

# DEFINITIONS

ACSA	Airports Company South Africa
ASK	Available Seat Kilometre
CAA	Civil Aviation Association
CASK	Cost per Available Seat Kilometre
CIP	Commercially Important Passenger
CRM	Customer Relationship Management
CVP	Customer Value Proposition
DOT	Department of Transport
dti	Department of Trade and Industry
EDTO	Extended Diversion Time Operations
FFP	Frequent Flyer Programme
Fifth Freedom	The right of an airline to carry revenue traffic between foreign countries as part of a service connecting the airline's own country
FTK	Freight Tonne Kilometres
GSM	Global Supply Management
IATA	International Air Transport Association
IFE	In-flight Entertainment
HR	Human Resources
IT/S	Information Technology/Services
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
OECD	Organisation for Economic Co-operation and Development
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 Kilometres
SAX	SA Express
SACAA	South African Civil Aviation Authority
SLA	Service Level Agreement
SMME	Small-, Medium-, and Micro-sized Enterprises
SOC	State-owned Company
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





## ACHIEVEMENT

### **SOUTH AFRICAN AIRWAYS (SAA) HAS WON THE BEST STAFF SERVICE AWARD AT THE WORLD AIRLINE AWARDS RUN BY AVIATION EXPERTS SKYTRAX FOUR TIMES.**

"To win the Best Staff Service award shows that our customer-facing employees are our true brand ambassadors who made a difference to more than 19 million travelling customers. Feedback on excellent customer service is simply priceless," says Zuks Ramasia, SAA General Manager Operations.

These awards are based on unsolicited customer feedback which makes them the benchmark of airline excellence.

"Customer feedback is very important, and we incorporate customer feedback and insights gained therefrom into improving the overall customer experience. Winning the Best Staff Service is testimony to our commitment to reach and maintain one of our strategic objectives of Excellent Customer Service. This award celebrates the excellence of our staff," says Ramasia.



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**GOVERNANCE, RISK  
AND COMPLIANCE**

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# GOVERNANCE REPORT

## LEADERSHIP OF THE COMPANY

### SAA GROUP BOARD

As at 31 March 2017, the SAA Board comprised of the following Members:

#### Non-Executive Directors

Ms Duduzile Myeni (*Chairperson*)  
 Ms Tryphosa Ramano (*Deputy Chairperson*)  
 Mr Siphile Buthelezi  
 Mr Peter Maluleka  
 Mr Mzimkulu Malunga  
 Dr Martha Mbatha  
 Ms Thandeka Mgoduso  
 Ms Nazmeera Moola  
 Mr Akhter Moosa  
 Ms Gugu Sepamla  
 Ms Swazi Tshabalala  
 Mr Peter Tshisevhe

#### Executive Directors

Mr Musa Zwane (*Acting Group CEO*)  
 Ms Phumeza Nhantsi (*Interim Chief Financial Officer*)

The Board of the Company comprises of a mix of independent non-Executive Directors and Executive Directors. The independent non-Executive Directors are the majority. The Memorandum of Incorporation (MOI) stipulates that the SAA Board consist of a minimum of five Directors and a maximum of 15 directors who are to be appointed by the Minister of Finance in consultation with Cabinet. At year-end, the Board comprised of 12 non-Executive Directors and two Executive Directors.

The Board comprises an appropriate balance of knowledge, skills, experience, diversity and independence. This allows it to discharge its governance role and responsibilities objectively and effectively.

## KEY BOARD CHANGES DURING THE YEAR

During the year, there were a number of movements in the Board. Ms Yakhe Kwinana resigned from the Board on 23 August 2016. Subsequent to this, the Shareholder made a number of changes to the Board on 1 September 2016. Dr John Tambi was released from the Board on 1 September 2016 and the following non-Executive Director appointments were made, on the same date:

Ms Tryphosa Ramano (*Deputy Chairperson*)  
 Mr Siphile Buthelezi  
 Mr Peter Maluleka  
 Mr Mzimkulu Malunga  
 Dr Martha Mbatha  
 Ms Thandeka Mgoduso  
 Ms Nazmeera Moola  
 Mr Akhter Moosa  
 Ms Gugu Sepamla  
 Ms Swazi Tshabalala  
 Mr Peter Tshisevhe

## KEY ROLES IN THE BOARD

The Board derives its duties, responsibilities, and powers from the Memorandum of Incorporation (MOI), Board Charter, which are informed by the Companies Act and the Public Finance Management Act, and Shareholder's directives such as the Shareholder's Compact, amongst others.

SAA has put systems and processes in place to ensure compliance with the aforementioned documents and legislation.

According to the MOI and good corporate governance principles, an independent non-Executive Chairperson leads the entire Board and business is led by the Acting Group Chief Executive Officer (Group Acting CEO). The Board Charter goes further to separate the roles and responsibilities of the Board Chairperson and the Group Acting CEO.

All the Members of the Board have unrestricted access to the Company Secretary for guidance and any information they require. They are also entitled to seek independent professional advice, in appropriate circumstances, at the Company's expense. None of the non-Executive Directors participate in any bonus, share option, or pension scheme of the Company. Every financial year the performance of the Board and individual Directors is evaluated with the assistance of an independent organisation.

SAA continues to implement initiatives that continuously improve the effectiveness and efficiency of the Board and its structures.

In the discharge of its duties, the Board meets regularly and retains full and effective management and control over the Company. The Board serves as the focal point and custodian of corporate governance in the Company. Among its other duties, it approves and monitors the development and implementation of policies, strategies, and the annual Board Work Plan. Furthermore, the agenda of the Board and its governance structures are designed in a manner that enables focus on policies, strategy, performance monitoring, governance, and related matters.

### The Board Chairperson ("Chairperson")

The role of the Chairperson is set out in the Board Charter and includes the following:

- The Chairperson is responsible for representing the Board to the Executive Authority and indirectly to the general public for performance
- The Chairperson is responsible for setting the ethical tone for the Board and the Company
- The Chairperson is responsible for ensuring the integrity and effectiveness of the governance process of the Board
- The Chairperson acts as facilitator at meetings of the Board to ensure that no member, whether executive or non-executive, dominates discussion, that appropriate discussion takes place and that relevant opinion among members is forthcoming. The Chairperson also ensures that discussions result in concise outcomes and precise decisions to permit effective implementation
- The Chairperson maintains control of the proceedings without dominating discussions
- Between Board meetings, the Chairperson maintains an informal link between the Board and the Acting CEO

### The Group Acting Chief Executive Officer ("Acting CEO")

The role of the Acting CEO is set out in the Board Charter and includes the following:

- The Board links the Company's governance and management functions through the Acting CEO



- The task of the Acting CEO is to run the business and to implement the policies and strategies adopted by the Board
- All Board authority conferred on management is delegated through the Acting CEO, so that the authority and accountability of management is considered to be the authority and accountability of the Acting CEO so far as the Board is concerned. The Board must agree to the levels of sub-delegation immediately below the Acting CEO
- The Acting CEO acts within all specific authorities delegated to him or her by the Board and ensures that everybody within the Company operates within proper delegations of authority
- The Acting CEO, with the management team, is expected to ensure that the assets of the Company are adequately maintained and protected, and not unnecessarily placed at risk
- The Acting CEO shall ensure that employees and other parties working for the Company are not subjected to treatment or conditions that are undignified, inequitable, unfair or unsafe

### Company Secretary

The Company Secretary plays a significant role in:

- Providing governance support and guidance to the SAA 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

## BOARD COMMITTEES

To assist the Board and Directors in discharging their duties and responsibilities, specific responsibilities have been allocated to the Board Committees listed below, each of which has 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 Terms of Reference are reviewed annually.

### Audit and Risk Committee (ARC)

#### MEMBERS

Mr Akhter Moosa (*Chairperson*)  
Ms Tryphosa Ramano  
Ms Nazmeera Moola  
Ms Swazi Tshabalala

This is a statutory committee set up in terms of section 94 (7) of the 2008 Companies Act and is primarily responsible for carrying out the duties prescribed in section 94(7) of the Companies Act and Regulation 27 of the Treasury Regulations contained in the Public Finance Management Act, 1999.

The Committee's duties include the appointment of auditors, overseeing the functions of the auditors, determining the non-audit services that the auditors may provide, reviewing the annual financial statements, accounting policies and procedures, internal controls, and the Internal Audit and Risk Management functions.

### Remuneration, Human Resources and Nominations Committee (REMCO)

#### MEMBERS

Ms Thandeka Mgoduso (*Chairperson*)  
Ms Duduzile Myeni  
Mr Mzimkulu Malunga  
Mr Siphile Buthelezi

The main duties of this Committee include the formulation, development and implementation of remuneration and human capital strategies, policies, plans and programmes for the entire SAA Group. The Committee also assists the Board to ensure that its governance structures are adequately resourced and that Directors are appointed through a formal process, that new Directors undergo a formal induction process, and oversees the continuing development of Directors.

### Social, Ethics and Governance Committee (SEGC)

#### MEMBERS

Dr Martha Mbatha (*Chairperson*)  
Mr Peter Maluleka  
Ms Gugu Sepamla  
Mr Peter Tshisevhe

This Committee performs duties prescribed in section 72(4) and Regulation 43(5) of the 2008 Companies Act. Its duties relate to social and economic development, good corporate citizenship, the environment, health and public safety issues, consumer relationships, labour and employment issues, transformation and compliance matters. It also assists the Board in dealing with the induction and development of Directors and other governance related matters.

### Finance (and Investment) Committee (FINCO)

#### MEMBERS

Ms Tryphosa Ramano (*Chairperson*)  
Ms Nazmeera Moola  
Mr Akhter Moosa  
Ms Swazi Tshabalala

This Committee is responsible for ensuring that financial planning and investment decisions are effective, efficient, and in accordance with the organisation's strategic objectives. This Committee also ensures 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.

### Long-Term Turnaround Strategy Committee (LTTSC)

#### MEMBERS

Ms Swazi Tshabalala (*Chairperson*)  
Mr Siphile Buthelezi  
Mr Peter Maluleka  
Ms Thandeka Mgoduso  
Ms Nazmeera Moola  
Mr Peter Tshisevhe  
Ms Gugu Sepamla

# GOVERNANCE REPORT (continued)

The role of this Committee is to assist and advise the Board in developing, revising and monitoring the implementation of the strategy of the Company and its subsidiaries. It also assists in tracking the performance of the business in line with the strategy. In the year under review the strategy of the Company was revised and implementation is being monitored by this structure of the Board.

## Ad-Hoc Committee on Stakeholder and Communications Management

### MEMBERS

Mr Mzimkulu Malunga (*Chairperson*)  
Ms Gugu Sepamla  
Mr Peter Maluleka

This is an ad-hoc committee whose short-term mandate is to reposition SAA within South African society, preserve its brand equity, and change the negative perceptions around the airline.

## OTHER GOVERNANCE STRUCTURES

SAA has four wholly-owned subsidiaries; SAA Technical SOC Ltd, SAA Travel Centre SOC Ltd, Mango Airlines and Air Chefs SOC Ltd. The subsidiaries have their own separate Boards of Directors which comprise a mix of Non-Executive directors, who are mainly selected from the SAA Board of Directors as well as *Ex-officio* directors of the subsidiaries, being the respective CEOs and CFOs.

The subsidiary boards of the Company are comprised as follows:

### SAA Technical SOC Ltd

#### MEMBERS

Mr Siphile Buthelezi (*Chairperson*)  
Mr Akhter Moosa  
Ms Thandeka Mgoduso  
Mr Musa Zwane (CEO)  
Mr Dev Erriah (CFO)

SAA Technical is a Maintenance, Repair and Overhaul (MRO) subsidiary.

### Mango Airlines

#### MEMBERS

Mr Peter Tshisevhe (*Chairperson*)  
Ms Gugu Sepamla  
Ms Pumla Luhabe (*GM: Commercial*)  
Ms Marelize Labuschagne (*CFO*)

Mango Airlines provides a low cost airline carrier service.

### Air Chefs SOC Ltd

#### MEMBERS

Ms Gugu Sepamla (*Chairperson*)  
Mr Mzimkulu Malunga  
Ms Swazi Tshabalala  
Mr Martin Kemp (*Acting CEO*)  
Mr Lloyd Hudson (*CFO*)

Air Chefs is mainly an airline caterer.

### SAA Travel Centre SOC Ltd

#### MEMBER

Mr Thapelo Lehasa (*Chairperson*)

SAA Travel Centre supports SAA in the sale of passenger air and other complementary travel retail services, thus ensuring the provision of a complete travel offering to clients. A process is underway to divest the subsidiary.

## TERMS OF REFERENCE

To assist the 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 and Charters. 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. These are informed by the Board-approved Delegation of Authority Framework of the Company.

## 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 Acting 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 AND COMMITTEE MEETING ATTENDANCE DURING THE YEAR

The SAA Board, Subsidiary Boards and all Board Committees held their scheduled meetings during the year ended 31 March 2017 as well as special meetings to deal with urgent matters. The attendance of the members is as indicated in Tables 1 and 2 below.

**Table 1: SAA Board and Board Committee Attendance as at 31 March 2017**

MEMBER	SAA BOARD		ARC		REMCO		SEGC		FINCO		LTTSC		AD-HOC COMM ON SCM	
Number of meetings	12 (Incl. 8 Special Meetings)		7 (Incl. 3 Special Meetings)		7 (Incl. 2 Special Meetings)		4 (Incl. 1 Special Meeting)		9 (Incl. 5 Special Meetings)		6 (Incl. 5 Special Meetings)			
DC Myeni	8	Chair	–	✓	5	✓	2	Chair	2	✓				
Y Kwinana <sup>1</sup>	2	✓	2	Chair	1	✓	1	✓	1	✓				
J Tambi <sup>2</sup>	2	✓	2	✓	2	Chair	2	✓	2	Chair				
T Ramano <sup>3</sup>	9	✓	4	✓				✓	7	Chair				
S Tshabalala <sup>3</sup>	9	✓	5	✓				✓	7	✓	6	Chair		
M Mbatha <sup>3</sup>	4	✓					3	Chair						
T Mgoduso <sup>3</sup>	7	✓			4	Chair					6	✓		
P Tshisevhe <sup>3</sup>	7	✓					3	✓			5	✓		
P Maluleka <sup>3</sup>	9	✓					3	✓			6	✓	1	✓
A Moosa <sup>3</sup>	10	✓	5	Chair					7	✓				
S Buthelezi <sup>3</sup>	8	✓			4	✓					5	✓		
M Malunga <sup>3</sup>	10	✓			4	✓							4	Chair
N Moola <sup>3</sup>	7	✓	4	✓					7	✓	6	✓	1	✓
G Sepamla <sup>3</sup>	10	✓					2	✓			4	✓	3	✓
M Zwane (ACEO)	11	✓	5*		4*				2*		5*			
P Nhantsi (ICFO)	10	✓	7*						8*		3*			

**Legend:**

**REMCO** Remuneration, Human Resources and Nominations Committee

**SEGC** Social, Ethics and Governance Committee

**ARC** Audit and Risk Committee

**FINCO** Finance Committee (reconstituted to Finance and Investment Committee on 18 September 2016)

**LTTSC** Long-Term Turnaround Strategy Committee (officially reconstituted on 29 November 2016 but met on an interim basis from 3 November 2016)

**AD-HOC COMM ON SCM** Ad-hoc Committee on Stakeholder and Communications Management (Constituted on 30 September 2016) On 7 February 2017 Mr Maluleka was appointed to this Committee and Ms Moola resigned

\* Attendance by Invitation

✓ Depicts Membership of Board and/or Board Committees

<sup>1</sup> Resigned effective 23 August 2016

<sup>2</sup> Released effective 01 September 2016

<sup>3</sup> Appointed effective 01 September 2016

# GOVERNANCE REPORT (continued)

**Table 2: Subsidiary Boards Attendance as at 31 March 2017**

MEMBER	SAAT BOARD		MANGO BOARD		AIR CHEFS BOARD		SATC BOARD	
No. of Meetings	9 (Incl. 5 Special Meetings)		3		4		2	
DC Myeni <sup>1</sup>					1	✓		
Y Kwinana <sup>2</sup>	5	Chair					2	✓
M Zwane (SAAT CEO)	8	✓						
M Kemp					4	✓		
D Erriah	9	✓						
L Hudson					4	✓		
T Lehasa							2	Chair
J Tambi <sup>3</sup>	5	✓	1	✓	2	✓	2	✓
S Tshabalala <sup>4</sup>					2	✓		
G Sepamla <sup>4</sup>					2	Chair		
S Buthelezi <sup>4</sup>	4	Chair						
A Moosa <sup>4</sup>	3	✓						
T Mgoduso <sup>4</sup>	4	✓						
M Malunga <sup>4</sup>					2	✓		

**Legend**

✓ Depicts Membership of Subsidiary Board

<sup>1</sup> Resigned effective 30 September 2016

<sup>2</sup> Resigned effective 23 August 2016

<sup>3</sup> Released effective 1 September 2016

<sup>4</sup> Appointed effective 30 September 2016

## BOARD REMUNERATION

The remuneration of non-Executive Board Members is determined in accordance with the Remuneration Guidelines issued by the Department 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 48 to the annual financial statements (AFS) on page 177.





# SOCIAL, ETHICS, GOVERNANCE AND NOMINATIONS COMMITTEE REPORT

The Social, Ethics, Governance and Nominations Committee is comprised of four 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 Organisation for Economic Co-operation and Development (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 2017 in terms of its obligations according to Paragraph 3.1.13 of the Treasury Regulations issued in terms of section 51(1)(a)(ii) of the Public Finance Management Act, Act 1 of 1999, as amended by Act 29 of 1999 (PFMA).

The Committee is independent and was appointed by the shareholders at the Annual General Meeting (AGM) held on 28 October 2016 in line with the legislative requirements.

The Committee constitutes both a statutory committee in terms of 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 four independent, non-Executive Directors and meets quarterly as per its Terms of Reference. The Group's Chief Executive Officer (Acting), Chief Financial Officer, Chief Information 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 83. Biographical details of members are provided on pages 32.

## ROLES AND RESPONSIBILITIES

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

The Committee has conducted its affairs in compliance with these Terms of Reference for the year ended 31 March 2017 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 92 or 181 of this annual report.

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

## STATUTORY DUTIES

The Committee has performed the following statutory duties:

### External Auditor

The Committee has satisfied itself that the external auditor, Auditor-General of South Africa (AGSA), was independent of the Group as set out in the 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 the AGSA support and demonstrated 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 2016/2017 financial year. The Committee is not aware of any significant non-audit services that the external auditor provided during the 2016/2017 financial year.

The Committee will consider the reappointment of the current external auditors at the AGM in line with the legislative requirements.

## 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 2016/2017 financial year. The Committee has observed that the overall control environment, including internal financial controls, has not improved during the year under review. There are still concerns with the level of internal controls within the operations where evidence of lapses of effective monitoring and enforcement by management were observed. Based on the results of the Internal Audit assessment, the information and the explanations provided by management and discussions held with external audit on their findings, the Committee concluded and advised the Board that a significant improvement in the entire control environment, including internal financial controls, is needed.

Most of the identified control weaknesses indicated that internal financial controls are largely not working as intended regarding the financial statements assertion of validity, i.e., expenditure is incurred after following approved processes and in the best interest of the Company. This is mainly regarding expenditure or purchases.

While there is a need for significant improvement, the Committee concluded that there was no complete breakdown of internal controls, including internal financial controls.

The effectiveness of the implemented measures to improve the control environment continues to be an area of focus. If the current control environment does not improve, the risk of misstatements and financial losses through fraud and corruption remains real. The Committee also noted that the effectiveness of consequence management in the organisation is less than ideal. It is expected that further action will still be taken following up on reports from a forensic investigation into procurement practices at the company.

Where irregular expenditure and fruitless and wasteful expenditure have occurred, this has been mainly a consequence of legacy ineffective tender processes, administrative delays and/or non-compliance with policies. The Committee is hopeful that 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. Where there is non-compliance with policies, the Committee has committed to hold management accountable to ensure consequence management is applied.

In 2016/2017 20 audits of SAA's Information Technology (IT) environment have highlighted a number of areas for improvement. A number of internal financial controls which

could be automated are currently manual. Given the number of daily transactions processed by the organisation, this is an undesirable situation. The Committee has instructed the Chief Information Officer to develop and implement action plans to address areas needing improvement. Through the Internal Audit and IT progress reports, the Committee will monitor the implementation of the action plans. The Committee is satisfied that the Internal Audit Plan provides for sufficient IT audit coverage in the next three years.

The audits of SAA international outstations have highlighted a number of areas for improvement. Due to limited resources, a number of staff members are performing incompatible functions resulting in lack of segregation of duties. There is an urgent need for staff training on SAA procurement policy and implementation of automated procure-to-pay processes and controls.

While the Internal Audit and management reports regarding controls to curb baggage pilferage have highlighted improvements compared to previous periods, there were reported areas that still need further improvement to ensure baggage pilferage is eradicated completely. Recent internal audits have highlighted instances of excess baggage underbilling. If not addressed immediately, this might result in revenue leakage. The Committee will be monitoring the implementation of controls to curb this challenge.

The Audit of Predetermined Objectives (AOPO) is a specific focus area for the AGSA and the Committee. The Committee, however, realises that AOPO is a specialist area. Through the guidance of AGSA, the Committee commits to support the organisation in its efforts to improve controls regarding development, implementation and reporting on predetermined objectives.

## 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 Group Chief Financial Officer and Finance Function

While the board made recommendations that the Finance function effectiveness of SAA be independently assessed, this was not possible as the Cash Conversion Office was only prepared to approve priority spending. The Committee relied on the findings made by the AG in their commentary about the skills available within this function. The Committee has taken note of the AG's report which addresses the need to ensure

that the lack of appropriate skills and competencies to ensure that accounting standards are properly applied when preparing financial statements is addressed. This includes ensuring that appropriate knowledge and skills to ensure that critical judgements and assumptions in areas including maintenance reserves, provision for lease liabilities and Voyager Miles are available to SAA. The need to ensure continuous training to address this need together with ensuring that the Finance function is appropriately capacitated will need to be addressed.

## 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 2016/2017 financial year was the fifth year of the SAA in-house Internal Audit function after many years of an outsourced Internal Audit function. There are still many areas of improvement that are required in order to build an effective Internal Audit function. During the 2016/2017 financial year, the Committee appointed an independent service provider to conduct the external assessment of the Internal Audit function. While the report indicated that good progress has been made in building an effective Internal Audit function, a number of areas for improvement were identified. We specifically noted an urgent need for continuous staff development and training on the development and implementation of Computer Assisted Audit Techniques (CAATS). The external assessment report recommendations 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 Internal Audit function does not have forensic investigation skills. All forensic investigations are outsourced. The Committee has committed to identify and eradicate all fraudulent activities and elements within the organisation.

The 2016/2017 Internal Audit plan and budget were approved by the Committee timeously 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 2017/2018 financial year. Over and above the planned audits conducted, a number of *ad hoc* audit requests were also completed 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. The Internal Audit plan will be updated during the financial year as the need arises.



# REPORT OF THE AUDIT AND RISK COMMITTEE (continued)

## 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 page 75. An assessment of the effectiveness of the Group's internal controls system was conducted by Internal Audit during the 2016/2017 financial year. Based on this assessment and the ongoing oversight of the Committee, significant improvement in internal controls is needed. While there are indications of progress in this regard, there is a need for strict timelines in which the internal controls should be developed and implemented.

## Whistleblowing and ethics

The Committee evaluated the anonymous reporting (Whistleblowing) policy and fraud prevention plan. Internal Audit regularly reports to the Committee on progress made on the fraud prevention plan implementation and instances of alleged misconduct reported through the anonymous Whistleblowing line. The Committee regularly reports to the Board in this regard to consider whether instances of whistleblowing and unethical behaviour are appropriately dealt with.

Based on specific events that came to the attention of the Committee, the Committee has concluded that the current Whistleblower line is not credible.

## The quality of in-year management and monthly reports/quarterly reports submitted in terms of the PFMA

The Committee has noted the content 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 2017/2018 financial year

Whilst the significant focus will be directed towards building and 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 Turnaround Strategy (LTTS)
- Development, implementation and reporting of predetermined objectives

- Information Technology as an enabler of the effective control environment, e.g., automation of operational and financial controls that are currently manual
- Baggage handling processes to prevent pilferage and underbilling of excess baggage
- Development and implementation of anti-corruption and fraud prevention mechanisms
- Compliance with the Supply Chain Management Policy
- Implementation of the effective combined assurance framework and reporting
- Alignment of Internal Audit and Risk Management efforts
- Control environment at certain outstations
- Development and implementation of contracts management framework

## Meeting with Internal and External Audit

During the year under review, the Committee met with External Audit and Internal Audit without management being present. The Committee also met with executive management without Internal Audit or External Audit.

## Discharge of responsibilities

The Committee agrees that the adoption of the going concern premise is appropriate in preparing the 2016/2017 annual Group financial statements, with the consideration of the factors highlighted on page 94 of the Directors' Report. The Committee has therefore recommended the adoption of the annual financial statements by the Board of Directors on 6 December 2017.

On behalf of the Audit and Risk Committee



**A Moosa**  
Chairman

South African Airways SOC Limited Audit and Risk Committee

6 December 2017







## ACHIEVEMENT

### PREPARING FUTURE EXECUTIVES

SAA recognises the talent it has within the Group, and the importance of capitalising on its people to take it forward. In August last year, SAA launched its first Succession Programme (SPP2) for Level 2 managers. This type of effective mentoring programme is crucial in fostering employee learning and development and also contributes significantly to both individual and organisational performance.

"Mentoring relationships has proven to be a significant factor in skills development, career management, succession planning, and training and development initiatives," says Mbongeni Manqele, Acting General Manager: Human Resources.

The programme is aimed at SAA employees who have at least seven years' work experience of which at least five are at management level and who have at least two years' working experience with the airline on Level 2. The candidates being developed for the Level 2 Management positions have successfully completed year one of their three-year development programme as well as their annual evaluations.

Applications were received and the programme is progressing well. In March this year, a new development programme was introduced aimed at developing employees at non-management level, but who are considered to have the potential to become managers.

"Up skilling our employees and giving them the confidence in their abilities to climb their career ladders is really important to us. It is gratifying to see these people thriving and becoming the best they can be."





## 05

## GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS

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# 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*

6 December 2017

**Name:** Ms Ruth Kibuuka  
**Business address:** Airways Park, Jones Road  
OR Tambo International Airport  
Kempton Park, 1619

**Postal address:** Private Bag x 13  
OR Tambo International Airport  
Kempton Park, 1627



# 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 2017.

The financial statements set out in this report have been prepared by management in accordance with International Financial Reporting Standards (IFRS), and are based on appropriate accounting policies adopted in terms of IFRS, as detailed in Note 1 to the annual financial statements. Other than in respect of power-by-the-hour maintenance costs in respect of C-checks previously expensed now recognised as a prepayment as referenced in Note 5 to the annual financial statements there have been no changes made to the accounting policies in the year under review. The accounting policies are supported by reasonable and prudent judgements and estimates as detailed in Notes 3 and 4. The audited financial statements are submitted in accordance with the statutory requirements of the Public Finance Management Act No 1 of 1999 (PFMA) (as amended) and the South African Companies Act No 71 of 2008.

The directors confirm that the annual financial statements present fairly the state of affairs and the business of the Group, and explain the transactions and financial position of the business of the Group for the year ended 31 March 2017.

## 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 and aviation services in South Africa, the African continent and our tourism and trading partners. SAA proudly operates to 33 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

Doing business at a time when the global economy is experiencing a downturn has and continues to be a challenge for the South African economy, and SAA has not remained immune to this challenge. The 2016/2017 financial year proved another challenging year for SAA with the airline recording a total comprehensive loss of R5.431 billion for the year compared to the loss of R1.497 (restated) billion in the previous year.

## FINANCIAL PERFORMANCE SUMMARISED

R million	2017	2016
Total income	<b>30 742</b>	30 716
Operating costs excluding translation (losses)/profits	<b>(32 410)</b>	(31 002)
Translation (losses)/gain	<b>(1 092)</b>	808
EBITDA	<b>(2 760)</b>	522
Finance costs	<b>(1 630)</b>	(1 030)
Total comprehensive loss	<b>(5 431)</b>	(1 497)

## FINANCIAL OVERVIEW

SAA's revenue increased by R26 million to R30.742 billion in 2016/2017. Compared to the previous year, growth in terms of passenger numbers has remained relatively flat. The austerity measures that were implemented yielded savings of R801 million. The Group's total operating costs, of which R1.092 billion was net foreign exchange translation losses, rose by R3.308 billion (11 percent). This resulted in a R3.3 billion decrease in EBITDA for the year, translating to a loss of R2.760 billion in 2016/2017 compared to profit of R522 million in the previous year. Forex losses due to the strengthening of the rand during the year, accounted for R1.9 billion of the decline in profitability. In the year under review, translation losses of R1.092 billion were recorded compared to translation profits of R808 million in the 2015/2016 year. This is a direct result of SAA holding greater foreign currency denominated assets than liabilities. In addition, our capital structure, with a debt to equity ratio of 217 percent has resulted in increased reliance on debt raised against shareholder guarantees, which in turn resulted in increased finance costs with interest charges rising by 58 percent to R1.630 billion in the current financial year, compared to R1.030 billion in the previous year.

## LIQUIDITY CHALLENGES

Cash flow continued to be an area of concern for the airline throughout the year. Cash generated by Operations had to be used to fund both Operating costs and investing activities, in addition, the inability of the airline to repatriate funds from certain African countries because of restrictions in those countries put a further strain on SAA's cash position. The result was a build-up of blocked funds to R1.084 billion (2016: R536 million) by financial year end. This severely impacted available working capital and the company had to access further short-term funding of R2.3 billion against existing shareholder guarantees.

Debt of R9.0 billion was scheduled to mature during the second half of the year. SAA engaged with a consortium of lenders to extend the maturity date of the debt. Except for one lender, SAA was able to successfully negotiate the extension of the maturity of R6.8 billion debt to 30 September 2018, where after certain debt was retired and the balance extended to 31 March 2019.

The company's capital structure has weakened SAA's balance sheet and SAA remains undercapitalised. This is evidenced by the impact of interest on cash generated by operations, where interest payments consume what would otherwise be positive cash flows from operating activities (see details on page 138, notes to the statement of cash flows). The matter of SAA's overgearing was raised by the Board with the Shareholder, and the Minister of Finance, in his budget speech in February 2017, committed to reviewing the situation. As a post balance sheet event, SAA received a R2.2 billion capital injection on 30 June 2017, which funded the repayment of a loan. An additional R3.0 billion was received on 30 September 2017, R1.8 billion of which was allocated to settle a loan with the balance to be used for working capital. The repayment of loans has released previously utilised shareholder guarantees and the company currently has R3.8 billion in available unutilised guarantees. The Minister of Finance announced that SAA would receive a further recapitalisation of R4.8 billion before 31 March 2018, bringing the total recapitalisation received during the 2017/2018 financial year to R10 billion. This further recapitalisation will be utilised to repay some short-term debts and for investing activities.



# Directors' Report continued

## GOING CONCERN CHALLENGE

SAA has posted losses for the past six years and has experienced shortfalls in revenue compared to budget, partly due to discontinued routes. Revenue for the past four years has been stagnant, ranging between R30.5 billion and R30.7 billion. Cost compression initiatives have yielded R4.2 billion over the past five years, the company has, however, experienced an average cash burn of R250 million on a monthly basis. Key financial ratios are sub-optimal and excessive reliance has had to be placed on short-term borrowings to fund working capital.

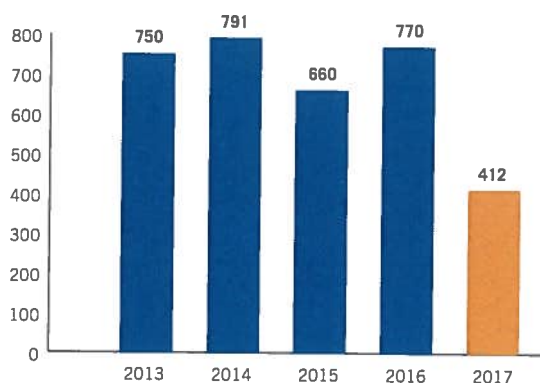
Going concern, defined as the organisation's ability to pay its debts as and when they fall due, in the 12 months from date of signature of the auditors report, has been satisfied. The post balance sheet successful conclusion of a process of engaging debt providers on the relaxation of payment terms, coupled with a capital injection of R10 billion from the shareholder, has enabled SAA to satisfy the going concern assumption and submit its annual financial statements to the auditors for auditing. More detail relating to the going concern can be found in Note 50 to the annual financial statements. The process followed to prove the going concern status has unfortunately led to a delay in both the timely submission of the annual financial statements to the auditors and to National Treasury as prescribed by s55(1)(c) and (d) of the Public Finance Management Act, as well as the submission of signed annual financial statements within six (6) months of the year end as prescribed in the Companies Act.

The Board has previously informed the Shareholder of SAA's financially distressed situation. The Board is also aware that, in terms of SAA's Memorandum of Incorporation, it may only commence business rescue proceedings with the prior written consent of the Shareholder. The Board was informed on 2 May 2017 that the Shareholder recognises that SAA's capital structure is weak and that its solvency position must be resolved. The Shareholder reaffirmed its commitment that SAA will be recapitalised during 2017 and this will be followed through with further incremental amounts from 2018 to 2021. The Shareholder expects that the commitments made to return SAA to financial stability will hold it in good stead.

## OPERATING PERFORMANCE

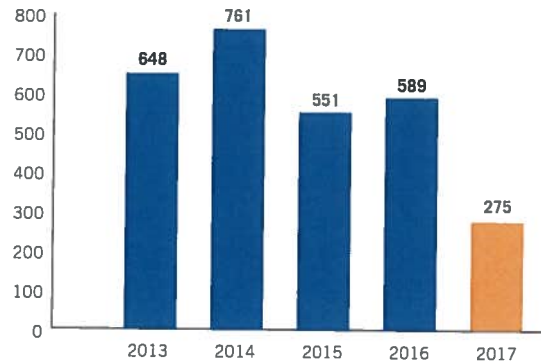
The SAA Group operations are segmented into three geographical areas and their respective contributions to the Group operating result are as follows:

### Domestic contribution



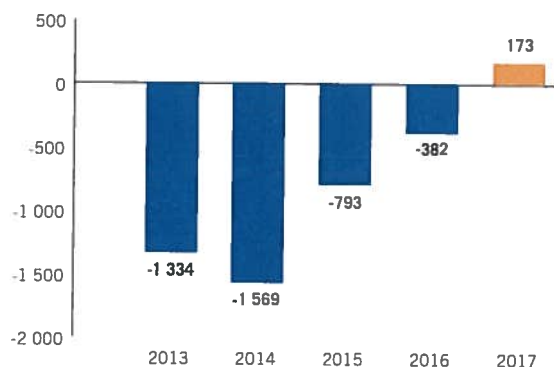
Industry-wide, demand in the domestic market remained flat with increased competition from the Low Cost Carriers (LCCs) putting pressure on fares and reducing yields. While the SAA Group is able to capitalise on the demand for LCCs via its wholly owned subsidiary, Mango, the full-service airline operation has experienced challenges in this regard. Contribution has declined by 46 percent with Mango, with the Group's LCC, contributing positively to the bottom line but the full-service airline recording negative results at this level. A further factor impacting revenue is the growth of international traffic to secondary hubs such as KwaZulu Natal and the Western Cape, affecting domestic demand between these areas and the OR Tambo hub in Johannesburg.

### Regional contribution



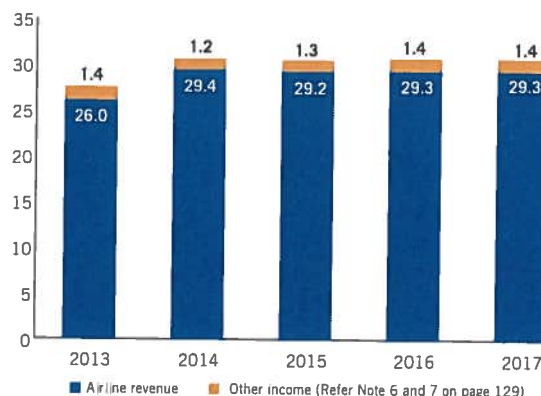
Regional markets continue to be impacted by low commodity prices, currency issues and the drop in oil prices in oil producing African economies. In addition, LCC operations on regional routes are growing, which has impacted average fares, however, the company's safety record has stood it in good stead, otherwise the impact could have been greater. The contribution from the region, while remaining positive, has dropped compared to the previous year.

### International contribution



SAA's international routes showed improvement over previous years, generating a positive contribution for the first time in six years on the back of improved average fares. SAA managed to improve year-on-year operating contributions from all international routes, other than the routes to South America, which is still experiencing financial constraints, and the UK where competition is fierce. The improvement is due to a combination of improved fares and lower operating costs, slightly diluted by a weak Rand.

### Revenue



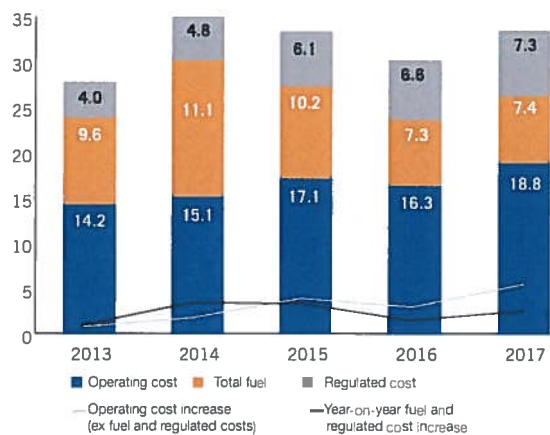
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During the financial year aggressive competition, particularly from Low Cost Carriers (LCCs), continued in all regions in which SAA operates, putting pressure on airfares. Globally, air travel is becoming more and more commoditised and Africa is no exception to this trend.

Passenger revenue grew by two percent but this must be seen in the light of a strengthening currency. While a strengthening of the rand against major currencies has a positive impact on costs, the reverse is true for revenue. In addition, the massive impact of Brexit on the value of the pound significantly impacted revenue from the UK. Cargo revenues were impacted by declining yields, during the year, due to the competitive environment.

### Operating costs

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

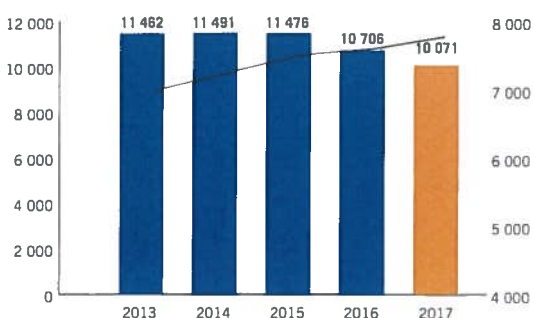


Total operating costs, inclusive of forex gains and losses, rose by R3.308 billion (11 percent) year-on-year. The ongoing focus on cost compression generated additional sustainable savings of R801 million in the year (R4.2 billion over five years).

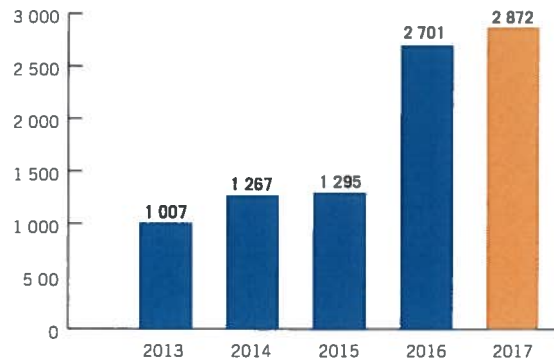
Fuel costs remained aligned with the previous year as the average Brent Crude price was two percent lower while the average value of the Rand against stronger currencies, although strengthening significantly in the latter parts of the year, was five percent weaker than the year before. SAA's fuel uplift was also one percent lower than 2015/2016.

SAA's safety record has held it in good stead over the years and the Company's commitment to maintaining high safety standards is not negotiable. Higher maintenance costs this year are activity related and include increases in the provisions for lease liabilities.

The employee cost increase of five percent is well within the wage mandate for the year. Headcount has further decreased as the moratorium on employment remains with only essential positions being filled. From the graph below the reduction in headcount of 1391 since 2014 is clearly evident.

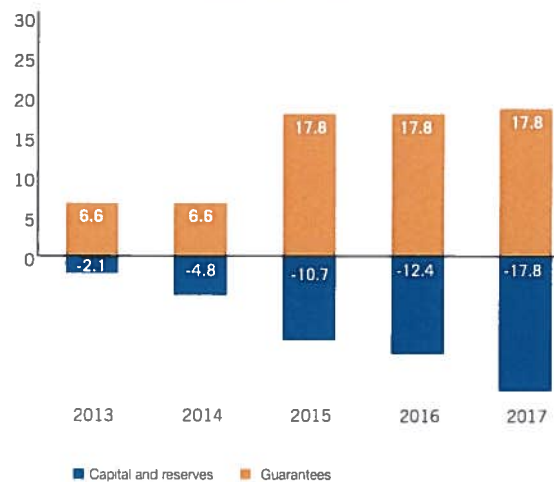


### CASH AND CASH EQUIVALENTS



While SAA ended the year with cash and cash equivalents of R2.872 billion, this position is negatively impacted by the inability to repatriate a balance of R1.084 billion cash held in countries such as Angola, that are experiencing a shortage of foreign currency due to the prevailing economic conditions in those regions. The blocked funds balance increased by R548 million during the year and SAA has had to access additional funds of R2.3 billion in the current year against shareholder guarantees to fund working capital requirements.

### EQUITY AND BORROWINGS



Historically SAA has had to operate with a weak balance sheet, which, together with the operating losses accumulated over the past six years, requires financial assistance from its shareholder. To date SAA has been granted R19.1 billion in shareholder guarantees to support the business. These guarantees are perpetual and have been used to support SAA's liquidity and solvency challenges. The cost associated with servicing this level of debt is prohibitive and the Board has made representation to the shareholder for a capital injection over a period of time. The Minister of Finance announced R10 billion in recapitalisation funding for SAA during the 2017/2018 financial year. This would address the immediate working capital needs and partially repay existing debt.

## Directors' Report continued

## CRITICAL ISSUES FACING THE AIRLINE

In addition to the primary challenges of liquidity and financial performance facing the airline, SAA continues to deal with a number of critical issues from previous years that are outlined below.

## A320 Swap transaction

SAA took delivery of three Airbus A330-300 aircraft during the financial year, with a further two aircraft due for delivery in the first quarter of 2017/2018. This brings to a close the transaction whereby SAA swapped the delivery of the final 10 Airbus A320-200 aircraft for five A330-300 aircraft. SAA will be refunded all pre-delivery payments for these aircraft.

## Competition matters

The Company has defended three actions brought against it by Comair (Ltd) and the liquidators of Nationwide. The claims

arose from the ruling of the Competition Tribunal that SAA contravened sections of the Competition Act No 89 of 1998 in regard to the provisions of its agreements with travel agents – between October 1999 and May 2001 ('the first period') and between 1 June 2001 and 31 March 2005 ('the second period'). Comair's claims, which have since been consolidated into a single action, relate to both the first and the second period, while the Nationwide claim relates to the second period only.

On 12 August 2016 the court ruled on the Nationwide litigation and awarded compensation of R104 million in favour of Nationwide. The company and the liquidators of Nationwide agreed on a full and final settlement.

In February 2017 the court ruled on the Comair litigation and awarded R1.1 billion compensation in favour of Comair. SAA has appealed the award. This matter remains outstanding.

## GROUP OPERATING DATA

The table below reflects the metrics pertinent to SAA, summarised over a five-year period.

	2017	2016	2015	2014	2013
<b>Capacity</b>					
Available seat kilometres (ASKs) (millions)	31 684	32 282	33 562	33 999	33 441
<b>Traffic</b>					
Revenue passenger kilometres (RPKs) (millions)	23 740	24 234	24 523	25 606	24 880
SAA	20 678	21 079	21 814	23 124	22 901
Mango	3 062	3 155	2 709	2 482	1 979
Revenue passengers (thousands)	9 481	9 700	9 181	9 332	8 846
SAA	6 555	6 698	6 700	7 071	7 009
Mango	2 926	3 002	2 481	2 261	1 837
Cargo - tonnes flown (thousands)	111	114	131	132	133
<b>Utilisation</b>					
Passenger load factor (%)	75	75	73	75	74
Yield (passenger revenue/RPKs) – passenger	0,83	0,79	0,79	0,78	0,72
Passenger revenue (R million)	19 653	19 241	19 365	20 047	18 030
Yield (revenue/ASKs) – airline revenue	0,92	0,91	0,87	0,86	0,78
Yield (total income/ASKs) – total income	0,97	0,95	0,91	0,90	0,82
<b>Unit cost (cost per available seat kilometre)</b>	<b>1,06</b>	0,94	1,00	0,91	0,83
Labour cost	0,19	0,18	0,17	0,15	0,14
Energy	0,23	0,23	0,30	0,33	0,29
Material cost	0,15	0,13	0,12	0,08	0,07
Other operating costs	0,49	0,40	0,41	0,35	0,33

## OUTLOOK 2018 ONWARDS

SAA has embarked on a five-year turnaround strategy to build a financially sustainable group. The pillars of the five-year turnaround plan include:

1. Liquidity – SAA has not been generating free cash flow for many years largely due to lack of profitability. It is important to drive key initiatives that will reduce cash burn and drive business performance
2. Balance Sheet Restructuring
3. Revenue Stimulation
4. Cost Optimisation
5. Refining the Strategy for SAA

## 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 KPIs are aligned with SAA's 2017 Corporate Plan.

greed



Key Performance Area	Key Performance Indicator	FY 2017 Target	FY 2017 Actual	Explanations
Support national development agenda	% Procurement spend locally	>72%	82%	KPI achieved
	B-BBEE spend as a % of local eligible spend	>91%	95%	KPI achieved
Achieve and maintain financial sustainability	Operating cash flow	R697m	(R1.399m)	KPI not achieved
	EBITDA	R283m	(R1.664m)	KPI not achieved
	Net profit	(R1.754m)	(R5.569m)	KPI not achieved
	RASK	121c	109c	KPI not achieved
	CASK	120c	115c	KPI achieved
	Route profitability (% of routes profitable)	85%	80%	KPI not achieved
Provide excellent customer service	Net promoter score (referral rate)	60	29	KPI not achieved
	Customer retention	30%	29%	KPI not achieved
Achieve consistent, efficient and effective operations	Asset utilisation (Hours per day):			
	• Wide body daily utilisation	11:48	11:26	KPI not achieved
	• Narrow body utilisation	08:55	08:33	KPI not achieved
	Safety record	95%	100%	KPI achieved
	Audit findings (No repeat, material findings)	95%	8	KPI achieved
	On time performance	87%	87.21%	KPI achieved
Foster performance excellence	Productivity increase (% of headcount growth)	<=105%	93%	KPI achieved
	Compliance to performance management	98%	92%	KPI not achieved
	Management stability % (Avoidable departures/total members)	10%	4%	KPI achieved

## EVENTS SUBSEQUENT TO THE STATEMENT REPORTING DATE

### BOARD OF DIRECTORS

Subsequent to the 2017 financial year-end, Dr M Mbatha resigned as a director. On 3 November 2017 the Minister of Finance appointed six new non-executive directors namely: JB Magwaza (Chairperson), N Fakude (Deputy Chairperson), G Rothschild, A Bassa, T Mhlari and M Kingston. They replaced the following directors: DC Myeni (Chairperson), MMT Ramano (Deputy Chairperson), N Moola, SS Buthelezi, JG Sepamla and M Malunga.

### RECAPITALISATION

On 25 October 2017, the Minister of Finance announced a capital injection for the airline of R10 billion during the 2017/2018 financial year. The airline received R2.2 billion on 30 June 2017 which was used to settle short-term debt. A further R3 billion was received on 29 September 2017 of which R1.8 billion was allocated to repay debt and the remaining R1.2 billion utilised for working capital. Of the remaining R4.8 billion, R3.6 billion will be allocated to further reduce the company's short-term debt burden and R1.2 billion to be used for working capital. In total R7.6 billion will be used to repay debt.

### APPOINTMENT OF KEY PERSONNEL

Subsequent to year end the Chief Executive Officer, Chief Financial Officer and Chief Restructuring Officer were appointed.

## APPROVAL OF THE ANNUAL FINANCIAL STATEMENTS

The directors confirm that the annual financial statements present fairly the financial position of the Company and the Group at 31 March 2017, 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 the Integrated Report with respect to PFMA compliance.

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

The directors have continued to adopt the going-concern concept in preparing the annual financial statements. (Refer to going concern paragraph on page 94 of the Director's report and Note 50 to the annual financial statements).

The external auditors, the Auditor-General, is 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 98.

In preparing the Company and Group annual financial statements set out of pages 106 to 180, unless otherwise disclosed, the Company and Group have complied with International Financial Reporting Standards, the Companies Act and the reporting requirements of the PFMA, and has used the appropriate accounting policies supported by reasonable and prudent judgements and estimates. The directors confirm that these financial statements present fairly the financial position of the Company and the Group at 31 March 2017, and the results of their operations and cash flows for the year then ended.

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



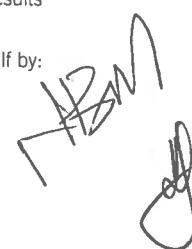
JB Magwaza  
Chairperson

6 December 2017



V Jarana  
Chief Executive Officer

6 December 2017



# REPORT OF THE AUDITOR-GENERAL

TO PARLIAMENT ON SOUTH AFRICAN AIRWAYS SOC LIMITED AND ITS SUBSIDIARIES

## REPORT ON THE AUDIT OF THE CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

### Qualified opinion

1. I have audited the consolidated and separate financial statements of South African Airways SOC Limited (SAA) and its subsidiaries set out on pages 106 to 180, which comprise the consolidated and separate statement of financial position as at 31 March 2017, the consolidated and separate statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, as well as the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion section of my report, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of South African Airways SOC Limited and its subsidiaries (SAA group) as at 31 March 2017, and their financial performance and cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA) and the Companies Act of South Africa, 2008 (Act No. 71 of 2008) (Companies Act).

### Basis for qualified opinion

#### Property, aircraft and equipment

3. The SAA group did not adequately review the useful lives and residual values of property, aircraft and equipment at each reporting date in accordance with the International Accounting Standards (IAS) 16, *Property, plant and equipment*. In addition, some of A-class rotables, equipment and furniture were not recorded in the financial statements, while some A-class rotables were recorded but their existence could not be verified. As a result, I was unable to obtain sufficient appropriate audit evidence to determine the correct net carrying amount of property, aircraft and equipment, depreciation and amortisation stated at R4,574 billion (2015/16: R4,474 billion), (Company: R3,114 billion; 2015/16: R3,146 billion) and R1,033 billion (2015/16: R732 million), (Company: R953 million; 2015/16: R656 million), respectively, as disclosed in notes 12 and 9 to the consolidated and separate financial statements. I was unable to confirm these physical assets by alternative means. Consequently, I was also unable to determine the impact that any adjustments would have on the loss for the period, the accumulated loss and the restatements Note 5 to the consolidated and separate financial statements.
4. The SAA group did not adequately assess property, aircraft and equipment for impairment at the reporting date in accordance with IAS 36, *Impairment of assets*. I was unable to obtain sufficient appropriate audit evidence regarding the impairment assessment, as internal controls had not been established for assets other than aircraft. Consequently, I was unable to determine the correct net carrying amount of property, aircraft and equipment and impairments by alternative means. These amounts are stated in Note 12 and 11 to the consolidated and separate financial statements as R4,574 billion (2015/16: R4,474 billion), (Company: R3,114 billion; 2015/16: R3,146 billion) and R26 million (2015/16: R158 million), (Company: R906 million; 2015/16: R98 million) respectively. I was also not able to determine the impact that any adjustments would have on the loss for the period and the accumulated loss in the consolidated and separate financial statements.

#### Inventory

5. South African Airways Technical SOC Limited (SAAT), a SAA subsidiary, measures its inventory at the lower of cost or net realisable value in accordance with the IAS 2, *Inventories*. The key assumptions that SAAT applied in calculating the net realisable value were not supported by sufficient appropriate audit evidence and there were no satisfactory audit procedures that I could perform to obtain reasonable assurance that inventory was valued correctly. In addition, the existence of some inventory could not be verified and the company did not have adequate systems to collate and maintain data for cut-off of inventory scrapping. As a result, I was unable to determine the correct net carrying amount of inventory stated as R879 million in Note 38 to the consolidated financial statements by alternative means. Consequently, I was also not able to determine the impact that any adjustments would have on the loss for the period and the accumulated loss in the consolidated financial statements. The possible effect of the matter did not impact the separate financial statements.

#### Maintenance costs

6. The SAA did not recognise maintenance costs in accordance with the IFRS Framework, *The conceptual framework for financial reporting*. Some maintenance costs were recognised in the incorrect accounting period, some were not recognised in profit or loss, some were recognised using incorrect exchange rate and some were recognised as an expense when paid in advance. The effect on the separate financial statements was that maintenance costs was understated by R282 million (2015/16: R273 million), trade and other payables was understated by R226 million (2015/16: R199 million), provisions was understated by R135 million (2015/16: R24 million), trade and other receivables was understated by R146 million (2015/16: R150 million) and fair value and translation movements was overstated by R67 million. There was a resultant impact on the loss for the period and on the accumulated loss.

#### Irregular expenditure

7. Section 55(2)(b)(i) of the PFMA requires the SAA group to include particulars of irregular expenditure in the notes to the financial statements. The SAA group did not establish adequate controls to maintain complete records of irregular expenditure. I was not able to obtain sufficient appropriate audit evidence to confirm the amount of irregular expenditure to be disclosed by alternative means. Consequently, I was unable to determine whether any adjustment to irregular expenditure, disclosed in Note 42 to the consolidated and separate financial statements, was necessary.

HBM

### Fruitless and wasteful expenditure

8. Section 55(2)(b)(i) of the PFMA requires the SAA group to include particulars of fruitless and wasteful expenditure in the notes to the financial statements. The SAA group did not establish adequate controls to maintain complete records of fruitless and wasteful expenditure. I was unable to obtain sufficient appropriate audit evidence to confirm the amount of fruitless and wasteful expenditure to be disclosed by alternative means. Consequently, I was unable to determine whether any adjustment to fruitless and wasteful expenditure, disclosed in Note 42 to the consolidated and separate financial statements, was necessary.

### Context for the auditor's opinion

9. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the consolidated and separate financial statements section of my report.
10. I am independent of the SAA group in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
11. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

### Material uncertainty related to going concern

12. I draw attention to Note 50 to the separate and consolidated financial statements, which indicates that the SAA group incurred a net loss of R5,569 billion (2015/16: R1,478 billion) during the year ended 31 March 2017 and, as of that date the SAA group's liabilities exceeded its total assets by R17,801 billion (2015/16: R12,363 billion). As stated in Note 50, six consecutive years of operating losses have further eroded the capital base and this continues to impact on the entity's ability to operate in a highly demanding and competitive environment. The government has made guarantees available and, subsequent to year-end, as disclosed in Note 49, recapitalisation funds to the extent of R10 billion for utilisation by SAA. This is in line with the long-term turnaround strategy that the group has adopted to regain its solvency and self-sustainability. The history of losses, lack of capital and volatility in foreign exchange rates, along with maturing loans and working capital deficiencies, indicate that a material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern. My opinion is not modified in respect of this matter.

### Emphasis of matters

13. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### Restatement of corresponding figures

14. As disclosed in Note 5 to the consolidated and separate financial statements, the corresponding figures for 31 March 2016 have been restated as a result of numerous errors in the consolidated and separate financial statements of the SAA group at, and for the year ended, 31 March 2017.

### Contingent liabilities

15. With reference to Note 39 to the consolidated and separate financial statements, SAA is appealing certain judgements. The ultimate outcome of the matters cannot presently be determined and the uncertain part of the litigation claim has been disclosed in the consolidated and separate financial statements.

### Other matters

16. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### Business rescue proceedings

17. SAA did not report the reasons for not adopting a resolution to file for business rescue while the company was in financial distress to the affected parties, as required by section 129(7) of the Companies Act.

### Previous year audited by a predecessor auditor

18. The financial statements of the previous year were audited by a predecessor auditor in terms of section 4(3) of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) on 30 September 2016. An unqualified audit opinion was expressed.

### Responsibilities of the board of directors for the consolidated and separate financial statements

19. The board of directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the IFRS and the requirements of the PFMA and the Companies Act 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.
20. In preparing the consolidated and separate financial statements, the accounting authority is responsible for assessing the SAA group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless there is an intention to liquidate the public entity or to cease operations, or there is no realistic alternative but to do so.

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# REPORT OF THE AUDITOR-GENERAL

TO PARLIAMENT ON SOUTH AFRICAN AIRWAYS SOC LIMITED AND ITS SUBSIDIARIES (CONTINUED)

## Auditor-General's responsibilities for the audit of the consolidated and separate financial statements

21. My objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.
22. A further description of my responsibilities for the audit of the consolidated and separate financial statements is included in the annexure to the auditor's report.

## REPORT ON THE AUDIT OF THE ANNUAL PERFORMANCE REPORT

### Introduction and scope

23. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings, but not to gather evidence to express assurance.
24. My procedures address the reported performance information, which must be based on the approved performance planning documents of the public entity. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
25. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the public entity for the year ended 31 March 2017:

OBJECTIVES	PAGE IN THE ANNUAL PERFORMANCE REPORT
Objective 1 – Support national development agenda	97
Objective 2 – Achieve and maintain financial sustainability	97
Objective 3 – Provide excellent customer service	97
Objective 4 – Achieve consistent, efficient and effective operations	97
Objective 5 – Foster performance excellence	97

26. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
27. The material findings in respect of the usefulness and reliability of the selected objectives are as follows:

### Objective 1 – Support national development agenda

#### Various indicators

28. When the indicators listed below were planned, it was not determined how the achievements would be measured and monitored as the source information and method of calculating of the achievements were not predetermined, as required by the Framework for managing programme performance information (FMPPPI). Due to the lack of technical indicator descriptions that could clearly define the source information and method of calculation, I was unable to obtain sufficient appropriate audit evidence to verify the reliability of the reported achievements. I was unable to confirm whether these reported achievements were reliable by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievements.

INDICATOR	STRATEGIC OBJECTIVE	REPORTED ACHIEVEMENT
% Procurement spend locally	Support national development agenda	82%
% B-BBEE spend as a % of local eligible spend	Support national development agenda	95%

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## Objective 2 – Achieve and maintain financial sustainability

### Various indicators

29. When the indicators listed below were planned, it was not determined how the achievement would be measured and monitored as the source information, evidence and method of calculation of achievements was not predetermined, as required by the *FMPPI*.

INDICATOR	STRATEGIC OBJECTIVE
Operating cash flow	Achieve and maintain financial sustainability
CASK	Achieve and maintain financial sustainability
RASK	Achieve and maintain financial sustainability

### Indicator: Net profit

30. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of Net profit (R5,569 million). Due to limitations on the scope of my work during the audit of Property, Aircraft and Equipment as I was unable to determine the correct net carrying amount of property, aircraft and equipment, depreciation and amortisation, and maintenance costs. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of Net profit (R5,569 million).

### Indicator: Refinement of the LTTS

31. The indicator: Refinement of the LTTS and target of 90% was removed in the annual performance report. The indicator and target were approved and part of this financial years' shareholders compact. The change during reporting is not in line with the requirements of treasury regulation 28.2.2.
32. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of refinement of the Long Term Turnaround Strategy (LTTS) and target of 95%. This was due to a lack of proper performance management systems and processes, formal standard operating procedures, and documented system descriptions to predetermine how the achievements would be measured, monitored and reported, as required by the *FMPPI*. I was unable to confirm that the reported achievement of this indicator is reliable by alternative means. Consequently, I was unable to determine whether any adjustments are required to the reported achievement of 100%.

## Objective 3 – Provide excellent customer service

### Indicator: Net promoter score

33. The source information and method of calculating the achievement of the planned indicator were not clearly defined, as required by the *FMPPI*. In addition, the entity did not have an adequate performance management system for maintaining records to enable reliable reporting on the achievement of targets, as required by the *FMPPI*. Sufficient appropriate audit evidence could not be provided in some instances, while in other cases the evidence provided was not consistent with the recorded achievements. I was also unable to determine whether any further adjustments are required as I could not confirm the achievements by alternative means.

The planned target was changed to 60 and reported achievement 29 without the necessary approval required by Treasury Regulation 29.1.1. The planned target was 60%.

## Objective 4 – Achieve consistent, efficient and effective operations

### Indicator: Safety record

34. I was unable to obtain sufficient appropriate audit evidence for the reported target achievement of 100%. This was due to a lack of technical indicator descriptions and proper performance management systems and processes to predetermine how the achievement would be measured, monitored and reported, as required by the *FMPPI*. I was unable to confirm that the reported achievement of this indicator was reliable by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of 100%.

### Indicator: Audit findings (No repeat, material findings)

35. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of Audit findings and target of 95%. This was due to a lack of proper performance management systems and processes and formal standard operating procedures or documented systems descriptions that predetermined how the achievements would be measured, monitored and reported, as required by the *FMPPI*. I was unable to confirm that the reported achievement of this indicator is reliable by alternative means. Consequently, I was unable to determine whether any adjustments are required to the reported achievement of eight findings.
36. The indicator and target reported for internal audit findings was resolved – target 8, while the indicator and target was approved in the shareholders compact as external audit findings resolved - target 95%. This inconsistency is not in line with the requirements of Treasury Regulation 28.2.2.

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# REPORT OF THE AUDITOR-GENERAL

## TO PARLIAMENT ON SOUTH AFRICAN AIRWAYS SOC LIMITED AND ITS SUBSIDIARIES (CONTINUED)

### Objective 5 – Foster performance excellence

#### Indicator: Management stability %

37. The source information and method of calculation for the achievement of the planned indicator was not clearly defined, as required by the *FMPPI*.

#### Indicator: Compliance to performance management

38. The entity did not have an adequate performance management system to maintain records that would enable reliable reporting on the achievement of targets, as required by the *FMPPI*. Sufficient appropriate audit evidence could not be provided in some instances while in other cases the evidence provided was not consistent with the recorded achievements. This resulted in a misstatement of the target achievements reported. From the evidence provided, the projected misstatement rate was 41% for compliance to performance management principles established.

#### Other matter

39. I draw attention to the matter below. My opinion is not modified in respect of this matter.

#### Achievement of planned targets

40. Refer to the annual performance report on pages 96 to 97 for information on the achievement of planned targets for the year and explanations provided for the over- or under-achievement of a significant number of targets. This information should be considered in the context of the material findings reported in paragraphs 28 to 38 of this report.

### REPORT ON AUDIT OF COMPLIANCE WITH LEGISLATION

#### Introduction and scope

41. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the public entity with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
42. The material findings in respect of the compliance criteria for the applicable subject matters are as follows:

#### Annual financial statements, performance and annual reports

43. Financial statements were not submitted for auditing within two months after the end of financial year, as required by section 55(1)(c)(i) of the *PFMA*.
44. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework and supported by full and proper records, as required by section 55(1)(a) and (b) of the *PFMA* and section 29(1)(a) of the Companies Act. Material misstatements of non-current assets, current assets, liabilities and disclosure items identified by the auditors in the submitted financial statements were corrected and the supporting records were provided, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

#### Expenditure management

45. Effective steps were not taken to prevent fruitless and wasteful expenditure, as required by section 51(1)(b) (iii) of the *PFMA*. The expenditure disclosed does not reflect the full extent of the fruitless and wasteful expenditure indicated in the basis for qualification paragraph.
46. Effective steps were not taken to prevent irregular expenditure, as required by section 51(1)(b)(ii) of the *PFMA*. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred in the basis for qualification paragraph.

#### Assets management

47. Proper control systems to safeguard and maintain assets were not implemented, as required by sections 50(1)(a) and 51(1)(c) of the *PFMA*.
48. SAA provided financial assistance to its subsidiaries without the approval of the shareholders in a special resolution and without considering the solvency and liquidity of the company, in contravention of section 45 of the Companies Act.

#### Strategic planning and performance management

49. Procedures for quarterly reporting to the National Treasury and for facilitation of effective performance monitoring, evaluation and corrective action were not established, as required by *treasury regulation 29.3*.

#### Procurement and contract management

50. I was unable to obtain sufficient appropriate audit evidence that some of the contracts were awarded according to legislation, due to the limitations placed on the scope of my work.
51. Some goods, works or service were not procured through a procurement process which is fair, equitable, transparent and competitive, as required by section 51(1)(a)(iii) of the *PFMA*.



52. Contracts and quotations were awarded to suppliers whose tax matters had not been declared by the South African Revenue Services to be in order as required by *paragraph 14 of the Preferential Procurement Regulations* and paragraph 21 of the entity's SCM policy.
53. The preferential point system was not applied in the procurement of some goods and services above R30 000, as required by *section 2(a) of the Preferential Procurement Policy Framework Act*.
54. Some contracts were awarded to, and quotations accepted from, bidders based on preferential points that were not allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act and its regulations.
55. Some contracts were awarded to, and quotations accepted from, bidders that had not scored the highest points in the evaluation process, as required by section 2(1) (f) of the Preferential Procurement Policy Framework Act and Preferential procurement regulations.
56. Some contracts were awarded to and quotations accepted from bidders based on functionality criteria that differed from those stipulated in the original invitation for bidding and quotations, in contravention of Preferential Procurement Regulation 4.

### Consequences management

57. I was unable to obtain sufficient appropriate audit evidence that irregular expenditure was investigated and that disciplinary steps were taken against officials who had incurred and permitted irregular expenditure as required by *section 51 (1)(e)(iii) of the PFMA*.
58. I was unable to obtain sufficient appropriate audit evidence that fruitless and wasteful expenditure was investigated and that disciplinary steps were taken against officials who had incurred and permitted fruitless and wasteful expenditure as required by *section 51 (1)(e)(iii) of the PFMA*.

### OTHER INFORMATION

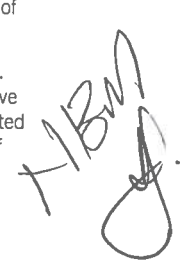
59. The accounting authority is responsible for the other information. The other information comprises the information included in the annual report which includes the director's report, the audit committee's report and the company secretary's certificate as required by the Companies Act. The other information does not include the consolidated and separate financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported on in the auditor's report.
60. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
61. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements and the selected strategic goals presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
62. I have not yet received the annual report. When I do receive this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected I may have to re-issue my auditor's report amended as appropriate.

### INTERNAL CONTROL DEFICIENCIES

63. I considered internal control relevant to my audit of the consolidated and separate financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for a qualified opinion, the findings on the performance report and the findings on compliance with legislation included in this report.

### Leadership

64. The entity experienced instability in leadership as a result of a number of suspensions and resignations in key leadership positions. Instability in leadership contributed to the overall decline in the internal control environment.
65. The lack of decisive action to mitigate emerging risks and implement timely corrective measures to address non-performance was evidenced management's failure to adequately address audit findings in a timely manner.
66. The leadership did not implement effective human resource management to ensure that resources were sufficiently skilled and that individuals were held accountable for non-performance.
67. The leadership did not adequately establish policies and procedures to enable and support the understanding and execution of internal control objectives, processes and responsibilities.
68. The audit and risk committee (ARC) mandated implementing of IT governance, in line with good corporate governance (King). However, the absence of a technical IT representative within the ARC, as an oversight body of IT governance, inhibited effective ARC direction and oversight. As a result, the IT governance framework was not formally communicated or reviewed and updated with the evolved business processes by IT management. This resulted in a number of key IT governance initiatives (outputs of the IT governance framework) not being performed.



# REPORT OF THE AUDITOR-GENERAL

## TO PARLIAMENT ON SOUTH AFRICAN AIRWAYS SOC LIMITED AND ITS SUBSIDIARIES (CONTINUED)

### Financial and performance management

69. The entity did not implement proper record keeping in a timely manner to ensure that complete, relevant and accurate information is accessible and available to support financial reporting.
70. Regular reconciliations were not always adequately prepared for financial items during the year. This resulted in reliance on manual reconciliations at year-end. Due to the volume of manual reconciliation required, assurance processes were not implemented in time to ensure that information was accurate and complete. As a result, a number of errors were identified in the reconciliations by the external auditors.
71. Effective financial systems of internal controls and their management had not been implemented to ensure accurate financial statements. The preparation and review of the financial statements was not adequately planned, to ensure a comprehensive review of year-end adjustments and reconciliation, resulting in errors.
72. The quality of the annual performance report was poor as significant audit findings were identified in usefulness and reliability of performance indicators and targets. This is as a result of SAA who does not have a policy on performance information clarifying standard operating procedures on performance reporting as well as the lack of understanding by management of the National Treasury Framework for Programme Performance Information (FMPPi). This is also due to the lack of oversight and monitoring of performance reporting by senior leadership and poor record keeping at SAA. Controls have not been implemented to create a control environment that supports useful and reliable reporting of performance information.
73. Performance indicators and targets on the corporate plan, shareholders compact and annual performance report were not adequately reviewed by leadership to ensure compliance with FMPPi before approval and submission for audit. The staff within the reporting units also does not fully understanding the performance information requirements as set out in the FMPPi.
74. The asset management unit is under staffed; as a result, basic disciplines such as physical verifications and conditional assessment of the assets are not performed periodically to ensure that the assets are accounted for in accordance with the applicable financial reporting framework.
75. The accounting system used to maintain spare parts during the year under review is outdated (MEMIS). A new system (AMOS) became live on 1 April 2017 and the unreliable data from the old system was migrated to the new system. These spare parts could not be uniquely identifiable in the accounting system (SAP) used by SAA for financial reporting purposes. Reconciliation between the two accounting system resulted in differences on a quarterly basis and the reconciling items are not adequately investigated.
76. The design and implementation of formal controls over information technology systems were not adequate to ensure the reliability of the systems and the availability, accuracy and protection of information.

### Governance

77. Although a risk assessment framework was in place, management did not adequately monitor and report on the progress of controls implemented, or respond to new risks that may arise. Therefore, the entity's risk management processes were not considered adequate or effective.
78. The leadership did not act on a timely basis on the internal audit unit's recommendations or reports, thus negatively affecting its effectiveness as an assurance provider to the leadership of the entity.

### OTHER REPORTS

79. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the public entity's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

### Investigations

80. Independent consultants investigated allegations of irregular procurement and contract management practices and other misconduct. The reports were finalised after year-end and leadership is considering the recommendations made in these reports and the outcomes could result in disciplinary proceedings against the parties concerned.

*Auditor-General*

Pretoria  
8 December 2017



*HBM*

**ANNEXURE – AUDITOR-GENERAL'S RESPONSIBILITY FOR THE AUDIT**

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the consolidated and separate financial statements, and the procedures performed on reported performance information for selected objectives and on the public entity's compliance with respect to the selected subject matters.

**FINANCIAL STATEMENTS**

2. In addition to my responsibility for the audit of the consolidated and separate financial statements as described in the auditor's report, I also:
  - identify and assess the risks of material misstatement of the consolidated and separate financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
  - obtain an understanding of internal control relevant to the audit 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 public entity's internal control.
  - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors, which constitutes the accounting authority.
  - conclude on the appropriateness of the board of directors, which constitutes the accounting authority's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the SAA and its subsidiaries ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor's report. However, future events or conditions may cause a public entity to cease to continue as a going concern.
  - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
  - obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

**COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE**

3. I communicate with the accounting authority regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting authority that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and here applicable, related safeguards.





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

for the year ended 31 March 2017

R MILLION	Notes	GROUP			COMPANY		
		2017	2016 Restated	2015 Restated	2017	2016 Restated	2015 Restated
<b>Total income</b>		<b>30 742</b>	30 716	30 492	<b>28 319</b>	28 383	28 219
Airline revenue	5 & 6	<b>29 273</b>	29 273	29 160	<b>26 789</b>	26 755	26 775
Other income	5 & 7	<b>1 469</b>	1 443	1 332	<b>1 530</b>	1 628	1 444
<b>Operating costs</b>		<b>33 502</b>	30 194	33 407	<b>31 278</b>	27 889	31 015
Aircraft lease costs	5 & 8	<b>3 103</b>	3 132	2 756	<b>3 022</b>	3 078	2 711
Accommodation and refreshments		<b>1 413</b>	1 279	1 040	<b>1 715</b>	1 566	1 416
Commissions and network charges	5	<b>1 894</b>	1 829	1 848	<b>1 798</b>	1 730	1 763
Electronic data costs		<b>680</b>	657	543	<b>666</b>	636	530
Fuel and other energy costs		<b>7 368</b>	7 344	10 217	<b>6 738</b>	6 673	9 449
Employee benefit expenses	5 & 29	<b>6 131</b>	5 831	5 698	<b>4 013</b>	3 819	3 758
Maintenance costs	5	<b>4 895</b>	4 167	3 912	<b>6 198</b>	5 368	4 866
Navigation, landing and parking fees		<b>2 429</b>	2 384	2 207	<b>2 161</b>	2 108	1 980
Fair value and translation movements	5 & 40	<b>1 092</b>	(808)	36	<b>1 081</b>	(834)	22
Other operating costs	5	<b>4 497</b>	4 379	5 150	<b>3 886</b>	3 745	4 520
<b>Operating (loss)/profit before interest, tax, depreciation and amortisation</b>	8	<b>(2 760)</b>	522	(2 915)	<b>(2 959)</b>	494	(2 796)
Depreciation and amortisation	5 & 9	<b>(1 033)</b>	(732)	(825)	<b>(953)</b>	(656)	(754)
Impairments	5 & 11	<b>26</b>	(158)	(1 773)	<b>(906)</b>	(98)	(1 514)
Net gain/(loss) on disposal of property, aircraft and equipment	10	<b>7</b>	(6)	(9)	<b>18</b>	(2)	(3)
<b>Operating loss</b>		<b>(3 760)</b>	(374)	(5 522)	<b>(4 800)</b>	(262)	(5 067)
Finance costs	5 & 19	<b>(1 630)</b>	(1 030)	(634)	<b>(1 663)</b>	(1 063)	(667)
Interest income	20	<b>40</b>	26	26	<b>12</b>	11	16
<b>Loss before taxation</b>		<b>(5 350)</b>	(1 378)	(6 130)	<b>(6 451)</b>	(1 314)	(5 718)
Taxation	34	<b>(219)</b>	(100)	(12)	<b>-</b>	-	-
<b>Loss for the year</b>		<b>(5 569)</b>	(1 478)	(6 142)	<b>(6 451)</b>	(1 314)	(5 718)
<b>Other comprehensive income/(loss):</b>							
Remeasurements of defined benefit plans*		<b>(11)</b>	(6)	(6)	<b>(11)</b>	(6)	(6)
Gains/(impairments) on property revaluations*		<b>173</b>	(18)	48	<b>67</b>	(18)	(47)
Change in value of available-for-sale financial asset**		<b>6</b>	5	3	<b>6</b>	5	3
Taxation related to components of other comprehensive income	34	<b>(30)</b>	-	(25)	<b>-</b>	-	-
<b>Other comprehensive income/(loss) for the year net of taxation</b>	41	<b>138</b>	(19)	20	<b>62</b>	(19)	(50)
<b>Total comprehensive loss</b>		<b>(5 431)</b>	(1 497)	(6 122)	<b>(6 389)</b>	(1 333)	(5 768)
<b>Total comprehensive loss attributable to:</b>							
Owners of the parent		<b>(5 431)</b>	(1 497)	(6 122)	<b>(6 389)</b>	(1 333)	(5 768)
		<b>(5 431)</b>	(1 497)	(6 122)	<b>(6 389)</b>	(1 333)	(5 768)

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

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

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## GROUP AND COMPANY STATEMENT OF FINANCIAL POSITION

as at 31 March 2017

		GROUP			COMPANY		
R MILLION	Notes	2017	2016 Restated	2015 Restated	2017	2016 Restated	2015 Restated
<b>Assets</b>							
<b>Non-current assets</b>							
Property, aircraft and equipment	5 & 12	4 574	4 474	4 587	3 114	3 146	3 233
Intangible assets	5 & 37	244	210	171	224	188	155
Investments in subsidiaries	43	–	–	–	336	1 032	1 122
Deferred tax asset	35	33	281	380	–	–	–
Amounts receivable from subsidiaries	5 & 44	–	–	–	–	178	178
Non-current prepayments	5 & 13	1 777	1 880	2 184	1 710	1 880	2 184
Retirement benefit asset	30	26	38	38	26	38	38
		6 654	6 883	7 360	5 410	6 462	6 910
<b>Current assets</b>							
Inventories	38	879	727	725	101	101	121
Amounts receivable from subsidiaries	5 & 44	–	–	–	1 212	1 298	1 262
Derivatives	14	34	84	171	34	84	171
Trade and other receivables	5 & 21	5 333	6 725	4 998	5 225	6 640	4 832
Current tax receivable	36	16	16	–	–	–	–
Investments	46	29	23	18	29	23	18
Cash and cash equivalents	5 & 22	2 872	2 701	1 295	2 484	2 044	519
		9 163	10 276	7 207	9 085	10 190	6 923
Non-current assets classified as held-for-sale and assets of disposal groups	5 & 12	99	99	99	99	99	99
<b>Total assets</b>		<b>15 916</b>	<b>17 258</b>	<b>14 666</b>	<b>14 594</b>	<b>16 751</b>	<b>13 932</b>
<b>Equity and liabilities</b>							
<b>Equity</b>							
<b>Equity attributable to equity holders of the parent</b>							
Share capital	47	12 892	12 892	12 892	13 126	13 126	13 126
Reserves	5	946	815	953	446	391	529
Accumulated Loss	5	(31 640)	(26 071)	(24 593)	(32 127)	(25 676)	(24 362)
		(17 802)	(12 364)	(10 748)	(18 555)	(12 159)	(10 707)
<b>Non-current liabilities</b>							
Long-term loans	5 & 24	7 804	7 810	4 984	7 800	7 800	4 969
Retirement benefit obligation	30	121	128	91	121	128	91
Provisions	5 & 15	2 328	2 305	2 143	2 314	2 291	2 135
Deferred revenue on ticket sales	16	668	633	715	668	633	715
Other long-term liabilities	31	316	63	63	253	–	–
		11 237	10 939	7 996	11 156	10 852	7 910
<b>Current liabilities</b>							
Derivatives	14	1	4	346	1	4	346
Current tax payable	36	–	–	3	–	–	–
Trade and other payables	5 & 25	8 285	6 797	7 145	7 786	6 352	6 668
Provisions	5 & 15	1 096	1 399	511	995	1 390	511
Current portion of long-term loans	24	8 140	6 248	4 638	8 133	6 243	4 634
Deferred revenue on ticket sales	16	4 275	4 212	3 590	4 058	4 069	3 415
Bank overdraft	5 & 23	684	23	1 185	663	–	1 155
Amounts payable to subsidiaries	45	–	–	–	357	–	–
		22 481	18 683	17 418	21 993	18 058	16 729
<b>Total liabilities</b>		<b>33 718</b>	<b>29 622</b>	<b>25 414</b>	<b>33 149</b>	<b>28 910</b>	<b>24 639</b>
<b>Total equity and liabilities</b>		<b>15 916</b>	<b>17 258</b>	<b>14 666</b>	<b>14 594</b>	<b>16 751</b>	<b>13 932</b>

## GROUP AND COMPANY STATEMENT OF CHANGES IN EQUITY

for the year ended 31 March 2017

R MILLION	Share capital	Other reserves*	Revaluation reserve	Shareholder restructuring fund	Total share capital and reserves	Accumulated loss	Total equity
<b>GROUP</b>							
<b>Balance at 1 April 2015 – Restated**</b>	12 892	(97)	857	193	13 845	(24 593)	(10 748)
Total comprehensive income for the year	–	(1)	(18)	–	(19)	(1 478)	(1 497)
Voluntary severance packages paid	–	–	–	(119)	(119)	–	(119)
<b>Balance at 1 April 2016 – Restated**</b>	12 892	(98)	839	74	13 707	(26 071)	(12 364)
Total comprehensive income for the year	–	(5)	143	–	138	(5 569)	(5 431)
Voluntary severance packages paid	–	–	–	(7)	(7)	–	(7)
<b>Balance at 31 March 2017</b>	<b>12 892</b>	<b>(103)</b>	<b>982</b>	<b>67</b>	<b>13 838</b>	<b>(31 640)</b>	<b>(17 802)</b>
<b>COMPANY</b>							
<b>Balance at 1 April 2015 – Restated***</b>	13 126	(97)	433	193	13 655	(24 362)	(10 707)
Total comprehensive income for the year	–	(1)	(18)	–	(19)	(1 314)	(1 333)
Voluntary severance packages paid	–	–	–	(119)	(119)	–	(119)
<b>Balance at 1 April 2016 – Restated***</b>	13 126	(98)	415	74	13 517	(25 676)	(12 159)
Total comprehensive income for the year	–	(5)	67	–	62	(6 451)	(6 389)
Voluntary severance packages paid	–	–	–	(7)	(7)	–	(7)
<b>Balance at 31 March 2017</b>	<b>13 126</b>	<b>(103)</b>	<b>482</b>	<b>67</b>	<b>13 572</b>	<b>(32 127)</b>	<b>(18 555)</b>
<b>Notes</b>	47	41	12				

\* Other reserves relate to amounts recognised in other comprehensive income, except for any changes in the revaluation surplus/deficit, which are recognised in the revaluation reserve.

\*\* The opening accumulated loss at 1 April 2015 of R24 352 million was restated to R24 593 million. Similarly, the opening accumulated loss balance at 1 April 2016 of R25 935 million was restated to R26 071 million. This was due to prior year restatements as detailed in Note 5.

\*\*\* The opening accumulated loss balance at 1 April 2015 of R24 246 million was restated to R24 362 million. Similarly, the opening accumulated loss balance at 1 April 2016 of R25 691 million was restated to R25 676 million. This was due to prior year restatements as detailed in Note 5.

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**GROUP AND COMPANY STATEMENT OF CASH FLOWS**

for the year ended 31 March 2017

		GROUP			COMPANY		
R MILLION	Notes	2017	2016 Restated*	2015 Restated*	2017	2016 Restated*	2015 Restated*
<b>Cash flows from operating activities</b>							
Cash generated from/(used in) operations	18	219	117	(1 593)	425	195	(1 731)
Interest income		40	26	26	12	11	16
Finance costs		(1 630)	(1 030)	(634)	(1 663)	(1 063)	(667)
Realised gains/(losses) from derivative financial instruments		116	(40)	205	116	(40)	205
Currency and jet fuel option premium spend		(136)	(158)	(173)	(136)	(158)	(173)
Tax paid	36	(8)	(36)	(40)	(7)	(16)	(16)
<b>Net cash outflow from operating activities</b>		<b>(1 399)</b>	<b>(1 121)</b>	<b>(2 209)</b>	<b>(1 253)</b>	<b>(1 071)</b>	<b>(2 366)</b>
<b>Cash flows from investing activities</b>							
Additions to property, aircraft and equipment	12	(997)	(714)	(4 341)	(885)	(658)	(4 250)
Proceeds on disposal of property, aircraft, equipment and intangible assets	12 & 37	45	44	2 781	43	36	2 784
Additions to intangible assets	37	(44)	(13)	(32)	(39)	(1)	(26)
<b>Net cash outflow from investing activities</b>		<b>(996)</b>	<b>(683)</b>	<b>(1 592)</b>	<b>(881)</b>	<b>(623)</b>	<b>(1 492)</b>
<b>Cash flows from financing activities</b>							
External borrowings raised		2 257	6 000	4 342	2 257	6 000	4 341
External borrowings repaid		(371)	(1 564)	(442)	(367)	(1 560)	(438)
Movement in bank overdraft		661	(1 162)	(120)	663	(1 155)	(140)
<b>Net cash inflow from financing activities</b>		<b>2 547</b>	<b>3 274</b>	<b>3 780</b>	<b>2 553</b>	<b>3 285</b>	<b>3 763</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>152</b>	<b>1 470</b>	<b>(21)</b>	<b>419</b>	<b>1 591</b>	<b>(95)</b>
Cash and cash equivalents at the beginning of the year		2 701	1 295	1 267	2 044	519	564
Foreign exchange effect on cash and cash equivalents		19	(64)	49	21	(66)	50
<b>Cash and cash equivalents at the end of the year</b>	22	<b>2 872</b>	<b>2 701</b>	<b>1 295</b>	<b>2 484</b>	<b>2 044</b>	<b>519</b>

\* Some prior year items above have been restated due to other restatements made throughout the annual financial statements. Please refer to Note 5 for more details regarding prior year restatements.

## NOTES TO THE GROUP AND COMPANY ANNUAL FINANCIAL STATEMENTS

for year ended 31 March 2017

### 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 50.

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 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.

##### 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.

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

**Other income**

Other income relates to income received from handling fees, income from leased assets and other recoveries and are recognised in profit or loss in the period in which they arise.

**Interest income**

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

**MAINTENANCE COSTS****Owned aircraft**

Major airframe and engine 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.

Major overhauls are considered to be those programmes that extend the useful life of the asset or increase its value. Major maintenance events typically consist of more complex inspections and servicing of the aircraft.

**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



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

for the year ended 31 March 2017

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

#### Leased aircraft (continued)

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.

#### Sundry return costs

With regards to leased aircraft, where the Group has an obligation to return the aircraft with adherence to certain maintenance conditions, provision is made during the lease term. The provision is based on the present value of the expected future costs of meeting the maintenance return conditions. The present value of non-maintenance return conditions is provided for at the inception of the lease and an equal asset is capitalised and depreciated over the lease term.

#### 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.

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.

**1. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****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. During the current financial year, two previously leased second-hand aircraft were purchased. These were not componentised as their intended useful lives were similar.

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.
Restoration assets	Shorter period of lease or useful life.

**Residual values**

Residual values of all asset classes represent the most reliable estimate of the amount that will be recovered when the asset is fully depreciated. Residual values are reviewed annually and any difference is treated as a change in accounting estimate in accordance with IAS 8.

**Capital work in progress**

Capital work in progress are assets (tangible and intangible) being constructed over periods of time in excess of the present reporting period. These assets often require extensive development, installation work or integration of various assets, and contrast with simpler assets that are ready for use when acquired, such as motor vehicles and equipment. Capital work in progress are not depreciated as the airline is not currently deriving any economic benefits from them.

**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.

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

for the year ended 31 March 2017

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

#### LEASEHOLD IMPROVEMENTS

##### Land and buildings

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

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.



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

### Amortisation

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

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

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

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

### Derecognition of intangible assets

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

Any subsequent expenditure on capitalised intangible assets is capitalised only when it meets the recognition criteria of an intangible asset. All other expenditure is expensed as incurred.

## IMPAIRMENTS

### Intangible assets

Intangible assets are tested for impairment whenever there are circumstances that indicate that the carrying value may not be recoverable. Intangible assets that have not yet been brought into use or have an indefinite useful life, including goodwill, will be reviewed for impairment at least on an annual basis.

### Tangible assets

The carrying amounts of the Group's tangible assets, which mainly consist of property, aircraft and equipment, are reviewed at each statement of financial position date to determine whether there is any indication that those assets have been impaired. If there is any indication that an asset may be impaired, its recoverable amount is estimated in order to determine the extent of the impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

### Calculation of recoverable amount

The recoverable amount is the higher of the asset's fair value less cost of disposal and its value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

### Reversal of impairments

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount. The increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately. An impairment loss in respect of goodwill is not reversed in subsequent periods.

## PRE-DELIVERY PAYMENTS (PDPs) AND OTHER AIRCRAFT DEPOSITS

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

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

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

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

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

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

for the year ended 31 March 2017

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

#### 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 28.1.

#### 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 28.1.

#### 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.

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

### Cash and cash equivalents

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

### Hedge accounting

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

### Effective interest rate method

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

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

### Impairment of financial assets

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

For categories of financial assets, such as trade receivables, impairment is assessed on an individual basis. Any assets that are assessed not to be impaired on an individual basis are subsequently assessed for impairment on a portfolio basis. The assets are grouped in a portfolio, taking into consideration similar credit risk characteristics. The objective evidence of impairment for a portfolio of receivables normally includes the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of between 60 to 90 days, depending on the defined credit risk assessment for each type of debtor. Any dispute of amount receivable from the debtor is also considered as part of impairment indicators. For more details refer to Note 21.

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.






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

for the year ended 31 March 2017

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

#### 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 comprise 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.

#### 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 28.1.

#### 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. The inventory held by the Group relates mainly to maintenance inventories, other consumables and work in progress.

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.

#### Fruitless, wasteful and irregular expenditure

When confirmed, irregular expenditure will be recorded in the notes to the annual financial statements. The amounts to be recorded in the notes must be equal to the value of the irregular expenditure incurred, unless it is impracticable to determine the value thereof. Where such impracticability exists, the reasons thereof will be recorded in the notes. Irregular expenditure will be removed from the notes when it is either (a) condoned by the National Treasury or the relevant authority; (b) it is transferred to receivables for recovery; or (c) it is not condoned and is irrecoverable.

A receivable related to irregular expenditure is measured at the amount that is expected to be recovered and must be derecognised when the receivable is settled or subsequently written-off as irrecoverable.

#### 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

The comparative information, with the exception of the restatements as detailed in Note 5, is consistent with the prior year.

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

for the year ended 31 March 2017

### 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 1 – <i>Presentation of financial statements, disclosure initiative</i>	1 January 2016	Clarifies the guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.
Amendments to IAS 16 – <i>Property, plant and equipment</i> and IAS 38 – <i>Intangible assets, on depreciation and amortisation</i>	1 January 2016	In this amendment the IASB has clarified that the use of revenue based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset.
Amendments to IAS 27 – <i>Separate financial statements on equity accounting</i>	1 January 2016	In this amendment the IASB has restored the option to use the equity method to account for investments in subsidiaries, joint ventures and associates in an entity's separate financial statements.
IFRS 5 – <i>Non-current assets held-for-sale and discontinued operations</i>	1 January 2016	This is an amendment to the changes in methods of disposal – Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment to IFRS 5 clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5. The amendment also clarifies that changing the disposal method does not change the date of classification.
IFRS 7 – <i>Financial instruments: disclosures</i>	1 January 2016	Applicability of the offsetting disclosures to condensed interim financial statements. The amendment removes the phrase 'and interim periods within those annual periods' from paragraph 44R, clarifying that these IFRS 7 disclosures are not required in the condensed interim financial report. However, the Board noted that IAS 34 requires an entity to disclose '[...] an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period'. Therefore, if the IFRS 7 disclosures provide a significant update to the information reported in the most recent annual report, the Board would expect the disclosures to be included in the entity's condensed interim financial report.
IAS 19 – <i>Employee benefits</i>	1 January 2016	Discount rate: regional market issue – The amendment to IAS 19 clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.



## 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 2017. The standards and interpretations included below only include those that the directors believe may have an impact on the Group, the quantum of which cannot be reliably estimated.

Standard/interpretation	Impact	Effective date: years beginning on or after
Amendments to IAS 7 – <i>Statement of cash flows, as a result of the disclosure initiative</i>	Additional disclosures relating to the statement of cash flows.	1 January 2017
Amendments to IAS 12 – <i>Recognition of deferred tax assets for unrealised losses</i>	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 – <i>Financial Instruments, finalised version incorporating requirements for classification and measurement, impairment, general hedge accounting and derecognition</i>	No significant impact expected.	1 January 2018
IFRS 15 – <i>Revenue from contracts with customers</i>	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
IFRIC 22 – <i>Foreign currency transactions and advance consideration</i>	The amendments are intended to eliminate diversity in practice, when recognising the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration received or paid in foreign currency.	1 January 2018
IFRS 16 – <i>Leases</i>	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. During the year it was determined that the remaining useful lives and residual values of owned aircraft be amended as detailed below. The useful lives, residual values and the depreciation method of all other classes of assets remained unchanged as they were deemed to be appropriate.

### CHANGE IN ESTIMATE

Included in the loss before tax is a change in estimate relating to depreciation charge of aircraft. The useful lives and the residual values of aircraft were reassessed during the current year due to changes in the fleet plan. It was determined that there was only a maximum of four years remaining for the A340-600 fleet and six months for the A340-300 fleet as at 31 March 2017. Management also determined the residual values of the A340-300 fleet to R335 million (previously Rnil) due to the change in fleet plan. The effect of the change in estimate is an increase in the loss before tax of R2 million. The carrying value of these aircraft would have been R2.155 billion using the original estimates, the current carrying value of these aircraft using the amended estimate is now R2.153 billion at year end. The cumulative effect of the change on the future periods will be a decrease in the depreciation charge of R142 million.

### MAINTENANCE RESERVES EXPENSED

Maintenance reserves prepayments unutilised at the expiry of the lease term are not refundable. The Group estimates the unutilised balance that is likely to remain at the end of the lease term based on planned events and assumed consumed life of leased aircraft and their components between year end and the lease expiry date and uses this estimate as the basis for expensing maintenance reserve payments. The recognition of the maintenance reserves assets and values thereof are subject to critical judgements followed by management. The difference between the net maintenance reserve and the claimable major maintenance is the consumed life. The critical judgements that management had to make are with regards to how much of the maintenance reserves outstanding will not be utilised by the end of the lease term and how much will be claimed from lessors. To do this management needed to estimate when the next event will happen in order to determine if the next event is likely to happen after the end of the lease term. Management generally looks at the scheduled events and the time elapsed since the last event to estimate when the next event will happen.

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

for the year ended 31 March 2017

### 3. CRITICAL JUDGEMENTS IN APPLYING THE ENTITY'S ACCOUNTING POLICIES (CONTINUED)

#### PROVISION FOR LEASE LIABILITIES

For aircraft held under operating lease agreements, the Group 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.

The contractual obligation to maintain and replenish aircraft held under operating leases exists independently of any future actions within the control of the Group. These elements of accounting policies involve the use of estimates in determining the quantum of both the initial maintenance asset and/or the amount of provisions to be recorded and the respective periods over which such amounts are charged to profit or loss. The major sources of estimation uncertainty, regarding the calculation of the provision include the price at which the life limited parts will be replaced based on current prices, the quantity of the limited life parts that will need to be replaced, the cost of the next event regarding the major maintenance and, the expected timing of the next event. The occurrence of major events is either time or activity based therefore the time that has passed or activity that has been consumed since the last event also required management's judgement. At the inception of the lease, management need to estimate the cost of returning the aircraft to the condition required by lessors including the costs of painting the aircraft and replacing certain components which affect both the restoration asset and the related provision. In making such estimates, the Group has primarily relied on its own and industry experience, industry regulations and recommendations from manufacturers, however, these estimates can be subject to revision, depending on a number of factors, such as the timing of the planned maintenance, the ultimate utilisation of the aircraft, changes to government and international regulations and increases or decreases in estimated costs. The Group evaluates its estimates and assumptions in each reporting period and, when warranted, adjusts its assumptions, which generally impact maintenance and depreciation expense in the statement of profit or loss and other comprehensive income on a prospective basis.

### 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. A one percent variance in the weighted average fair value for all the buckets of outstanding miles equates to a movement of R11.6 million in the outstanding mileage liability in the statement of financial position.

The carrying amount of long-term frequent flyer deferred revenue at year end was R668 million (2016: R633 million) and the carrying amount of short-term frequent flyer deferred revenue was R493 million (2016: R578 million). Please refer to Note 16 for more details regarding the frequent flyer deferred revenue.

#### ALLOWANCE FOR SLOW MOVING, DAMAGED AND OBSOLETE INVENTORIES

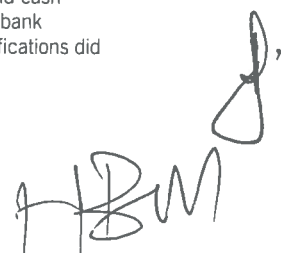
An allowance to write-down inventories to the lower of cost or net realisable value. Management have made estimates of the selling price and direct costs to sell on certain inventory items. The write-down is included in Note 11.

### 5. RESTATEMENTS

The Group and company annual financial statements have been prepared in accordance with International Financial Reporting Standards. The basis is consistent with the prior year except for restatements reflected below.

#### RECLASSIFICATIONS

During the current financial year, management decided to change certain general ledger account classifications in the annual financial statements in order to achieve a more accurate presentation in the Group and company annual financial statements. As a result of these reclassifications, the prior years were restated retrospectively in terms of IAS 8 – Changes in Accounting Policies, Accounting Estimates and Errors. The annual financial statement line items affected by these reclassifications were property, aircraft and equipment, amounts receivable from subsidiaries, trade and other receivables, cash and cash equivalents, subordinated loan guaranteed by government, long-term loans, trade and other payables, provisions, bank overdraft, airline revenue, other income, commissions and network charges and finance costs. The above reclassifications did not have an effect on the loss previously reported in the prior years.



**5. RESTATEMENTS (CONTINUED)****AIRCRAFT AND SIMULATORS**

During the current financial year, an error was noted where the Group had not raised a provision in relation to sundry return costs related to leased aircraft at the inception of the lease. A correction has been made in the current financial year, where these items have been corrected and prior period amounts adjusted retrospectively in accordance with IAS 8 – Changes in Accounting Policies, Accounting Estimates and Errors. The restoration asset, provision for return costs and the related depreciation and finance costs were updated accordingly.

**NON-CURRENT ASSET HELD-FOR-SALE**

During the current financial year, an error was noted where land and buildings, classified as non-current assets held-for-sale, were carried at an incorrect amount. A correction has been made in the current financial year, where these items have been corrected and prior period amounts adjusted retrospectively in accordance with IAS 8 – Changes in Accounting Policies, Accounting Estimates and Errors.

**PREPAYMENTS**

During the current financial year, an error was noted where the Group had recognised an impairment on a prepaid amount in the 2015/2016 financial year. There were no indicators for impairment and the error was corrected retrospectively in accordance with IAS 8 – Changes in Accounting Policies, Accounting Estimates and Errors. The prepayments and the related impairment expense were adjusted accordingly.

**SUBORDINATED LOAN GUARANTEED BY GOVERNMENT**

In the current year, an error was noted regarding the classification of the subordinated loan of R1,3 billion in the annual financial statements. The loan was initially categorised as equity in prior years which should have been classified as a loan in line with IAS 32 Financial Instruments: Presentation. A correction has been made in the current financial year, where this item is corrected and prior period amounts adjusted retrospectively in accordance with IAS 8 – Changes in Accounting Policies, Accounting Estimates and Errors.

The loan was reclassified to liabilities, recognised retrospectively at fair value at date of contract, the liability is carried at amortised cost and finance costs recognised in profit and loss in line with IAS 39 Financial Instruments: Recognition and Measurement.

**PROVISIONS**

In the current year, an error was noted where the Group did not raise the provision for C checks, which were to be carried out in the future where the Group has been operating the aircraft. A correction has been made in the current financial year, where these items have been corrected and prior period amounts adjusted retrospectively in accordance with IAS 8 – Changes in Accounting Policies, Accounting Estimates and Errors.

**AIRCRAFT LEASE COSTS**

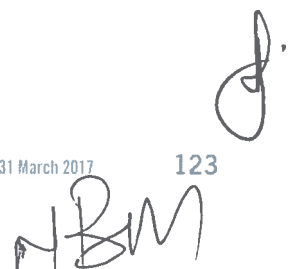
During the 2014/2015 and 2015/2016 financial years, there was a portion of aircraft lease costs that were prepaid and incorrectly expensed in those years. A correction has been made in the current financial year, where these items have now been treated as prepayments. The prior year balances have been restated in terms of IAS 8 – Changes in Accounting Policies, Accounting Estimates and Errors. Also a portion of aircraft lease costs that should have been accrued for as an expense in prior years have been adjusted and the prior year balances restated accordingly.

**MAINTENANCE COSTS**

During the 2014/2015 and 2015/2016 financial years, there was a portion of maintenance costs that were prepaid and incorrectly expensed in those years. A correction has been made in the current financial year, where these items have now been treated as prepayments. The prior year balances have been restated in terms of IAS 8 – Changes in Accounting Policies, Accounting Estimates and Errors. Also a portion of maintenance costs that should have been accrued for as an expense in prior years have been adjusted and the prior year balances restated accordingly. Previously it was SAA's accounting policy to expense the portion of the power by the hour payment that related to C checks as and when they are incurred, however during the current financial year it was decided that it would be more appropriate to recognise this as a prepayment.

**OVER ACCRUAL OF COMMISSIONS**

During the 2015/2016 financial year, there was an over accrual of commissions to be paid to agents. The accrual was based on a maximum achievement calculation assuming that all agents would exceed their revenue targets. This did not materialise as the majority of agents did not reach their targets, hence resulting in the over accrual. There were also some disputes with agents in terms of calculations and documentation required, which resulted in the delay of the accrual being released. These issues have subsequently been resolved and therefore the accrual was released.





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

for the year ended 31 March 2017

The aggregate effect of the restatements on the Group and company annual financial statements for the year ended 31 March 2016 and 31 March 2015 is as follows:

		GROUP		COMPANY	
R MILLION	Notes	2016	2015	2016	2015
5. RESTATEMENTS (CONTINUED)					
STATEMENT OF FINANCIAL POSITION					
Land	12				
Previously stated		437	437	48	48
Reclassification from buildings		188	188	223	223
Restated balance		625	625	271	271
Buildings – cost	12				
Previously stated		1 710	1 774	1 016	1 016
Reclassification to land		(188)	(188)	(223)	(223)
Restated balance		1 522	1 586	793	793
Aircraft and simulators – cost	12				
Previously stated		10 694	10 125	10 586	10 027
Recognition of restoration asset		75	75	75	75
Restated balance		10 769	10 200	10 661	10 102
Aircraft and simulators – accumulated depreciation	12				
Previously stated		(8 554)	(7 972)	(8 527)	(7 953)
Depreciation of restoration asset		(33)	(26)	(33)	(26)
Restated balance		(8 587)	(7 998)	(8 560)	(7 979)
Capital work in progress – Property, aircraft and equipment	12				
Previously stated		210	182	176	157
Reclassification to intangible assets		(120)	(85)	(120)	(85)
Restated balance		90	97	56	72
Capital work in progress – Intangible assets	37				
Previously stated		–	–	–	–
Reclassification from property, aircraft and equipment		120	85	120	85
Restated balance		120	85	120	85
Amounts receivable from subsidiaries – Non-current	44				
Previously stated		–	–	1 476	1 440
Reclassification to current		–	–	(1 298)	(1 262)
Restated balance		–	–	178	178
Amounts receivable from subsidiaries – current	44				
Previously stated		–	–	–	–
Reclassification from non-current		–	–	1 298	1 262
Restated balance		–	–	1 298	1 262
Non-current portion of maintenance reserve receivable	13				
Previously stated		1 790	1 967	1 790	1 967
Reclassification to prepayments		(176)	–	(176)	–
Restated balance		1 614	1 967	1 614	1 967

R MILLION	Notes	GROUP		COMPANY	
		2016	2015	2016	2015
<b>5. RESTATEMENTS (CONTINUED)</b>					
<b>Prepayments</b>	21				
Previously stated		2 898	2 110	2 811	1 990
Reclassification to foreign bank accounts		47	(35)	47	(35)
Reclassification to domestic bank accounts		(12)	(8)	(12)	(8)
Reclassification from other receivables		1 209	605	1 209	605
Adjustment to prepaid aircraft lease costs		77	78	77	78
Adjustment to prepaid maintenance costs		–	–	151	125
Adjustment to maintenance reserve		(254)	–	(254)	–
Reversal of impairment of PDPs		269	121	269	121
Reclassification from non-current prepayments		176	–	176	–
<b>Restated balance</b>		<b>4 410</b>	<b>2 871</b>	<b>4 474</b>	<b>2 876</b>
<b>Other receivables</b>	21				
Previously stated		1 217	630	1 184	608
Reclassification to prepayments		(1 209)	(605)	(1 209)	(605)
Reclassification to foreign exchange differences on trade and other receivables		(8)	(25)	25	(3)
<b>Restated balance</b>		<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Foreign exchange differences on trade and other receivables</b>	21				
Previously stated		–	–	–	–
Reclassification from other receivables		8	25	(25)	3
<b>Restated balance</b>		<b>8</b>	<b>25</b>	<b>(25)</b>	<b>3</b>
<b>Foreign bank accounts</b>	22				
Previously stated		1 747	1 043	1 785	1 044
Reclassification from prepayments		(47)	35	(47)	35
Reclassification from trade payables		107	16	107	16
<b>Restated balance</b>		<b>1 807</b>	<b>1 094</b>	<b>1 845</b>	<b>1 095</b>
<b>Domestic bank accounts</b>	22				
Previously stated		391	(1 290)	(3)	(1 852)
Reclassification from prepayments		12	8	12	8
Reclassification from trade payables		291	177	13	(8)
Reclassification to bank overdraft		23	1 185	–	1 155
<b>Restated balance</b>		<b>717</b>	<b>80</b>	<b>22</b>	<b>(697)</b>
<b>Non-current asset held-for-sale</b>	12				
Previously stated		63	63	63	63
Revaluation of non-current asset held-for-sale		36	36	36	36
<b>Restated balance</b>		<b>99</b>	<b>99</b>	<b>99</b>	<b>99</b>
<b>Accumulated loss</b>					
Previously stated		(25 935)	(24 352)	(25 691)	(24 246)
Adjustment to previously reported loss		(5)	(503)	21	(378)
Finance cost already included in opening accumulated loss		110	98	110	98
Prior year effect of restatements		(241)	164	(116)	164
<b>Restated balance</b>		<b>(26 071)</b>	<b>(24 593)</b>	<b>(25 676)</b>	<b>(24 362)</b>
<b>Reserves</b>					
Previously stated		779	917	355	493
Revaluation of non-current asset held-for-sale		36	36	36	36
<b>Restated balance</b>		<b>815</b>	<b>953</b>	<b>391</b>	<b>529</b>

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

for the year ended 31 March 2017

		GROUP		COMPANY	
R MILLION	Notes	2016	2015	2016	2015
5. RESTATEMENTS (CONTINUED)					
Subordinated loan guaranteed by government					
Previously stated		1 300	1 300	1 300	1 300
Reclassification to long-term loans		(1 300)	(1 300)	(1 300)	(1 300)
Restated balance		–	–	–	–
Long-term loans 24					
Previously stated		6 510	3 684	6 500	3 669
Reclassification from subordinated loan guaranteed by government		1 300	1 300	1 300	1 300
Restated balance		7 810	4 984	7 800	4 969
Provisions – non-current 15					
Previously stated		2 394	2 202	2 380	2 194
Adjustment to provision for minor maintenance		20	46	20	46
Recognition of restoration liability		75	75	75	75
Foreign exchange revaluation of restoration liability		259	189	259	189
Finance cost recognised on restoration liability		94	38	94	38
Adjustment to return costs		(537)	(407)	(537)	(407)
Restated balance		2 305	2 143	2 291	2 135
Trade payables 25					
Previously stated		947	1 378	1 250	1 574
Reclassification to foreign bank accounts		107	16	107	16
Reclassification to domestic bank accounts		291	177	13	(8)
Restated balance		1 345	1 571	1 370	1 582
Payroll accruals 25					
Previously stated		–	–	–	–
Reclassification from other payables		858	871	669	662
Restated balance		858	871	669	662
Ticket tax accruals 25					
Previously stated		–	–	–	–
Reclassification from other payables		2 729	2 635	2 632	2 555
Restated balance		2 729	2 635	2 632	2 555
Other payables 25					
Previously stated		6 006	5 205	5 536	4 717
Reclassification to payroll accruals		(858)	(871)	(669)	(662)
Reclassification to ticket tax accruals		(2 729)	(2 635)	(2 632)	(2 555)
Reclassification to provisions		(709)	(107)	(709)	(107)
Over accrual of commission		(131)	–	(131)	–
Adjustment to maintenance accruals		199	422	199	422
Adjustment to aircraft lease accruals		3	–	3	–
Adjustments relating to PAYE not withheld on fringe benefits		84	54	84	54
Restated balance		1 865	2 068	1 681	1 869
Provisions – current 15					
Previously stated		486	332	477	332
Reclassification from other payables		709	107	709	107
Adjustment to provision for minor maintenance		204	72	204	72
Restated balance		1 399	511	1 390	511
Bank overdraft 23					
Previously stated		94	1 392	294	1 899
Reclassification from domestic bank accounts		(71)	(207)	(294)	(744)
Restated balance		23	1 185	–	1 155

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		GROUP		COMPANY	
R MILLION	Notes	2016	2015	2016	2015
5. RESTATEMENTS (CONTINUED)					
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME					
Passenger revenue	6				
Previously stated		18 910	18 978	16 882	17 119
Reclassification to commissions and network charges		331	387	330	388
Restated amount		19 241	19 365	17 212	17 507
Release from prescribed tickets	6				
Previously stated		396	372	396	372
Reclassification from other recoveries		419	301	419	301
Restated amount		815	673	815	673
Other airline revenue adjustments	6				
Previously stated		–	–	–	–
Reclassification from other recoveries		(304)	(41)	(304)	(41)
Restated amount		(304)	(41)	(304)	(41)
Other recoveries	7				
Previously stated		1 330	1 389	1 286	1 341
Reclassification to release from prescribed tickets		(419)	(301)	(419)	(301)
Reclassification to other airline revenue adjustments		304	41	304	41
Restated amount		1 215	1 129	1 171	1 081
Aircraft lease costs	8				
Previously stated		3 149	2 840	3 095	2 795
Adjustment to prepaid aircraft lease costs		1	(78)	1	(78)
Adjustment to aircraft lease accruals		3	–	3	–
Foreign exchange correction on aircraft lease costs		(21)	(6)	(21)	(6)
Restated amount		3 132	2 756	3 078	2 711
Commissions and network charges					
Previously stated		1 629	1 461	1 531	1 375
Reclassification from passenger revenue		331	387	330	388
Over accrual of commission		(131)	–	(131)	–
Restated amount		1 829	1 848	1 730	1 763
Employee benefit expenses	29				
Previously stated		5 822	5 687	3 810	3 747
Adjustments relating to PAYE not withheld on fringe benefits		9	11	9	11
Restated amount		5 831	5 698	3 819	3 758
Maintenance costs					
Previously stated		4 283	3 412	5 510	4 491
Adjustment to maintenance accruals		(223)	422	(223)	422
Adjustment to prepaid maintenance costs		–	–	(26)	(125)
Adjustment to provision for minor maintenance		106	118	106	118
Adjustment to maintenance reserve		254	–	254	–
Foreign exchange correction on maintenance costs		(123)	32	(123)	32
Adjustment to return costs		(130)	(72)	(130)	(72)
Restated amount		4 167	3 912	5 368	4 866


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

for the year ended 31 March 2017

R MILLION	Notes	GROUP		COMPANY	
		2016	2015	2016	2015
<b>5. RESTATEMENTS (CONTINUED)</b>					
<b>Foreign currency denominated net receivables</b>	40				
Previously stated		(207)	(82)	(254)	(91)
Foreign exchange effect of reversal of impairment of PDPs		(148)	–	(148)	–
Foreign exchange correction on aircraft lease costs		21	6	21	6
Foreign exchange correction on maintenance costs		123	(32)	123	(32)
Foreign exchange revaluation of restoration liability		71	37	71	37
<b>Restated amount</b>		<b>(140)</b>	<b>(71)</b>	<b>(187)</b>	<b>(80)</b>
<b>Other operating costs</b>					
Previously stated		4 362	5 114	3 728	4 484
Adjustments relating to PAYE not withheld on fringe benefits		17	36	17	36
<b>Restated amount</b>		<b>4 379</b>	<b>5 150</b>	<b>3 745</b>	<b>4 520</b>
<b>Depreciation on aircraft and simulators</b>	9				
Previously stated		(561)	(628)	(549)	(621)
Depreciation of restoration asset		(7)	(6)	(7)	(6)
<b>Restated amount</b>		<b>(568)</b>	<b>(634)</b>	<b>(556)</b>	<b>(627)</b>
<b>Impairment of PDPs</b>	11				
Previously stated		–	(121)	–	(121)
Reversal of impairment of PDPs		–	121	–	121
<b>Restated amount</b>		<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Interest paid on borrowings</b>	19				
Previously stated		(794)	(404)	(794)	(404)
Reclassification from preference dividends		(110)	(98)	(110)	(98)
<b>Restated amount</b>		<b>(904)</b>	<b>(502)</b>	<b>(904)</b>	<b>(502)</b>
<b>Interest paid on overdraft</b>	19				
Previously stated		(67)	(86)	(62)	(81)
Finance cost recognised on restoration liability		(56)	(38)	(56)	(38)
Adjustments relating to PAYE not withheld on fringe benefits		(3)	(8)	(3)	(8)
<b>Restated amount</b>		<b>(126)</b>	<b>(132)</b>	<b>(121)</b>	<b>(127)</b>
<b>Loss for the year</b>					
Previously stated		(1 473)	(5 639)	(1 335)	(5 340)
Net result of the above adjustments		(5)	(503)	21	(378)
<b>Restated loss</b>		<b>(1 478)</b>	<b>(6 142)</b>	<b>(1 314)</b>	<b>(5 718)</b>

R MILLION	Notes	GROUP			COMPANY		
		2017	2016 Restated	2015 Restated	2017	2016 Restated	2015 Restated
<b>6. AIRLINE REVENUE</b>							
The analysis of airline revenue for the year is as follows:							
Passenger revenue	5	19 653	19 241	19 365	17 610	17 212	17 507
Freight and mail		1 794	1 776	1 744	1 791	1 775	1 742
Technical services		705	775	701	269	293	188
Voyager income	16	813	867	771	813	867	771
Commission received		39	71	86	37	65	74
Release from prescribed tickets	5	559	815	673	559	815	673
Release from prescribed air waybills		–	–	28	–	–	28
Fuel levies		6 232	6 032	5 833	6 232	6 032	5 833
Other airline revenue adjustments*	5	(522)	(304)	(41)	(522)	(304)	(41)
		<b>29 273</b>	<b>29 273</b>	<b>29 160</b>	<b>26 789</b>	<b>26 755</b>	<b>26 775</b>

\* Other airline revenue adjustments comprise inter airline processing offsets and revenue accounting system adjustments.

R MILLION	Notes	GROUP			COMPANY		
		2017	2016 Restated	2015 Restated	2017	2016 Restated	2015 Restated
<b>7. OTHER INCOME</b>							
Other income is made up of the following items:							
Handling fees		191	148	134	69	52	58
Income from leased assets		94	80	69	362	405	305
Other recoveries*	5	1 184	1 215	1 129	1 099	1 171	1 081
		<b>1 469</b>	<b>1 443</b>	<b>1 332</b>	<b>1 530</b>	<b>1 628</b>	<b>1 444</b>

\* Other recoveries comprise income associated with ticket cancellations and other miscellaneous income.

R MILLION	Notes	GROUP			COMPANY		
		2017	2016 Restated	2015 Restated	2017	2016 Restated	2015 Restated
<b>8. OPERATING (LOSS)/PROFIT BEFORE INTEREST, TAX, DEPRECIATION AND AMORTISATION</b>							
Operating (loss)/profit before interest, tax, depreciation and amortisation is stated after taking into account among others, the following:							
<b>OPERATING LEASE PAYMENTS</b>							
Aircraft	5	3 103	3 132	2 756	3 022	3 078	2 711
Buildings		128	117	111	104	97	94
Equipment and vehicles		34	40	54	29	28	43
<b>Total operating lease payments</b>		<b>3 265</b>	<b>3 289</b>	<b>2 921</b>	<b>3 155</b>	<b>3 203</b>	<b>2 848</b>
<b>AUDITORS' REMUNERATION</b>							
Audit fees – current year		16	15	13	13	11	9
Other regulatory audit services		–	3	1	–	3	1
Non-audit services		–	1	2	–	1	2
<b>Total auditors' remuneration</b>		<b>16</b>	<b>19</b>	<b>16</b>	<b>13</b>	<b>15</b>	<b>12</b>

Directors' emoluments and executive management emoluments are disclosed in Note 48.



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

for the year ended 31 March 2017

		GROUP			COMPANY		
R MILLION	Notes	2017	2016 Restated	2015 Restated	2017	2016 Restated	2015 Restated
<b>9. DEPRECIATION AND AMORTISATION</b>							
Aircraft and simulators	5	(853)	(568)	(634)	(841)	(556)	(627)
Buildings and structures		(45)	(46)	(64)	(18)	(21)	(40)
Machinery, equipment and furniture		(76)	(68)	(72)	(53)	(46)	(49)
Vehicles and cabin loaders		(16)	(15)	(14)	(5)	(4)	(4)
<b>Total depreciation</b>	12	<b>(990)</b>	<b>(697)</b>	<b>(784)</b>	<b>(917)</b>	<b>(627)</b>	<b>(720)</b>
Amortisation of intangible assets	37	(43)	(35)	(41)	(36)	(29)	(34)
<b>Total depreciation and amortisation</b>		<b>(1 033)</b>	<b>(732)</b>	<b>(825)</b>	<b>(953)</b>	<b>(656)</b>	<b>(754)</b>
		GROUP		COMPANY			
R MILLION		2017	2016	2017	2016		
<b>10. NET GAIN/(LOSS) ON DISPOSAL OF PROPERTY, AIRCRAFT AND EQUIPMENT</b>							
<b>Net gain/(loss) on disposal of property, aircraft and equipment comprises the following:</b>							
Profit on disposal of property, aircraft and equipment		24	1	21	–		
Loss on disposal of property, aircraft and equipment		(17)	(7)	(3)	(2)		
		<b>7</b>	<b>(6)</b>	<b>18</b>	<b>(2)</b>		
		GROUP			COMPANY		
R MILLION	Notes	2017	2016 Restated	2015 Restated	2017	2016 Restated	2015 Restated
<b>11. IMPAIRMENTS</b>							
<b>Impairments of loans and receivables held at amortised cost</b>							
(Impairment)/reversal of impairment of accounts receivable		(24)	(14)	12	(28)	(9)	(3)
<b>Impairment of other assets</b>							
Impairment of investments in subsidiaries	43	–	–	–	(696)	(90)	–
(Impairment)/reversal of impairment of loans to subsidiaries	44	–	–	–	(182)	1	(3)
Impairment of aircraft	12	–	–	(1 508)	–	–	(1 508)
Reversal of impairment/(impairment) arising from write-down of inventory to net realisable value	38	50	(144)	(277)	–	–	–
		<b>26</b>	<b>(158)</b>	<b>(1 773)</b>	<b>(906)</b>	<b>(98)</b>	<b>(1 514)</b>

	2017			2016 Restated*			2015 Restated*		
R MILLION	Cost/ valuation	Accumulated depreciation/ impairment	Carrying value	Cost/ valuation	Accumulated depreciation/ impairment	Carrying value	Cost/ valuation	Accumulated depreciation/ impairment	Carrying value
<b>12. PROPERTY, AIRCRAFT AND EQUIPMENT GROUP</b>									
Land	687	–	687	625	–	625	625	–	625
Buildings and structures	1 428	(126)	1 302	1 522	(281)	1 241	1 586	(300)	1 286
Machinery, equipment and furniture	887	(543)	344	757	(486)	271	894	(592)	302
Vehicles and cabin loaders	147	(99)	48	155	(90)	65	157	(82)	75
Aircraft and simulators	11 299	(9 155)	2 144	10 769	(8 587)	2 182	10 200	(7 998)	2 202
Containers	30	(30)	–	30	(30)	–	30	(30)	–
Capital work in progress	49	–	49	90	–	90	97	–	97
<b>Total</b>	<b>14 527</b>	<b>(9 953)</b>	<b>4 574</b>	<b>13 948</b>	<b>(9 474)</b>	<b>4 474</b>	<b>13 589</b>	<b>(9 002)</b>	<b>4 587</b>
<b>COMPANY</b>									
Land	299	–	299	271	–	271	271	–	271
Buildings and structures	682	(115)	567	793	(244)	549	793	(224)	569
Machinery, equipment and furniture	382	(240)	142	347	(198)	149	486	(309)	177
Vehicles and cabin loaders	48	(28)	20	47	(27)	20	46	(25)	21
Aircraft and simulators	11 176	(9 116)	2 060	10 661	(8 560)	2 101	10 102	(7 979)	2 123
Containers	29	(29)	–	29	(29)	–	29	(29)	–
Capital work in progress	26	–	26	56	–	56	72	–	72
<b>Total</b>	<b>12 642</b>	<b>(9 528)</b>	<b>3 114</b>	<b>12 204</b>	<b>(9 058)</b>	<b>3 146</b>	<b>11 799</b>	<b>(8 566)</b>	<b>3 233</b>

\* A restatement was done on the opening balances of land and buildings in order to reflect the correct split between land and buildings. The total carrying value of property, aircraft and equipment did not change in the prior years as a result of this restatement. Please refer to Note 5 for more details regarding prior year restatements.

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

for the year ended 31 March 2017

R MILLION	Land	Buildings and structures	Machinery, equipment and furniture	Vehicles and cabin loaders	Aircraft and simulators	Containers	Capital work in progress	Total
<b>12. PROPERTY, AIRCRAFT AND EQUIPMENT (CONTINUED)</b>								
<b>GROUP</b>								
<b>Reconciliation</b>								
Opening balance – Restated	585	1 353	304	75	3 433	–	658	6 408
Additions	–	7	47	14	3 676	–	597	4 341
Disposals	–	(20)	–	–	(2 770)	–	–	(2 790)
Transfers*	–	2	23	–	5	–	(1 158)	(1 128)
Revaluations	40	8	–	–	–	–	–	48
Depreciation	–	(64)	(72)	(14)	(634)	–	–	(784)
Impairment loss	–	–	–	–	(1 508)	–	–	(1 508)
<b>Balance at 31 March 2015 – Restated</b>	<b>625</b>	<b>1 286</b>	<b>302</b>	<b>75</b>	<b>2 202</b>	<b>–</b>	<b>97</b>	<b>4 587</b>
Opening balance – Restated	625	1 286	302	75	2 202	–	97	4 587
Additions	–	13	22	5	233	–	441	714
Disposals	–	(2)	(4)	–	(40)	–	–	(46)
Transfers*	–	8	19	–	355	–	(448)	(66)
Revaluations	–	(18)	–	–	–	–	–	(18)
Depreciation	–	(46)	(68)	(15)	(568)	–	–	(697)
<b>Balance at 31 March 2016 – Restated</b>	<b>625</b>	<b>1 241</b>	<b>271</b>	<b>65</b>	<b>2 182</b>	<b>–</b>	<b>90</b>	<b>4 474</b>
Opening balance – Restated	625	1 241	271	65	2 182	–	90	4 474
Additions	–	5	82	7	449	–	454	997
Disposals	–	(11)	(7)	(8)	(12)	–	–	(38)
Transfers*	–	1	74	–	378	–	(495)	(42)
Revaluations	62	111	–	–	–	–	–	173
Depreciation	–	(45)	(76)	(16)	(853)	–	–	(990)
<b>Balance at 31 March 2017</b>	<b>687</b>	<b>1 302</b>	<b>344</b>	<b>48</b>	<b>2 144</b>	<b>–</b>	<b>49</b>	<b>4 574</b>

\* The amount reflected in the transfers column represents the amount transferred from Capital work in progress to Software (Intangible assets). Refer to Note 37 for more information.



R MILLION	Land	Buildings and structures	Machinery, equipment and furniture	Vehicles and cabin loaders	Aircraft and simulators	Containers	Capital work in progress	Total
<b>12. PROPERTY, AIRCRAFT AND EQUIPMENT (CONTINUED)</b>								
<b>COMPANY</b>								
<b>Reconciliation</b>								
Opening balance – Restated	278	662	173	22	3 374	–	664	5 173
Additions	–	5	30	3	3 646	–	566	4 250
Disposals	–	(20)	–	–	(2 767)	–	–	(2 787)
Transfers*	–	2	23	–	5	–	(1 158)	(1 128)
Revaluations	(7)	(40)	–	–	–	–	–	(47)
Depreciation	–	(40)	(49)	(4)	(627)	–	–	(720)
Impairment loss	–	–	–	–	(1 508)	–	–	(1 508)
<b>Balance at 31 March 2015 – Restated</b>	<b>271</b>	<b>569</b>	<b>177</b>	<b>21</b>	<b>2 123</b>	<b>–</b>	<b>72</b>	<b>3 233</b>
Opening balance – Restated	271	569	177	21	2 123	–	72	3 233
Additions	–	13	7	3	211	–	424	658
Disposals	–	(1)	(1)	–	(32)	–	–	(34)
Transfers*	–	7	12	–	355	–	(440)	(66)
Revaluations	–	(18)	–	–	–	–	–	(18)
Depreciation	–	(21)	(46)	(4)	(556)	–	–	(627)
<b>Balance at 31 March 2016 – Restated</b>	<b>271</b>	<b>549</b>	<b>149</b>	<b>20</b>	<b>2 101</b>	<b>–</b>	<b>56</b>	<b>3 146</b>
Opening balance – Restated	271	549	149	20	2 101	–	56	3 146
Additions	–	4	4	5	435	–	437	885
Disposals	–	(7)	(6)	–	(12)	–	–	(25)
Transfers*	–	–	48	–	377	–	(467)	(42)
Revaluations	28	39	–	–	–	–	–	67
Depreciation	–	(18)	(53)	(5)	(841)	–	–	(917)
<b>Balance at 31 March 2017</b>	<b>299</b>	<b>567</b>	<b>142</b>	<b>20</b>	<b>2 060</b>	<b>–</b>	<b>26</b>	<b>3 114</b>

\* The amount reflected in the transfers column represents the amount transferred from Capital work in progress to Software (Intangible assets). Refer to Note 37 for more information.

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

In the previous financial year, certain aircraft were encumbered as security for the financing thereof. The carrying value of capitalised aircraft encumbered in respect of financing raised by the Group amounted to R0.6 billion in the previous financial year, these loans have been fully paid up in the current financial year, with the result being that the aircraft are no longer encumbered.

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

The category of aircraft includes the refurbishment costs of both the owned and leased aircraft. This refurbishment is amortised over the shorter of the useful life of the refurbished equipment or the lease term of the leased aircraft.

The fair value of land and buildings was determined by an independent external valuation expert during the last 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 10,5 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

R MILLION	Notes	GROUP		COMPANY	
		2017	2016 Restated	2017	2016 Restated
Carrying value of land and buildings classified as held-for-sale	5	99	99	99	99
		99	99	99	99

The period to complete the sale has extended beyond one year due to events and circumstances beyond SAA's control. However, SAA remains committed to the plan to sell the asset and has therefore retained the classification of held-for-sale.

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

for the year ended 31 March 2017

R MILLION	Notes	GROUP		COMPANY	
		2017	2016 Restated	2017	2016 Restated
<b>13. NON-CURRENT PREPAYMENTS</b>					
Pre-delivery payments (PDPs)		–	266	–	266
Non-current portion of maintenance reserve receivable	5	1 777	1 614	1 710	1 614
		1 777	1 880	1 710	1 880

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 21. Refer to the accounting policies section for details of the treatment of these claims.

R MILLION	GROUP		COMPANY	
	2017	2016 Restated	2017	2016 Restated
Maintenance reserve balance	4 330	4 883	4 230	4 883
Current portion	(652)	(1 293)	(619)	(1 293)
Maintenance reserves expensed	(1 901)	(1 976)	(1 901)	(1 976)
<b>Non-current portion of maintenance reserve receivable</b>	<b>1 777</b>	<b>1 614</b>	<b>1 710</b>	<b>1 614</b>

R MILLION	GROUP			Total
	Jet fuel options	Currency derivatives	Jet fuel forward exchange contracts and swaps	

### 14. DERIVATIVES

#### GROUP AND COMPANY

Assets	18	66	–	84
Liabilities	–	(2)	(2)	(4)
<b>Fair value at 1 April 2016</b>	<b>18</b>	<b>64</b>	<b>(2)</b>	<b>80</b>
Amounts spent on premiums	86	50	–	136
Fair value movements for the year ended 31 March 2017	(79)	(106)	2	(183)
<b>Fair value at 31 March 2017</b>	<b>25</b>	<b>8</b>	<b>–</b>	<b>33</b>
Assets	25	9	–	34
Liabilities	–	(1)	–	(1)
	25	8	–	33

R MILLION	Provision for lease liabilities <sup>(1)</sup>	Other provisions <sup>(2)</sup>	Total
<b>15. PROVISIONS</b>			
<b>GROUP</b>			
<b>Reconciliation</b>			
Opening balance – Restated	1 258	403	1 661
Additions	479	968	1 447
Utilised during the year	(534)	(12)	(546)
Reversed during the year	–	(94)	(94)
Unwinding of the discount	38	–	38
Currency revaluation	148	–	148
<b>Balance at 31 March 2015 – Restated</b>	<b>1 389</b>	<b>1 265</b>	<b>2 654</b>
Current portion	404	107	511
Non-current portion	985	1 158	2 143
	1 389	1 265	2 654
Opening balance – Restated	1 389	1 265	2 654
Additions	1 080	700	1 780
Utilised during the year	(654)	(1)	(655)
Reversed during the year	(295)	(7)	(302)
Unwinding of the discount	56	–	56
Currency revaluation	171	–	171
<b>Balance at 31 March 2016 – Restated</b>	<b>1 747</b>	<b>1 957</b>	<b>3 704</b>
Current portion	530	869	1 399
Non-current portion	1 217	1 088	2 305
	1 747	1 957	3 704
Opening balance – Restated	<b>1 747</b>	<b>1 957</b>	<b>3 704</b>
Additions	<b>2 102</b>	<b>184</b>	<b>2 286</b>
Utilised during the year	<b>(693)</b>	<b>(108)</b>	<b>(801)</b>
Reversed during the year	<b>(1 066)</b>	<b>(554)</b>	<b>(1 620)</b>
Unwinding of the discount	<b>70</b>	<b>–</b>	<b>70</b>
Currency revaluation	<b>(216)</b>	<b>1</b>	<b>(215)</b>
<b>Balance at 31 March 2017</b>	<b>1 944</b>	<b>1 480</b>	<b>3 424</b>
Current portion	<b>753</b>	<b>343</b>	<b>1 096</b>
Non-current portion	<b>1 191</b>	<b>1 137</b>	<b>2 328</b>
	<b>1 944</b>	<b>1 480</b>	<b>3 424</b>