation of processes and systems contributing to improved and integrated governance

The aviation industry is a multifaceted and highly regulated environment. The risk universe is complex and diverse with risk exposure managed across a number of different parts of the business. Effective and prudent management of risk is the cornerstone of the Group's sustainability.

Legal, Risk and Compliance department oversees the overall strategic and operational risk of the business. Monthly reports are submitted to EXCO. Quarterly reports and monitoring are submitted to the Audit and Risk Committee and the boards of SAAT and AirChefs.

Within the department there are teams working on risk, compliance and legal matters in support of the entire Group. Compliance focuses on regulatory risks and Legal manages legal risk by overseeing contractual terms and conditions, analysing and monitoring litigation against SAA and promoting general legal support and advice to the Group.

Strategic focus

SAA is striving to create an enabling business environment with a foundation of sound risk governance that drives decision-making processes. In the 2015/2016 financial year, Legal, Risk and Compliance made steady progress in embedding a culture of awareness of risk and compliance.

A disciplined and deliberate focus on risk is fostering a natural progression and evolution towards maturity of risk management, which is aligned to SAA's strategic objectives.

Progress in implementing the LTTS risk strategy is reflected in the establishment of programmes such as monthly risk assessments, training and awareness to improve the quality of risk management, and the implementation of integrated risk management and governance.

Overview of 2015/2016

Risk

The Board is ultimately accountable and responsible for risk management. SAA has adopted an enterprise-wide approach to risk management, guided by the Group Risk Policy and Framework. The policy is aligned to ISO 31000.

During the year there was an increased integration of the risk management function within SAA from various stakeholders to contribute towards improving the effectiveness of enterprise risk management across the Group. A number of initiatives were implemented in collaboration with the National Treasury's Chief Directorate of Risk Management and these are monitored monthly.

A concerted effort was made to drive enterprise risk awareness from Board and Audit and Risk Committee level to EXCO and filtering through the Group. The aim is to ensure an increased focus with regular interrogation of risk management and continued introduction and/or improvement of controls where necessary.

The Group Risk Policy and Framework was reviewed during the year in consultation with the Shareholders and approved in March 2016. Changes will be implemented in the 2016/2017 financial year.

The Group Risk function maintains an Annual Risk Plan which is approved by the Board prior to implementation. The Annual Risk Plan encapsulates risk management activities for the financial year. It is included in the Corporate Plan and is used for monitoring. Risk Management liaised with National Treasury in preparing the SAA Risk Appetite and Tolerance Framework, which was approved by the Board. A risk register was compiled which identified required controls that are needed and actions to be taken by the risk owner. Internal Audit reviews and monitors the controls in place for effectiveness.

Risk Management and Internal Audit implemented the Combined Assurance Reporting.

Legal, Risk and Compliance are looking to improve governance by using tools that facilitate the implementation and maintenance of governance and risk management best practices.

The procurement of the Governance, Risk and Compliance Tool was finalised and will be implemented in the 2016/2017 financial year.

Compliance

During the year under review, compliance procedures and controls emanating from the Compliance Risk Framework approved in the previous year, were institutionalised. The framework addresses the material regulatory risks associated with non-compliance of regulatory requirements. Implementation of the procedures and control has been a steady process of embedding compliance and risk management into the Group.

The Group Compliance Policy was approved and adopted by the SAA Group. A Risk-based Compliance Plan, formed by the compliance risk profile, i.e., high-risk legislation, has been developed and is being implemented. The regulatory universe was defined in the prior year, following a group-wide engagement process in which all applicable laws were identified. This will now form the compilation of comprehensive policies to ensure compliance, which in turn will underpin monitoring and consequences for non-compliance.

A clear line of sight on international regulations was established, which is starting to deliver positive results. Creating early awareness of compliance requirements enables the Group to address them more proactively.

SAA continues to create awareness of Public Finance Management Act (PMFA) non-compliance, domestically and internationally. A decrease in non-compliance internationally was noted. The SAA Board continues to monitor implementation of the PFMA non-compliance plan as well as the PFMA tracker used to record non-compliance.

Legal

The legal department is responsible for managing legal risk, including litigation risk, that SAA is faced with from time to time. This entails constant analysis and monitoring of litigious matters and provisions made for various claims.

Our Key Business Enablers (continued)

Procurement

2015/2016 Highlights

- 80 percent of contracts renegotiated, 20 percent in process of renegotiation
- Embedded a robust procurement governance structure
- Contracts Repository system optimised
- Review of contracts management resources completed
- Supply Chain Management Policy revised and approved by governance structures
- Introduction of socio-economic procurement in all procurement processes
- Conducted supplier and enterprise development summits in various provinces

Procurement is responsible for creating, driving and managing the supply chain management (SCM) function in a manner which is fair, equitable, transparent, competitive and cost-effective. The department is responsible for supplier and enterprise relations, which includes ensuring that suppliers share SAA's vision. SAA recognises the strategic importance of SCM to service delivery, value creation, socio-economic transformation and fiscal prudence.

Procurement is also custodian of a key developmental aspect of the group supporting preferential procurement and enterprise development of SMMEs.

Strategic focus

Cost compression is one of the key pillars of the LTTS. In the previous year Procurement was restructured to align with delivery of the LTTS. In the 90-Day Action Plan the airline's position with regard to all long-term contractual engagements, procurement governance and other legal positions were examined with recommendations submitted to the Board for approval and, subsequent action by SAA management. During the year SAA made considerable progress in addressing these weaknesses, identifying contracts that were improperly negotiated, poorly contracted or weakly managed. SAA's target of R260 million cost savings from re-negotiation of contracts for the year, compared to R97 million, was saved.

Procurement's KPI outcomes require implementation of effective and transparent procurement procedures and increased spend on B-BBEE compliant companies, particularly the rural and township enterprises owned by black women, youth, the disabled and military veterans.

Procurement governance structure

SAA's procurement framework is governed, in addition to other public procurement regulatory instruments established by National Treasury from time-to-time, by the Public Finance Management Act (PFMA). Yearly procurement plans and quarterly procurement reports are approved and published.

In the previous year a three-tier tender committee system, Bid Specification Committee (BSC), Bid Evaluation Committee (BEC) in addition to the Bid Adjudication Committee (BAC) was established to strengthen SAA's procurement governance. Specialised *ad hoc* committees such as the Fleet Committee, are established to provide specialised support to the procurement governance structures. The contracts management team has now been incorporated into the Global Supply Management Division, in order to ensure effective control and good contracts management. In line with the PFMA, SAA's Global Supply Management remains resolute in ensuring that SAA has an appropriate procurement and provisioning system that is fair, equitable, transparent, competitive and cost-effective. In 2015/2016 the 2011 SCM policy was revised to include the new procurement governance framework and SAA's approach to socio-economic procurement.

The revised policy was approved by the Board in February 2016.

Overview 2015/2016

Contracts management

The SAP Contracts Lifecycle Management (CLM) system has been optimised and is now used as SAA's automated central contract repository system. A dedicated team of contracts managers and administrators have been appointed to ensure effective contracts management.

Socio-economic procurement

SAA supports the country's national developmental goals, which include the developmental mandate to promote SMMEs from designated groups. The airline's specific focus is businesses that have 50 percent or more ownership from the following groups: black, women, youth, disabled, military veterans, and businesses from rural areas or townships (designated groups).

Socio-economic procurement has been incorporated into the revised and approved SAA SCM Policy. The aim of socio-economic procurement is to contribute to the government developmental goal of unlocking opportunities for rural and township SMMEs owned by black women, youth, disabled persons and military veterans. The introduction and implementation of socio-economic procurement in SAA procurement spend, has broken the market barriers created by firmly entrenched large local and international companies. The submission of a B-BBEE improvement plan has been introduced as a requirement for all contracts awarded to these large companies. SAA's supplier and enterprise development programme, which incorporated road shows targeting SMMEs in all provinces has been central to the promotion of socio-economic procurement.

2015/2016 B-BBEE Procurement Spend Report

B-BBEE spend category	Million rand	% achieved	% shareholder targets
Spend on B-BBEE Compliant Companies	14 219	95,03	92
B-BBEE procurement spend			
Spend on 50% and more Black-owned Companies	252	1,68	8
Spend on 30% and more Black Women-owned Companies	57	0,38	2
Spend on SMMEs (EMEs and OSEs)	340	2,27	5
Total eligible spend	14 863	99,34	78

Source: SAP System

**F2015/2016 Targets are averages of the targets of each of the four quarters as stipulated in the executed version of the Shareholders Compact.*

Developing suppliers

SAA launched an initiative to engage with potential SMME suppliers from designated groups across South Africa. Supplier Summits aimed at identifying and educating potential suppliers and communicating procurement opportunities available at SAA were held in various provinces. The objective is to increase the number of SMMEs enlisted on the airline's database of potential suppliers and improve the demographics of the database. SAA provided insight into the company's procurement processes as well as encouraging best practice. The representatives of the SMMEs had the opportunity to engage directly with the SAA Group Buyers and network. The Summits were conducted in partnership with the Department of Trade and Industry (DTI).

SAA has introduced a 15-day SMME early payment. SMMEs that are required to operate in locality of SAA, are provided rent-free space as it become available. Beyond the development of SMMEs, SAA has signed a Memorandum of Understanding with the DTI under the auspices of DTI's Black Industrialist (BI) Programme.

Looking ahead

Procurement will focus on ensuring compliance with the Public Procurement Regulatory Framework and SAA's procurement processes are aligned with the industry best SCM practice. In addition the department will strive to foster and improve relations with all stakeholders to create relationships that unlock value for SAA and their stakeholders. The airline will continue to promote increased inclusivity and realisation of economic, operational and technical gains from participation in SAA's supply chain by businesses owned by B-BBEE designated groups.

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Corporate Governance

Corporate Governance

Corporate Governance Report

The Group and its Shareholder, in accordance with the Shareholder Compact, are bound to maintain good corporate governance by complying with the principles on Corporate Governance in the Public Sector, the South African Airways Act, the Companies Act, the PFMA and applicable Treasury Regulations. SAA is guided by the King Report on Corporate Governance for South Africa (King III).

Governance structure

For the year ended 31 March 2016

SAA Board

Non-executive Directors
Ms D Myeni, (Chairperson)
Ms Kwinana
Dr Tambi
Mr A Dixon Resigned (30 October 2015)

Executive Directors
Mr M Zwane
(Acting Chief Executive Officer)
(Appointed November 2015)

Ms P Nhantsi
(Interim Chief Financial Officer)
(Appointed November 2015)

Mr W Meyer
(Chief Financial Officer)
Resigned 16 November 2015

Board Committees

Audit and Risk Committee
Ms Kwinana *(Chairperson)*
Ms Myeni
Dr Tambi

Finance, Investment and Procurement Committee
Ms Kwinana
Ms Myeni
Dr Tambi

Social, Ethics, Governance and Nominations Committee
Ms Myeni *(Chairperson)*
Dr Tambi
Ms Kwinana

Remuneration and Human Resources Committee
Dr Tambi *(Chairperson)*
Ms Myeni
Ms Kwinana

Board of Directors

The Board meets regularly and retains full and effective management and control over the Company. Among its other duties, it 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.

Terms of Reference

In order to assist the Board and directors in discharging their duties, specific responsibilities have been allocated to the board committees, each of which is governed by its own terms of reference. The terms of reference deal with, or provide for issues such as the composition of Board committees, duties and responsibilities of the directors 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.

Due to the significant reduction in the number of directors, the Board took a decision in December 2015 that all members of the Board will be members of each committee.

Independence of the Board

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

- Retainer-only remuneration for non-executive Board members, a policy that discourages members from meeting too frequently, a practice which may compromise their independence
- Clear separation of the positions of the CEO and that of the Chairperson
- In accordance with King III, Board Committees are all chaired by non-executive directors
- The Directors of the Board have access to independent external advice at the cost of the Company
- Non-executive Board members are appointed for a maximum fixed-term of three years, which is reviewed annually, and is limited to three terms. The length of this period is not regarded as having an impact on their independence.

Board Committees

Audit and Risk Committee
This is a statutory committee. It meets at least four times a year and is primarily responsible for assisting the Board in carrying out its duties relating to the 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 as outlined in its terms of reference.

The CEO, CFO, representatives of the external auditors, Internal Audit, Risk management team, CFOs of subsidiaries and members of the Finance division attend meetings 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. After every meeting of the committee it always met separately with the external auditors, Internal Audit and management to discuss any matters of concern.

The committee held four meetings during the year under review.

Finance, Investment and Procurement Committee
This committee meets four times a year and has a mandate to oversee procurement, financial planning and investment functions.

This committee is responsible for seeing 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's terms of reference set out its functions, and during the year under review it discharged all its duties in accordance with these terms of reference.

The committee was reinstated in August 2015 with members appointed in December 2015 (following its earlier dissolution in November 2014) but held no meetings during the period under review.

Remuneration and Human Resources Committee
This committee has terms of reference which are reviewed annually, its main duties 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, with the committee holding five meetings during the year under review.

Social, Ethics, Governance and Nominations Committee
The primary responsibility of this committee is to perform the statutory functions of the 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's terms of reference, with all its duties as set out in the terms of reference, were discharged during the year under review.

The committee held three scheduled meetings during the year under review.

Board remuneration

The remuneration of non-executive Board members is determined in accordance with the Remuneration Guidelines issued by the Minister of Public Enterprises. The remuneration is made up solely 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 38 to the Annual Financial Statements (AFS) on pages 143 to 144.

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.

Internal Audit

SAA has an in-house internal audit function reporting to the Board through the Audit and Risk Committee, which approves its Internal Audit Plan and monitors performance against the three-year rolling plan.

Internal Audit has an approved charter, which was developed in accordance with the International Standards for the Professional Practice of Internal Auditing. The Internal Audit Charter is reviewed annually and was reviewed by the Audit and Risk Committee during the year under review.

Providing Assurance

The primary function of Internal Audit is to provide reasonable assurance on internal controls, governance, efficiencies, effectiveness and performance against strategic objectives. The function follows a systematic and disciplined approach to evaluating and improving the effectiveness of risk management, internal control, and governance processes, and accordingly forms a critical part of the Group's risk management and combined assurance strategies.

In order to provide the Board and management with the necessary assurance and timely early warning alerts on potential failures, Internal Audit maintained a risk-based audit approach through the implementation of the 2015/2016 Annual Internal Audit Plan.

The specific areas of focus for Internal Audit during the year under review included:
- Developing internal information technology audit skills capacity
- Follow-up audits on audit findings that had been open for a long period
- A trend analysis of the cross-cutting root causes, repetitive findings, process/control failures and owners
- Increasing the audit focus on strategic risks
- Implementation of the combined assurance model and plan
- Implementation of the fraud prevention plan
- Improving internal audit process efficiencies
- Creating awareness of the role of Internal Audit

The year under review was the fourth year in which SAA has exercised its own in-house internal audit function. While the annual Internal Audit Plan was developed and approved by the Audit and Risk Committee before the beginning of the financial year, the following are highlights:
- The performance contracts, training programme and coaching and mentorship programme for all staff members were developed and implemented
- Service level agreements (SLAs) with all the stakeholders were developed and implemented
- Over and above conducting numerous *ad hoc* audits requested by executive management and the Board
- Internal Audit conducted approximately 95 percent 2015/2016 planned audits
- The implementation of the fraud prevention and combined assurance plans was achieved

Corporate Governance (continued)

Impact on the organisation

As a result of the contribution of Internal Audit, the organisation has observed that the overall control environment continued to improve during the year under review, in line with the trend observed in the previous reporting period. The organisation's assessment is that the overall control environment of the Group is effective. 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.

Any control deficiencies identified by the internal auditors were brought to the attention of management with management committing itself to corrective action. Where internal controls did not operate effectively throughout the year, compensating controls and corrective action to eliminate or reduce the risks were recommended by Internal Audit and implemented by management. This ensured that the Group's assets were safeguarded and proper accounting records maintained.

In response to its inherent exposure to fraud and corruption, SAA has adopted an aggressive anti-corruption position. Internal Audit is one of the divisions that is playing a critical role in the prevention, detection and reporting of corruption and fraud.

Company Secretary

The Company Secretary plays a significant role in:

- Providing governance support and guidance to the Board;
- Conducting the 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, the Companies Act, the PFMA and other relevant legislation

The directors have unrestricted access to the advice and services of the Company Secretary, who ensured that all reports and returns to relevant supervisory institutions were submitted during the year under review.

Compliance

King Code of Governance Principles for South Africa

The company acknowledges that each principle recommended in King III is of equal importance. In line with this acknowledgement, SAA's Governance Unit 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 in which all principles were analysed and checked to ascertain, given SAA's operating environment, they could be applied within the company.

The principles, which are to be applied, are systemically integrated into the company's operations, while explanations are recorded for those, which are less frequently applied. These are available in the governance register, which can be viewed on the company's website. SAA is in the process of acquiring a governance assessment tool, which will enable it to assess compliance with both the King III principles and the PFMA and to take corrective measures where necessary.

Compliance with other legislation

SAA is also required to comply with the Companies Act, Act No 71 of 2008 (as amended) (The Act).

Compliance Management Programme

In accordance with the governance and applicable regulatory prescripts, such as King III, SAA has developed a robust Compliance Framework and Programme aimed at ensuring that the organisation effectively manages and mitigates its compliance risks.

A dedicated Group Compliance function has been mandated to develop, implement and monitor the Compliance Programme within the Group by working closely with business units including subsidiaries and international outstations. Key features of the programme include compliance risk assessments, training on new regulatory requirements, compliance monitoring and audits, managing relationship with the regulators and reporting.

Also crucial to the improvement of the governance and the control environment within SAA is the compliance with internal policies and procedures. A policy governance framework is in place and a policy universe is maintained on the shared folder, which is regularly monitored by the Compliance function. The policies are also reviewed on a regular basis to ensure harmony with the legislative and regulatory prescripts.

A compliance software solution is being procured to further embed the compliance culture and improve the compliance maturity level.

Public Finance Management Act No 1 of 1999, as amended (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.

The 2015/2016 financial year has seen a significant reduction on the PFMA non-compliance compared to 2014/15. This is mainly attributable to increase in PFMA trainings and increase in control measures by management such as disciplinary procedures to reduce PFMA contraventions.

The table below indicates the PFMA non-compliance for 2015/2016 in comparison to 2014/15 financial year:

Category of PFMA non-compliance	2015/16	2014/15
Irregular spend without loss	R5,4m	R68,5m
Fruitless and wasteful expenditure	R7,3m	R52,7m
Loss due to criminal conduct	R0,1m	–
Recoveries	(R8,3m)	(R7,4m)

In terms of the loss due to criminal conduct, the employees involved in these thefts have been disciplined and dismissed from SAA. The monies stolen have been recovered from their pensions and recorded in the recoveries category.

The organisation will continuously review and update interactions that will assist the organisation to further reduce the PFMA non-compliance.

Some of the interactions that are currently being monitored are:
- Review of the contract management department. The optimal structure will assist the organisation in ensuring contract management process is effective and efficient to discharge the cost effective, transparent and fair objectives of procurement process.
- Review the control measures such as disciplinary process, to ensure consistent enforcement within the organisation.

Social, Ethics, Governance and Nominations Committee Report

The Social, Ethics, Governance and Nominations Committee is comprised of three non-executive directors. The Committee reports to the Board on a quarterly basis highlighting areas of concern within its mandate as they arise.

The Committee considers mandatory reports from management providing detailed accounts of the Company's activities in respect of matters relating to:
- Social and economic development including the Company's standing in terms of the goals and purposes of the 10 principles set out in the United Nations Global Compact Principles and the OECD recommendations regarding corruption;
- Black economic empowerment imperatives;
- Good corporate citizenship;
- Environment, health and public safety;
- Consumer relationships, and compliance with consumer protection laws; and
- Labour and employment matters including the Company's standing in terms of the International Labour Organisation Protocol on decent work and working conditions.

The Social, Ethics, Governance and Nominations Committee is satisfied that it fulfilled its mandate in accordance with the requirements of the Companies Act during the financial year under review and continues to exercise due oversight on the airline to ensure that it remains a socially, economically and environmentally responsible and caring corporate citizen.

Report of the Audit and Risk Committee

The Audit and Risk Committee (the Committee) is pleased to present its report in respect of the financial year ended 31 March 2016 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 No 1 of 1999, as amended by Act No 29 of 1999 (PFMA).

The Committee is independent and was appointed by the shareholder at the annual general meeting (AGM) held on 30 January 2015 in line with the legislative requirements.

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 three 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 90. Biographical details of members are provided on pages 16 to 17.

Role and responsibilities

The Committee's roles and responsibilities include its statutory duties as per the relevant provisions of the PFMA, Companies Act, 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 2016 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 74 of this integrated 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. and jointly appointed 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 2015/2016 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 2015/2016 financial year.

The Committee will consider the re-appointment of the current external auditors at the AGM in line with the legislative requirements. If the current external auditors are 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 the 2015/2016 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, of R165m, 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 2015/2016 audits of SAA's Information Technology (IT) environment has highlighted significant improvements compared to the previous reporting period. There is, however, room for improvement. The Committee is satisfied that the Internal Audit Plan provides for sufficient IT audit coverage in the next three years.

The internal audits of SAA international outstations 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 internal 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 her 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 Chairperson. The Internal Audit function has the responsibility of reviewing and providing assurance on the adequacy of internal controls across the Group's operations. It therefore plays an integral role in the governance of risk.

The 2015/2016 financial year was the fourth 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 appointed an independent service provider to conduct the external assessment of the Internal Audit function. The external assessment report will be used to identify and address areas of improvement. The Committee will continue working closely with the Chief Audit Executive to ensure that the momentum is not lost.

The 2015/2016 Internal Audit plan and budget were approved by the Committee before the start of the financial year. Approximately 95 percent of planned audits were executed successfully. The very few internal audits not conducted were rolled over to the 2016/2017 financial year. Over and above the 95 percent 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 58 to 59. An assessment of the effectiveness of the Group's internal controls system was conducted by Internal Audit during the 2015/2016 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.

Report of the Audit and Risk Committee
(continued)

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 the fraud prevention plan and instances of alleged misconducts reported through the 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 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 2016/2017 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, ie, areas where performance was not achieved
- 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
- Control environment at certain outstations
- Contracts management framework and practices

Meeting with Internal and External Audit

During the year under review, the committee met with both internal and external auditors without management being present on 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 2015/2016 Group and Company annual financial statements, with the consideration of the factors highlighted on page 82 of the Directors' Report. The Committee has therefore recommended the adoption of the Group and Company annual financial statements by the Board of Directors on 22 August 2016.

On behalf of the Audit and Risk Committee

Y Kwinana
Chairperson

South African Airways SOC Limited Audit and Risk Committee

22 August 2016

Definitions

ASK	Available Seat Kilometre
CAA	Civil Aviation Association
CASK	Cost per Available Seat Kilometre
CFO	Chief Financial Officer
CPO	Chief Procurement Officer
CIP	Commercial Important Passenger
CSO	Chief Strategy Officer
CRM	Customer Relationship Management
CVP	Customer Value Proposition
dti	Department of Trade and Industry
FFP	Frequent Flyer Programme
Fifth Freedom	The right of an airline to carry revenue traffic between foreign countries as part of securities connecting the airline's own country
FTK	Freight Tonne Kilometres
GM	General Manager
GSM	Global Supply Management
IATA	International Air Transport Association
IFE	In-flight Entertainment
HR	Human Resources
IT	Information Technology
JV	Joint Venture
King III of 2009	King Code on Corporate Governance
KPI	Key Performance Indicator
LCC	Low-Cost Carrier
LTTS	Long-Term Turnaround Strategy
MFMA	Municipal Finance Management Act
MRO	Maintenance, Repair and Overhaul
NDA	National Developmental Agenda
NIPP	National Industrial Participation Programme
ORTIA	OR Tambo International Airport
PDP	Pre-delivery Payment
PFMA	Public Finance Management Act, Act No 1 of 1999 (PFMA)
POPI	Protection of Personal Information
RASK	Revenue per Available Seat Kilometre
RFI	Request for Information
ROI	Return on Investment
RPK	Revenue Passenger Kilometre
SAX	SA Express
SLA	Service Level Agreement
SMME	Small, Medium and Micro-sized Enterprise
UA	United Airlines
VSP	Voluntary Severance Package
WACC	Weighted Average Cost of Capital
YD	Yamoussoukro Decision, commits 44 signatory countries in Africa to deregulating air services, and promoting the opening of regional air markets to transnational competition

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Group and Company annual financial statements

for the year ended 31 March 2016

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.

Ruth Kibuuka
Company Secretary

18 September 2016

Name:	Ms Ruth Kibuuka	**Postal address:**	Private Bag x 13
Business address:	Airways Park, Jones Road		OR Tambo International Airport
	OR Tambo International Airport		Kempton Park, 1627
	Kempton Park, 1619		

Directors' 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 2016.

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 of 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 2016.

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 and shareholder oversight is effected via 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, 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.

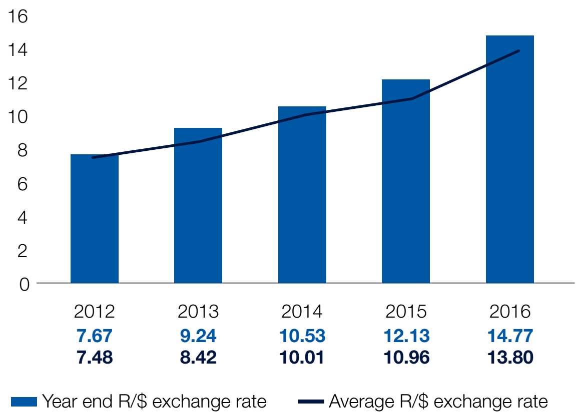
OVERVIEW OF OPERATING AND FINANCIAL RESULTS

Global economic conditions provided a challenging backdrop to SAA's operations. The decline in commodity prices, linked with a slowdown in the Chinese and Brazilian economies in particular has impacted on SAA's revenue. During the financial year competition continued to be aggressive, putting pressure on airfares and making it difficult to recover costs negatively impacted by the devaluation in the rand. Globally, air travel is becoming more and more commoditised, and Africa is no exception to this trend. In addition, travel to Africa from the East and the Americas took time to recover from the effects of the Ebola epidemic during the latter half of the 2014/15 financial year, only showing an improvement in the second half of 2015/16. The unintended consequences of a number of changes to travel requirements and visa regimes also proved challenging and negatively impacted air travel to and from South Africa.

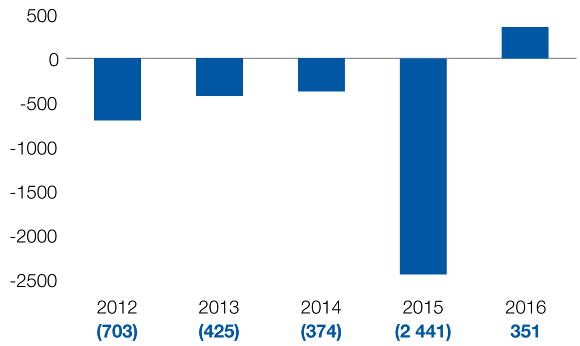
The rand continued to weaken against all major currencies during the year. The decline in the rand against the dollar was 23 percent for the year, while the cumulative effect over the past five years has been a decline of 85 percent. This continues to have a significant impact on SAA, where approximately 57 percent of the Group's costs are foreign currency denominated whereas 51 percent of revenues are earned in stronger currencies. While fuel prices continued to decline during the year, the weakening rand negatively impacted on the operating expenses and diminished the ultimate benefit to the airline. The negative net impact of the weaker currency on the operating result was approximately R1,2 billion (2015: R0,8 billion).

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

R/$ exchange rate



Historical operating result (R million)



Despite the challenging and competitive operating environment, coupled with the ever weakening rand, for the first time in the past five years, the Group made a profit of R351 million at the operating profit before interest, tax, depreciation and amortisation level which is a significant improvement on the equivalent loss of R2,4 billion reported in the previous financial year. The primary source of this improvement in profitability, relates to the decline in the fuel price and positive translation profits as the Group continued to experience pressures on revenue during the current financial year.

Finance costs increased by 76 percent from R490 million in 2015 to R861 million in the current year. The increase is directly attributable to the increased reliance on shareholder guaranteed loan funding in the absence of additional 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 or there is a change to its capital structure. The Corporate Plan indicates that the airline will achieve a profit after tax in the 2020/21 financial year.

After depreciation and amortisation, finance costs, tax and items reflected in other comprehensive income the total comprehensive loss for the year is R1,5 billion compared to the prior year loss of R5,6 billion and of the prior year loss R1,9 billion relates to impairments required during that year.

OPERATING PERFORMANCE

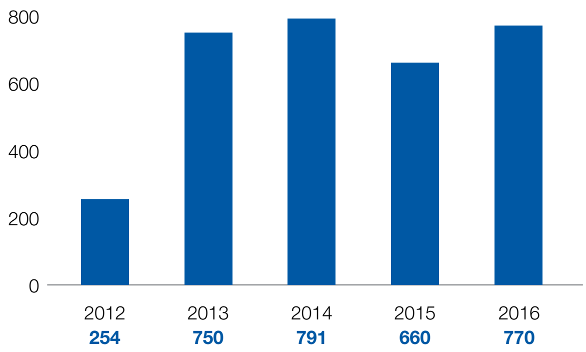
As mentioned above, the Group's operational result continues to suffer significantly as a result of the weakening rand. As a partial offset, the Group's cost compression efforts produced additional savings of R1,1 billion during the financial year. Over the past four years this project has yielded sustainable cost savings in excess of R3,3 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:

(R million)

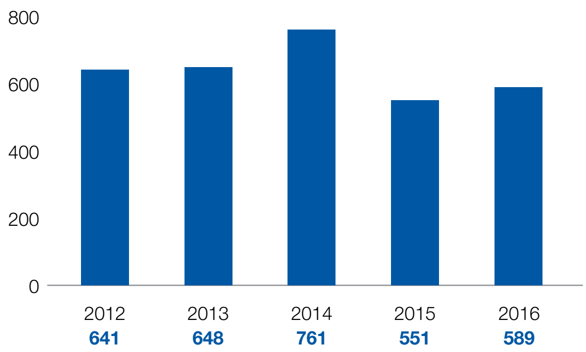


During the year, as part of the focus of the 90-Day Action Plan, SAA revised its domestic schedules to maximise connectivity. The contribution from domestic operations increased by 17 percent for the 2015/16 financial year from R660 million to R770 million, helped by lower fuel prices during the year. While competition on SAA's domestic operations continued to be intense with the market entry of new low cost carriers on the Cape Town – Johannesburg route being of particular significance, SAA was pleased to note improved domestic load factors year-on-year.

2. REGIONAL CONTRIBUTION

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

(R million)



Sub-Saharan Africa has experienced an economic downturn in many countries, directly related to falling gas and oil prices which has suppressed the demand for travel in the region.

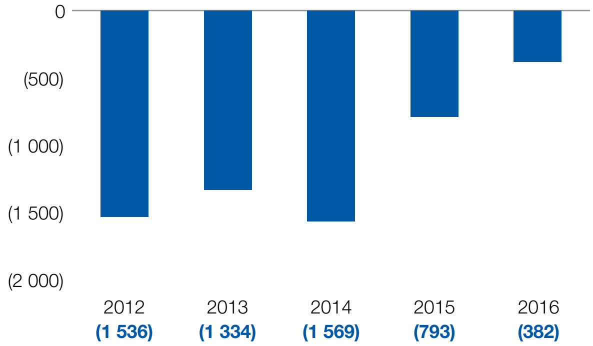
While SAA has renewed its focus on expanding SAA's footprint into Africa, as outlined in the Long-Term Turnaround Strategy (LTTS), there has been an increase in the number of low cost carriers entering that market and added competition from world major carriers.

Although the increase in contribution from the Regional market is a modest seven percent, from R551 million to R589 million, it reflects an improvement over the reduction in contribution recorded in the previous year and African flights remain profitable.

3. INTERNATIONAL CONTRIBUTION

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

(R million)



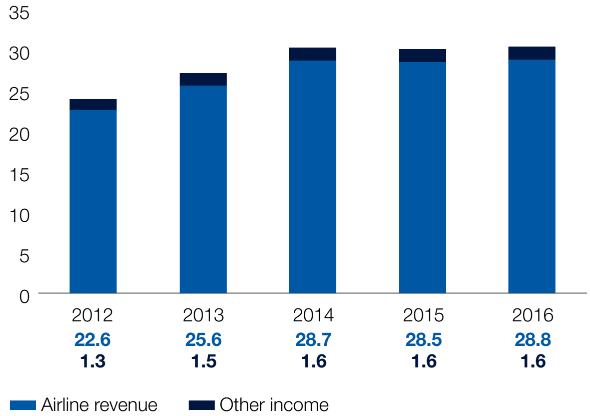
Due to the nature of long-haul flights, these routes were the ones to benefit most from the lower fuel prices and the loss from international routes improved by 52 percent from R793 million to R382 million. The first half of the year proved to be challenging as passenger numbers and load factors were well below those of the prior year. This in part was due to the lingering impact of Ebola and the changes to visa requirements. The second half of the year, however, saw vastly improved passenger numbers, load factors and average fares. While the result benefited from the cessation of the loss-making Beijing and Mumbai routes at the end of the previous financial year, the route to Abu Dhabi that was launched at the beginning of the financial year did not provide the expected results and SAA ceased this operation in February 2016.

REVENUE

Total revenue remained flat, in line with that of the previous two financial years. A major contributor to this was the impact lower fuel prices had on airfares. As the fuel prices dropped, airlines worldwide adjusted their airfares accordingly in order to remain competitive. In spite of this, passenger revenue, the largest single component of revenue, was similar to that of the prior year, primarily as a result of increases in fares due to the weakening currency. SAA also recorded a pleasing growth in ancilliary revenue, another focus point of the 90-Day Action Plan.

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

Total income (R billion)



OPERATING COSTS

Operating costs over the past financial year continued to be well controlled. However, as in previous years, the weakening rand/dollar exchange rate has had a severe impact on the Group's operating costs. Although total operating expenses decreased by eight percent year-on-year on the back of lower fuel costs, if fuel and the provision for litigation processed in the previous year is excluded, the increase is eight percent over the previous year. This variance is commendable considering the rand/dollar exchange rate weakened by 23 percent during the year. In real terms, should these operating costs be adjusted to eliminate the negative currency movements, the airline actually reduced its operating costs from the previous year by 12 percent, two percent if fuel is excluded from the calculation. This is testimony to the impact of the ongoing culture of cost compression within the Group.

COST COMPRESSION PROGRAMME

Further progress has been made this financial year in compressing SAA's sustainable operating costs by a further R1,1 billion. Significant savings were realised in aircraft lease extension costs as well as from other 90-Day Action Plan saving initiatives, including labour restructuring.

This brings cumulative sustainable savings since inception of the Cost Compression Programme in 2012 to R3,3 billion.

Over this period, non-fuel CASK in USc terms has reduced from 7,00 USc to an average of 5,49 USc.

Zarc (South African cent) CASKs, on the other hand, continue to be negatively impacted by the adverse movement in exchange rates, with the R/$ declining by 23 percent year-on-year. Zarc non-fuel CASK increased from a 2012 average of 52,4 zarc to 74,1 zarc, albeit below weighted average of inflation and foreign exchange movements.

If one were to convert foreign based costs for the year at previous year's exchange rates, non-fuel operating costs would have declined marginally by 0,4 percent year-on-year with aircraft lease costs declining by as much as 8,6 percent.

Available Seat Kilometres (ASKs) declined over the year following the cancellation of loss making routes like Beijing and Mumbai, although capacity reallocation did take place over short haul routes and through the introduction of Abu Dhabi as a new destination.

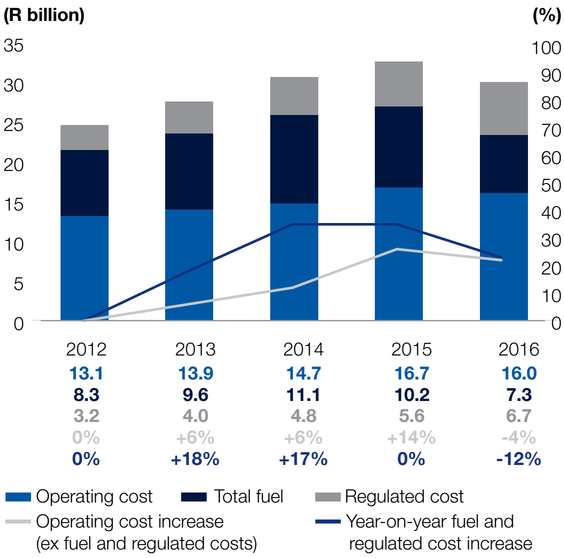
Cost Compression remains an important focus area in SAA's Corporate Plan for the next three years and a number of individual projects have been initiated to tackle areas where expense levels are still excessive according to benchmarking analyses conducted. A further cost reduction target of R1 billion has been set for the next few years.

There is also a planned intervention, in conjunction with HR, to move the emphasis from a Cost Compression Programme into the inculcation of a Cost Compression Culture within the organisation as part of a rebranding exercise.

OPERATING COSTS ANALYSIS

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

Although regulated costs continue to increase significantly year-on-year and fuel fluctuates depending on the oil price, the decrease in operating costs, which are costs over which management has influence to control, have decreased by four percent on an annual basis. The decrease in operating costs is primarily as a result of a reduction in the provision for litigation processed compared to the previous year.

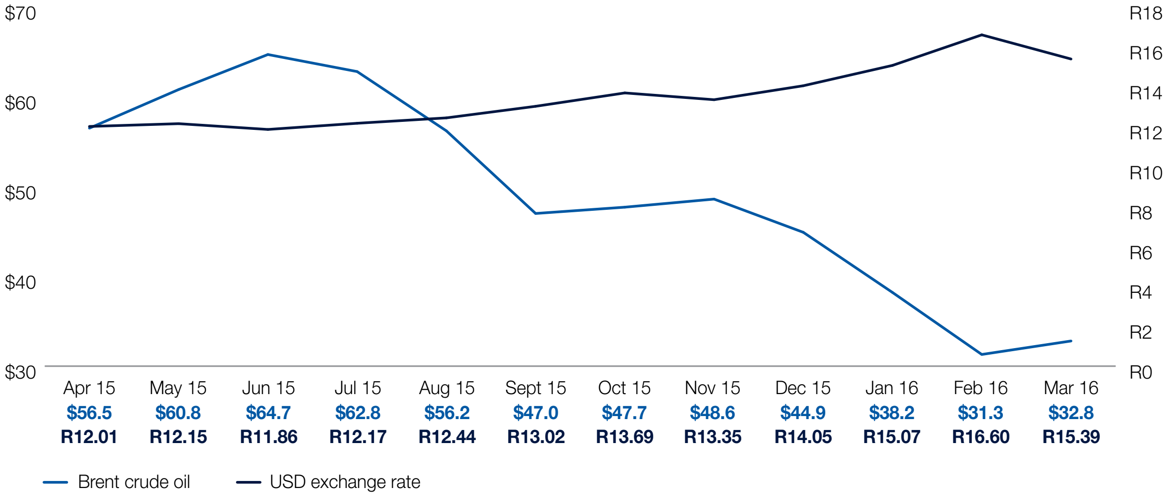


While the Group has benefitted from the lower fuel prices during the current financial year, fuel still remains the single biggest cost contributor to the Group at 24 percent (2015: 32 percent) of total operating expenses. Despite the 45 percent decrease in the average Brent crude oil price for the financial year, total fuel costs only decreased by 28 percent (R2,9 billion). This is directly attributable to the weaker rand. Should the full impact of the exchange rate be eliminated the cost would, in fact, reflect a decrease of R4,0 billion (40 percent) over the previous financial year.

The 19 percent increase in regulated costs for 2016 is primarily due to higher maintenance costs as a direct result of the weaker currency.

The graph below reflects the movement in the average Brent crude oil price and the rand over the period under review, clearly indicating how the weakening rand hampered SAA's ability to capitalise on the dramatic reduction in fuel prices during the financial year.

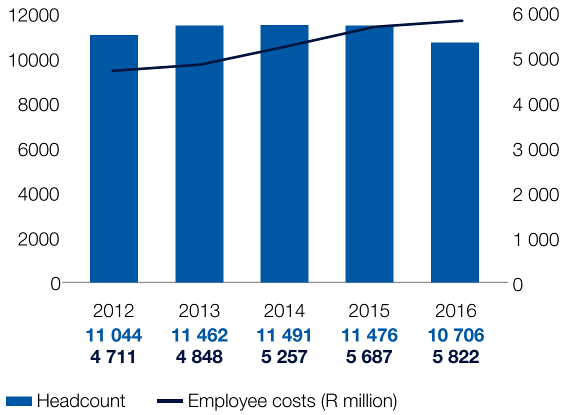
Brent crude oil price per barrel and ZAR USD exchange rate for the past 12 months



EMPLOYEE COSTS

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

Historical employee costs and headcount



Employee costs, which represent the second largest contributor to operating expenses, increased by only two percent to R5,8 billion.

Headcount, which has remained relatively constant for the past three years, reduced by 770 (seven percent) from 11 476 to 10 706 as a result of the voluntary severance package (VSP) offered as a component of the 90-Day Action Plan, natural attrition and structures being reviewed. This reduction in headcount was effected throughout the business areas, including the subsidiaries Air Chefs and SAAT. The VSP was effected in the latter part of the year and SAA will enjoy the full benefit of this initiative in 2016/17.

MAINTENANCE COSTS

Maintenance costs reflect an increase of R0,9 billion (26 percent) to R4,3 billion from R3,4 billion in the previous financial year. The majority of these costs are contract driven and, once again, impacted by the devaluation of the rand. Should the impact of the exchange rate be eliminated, the increase translates to a two percent increase year-on-year.

AIRCRAFT LEASE COSTS

Aircraft lease costs have increased by 11 percent from R2,8 billion in the previous financial year to R3,1 billion in the current financial year, primarily due to the impact of the weaker rand. In addition, this includes the full impact of the six additional A320 aircraft that were delivered during the previous financial year.

During the year, as part of the 90-Day Action Plan, a number of leases relating to wide-body aircraft were renegotiated and extended at extremely favourable rates. The full benefit of this initiative will be derived in the 2016/17 financial year.

NAVIGATION, LANDING AND PARKING FEES

Regulatory costs (which comprise navigation, landing and parking fees) have increased by eight percent from R2,2 billion in the previous year to R2,4 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 charged in hard currency.

STATEMENT OF FINANCIAL POSITION

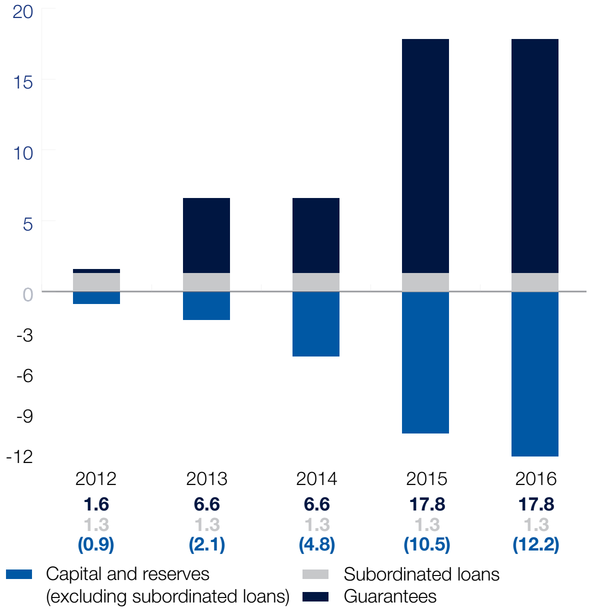
EQUITY

Historically SAA has had to operate with a weak balance sheet which, together with its operating losses incurred during the past five years, required additional financial assistance from its shareholder. In October 2012 SAA 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 on 8 September 2016, the Shareholder approved a further perpetual guarantee of R4,7 billion to ensure that SAA remains solvent and has access to sufficient working capital to continue operating as a going concern. This also enabled the 2014/15 annual financial statements to be signed off by the auditors. 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 R19,1 billion.

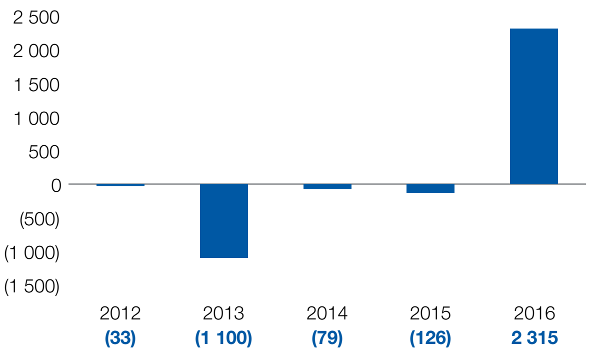
The graph below depicts the capital and reserves trend over the past five financial years.

Capital, reserves and guarantees (R billion)



CASH FLOW

Net cash position (R million)



During the year, SAA accessed an additional R6 billion in loans against existing government guarantees. R3 billion of this was raised as long-term debt, and the balance will mature during the 2016/17 financial year. The expectation is to convert this short-term debt into longer term debt during the next financial year.

Despite the R0,4 billion increase in finance costs, cash outflows from operating activities improved by R1,2 billion compared to the previous year largely due to the reduction in operating losses. At the end of the financial year there was R2,3 billion in cash and cash equivalents available to meet working capital and capital expenditure requirements.

LONG-TERM LOANS

The increase in long-term loans 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.

TRADE AND OTHER RECEIVABLES

The increase in trade and other receivable balances relates primarily to the impact of the weakening currency on maintenance reserve balances and pre-delivery payment (PDP) balances. The PDP balances arose as PDP's were paid in respect of the A320 aircraft acquisition transaction that was subsequently re-negotiated in December 2015. In terms of this revised agreement, where SAA cancelled the purchase of 10 A320 aircraft and replaced them with five A330 aircraft on operating lease, SAA will receive the PDP's paid on the original transaction back on delivery of the A330 aircraft.

GROUP OPERATING DATA

	2016	2015	2014	2013	2012
Capacity					
Available seat kilometres (ASKs) (millions)	**32 282**	33 562	33 999	33 441	32 423
Traffic					
Revenue passenger kilometres (RPKs) (millions)	**24 234**	24 523	25 606	24 880	23 217
SAA	**21 079**	21 814	23 124	22 901	21 509
Mango	**3 155**	2 709	2 482	1 979	1 708
Revenue passengers (thousands)	**9 700**	9 181	9 332	8 846	8 087
SAA	**6 698**	6 700	7 071	7 009	6 480
Mango	**3 002**	2 481	2 261	1 837	1 607
Cargo - tonnes flown (thousands)	**114**	131	132	133	142
Utilisation					
Revenue passenger load factor (%)	**75**	73	75	74	72
Yield (passenger revenue/RPKs) - passenger	**0,78**	0,77	0,77	0,71	0,69
Passenger revenue (R million)	**18 910**	18 978	19 706	17 716	15 908
Yield (revenue/ASKs) - airline revenue	**0,89**	0,85	0,84	0,76	0,70
Yield (total income/ASKs) - total income	**0,94**	0,90	0,89	0,81	0,74
Unit cost (cost per available seat kilometre)	**0,93**	0,97	0,90	0,82	0,76
Labour cost	**0,18**	0,17	0,15	0,14	0,15
Energy	**0,23**	0,30	0,33	0,29	0,26
Material cost	**0,13**	0,10	0,08	0,07	0,05
Other operating costs	**0,39**	0,40	0,34	0,32	0,30

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 2015 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 four years, two tender attempts had been cancelled by the Shareholder. As a result, with certain lease agreements nearing their expiry, 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 re-negotiate significant reductions in lease rates and return conditions by extending these leases.

A320 SWAP TRANSACTION

In 2002 SAA entered into an agreement for the outright purchase of 20 A320 aircraft. This agreement was re-negotiated in 2009. The agreement 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 delivery. SAA took delivery of the first 10 aircraft during the 2013/14 and 2014/15 financial years.

As part of the 90-Day Action Plan, SAA has received approval from the Shareholder to renegotiate this contract with Airbus and replace the remaining 10 aircraft with five A330 aircraft on an operating lease basis. As a result, future likely impairments to the value of at least R1,4 billion have been avoided. The revised transaction was concluded in December 2015 and delivery of the new aircraft will commence in November 2016. On delivery of the new aircraft, Airbus will refund SAA the pre-delivery payments made in respect of the cancelled aircraft.

COMPETITION MATTERS

The company was 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 related to the second period only. The Comair matters were originally set down for trial on 18 April 2016. On 22 August 2016, the Heads of Argument were presented to the Court and the ruling on the Comair actions is outstanding.

SAA extensively engaged its legal and financial economic experts in assessing its exposure and an appropriate provision has been made in its financial statements. On 12 August 2016, the Court ruled on the Nationwide litigation and awarded compensation in favour of Nationwide. The company and the liquidators of Nationwide agreed on a full and final settlement amount.

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.

The 2015/16 financial year has seen a significant reduction in PFMA non-compliance compared to 2014/15. This is mainly attributable to an increase in PFMA training and an increase in control measures by management, eg disciplinary procedures to reduce PFMA contraventions.

The table below indicates the PFMA non-compliance for 2015/16 compared to the 2014/15 financial year:

Category of PFMA non-compliance	**2016**	2015
Irregular spend without loss	**R5,4m**	R68,5m
Fruitless and wasteful expenditure	**R7,3m**	R52,7m
Loss due to criminal conduct	**R0,1m**	–
Recoveries	**(R8,3m)**	(R7,4m)

In terms of the loss due to criminal conduct, the employees involved in these thefts have been disciplined and dismissed from SAA. The monies stolen have been recovered from their pensions and recorded in the recoveries category.

The organisation will continuously review and update interactions that will assist the organisation to further reduce the PFMA non-compliance. Some of the interactions that are currently being monitored are:

- Review of the contract management department structure. The optimal structure will assist the organisation in ensuring the contract management process is appropriate to discharge the cost effective, transparent and fair objectives of the procurement process.
- Review the control measures such as disciplinary processes, to ensure consistent application within the organisation.

INTERNAL CONTROL

The Critical Financial Reporting Controls project, implemented five 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.

GOING CONCERN

As with previous years, SAA remains undercapitalised. Five 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.

On the 8th of September 2016, a perpetual guarantee of R4,7 billion was approved by the Shareholder. This guarantee has certain conditions over and above those attached to the existing guarantees, these conditions relate to actions required to stabilise the airline and ensure that it returns to profitability in line with its approved Corporate Plan and includes the following key deliverables:

- The primary focus of the Board must be to return the airline to financial sustainability;
- SAA must implement more aggressive cost-cutting initiatives;
- The Board is required to appoint a permanent CEO, CFO and other key executives in consultation with the Minister of Finance; and
- Funding must be secured to meet the airline's liquidity requirements.

The total of these guarantees amounts to R19,1 billion and provides reasonable comfort that SAA will have the ability to continue as a going concern in the foreseeable future.

The directors are of the view that the guarantee support by its Shareholder would be adequate for the going concern requirement in the foreseeable future, being 12 months from the date of approval of these annual financial statements. The company is in the process of restructuring its existing short-term facilities, which include the repayment of facilities due in the next six months of R4,5 billion. The process of engaging with the institutions to refinance the facilities that are maturing in the next six months has been initiated and is, at the time of finalising the annual financial statements, ongoing.

In the absence of the timing and extent of the expected Shareholder support in the form of a capital injection, these guarantees provide reasonable comfort that SAA would have the ability to continue operating as a going concern. The directors, however, remain of the view that a more permanent appropriate capital structure is required for the airline.

LEGAL AND REGULATORY

Section 51(l)(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.

COMPLIANCE MANAGEMENT PROGRAMME

In accordance with the governance and applicable regulatory prescripts, such as King III, SAA has developed a robust Compliance Framework and Programme aimed at ensuring that the organisation effectively manages and mitigates its compliance risks.

A dedicated Group Compliance function has been mandated to develop, implement and monitor the Compliance Programme within the Group by working closely with business units including subsidiaries and international outstations. Key features of the programme include compliance risk assessments, training on new regulatory requirements, compliance monitoring and audits, managing relationships with the regulators and reporting.

Also crucial to the improvement of the governance and the control environment within SAA is the compliance with internal policies and procedures. A policy governance framework is in place and a policy universe is maintained on the shared folder which is regularly monitored by the Compliance function. The policies are also reviewed on a regular basis to ensure harmony with the legislative and regulatory prescripts.

A compliance software solution is being procured to further embed the compliance culture and improve the compliance maturity level.

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 2015/16 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 2016	FY 2016 OUTCOME	EXPLANATIONS
Revenue	Revenue per Available Seat Km Target: 0,99 Achieved: 0,99	KPI achieved	
	Revenue per Available Tonne Km Target: 2,38 Achieved: 2,37	KPI not achieved	Market-wide yield reductions in latter part of year.
Cost Compression	Cost per Available Seat Km Target: 1,01 Achieved: 1,03	KPI not achieved	Operating costs were significantly impacted by the weaker ZAR against other major currencies especially in the fourth quarter of FY15/16 where there was a significant deterioration of the ZAR. Achieved CASK per USc target.
Route Performance	Routes profitable Target: 100 percent Achieved: 83 percent	KPI not achieved	KPI not achieved as only 83 percent of the routes were profitable at a contribution level including connecting revenue. The network included loss making routes like Abu Dhabi which have been subsequently discontinued.
	Connecting revenue per ASK Target: 0,23 Achieved: 0,23	KPI achieved	
Ensure Financial Sustainability	6 KPIs - Ratios	KPI not achieved	The Funding Plan for R10 billion to be funded via long-term borrowings did not materialise hence negatively impacting debt ratios.
Operational Profit	EBITDA (R MILLION) Target: 32 Achieved: (837)	KPI not achieved	The KPI was not achieved due to unfavourable economic conditions and market pressure. Costs were adversely impacted by the higher ZAR exchange rates against other major currencies. In addition, revenue was below budget as a result of lower passenger numbers than expected partly due to unintended consequences of the immigration regulations.
	Net Profit (R MILLION) Target: (1 377) Achieved: (1 473)	KPI not achieved	The KPI was not achieved on the back of the EBITDA target not being achieved. In addition interest costs were in excess of target as a result of more reliance on debt funding.
Refinement of the LTTS	Strategy in place for renegotiating agreements with pilots and contingency plan	KPI achieved	
	Detailed customer analysis to define, understand and select customer segments and development of a customer value proposition for targeted customer segments	KPI achieved	
	Delivery of a proposed Corporate structure	KPI not achieved	Full study was done by SAA in conjunction with PWC to formulate the way forward and this was subsequently provided to NT.
	Delivery of a proposal and business case for the West African Hub	KPI achieved	
	Delivery of a Borrowing / Funding Plan with contingency plan	KPI achieved	
	Delivery of a head count reduction strategy and contingency plan	KPI not achieved	This was delivered later than planned due to delays in the availability of the CCMA Commissioner to facilitate consultations.

KEY PERFORMANCE AREA	KEY PERFORMANCE INDICATOR BY 31 MARCH 2016	FY 2016 OUTCOME	EXPLANATIONS
Refinement of the LTTS (continued)	Comprehensive strategy for future fleet negotiations	KPI not achieved	This deliverable was dependent on the finalisation of the A320/A330 swap transaction and the A319 extensions, and has now been completed.
	Evaluate the business case of parking all or some of the A340-600s with immediate effect	KPI not achieved	Business case underlying assumptions needed to be re-examined to evaluate the impact of the sustained drop in fuel prices.
	Consolidate existing data and develop business intelligence tools for greater visibility	KPI achieved	
	Process for assessing and remediating route performance and a decision framework for determining whether to open or close routes	KPI achieved	
	Review the hedging policy in line with best practice	KPI achieved	
	Implementation on plan for strengthening governance, internal controls and working capital management	KPI not achieved	In process of consolidating SAA's Debt maturity profile, in order to manage the re-pricing risk.
Human resources	Ensure performance management system in place throughout SAA that translates LTTS into performance agreements	KPI not achieved	KPI only partially achieved. Cascading of the LTTS through the Corporate Plan completed for Management levels 1 and 2, but needs to progress further.
	Provide an assessment of the 2014/15 executive management's performance based on performance agreements	KPI achieved	
	Executive Management remuneration based on Shareholder Compact as basis for determining remuneration	KPI not achieved	A new Group Remuneration Philosophy was designed but needs approval by the Remuneration and Human Resources Committee and Board.
	Implementation of a headcount strategy as a cost cutting measure to return entity to profitability	KPI achieved	
Procurement	% spend locally Target: 78 percent Achieved: 97 percent	KPI achieved	
	% of local spend on BBBEE compliant companies Target: 92 percent Achieved: 95 percent	KPI achieved	
	% of local spend on Black owned entities Target: 7 percent Achieved: 1 percent	KPI not achieved	This is a continuous focus area and SAA has taken multiple steps to drive these KPIs going forward.
	% of local spend on Black SMMEs Target: 5 percent Achieved: 2 percent	KPI not achieved	
	% of local spend on Black women owned businesses Target: 2 percent Achieved: 0 percent	KPI not achieved	
Customer focus	% level of customer satisfaction	KPI achieved	
Effective Internal Control and Risk Management	No repeat and unresolved findings	KPI not achieved	Outstanding findings carried forward for ongoing resolution.
Good Governance	No breaches of materiality and significance framework	KPI achieved	

KEY PERFORMANCE AREA	KEY PERFORMANCE INDICATOR BY 31 MARCH 2016	FY 2016 OUTCOME	EXPLANATIONS
Fleet Management and Performance	Fuel burn rate Target: 3,92 Achieved: 3,90	KPI achieved	
	Aircraft dispatch reliability Target: 97 percent Achieved: 99 percent	KPI achieved	
	Narrow-body fleet average turn time Target: 45 min Achieved: 47 min	KPI not achieved	Fleet impacted by operational constraints.
	Daily average wide-body fleet utilisation Target: 14:00 hrs Achieved: 12:08 hrs	KPI not achieved	SAA did not achieve the target utilisation of its aircraft. This was mainly due to unplanned maintenance on aircraft as well as flight schedule changes to optimise route profitability.
Achieve Statutory Reporting Compliance	Statutory submissions on time	KPI not achieved	Delay in the issuing of going concern guarantees.
	Provide all existing commercial agreements with SA Express	KPI achieved	
	Terms of Reference of the joint formal committees overseeing commercial agreements	KPI achieved	
Achieve Statutory Reporting Compliance (continued)	Resolution of SA Express commercial agreements	KPI achieved	
	Terms of Reference for a formal committee structure including SA Express and Mango that will negotiate and procure for shared services	KPI not achieved	Draft proposals prepared for consideration but will require extensive preparatory work to effect.
	Performance reports of the Formal Committee Structure for procurement and negotiation of shared services	KPI not achieved	Appropriate procurement shared services model approved, but completion date to be agreed.
	Terms of Reference of Formal Joint Committee overseeing the consolidated network plan	KPI achieved	
	Establishment of the Route Development and Scheduling Committee with SA Express and Mango for the implementation and management of the Integrated Network Plan	KPI achieved	
	Quarterly Performance results of the integrated network plan and fleet deployment plan	KPI not achieved	Revenue was lower than expected and multiple actions were taken to address this including the focus on African Growth.
Co-ordination with other state-owned airlines	Number of code share partnerships concluded with other state-owned airlines in line with the consolidated Network and Fleet Plan.	KPI achieved	

EVENTS SUBSEQUENT TO THE STATEMENT REPORTING DATE

Subsequent to the 2016 financial year, Yakhe Kwinana resigned as a director on 23 August 2016. Dr John Tambi was removed as a director on 1 September 2016. On 1 September 2016 the Shareholder announced the appointment of the following Board members, Dudu Myeni (Chairperson), Tryphosa Ramano (Deputy Chairperson), Swazi Tshabalala, Thandeka Mgoduso, Akhter Hoosen Moosa, Gugu Sepamla, Siphile Buthelezi, Peter Maluleka, Mzimkulu Malunga, Martha Mbatha, Peter Tshisevhe and Nazmeera Moola.

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 38 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 2015/16 FINANCIAL YEAR

There were no special resolutions taken during the 2015/16 financial year.

APPOINTMENT OF AUDITORS

The Company re-appointed Nkonki Inc. and PricewaterhouseCoopers Inc. as joint auditors for the 2015/16 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 R110 million (2015: R98 million).

SHARE CAPITAL

Details of the share capital of the Group and company are set out in Note 28 to the annual financial statements.

BOARD COMPOSITION

At 31 March 2016 the Board consisted of five members, three independent non-executive directors and two executive directors. On 22 April 2015, the CEO, Monwabisi Kalawe resigned as a director of SAA and all its subsidiary boards. On 14 November 2015, Musa Zwane was appointed as Acting CEO and to the Board on 4 March 2016. Phumeza Nhantsi was appointed as Interim CFO on 25 November 2015 and to the Board on 4 March 2016. Tony Dixon (30 October 2015) and Wolf Meyer (16 November 2015) also resigned from the Board during the 2016 financial year.

BOARD EFFECTIVENESS

South African Airways 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.

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.

MEETINGS AND RELATED MATTERS

The Board meets regularly and retains full and effective management and control over the company. Among its other duties, it 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.

BOARD COMMITTEES

Audit and Risk Committee
Ms Kwinana *(Chairperson)*
Dr Tambi
Ms Myeni

Social, Ethics, Governance and Nominations Committee
Ms Myeni *(Chairperson)*
Dr Tambi
Ms Kwinana

Remuneration and Human Resources Committee
Dr Tambi *(Chairperson)*
Ms Myeni
Ms Kwinana

In order to assist the Board and directors in discharging their duties, specific responsibilities have been allocated to the board committees which have specific terms of reference. 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.

Due to the significant reduction in the number of directors, the Board took a decision in December 2015 that all remaining members will be members of all the committees.

Details of attendance of Board and Committee meetings can be found on page 90.

AUDIT AND RISK COMMITTEE

This is a statutory committee. It meets at least four times a year and is primarily responsible for assisting the Board in carrying out its duties relating to the 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 as outlined in its terms of reference.

The Chief Executive Officer, Chief Financial Officer, representatives of the external auditors, internal audit, risk management team and Chief Financial Officers of subsidiaries attend meetings of the committee by invitation.

The external and internal auditors have unrestricted access to the Chairperson of this committee, the Chairperson of the Board and non-executive directors. After every meeting of the committee it always met separately with the external auditors, internal audit and management to discuss any matters of concern.

The committee held four meetings during the year under review.

FINANCE, INVESTMENT AND PROCUREMENT COMMITTEE

This committee is responsible for seeing 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 was re-instated in August 2015 (following its earlier dissolution in November 2014) but held no meetings during the period under review.

REMUNERATION AND HUMAN RESOURCES COMMITTEE

This committee has terms of reference which are reviewed annually. It's main duties 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, with the committee holding five meetings during the year under review.

SOCIAL, ETHICS, GOVERNANCE AND NOMINATIONS COMMITTEE

The primary responsibility of this committee is to perform the statutory functions of the 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's terms of reference, with all its duties as set out in the terms of reference, were discharged during the year under review.

The committee held three scheduled meetings during the year under review.

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 made up solely 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 38 to the annual financial statements.

INDEPENDENCE OF THE BOARD

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

- Retainer-only remuneration. This policy discourages the members from having numerous meetings which might in the end compromise 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, SEGNCO, being chaired by the Chairperson of the Board, in accordance with King III;
- The Board having access to independent external advice at the cost of the company;
- The Board members being appointed for a term of three years, which is reviewable annually, but limited to three terms. This period is not regarded as too long to impact on their independence.

KING CODE OF GOVERNANCE PRINCIPLES FOR SOUTH AFRICA

The company acknowledges that each principle recommended in King III is of equal importance. In line with this acknowledgement, SAA's governance unit 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 in which all principles were analysed and checked to see if, given SAA's operating environment, they could be applied within the company.

The principles which are to be applied are systemically integrated into the company's operations, while explanations are recorded for those which are less frequently applied. These are available in the governance register which can be viewed on the company's website. SAA is in the process of acquiring a governance assessment tool which will enable it to assess compliance with both the King III principles and the PFMA and to take corrective measures where necessary.

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 governance support and guidance to the Board;
- Conducting the 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, the Companies Act, the PFMA and other relevant legislation.

The directors have unrestricted access to the advice and services of the Company Secretary, who 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 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 2016	Date of appointment (A)/ resignation (R)	Board	ARC	REMCO	SEGNCO	FIPCO[1]
Total number of meetings held		8	4	5	3	0
Ms DC Myeni [N] (Chairperson)	28 September 2009 (A)	7	1	5	3	0
Ms Y Kwinana [N]	2 December 2009 (A)	8	4	1	2	0
Mr AD Dixon [N]	30 October 2015 (R)	4	3	3	2	
Dr JE Tambi [**N]	23 October 2014 (A)	8	4	5	1	0
Mr M Zwane [E] (Acting CEO)	4 March 2016 (A)	0	1*			
Ms P Nhantsi [E] (Interim CFO)	4 March 2016 (A)	0	1*			
Mr WH Meyer [E] (CFO)	16 November 2015 (R)	4	3*			

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
CEO = Chief Executive Officer
CFO = Chief Financial Officer

Footnote
** Attendance by invitation*
*** Sierra Leonean national*
[1]Committee reinstated effective 26 August 2015 and no meetings held during period under review

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 Group and the company at 31 March 2016, 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 Group and the company 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 82 of the Director's report and Note 45 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 92.

In preparing the Group and company annual financial statements set out of pages 94 to 166, unless otherwise disclosed, the Group and company have complied with International Financial Reporting Standards, the Companies Act and the reporting requirements of the PFMA, and 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 Group and the company at 31 March 2016, and the results of their operations and cash flows for the year then ended.

These annual financial statements were prepared by management and the previous Board. On the 22nd of August 2016, the Audit and Risk Committee recommended these annual financial statements to be approved by the Board. The Board reviewed the annual financial statements for the 2015/16 financial year on the 23rd of August 2016 and resolved to approve the annual financial statements subject to the provision of a going concern guarantee by the Shareholder. The guarantee was subsequently received on the 8th of September 2016, after the appointment of the new Board. The new Board has placed reliance on management, the previous Audit and Risk Committee and the previous Board's approval of the annual financial statements. Except for an adjustment to the level of provisions there were no changes to the financial statements that were approved by the previous Audit and Risk Committee and Board of Directors. As a result, the newly appointed directors have recommended the annual financial statements for signature based on the resolutions of both the Audit and Risk Committee and the Board.

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

Duduzile Myeni
Chairperson

18 September 2016

Musa Zwane
Acting Chief Executive Officer

18 September 2016

INDEPENDENT AUDITORS' REPORT

TO PARLIAMENT AND THE SHAREHOLDER OF SOUTH AFRICAN AIRWAYS SOC LIMITED

REPORT ON THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

INTRODUCTION

We have audited the consolidated and separate financial statements of South African Airways (SOC) Limited and its subsidiaries set out on pages 94 to 166, which comprise the consolidated and separate statement of financial position as at 31 March 2016, the consolidated and separate statement of profit or loss and other comprehensive income, statements of changes in equity, and statements of cash flows for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information to the financial statements.

ACCOUNTING AUTHORITY'S RESPONSIBILITY FOR THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

The Board of directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of these consolidated and separate financial statements in accordance with International Financial Reporting Standards (IFRS), the requirements of the Public Finance Management Act of South Africa (PFMA) and the Companies Act of South Africa, and for such internal control as the accounting authority determines is necessary to enable the preparation of consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated and separate financial statements based on our audit. We conducted our audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004)(PAA), the General Notice issued in terms thereof and International Standards on Auditing. Those standards require that we comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the consolidated and separate financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated and separate financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated and separate financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated and separate financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated and separate financial statements.

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

OPINION

In our opinion, the consolidated and separate financial statements present fairly, in all material respects, the financial position of the South African Airways SOC Limited and its subsidiaries as at 31 March 2016 and their financial performance and cash flows for the year then ended, in accordance with International Financial Reporting Standards and the requirements of the Public Finance Management Act of South Africa and the Companies Act of South Africa.

OTHER REPORTS AS REQUIRED BY THE COMPANIES ACT.

As part of our audit of the consolidated and separate financial statements for the year ended 31 March 2016, we have read the Directors' report, the report of the Audit and Risk Committee and the statement by the Company Secretary for the purpose of identifying whether there are material inconsistencies between these reports and the audited consolidated and separate financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports we have not identified material inconsistencies between these reports and the audited consolidated and separate financial statements. However, we have not audited these reports and accordingly do not express an opinion on these reports.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) and the general notice issued in terms thereof, we have a responsibility to report findings on the reported performance information against predetermined objectives for the selected objectives presented in the Integrated annual report, non-compliance with legislation and internal control. We performed tests to identify reportable findings as described under each subheading but not to gather evidence to express assurance on these matters. Accordingly, we do not express an opinion or conclusion on these matters.

PREDETERMINED OBJECTIVES

We performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the objectives for Revenue, Cost compression, Financial sustainability, Operational profit, Refinement of the LTTS, Human resources, Procurement, Customer focus, Effective internal control and risk management, Good governance and Statutory reporting as presented in the directors' report for the year ended 31 March 2016 on pages 84 to 86.

We evaluated the reported performance information against the overall criteria of usefulness and reliability.

We evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned objectives. We further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's Framework for managing programme performance information (FMPPI).

We assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

We did not identify any material findings on the usefulness and reliability of the reported performance information for the selected objectives.

ADDITIONAL MATTER

Although we raised no material findings on the usefulness and reliability of the reported performance information for the selected objectives, we draw attention to the following matter:

ACHIEVEMENT OF PLANNED TARGETS

Refer to the directors' report on pages 84 to 86 for information on the achievement of the planned targets for the year.

COMPLIANCE WITH LEGISLATION

We performed procedures to obtain evidence that the public entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. We did not identify any instances of material non-compliance with specific matters in key applicable laws and regulations as set out in the General Notice issued in terms of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004).

IRREGULAR EXPENDITURE AND FRUITLESS AND WASTEFUL EXPENDITURE

Without raising a material finding, we draw attention to the disclosure in Note 46 to the annual financial statements on page 166, irregular expenditure to the value of R5,4 million and fruitless and wasteful expenditure to the value of R7,3 million that have been identified and reported in terms of section 55(2)(b)(i) of the Public Finance Management Act.

INTERNAL CONTROL

We considered internal control relevant to our audit of the consolidated and separate financial statements, annual performance report and compliance with laws and regulations. We did not identify any deficiencies in internal control that we considered sufficiently significant for inclusion in this report.

OTHER REPORTS

We draw attention to the following engagements that could potentially impact on the public entity's financial, performance and compliance related matters. Our opinion is not modified in respect of these engagements that are either in progress or have been completed.

INVESTIGATIONS

During the financial year under review the Group employed the services of an independent consulting firm to conduct an investigation into alleged irregularities and fraud. At the reporting date, these investigations are still ongoing.

AUDIT RELATED SERVICES

The following Factual Findings engagement was conducted:

National Treasury Public Entities Consolidation Template. The factual findings report covered the period 1 April 2015 to 31 March 2016, and was issued to the entity and National Treasury on 29 July 2016.

nkonki
Experience Ingenuity.

Nkonki Inc.

Nkonki Inc.
T Masasa
Registered Auditor
Johannesburg
30 September 2016

pwc

PricewaterhouseCoopers Inc.

PricewaterhouseCoopers Inc.
P Mothibe
Registered Auditor
Johannesburg
30 September 2016

Executive Management:
Mzi Nkonki CA(SA) Executive Chairman,
Sindi Zilwa CA(SA) Chief Executive Officer,
DZ Nkonki FIBSA, FCIS, MBA Chief Operating Officer,
Mitesh Patel (CA(SA) Managing Partner

A detailed list of Registered Auditors and directors is available from website www.nkonki.com

Reg. no. 2002/017422/21
VAT reg. no. 4850211865

Chief Executive Officer:
TD Shango

Management Committee:
SN Madikane, JS Masondo, PJ Mothibe, C Richardson, F Tonelli, C Volschenk

The company's principal place of business is at 2 Eglin Road, Sunninghill, where a list of directors' names is available for inspection

Reg. no. 1998/012055/21
VAT reg. no. 4950174682

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

for the year ended 31 March 2016

		GROUP		COMPANY	
R MILLION	Notes	2016	2015	2016	2015
Total income		**30 385**	30 105	**28 053**	27 831
Airline revenue	5	**28 827**	28 513	**26 310**	26 127
Other income	6	**1 558**	1 592	**1 743**	1 704
Operating costs		**30 034**	32 546	**27 756**	30 278
Aircraft lease costs	7	**3 149**	2 840	**3 095**	2 795
Accommodation and refreshments		**1 279**	1 040	**1 566**	1 416
Commissions and network charges		**1 629**	1 461	**1 531**	1 375
Electronic data costs		**657**	543	**636**	530
Fuel and other energy costs		**7 344**	10 217	**6 673**	9 449
Employee benefit expenses	10	**5 822**	5 687	**3 810**	3 747
Maintenance costs		**4 283**	3 412	**5 510**	4 491
Navigation, landing and parking fees		**2 384**	2 207	**2 108**	1 980
Fair value and translation movements	12	**(875)**	25	**(901)**	11
Other operating costs		**4 362**	5 114	**3 728**	4 484
Operating profit/(loss) before interest, tax, depreciation and amortisation	7	**351**	(2 441)	**297**	(2 447)
Depreciation and amortisation	8	**(725)**	(819)	**(649)**	(748)
Impairments	11	**(158)**	(1 894)	**(98)**	(1 635)
Net loss on disposal of property, aircraft and equipment	9	**(6)**	(9)	**(2)**	(3)
Operating loss		**(538)**	(5 163)	**(452)**	(4 833)
Finance costs	13	**(861)**	(490)	**(894)**	(523)
Interest income	14	**26**	26	**11**	16
Loss before taxation		**(1 373)**	(5 627)	**(1 335)**	(5 340)
Taxation	15	**(100)**	(12)	**–**	–
Loss for the year		**(1 473)**	(5 639)	**(1 335)**	(5 340)
Other comprehensive (loss)/income:					
Remeasurements of defined benefit plans*		**(6)**	(6)	**(6)**	(6)
(Impairments)/gains on property revaluations*		**(18)**	48	**(18)**	(47)
Change in value of available-for-sale financial asset**		**5**	3	**5**	3
Taxation related to components of other comprehensive income	15	**–**	(25)	**–**	–
Other comprehensive (loss)/income for the year net of taxation	16	**(19)**	20	**(19)**	(50)
Total comprehensive loss		**(1 492)**	(5 619)	**(1 354)**	(5 390)
Total comprehensive loss attributable to:					
Owners of the parent		**(1 492)**	(5 619)	**(1 354)**	(5 390)
		(1 492)	(5 619)	**(1 354)**	(5 390)

* *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

as at 31 March 2016

		GROUP		COMPANY	
R MILLION	Notes	2016	2015	2016	2015
Assets					
Non-current assets					
Property, aircraft and equipment	17	**4 552**	4 623	**3 224**	3 269
Intangible assets	18	**90**	86	**68**	70
Investments in subsidiaries	19	**–**	–	**1 032**	1 122
Deferred tax asset	20	**281**	380	**–**	–
Amounts receivable from subsidiaries	22	**–**	–	**1 476**	1 440
Non-current prepayments	23	**2 056**	2 184	**2 056**	2 184
Retirement benefit asset	31	**38**	38	**38**	38
		7 017	7 311	**7 894**	8 123
Current assets					
Inventories	21	**727**	725	**101**	121
Derivatives	24	**84**	171	**84**	171
Trade and other receivables	25	**6 422**	4 842	**6 186**	4 551
Current tax receivable	40	**16**	–	**–**	–
Investments	26	**23**	18	**23**	18
Cash and cash equivalents	27	**2 409**	1 266	**2 253**	1 212
		9 681	7 022	**8 647**	6 073
Non-current assets classified as held-for-sale and assets of disposal groups	17	**63**	63	**63**	63
Total assets		**16 761**	14 396	**16 604**	14 259
Equity and liabilities					
Equity					
Equity attributable to equity holders of parent					
Share capital	28	**12 892**	12 892	**13 126**	13 126
Reserves		**779**	917	**355**	493
Accumulated Loss		**(25 935)**	(24 352)	**(25 691)**	(24 246)
		(12 264)	(10 543)	**(12 210)**	(10 627)
Subordinated loan guaranteed by government	29	**1 300**	1 300	**1 300**	1 300
		(10 964)	(9 243)	**(10 910)**	(9 327)
Non-current liabilities					
Long-term loans	30	**6 510**	3 684	**6 500**	3 669
Retirement benefit obligation	31	**128**	91	**128**	91
Provisions	32	**2 394**	2 202	**2 380**	2 194
Deferred revenue on ticket sales	34	**633**	715	**633**	715
		9 665	6 692	**9 641**	6 669
Current liabilities					
Derivatives	24	**4**	346	**4**	346
Current tax payable	40	**–**	3	**–**	–
Trade and other payables	35	**6 953**	6 583	**6 786**	6 291
Provisions	32	**486**	332	**477**	332
Other short–term liabilities	33	**63**	63	**–**	–
Current portion of long–term loans	30	**6 248**	4 638	**6 243**	4 634
Deferred revenue on ticket sales	34	**4 212**	3 590	**4 069**	3 415
Bank overdraft	27	**94**	1 392	**294**	1 899
		18 060	16 947	**17 873**	16 917
Total liabilities		**27 725**	23 639	**27 514**	23 586
Total equity and liabilities		**16 761**	14 396	**16 604**	14 259

GROUP AND COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2016

R MILLION	Share capital	Other reserves
GROUP		
Balance at 1 April 2014	12 892	(94)
Total comprehensive income for the year	–	(3)
Dividends paid on government subordinated loan classified as an equity instrument	–	–
Balance at 1 April 2015	12 892	(97)
Total comprehensive income for the year	**–**	**(1)**
Dividends paid on government subordinated loan classified as an equity instrument	**–**	**–**
Voluntary severance packages paid	**–**	**–**
Balance at 31 March 2016	**12 892**	**(98)**
COMPANY		
Balance at 1 April 2014	13 126	(94)
Total comprehensive income for the year	–	(3)
Dividends paid on government subordinated loan classified as an equity instrument	–	–
Balance at 1 April 2015	13 126	(97)
Total comprehensive income for the year	**–**	**(1)**
Dividends paid on government subordinated loan classified as an equity instrument	**–**	**–**
Voluntary severance packages paid	**–**	**–**
Balance at 31 March 2016	**13 126**	**(98)**
Notes	28	16

Revaluation reserve	Shareholder restructuring fund	Total share capital and reserves	Accumulated loss	Shareholder's interest	Subordinated loan guaranteed by government	Total equity
798	193	13 789	(18 615)	(4 826)	1 300	(3 526)
23	–	20	(5 639)	(5 619)	–	(5 619)
–	–	–	(98)	(98)	–	(98)
821	193	13 809	(24 352)	(10 543)	1 300	(9 243)
(18)	**–**	**(19)**	**(1 473)**	**(1 492)**	**–**	**(1 492)**
–	**–**	**–**	**(110)**	**(110)**	**–**	**(110)**
–	**(119)**	**(119)**	**–**	**(119)**	**–**	**(119)**
803	**74**	**13 671**	**(25 935)**	**(12 264)**	**1 300**	**(10 964)**
444	193	13 669	(18 808)	(5 139)	1 300	(3 839)
(47)	–	(50)	(5 340)	(5 390)	–	(5 390)
–	–	–	(98)	(98)	–	(98)
397	193	13 619	(24 246)	(10 627)	1 300	(9 327)
(18)	**–**	**(19)**	**(1 335)**	**(1 354)**	**–**	**(1 354)**
–	**–**	**–**	**(110)**	**(110)**	**–**	**(110)**
–	**(119)**	**(119)**	**–**	**(119)**	**–**	**(119)**
379	**74**	**13 481**	**(25 691)**	**(12 210)**	**1 300**	**(10 910)**
17					29	

GROUP AND COMPANY STATEMENT OF CASH FLOWS

For the year ended 31 March 2016

		GROUP		COMPANY	
R MILLION	Notes	**2016**	2015	**2016**	2015
Cash flows from operating activities					
Cash (used in)/generated from operations	39	**(86)**	(1 868)	**85**	(1 865)
Interest income		**26**	26	**11**	16
Finance costs		**(861)**	(490)	**(894)**	(523)
Realised (losses)/gains from derivative financial instruments		**(40)**	205	**(40)**	205
Currency and jet fuel option premium spend		**(158)**	(173)	**(158)**	(173)
Tax paid	40	**(20)**	(24)	**–**	–
Net cash outflow from operating activities		**(1 139)**	(2 324)	**(996)**	(2 340)
Cash flows from investing activities					
Additions to property, aircraft and equipment	17	**(713)**	(4 323)	**(657)**	(4 232)
Proceeds on disposal of property, aircraft, equipment and intangible assets	17, 18	**44**	2 781	**36**	2 784
Additions to intangible assets	18	**(13)**	(32)	**(1)**	(26)
Net cash outflow from investing activities		**(682)**	(1 574)	**(622)**	(1 474)
Cash flows from financing activities					
External borrowings raised		**6 000**	4 342	**6 000**	4 341
External borrowings repaid		**(1 564)**	(442)	**(1 560)**	(438)
Dividends paid		**(110)**	(98)	**(110)**	(98)
Net cash inflow from financing activities		**4 326**	3 802	**4 330**	3 805
Net increase/(decrease) in cash and cash equivalents		**2 505**	(96)	**2 712**	(9)
Cash and cash equivalents at the beginning of the year		**(126)**	(79)	**(687)**	(728)
Foreign exchange effect on cash and cash equivalents		**(64)**	49	**(66)**	50
Cash and cash equivalents at the end of the year	27	**2 315**	(126)	**1 959**	(687)

NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS

For the year ended 31 March 2016

1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

STATEMENT OF COMPLIANCE

The Group and company 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 and company annual financial statements are presented in South African rand, which is the Group's reporting currency, rounded to the nearest million. The Group and company 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 45.

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

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

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.

RENDERING OF SERVICES

Revenue from the rendering of services is 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;
- 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 Group and company 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 is probable 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 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 current tax and deferred tax.

CURRENT TAX

The current tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the Group and company 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 Group and company 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.

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

TAXATION (CONTINUED)

DEFERRED TAX (CONTINUED)

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.

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 Group and company 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.

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

LEASEHOLD IMPROVEMENTS (CONTINUED)

GROUP AS LESSEE (CONTINUED)

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.

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.

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

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.

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 43.1.

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 43.1.

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 investments 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.

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

FINANCIAL INSTRUMENTS (CONTINUED)

IMPAIRMENT OF FINANCIAL ASSETS (CONTINUED)

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 25.

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.

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 either as 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 43.1.

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.

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

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.

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. The new standards and interpretations effective and adopted in the current year, did not have a significant impact on the Group.

Standard/interpretation	Effective date: years beginning on or after	Summary of changes
Amendments to IAS 19 – *Employee benefits,* on defined benefit plans	1 July 2014	The amendment clarifies the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service.
Amendments to IFRS 13 – *Fair value measurement*	1 July 2014	When IFRS 13 was published, paragraphs B5.4.12 of IFRS 9 and AG 79 of IAS 39 were deleted as consequential amendments. This led to a concern that entities no longer had the ability to measure short-term payables at invoice amounts where the impact of not discounting is immaterial. The IASB has amended the basis for conclusions of IFRS 13 to clarify that it did not intend to remove the ability to measure short-term receivables and payables at invoice amounts in such cases.
IAS 16 – *Property, plant and equipment,* and IAS 38 – *Intangible assets*	1 July 2014	Both standards are amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.
IAS 24 – *Related party disclosures*	1 July 2014	The standard is amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity').

2. NEW STANDARDS AND INTERPRETATIONS (CONTINUED)

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 only mandatory for the Group's accounting periods beginning on or after 1 April 2016. 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	**Impact**	**Effective date: years beginning on or after**
IFRS 14 – *Regulatory deferral accounts*	No significant impact expected.	1 January 2016
Amendments to IAS 1 – *Presentation of financial statements, disclosure initiative*	No significant impact expected.	1 January 2016
Amendments to IAS 16 – *Property, plant and equipment* and IAS 38 – *Intangible assets, on depreciation and amortisation*	No significant impact expected.	1 January 2016
Amendments to IAS 27 – *Separate financial statements on equity accounting*	No significant impact expected.	1 January 2016
IFRS 5 – *Non-current assets held-for-sale and discontinued operations*	No significant impact expected.	1 January 2016
IFRS 7 – *Financial instruments: disclosures*	No significant impact expected.	1 January 2016
IAS 19 – *Employee benefits*	No significant impact expected.	1 January 2016
Amendments to IAS 7 – *Statement of cash flows, as a result of the disclosure initiative*	Additional disclosures relating to the statement of cash flows.	1 January 2017
Amendments to IAS 12 – *Recognition of deferred tax assets for unrealised losses*	The amendments clarify the existing guidance under IAS 12. The underlying principles for the recognition of deferred tax assets do not change.	1 January 2017
IFRS 9 – *Financial Instruments, finalised version incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition*	No significant impact expected.	1 January 2018
IFRS 15 – *Revenue from contracts with customers*	Reassessment of revenue and interest recognition specifically relating to long-term contracts and impacts timing of profit recognition on long-term contracts within the statement of profit or loss and other comprehensive income.	1 January 2018
IFRS 16 – *Leases*	The accounting for leases which will result in the recognition of the obligation and asset for long-term leases.	1 January 2019

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. The useful lives, residual values and the depreciation method of all classes of assets remained unchanged as they were deemed to be appropriate.

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.

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 Group and company 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 R633 million (2015: R715 million) and the carrying amount of short-term frequent flyer deferred revenue was R578 million (2015: R609 million). Please refer to Note 34 for more details regarding the frequent flyer deferred revenue.

		GROUP		COMPANY	
R MILLION	Note	2016	2015	2016	2015
5. AIRLINE REVENUE					
The analysis of airline revenue for the year is as follows:					
Passenger revenue		**18 910**	18 978	**16 882**	17 119
Freight and mail		**1 776**	1 744	**1 775**	1 742
Technical services		**775**	701	**293**	188
Voyager income	34	**867**	771	**867**	771
Commission received		**71**	86	**65**	74
Release from prescribed tickets		**396**	372	**396**	372
Release from prescribed air waybills		**–**	28	**–**	28
Fuel levies		**6 032**	5 833	**6 032**	5 833
		28 827	28 513	**26 310**	26 127
6. OTHER INCOME					
Other income is made up of the following items:					
Handling fees		**148**	134	**52**	58
Income from leased assets		**80**	69	**405**	305
Other recoveries*		**1 330**	1 389	**1 286**	1 341
		1 558	1 592	**1 743**	1 704

** Other recoveries comprise income associated with ticket cancellations, inter airline processing offsets and other miscellaneous income.*

		GROUP		COMPANY	
R MILLION	Notes	2016	2015	2016	2015
7. OPERATING PROFIT/(LOSS) BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION					
Operating profit/(loss) before interest, tax, depreciation and amortisation is stated after taking into account among others, the following:					
Operating lease payments					
Aircraft		**3 149**	2 840	**3 095**	2 795
Buildings		**117**	111	**97**	94
Equipment and vehicles		**40**	54	**28**	43
Total operating lease payments		**3 306**	3 005	**3 220**	2 932
Auditors' remuneration					
Audit fees – current year		**15**	13	**11**	9
Other regulatory audit services		**3**	1	**3**	1
Non-audit services		**1**	2	**1**	2
Total auditors' remuneration		**19**	16	**15**	12
Directors' emoluments and executive management emoluments are disclosed in Note 38.					
8. DEPRECIATION AND AMORTISATION					
Aircraft and simulators		**(561)**	(628)	**(549)**	(621)
Buildings and structures		**(46)**	(64)	**(21)**	(40)
Machinery, equipment and furniture		**(68)**	(72)	**(46)**	(49)
Vehicles and cabin loaders		**(15)**	(14)	**(4)**	(4)
Total depreciation	17	**(690)**	(778)	**(620)**	(714)
Amortisation of intangible assets	18	**(35)**	(41)	**(29)**	(34)
Total depreciation and amortisation		**(725)**	(819)	**(649)**	(748)

R MILLION	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015
9. NET LOSS ON DISPOSAL OF PROPERTY, AIRCRAFT AND EQUIPMENT				
Net loss on disposal of property, aircraft and equipment comprises the following:				
Profit on disposal of property, aircraft and equipment	**1**	–	**–**	–
Loss on disposal of property, aircraft and equipment	**(7)**	(9)	**(2)**	(3)
	(6)	(9)	**(2)**	(3)
10. EMPLOYEE BENEFIT EXPENSES				
10.1 SHORT-TERM EMPLOYEE BENEFIT EXPENSES				
Personnel and labour costs	**5 302**	5 203	**3 437**	3 409
Contribution to medical funds	**67**	66	**47**	45
	5 369	5 269	**3 484**	3 454
10.2 POST-EMPLOYMENT BENEFIT EXPENSES*				
Contribution to pension funds	**408**	394	**281**	269
Contribution to provident funds	**64**	57	**64**	57
Current-service cost	**17**	18	**17**	18
Interest cost	**130**	124	**130**	124
Return on plan assets	**(166)**	(175)	**(166)**	(175)
	453	418	**326**	293
Total employee benefit expenses	**5 822**	5 687	**3 810**	3 747

* *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 37.*

R MILLION	Notes	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015
11. IMPAIRMENTS					
Impairment of loans and receivables held at amortised cost					
(Impairment)/reversal of impairment of accounts receivable		**(14)**	12	**(9)**	(3)
Impairment of other assets					
Impairment of investments in subsidiaries	19	**–**	–	**(90)**	–
Reversal of impairment/(impairment) of loans to subsidiaries	22	**–**	–	**1**	(3)
Impairment of PDPs		**–**	(121)	**–**	(121)
Impairment of aircraft	17	**–**	(1 508)	**–**	(1 508)
Impairment arising from write-down of Inventory to NRV	21	**(144)**	(277)	**–**	–
		(158)	(1 894)	**(98)**	(1 635)

11. IMPAIRMENTS (CONTINUED)

IMPAIRMENT OF AIRCRAFT

WIDE-BODY FLEET

SAA's Network and Fleet Plan was revised in the prior year and approved by the Board. The plan included the planned replacement of the Group owned A340 fleet. The useful lives of these aircraft had to be reassessed and the resulting depreciation charge recognised. The remaining carrying value exceeded the recoverable amount of these aircraft and an impairment of R827 million was recognised. There were no further impairments required in 2016.

The recoverable amount of these aircraft, was determined to be the 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, based on the revised useful lives, were discounted to their present value using a pre-tax discount rate of 16,2 percent, which was the Group's adjusted weighted average cost of capital (WACC). This rate best reflected current market assessments of the time value of money and the risks specific to these assets.

NARROW-BODY FLEET

During the previous 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 which resulted in the actual purchase price exceeding the recoverable amount, which was 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 its recoverable amount on delivery date. As a result, impairments of R681 million were recognised during the previous 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 in the previous financial year, an impairment of R144 million (2015: R277 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 10 A320 aircraft that will be substituted by five A330 aircraft, an impairment of R121 million was made in the previous financial year. No further impairment is required in the current year.

	GROUP		COMPANY	
R MILLION	**2016**	2015	**2016**	2015
12. FAIR VALUE AND TRANSLATION MOVEMENTS				
Foreign exchange (gain)/loss on translation of:				
Foreign cash balances	**64**	(49)	**66**	(50)
Foreign currency denominated net receivables	**(207)**	(82)	**(254)**	(91)
Net monetary assets and liabilities	**(675)**	(211)	**(656)**	(215)
Translation of foreign assets and liabilities	**(818)**	(342)	**(844)**	(356)
Fair value (gain)/loss on derivative instruments held-for-trading:				
Realised loss/(gain) on derivatives	**40**	(205)	**40**	(205)
Fair value (gain)/loss on derivative financial instruments	**(97)**	572	**(97)**	572
Net fair value (gain)/loss on derivative instruments held-for-trading	**(57)**	367	**(57)**	367
Total fair value and translation movements	**(875)**	25	**(901)**	11

R MILLION	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015
13. FINANCE COSTS				
The interest paid related to financial liabilities held at amortised cost is detailed below:				
Interest paid on borrowings	**(794)**	(404)	**(794)**	(404)
Interest paid on overdraft	**(67)**	(86)	**(62)**	(81)
Other interest paid	**–**	–	**(38)**	(38)
	(861)	(490)	**(894)**	(523)
Recognised directly in equity				
Interest paid on subordinated loan guaranteed by government classified as a dividend	**110**	98	**110**	98
14. INTEREST INCOME				
Interest received was derived from:				
Cash and bank balances	**23**	24	**8**	14
Loans and receivables	**3**	2	**3**	2
	26	26	**11**	16
15. TAXATION				
Major components of the tax expense				
Current				
Local income tax – current year	**(2)**	(20)	**–**	–
Deferred				
Deferred tax – current year	**(98)**	8	**–**	–
Deferred tax recognised on components of other comprehensive income – current year	**–**	(25)	**–**	–
	(100)	(37)	**–**	–
Reconciliation of the tax expense				
Reconciliation between accounting loss and tax expense:				
Accounting loss	**1 373**	5 627	**1 335**	5 340
Tax at the applicable tax rate of 28% (2015: 28%)	**384**	1 576	**374**	1 495
Tax effect of adjustments on taxable income				
Tax effect of non-taxable income	**34**	–	**–**	–
Tax effect of non-deductible expenses	**(38)**	(336)	**(40)**	(300)
Current year temporary differences for which no deferred income tax asset was recognised	**(492)**	(526)	**(471)**	(339)
Tax losses for which no deferred income tax asset was recognised	**(19)**	(778)	**106**	(883)
Interest classified as a dividend – tax deductible	**31**	27	**31**	27
	(100)	(37)	**–**	–
Estimated tax losses available to be utilised against future taxable income	**15 639**	16 608	**14 902**	15 487

R MILLION	Gross	Tax	Net
16. OTHER COMPREHENSIVE (LOSS)/INCOME			
COMPONENTS OF OTHER COMPREHENSIVE (LOSS)/INCOME			
GROUP – 2016			
Movements in other reserves			
Remeasurement of SAA German Pension Fund	**(13)**	**–**	**(13)**
Remeasurement of SAA subfund of Transport Pension Fund	**2**	**–**	**2**
Remeasurement of post-retirement medical benefits	**5**	**–**	**5**
Change in value of available-for-sale financial asset	**5**	**–**	**5**
	(1)	**–**	**(1)**
Movements in revaluation reserve			
Impairment on property revaluations	**(18)**	**–**	**(18)**
Total	**(19)**	**–**	**(19)**
COMPONENTS OF OTHER COMPREHENSIVE (LOSS)/INCOME			
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
COMPONENTS OF OTHER COMPREHENSIVE (LOSS)/INCOME			
COMPANY – 2016			
Movements in other reserves			
Remeasurement of SAA German Pension Fund	**(13)**	**–**	**(13)**
Remeasurement of SAA subfund of Transport Pension Fund	**2**	**–**	**2**
Remeasurement of post-retirement medical benefits	**5**	**–**	**5**
Change in value of available-for-sale financial asset	**5**	**–**	**5**
	(1)	**–**	**(1)**
Movements in revaluation reserve			
Impairment on property revaluations	**(18)**	**–**	**(18)**
Total	**(19)**	**–**	**(19)**
COMPONENTS OF OTHER COMPREHENSIVE (LOSS)/INCOME			
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	6	–	6
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	2016 Cost/ valuation	2016 Accumulated depreciation/ impairment	2016 Carrying value	2015 Cost/ valuation	2015 Accumulated depreciation/ impairment	2015 Carrying value
17. **PROPERTY, AIRCRAFT AND EQUIPMENT**						
GROUP						
Land	**437**	**–**	**437**	437	–	437
Buildings and structures	**1 710**	**(281)**	**1 429**	1 774	(300)	1 474
Machinery, equipment and furniture	**757**	**(486)**	**271**	894	(592)	302
Vehicles and cabin loaders	**155**	**(90)**	**65**	157	(82)	75
Aircraft and simulators	**10 694**	**(8 554)**	**2 140**	10 125	(7 972)	2 153
Containers	**30**	**(30)**	**–**	30	(30)	–
Capital work in progress	**210**	**–**	**210**	182	–	182
Total	**13 993**	**(9 441)**	**4 552**	13 599	(8 976)	4 623
COMPANY						
Land	**48**	**–**	**48**	48	–	48
Buildings and structures	**1 016**	**(244)**	**772**	1 016	(224)	792
Machinery, equipment and furniture	**347**	**(198)**	**149**	486	(309)	177
Vehicles and cabin loaders	**47**	**(27)**	**20**	46	(25)	21
Aircraft and simulators	**10 586**	**(8 527)**	**2 059**	10 027	(7 953)	2 074
Containers	**29**	**(29)**	**–**	29	(29)	–
Capital work in progress	**176**	**–**	**176**	157	–	157
Total	**12 249**	**(9 025)**	**3 224**	11 809	(8 540)	3 269

R MILLION	Land	Buildings and structures	Machinery, equipment and furniture	Vehicles and cabin loaders	Aircraft and simulators	Containers	Capital work in progress	Total
17. PROPERTY, AIRCRAFT AND EQUIPMENT (CONTINUED)								
GROUP								
Reconciliation								
Opening balance	397	1 541	304	75	3 396	–	658	6 371
Additions	–	7	47	14	3 658	–	597	4 323
Disposals	–	(20)	–	–	(2 770)	–	–	(2 790)
Transfers*	–	2	23	–	5	–	(1 073)	(1 043)
Revaluations	40	8	–	–	–	–	–	48
Depreciation	–	(64)	(72)	(14)	(628)	–	–	(778)
Impairment loss	–	–	–	–	(1 508)	–	–	(1 508)
Balance at 31 March 2015	437	1 474	302	75	2 153	–	182	4 623
Opening balance	**437**	**1 474**	**302**	**75**	**2 153**	**–**	**182**	**4 623**
Additions	**–**	**13**	**22**	**5**	**233**	**–**	**440**	**713**
Disposals	**–**	**(2)**	**(4)**	**–**	**(40)**	**–**	**–**	**(46)**
Transfers*	**–**	**8**	**19**	**–**	**355**	**–**	**(412)**	**(30)**
Revaluations	**–**	**(18)**	**–**	**–**	**–**	**–**	**–**	**(18)**
Depreciation	**–**	**(46)**	**(68)**	**(15)**	**(561)**	**–**	**–**	**(690)**
Balance at 31 March 2016	**437**	**1 429**	**271**	**65**	**2 140**	**–**	**210**	**4 552**

** The amount reflected in the transfers column at 31 March 2015 represents the balance of PDPs transferred from Capital work in progress to prepayments. The amount reflected in the transfers column at 31 March 2016 represents the amount transferred from Capital work in progress to Software (Intangible assets). Refer to Note 18 for more information.*

17. PROPERTY, AIRCRAFT AND EQUIPMENT (CONTINUED)

COMPANY

R MILLION	Land	Buildings and structures	Machinery, equipment and furniture	Vehicles and cabin loaders	Aircraft and simulators	Containers	Capital work in progress	Total
Reconciliation								
Opening balance	55	885	173	22	3 337	–	664	5 136
Additions	–	5	30	3	3 628	–	566	4 232
Disposals	–	(20)	–	–	(2 767)	–	–	(2 787)
Transfers*	–	2	23	–	5	–	(1 073)	(1 043)
Revaluations	(7)	(40)	–	–	–	–	–	(47)
Depreciation	–	(40)	(49)	(4)	(621)	–	–	(714)
Impairment loss	–	–	–	–	(1 508)	–	–	(1 508)
Balance at 31 March 2015	48	792	177	21	2 074	–	157	3 269
Opening balance	**48**	**792**	**177**	**21**	**2 074**	**–**	**157**	**3 269**
Additions	**–**	**13**	**7**	**3**	**211**	**–**	**423**	**657**
Disposals	**–**	**(1)**	**(1)**	**–**	**(32)**	**–**	**–**	**(34)**
Transfers*	**–**	**7**	**12**	**–**	**355**	**–**	**(404)**	**(30)**
Revaluations	**–**	**(18)**	**–**	**–**	**–**	**–**	**–**	**(18)**
Depreciation	**–**	**(21)**	**(46)**	**(4)**	**(549)**	**–**	**–**	**(620)**
Balance at 31 March 2016	**48**	**772**	**149**	**20**	**2 059**	**–**	**176**	**3 224**

** The amount reflected in the transfers column at 31 March 2015 represents the balance of PDPs transferred from Capital work in progress to prepayments. The amount reflected in the transfers column at 31 March 2016 represents the amount transferred from Capital work in progress to Software (Intangible assets). Refer to Note 18 for more information.*

A register of land and buildings 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 R0,6 billion (2015: R1,4 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 classified as held-for-sale are as follows:

NON-CURRENT ASSETS CLASSIFIED AS HELD-FOR-SALE

	GROUP		COMPANY	
R MILLION	**2016**	2015	**2016**	2015
Carrying value of land and buildings classified as held-for-sale	**63**	63	**63**	63
	63	63	**63**	63

R MILLION	2016 Cost/ valuation	2016 Accumulated amortisation/ impairment	2016 Carrying value	2015 Cost/ valuation	2015 Accumulated amortisation/ impairment	2015 Carrying value
18. INTANGIBLE ASSETS						
GROUP						
Software development	**599**	**(509)**	**90**	557	(474)	83
Internet booking site	**36**	**(36)**	**–**	39	(36)	3
Goodwill*	**35**	**(35)**	**–**	35	(35)	–
	670	**(580)**	**90**	631	(545)	86
COMPANY						
Software development	**547**	**(479)**	**68**	517	(450)	67
Internet booking site	**36**	**(36)**	**–**	39	(36)	3
	583	**(515)**	**68**	556	(486)	70

R MILLION	Software development	Internet booking site	Goodwill*	Total
GROUP				
Reconciliation				
Opening balance	92	3	–	95
Additions	32	–	–	32
Amortisation	(41)	–	–	(41)
Balance at 31 March 2015	83	3	–	86
Opening balance	**83**	**3**	**–**	**86**
Additions	**13**	**–**	**–**	**13**
Disposals	**(4)**	**–**	**–**	**(4)**
Transfer from capital work in progress	**33**	**(3)**	**–**	**30**
Amortisation	**(35)**	**–**	**–**	**(35)**
Balance at 31 March 2016	**90**	**–**	**–**	**90**

R MILLION	Software development	Internet booking site	Total
COMPANY			
Reconciliation			
Opening balance	75	3	78
Additions	26	–	26
Amortisation	(34)	–	(34)
Balance at 31 March 2015	67	3	70
Opening balance	**67**	**3**	**70**
Additions	**1**	**–**	**1**
Disposals	**(4)**	**–**	**(4)**
Transfer from capital work in progress	**33**	**(3)**	**30**
Amortisation	**(29)**	**–**	**(29)**
Balance at 31 March 2016	**68**	**–**	**68**

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

R MILLION	COMPANY 2016	COMPANY 2015
19. INVESTMENTS IN SUBSIDIARIES		
Shares at cost	**2 404**	2 404
Impairment of investments in subsidiaries	**(1 372)**	(1 282)
	1 032	1 122

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

		PERCENTAGE HOLDING		R MILLION SHARES AT COST	
Name of company	Shares	**2016**	2015	**2016**	2015
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 investments in subsidiaries				**(1 372)**	(1 282)
				1 032	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 R250 million (2015: R214 million).

	GROUP		COMPANY	
R MILLION	**2016**	2015	**2016**	2015
20. DEFERRED TAX ASSET				
Temporary differences in respect of property, aircraft and equipment	**(940)**	(1 015)	**(766)**	(830)
Doubtful debts	**30**	29	**25**	25
Air traffic liability and other deferred income	**1 170**	839	**1 123**	799
Provisions	**1 546**	1 370	**1 280**	1 097
Prepayments	**(70)**	(38)	**(68)**	(36)
Differences due to changes in fair value of financial instruments	**(25)**	(51)	**(25)**	(51)
Leased assets	**4**	4	**–**	–
Computed tax loss	**4 379**	4 650	**4 172**	4 336
	6 094	5 788	**5 741**	5 340
Deferred tax asset not recognised	**(5 813)**	(5 408)	**(5 741)**	(5 340)
Deferred tax asset recognised	**281**	380	**–**	–

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 R5,8 billion (2015: R5,4 billion) in respect of losses amounting to R15,6 billion (2015: R16,6 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.

	GROUP		COMPANY	
R MILLION	**2016**	2015	**2016**	2015
21. INVENTORIES				
Maintenance inventories	**1 135**	1 178	**–**	–
Work in progress	**109**	61	**–**	–
Consumables	**168**	178	**101**	121
	1 412	1 417	**101**	121
Impairment of Inventories	**(685)**	(692)	**–**	–
	727	725	**101**	121
Reconciliation of impairment of inventories				
Opening balance	**(692)**	(468)	**–**	–
Reversal of previous write-downs to NRV	**151**	53	**–**	–
Write-down of inventories recognised as an expense during the year	**(144)**	(277)	**–**	–
Closing balance	**(685)**	(692)	**–**	–

The write-down of inventories in the current and prior year relates to the impairment of obsolete aircraft spares. This stock has been impaired to its net realisable value. The reversal of write-down of inventories in the current and prior year relates to obsolete aircraft spares that were written down to their net realisable value and have now subsequently been sold.

R MILLION	COMPANY 2016	2015
22. AMOUNTS RECEIVABLE FROM SUBSIDIARIES		
SUBSIDIARIES		
SAA Technical SOC Limited	**1 298**	1 262
Air Chefs SOC Limited	**178**	178
South African Airways City Center SOC Limited	**17**	18
	1 493	1 458
Impairment of loans to subsidiaries	**(17)**	(18)
	1 476	1 440

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.

	GROUP		COMPANY	
R MILLION	2016	2015	2016	2015
23. NON-CURRENT PREPAYMENTS				
Pre-delivery payments (PDPs)	**266**	217	**266**	217
Non-current portion of maintenance reserve receivable	**1 790**	1 967	**1 790**	1 967
	2 056	2 184	**2 056**	2 184

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. Maintenance reserves receivable represent amounts that will be received in a period exceeding 12 months.

Included in non-current prepayments are amounts in respect of maintenance payments made to lessors. The total below represents the total maintenance reserve receivable, the portion of the receivable that is short-term is shown under prepayments in Note 25. Refer to the accounting policies section for details of the treatment of these claims.

	GROUP		COMPANY	
R MILLION	2016	2015	2016	2015
Maintenance reserve receivable	**3 889**	3 996	**3 889**	3 996
Maintenance reserve payments expensed	**(1 722)**	(2 029)	**(1 722)**	(2 029)
	2 167	1 967	**2 167**	1 967

R MILLION	Jet fuel options	Currency derivatives	Jet fuel forward exchange contracts and swaps	Total
24. DERIVATIVES				
GROUP AND COMPANY				
Assets	55	116	–	171
Liabilities	–	–	(346)	(346)
Fair value at 1 April 2015	55	116	(346)	(175)
Amounts spent on premiums	**94**	**64**	**–**	**158**
Fair value movements for the year ended 31 March 2016	**(131)**	**(116)**	**344**	**97**
Fair value at 31 March 2016	**18**	**64**	**(2)**	**80**
Assets	**18**	**66**	**–**	**84**
Liabilities	**–**	**(2)**	**(2)**	**(4)**
	18	**64**	**(2)**	**80**

	GROUP		COMPANY	
R MILLION	2016	2015	2016	2015
25. TRADE AND OTHER RECEIVABLES				
Gross accounts receivable	**2 410**	2 200	**2 275**	2 034
Allowance for impairment	**(103)**	(98)	**(84)**	(81)
	2 307	2 102	**2 191**	1 953
Prepayments	**2 898**	2 110	**2 811**	1 990
Other receivables	**1 217**	630	**1 184**	608
	6 422	4 842	**6 186**	4 551
Reconciliation of impairment of trade and other receivables				
Opening balance	**(98)**	(125)	**(81)**	(90)
(Impairments)/reversal of impairments	**(14)**	12	**(9)**	(3)
Amounts utilised for write-offs	**9**	15	**6**	12
Closing balance	**(103)**	(98)	**(84)**	(81)

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 – 2016				
BSP	1 020	988	17	15
Credit card	228	159	62	7
GSA	225	172	52	1
Stations	10	–	3	7
Cargo freight and mail	328	153	151	24
Airline catering	8	4	3	1
Travel services	3	2	1	–
Technical maintenance	213	150	45	18
Alliance partners	146	133	13	–
Voyager	57	32	25	–
Default debtors	29	–	–	29
Other trade debtors	143	113	29	1
	2 410	1 906	401	103
COMPANY – 2016				
BSP	1 020	988	17	15
Credit card	228	159	62	7
GSA	225	172	52	1
Stations	10	–	3	7
Cargo freight and mail	328	153	151	24
Alliance partners	146	133	13	–
Voyager	57	32	25	–
Default debtors	30	–	–	30
Other trade debtors	231	202	29	–
	2 275	1 839	352	84

25. TRADE AND OTHER RECEIVABLES (CONTINUED)

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	204	133	56	15
Alliance partners	235	127	108	–
Voyager	71	39	32	–
Default debtors	31	–	–	31
Other trade debtors	31	–	30	1
	2 200	1 684	418	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	78	47	31	–
	2 034	1 593	360	81

	GROUP		COMPANY	
R MILLION	**2016**	2015	**2016**	2015
Past due but not impaired can be analysed further in terms of ageing as follows:				
30 to 60 days	**316**	228	**299**	208
61 to 90 days	**(47)**	19	**(47)**	6
91 to 120 days	**131**	63	**100**	38
+120 days	**1**	108	**–**	108
	401	418	**352**	360
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	**1 880**	1 576	**1 839**	1 485
Trade debtors where there have been isolated instances of default but no loss suffered	**26**	108	**–**	108
	1 906	1 684	**1 839**	1 593

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 R74 million in respect of local GSA debtors and R124 million in respect of Cargo debtors and Cargo GSAs.

R MILLION	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015
26. INVESTMENTS				
Investment in unlisted shares				
SA Airlink (Proprietary) Limited	**35**	35	**35**	35
Impairment of unlisted investment	**(12)**	(17)	**(12)**	(17)
	23	18	**23**	18
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)
	–	–	**–**	–
27. CASH AND CASH EQUIVALENTS				
Cash and cash equivalents consist of:				
Foreign bank accounts	**1 747**	1 043	**1 785**	1 044
Domestic bank accounts	**391**	(1 290)	**(3)**	(1 852)
Short-term investments – call deposits (US$ and EURO denominated)	**177**	121	**177**	121
Total cash and cash equivalents	**2 315**	(126)	**1 959**	(687)
Current assets	**2 409**	1 266	**2 253**	1 212
Current liabilities	**(94)**	(1 392)	**(294)**	(1 899)
	2 315	(126)	**1 959**	(687)

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.

R MILLION	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015
28. 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.

	GROUP		COMPANY	
R MILLION	**2016**	2015	**2016**	2015
29. 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.

	GROUP		COMPANY	
R MILLION	**2016**	2015	**2016**	2015
30. LONG-TERM LOANS				
Secured loans				
External loans	**12 758**	8 322	**12 743**	8 303
The loans are repayable as follows:				
On demand or within one year	**6 248**	4 638	**6 243**	4 634
Two to five years	**5 010**	169	**5 000**	154
Later than five years	**1 500**	3 515	**1 500**	3 515
	12 758	8 322	**12 743**	8 303
Less: Current portion	**(6 248)**	(4 638)	**(6 243)**	(4 634)
	6 510	3 684	**6 500**	3 669
The carrying amounts of long-term loans are denominated in the following currencies:				
Rand denominated domestic loans*	**12 758**	7 991	**12 743**	7 972
US$ denominated foreign loans	**–**	331	**–**	331
	12 758	8 322	**12 743**	8 303

* *Domestic secured loans amounting to R151 million (2015: R344 million) bear interest at JIBAR plus a margin ranging from 1,48% to 2,44% and are secured over aircraft (Note 17). The balance of the loans bear interest at JIBAR plus a margin ranging from 1,00% to 2,75%.*

	GROUP		COMPANY	
R MILLION	**2016**	2015	**2016**	2015
31. RETIREMENT BENEFITS				
Post-retirement medical benefits	**(26)**	(29)	**(26)**	(29)
Retirement benefit obligation	**(102)**	(62)	**(102)**	(62)
Retirement benefit asset	**38**	38	**38**	38
	(90)	(53)	**(90)**	(53)
Non-current assets	**38**	38	**38**	38
Non-current liabilities	**(128)**	(91)	**(128)**	(91)
	(90)	(53)	**(90)**	(53)

R MILLION	Provision for lease liabilities[1]	Other provisions[2]	Total
32. PROVISIONS			
GROUP			
Reconciliation			
Opening balance	1 387	260	1 647
Additions	413	968	1 381
Utilised during the year	(534)	(12)	(546)
Reversed during the year	–	(58)	(58)
Currency revaluation	110	–	110
Balance at 31 March 2015	1 376	1 158	2 534
Current portion	332	–	332
Non-current portion	1 044	1 158	2 202
	1 376	1 158	2 534
Opening balance	**1 376**	**1 158**	**2 534**
Additions	**810**	**97**	**907**
Utilised during the year	**(654)**	**(1)**	**(655)**
Reversed during the year	**–**	**(6)**	**(6)**
Currency revaluation	**100**	**–**	**100**
Balance at 31 March 2016	**1 632**	**1 248**	**2 880**
Current portion	**326**	**160**	**486**
Non-current portion	**1 306**	**1 088**	**2 394**
	1 632	**1 248**	**2 880**
COMPANY			
Reconciliation			
Opening balance	1 378	260	1 638
Additions	413	968	1 381
Utilised during the year	(533)	(12)	(545)
Reversed during the year	–	(58)	(58)
Currency revaluation	110	–	110
Balance at 31 March 2015	1 368	1 158	2 526
Current portion	332	–	332
Non-current portion	1 036	1 158	2 194
	1 368	1 158	2 526
Opening balance	**1 368**	**1 158**	**2 526**
Additions	**809**	**83**	**892**
Utilised during the year	**(654)**	**(1)**	**(655)**
Reversed during the year	**–**	**(6)**	**(6)**
Currency revaluation	**100**	**–**	**100**
Balance at 31 March 2016	**1 623**	**1 234**	**2 857**
Current portion	**317**	**160**	**477**
Non-current portion	**1 306**	**1 074**	**2 380**
	1 623	**1 234**	**2 857**

[1] *For aircraft held under operating lease agreements, SAA is contractually committed either to 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. Further information regarding individual claim amounts has not been provided as this may prejudice the Group/company in its ongoing litigation. Further information has been disclosed in the Directors' report.*

	GROUP		COMPANY	
R MILLION	2016	2015	2016	2015
33. OTHER SHORT-TERM LIABILITIES				
Shareholder loan to South African Airways Employee Share Trust	**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 2016/17 financial year and therefore has been classified as short-term.

	GROUP		COMPANY	
R MILLION	2016	2015	2016	2015
34. DEFERRED REVENUE ON TICKET SALES				
Frequent flyer deferred revenue – long-term	**633**	715	**633**	715
Net air traffic liability – short-term	**3 634**	2 981	**3 491**	2 806
Frequent flyer deferred revenue – short-term	**578**	609	**578**	609
	4 212	3 590	**4 069**	3 415

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.

	GROUP		COMPANY	
R MILLION	2016	2015	2016	2015
35. TRADE AND OTHER PAYABLES				
Trade payables	**947**	1 378	**1 250**	1 574
Other payables*	**6 006**	5 205	**5 536**	4 717
	6 953	6 583	**6 786**	6 291

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

	GROUP		COMPANY	
R MILLION	2016	2015	2016	2015
36. COMMITMENTS				
AUTHORISED CAPITAL EXPENDITURE				
Already contracted for but not provided for				
Capital commitments – contracted in US$	**–**	969	**–**	969
	–	969	**–**	969
Capital commitments in 2015 relate to the Airbus A320 orders and the amount disclosed included escalations to the 2018 financial year. During the year, the contract to acquire these aircraft was amended, particularly with regard to the requirement for pre-delivery payments (PDPs). Hence there are no capital commitments reflected in the current year.				
Operating leases – as lessee (expense)				
Operating lease commitments for property, aircraft, equipment and vehicles are expected to be incurred as follows:				
– within one year	**2 760**	2 746	**2 760**	2 746
– in second to fifth year inclusive	**8 075**	6 260	**8 075**	6 260
– later than five years	**3 664**	4 144	**3 664**	4 144
	14 499	13 150	**14 499**	13 150
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	**175**	212	**175**	212
– in second to fifth year inclusive	**536**	488	**536**	488
– later than five years	**248**	342	**248**	342
	959	1 042	**959**	1 042

37. EMPLOYEE BENEFIT INFORMATION

37.1 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.

37.1.1 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 4 703 members (2015: 5 200) at 31 March 2016. Actuarial valuations are done, at intervals not exceeding three years, to determine its financial position. The last actuarial valuation was performed at 31 March 2016. The actuaries were satisfied with the status of the members' credit account then. The Group's contributions for the period to 31 March 2016 amounted to R427 million (2015: R424 million).

37.1.2 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 70 active members (2015: 83) and 304 pensioners (2015: 300) at 31 March 2016. An actuarial valuation was done as at 31 March 2016 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 a third 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 R5,9 million (2016: R6,7 million) to the defined benefit plan during the next financial year.

PERCENT	2016	2015
Principal actuarial assumptions used:		
Discount rate	**9,26**	7,75
Inflation	**6,94**	5,47
Salary increases		
– Inflation	**7,94**	6,47
Pension increases		
– First three years	**5,21**	4,10
– After three years	**5,21**	4,10

R MILLION	2016	2015
Benefit asset		
Present value of obligation	**(1 592)**	(1 625)
Fair value of plan assets	**2 261**	2 132
Surplus	**669**	507
Asset not recognised	**(631)**	(469)
Net asset per the statement of financial position	**38**	38
Reconciliation of movement in present value of obligation		
Opening benefit liability at the beginning of the year	**(1 625)**	(1 365)
Service cost	**(10)**	(10)
Interest cost	**(122)**	(111)
Remeasurement	**46**	(319)
Benefits paid	**123**	184
Member contributions	**(4)**	(4)
Closing fair value of obligation	**(1 592)**	(1 625)
Reconciliation of fair value of plan assets		
Opening fair value of plan assets	**2 132**	2 001
Return on plan assets	**161**	166
Remeasurement	**82**	139
Employer's contributions	**5**	6
Benefits paid	**(123)**	(184)
Member contributions	**4**	4
Closing fair value of plan assets	**2 261**	2 132

PERCENT	2016	2015
The major categories of plan assets as a percentage of total plan assets are:		
Equity	**34**	36
Property	**8**	9
Bonds	**22**	26
Cash	**9**	6
International	**27**	23
Total	**100**	100

R MILLION	2016	2015
Current-service cost	**10**	10
Interest on obligation	**122**	111
Return on plan assets	**(161)**	(166)
	(29)	(45)

37. EMPLOYEE BENEFIT INFORMATION (CONTINUED)

37.1 SAA GROUP PENSION BENEFITS (CONTINUED)

37.1.2 SAA SUBFUND OF THE TRANSPORT PENSION FUND (CONTINUED)

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 R2 million (2015: R12 million) per Note 16 is arrived at by reducing the net remeasurement gain of R128 million (2015: loss of R180 million) above by R126 million (2015: R192 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 R454 million (2015: R476 million) relating to active employees, RNil (2015: R20 million) relating to deferred members and R1 138 million (2015: R1 129 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.

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 8,5%**	**Increase by 9,9%**
Inflation rate	**1%**	**Increase by 7,7%**	**Decrease by 6,9%**
Pension increase rate increased to 5,5%	**0,29%**	**Decrease by 12,1%**	**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.

37.2 MEDICAL BENEFITS

37.2.1 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 719 continuation members (2015: 412) and 4 242 in-service members (2015: 5 255) at 31 March 2016. The expected retirement age is 63 years and there is no allowance for early retirement. The average age of the continuation members was 70,8 years (2015: 69,4 years) and the average age of the in-service members was 41,8 years (2015: 41,9 years) at 31 March 2016. The Group expects to make a contribution of R1,9 million (2016: R1,1 million) to the defined benefit plan during the next financial year.

	2016	2015
Eligible in-service members:		
Number of members		
Male	**1 975**	2 914
Female	**2 267**	2 341
	4 242	5 255
Average age and average past service		
Average age (years)	**41,8**	41,9
Average past service (years)	**25,4**	15,2
Eligible continuation members:		
Number of members		
Male	**579**	363
Female	**140**	49
	719	412
Average age (years)	**70,8**	69,4

SAA subsidises continuation and in-service members with a fixed amount of R213 (2015: 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 2015 of 15,5 years. The duration of the liability as at 31 March 2016 is 11,8 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.

37. EMPLOYEE BENEFIT INFORMATION (CONTINUED)

37.2 MEDICAL BENEFITS (CONTINUED)

37.2.1 SAA GROUP EMPLOYEES' POST-RETIREMENT MEDICAL BENEFITS (CONTINUED)

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 2016.

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 2016 for SAA Group employees.

The principal actuarial assumptions used were as follows:

PERCENT	2016	2015
Discount rate	**10,05**	8,37

R MILLION	2016	2015
Net benefit liability		
Present value of unfunded benefit obligations	**26**	29
Changes in the present value of defined benefit obligations are as follows:		
Opening liability	**29**	33
Service cost	**1**	1
Interest cost	**2**	3
Remeasurement	**(5)**	(6)
Benefits paid	**(1)**	(2)
Benefit liability at year end	**26**	29
Amounts recognised in the statement of profit or loss and other comprehensive income		
Current-service cost	**1**	1
Interest on obligation	**2**	3
	3	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 9,4%**	**Increase by 11,4%**
Discount rate	**2%**	**Decrease by 17,3%**	**Increase by 25,2%**
Expected retirement age	**one year**	**Decrease by 4,3%**	**Increase by 4,8%**
Expected retirement at 60 years of age	**three years**	**N/A**	**Increase by 15,5%**

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 medical 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.

37.3 SA 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 R3,3 million (2016: R2,6 million) to the defined benefit plan during the next financial year.

Actuarial valuations

Actuarial valuations in terms of the rules of the scheme are done at intervals not exceeding three years to determine its financial position. The most recent actuarial valuation of plan assets and the present value of the defined benefit obligation were carried out in March 2016 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.

PERCENT	2016	2015
Principal actuarial assumptions used:		
Discount rate	**1,94**	1,68
Salary increases	**1,00**	1,00
Pension increases per three years	**3,00**	3,00

R MILLION	2016	2015
Benefit liability		
Present value of obligation	**(427)**	(338)
Fair value of plan assets	**325**	276
Net liability per the statement of financial position	**(102)**	(62)
Reconciliation of movement in present value of obligation		
Opening benefit liability at the beginning of the year	**338**	325
Service cost	**6**	7
Interest cost	**6**	10
Exchange differences on foreign plans	**98**	(39)
Benefits paid	**(13)**	(13)
Remeasurement	**(8)**	48
Closing present value of obligation	**427**	338
Reconciliation of fair value of plan assets		
Opening fair value of plan assets	**276**	285
Exchange differences on foreign plans	**76**	(31)
Return on plan assets	**5**	9
Remeasurement	**(21)**	24
Benefits paid	**(14)**	(14)
Employer's contribution	**3**	3
Closing fair value of plan assets	**325**	276

PERCENT	2016	2015
37. EMPLOYEE BENEFIT INFORMATION (CONTINUED)		
37.3 **SA GERMAN PENSION FUND BENEFITS** (CONTINUED)		
The major categories of plan assets as a percentage of total plan assets are:		
Equity	**27**	28
Cash	**51**	49
Other	**22**	23
Total	**100**	100

R MILLION	2016	2015
Current-service cost	**6**	7
Interest on obligation	**6**	10
Return on plan assets	**(5)**	(9)
	7	8

As at the last valuation date, the present value of the defined benefit obligation was comprised of approximately R130 million (2015: R111 million) relating to active employees, R26 million (2015: R21 million) relating to deferred members and R271 million (2015: R206 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 7,1%**	**Increase by 8,1%**
Salary increase rate	**0,5%**	**Increase by 1,8%**	**Decrease by 1,6%**
Pension increase rate	**0,5%**	**Increase by 1,9%**	**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.

37.4 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	
	2016	2015
37.5 **SHARE-BASED PAYMENTS**		
37.5.1 **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
37.5.2 **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
37.5.3 **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

37.6 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.

37.7 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.

38. 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 29 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 R331 million (2015: R248 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	
R THOUSAND	**2016**	2015	**2016**	2015
RELATED PARTY BALANCES				
Amounts receivable from related parties*				
Subsidiaries	**–**	–	**1 475 849**	1 440 357
Public entities	**9**	27	**9**	27
	9	27	**1 475 858**	1 440 384
Amounts payable to related parties**				
Subsidiaries	**–**	–	**337 693**	374 732
Public entities	**51 369**	52 154	**51 000**	50 998
	51 369	52 154	**388 693**	425 730

* *Amounts receivable represent short- and long-term amounts receivable.*

** *Amounts payable represent short- and long-term amounts payable.*

R THOUSAND	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015
RELATED PARTY TRANSACTIONS				
Sales of goods/services				
Subsidiaries	**–**	–	**704 763**	510 558
Public entities	**9**	116	**9**	116
	9	116	**704 772**	510 674
Purchases of goods/services				
Subsidiaries	**–**	–	**3 125 659**	3 143 302
Public entities	**787 339**	1 369 870	**109 592**	762 448
	787 339	1 369 870	**3 235 251**	3 905 750
Other transactions				
Shareholder*	**109 552**	97 766	**109 552**	97 766
Subsidiaries	**–**	–	**38 347**	37 713
Key management personnel**	**50 746**	44 040	**33 146**	27 039
	160 298	141 806	**181 045**	162 518

* *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 44. 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 2016				DIRECTORS' FEES AND TRAVEL BENEFITS 2015			
	FEES	NUMBER OF FLIGHTS			FEES	NUMBER OF FLIGHTS		
	R'000	International	Domestic	Regional	R'000	International	Domestic	Regional
Key management personnel compensation is set out below:								
Board of Directors								
Non-executive								
DC Myeni	**912**	**–**	**–**	**–**	846	–	2	–
Y Kwinana	**425**	**–**	**–**	**–**	463	–	12	4
AD Dixon(1)	**236**	**–**	**–**	**–**	171	–	–	–
JE Tambi(2)	**408**	**–**	**–**	**–**	181	1	–	–
A Khumalo(3)	**–**	**–**	**–**	**–**	206	–	18	–
R Lepule(4)	**–**	**–**	**–**	**–**	221	–	2	–
B Mpondo(4)	**–**	**–**	**–**	**–**	225	–	9	–
N Kubeka(5)	**–**	**–**	**–**	**–**	195	–	2	–
A Mabizela(5)	**–**	**–**	**–**	**–**	213	–	3	–
C Roskruge(5)	**–**	**–**	**–**	**–**	220	6	15	–
R Naithani(6)	**–**	**–**	**–**	**–**	240	–	–	–
	1 981	**–**	**–**	**–**	3 181	7	63	4

(1) *Appointed 23 October 2014 and resigned 30 October 2015.*

(2) *Appointed 23 October 2014.*

(3) *Resigned 16 October 2014.*

(4) *Resigned 17 October 2014.*

(5) *Resigned 22 October 2014.*

(6) *Removed 23 October 2014.*

In terms of the Group's travel benefits policy as referred to in Note 37.7, 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	Other benefits[1]	Total
38. **RELATED PARTIES** (CONTINUED)					
SHORT-TERM EMPLOYEE BENEFITS 2016					
Executive directors[2]					
M Kalawe[3]	379	–	–	2 825	3 204
WH Meyer[4]	2 577	–	–	3 104	5 681
M Zwane[5]	41	–	–	–	41
P Nhantsi[6]	240	–	–	–	240
	3 237	–	–	5 929	9 166
Executive Committee					
N Bezuidenhout[7]	1 061	–	–	–	1 061
M Zwane[5]	175	–	–	–	175
P Nhantsi[6]	939	–	–	–	939
ME Mpshe[8]	2 495	126	229	–	2 850
TP Makhetha	2 802	–	–	–	2 802
Z Ramasia	2 502	–	179	–	2 681
U Fikelepi	2 124	–	–	–	2 124
P Ncala	2 929	–	–	–	2 929
S Bosc	3 372	1 678	–	–	5 050
L Jiya	2 258	–	–	–	2 258
J du Plessis[9]	541	105	54	–	700
A Munetsi[10]	328	56	27	–	411
	21 526	1 965	489	–	23 980

[1] *Other benefits relate to amounts paid on termination of contract.*

[2] *Executive directors of the Board are also members of the Executive Committee.*

[3] *Resigned 22 April 2015.*

[4] *Resigned 16 November 2015.*

[5] *Appointed as Acting CEO effective 14 November 2015 and appointed as an Executive director effective 4 March 2016.*

[6] *Appointed as Interim CFO effective 25 November 2015 and appointed as an Executive director effective 4 March 2016.*

[7] *Appointed as Acting CEO until 28 July 2015.*

[8] *Appointed as Acting CEO effective 29 July 2015 until 13 November 2015.*

[9] *Appointed to the Executive Committee effective 14 September 2015.*

[10] *Appointed to the Executive Committee effective 14 December 2015.*

R THOUSAND	Salaries	Allowances	Fund contributions	Total
SHORT-TERM EMPLOYEE BENEFITS 2015				
Executive directors[(1)]				
M Kalawe	4 553	–	–	4 553
WH Meyer	3 661	–	–	3 661
	8 214	–	–	8 214
Executive Committee				
N Bezuidenhout[(2)]	1 280	–	–	1 280
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
	17 485	956	384	18 825

[(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.*

38. RELATED PARTIES (CONTINUED)

	2016			2015		
	TRAVEL BENEFITS NUMBER OF FLIGHTS			TRAVEL BENEFITS NUMBER OF FLIGHTS		
	International	**Domestic**	**Regional**	International	Domestic	Regional
Executive directors						
M Kalawe[1]	**–**	**3**	**–**	2	62	–
WH Meyer[2]	**8**	**15**	**5**	5	20	–
M Zwane[3]	**–**	**–**	**–**	–	–	–
P Nhantsi[4]	**–**	**–**	**–**	–	–	–
	8	**18**	**5**	7	82	–
Executive Committee						
N Bezuidenhout[5]	**5**	**1**	**–**	3	–	4
M Zwane[3]	**–**	**2**	**–**	–	–	–
ME Mpshe[6]	**2**	**24**	**–**	5	16	–
TP Makhetha	**3**	**3**	**1**	4	–	–
Z Ramasia	**17**	**38**	**–**	13	35	10
K Phohleli[7]	**–**	**–**	**–**	3	16	–
U Fikelepi[8]	**–**	**14**	**–**	1	16	–
P Ncala[9]	**14**	**–**	**–**	7	–	–
S Bosc[10]	**19**	**27**	**12**	3	4	–
L Jiya[11]	**1**	**26**	**6**	–	13	2
J du Plessis[12]	**3**	**2**	**–**	–	–	–
A Munetsi[13]	**1**	**–**	**7**	–	–	–
	65	**137**	**26**	39	100	16

(1) *Resigned 22 April 2015.*

(2) *Resigned 16 November 2015.*

(3) *Appointed as Acting CEO effective 14 November 2015 and appointed as an Executive director effective 4 March 2016.*

(4) *Appointed as Interim CFO effective 25 November 2015 and appointed as an Executive director effective 4 March 2016.*

(5) *Appointed as Acting CEO until 28 July 2015.*

(6) *Appointed as Acting CEO effective 29 July 2015 until 13 November 2015.*

(7) *Appointed to the Executive Committee in an acting capacity effective 23 October 2013 until 30 June 2014.*

(8) *Appointed 1 November 2013.*

(9) *Appointed 1 December 2013.*

(10) *Appointed 1 July 2014.*

(11) *Appointed 1 October 2014.*

(12) *Appointed to the Executive Committee effective 14 September 2015.*

(13) *Appointed to the Executive Committee effective 14 December 2015.*

R MILLION	GROUP 2016	GROUP 2015	COMPANY 2016	COMPANY 2015
39. CASH (USED IN)/GENERATED FROM OPERATIONS				
Loss before taxation	**(1 373)**	(5 627)	**(1 335)**	(5 340)
Adjustments for:				
Depreciation and amortisation on property, aircraft and equipment	**690**	778	**620**	714
Net loss on disposal of property, aircraft and equipment	**6**	9	**2**	3
Amortisation of intangible assets	**35**	41	**29**	34
Impairment of aircraft	**–**	1 508	**–**	1 508
(Reversal of impairment)/impairment of loans to subsidiaries	**–**	–	**(1)**	3
Derivative market movements	**(57)**	367	**(57)**	367
Impairment of investments in subsidiaries	**–**	–	**90**	–
Interest income	**(26)**	(26)	**(11)**	(16)
Finance costs	**861**	490	**894**	523
Release from air traffic liability	**(396)**	(400)	**(396)**	(400)
Movement in employee benefit obligations	**37**	18	**37**	18
Impairment/(reversal of impairment) of accounts receivable	**14**	(12)	**9**	3
Non-cash movement on retirement benefit plans	**(6)**	(6)	**(6)**	(6)
Release from passenger tax levies	**(418)**	(301)	**(418)**	(301)
Non-cash movement on shareholder restructuring fund	**(119)**	–	**(119)**	–
Unrealised foreign exchange loss on revaluation of loans	**–**	52	**–**	52
Unrealised foreign exchange loss/(gain) on cash and cash equivalents	**64**	(49)	**66**	(50)
Movement in retirement benefit asset	**–**	(9)	**–**	(9)
Changes in working capital:				
Transfer of PDPs to capital work in progress	**–**	826	**–**	826
Movement in non-current portion of maintenance reserve receivable	**177**	(587)	**177**	(587)
Movement in non-current portion of PDPs	**(49)**	–	**(49)**	–
Inventories	**(2)**	83	**20**	(12)
Trade and other receivables	**(1 594)**	53	**(1 679)**	(56)
Trade and other payables	**788**	386	**913**	332
Air traffic liability	**1 049**	(226)	**1 081**	(236)
Frequent flyer deferred revenue	**(113)**	(123)	**(113)**	(123)
Provisions	**346**	887	**331**	888
	(86)	(1 868)	**85**	(1 865)

	GROUP		COMPANY	
R MILLION	**2016**	2015	**2016**	2015
40. TAX PAID				
Movement in the deferred tax balance in the current year	**99**	18	**–**	–
Movement in the current tax receivable balance in the current year	**(19)**	(5)	**–**	–
Current tax recognised for the year	**(100)**	(37)	**–**	–
	(20)	(24)	**–**	–

R MILLION	Notes	Financial liabilities at amortised cost	Fair value through profit or loss held-for-trading*	Total
41. 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 – 2016				
Long- and short-term liabilities	30	**12 758**	**–**	**12 758**
Shareholder loan to share trust	33	**63**	**–**	**63**
Trade and other payables	35	**2 681**	**–**	**2 681**
Bank overdraft	27	**94**	**–**	**94**
Jet fuel forward exchange contracts and swaps	24	**–**	**2**	**2**
Currency derivatives	24	**–**	**2**	**2**
		15 596	**4**	**15 600**
GROUP – 2015				
Long- and short-term liabilities	30	8 322	–	8 322
Shareholder loan to share trust	33	63	–	63
Trade and other payables	35	3 021	–	3 021
Bank overdraft	27	1 392	–	1 392
Jet fuel forward exchange contracts and swaps	24	–	346	346
		12 798	346	13 144

* *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	Loans and receivables	Fair value through profit or loss held-for-trading*	Available-for-sale	Total
42. 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 – 2016					
Currency derivatives	24	**–**	**66**	**–**	**66**
Jet fuel options	24	**–**	**18**	**–**	**18**
Trade and other receivables	25	**6 234**	**–**	**–**	**6 234**
Cash and cash equivalents	27	**2 409**	**–**	**–**	**2 409**
Investment in SA Airlink (Proprietary) Limited	26	**–**	**–**	**23**	**23**
Maintenance reserve receivable	23	**1 790**	**–**	**–**	**1 790**
		10 433	**84**	**23**	**10 540**
GROUP – 2015					
Currency derivatives	24	–	116	–	116
Jet fuel options	24	–	55	–	55
Trade and other receivables	25	4 767	–	–	4 767
Cash and cash equivalents	27	1 266	–	–	1 266
Investment in SA Airlink (Proprietary) Limited	26	–	–	18	18
Maintenance reserve receivable	23	1 967	–	–	1 967
		8 000	171	18	8 189

** 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.*

43. RISK MANAGEMENT

43.1 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 four financial years the impairment was reversed by a total of R18 million. There was a further reversal of R5 million in the current financial year. The investment is classified as a level 3 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 percent 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.

43. RISK MANAGEMENT (CONTINUED)

43.1 FINANCIAL INSTRUMENTS CATEGORIES (CONTINUED)

FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

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.

43.2 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, Head Cash Management, Chief Dealer, Risk Manager, Financial Risk Manager, Fuel Management, Head Financial Accounting and CFOs 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.

43.3 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.

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.

43.4 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;
- 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 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 timeous basis, and could result in reputational damage should a default occur.

The cash management and liquidity risk management processes are aimed at ensuring that the Group is managing its cash resources optimally, has sufficient funds to meet its day-to-day financial obligations, has established prudent limits on the percentage of debt that can mature in any financial year, is investing any cash surpluses in an appropriate and authorised way and has sufficient facilities in place to provide its 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 through the normal tendering process within SAA and 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;
- 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 dependent 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;
- 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
43. RISK MANAGEMENT (CONTINUED)								
43.4 **FINANCIAL RISK MANAGEMENT** (CONTINUED)								
COMMITTED FUNDING FACILITIES (CONTINUED)								
GROUP – 31 MARCH 2016**								
Non-derivative financial liabilities								
ZAR denominated secured loans	**12 758**	**12 767**	**–**	**3 116**	**41**	**3 099**	**5 011**	**1 500**
Accounts payable	**6 953**	**6 953**	**–**	**6 953**	**–**	**–**	**–**	**–**
Shareholder loan to share trust	**63**	**63**	**–**	**–**	**–**	**63**	**–**	**–**
Total	**19 774**	**19 783**	**–**	**10 069**	**41**	**3 162**	**5 011**	**1 500**
Derivative financial instruments								
Fuel – Asian options	**18**	**18**	**–**	**1**	**5**	**12**	**–**	**–**
FX – currency options	**66**	**66**	**23**	**22**	**16**	**5**	**–**	**–**
Fuel – swap liabilities	**(2)**	**(2)**	**–**	**–**	**–**	**(2)**	**–**	**–**
Forward exchange contracts – liabilities	**(2)**	**(2)**	**(1)**	**–**	**–**	**(1)**	**–**	**–**
Total	**80**	**80**	**22**	**23**	**21**	**14**	**–**	**–**
GROUP – 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	7 991	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	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)	(191)	–	–	–
Total	(175)	(175)	(94)	15	(122)	26	–	–

** 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.*

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;
- 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;
- 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 2016, the current interest rate exposure to fixed debt is 54 percent and 46 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.

43.5 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 implement 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.

43. RISK MANAGEMENT (CONTINUED)

43.5 CREDIT RISK MANAGEMENT (CONTINUED)

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:

	GROUP		COMPANY	
R MILLION	2016	2015	2016	2015
Financial instruments				
Cash and cash equivalents	**2 409**	1 266	**2 253**	1 212
Amounts receivable from subsidiaries*	**–**	–	**1 476**	1 440
Derivative assets held-for-trading	**84**	171	**84**	171
Trade and other receivables	**6 234**	4 767	**6 031**	4 531
Investments	**23**	18	**23**	18
Maintenance reserve receivable	**1 790**	1 967	**1 790**	1 967

** These amounts are not past due or impaired.*

			IMPACT ON OTHER COMPONENTS OF EQUITY IN RAND*		
	Foreign currency amount ’000	**Carrying amount R’000**	**+21%* -21% US$ R’000**	**+17%* -17% EUR R’000**	**+15%* -15% GBP R’000**
Financial instruments					
Accounts receivable					
31 MARCH 2016					
US$ denominated	**221 385**	**3 269 376**	**686 569**	**–**	**–**
EUR denominated	**30 856**	**518 553**	**–**	**88 154**	**–**
GBP denominated	**6 753**	**143 216**	**–**	**–**	**21 482**
		3 931 145	**686 569**	**88 154**	**21 482**

			IMPACT ON OTHER COMPONENTS OF EQUITY IN RAND*		
	Foreign currency amount ’000	Carrying amount R’000	+25%* -25% US$ R’000	+16%* -16% EUR 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
		3 230 539	708 586	46 105	15 125

** 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.

43. RISK MANAGEMENT (CONTINUED)

43.6 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 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 up to 75 percent of its exposure on an 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;
- 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;
  - 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:

	2016	2015
Exchange rates used expressed in the number of rands per unit of foreign currency:		
United States dollar (US$)	**14,77**	12,13
Euro (EUR)	**16,81**	13,02
Pounds sterling (GBP)	**21,21**	17,98

	FOREIGN AMOUNT		RAND AMOUNT	
FIGURES IN MILLION	**2016**	2015	**2016**	2015
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	**221**	234	**3 269**	2 834
Euro	**31**	22	**519**	288
UK pound	**7**	6	**143**	108
Hong Kong dollar	**11**	11	**20**	17
Danish krone	**3**	2	**6**	3
Swiss franc	**2**	1	**30**	15
Australian dollar	**4**	4	**48**	38
Brazilian real	**29**	24	**119**	90
Thai baht	**3**	4	**1**	1
Malawian kwacha	**637**	413	**14**	11
Other	**–**	–	**453**	457
			4 622	3 862
Accounts payable				
US dollar	**28**	48	**418**	584
Euro	**17**	19	**283**	246
UK pound	**2**	2	**45**	43
Australian dollar	**3**	4	**39**	36
Benin CFA Franc BCEAO	**5**	19	**–**	–
Other	**–**	–	**64**	182
			(849)	(1 091)
Accounts receivable as above			**4 622**	3 862
Net exposure			**3 773**	2 771

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 24 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 101 million litres (2015: 107 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, i.e. 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;
- 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.

43. RISK MANAGEMENT (CONTINUED)

43.6 MARKET RISK MANAGEMENT (CONTINUED)

PRICE RISK ASSOCIATED WITH COMMODITIES (CONTINUED)

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.

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 -21% US$ R'000	Profit/(loss) impact +21% US$ R'000	Loss impact -34% Brent -32% WTI -32% gas oil -28% jet fuel R'000	Profit impact +34% Brent +32% WTI +32% gas oil +28% jet fuel R'000
GROUP AND COMPANY**						
Derivative financial instruments						
31 MARCH 2016						
ICE Brent commodity derivatives						
Fixed swaps – liabilities	(127)	(1 875)	394	(394)	(3 123)	(627)
Call spreads	400	5 905	(1 240)	1 240	5 146	6 712
Asian call option	823	12 153	(2 552)	2 552	10 344	14 227
ICE gas oil commodity derivatives						
Call spreads	12	179	(38)	38	134	234
US$ foreign exchange derivatives						
European options	–	65 549	(64 545)	165 823	–	–
Forward exchange contracts – liabilities	–	(2 402)	(1 614)	–	–	–
		79 509	(69 595)	169 259	12 501	20 546

	Foreign currency amount '000	Carrying amount R'000	CURRENCY* Profit/(loss) impact -25% US$ R'000	CURRENCY* Profit/(loss) impact +25% US$ R'000	COMMODITY PRICE DERIVATIVES* Loss impact -13% Brent -24% WTI -27% gas oil -23% jet fuel R'000	COMMODITY PRICE DERIVATIVES* 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)	(111 379)	27 845	(27 845)	111 379	(111 379)
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)	58 752	(58 752)	25 877	(12 869)
Asian put option	3 033	36 793	(9 198)	9 198	(4 716)	1 816
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	(106 875)

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

*** A separate liquidity 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
43. RISK MANAGEMENT (CONTINUED)				
43.6 **MARKET RISK MANAGEMENT** (CONTINUED)				
Fair value hierarchy and fair value measurements of all financial assets and liabilities held at fair value: GROUP AND COMPANY				
31 MARCH 2016				
Assets				
Jet fuel options	**–**	**18**	**–**	**18**
Currency derivatives	**–**	**66**	**–**	**66**
	–	**84**	**–**	**84**
Liabilities				
Jet fuel forward exchange contracts and swaps	**–**	**2**	**–**	**2**
Currency derivatives	**–**	**2**	**–**	**2**
	–	**4**	**–**	**4**
31 MARCH 2015				
Assets				
Jet fuel options	–	55	–	55
Currency derivatives	–	116	–	116
	–	171	–	171
Liabilities				
Jet fuel forward exchange contracts and swaps	–	346	–	346

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);
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

			CURRENCY[1]		INTEREST RATE[1]	
	Foreign currency amount '000	Carrying amount R'000	Profit/(loss) impact -21% US$ R'000	Profit/(loss) impact +21% US$ R'000	Profit/(loss) impact -16 BPS US$ -54 BPS ZAR R'000	Profit/(loss) impact +16 BPS US$ +54 BPS ZAR R'000
GROUP AND COMPANY						
Non-derivative financial instruments						
31 MARCH 2016						
Secured borrowing – JIBAR floating debt (ZAR denominated)	**–**	**12 758 308**	**–**	**–**	**68 895**	**(68 895)**
Accounts payable (US$ denominated)	**28 301**	**417 938**	**87 767**	**(87 767)**	**–**	**–**
Total financial liabilities		**13 176 246**	**87 767**	**(87 767)**	**68 895**	**(68 895)**
Foreign cash and cash equivalents (Favourable cash – US$ equivalent)	**130 295**	**1 924 171**	**(404 076)**	**404 076**	**(3 079)**	**3 079**
ZAR based cash and cash equivalents (Net favourable cash)	**–**	**390 814**	**–**	**–**	**(2 110)**	**2 110**
Total financial assets		**2 314 985**	**(404 076)**	**404 076**	**(5 189)**	**5 189**

			CURRENCY[1]		INTEREST RATE[1]	
	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		1 164 508	(291 127)	291 127	(1 630)	1 630

43. RISK MANAGEMENT (CONTINUED)

43.6 MARKET RISK MANAGEMENT (CONTINUED)

			IMPACT ON OTHER COMPONENTS OF EQUITY IN RAND[1]	
	Foreign currency amount '000	Carrying amount R'000	+17% -17% EUR/US$ R'000	+15% -15% GBP/US$ R'000
GROUP AND COMPANY				
Non-derivative financial instruments				
31 MARCH 2016				
Denominated in EUR and GBP[2]				
Accounts payable – EUR	**16 812**	**282 538**	**48 031**	**–**
Accounts payable – GBP	**2 133**	**45 242**	**–**	**6 786**
		327 780	**48 031**	**6 786**

			IMPACT ON OTHER COMPONENTS OF EQUITY IN RAND[1]	
	Foreign currency amount '000	Carrying amount R'000	+16% -16% EUR/US$ R'000	+14% -14% GBP/US$ R'000
GROUP AND COMPANY				
Non-derivative financial instruments				
31 MARCH 2015				
Denominated in EUR and GBP[2]				
Accounts payable – EUR	18 867	245 625	39 300	–
Accounts payable – GBP	2 390	42 966	–	6 015
		288 591	39 300	6 015

[1] *The percentages 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 one, three and six 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 is 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.

R THOUSAND	2016	2015
44. DIRECTORS' EMOLUMENTS FOR SAA SUBSIDIARIES		
EXECUTIVE DIRECTORS' EMOLUMENTS		
Mango Airlines SOC Limited		
Mr N Bezuidenhout		
Salary	**2 064**	1 653
Variable pay	**–**	2 766
	2 064	4 419
Ms M Ebersohn[(1)]		
Salary	**–**	–
Variable pay	**–**	454
	–	454
Ms P Luhabe		
Salary	**1 088**	1 184
Variable pay	**489**	1 091
	1 577	2 275
Ms M Labuschagne[(3)]		
Salary	**1 348**	1 224
Variable pay	**529**	439
	1 877	1 663
SAA Technical SOC Limited		
Mr M Zwane		
Salary	**3 452**	3 325
Allowance	**360**	360
	3 812	3 685
Mr D Erriah[(4)]		
Salary	**1 904**	705
	1 904	705
Mr A Malola-Phiri[(5)]		
Salary	**606**	–
Retirement fund contributions	**34**	–
	640	–
Air Chefs SOC Limited		
Mr M Kemp		
Salary	**1 289**	1 222
Retirement fund contributions	**128**	122
Allowance	**587**	621
	2 004	1 965
Mr L Hudson[(6)]		
Salary	**1 498**	950
	1 498	950
South African Airways City Center SOC Limited		
Ms GB Koyana[(7)]		
Salary	**378**	852
Allowance	**–**	33
Other benefits[(2)]	**1 846**	–
	2 224	885

44. DIRECTORS' EMOLUMENTS FOR SAA SUBSIDIARIES (CONTINUED)

EXECUTIVE DIRECTORS' EMOLUMENTS (CONTINUED)

(1) *Resigned 14 January 2014.*

(2) *Other benefits relate to amounts paid on termination of contract.*

(3) *Appointed 26 August 2014.*

(4) *Appointed 6 November 2014.*

(5) *Appointed as Acting CEO effective 23 November 2015.*

(6) *Appointed 13 August 2014.*

(7) *Resigned 30 June 2015.*

R THOUSAND	2016	2015
NON-EXECUTIVE DIRECTORS' EMOLUMENTS		
Mango Airlines SOC Limited		
Mr R Wally	**498**	514
Mr T Adams	**158**	158
Mr A Khumalo[8]	**–**	77
Dr R Naithani[9]	**–**	58
Ms L Barnard[10]	**61**	54
	717	861
SAA Technical SOC Limited		
Mr M Kalawe[11]	**–**	–
Ms Y Kwinana	**601**	281
Mr B Mpondo[12]	**–**	328
Mr A Mabizela[13]	**–**	72
Mr BK Parsons[14]	**–**	–
Dr JE Tambi[15]	**128**	19
Mr AD Dixon[16]	**21**	–
	750	700
Air Chefs SOC Limited		
Mr M Kalawe[11]	**–**	–
Ms N Kubeka[13]	**–**	249
Ms C Roskruge[13]	**–**	48
Mr N Vlok[17]	**–**	–
Ms DC Myeni[18]	**89**	–
Dr JE Tambi[19]	**37**	–
	126	297

R THOUSAND	2016	2015
South African Airways City Center SOC Limited		
Mr M Kalawe[(11)]	**–**	–
Ms C Roskruge[(13)]	**–**	160
Dr R Naithani[(9)]	**–**	33
Ms N Kubeka[(13)]	**–**	36
Ms Y Kwinana[(20)]	**65**	10
Mr T Lehasa[(21)]	**–**	–
Dr JE Tambi[(22)]	**38**	–
	103	239

[(8)] *Resigned 16 October 2014.*

[(9)] *Removed 23 October 2014.*

[(10)] *Appointed 15 September 2014.*

[(11)] *Resigned 22 April 2015.*

[(12)] *Resigned 17 October 2014.*

[(13)] *Resigned 22 October 2014.*

[(14)] *Appointed 2 December 2014 and resigned 24 July 2015.*

[(15)] *Appointed 6 February 2015.*

[(16)] *Appointed 26 August 2015 and resigned 30 October 2015.*

[(17)] *Appointed 7 January 2015 and resigned 26 August 2015.*

[(18)] *Appointed 28 May 2015.*

[(19)] *Appointed 4 March 2016.*

[(20)] *Appointed 4 December 2014.*

[(21)] *Appointed 6 January 2015.*

[(22)] *Appointed 26 August 2015.*

45. GOING CONCERN

As with previous years, SAA remains undercapitalised. Five 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.

On the 8th of September 2016, a perpetual guarantee of R4,7 billion was approved by the Shareholder. This guarantee has certain conditions over and above those attached to the existing guarantees, these conditions relate to actions required to stabilise the airline and ensure that it returns to profitability in line with its approved Corporate Plan and includes the following key deliverables:

- The primary focus of the Board must be to return the airline to financial sustainability;
- SAA must implement more aggressive cost-cutting initiatives;
- The Board is required to appoint a permanent CEO, CFO and other key executives in consultation with the Minister of Finance; and
- Funding must be secured to meet the airline's liquidity requirements.

The total of these guarantees amounts to R19,1 billion and are providing reasonable comfort that SAA will have the ability to continue as a going concern in the foreseeable future.

The directors are of the view that the guarantee support by its Shareholder would be adequate for the going concern requirement in the foreseeable future, being 12 months from the date of approval of these annual financial statements. The company is in the process of restructuring its existing short-term facilities, which include the repayment of facilities due in the next six months of R4,5 billion. The process of engaging with the institutions to refinance the facilities that are maturing in the next six months has been initiated and is, at the time of finalising the annual financial statements, ongoing.

In the absence of the timing and extent of the expected Shareholder support in the form of a capital injection, these guarantees provide reasonable comfort that SAA would have the ability to continue operating as a going concern. The directors, however, remain of the view that a more permanent appropriate capital structure is required for the airline.

46. INFORMATION REQUIRED BY THE PUBLIC FINANCE MANAGEMENT ACT

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.

The 2015/16 financial year has seen a significant reduction in PFMA non-compliance compared to 2014/15. This is mainly attributable to an increase in control measures by management, eg disciplinary procedures to reduce PFMA contraventions.

The table below indicates the PFMA non-compliance for 2015/16 compared to the 2014/15 financial year:

Category of PFMA non-compliance	**2016**	2015
Irregular spend without loss	**R5,4m**	R68,5m
Fruitless and wasteful expenditure	**R7,3m**	R52,7m
Loss due to criminal conduct	**R0,1m**	–
Recoveries	**(R8,3m)**	(R7,4m)

In terms of the loss due to criminal conduct, the employees involved in these thefts have been disciplined and dismissed from SAA. The monies stolen have been recovered from their pensions and recorded in the recoveries category.

The organisation will continuously review and update interactions that will assist the organisation to further reduce the PFMA non-compliance. Some of the interactions that are currently being monitored are:

- Review of the contract management department structure. The optimal structure will assist the organisation in ensuring the contract management process is appropriate to discharge the cost effective, transparent and fair objectives of the procurement process.
- Review the control measures such as disciplinary processes, to ensure consistent application within the organisation.

Corporate information

COUNTRY OF INCORPORATION AND DOMICILE

The Republic of South Africa

COMPANY REGISTRATION NUMBER

1997/022444/30

DIRECTORS

Resigned
Three resignations from the Board in 2015/16

Directors during the reporting period
DC Myeni
Y Kwinana
M Kalawe*
WH Meyer*
AD Dixon*
JE Tambi
M Zwane
P Nhantsi
**Resigned 2015/16*

COMPANY SECRETARY

R Kibuuka

BANKERS

Standard Bank Limited
Nedbank, a division of Nedbank Group Limited
Citibank of South Africa (Pty) Limited

AUDITORS

Nkonki Inc

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PO Box 1503, Saxonwold 2132

Tel: +27 (11) 517 3000
Fax: +27 (11) 807 8630
Web: www.nkonki.com

PricewaterhouseCoopers Inc

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Private Bag X36, Sunninghill 2157, South Africa

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Fax: +27 (11) 797 5800
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OR Tambo International Airport
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NOTES

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South African Airways

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