

SOUTH AFRICAN AIRWAYS

Audited Group results for the year ended 31 March 2005

Abridged Group income statement

	Year ended 31 March 2005	Restated Year ended 31 March 2004	% change
	R million	R million	
Airline income	17 442	16 339	6,8
Operating costs	(16 507)	(16 205)	1,9
- operating costs excluding aircraft lease costs and depreciation and amortisation	(14 451)	(13 864)	4,2
- aircraft lease costs	(1 585)	(1 556)	1,9
- depreciation and amortisation	(471)	(785)	-40,0
Gross operating profit	935	134	>100
- impairment of assets	(141)	(3 410)	-95,9
- insurance recoveries	-	26	-100
- loss on sale of aircraft and equipment	(25)	(367)	-93,2
Profit/(loss) from airline operations before fair value movements and translation adjustments	769	(3 617)	>100
Fair value movements and translation adjustments	342	(4 470)	>100
- translation gains on foreign assets and liabilities	130	82	58,5
- net derivative fair value gain/(loss)	211	(4 485)	>100
- other fair value adjustments	1	(67)	>100
Operating profit/(loss)	1 111	(8 087)	>100
Net finance costs	(186)	(533)	-65,1
- interest paid	(402)	(669)	-39,9
- interest received	216	136	58,8
Profit/(loss) before tax and minority interest	925	(8 620)	>100
Taxation	(2)	-	-
Profit/(loss) after taxation	923	(8 620)	>100
Minority interest	43	10	>100
Net profit/(loss) for the year	966	(8 610)	
Profit/(loss) per share (cents)	11	(296)	>100
Headline profit/(loss) per share (cents)	13	(166)	>100

Abridged Group balance sheet

	Year ended 31 March 2005	Restated Year ended 31 March 2004
	R million	R million
ASSETS		
Non-current assets	9 783	9 433
Property, plant and equipment	9 216	8 494
Intangible assets and goodwill	3	125
Investments and long-term assets	564	814
Current assets	6 644	7 454
Inventories	535	523
Refundable amounts	236	1 267
Accounts receivable	2 843	2 464
Derivative financial asset	199	23
Short-term investments	858	327
Short-term portion of long-term assets	207	130
Bank and other cash balances	1 766	2 720
	16 427	16 887
EQUITY AND LIABILITIES		
Capital and reserves	2 228	(2 697)
Share capital	8 982	8 982
Non-distributable reserves	(34)	(35)
Accumulated losses	(10 720)	(11 686)
Shareholder's deficit	(1 772)	(2 739)
Holding company compulsory convertible loan	4 000	-
Minority interest	-	42
Non-current liabilities	5 858	4 789
Long-term liabilities	5 608	4 580
Other long-term liabilities	250	209
Current liabilities	8 341	14 795
Bank overdraft	10	70
Derivative financial liability	-	5 957
Air traffic liability	2 803	2 792
Accounts payable	4 687	4 005
Short-term portion of long-term liabilities	841	1 971
	16 427	16 887

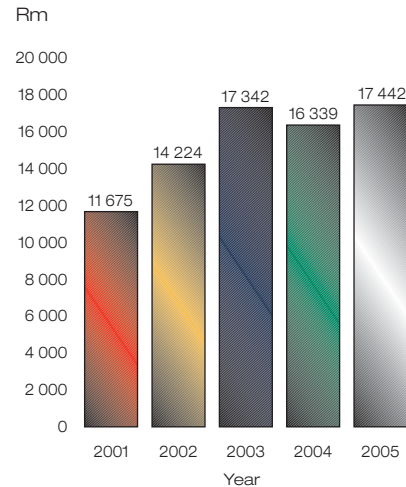
Abridged Group cash flow statement

	Year ended 31 March 2005	Restated Year ended 31 March 2004
	R million	R million
Cash generated by operations before working capital changes	1 162	662
Working capital changes	749	79
Net finance costs	(186)	(533)
Realised derivatives	(5 922)	(1 611)
Net cash outflow from operating activities	(4 197)	(1 403)
Net cash outflow from investing activities	(188)	(4 422)
Net cash inflow from financing activities	4 029	8 144
Net (decrease)/increase in cash and cash equivalents	(356)	2 319
Cash and cash equivalents at beginning of the year	2 977	793
Translation loss on cash and cash equivalents	(7)	(135)
Cash and cash equivalents at end of the year	2 614	2 977

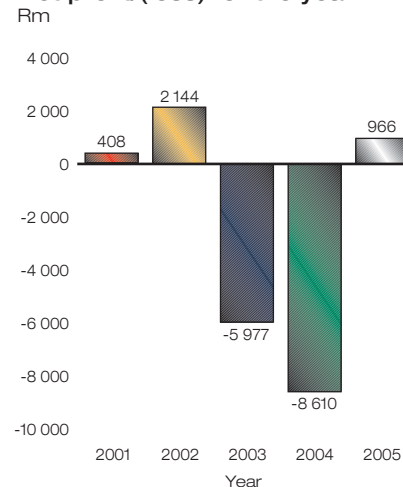
Abridged Group statement of changes in equity

	Year ended 31 March 2005	Restated Year ended 31 March 2004
	R million	R million
Share capital	8 982	8 982
At beginning of the year	8 982	3 127
Shares issued	9	6 089
Treasury shares held by Share Trust	(9)	(234)
Non-distributable reserves	(34)	(35)
At beginning of the year	(35)	(1 461)
Net movement on cash flow hedges	(-)	1 446
Other movements	1	(20)
Accumulated losses	(10 720)	(11 686)
At beginning of the year	(11 686)	(3 076)
Net profit/(loss) for the year	966	(8 610)
Total shareholder's deficit	(1 772)	(2 739)

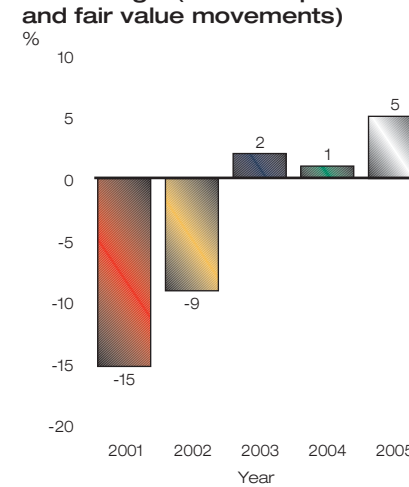
Total airline income



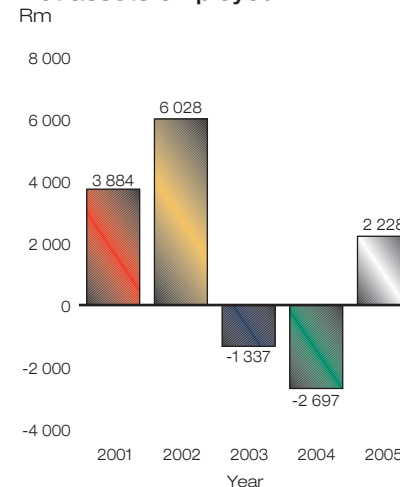
Net profit/(loss) for the year



EBIT margin (before impairment and fair value movements)



Net assets employed



Commentary

The auditors of the Group, Deloitte & Touche and APF Inc., have audited the Group financial statements for the year ended 31 March 2005. A copy of their unqualified audit opinion is available for inspection at the Company's registered office.

Basis of accounting

These abridged Group financial statements have been prepared in accordance with South African Statements of Generally Accepted Accounting Practice applicable to Interim Financial Reporting, and are consistent with those of the previous period with the exception of the Group fully adopting the following South African Statements of Generally Accepted Accounting Practice:

- AC140 (IFRS3 revised 2004) Business Combinations;
- AC128 (IAS36 revised 2004) Impairment of Assets;
- AC129 (IAS38 revised 2004) Intangible Assets; and
- AC116 (IAS19 revised 2004) Employee benefits, with effect from 1 April 2004.

In addition the Group has consolidated the South African Airways Share Trust for the first time.

Prior year figures have been restated for the above.

Implementation of IFRSs

The Group's holding company, Transnet Limited, has taken a decision to adopt International Financial Reporting Standards (IFRSs) with effect from 1 April 2005. As a result, the Group will also be converting to IFRSs during the forthcoming financial year. The areas which will be the subject of the most significant accounting policy changes include:

- Componentisation of property, aircraft and equipment.
- Annual re-assessment of the useful lives and residual values of property, aircraft and equipment.
- Expensing share options in line with IFRS2: Share based payments.
- Accounting for and disclosing related party transactions.

Operational performance

In recognition of the airline's commitment to being the carrier of choice, SAA received 12 international awards during the year. In addition, membership of the Star Alliance will offer SAA access to 152 countries, 834 airports and 15 166 daily departures further enhancing the airline's value proposition to customers.

SAA's passenger capacity, measured in passenger available seat kilometres ("ASK") increased by 1% to 33 367 million. Total fare paying passengers on the domestic, regional and international destinations increased by 5,2% to 6 851 million. The overall passenger load factor increased from 67% to 70%.

Fleet renewal programme

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

During the year, the Group's aircraft fleet increased from 65 aircraft (14 owned and 51 leased) to 73 aircraft (17 owned and 56 leased). Aircraft subject to operating leases are not carried on the Group's balance sheet. At 31 March 2005, the estimated market value of the owned and leased aircraft was R18,5 billion, comprising R11,7 billion (63%, with an average age of 8,5 years) for aircraft under operating lease arrangements and R6,8 billion (37%, with an average age of 3,7 years, excluding those out of service) for owned aircraft. Five of the owned aircraft, which have an average age of 24 years, are currently out of service and various options are being considered for their treatment. The remaining owned aircraft primarily service the airline's international destinations.

Subsequent to the financial year-end, a further 5 Airbus aircraft were received by the airline under operating lease arrangements.

Financial performance

Airline income

Passenger, cargo and related air traffic revenue (turnover) increased by 1,41% to R15 554 million compared to R15 338 million in 2004. Passenger revenue accounts for 85% of the Group's turnover. The marginal increase in revenue is mainly due to:

- increased competition in the domestic market (25% of total passenger revenue). In order to remain competitive, the airline has had to reduce its fares. As a result, despite a 4,3% increase in total domestic passengers, actual domestic revenue has decreased by 0,5%;
- the effect, on international revenue, of a 14% appreciation of the Rand against the US dollar ("USD"). International revenue accounts for 59% of total passenger revenue. The effect of the Rand's appreciation was, however, partially offset by a 6,4% increase in international passengers; and
- relatively flat revenues generated in the Africa region. While regional passenger numbers reflected a healthy growth rate, revenues generated in this market remained relatively constant due to the strengthened Rand.

Other airline income increased by 88,6%. The increase is largely attributable to the fuel levy and the release of unutilised tickets from the air traffic liability account.

Expenditure

Operating costs increased 1,9% to R16 507 million. The airline's results are affected significantly by two external factors, being the fuel price and foreign exchange rate fluctuations.

The average monthly fuel price increased from USD28,59 per barrel in the 2004 financial year to USD40,54 per barrel in the current year. This 41,8% increase was offset by the average ZAR/USD exchange rate reducing from approximately R7,32 per USD in the previous year to R6,32 (14% decrease) and better fuel efficiency of the new fleet of aircraft. Despite a 1% increase in overall airline capacity, fuel uplift in litres reduced by 4,5%. The net effect of all these factors is an 18,6% increase in the Group's energy cost from R2 820 million to R3 345 million.

The decrease in fair value movements and translation gains and losses arises from the fact that the hedge book liability of R5 958 million was fully settled in the current financial year.

Depreciation and amortisation decreased to R471 million due to prior year's impairment of the value of aircraft.

An impairment charge of R141 million, primarily on the goodwill in subsidiary undertakings, has been recognised in the current year. The prior year's impairment charge of R3 410 million mainly related to impairment of aircraft, rotables and pre-delivery payments. The recoverable values of these foreign currency denominated assets depends on the year-end Rand exchange rate. The Rand's year-on-year stability during the current year has resulted in a substantially reduced impairment charge.

Recapitalisation of the company

During the prior year, Transnet Limited subscribed to 6 100 million ordinary shares at a R1 par value. The proceeds of this share issue were utilised in part to repay previously subordinated loans of R4 100 million provided by Transnet Limited. In order to address the Group's residual factual insolvency after the recapitalisation of R6 100 million, Transnet Limited provided the Group with a compulsory convertible loan of R4 000 million during the current year.

Subsequent to 31 March 2005, a decision has been taken to convert the R4 000 million compulsory convertible loan into 2 400 million R1 ordinary shares and to settle the remaining balance on the loan - refer subsequent events detailed below.

Hedge book

During the year, the Group embarked on a programme of settling its hedge positions. The hedges were settled in full by 30 June 2004 at a total cost of R5 958 million. The hedges were settled by the R2 000 million balance on the prior year's share issue and the proceeds of the R4 000 million compulsory convertible loan received from Transnet Limited.

Deferred taxation

As with the prior year, a deferred tax asset has not been recognised. It is the Group's policy to only recognise deferred tax assets if it is probable that future taxable profit will be available against which the unused tax losses and tax credits can be utilised. Due to the cyclical nature and volatility of international airlines, it is difficult to forecast expected results with sufficient precision beyond the short term. Consequently, no deferred tax asset has been recognised.

At 31 March 2005, the Group did not recognise a deferred tax asset of R3 475 million, R2 858 million of which relates to estimated tax losses.

Subsidiaries

The Group's subsidiary companies incurred operating losses during the year. The Group has assessed the carrying value of its investment in these subsidiaries and, where applicable, has recognised impairment losses on the related goodwill.

Going concern

SAA as an international airline is exposed to significant risks, which can affect both the attainment of the Company's objectives and impact on its financial performance. These risks include inter alia:

- exchange rate fluctuations;
- rising commodity prices - particularly crude oil prices;
- changes in economic activity levels domestically, regionally or internationally;
- fluctuating interest rates;
- the consequences of terrorist activities; and
- the consequences of pandemics.

SAA has access to a R1 500 million credit line from its holding company in addition to the R2 400 million compulsory convertible loan, strengthening the confidence that the Company can address the risks highlighted.

The Directors of the Company confirm that it is their belief that the Company is a going concern and that its obligations will continue to be met in the normal course of business, subject to the extent of the origination of any of the risks outlined above, which could, if they eventuate, result in the Company being unable to realise its assets or discharge its liabilities in the normal course of business.

Subsequent events

Subsequent to 31 March 2005, the boards of SAA and Transnet Limited have reviewed both the provisions of the loan and SAA's financial position. It has been agreed that R2 400 million of the original R4 000 million compulsory convertible loan will be converted into 2 400 million ordinary shares as soon as practicable. The balance of the loan will be repaid to Transnet Limited out of existing cash resources. Transnet Limited has agreed to provide credit facilities to SAA of R1 500 million.

The conversion of R2 400 million of the loan to equity will restore the Company to solvency, lifting the necessity for a subordinated loan, and thus facilitating the settlement of the remaining R1 600 million Transnet Limited debt.

Group strategy

During November 2004 the Board approved the implementation of a revised turnaround strategy. The intent is to focus on substantially improving customer focus (Patronage), human capital development (People) and sustainable return on shareholder's invested capital (Profit). In line with this strategy the profit improvement programme Bambanani was launched.

The Bambanani Programme has committed the Group to extracting annual cost savings of R1 600 million from the airline's operations by 2007.

Outlook

Unbundling SAA from Transnet

On 27 August 2004, Transnet Limited unveiled its strategy in which it was stated that aviation is not core to the business of Transnet Limited. The strategy was approved by Government. Subsequent to that, Transnet Limited and SAA have put in place a high level team, comprising of the Chief Executive Officer of Transnet Limited and the Chief Executive Officer of SAA, to oversee the unbundling of SAA out of Transnet to Government (the Department of Public Enterprises).

Financial

As detailed under the going-concern assessment above, the Group is exposed to significant external risks which can affect both the attainment of the Group's objectives and impact on its financial performance. The directors and management have identified these risks and established controls to mitigate these risks. Management has also instituted various activities under the Bambanani Programme aimed at reducing costs and improving operational efficiencies.

The attainment of the programme's strategic objectives, including sustaining operational profitability, continues to be the core focus of management. The Board views the forthcoming financial year as one of further consolidation.

Appreciation

The Board is grateful to its shareholder, Transnet Limited, and the Government, through the Department of Public Enterprises, for their continued guidance, support and leadership.

Thanks to our many customers for their loyalty and patronage of SAA. We are committed to providing you with a seamless travel experience using safe and secure world-class technology.

Importantly, our gratitude goes to the employees of SAA and their families for their tireless effort, commitment and resourcefulness as we work together in establishing a world-class airline.

For and on behalf of the Board

Prof GJ Gerwel

Chairman

Dr K Ngqula

President and Chief Executive Officer

6 July 2005

Directors:

Prof GJ Gerwel* (Chairman), K Ngqula (President and Chief Executive), MMT Ramano (Chief Financial Officer), ¹Prof R Droganis*, Adv MTK Moerane*, LM Mojela*, MV Moosa*, A Ngwezi*, AP Nkuna*, ²Dr CC Okeahalam*, MDCDNC Ramos*

*Non-executive. ¹Greek. ²British.

Company secretary:

Thelma Melk

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South African Airways (Proprietary) Limited
(Registration number 1997/022444/07)

