

PEOPLE, PATRONAGE & PROFIT

ANNUAL REPORT
2005

VISION

To be the carrier of choice in the markets we serve.

VALUES

Customer Focused:

Anticipating and striving to understand the unique needs of our customers (internal and external) through tailoring each interaction to their specific needs.



Accountability:

Taking responsibility for individual and team actions, decisions and results by establishing clear plans and goals and measuring our progress against them while discerning a deeper purpose in one's everyday job.

Integrity:

Practicing highest standards of ethical behaviour in all our lines of work and maintaining credibility by making certain that our actions consistently match our words.

Safety:

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

Excellence in Performance:

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

Valuing our People:

Committing to their satisfaction, development, and well-being, through treating them with respect, dignity and fairness.

CONTENTS

Financial Highlights 2

Chairman's and CEO's Report	4
The Board	10
Leadership Structure	12
Chief Financial Officer's Report	14

Chief Executive Officer's Report 23

Alliances, Aero-political and Network Development	24
---	----

PEOPLE

Human Resources Report	27
------------------------	----

PATRONAGE

Safety and Security	31
Customer Service	32
Voyager	33
Product	33
Communication and Partnerships	34
Corporate Social Investment	35
Awards	38

PROFIT

Commercial	40
Direct Sales	40
Revenue Management	41
Pricing	41
Marketing	41
Sponsorship	42
Cargo	42
Cargo Sales and Customers	43
Operations	43
SAA Flight Operations	43
Global Passenger Services	44
SAA Technical	44

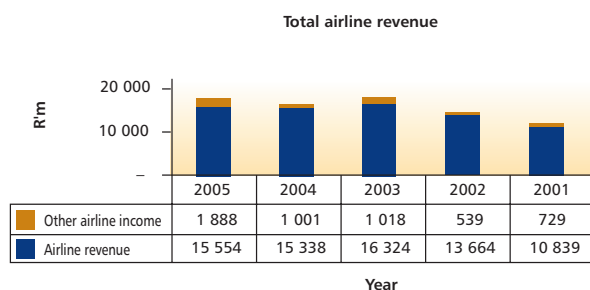
Annual Financial Statements 45

Company Structure and Shareholding 52

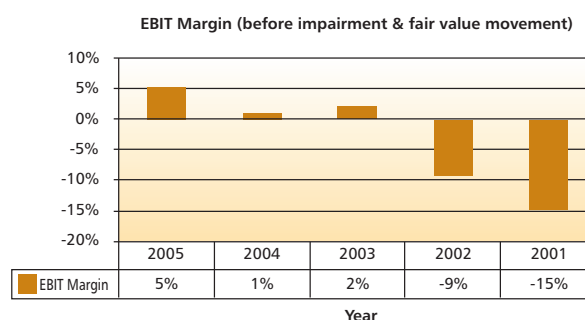


FINANCIAL HIGHLIGHTS

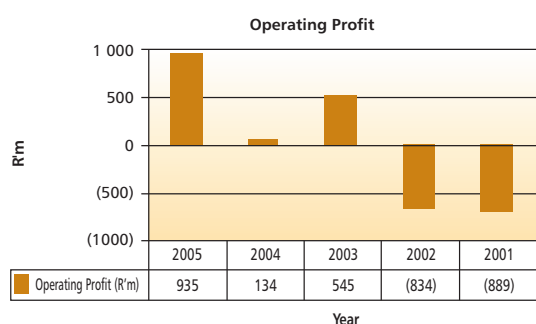
Total airline revenue increases by 7%



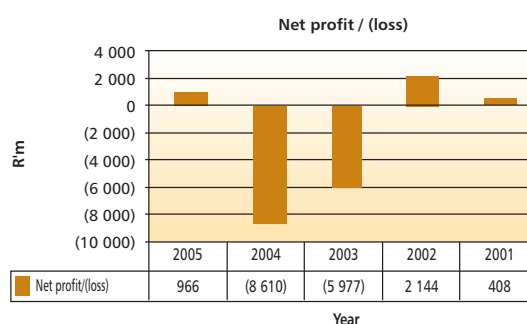
Operating margins increased from 1% to 5%



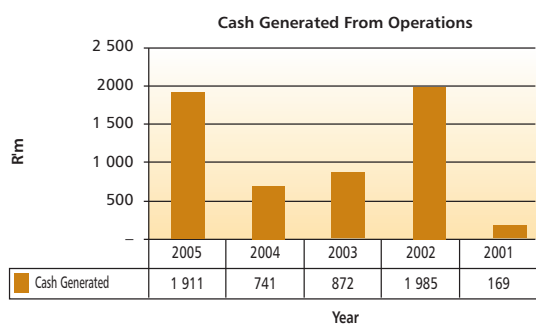
R935 million gross profit from airline operations



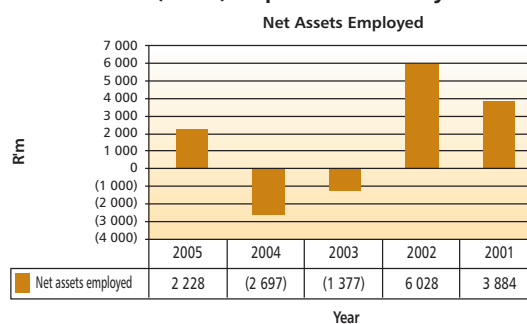
R966 million net profit for the year



Improved working capital management enhances cash flows



R4 000 million compulsory convertible subordinated loan (CCSL) improves solvency



Subsequent to year end it was agreed that SAA will capitalise R2.4-billion of the CCSL

2005 Achievements

Ratio	2005 Actual	2005 Target	Overall Target
EBITDAR Margin (before impairment & fair value movement)	17%	14.6%	20.0%
EBIT Margin (before impairment & fair value movement)	5%	2.2%	7.0%
Capital Structure (shareholder equity: total assets)	14%	12.9%	30.0%
Net Interest Cover (times)	5.97	1.50	2.50

KEY FINANCIAL AND OPERATING DATA

GROUP INCOME STATEMENT DATA:	Restated				
	March-05 (R million)	March-04 (R million)	March-03 (R million)	March-02 (R million)	March-01 (R million)
Turnover	15 554	15 338	16 324	13 664	10 839
Total airline income	17 442	16 339	17 342	14 203	11 568
Net profit/(loss) for the year	966	(8 610)	(5 977)	2 144	408
Net profit/(loss) for the year before derivative fair value gain/(loss) and option premium amortisation	755	(4 056)	(653)	409	145
Headline earnings/(loss) for the year	1 132	(4 820)	(5 985)	2 220	(735)
Headline earning/(loss) before fair value movements and translation gains and losses	790	(350)	428	(1 225)	(971)
Earnings/(loss) per share (cents)	11	(296)	(191)	69	13
Headline earnings/(loss) per share (cents)	13	(166)	(191)	71	(24)
GROUP OPERATING DATA:					
Capacity - (million)					
Passenger Available Seat Kilometres ("ASK's")	33 367	33 056	31 814	30 503	29 658
Traffic					
Revenue passenger kilometres ("RPK's") (million)	23 505	22 306	21 769	20 466	19 758
Revenue passengers (thousands)	6 851	6 510	6 520	6 128	6 129
Cargo – tons flown (thousands)	176	166	139	132	152
Utilisation					
Passenger Load Factor	70%	67%	68%	67%	67%
Yield (R/RPK) – Passenger	0.56	0.58	0.63	0.55	0.45
Pax Revenue (R million)	13 163	12 926	13 688	11 178	8 889
Yield (R/ASK) – Turnover	0.47	0.46	0.51	0.45	0.37
Yield (R/ASK) – Total airline income	0.52	0.49	0.55	0.47	0.39
Unit Cost (R/ASK's)					
Labour	0.10	0.09	0.09	0.08	0.07
Energy	0.10	0.09	0.11	0.09	0.08
Material	0.03	0.04	0.03	0.05	0.05
Depreciation and amortisation	0.01	0.02	0.01	0.01	0.01
Other operating cost	0.25	0.25	0.29	0.26	0.21

CHAIRMAN'S AND CHIEF

Highlights

- Net profit for the year increased to R966-million.
- Business Class lie-flat seat voted best in the world.
- Twelve international awards of excellence received during the year under review.

Economic environment

In the calendar year 2004, the global economy experienced mixed performance with strong growth, at 4.4%, in the US economy. However, results were muted in Europe with growth at less than 2%. The Japanese economy continued to attempt to shake off its deflationary spiral. Strong performance in China and India, both of which are experiencing high single digit growth rates, is creating a worldwide impact. China and India are also experiencing strong air travel market growth.

The domestic macroeconomic fundamentals remain favourable for many sectors of the South African economy. The strong Rand and low inflation have allowed the South African Reserve Bank (SARB) to substantially ease its monetary policy stance, and these factors have continued to hold true in the first half of the calendar year 2005. This, and renewed confidence in the economy, translated into an unprecedented boom in the financial, retail and property sectors. Spill-over effects have also been felt in the travel and tourism industries as more South Africans can afford domestic and international holidays.

However, the twin factors of unstable oil prices and a volatile currency market are expected to continue impacting negatively on the South African economy and SAA's performance. These challenges make us proud to present positive financial highlights and achievements.

The new Board and management team have stabilised SAA within a short period of time. We continue to work tirelessly to ensure that our achievements are sustainable, and that we can focus on increasing efficiencies and bringing our volatile cost base under control. One of the key pillars of SAA's turn-around strategy (Bambanani Programme) is people and we aim to improve the quality of our staff's skill-base to ensure we maintain a positive growth trajectory.

Our new strategy

In November 2004, the Board of Directors approved a new corporate strategy based on three pillars - 'People, Patronage and Profit'- to return the airline to profitability by improving customer service, implementing a cost reduction programme, re-aligning the skills of our staff to the needs of the business and implementing strict corporate governance principles, including a robust enterprise risk management framework. The new strategy aims to achieve the following outcomes for each of the three pillars:

Professor Jakes G. Gerwel
Chairman of the Board

"We are proud to announce that South African Airways Group achieved a net profit after tax of R966-million for the year ended 31 March 2005."

EXECUTIVE OFFICER'S REPORT

- *People*: to develop and nurture world-class talent by improving training and performance management and to source best talent from the market when the need arises.
- *Patronage*: to provide a seamless travel experience to customers by providing superior quality service.
- *Profit*: to provide a sustainable return on capital to our shareholders.

The new strategy is being implemented through a programme called 'Bambanani.' Bambanani is a Zulu term which means 'holding hands and working together.' The primary objective of Bambanani is to ensure a reduction of R1.6-billion in operating costs over the next three years. A new era of profitability will be achieved by new sales and marketing strategies.

The clients we gain, and those we retain, from these new strategies will experience substantially improved service. Our staff is undergoing a new and rigorous customer service training process.

While SAA has won numerous awards recently for the quality and innovation of our product and customer service, we recognise the need to continually improve on this to maintain a competitive edge.

The comprehensive turnaround strategy SAA launched early in November 2004 will ensure the long-term health and success of the airline.

Financial performance

We are proud to announce that SAA achieved a net profit after tax of R966-million for the year ended 31 March 2005.

The gross operating profit from airline operations increased from R134-million in 2004 to R935-million for the year under review.

SAA performed well despite the Rand strengthening 14% from R7.32 per US\$1 to an average of R6.32 per US\$1 during the year. In addition, the average oil price increased 42% during the year ended 31 March 2005.

SAA realigned its structures, improved customer services, controlled costs and enhanced operating efficiencies, all key deliverables of the 'People, Patronage, Profit' strategy. The impact of this is already seen in revenue increasing 7% while enhanced efficiencies saw operating costs increase by only 1.9%.

Dr Khaya Ngqula
President & CEO

Recapitalisation

During the year, Transnet Limited provided SAA with a R4-billion compulsory convertible subordinated loan to cover the company's technical insolvency. This loan was at 0% interest. We are happy to report that the Board of SAA has agreed with Transnet Limited that R2.4-billion of the loan will be converted to equity, to strengthen the SAA balance sheet. The remaining R1.6-billion will be repaid to Transnet Limited as soon as practicable. Transnet Limited has agreed to provide credit facilities to SAA of R1.5-billion and will provide support for R1.6-billion in the event that the liabilities of SAA exceed assets fairly valued. The support will continue until the Transnet shares in SAA are transferred to government.

Star Alliance

By 2006, SAA will be a full member of the Star Alliance – an important development in growing our market. This follows SAA signing a memorandum of understanding with Star Alliance on 12 December 2004.

Membership of the Star Alliance will offer SAA access to 152 countries, 834 airports, 15 166 daily departures, 14 787 code-share flights, access to global frequent-flyer programmes and joint purchasing and cost-saving initiatives. We will bring to the Star Alliance our expertise on the African continent.

Our fleet

We have completed our fleet renewal programme which was initiated in 2002 - the last of our 26 orders of the Airbus fleet placed in 2002 was received on 30 June 2005.

The new fleet has enabled SAA to retire its entire fleet of B747 classic aircraft, the youngest of which was more than 23 years old and the oldest over 30 years.

In pursuit of making SAA one of the safest and modern airlines in the world, we are proud to announce that as at the date of this report we have phased out all 15 B737-200Adv aircraft which were over 23 years old and replaced them with 11 A319-100 aircraft.

Our product

In our endeavours to give a better flying experience to premium class passengers – and increase competitiveness – we introduced lie-flat seats on our long-haul flights. In 2004, Skytrax which conducts the world's largest passenger surveys gave us the award for the Best Business Class lie-flat seat in the world. We also upgraded and expanded the comfort of SAA lounges in the African market to further enhance our product offering.

Our new leadership team

A strong new executive team was appointed in April 2005 including Mr Dan Moeti as the Chief Risk Officer and Mr Kyril Acton as the Chief Operating Officer.

The executive team is spearheading improvements including our ongoing fleet maintenance programme, expanding our network through alliances and strategic partnerships and developing new markets, as well as enhancing our frequent flyer programme, "Voyager."

Transformation and staff development

Transformation is reflected in the overall demographic profile of our staff and in SAA complying with various employment equity and black economic empowerment strategies. The leadership of our organisation embodies the spirit and the fact of this positive change with 77% of our leadership being black and a male to female ratio of 56:44.

Africa strategy

As the leading airline in Africa, our intent is to bring the world to Africa and take Africa to the world.

SAA's contribution to the success of the New Partnership for Africa's Development (NEPAD) is embodied in our Africa growth strategy. Significant areas of Africa are still not served by reliable and efficient services and this creates considerable opportunities for SAA to penetrate those markets and develop improved cargo and passenger carrying load factors on the continent. This, in turn, will boost Africa's capacity to become globally competitive and to sell its products on world markets.

Open skies policies on the continent will contribute to the African renaissance becoming a reality.

Expansion plans for the African route network includes broadening our flight network to new destinations, as detailed in the commercial report. SAA will focus on expanding its

presence in the Southern African Development Community (SADC), in particular to Mozambique, Madagascar, Angola and Zambia. In Central Africa, the markets receiving the most attention include the Democratic Republic of Congo (DRC), Cameroon and Chad. Markets in Tanzania, Uganda, Nigeria and Ghana are also a key focus.

Unbundling of SAA from Transnet

The time is approaching when we will move out of the Transnet group and become a separate business. SAA, as the national carrier, has a tremendous responsibility to the people of this country, and our continent, to run this flagship as a healthy, profitable national asset and to retain its status as an internationally acclaimed airline.

Corporate governance

We are enhancing the corporate governance process in line with international best practice, the Public Finance Management Act (PFMA) and King II Code of Corporate Governance Practices. During the year under review, changes were made to the composition of the Board with four new non-executive directors being appointed.

Appreciation

On behalf of the Board, we express our gratitude to our shareholders for consistent encouragement and support. Our Board of Directors have displayed wisdom, insight and commitment to ensuring that SAA maintains its position as one of the world's top airlines. Our executives, employees and their families show persistent dedication, courtesy, care and imagination and we are deeply indebted to them.

Finally, and most importantly, we would like to thank our 6.9-million customers for their ongoing support and understanding. We are committed to providing world-class quality and cost-effective services as we seek to be competitive.



Professor Jakes G. Gerwel
Chairman of the Board of Directors
20 June 2005



Dr Khayakhulu Ngqula
President and Chief Executive Officer

THE BOARD



Professor Gert Johannes 'Jakes' Gerwel, Chairman

Professor Gerwel is the chancellor of Rhodes University and is the chairperson of the Human Sciences Research Council (HSRC). He was previously Rector and Vice-Chancellor of the University of the Western Cape, Director-General to former President Nelson Mandela and secretary to the cabinet of the Government of National Unity (1994-1999). He is also chairperson of Brimstone Investment Corporation and Export Credit Insurance Corporation.



Professor Rigas Doganis, non-executive

Professor Doganis is an international aviation expert. He consults to airlines, airports, banks and governments. Recent clients include the European Commission, IATA, the Association of European Airlines, SAS, the Spanish Airports Authority and others. He chairs the prestigious European Aviation Club in Brussels, Belgium. Professor Doganis served as chairman and chief executive officer at Olympic Airways in Athens and implemented a major restructuring programme which produced Olympic's first profit in 18 years.



Mr Mohammed Valli Moosa, non-executive

Mr Moosa was South Africa's Minister of Constitutional Development until 1999. He was appointed Minister of Environmental Affairs and Tourism from 1999 to 2004. He was chairperson of the United Nations Commission on Sustainable Development from 2002 to 2003. He hosted the UN World Summit on Sustainable Development in 2002 and the World Parks Congress in 2003. He is chairperson of black empowerment group, Lereko Investments and is a non-executive board member of financial services group, Sanlam Limited.



Ms Albertinah Ngwezi, non-executive

Ms Ngwezi is chief operating officer of the Public Investment Corporation (PIC). She was previously corporate finance director at UBS Warburg. During her term at UBS Warburg, she spent some time on secondment at the New York and London offices of UBS. Ms Ngwezi is also a member of the Telkom board. She is a chartered accountant by profession.



Ms Tryphosa Ramano, Chief Financial Officer

Ms Ramano is chief financial officer of SAA. She was previously Chief Director: Asset Management in the National Treasury responsible for the restructuring of state owned entities and compliance to PFMA. Before that she was a portfolio manager with Rand Merchant Bank Asset Management. She is a past treasurer of the Association of Black Securities and Investment Professional (Absip). Ms Ramano is the founder of the Institute of Investment Excellence Training at Rand Merchant Bank Asset Management. Ms Ramano is a Chartered Accountant and obtained her under-graduate and post-graduate degrees at the University of Cape Town.



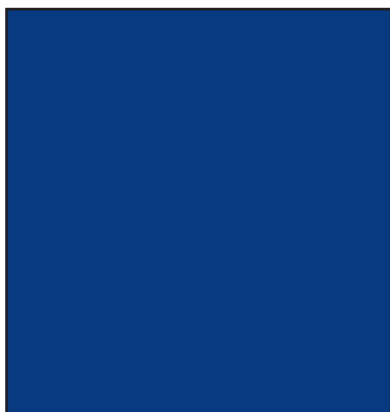
Dr Charles Okeahalam, non-executive

Dr Okeahalam is the managing director of Africa Growth Holdings (Pty) Ltd, a private investment holding company. Prior to joining AGH, he was Professor of Finance at the University of Witwatersrand. He has contributed extensively to a range of banking, finance and development issues in Africa. He is a non-executive director of ABSA Corporate and Merchant bank, Air Tanzania Company Ltd and the Bond Exchange of South Africa. He holds a PhD in economics from the University of London.



Advocate Marumo Moerane, non-executive

Advocate Moerane is a senior counsel at the Kwa Zulu Natal Bar and is vice-chairperson of the Competition Tribunal. He has enjoyed an eminent legal career and has acted for the State on a number of occasions in high profile cases including as counsel for then national director of public prosecutions, Bulelani Ngcuka at the Hefer Commission, the Health Department on the nevirapine issue and the Department of Home Affairs in the case around gay marriages, among other historically important matters.



Ms Louisa Madiako Mojela, non-executive

Ms Mojela is a founder and Group CEO of Women Investment Portfolio Holdings (Wiphold). She was a manager in the emerging markets division of Standard Corporate and Merchant Bank, and was business and entrepreneurial development division project leader at the Development Bank of South Africa. Before that she was a project officer in the operations division of the Lesotho National Development Corporation. She has a B.Comm from the University of Lesotho. She holds a number of directorships.



Mr Paul Nkuna, non-executive

Mr Nkuna began his career as a teacher and then joined the mining industry at East Rand Gold and Uranium and held leadership positions in the trade union movement. He is chief executive of the Mineworkers Investment Company (Pty) Ltd. Mr Nkuna is chairperson of Primedia Limited and Mathomo Limited. He is a director of the Council for Geoscience (Pty) Ltd, Credit Management Solutions (Pty) Ltd, Primovie (Pty) Ltd, Tracker (Pty) Ltd and South African Teemane Holdings (Pty) Ltd.



Ms Maria Ramos, non-executive

Ms Ramos is the group chief executive officer of Transnet Limited and was previously director-general at the National Treasury. She obtained an MSc in economics from the University of London. Ms Ramos is a non-executive director of the Development Bank of SA, a non-executive director for the Corporation for Public Deposits and a non-executive director of the Financial Markets Advisory Board. In 2001, she was named Businesswoman of the Year by the Businesswomen's Association of South Africa.



Dr Khayakhulu Ngqula, CEO

Dr Khaya Ngqula is the President & CEO of South African Airways and assumed duties on 15 October 2004. Prior to this he was the CEO of the Industrial Development Corporation of South Africa (IDC), the premier Development Financial Institution of Africa.

Khaya Ngqula joined the IDC as a Managing Director in February 1997. Before that he was Managing Director of Norwich Unit Trusts whose business he helped grow from 23-million South African Rands to over 1.2-billion South African Rands in just under three and half years. Khaya also sat on the Financial Services Advisory Board of Unit Trusts of South Africa. Khaya started his career at IBM in New York in 1981. In 1986 he was promoted to Administrative Assistant

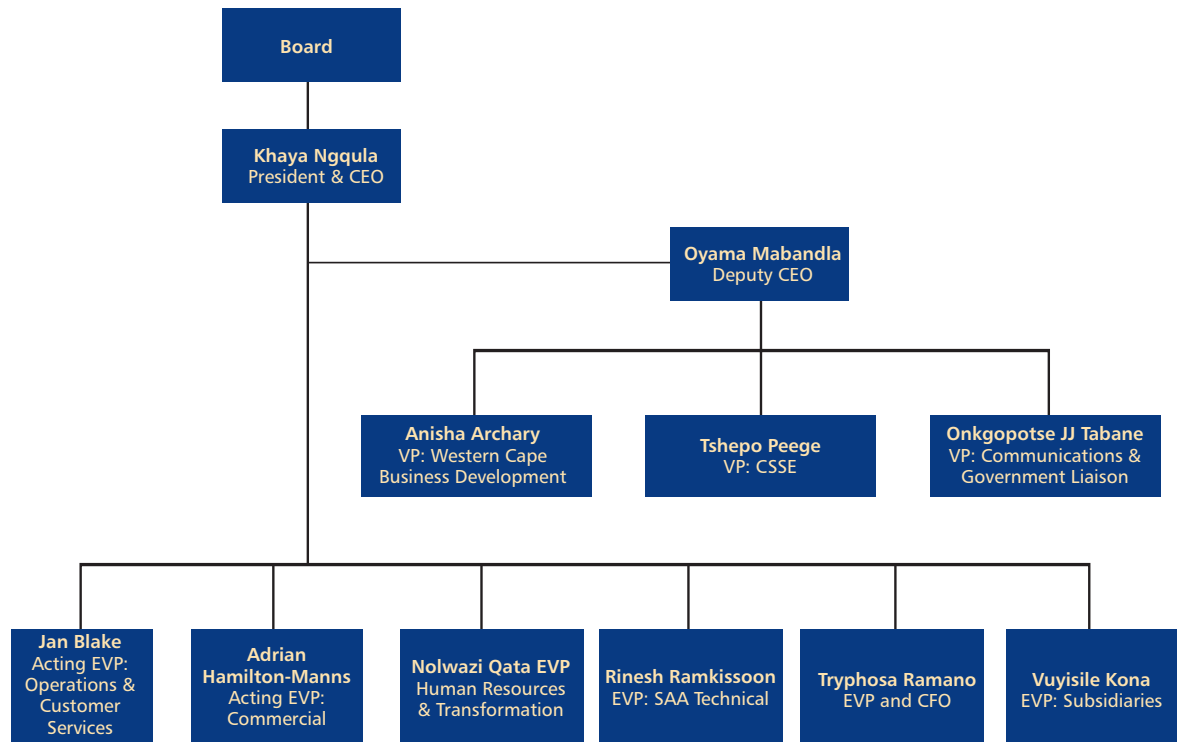
to the IBM CEO. Khaya also held a senior management position at South African Breweries (SAB Miller) as a National Business Development Manager before joining Norwich Life.

He has a B.Admin degree from University of Fort Hare and recently received an Honorary Doctorate of Commerce from Fort Hare.

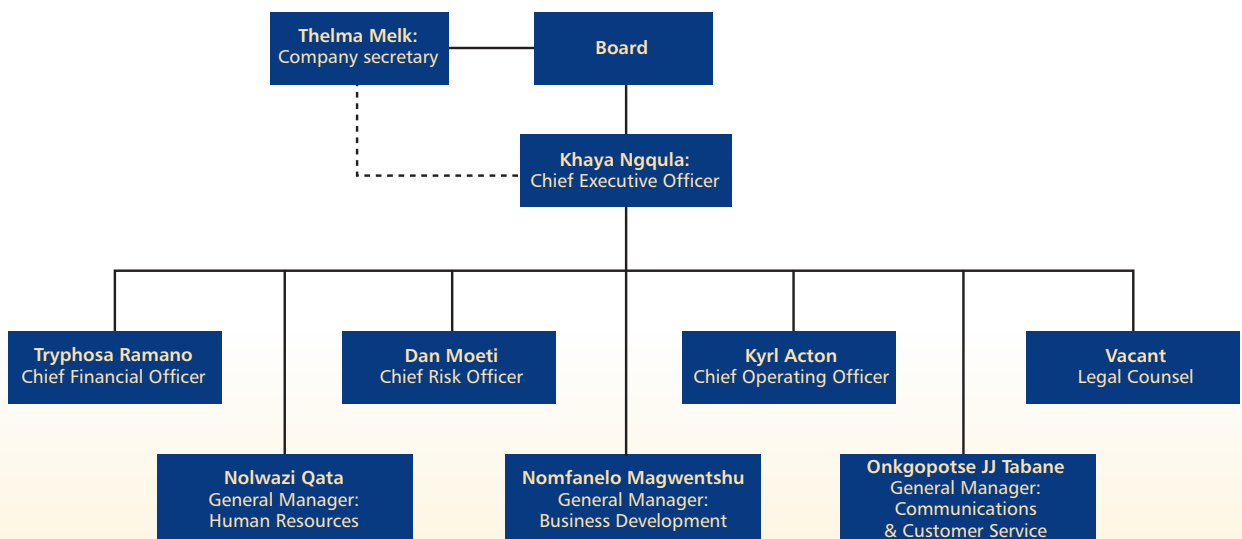
Currently he is the Chairperson of Mittal Steel Limited. In addition to this, he sits on the board of directors of Worldwide Africa Investment Holdings, Elan Group, Air Tanzania Company Ltd., SAA Technical, SAA City Centre and Air Chefs. He is also the President of African Airlines Association and a Member of the Investment Committee of United Nations Pension Fund.

SAA LEADERSHIP STRUCTURE

For the Year under Review



Post-Balance Sheet Date - New Leadership Team



SAA NEW LEADERSHIP - EXECUTIVE COMMITTEE TEAM



Dan Moeti
Chief Risk Officer



Tryphosa Ramano
Chief Financial Officer



Onkgopotse JJ Tabane
GM: Communication &
Customer Services



Thelma Melk
Company Secretary



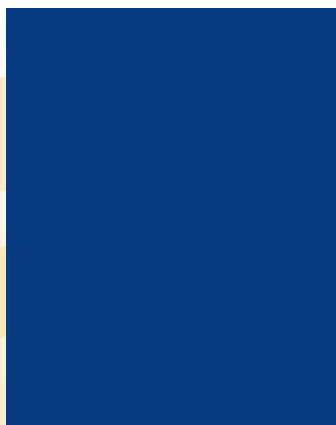
Dr Khaya Ngqula
Chief Executive Officer



Nomfanelo Magwentshu
GM: Business Development



Kyril Acton
Chief Operations Officer



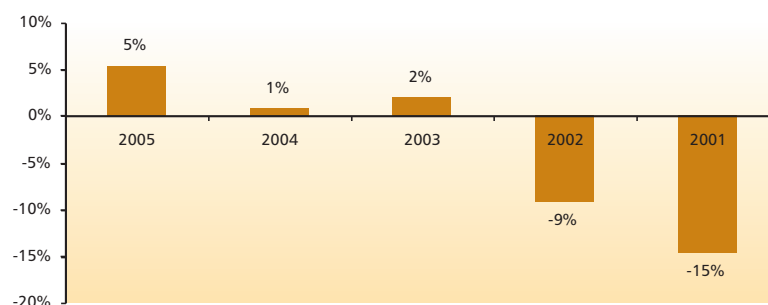
Nolwazi Qata
GM: Human Resources

CHIEF FINANCIAL OFFICER'S REPORT

FINANCIAL REVIEW

The key challenge facing the airline industry is the inability of the return on the invested capital (ROIC) to cover the weighted average cost of capital (WACC). SAA has identified key financial objectives which will be utilised to measure the performance of its turnaround strategy. The objective of SAA is to reach its key financial milestones by 2010.

EBIT Margin (before impairment & fair value movement)



Ms Tryphosa Ramano
Chief Financial Officer

	Overall* Target	2005 Target	2005 Actual	2004 Actual
Earnings before interest, tax, depreciation, amortisation and rentals (EBITDAR) margin	20%	14.6%	17%	15%
Earnings before interest and tax (EBIT) margin	7%	2.2%	5%	1%
Net interest cover	2.5	1.5	5.97	(15.17)
Capital structure (shareholder equity : total assets)	30%	13%	14%	N/A

* - Initial targets before the Bambanani programme changes discussed below.

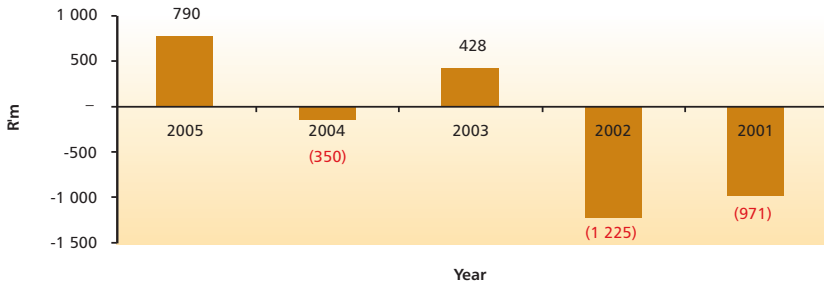
We are delighted to report that SAA has managed to achieve most of the targets set for 2005. However, the group's capital structure continues to be a challenge, and management is currently exploring ways of improving it.

The Bambanani programme is aimed at improving efficiencies and operating performance, and has seen SAA revise certain key targets upwards as follows:

- EBIT Margin 9%
- Net interest cover 4 times
- Return on invested capital 10%

OVERVIEW OF THE 2005 FINANCIAL PERFORMANCE

Headline profit/(loss) before fair value movements and translation gains and losses



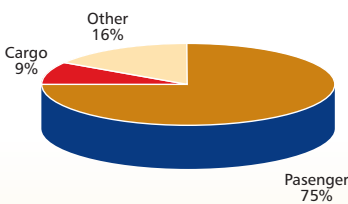
In the financial year under review, SAA has for the first time in many years achieved headline earnings before fair value adjustments of R790-million.

SAA showed a substantially improved performance, with revenue, including sundry and interest income, increasing by 7.2%, to R17 658-million. Gross profit from airline operations increased substantially, mainly due to the increase in revenue and a stable cost base. Operating costs increased by only 1.9% to R16 507-million as a result of the ongoing initiatives to reduce operating costs and to enhance operating efficiencies. Operational cost savings were achieved despite the unexpected increase in oil dollar prices by 42% in the year under review, which caused energy costs to increase by 18.6% to R3 345-million.

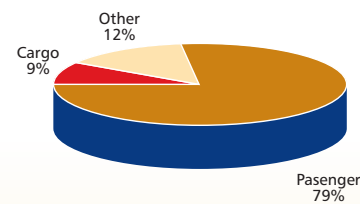
These improvements translate into a net profit after tax for the year of R966-million. In the prior year, SAA showed a restated net loss for the year of R8 610-million, mainly due to hedging losses and impairment costs. The settling of the hedge book, as well as a significant reduction in impairments costs, has led to the reduction in the reported costs.

Revenue

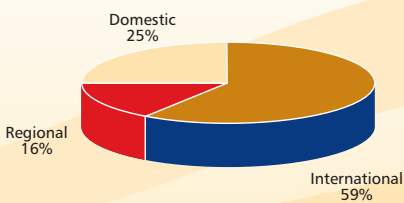
2005 revenue analysis



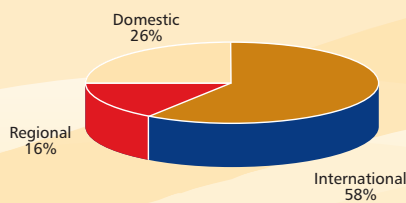
2004 revenue analysis



2005 revenue by passenger destination



2004 revenue by passenger destination



Turnover increased by 1.4% to R15 554-million in the year under review. Passenger revenue increased by 1.8% to R13 163-million for the financial year under review as a result of 5.2% increase in passenger numbers and a marginal increase in capacity (available seat kilometres –“ASK”) of 1%. The marginal increase in passenger revenue is a reflection of declining yield in the domestic market and strength of the Rand against the United States Dollar. The declining yield is reflected by a reduction in revenue per passenger kilometre (RPK) of 3.4%. Capacity utilisation (passenger load factor) rose from 67% in 2004 to 70% in the year under review.

International revenue increased by 3.7% in 2005, despite the negative effect of the 14% appreciation of the Rand: US\$ exchange rate during the year. SAA derives more than 59% of its passenger revenue from international destinations. International passenger numbers increased by 5% from 1.9 million to more than 2 million. When adjusted for the effect of exchange rate movement, South African Airways' yields increased year-on-year by an average of 6.9%.

In the domestic market, SAA continued to face tough competition from low cost carriers. Despite an increase in domestic revenue passenger numbers from 3.7 million to 3.9 million (5.4% increase), SAA's domestic revenues remained relatively flat, decreasing by 0.5% in 2005. To remain competitive, SAA has offered competitive prices. This led to a decrease in the average yield (adjusted for foreign exchange rate impact) of 1.8%. Domestic passengers continued to represent the major portion of the revenue passengers: 57% in 2005. Domestic passenger revenue represented 25% of total passenger revenue.

Africa region, which continues to form an important part of SAA's growth strategy, made a 16% proportionate contribution to both SAA's passenger revenue and numbers in 2005. While revenues generated from this market remained relatively flat, due to the effects of the strengthened Rand, the passenger numbers reflected a healthy growth rate of 6.6%.

Revenue from the provision of technical services to outside companies decreased by 4.4% to R368-million, in 2005 due to a reduction in third party maintenance contract work. Cargo revenue increased marginally by 1.2% from R1.4-billion in 2004 to R1.5-billion in 2005. The slight increase in revenue was due to the 14% appreciation of the Rand: US\$ exchange rate during the year, as cargo revenue is priced in US Dollars. The effect of the stronger Rand was partly offset by a 6% increase in the tonnage flown.

Sundry income was the most significant contributor to the growth in revenue from airline operations. It increased 89% to R1.9-billion. The increase is largely attributable to the fuel levy and the release of unutilised tickets from the air traffic liability account.

Operating Costs

Operating costs increased by only 1.9% in the year under review due to the continuing focus on cost containment. Foreign exchange rate and oil price fluctuations are two main factors that influence SAA's profitability. During the financial year under review, the

average monthly fuel price increased by 42% to \$40.54 per barrel, which resulted in an 18.6% increase (to R3 345-million) in energy costs. This is after taking into account any benefits from the strong R/\$ exchange rate; the Rand strengthened by 14% against the dollar, on average. In addition, the new fleet is already yielding important fuel efficiencies, with fuel uplift in litres reducing by 4.5% on a year on year basis, despite a 1% increase in capacity (ASK).

Included in the operating costs are non-recurring expenses such as share creation costs and stamp duty on the capitalisation of the Transnet loan and the Star Alliance membership fee.

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 during the current financial year, partly out of the R4 000-million compulsory convertible subordinated loan advanced by Transnet Limited.

Overall, costs management remains a priority to SAA's management. This is underlined by the marginal increase in SAA's recurring expenses.

PROFITABILITY

SAA achieved a net profit for the year of R966-million, compared to a restated loss in the prior year of R8 610-million. The profit before interest, tax, depreciation, amortisation and leasing costs (EBITDAR) for the year was R2 991-million compared to a loss of R2 475-million in 2004. The operating profit (EBIT) was R935-million as compared to R134-million in the 2004 financial year.

SAA's profitability continues to be impacted on negatively by rising energy costs. Direct operating costs increased by 1.9% compared with the previous year. While the majority of the operating costs increase was attributable to increased capacity, it was offset to a large degree by the appreciation of the Rand against the dollar: more than 50% of the airline's costs are in foreign currency. The costs associated with the aircraft leasing arrangements also contributed to the rise in operating costs.

The reduction in impairments and fair value losses, contributed significantly to the reversal of the loss position (in 2004) to a profit (in 2005).

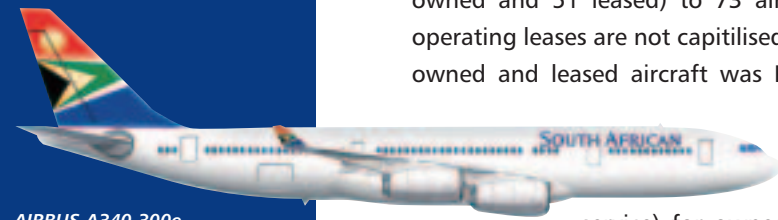
CAPITAL EXPENDITURE

SAA has embarked upon a new process of improving its capital expenditure programme. Our intention, is to let the business strategy drive capital expenditure. SAA's capital expenditure policy follows clear principles: SAA investment strategy is focused on those areas where opportunities exist for above average growth and where we can increase our earning power and enhance the competitiveness of SAA.

SAA's capital expenditure investment in the year under review was slightly above R1.8-billion compared to R3.9-billion in the prior year. The major additions during the year related to the delivery of three A340-300e aircraft during March 2005.



AIRBUS A340-600



AIRBUS A340-300e



BOEING 737-800



BOEING 737-200

Fleet

During the year, SAA'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 capitalised. 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.

On a weighted average basis, the group achieved a net return of 6.2% on the market value of the total aircraft fleet. Costs directly attributable to leased aircraft (being primarily operating lease costs) averaged 15% of the value of leased aircraft compared to 16% (being mainly depreciation and amortisation, finance costs, impairments and translation gains and losses) on owned aircraft. Despite this insignificant difference in the cost ratio for owned and leased aircraft during the current year, moving to an operating lease model instead of outright ownership of the aircraft has significantly streamlined the group's balance sheet. In addition to the benefits that will arise from a marketing perspective as a result of the newer fleet, significant operational efficiency and capacity enhancements will arise.

The following significant leased aircraft fleet movements occurred during the year:

- During the year under review, the airline took delivery of five Airbus A340-300E aircraft.
- Eight new Airbus A319-100 aircraft were received as part of the planned fleet replacement programme. These aircraft are to be operated under operating lease arrangements for periods of between 10 and 12 years.
- Five Boeing 737-200 Adv aircraft, which were leased from a third party, were returned prior to the expiry of the agreed lease term.

A further five Airbus aircraft were delivered subsequent to the financial year end under operating lease arrangements.

BALANCE SHEET

Total liabilities decreased by 27% mainly as a result of the settlement of the R5.9-billion hedge book.

Capital and reserves improved to R2.2-billion as a result of a R4-billion compulsory convertible subordinated loan received from Transnet Limited. This loan was at 0% interest.

Subsequent to the financial year end, the boards of SAA and Transnet reviewed the provisions of the loan and the financial position of SAA. It was agreed that R2.4-billion of the original R4-billion compulsory convertible subordinated loan will be converted into 2.4 billion ordinary shares of R1 each as soon as practical. The remaining balance of

R1.6-billion will be repaid to Transnet, from SAA's existing cash resources.



BOEING 747-400

CASHFLOW STATEMENT

Review of cash flows from operating activities

SAA's profitability is reflected in the cash generated from operations, which increased from R741-million in 2004 to R1 911-million in 2005. The impact of improved working capital management is evidenced by the increase in cash flow from working capital from R79-million in the prior year to R749-million in the year under review. These improvements are a clear indication that Bambanani is starting to deliver results.



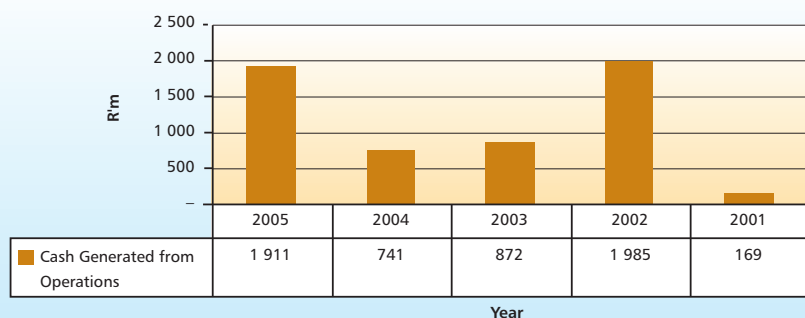
AIRBUS A340-200

During the year the group implemented the Board's resolution to settle the hedge book of R5 958-million.



AIRBUS A319-100

Cash Generated from Operations



Review of cash flows from investing activities

Investing cash flows in 2005 largely reflect the capital expenditure on the three aircraft (Airbus A340-300E) delivered during the year, which have been financed under finance leases.

Review of cash flows from financing activities

Cash inflows from financing activities decreased by R4 115-million during the financial year under review. SAA's amount of additional external borrowings decreased significantly during the financial year, with net inflows of only R29-million being received. SAA also raised a compulsory convertible subordinated loan of R4 000-million from its main shareholder, Transnet Limited.

Cash and bank position at the financial year end

SAA held cash and cash equivalents of R2 614-million at 31 March 2005. Subsequent to the financial year end, the Boards of South African Airways and Transnet Limited resolved and agreed to utilise R1 600-million of the cash and cash equivalents to partly repay the R4 000-million received from Transnet Limited. In addition to its cash balance, SAA has an unutilised R1 500-million revolving credit line with Transnet Limited.

FINANCIAL CHALLENGES

Fuel costs pose the biggest challenge to the airline's profitability. With crude oil prices projected to stay in the upper US\$40 to lower US\$50 per barrel range through the first half of 2005, the global airline industry can expect further losses this year. One year ago, it looked as though 2004 would mark the turning point into solvency, after the global industry lost more than US\$30-billion since 2001. But rising fuel prices through most of 2004 derailed that forecast, resulting in further losses to airlines. At the same time, airlines cannot pass the full impact of the increased fuel prices to their customers, as this may cripple the global transport industry. The fuel price will continue to be the most important factor in future financial planning and strategy.

IMPROVEMENT IN FINANCIAL DISCIPLINE

The Public Finance Management Act (PFMA) provides a sound framework for improved governance and accountability in public entities, therefore the extent of compliance with the Act provides an important indicator of accountability within an entity. Over the past year, the office of the Chief Financial Officer (CFO) has worked extensively with divisional financial managers to implement improved financial management, reporting and control.

The improvement of financial management, reporting and control discipline is underpinned by the following goals:

- Development of a highly effective finance organisational structure to support the constantly changing needs of the business;
- Improvement of business practices and procedures;
- Streamlining of financial management control processes;
- Improvement of financial management systems;
- Better internal and external financial reporting processes;
- Improvement in the communication of financial policies and procedures throughout the group;
- Leadership to promote economic and efficient use and management of company resources;
- Quality financial information to internal and external stakeholders based on their needs;
- Complete and useful financial information on company operations that fully support financial decision making and performance reporting; and
- Establishment of a framework to provide sound financial policies and services, and facilitate effective communications.

SAA's priorities to improve SAA's financial management over the short term include:

1. Improving and upgrading financial systems and making effective use of emerging efficient technology. To make information more readily available in a more useful form, the company has begun a short term initiative to replace the aged revenue accounting system. The new system will leverage technology and best-practice business processes to improve information quality, availability, and usefulness to a broad spectrum of managers and decision makers.

2. Improving financial planning and financial management reporting. The company has implemented a new financial planning model that will ensure better financial planning and forecasting.

3. Improving management accountability and control.

Further enhancing the process of improving financial management discipline is the introduction of the Financial Business Intelligence Programme within SAA. The purpose of the initiative is to improve reporting process and the quality of information reported on, which will in turn support the ability of management to make sound decisions.

4. Modernising payment and business practices.

5. Improving financial data stewardship throughout SAA.

6. Improving existing financial risk management strategies.

7. Strengthening the human resources within the financial management function in all divisions of SAA. SAA has embarked on a rigorous exercise to enhance the existing skills base and bring in new financial skills where gaps exist. This is aimed at ensuring that finance department is able to meet the needs of the business effectively. All financial management disciplines have been re-orientated to ensure that proper control over their financial resources is maintained.

INTERNATIONAL FINANCIAL REPORTING STANDARDS

SAA'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, SAA 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.

CONCLUSION

The last few years have been very difficult for SAA. Global terrorism, the strengthening rand and record high fuel prices have impacted negatively on the financial performance. SAA has coped well with these difficult challenges, but more importantly, it has kept its focus on the future – investing in new products and services, reducing costs, re-orientating the company, forming strategic partnerships and targeting future growth.



Ms Tryphosa Ramano
Chief Financial Officer
20 June 2005

CHIEF EXECUTIVE OFFICER'S REPORT

In this annual report the CEO sets out to provide a comprehensive presentation of the activities undertaken during the 2005 financial year.

From here onwards details are provided on SAA's alliances and network development initiatives. This is then followed by the detailed presentation of activities undertaken to give effect to the SAA strategy of People, Patronage and Profit, in this order.

ALLIANCES, AERO-POLITICAL AND NETWORK DEVELOPMENT

ALLIANCES

Alliances are strategic tools to grow the SAA network; they contribute significantly to the profitability of the airline. In the financial year under review the net revenue contribution of code-shares was approximately R700-million. SAA's present code-share partners are:

- Varig
- Emirates
- El Al
- Air Tanzania Company Limited
- Ethiopian
- Lufthansa
- BMI
- Virgin Atlantic
- Cathay Pacific
- Qantas
- Delta

Membership of the Star Alliance has enabled SAA to enter into bilateral relationships with Star Alliance carriers to expand SAA's network, increase its market presence and optimise revenues.

SAA has already benefited through association with the Star Alliance; forecasted savings that will be realised from the agreements signed between Information Technology Services (ITS) and SITA (Societe Internationale de Telecommunications Aeronautiques) are currently at 10% and could reach 30%.

Excellent progress has been made in the development of strategic alliances with Star Alliance members in a number of areas. In Europe, SAA is strengthening relationships with Star Alliance members such as Lufthansa German Airlines, BMI and has initiated discussions with LOT Polish Airlines, Scandinavian Airlines and TAP Air Portugal.

SAA also introduced flights between Cape Town and Frankfurt from 31 August 2004. This service is supported by a code-share agreement with Lufthansa. Services between Johannesburg and Zurich were increased to daily operations from 1 September 2004.

In the USA, the long established relationship with Delta, a non-Star Alliance member, remains. The intention is to maintain the Delta relationship for at least another two years to allow for a logical migration process to the Star Alliance USA carriers. SAA engaged United Airlines, a US Star Alliance member, to commence code-share operations on SAA's services to Washington Dulles via Accra in Ghana from July 2005.

SAA has expanded its relationship with Varig Brazil. SAA is serving the South American market with daily services and Varig is a code-share partner on these services.

SAA offers daily flights to India. A memorandum of understanding has been signed with Jet Airways to enter into a code-share relationship on the services between South Africa and India. This will be pursued once the Indian government has completed its aviation policy review and the new Indian aviation policy is in place.

The Star Alliance network provides opportunities for SAA to market its services to new destinations including New Zealand, Singapore, Thailand, Japan, South Korea and China.

AFRICA GROWTH STRATEGY

SAA's contribution to the success of the New Partnership for Africa's Development (NEPAD) is realised through its Africa growth strategy.

SAA's intent is to bring the world to Africa and to take Africa to the world.

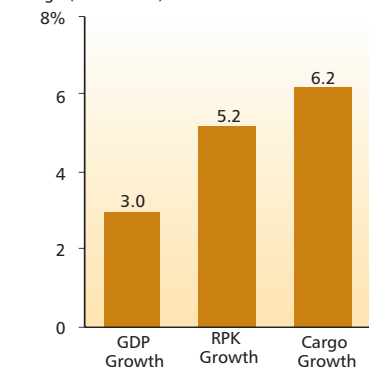
The airline's growth strategy is driven by increased commercial activity on the continent, high profit margins on African routes, excellent performance on existing routes and real GDP growth per region. African routes are showing growth of 5% per annum. Other factors stimulating air travel are declining fares and network development.

ALLIANCES

Drivers of air traffic

GDP growth is the biggest driver of air traffic, with a roughly 2:1 correlation.

Annual percent change (2003-2023)



- "GDP growth explains most of air travel growth. Globalisation and international trade, declining fares and network development are other explanations"

► Boeing 2003 - Boeing 2023 Forecast

- "Broadly speaking, there is a two-to-one relation between demand for air travel and world GDP"

► Prof. Rigas Doganis, "Flying Off Course - the Economics of International Airlines"



Note: RPK = Revenue Passenger Kilometer (a measure of passenger volumes)
Source: Boeing 2003-2023 market forecast; Rigas Doganis, "Flying Off Course"

Bringing the world to Africa and taking Africa to the world

Significant areas of Africa are still not served by reliable and efficient services, and provide important opportunities.

SAA's African routes have, for the year under review, provided 16% of SAA's revenue with only 11% of its available seat kilometres (ASKs). 40% of SAA's traffic from African destinations connects in Johannesburg to international destinations.

NETWORK DEVELOPMENT

The expansion plans for the African route network include new flights to additional destinations. SAA will focus on expanding its presence in the Southern African Development Community (SADC) especially Mozambique, Angola, Madagascar and Zambia. In central Africa, the markets receiving attention are the Democratic Republic of Congo (DRC), Cameroon and Chad. Other key routes include those to Tanzania, Uganda, Nigeria and Ghana.

AERO-POLITICAL MATTERS

The aero-political and regulatory department has enjoyed many successes during the year under review. In the negotiation of route rights, positive outcomes were achieved and bilateral air service agreements were amended or new agreements entered into with Mexico, Peru, Brazil, the Democratic Republic of Congo, Nigeria, Gabon, Madagascar, Switzerland, Mali and Mozambique. Supplementary frequencies were obtained for Ghana and Mauritius.

Twenty-nine licences were obtained to: Lumumbashi and Kinshasa (DRC), Mauritius, Maputo (Mozambique), Lagos (Nigeria), Zanzibar (Tanzania), Entebbe (Uganda), Munich (Germany), Athens (Greece), Aberdeen and Inverness (Scotland), São Paulo (Brazil), Mexico City (Mexico), Washington (USA), Jeddah (Saudi Arabia).

Challenges

Opportunities in the African aviation sector present many regulatory challenges. There are implementation difficulties with the Yamoussoukro decision. African states are at different stages of implementation and are protecting their carriers against competition. Moreover, the lack of a strong monitoring body to guide the process has delayed implementation.

In terms of licences, the Air Services Council is adhering to existing restrictive aviation policy, which is not in line with liberalisation initiatives for Africa. These restrictions include not allowing a second carrier on the route if the 50 000 passenger limit is not reached, thus limiting growth potential.

One of the six Airbus A340-600, owned by SAA, about to take off.

HUMAN RESOURCES REPORT

The appointment of a new executive team in October 2004 has seen it move fast to develop a firm new strategy – People, Patronage and Profit. This strategy is designed to promote certainty, clarity and commitment. Our Human Resources department is working hard to ensure that a stable new environment produces the required results in terms of enhanced capacity, performance and the sort of positive service our customers and the airline deserve.

In reinforcing our workforce and realigning our management, we applied the following principles:

- A focus on people
- Strengthened risk management
- An intense focus on customer service throughout the organisation
- A culture of excellence with profit and cost control.

SAA continued to manage human resources with a view to transforming the company's demographic profile, as well as the skills and competency profile to meet the objectives of the company. Through its Employment Equity Committees the company monitored qualitative and quantitative interventions.

Training and Development

As part of the broader realignment strategy of the company aimed at improving efficiencies, all training schools, which previously resided in different business units were integrated into Corporate Human Resources. This change will ensure a consolidated and strategic focus on training and development throughout the organisation.

The following are the training initiatives required by legislative and industry standards to ensure that SAA maintains a highly skilled workforce:

Maintenance Training

In line with the new aircraft fleet acquisition programme, maintenance training courses were conducted.

Regulatory training courses were run at SAA Technical (SAT) to ensure employees comply with the standards set by national and international regulatory authorities.

Skills Development Training

In line with our strategy to have a more representative demographic profile and skills development strategy, apprentice training was conducted across 11 different trades and disciplines.

Reservations and Voyager

The Reservations and Voyager Training Academies provided training in line with the Skills Development Act and within the parameters of the South African Qualifications Authority (SAQA).

The Reservations and Voyager Training Departments are providing training in accordance with the minimum requirements of the Star Alliance including Telephone Enquiry Centre, Star Life Orientation and the Co-ordinated Customer Relations Guide (CCRG).

Operations Training

Pilot Training

The financial year under review saw SAA increase its A340 fleet (from 17 to 20) with an additional three aircraft and eight A319 aircraft. A state of the art A320 flight simulator used for pilot training was acquired and installed.

A total of 170 pilots were trained as flight crew on these aircraft and an additional 100 pilots were trained to fly the remaining SAA aircraft as part of the Airbus A340 and A319 Pilot Transition Training.

In addition to the transition training, mandatory recurrent training, as legislated by the South African Civil Aviation Authority (SACAA), was also conducted. All pilots employed by SAA underwent legislated recurrent training and almost 3 000 man-days were spent on training during the year.

Due to the increased fleet and the need to supplement transition training, it became necessary to recruit additional pilots - 50 pilots were employed and trained during the year.

Cadet Pilot Training

The Cadet Pilot Programme continues to be the main vehicle for transformation within the Flight Operations Department. During the year under review, 19 cadets were selected for sponsored flying training. It is envisaged that 36 cadets will be sponsored in the 2005/2006 financial year.

Civil Aviation Authority (CAA) Accreditation and Training Audits

To retain SAA's accreditation as an Aviation Training Organisation, training procedures and practices were continuously audited by the SACAA. On most occasions standards were found to be above the minimum regulated SACAA standards.

Cabin Crew

The value added Touch Point Training programme for cabin crew contributed to improved customer services which resulted in a number of awards.

AVMED Training

AVMED training was audited by SACAA and the standards were found to be above the minimum regulated SACAA Standards. As a result of this audit, the ATO status was maintained and the Designated CAA Examiner status was also maintained.

Developmental Training Initiatives

Women In Aviation Programme (WIA)

Twenty women at management level benefited from this programme. Participants received a national accredited qualification with the Services Sector Education and Training Authority (SETA).

Management Development Programme (MDP)

In 2004, 32 managers participated in a Management Development Programme at the Gordon Institute of Business Science as part of an ongoing focus on the development of managerial and leadership capacity.

Airport Customer Service Learnership

The Transport Education and Training Authority (TETA) approved a grant of R765 200 for the Airport Learnership Skills Development Programme. Through this programme unemployed learners receive airport related customer services training. The programme ends in October 2005.

Contact Centre Management Learnership

In January 2005, 38 unemployed learners completed a learnership in Contact Centre Management - a joint initiative between SAA and Tshwane University of Technology. The Industry Travel Section has already absorbed some of the learners while the Reservations department is considering this pool for future employment.

Captain Mpho Mamashela
SAA's first black captain

The top 24 cabin crew of 2004-2005 with the CEO, Dr Khaya Ngqula and GM Customer Services, Onkgopotse JJ Tabane

Corporate Training and Cargo Training

Legislative Compliance:

The Annual Training report for 2005 was submitted to the Transport Education and Training Authority (TETA). This document serves as proof that the Workplace Skills Plan 2005 was implemented at SAA and, if approved, SAA will be able to claim back 45% of the 1% payroll paid as Skills Levies to SARS.

Cargo Training:

The SA Civil Aviation Authority renewed Cargo's training accreditation as a training provider for Dangerous Good Regulations – All Categories.

Medical Training:

HIV/AIDS training continues with awareness programmes for all staff across SAA. Training of HIV/AIDS awareness is provided by Training and Development.

Employee Wellbeing

HIV and Aids:

The 'Know Your Status Campaign', piloted in SAA Technical, gave impetus to efforts to educate and support employees either living with, or at risk to, HIV and AIDS. This resulted in 25% of all employees voluntarily taking the HIV and AIDS test. The lessons learnt from this campaign will be used to enhance Voluntary Counselling and Testing (VCT) rollout in other business units. Management and Supervisory training to equip employees with the necessary knowledge and skills in dealing with infected and affected employees were conducted in July 2004. A total of 67 peer educators were also selected and trained.

SAFETY AND SECURITY

"The carrier of choice in the markets we serve" - SAA vision.

Bert Meintjies, head of Corporate Safety, Security and Environment division, says SAA is one of the world's oldest and safest airlines and that his business unit ensures that SAA lives up to its reputation as one of the safest carriers in the industry.

This is achieved, he says, by implementation of an effective safety and security management system that helps SAA to avoid the loss of people, equipment and material.

SAA First Class, Economy and Business Class Seat in the lie-flat position

Safety and Security Highlights 2005

The September 11, 2001 attacks in the United States of America forever changed global aviation. The attacks have seen governments, airlines and international aviation bodies develop and promulgate a range of far-reaching measures to protect passengers and the industry.

Corporate Security Safety Environment department (CSSE) ensures that aviation security regulatory changes are incorporated into standard SAA security operating procedures. It reviewed and amended SAA's Aviation Security Programme to align it with local and global civil aviation legislation and regulations.

CSSE is proud to record that it received recognition from the International Air Transport Association (IATA) and international airlines for its ongoing efforts to improve flight safety in Africa.

SAA specialists helped rehabilitate the Dakar International Airport apron and runway and enlarged aircraft parking stands so that Airbus A340-600s can land and take-off from this Senegalese airport.

CSSE participated in international seminars and work groups including the International Air Transport Association (IATA) Air Traffic Management Analysis Workgroup for Africa, and the International Federation of Airline Pilots Associations (IFALPA) Annual Conference.

CUSTOMER SERVICE

SAA took a long, hard look at its customer service delivery and identified its shortcomings. In support of the patronage pillar of its turnaround strategy an improved customer service approach was imperative.

An intensive training programme for all staff, particularly those that come into contact with customers began.

In support of this initiative the following highlights for 2004/2005 were implemented:

- All SAA managers from executive level to junior management have to spend time working at airports to relearn the operational side of aviation
- The 'adopt a customer' campaign was launched to promote enhanced customer interaction
- An improved client care webpage was launched on flysaa.com
- Customer Services has a quality-control mechanism to evaluate the operations value chain from the purchase of tickets at airport offices, to check in, lounges, boarding, on-board service, and arrival at the destination and baggage retrieval
- During the year under review a decision was made to re-train all SAA employees in customer care. This process started with interaction with both internal and external customers to develop SAA's new customer services vision.

VOYAGER

SAA Voyager is the largest frequent flyer programme on the continent.

SAA Voyager has grown from 66 000 members to approximately 1.8 million members since its launch in 1994.

The Voyager programme is key to the Patronage pillar of our strategy; it rewards loyal customers while growing the customer base. SAA Voyager's loyal membership base continues to grow and our members are increasing their sectors flown on our airline.

Voyager members generated nearly 26% of all revenue sectors on SAA and made a substantial contribution to the airline's revenue in the year under review. The average ticket price of a Voyager member is greater than the airline average and results in a higher ratio of travel in business and first class.

PRODUCT

In 2004, SAA's lie-flat seat was rated the best in the world by Skytrax which conducts the world's largest passenger surveys. The Airbus fleet, A340-600s and A340-300s, are fitted with the lie-flat seat in premium class (combined business and first class). A decision was taken during the year under review that the A340-200 fleet will be fitted with this award winning seat in the course of 2005/2006. This will enable SAA to boast a consistent lie-flat product throughout its long haul international network.

More space has been created in the economy class cabins with legroom improved to 33/34 inches – well above the international norm.

SAA's lie-flat seat in business class is now available on all flights to London

COMMUNICATION & PARTNERSHIPS

Government & Stakeholder Liaison

In the year under review, the Government Liaison department:

- Raised SAA's profile at various conferences including the Tourism Conference, Airlines Association of Southern Africa AGM, and the follow up conference of the World Summit on Sustainable Development;
- Projected SAA as a caring corporate citizen in various government social responsibility programmes including the 16 Days of Activism and government communicator awards;

Communications

Based on extensive research, an integrated Communications Strategy was adopted to address a number of major challenges in the internal and external communications environment. The programme prioritised the development of a positive culture of internal information sharing aimed at improving communication throughout the company. These included:

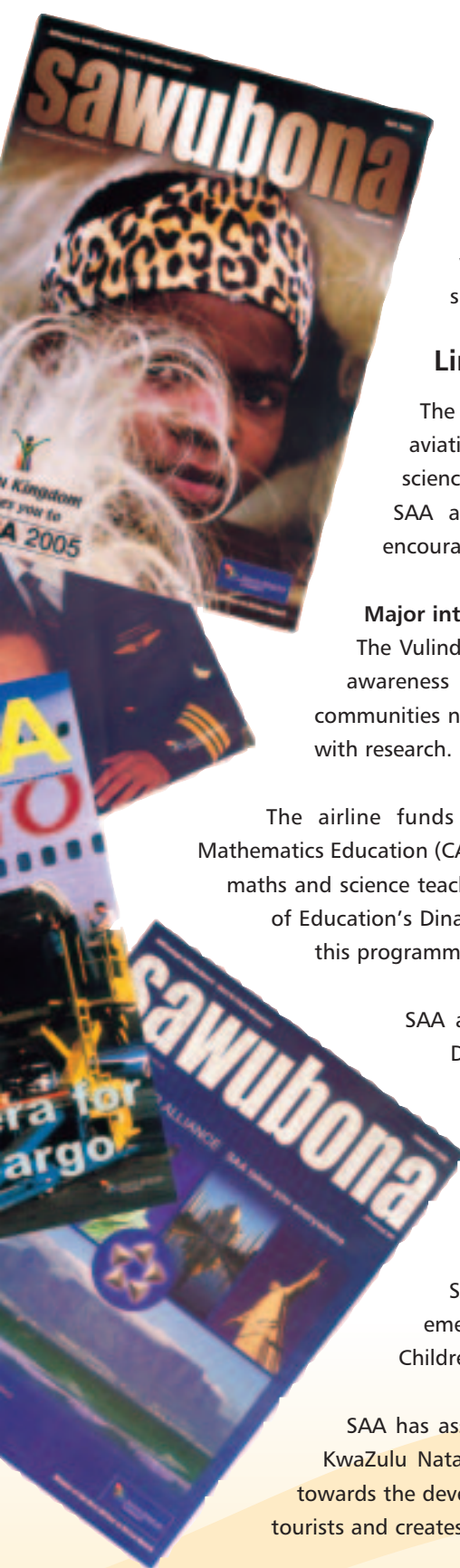
- Providing a number of effective communications channels to reach all SAA staff within the company and around the globe;
- Communicating continuous policy changes and responding to staff information needs;
- Using advanced technology as communication tools;
- Developing an information management strategy.

The *mySAA* campaign was launched in May 2004 to stimulate staff buy-in into the company's internal communications process. The campaign included the launch of the *mySAA* magazine, *mySAA* Daily News, electronic notice boards and a *mySAA* Executive Brief. The unit also launched *mySAA* Radio, *mySAA* On-Line, *mySAA* Television and *mySAA* road shows.

A media liaison programme was launched and focused media attention on the fleet renewal programme, e.g. the acquisition of SAA's first Airbus A340-300E and the first A319.

Towards the end of 2004, the appointment of Dr Khaya Ngqula and his strategy for the airline, '*People, Patronage and Profit*', realignment, restructuring of the company, cost-cutting measures and new key appointments received wide media attention. Communications were focused on plans to move the company to profitability. Various proactive partnerships were also pursued with various media organizations to popularise SAA programmes and initiatives in co-operation with the Marketing department.





CORPORATE SOCIAL INVESTMENT

Corporate social investment (CSI) play a key role in SAA's 'People, Patronage and Profit' strategy. The focus of SAA's CSI programme is on education, with a particular focus on promoting awareness and skills suitable for the aviation industry.

Linking CSI to the business

The SAA CSI programme aims to grow awareness of the aviation industry and to promote education in maths and science. These are also a prerequisite for pilot training. SAA also sponsors flights for worthwhile causes and encourages business partners to support certain causes.

Major interventions

The Vulindlela Aviation Awareness Programme aims to create awareness of the aviation industry among disadvantaged communities nationwide. Every school intervention is followed up with research.

The airline funds the Centre for Advancement of Science and Mathematics Education (CASME) which works to improve the teaching skills of maths and science teachers. CASME is in partnership with the Department of Education's Dinedledi project and contributes to the sustainability of this programme.

SAA also participates in the 'Take a Girl Child to Work Day'. Twenty girls and two teachers are given an opportunity to experience flying in an SAA aircraft. The girls are also treated to tours of SAA divisions including SAA Cargo, SAA Technical, with a favourite treat being time in a flight simulator.

SAA also assists worthy causes such as medical emergency flights for institutions such as the Red Cross Children's Hospital.

SAA has assisted with rural development tourism projects for KwaZulu Natal Nature Conservation Trust. SAA made donations towards the development of the San Rock Art Centre which attracts tourists and creates job opportunities.

Partnership with Sponsorships Department

The CSI Department partnered with SAA's Sponsorship department on all major sponsorship programmes including the SAA Supa 8, the North Sea Jazz Festival, Township Crawling and Formula 1X2 held at Kyalami in September 2004.

Staff Outreach Programmes

In the past year, employees have been instrumental in making positive changes to the lives of the less fortunate. SAA employees participated in national fundraising initiatives including the CANSA Shavathon, the 16 Days of Activism, Casual Day, Quad Squad Day and donations for the homeless during difficult winter months.

Emergency Relief

SAA donated R500 000 to the city of Cape Town and emergency supplies of sleeper suits, blankets and duvet covers for victims of fires and floods in the Western Cape during 2004. SAA also donated R750 000 worth of emergency relief supplies, including sleeper suits, blankets and duvet covers to the South African Red Cross for use in national and international campaigns.



They told us it couldn't be done.

Did you ever think that one day, we'd be able to look back on a history of democracy in this country? Or that the things most of us were denied, we can now take for granted?

It is our special privilege that we carry the South African flag, this new symbol of respect and tolerance, emblazoned on the tails of our fleet. And it's with a real sense of humility that this privilege has allowed us to loudly and proudly advertise our allegiance to our home wherever we can. Our flight over the Rugby World Cup Final in 1995 galvanised a supporter's club of 43 million into believing, on that day, that South Africa could not be beaten. As history records, 15 New Zealanders believed it, too.

A year later, our presence once again proved a lucky charm: Ndizani Bafana Bafana Ndizani, branded indelibly across the under-wings and body of one of our fleet, has since become a sporting battlecry, initially triggered by net one, but two South African Airways jets roaring

over the FNB stadium for the African Cup of Nations Final. The Tunisians were beaten before they even ran out onto the field.

Time and time again, when an event of importance to South Africans has occurred, our presence has, in a sense, become expected. The 1999 inauguration of President Thabo Mbeki. The opening and closing ceremonies of the Cricket World Cup. And, of course, the 10th anniversary of democracy.

As South Africa has been welcomed back into the community of nations, we also realised that, in order to evolve with the country, we would have to examine our worth as a global carrier. Our new fleet, we believe, plays as much an ambassadorial role as our tail does, reflecting a young, robust nation. The value of this cannot be underestimated, whether it's the way the world sees us, or how we see ourselves.

So from an energetic 70 year old to a proud 10 year old; happy birthday, South Africa.



This advert won the Saturday Star Orchid Award in May 2004

SAA Awards for April 2004 – March 2005

April

Best Airline in Africa - Skytrax
3rd consecutive year. Global passenger votes.

May

Best Airline Stand - Indaba
Received for 3rd consecutive year during Africa's premier tourism exhibition.

May

Orchid Award - Saturday Star
Best advertisement celebrating South Africa's 10 years of democracy.

June

Star Travel Award for Top Airline to Africa - The Star
The Star newspaper readers chose SAA as Africa's top airline.

June

Best Cabin Crew in Africa award - Skytrax
SAA's cabin crew was voted tops in Africa by passengers for their excellent service.

June

First Class on board SAA – 6th place - Skytrax
First Class product and service in survey ranking the world's airlines

August

Best Business Class lie-flat seat in the world - Skytrax
One of the airline industry's highest awards as voted by passengers worldwide.

August

Award for Women in Development - SA government
SAA honoured for its Women In Aviation Programme

September

Best Airline (domestic) - Best of Johannesburg 2004 readers
Voted by newspaper readers Johannesburg's affluent northern suburbs.

September

Best brand - domestic airline - Markinor/ Sunday Times
Award for brand relationship

December

SAA First Class Lounge number two in the world - Skytrax.
Analysis of lounges globally including the overall quality of the product and service

AWARDS

Our quest for a renewed focus on patronage, a key pillar of the turnaround strategy was given a boost by numerous awards received in the year under review. These awards listed in detail below are indications of how well we compare with global players in the aviation industry and highlights areas of improvement. These have also helped motivate our very committed staff.



December
Foundation for Excellence in Business Practice - FEBP
Award based on feedback from government and media representatives.

December
Best International Airline in Cape Town - Airports Company of South Africa
Passenger perceptions of service, visibility of supervisors and friendliness

December
Award from East London's Border Technikon - Border Technikon
SAA East London office contribution to experiential training of students

January
Best Airline to Africa - Travel Weekly Global Awards
Nominated by UK travel agents for 14th consecutive time

January
Best airline service on board and on ground - Travel Channel Survey
SAA beat Singapore Airlines and Lufthansa, international routes (2nd place)

February
Added to growth and development - PMR
Biggest contribution to growth and development

March
Best international airline, 10 best of Tourism in 2004
- Brazil Travel News
Brazil Travel News Magazine is a popular travel trade vehicle in Brazil

PROFIT

COMMERCIAL

The commercial team delivered a solid performance to ensure that SAA's passenger and cargo operation remain within a best-practice framework.

In the financial year under review Paris, Mumbai, Zurich, São Paulo and Dar es Salaam became daily services, only Perth is not daily. A daily service is preferred by all travellers, especially premium travellers, and this is shown by the improvement of traffic volumes on SAA's network. Our profit drivers in this area included: Direct Sales, Revenue Management, Pricing and Marketing.

Direct Sales

SAA's direct sales policy has been a huge success; more than 30% of domestic sales are transacted directly via SAA with more than 60% of all tickets issued electronically. SAA re-launched its website, flysaa.com in December 2004 with a seat sale promotion. More than 60 000 seats were sold in three days via this internet-only special – setting a record for the highest number of online transactions in South African history.

Corporate and retail sales continued to grow with SAA regaining market share from competitors as travellers and travel agents became aware of our pricing and network changes. In November 2004, SAA announced that it would move to a zero commission model in May 2005; removing about R400-million in annual sales costs.

SAA's call centres play an important role in improving service delivery to our customers. The year under review marked the start of a process to enhance the efficiency of our call centre operations through an investment in our human resources, the application of best practice standards and a focus on nurturing a customer-orientated culture. This led to a decision to centralise the call centres.

SAA's initiative to replace physical paper tickets with electronic tickets has paid dividends. Electronic ticketing offers a seamless ticketing process while greatly reducing costs to the airline. IATA estimates the saving to be between US\$7 and US\$9 per ticket.

Electronic ticketing, originally expected to replace 21% of SAA's domestically issued paper tickets after five years, achieved an 87% take-up rate by March 2005 - less than 18-months after the project was launched. In the last three months of the financial year, in excess of one million passengers experienced the benefits of SAA e-ticketing.

Revenue Management

The Revenue Management team ensured that load factors increased 3% year-on-year to a system wide level of 70% while Revenue Available Seat Kilometres (RASK) grew 5% year-on-year. SAA's denied boarding levels have decreased and our seat spoilage rates (the volume of seats departing empty despite demand) have also decreased.

Domestically, competition from low cost carriers has placed pressure on revenue and passenger volumes, despite this SAA achieved a 5% load factor growth and a 2% RASK growth. SAA is well positioned to retain and expand market share in the domestic environment.

Pricing

SAA's pricing department made a significant contribution to the financial results of the company, implementing price increases on high-demand routes while responding quickly to competitor challenges. The management of the fuel-levy to offset the increasing cost of jet fuel was critical to the success of the Commercial department in delivering this year's result.

A revised domestic pricing structure was unveiled in the second half of the year under review to promote direct sales. SAA captured more than 30% of domestic sales. A heavily revised domestic pricing structure underpinned the success of SAA's December seat sale.

Marketing

SAA has moved to a 'premium' service since the introduction of the Airbus fleet. It has invested significant resources to enhance its ground product with the introduction of an arrivals lounge in London and the upgrade of the Cape Town international lounge. SAA is planning to introduce lounges throughout Africa in the coming financial year.

SAA's website, flysaa.com, experienced unparalleled growth. The site was revamped to allow SAA passengers to book flights to and from any destination served by SAA or its code-share partners. Additional functionality, including online VAT invoices, a streamlined booking process (allowing for a booking to be completed in three easy steps), SMS booking confirmation and further payment methods were introduced. Site capacity was increased to facilitate 60 000 seat sales over a three-day special period during December 2004. It facilitates over six million customer interactions a year.

flysaa.com offers SAA customers a convenient and comprehensive service, available worldwide and ranging from Voyager services to cargo functionality. Improvements in

SAA's CEO, Dr Khaya Ngqula, handing over the trophy to Tim Clarke, the winner of the SAA Open 2005

the site translated into increased sales and activity. The site now accounts for more than 50% of all Voyager transactions, while online passenger sales increased by 400 %.

The site will be developed further to be available in a number of languages (German, French and Portuguese). Exciting developments around a streamlined corporate booking facility, a package offering and site delivery via PDA's (Personal Digital Assistant) are planned. Through improved platform stability, increased consumer adoption and customer-focused enhancement, flysaa.com will play an important role in delivering on SAA's service promise in the year to come.

Sponsorship

SAA has been involved in the promotion and development of lifestyle events from music to fashion and sports across the spectrum. These range from soccer, golf, cricket, road running and most recently rugby, to transporting the participants to the Olympic Games. SAA was also a sponsor for the Soccer 2010 bid and 2012 Rugby bid.

Major South African events sponsored during 2005 were:

- The SAA Open Golf Challenge - for the third consecutive year
- The World Women's Golf Cup
- The 2010 Soccer Bid
- The SAA SUPA 8 Soccer tournament - for the fourth consecutive year
- The Sokka Kings
- The Cats Rugby Team
- The North Sea Jazz Festival - for the third consecutive year
- The Kora Awards.

Cargo

SAA Cargo is managed as a separate business unit within the airline. It transports approximately 176 000 tons of freight annually using four dedicated freighters and the average daily capacity of 16 800 ton cargo space represented by SAA's fleet of 73 passenger aircraft. With a turnover of R1.5-billion annually, this division contributes 9% to the revenue of the airline.

The strength of the South African economy is reflected largely in the flow and performance of air cargo between South Africa and the rest of the world. The current strength of the Rand has a dampening effect on exports out of South Africa, but allows imports to flourish.

Import volumes into South Africa on passenger flights grew 19% as opposed to 2% export growth. About 84% of revenue is exposed to currency fluctuations and the strength of the Rand has had a significant impact.

On the domestic front, SAA Cargo performed well with growth of 13% for the year. SAA Cargo is looking forward in the year to an increase in the domestic night-time freighter capacity.

Cargo Sales and Customers

The number of foreign freighters into South Africa increased significantly thereby increasing capacity and placing downward pressure on yields (per unit income). In spite of this, SAA Cargo managed to grow volumes, both inbound and outbound.

Based on a survey done by an independent consultancy group among Cargo's top 20 customers it was established that Cargo needs to provide a reliable service with improved communication channels.

In the past year, Cargo also implemented an integrated voice recognition (IVR) system at reservations and the Cargo help desk. This implementation resulted in a significant reduction in the abandoned call rate at Cargo reservations. A dedicated reservation e-mail address was implemented for Cargo customers to increase efficiencies with the receipt and response to booking requests.

SAA Cargo plans to install voice recordings at reservations and the help desks. We can use the recordings to do both quality control and training.

OPERATIONS

SAA Flight Operations

During the year under review numerous special projects were undertaken, such as the unique large aircraft 'three-ship' formation fly-past at President Thabo Mbeki's re-inauguration and Cricket World Cup Final. SAA also flew at a number of air shows like the prestigious Farnborough Air Show, the Rolls Royce Centenary, Aerospace Africa and Rand Air Show.

SAA operations underwent a SACAA audit and recorded zero non-compliance in the Flight Operations area. It successfully delivered on a number of strategic interventions. These included improvements in SAA's position in the Skytrax customer service ratings (an international benchmarking and customer service evaluation agency); introducing the PSV (People, Service, Value) Awards for good service delivery to customers; and effectively managing human resource matters, including leave management, disciplinary related matters, improvement of crew morale and the reduction of crew absenteeism.

Global Passenger Services (GPS)

Global Passenger Services is responsible for the handling of passengers at all airports in South Africa and our major international destinations. It introduced a segregated system for premium passengers at SAA international departures, e.g. the introduction of separate buses for our premium passengers arriving internationally.

SAA TECHNICAL

SAA Technical (SAAT), a wholly owned subsidiary of SAA, performs full maintenance for all SAA aircraft including work at certain destinations.

SAAT also performs third-party work for a host of other airlines including BA/Comair, Lufthansa, Air France, TAAG Angola, Air Seychelles and Air Tanzania. SAAT performs line maintenance work for over 40 airlines at its headquarters at Johannesburg International Airport.

During the year, SAAT commissioned and launched its new multi-purpose docking system. This aircraft docking system is unique and is designed to accommodate Boeing B747-400s, the Airbus A340 family and MacDonnell Douglas MD11 aircraft. It facilitates access to aircraft when major maintenance and modifications to any type of aircraft are needed.

SAAT has supported SAA's move from a Boeing fleet of aircraft to an Airbus fleet by ensuring that exiting aircraft, which are being returned to their lessors, meet their maintenance return conditions.

SAAT has adopted a 'safety is not negotiable' attitude. During the past year, SAAT improved on its existing four-star NOSA rating and has a commitment to achieve further improvements.



**SOUTH AFRICAN
AIRWAYS**

Private Bag X13
Johannesburg International Airport
1627
Tel : +27 11 978 1111
www.flysaa.com