Annual Report **2016**

sa express

we fly for you

About this report

This is the Annual Report for South African Express SOC Limited, a State-Owned Company (SOC), and provides an overview of SA Express' overall performance for the reporting period 1 April 2015 to 31 March 2016. This report is available on the www.flyexpress.aero website.

STRUCTURE OF THIS REPORT

This report addresses the Company's performance in terms of its strategic objectives, statutory mandate, the SAX 20/20 Vision Strategy and the Austerity Measures Plan. The report covers the performance in terms of the Company's four objectives in terms of the SAX 20/20 Vision Strategy and the Austerity Measures Plan, namely:

- Leverage state capabilities to improve sustainability and economic viability;
- Improve collaboration, through deeper integration and increased trade with its regional trade partners in Africa;
- Lower the cost of doing business; and
- Service delivery.

The Report is broadly divided into six subcategories, namely:

a) About SA Express;
b) Internal Controls and Risk Management;
c) Sustainability;
d) Corporate Governance;
e) Auditor-General's Report; and
f) The Annual Financial Statements.

All six categories are complementary.

REPORTING PRINCIPLES

The 2015/16 Annual Report is prepared in accordance with International Financial Reporting Standards (IFRS) and the Financial Reporting Guides issues by the Accounting Practices Committee. The Sustainability Report is prepared in accordance with the Sustainability Reporting Guidelines of the Global Reporting Initiative. The Corporate Governance Report is guided by the King Report on Governance (King III).

This report contains all strategic, financial and operational matters that had the greatest impact on the airline's year-todate performance.

The report aims to provide the Department of Public Enterprises, the National Treasury and the general public, with a full understanding of the various significant risks and opportunities the airline has faced in the year under review. The annual report also includes the Shareholder Compact and performance to targets contained in the Compact and these are addressed in detail within the document. Furthermore, the airline, as an SOC, has a dual mandate and it is important that it achieves both the financial and developmental mandates respectively. It is important to SA Express' existence that the airline ensures sustainable value creation for its stakeholders in the short and long term.

The report also aims to provide an understanding of the various significant economic, social and environmental risks and opportunities that the industry faces, in the short and medium term respectively. It further demonstrates the Company's unique response in mitigating the above-mentioned risks and ensures that the airline continues to be regarded as a sustainable entity (in terms of environmental and human capital sustainability).

About this report
continued

THE COMPANY FOLLOWS A COMPREHENSIVE AND INTEGRATED RISK MANAGEMENT PROCESS WHERE THE IDENTIFICATION AND MANAGEMENT OF RISK FORMS PART OF THE EXECUTIVE MANAGEMENT BUSINESS PLAN.

Additionally, the report highlights the airline's focus on environmental sustainability as well as profiling SA Express as a leader in transformation and human capital development, as aligned with the Shareholder's development mandate.

OUR STAKEHOLDERS

The Company, as a strategic asset of the Republic of South Africa, reports to the Shareholder's representative, the Minister of Public Enterprises and is committed to the founding mandate of the airline and to the Preamble of the SA Express Act of 2007. The Mandate of the airline is to offer seamless air travel and to offer connectivity to secondary and main airports while being a feeder airline to the national carrier, South African Airways (SAA).

In addition to domestic operations, the airline is mandated to ensure connectivity and economic growth in the region, thus its commitment to operating in five of the Southern African Development Community (SADC) countries, namely: Botswana, Namibia, Zambia, Zimbabwe and the Democratic Republic of Congo.

The Company's commitment to its stakeholders is to conduct its business in a sustainable and responsible manner and to respond to their respective needs as effectively and timeously as possible. The nature of the airline business implies a close relationship with its stakeholders, which comprises – but are not limited to – those customers whom we fly, with a commitment to safe, secure and reliable service; our employees, who are responsible for ensuring the airline operates daily with a focus on safety and comfort; our various suppliers, who form an integral part of the ability of the Company to fly; Government regulatory and industry bodies, since the industry in which the Company operates is subject to extensive government and regulatory oversight; and the South African public, who are our key shareholders.

RISK MANAGEMENT

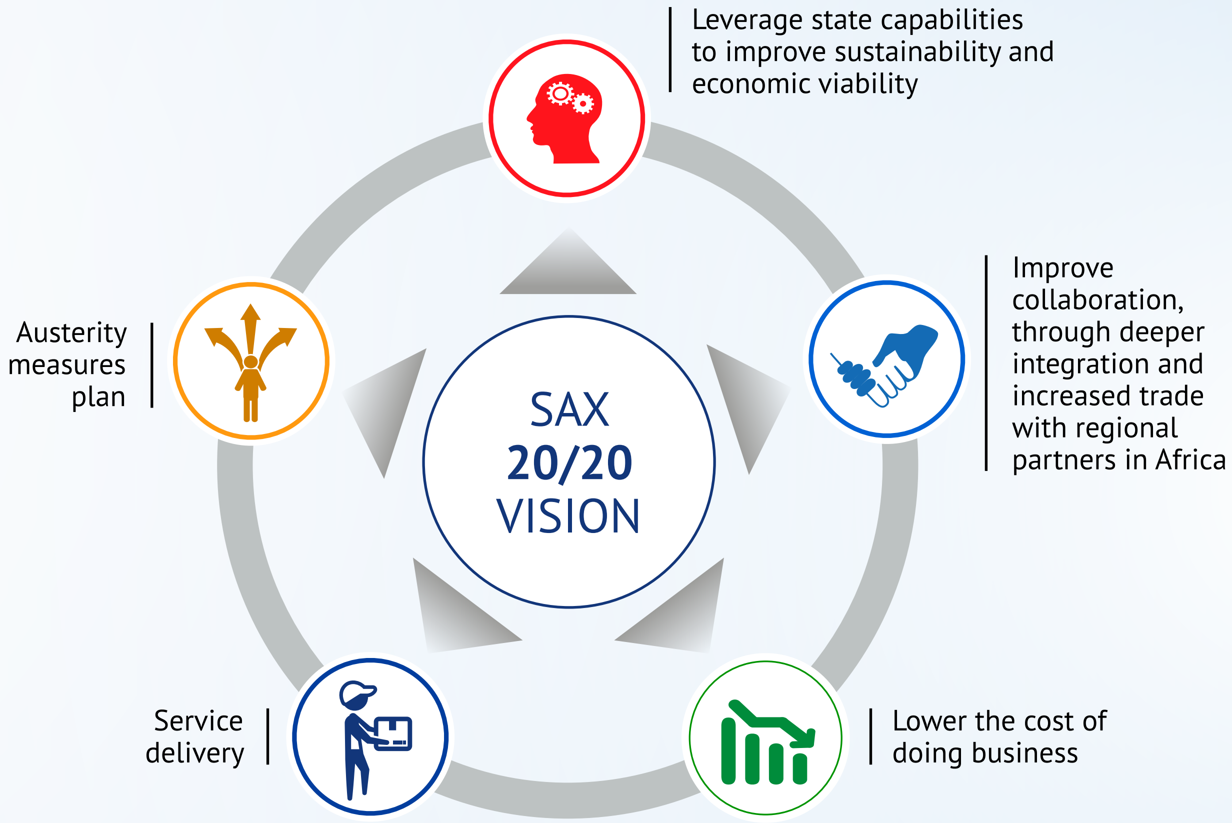
The Company follows a comprehensive and integrated risk management process where the identification and management of risk forms part of the Executive Management business plan. The Board, through the Audit and Risk Sub-Committee of the Board, actively monitors this process.

SIGNIFICANT EVENTS DURING THE REPORTING PERIOD

No significant changes regarding the size of the Company, its structure or ownership, occurred during the reporting period compared to previous financial years. Hence there are no significant changes from previous reporting periods with respect to the scope, boundary, or measurement methods applied in this report.

EXTERNAL AUDIT AND ASSURANCE

The Annual Financial Statements on pages 72 to 101 are audited by the Auditor-General of South Africa, in accordance with International Standards of Auditing and IFRS.



Pursuant to the 2013 SA Express turnaround strategy - the SAX 20/20 Vision Strategy, aligned to the South African Airways' long term turnaround strategy (LTTS) and the Austerity Measures Plan – the Company has, in the period under review, entered into an annual Shareholder Compact with the Shareholder Oversight Department and has agreed that the airline would focus on the following strategic priorities:

- Consolidate and cement its business model, which predominantly was that of a regional carrier, with a strong focus on business travel;
- Be a sustainable, well managed and profitable airline;
- Provide consistent and efficient customer service;
- Foster performance excellence through the development of people, skills and jobs;
- Become a catalyst for key developmental state objectives, including the development of infrastructure, the facilitation of trade and the growth of the tourism industry; and
- Expand the airline's services throughout Africa.

SA Express has delivered against the majority of these priorities during the 2015/16 fiscal year. The Company will continue to ensure that the airline is prudent in all its commercial endeavours.

Who we are and what we do

SA EXPRESS MANDATE

SA Express' statutory mandate, as a strategic asset to the Republic of South Africa, is defined in the preamble of the SA Express Act and the Strategic Intent Statement 2016-19 as follows:

- **PROVIDE** transportation of passengers, cargo and mail, air charters and other related aviation services;
- **PROMOTE** frequency of services on lower-density routes; and
- **EXPAND** regional air services capability in South Africa, the African continent and surrounding islands.



SA EXPRESS OVERVIEW

SA Express was established on 24 April 1994, on the eve of South Africa's new democratic dispensation. As a regional airline, SA Express offers seamless connectivity between primary and secondary domestic and regional destinations in South Africa and five SADC countries. The Company's head office is based at Airways Park, Jones Road, Kempton Park.

With 22 years of service and 22 aircraft, the airline has in the fiscal period under review operated approximately 3 000 flights per month, carrying in excess of 1.3m passengers per annum. The objectives of the Company are to provide transportation of passengers, cargo and mail, air charters and other related aviation services, as well as to promote frequency of services on lower density routes; and to expand regional air services capability within the Republic and to the African continent.

The improvement of intra-Africa travel is aligned to the Airlift Strategy of the State, aiming to increase aviation's contribution towards sustainable economic growth and job creation. The flexibility and reliability presented by the airline's '**FACT** Principle' (**F**requency, **A**vailability, **C**ompetitive price and **T**iming of flights), affords consumers a unique and convenient service. The FACT Principle enhances South Africa's prospects as a preferred air travel destination, and a major trade and tourism hub.

The vision of SA Express, supported by its aspirations and strategy, is underpinned by its core values and unique selling propositions that drive profitability. In pursuit of its mandate, SA Express aims to facilitate the lowering of the cost of doing business in South Africa by providing affordable air services within benchmarked standards. The airline is continuously seeking opportunities for growth and partnerships within the region, in order to expand its route network.

This Annual Report highlights the key achievements and opportunities to operationalise the strategy and vision of the airline.

SA EXPRESS AT A GLANCE

Our PURPOSE is to be:

- An integrated, sustainable regional airline connecting secondary and main airports.

Our VISION is to be:

- A world-class regional airline with an extensive footprint in Africa.

BRAND PROMISE

We fly for you.

We are a team. We go further together. YOU, our valued passengers are people, not merely numbers. Our service is personalised. We are caring in our relationships; we care for our passengers with a personal touch. It is important for us to talk to our passengers and for them to talk to us.

VALUES

- We never compromise on **SAFETY**, no matter what.
- We deliver with **SPEED** without compromising **QUALITY**.
- We strive for continuous improvement.
- Our **CUSTOMERS** are our most important investors.
- We partner with people across all operations.
- We keep it **SIMPLE**.

THE SA EXPRESS STRATEGY

The Long Term Strategy is called the SAX 20/20 vision and is aligned to SAA's Long Term Turnaround Strategy (LTTS), in support of the' Whole of State Aviation approach', At the core of the issues identified are issues relating to:

- Collaboration with SAA and Star Alliance,
- The single feeder regional airline to SAA,
- Optimised extensive network,
- The right fleet for the region,
- Technical as a profit centre and critical revenue stream and
- Adequate funding with suitable cash.

All the above-mentioned issues cannot be resolved by SA Express in isolation without collaboration with SAA and therefore, the two companies and their Shareholder representatives are working together to ensure that the strategies are implemented to improve Shareholder value.

Another challenge that faced SA Express was due to a lot of new competition that entered into some of its biggest markets. This forced SA Express to take action including reviewing its pricing structure to keep those price sensitive customers as well as developing a detailed decision making matrix which includes processes for assessing and remedying loss making routes, and determines the introduction of new routes or withdrawal of air services on an existing routes.

Complementing this strategy is the Cost Containment Plan and the Austerity Measures Plan, which are aimed at addressing the immediate financial sustainability of the airline. The Plan addresses cost line items like catering, passenger handling, fuel and optimising schedules.

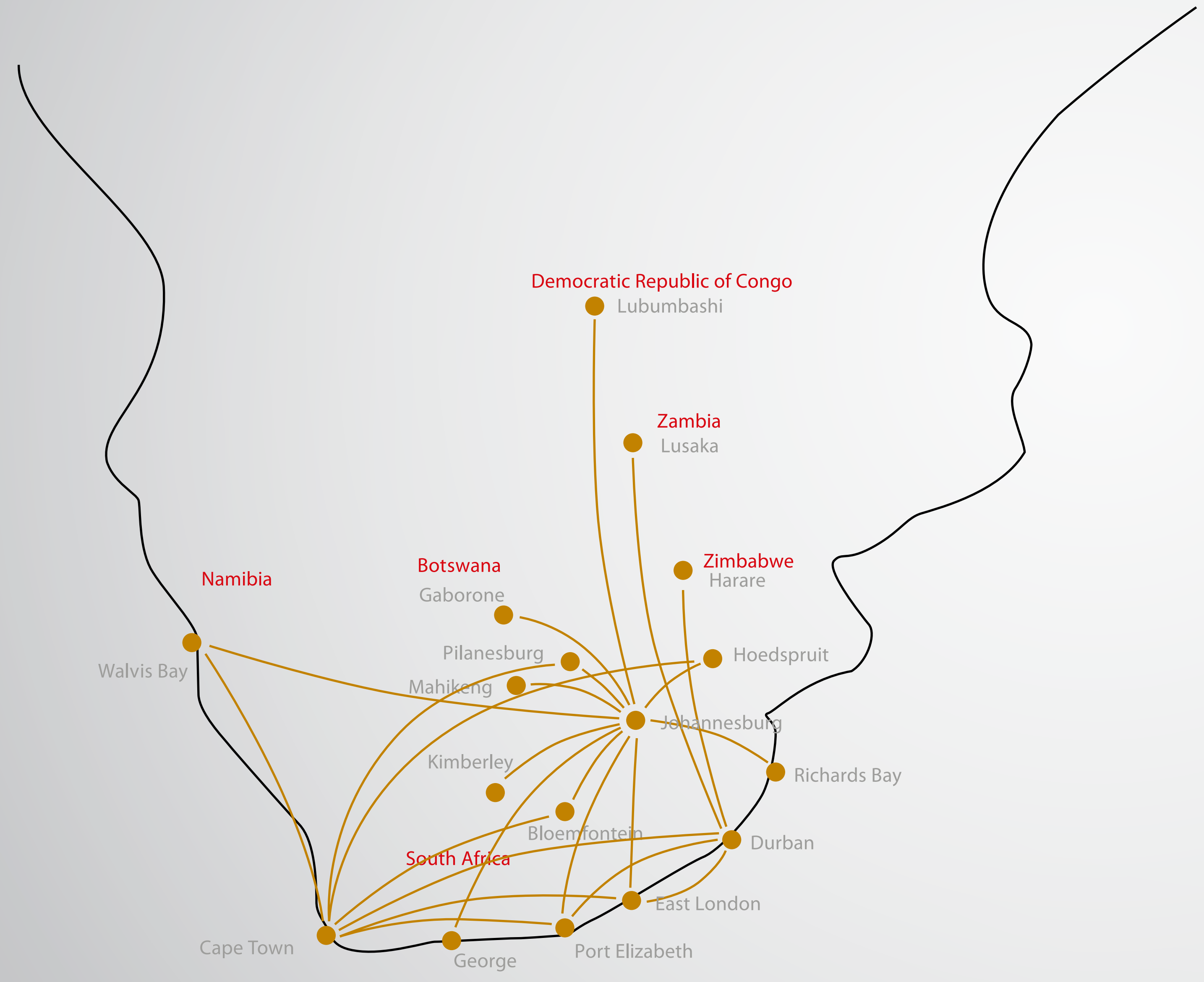
Some of the successes relating to the 20/20 vision were based on SA Express going into partnerships with some of the Provincial entities.

SA Express engaged SAAT and is working with Denel and is exploring the possibility to fully introduce a Maintenance Repair and Overhaul (MRO) facility for the country as South Africa is in need for a state of the art MRO facility.

SA Express since the inception of the strategy has been seen as the incubator for leading transformation in the aviation sector and has used the Cadet Pilot and the Technical Apprenticeship training programmes as vehicles to achieve transformation within the industry.
These programmes have successfully created a career path for Pilots and Technicians. Historically, pilots from SA Express who have qualified through the Cadet Programme, have been absorbed into SAA as direct entry pilots. In April 2015, another six SA Express cadets joined SAA as pilots whilst another six black pilots joined Mango by mutual agreement.

In the financial Year 2015/2016, SA Express has contributed towards the unlocking of potential SMME's by spending a total of R1, 5 Billion on the procurement of goods and services and 35% of this amount which represent R525 000 was spent locally.

ROUTE NETWORK



NETWORK STRATEGY AND OTHER STRATEGY INITIATIVES

Network planning lies at the heart of any airline's operation. Creating a successful and sustainable network strategy is a crossfunctional undertaking that relies on highly skilled experts supported by a sophisticated methodology and multiple data sources. As a result, SA Express follows a structured approach to route forecasting using a range of data sources relevant to the task, as well as global industry trends. When used together, these combined factors not only allow the Company to identify demand for any potential route, both point-to-point and all possible connections, but consider the best gauge for the region, and the protability of the route.

With 22 years' experience in the South African aviation industry and a proven safety and performance track record, SA Express services both the domestic and regional markets. The Company continues to focus on its founding mandate of providing connectivity to secondary markets. Furthermore, it continues to focus on increased intra-Africa connectivity that is fully aligned to the State's Airlift Strategy, aiming to increase the aviation industry's contribution towards economic growth and job creation.

The Key Objectives of the Network Plan are:

- ✈ Schedule optimisation – build optimal schedules and improve aircraft and fleet utilisation against different demand levels, operating costs and passenger spills;
- ✈ Network growth – optimise route network in all hubs to maximise connections and revenue; and
- ✈ Protability forecasting – evaluate potential protability of dierent forecasted routes based on network growth.

The current domestic and regional network of SA Express consists of 24 routes with 19 domestic and five regional routes.

INDUSTRY OVERVIEW

The aviation industry, globally, has experienced unstable performance, with the International Air Transport Association (IATA) having initially forecast reasonable industry growth across its regions and later revising these forecasts downwards. This is detailed in the IATA Airline Industry Forecast 2015-2018. This industry outlook for system wide passenger growth foresees passenger numbers expanding by an average of 5.3% per annum between 2016 and 2018.

However, the potential revenue that could be realised as a result of this increase in passenger numbers is absorbed by lower revenue margins. Average global fares fell by approximately 12% in 2015 compared to 2014 (excluding taxes, fees and surcharged). IATA further postulates that adjusting for the currency effect, global fares were on average 4.5% lower than in 2014 (and down 6.2% year-on-year in January). This trend of shrinking average fares, coupled with the volatile exchange rate meant that the South African aviation industry was further adversely aected.

Locally, the aviation landscape has been affected by economic uncertainty. Although fuel costs have decreased, driving down direct operating costs, the following challenges among others persist:

- ✈ Regulated costs from Airports Company of South Africa (ACSA) and Air Trac Navigation Services are high, adding pressure to direct operating costs;
- ✈ Passenger demand is decreasing due to low uptake;
- ✈ Uncertainty relating to unfavourable legislation in the international inbound market;
- ✈ Cost cutting on travel from corporate and government departments has contributed to lower than forecast passenger travel; and
- ✈ The South African market has seen the entrance of more low cost carriers in the last two years, intensifying a price war with legacy carriers as customers seek cheaper travelling options.

Competitors

Despite the challenges faced by the global aviation industry, such as rising operating costs, exchange rate fluctuations, fuel costs and airport operating costs; competitors have not been deterred from entering the aviation industry, notwithstanding recent failures of some commercial operators.

The past financial year has seen airlines such as Skywise (domestic) and FlyAfrica (regional) cease operations. At the same time new entrants, Fly Safair and Cemair, expanded their domestic operations, and Fastjet invested in a regional hub in Harare. SA Express has seen new competitors increasingly operating on routes previously dominated by SA Express.

Low cost carriers have continued to expand and now compete directly with mainline and regional carriers operating on primary and secondary routes domestically and within the SADC region. These low cost airlines focus on point-to-point traffic operating from ACSA airports. They offer an all-economy class product with a high-density configuration in an attempt to lower prices to drive high load factors. Fares are generally lower than those of the legacy carrier groupings and there is a heavy reliance on ancillary revenue so as to keep the advertised price as low as possible and allow the customer to choose which additional products (hold baggage, pre-seating and travel insurance) are of value to them.

SA Express connects 24 city pairs (19 domestic and 5 regional) and operates approximately 3000 flights per month over domestic hubs in Johannesburg, Cape Town and Durban.

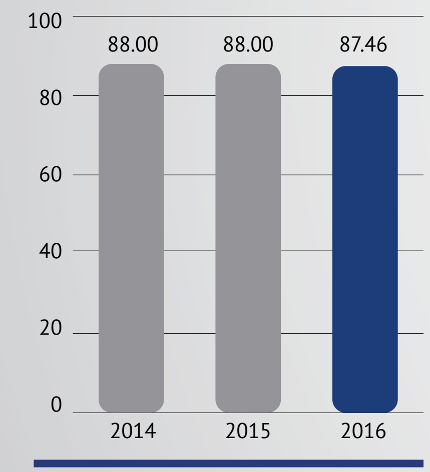
New markets

In the period under review, SA Express consolidated its services in order to adequately service its existing network, with expansion services being explored as part of the new regional initiative to deploy current equipment in order to increase utilisation in anticipation of increased yields. The envisaged deployment of larger regional jets will allow for optimum payload availability. There are currently plans to include two new routes in 2016/17, one domestic and one regional, in line with the short and long term strategies outlined in this document. The focus will be on growth in tactical markets in the short term and investment markets in the long term.

Key results 2016

	2015/16	2014/15
Financial results		
Revenue (billion) Operating	2.39	2.59
profit/(loss) (R million) Net	269	175
profit/(loss) (R million)	16.95	(69)
Key financial		
Operating profit margin (%)	11	7
Operating statistics		
Passenger carried (million)	1.310	1.409
Passenger load factors (%)	64	62

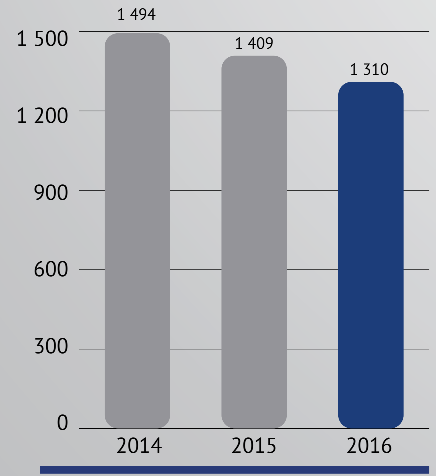
On-time performance (OTP) (%)



SA Express achieved an 87.46% On Time Performance (OTP) for the financial year under review.

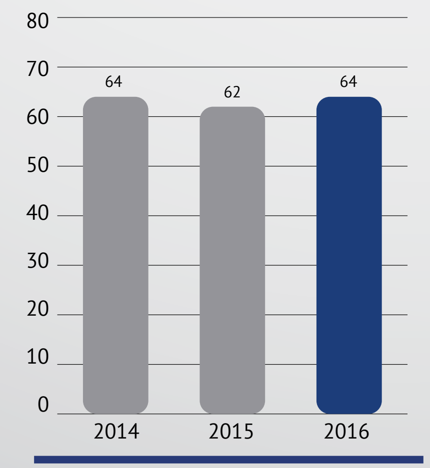
The Company will continue to implement improved business processes that focus on customer interface as a core function. SA Express has prioritised employee training in operational areas, harnessing critical skills and optimising the positive staff resources. Schedule optimisation continues to have optimal impact on the airline's OTP through effective delay management and maximising aircraft utilisation.

Customers (millions)

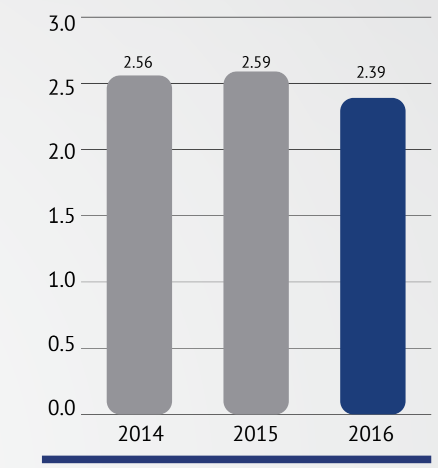


The customer numbers dropped by 7% compared to last year. This drop is due to scheduled capacity reduction that were effected as part of the Austerity Measures Plan. The plan was aimed at improving customers carried per flight as depicted by the load factors graph alongside. The load factors improved from 62% to 64%.

Load factors (%)

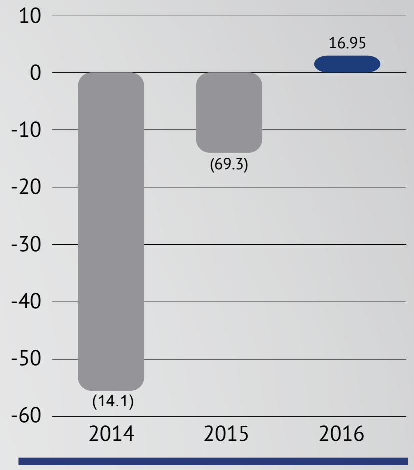


Revenue (billions)



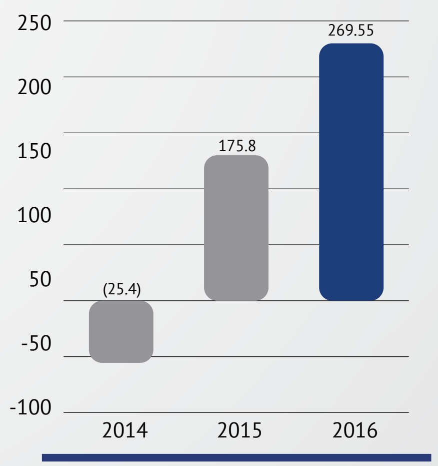
The revenue has decreased by 7%, in line with the passenger numbers.

Net profit/loss (millions)



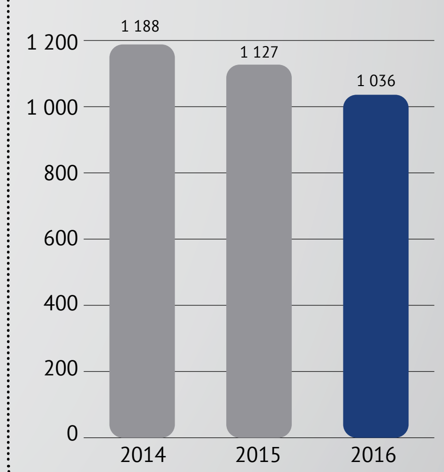
The three-year Cost Containment and Revenue Enhancement Programme of austerity measures implemented in the 2013/14 fiscal period has produced encouraging results and are currently meeting the majority of the airline's short to medium term goals. In the period under review, the Company has declared a net profit of 21m after tax, and these positive results are set to continue into the next financial year.

Operating profit and loss (millions)

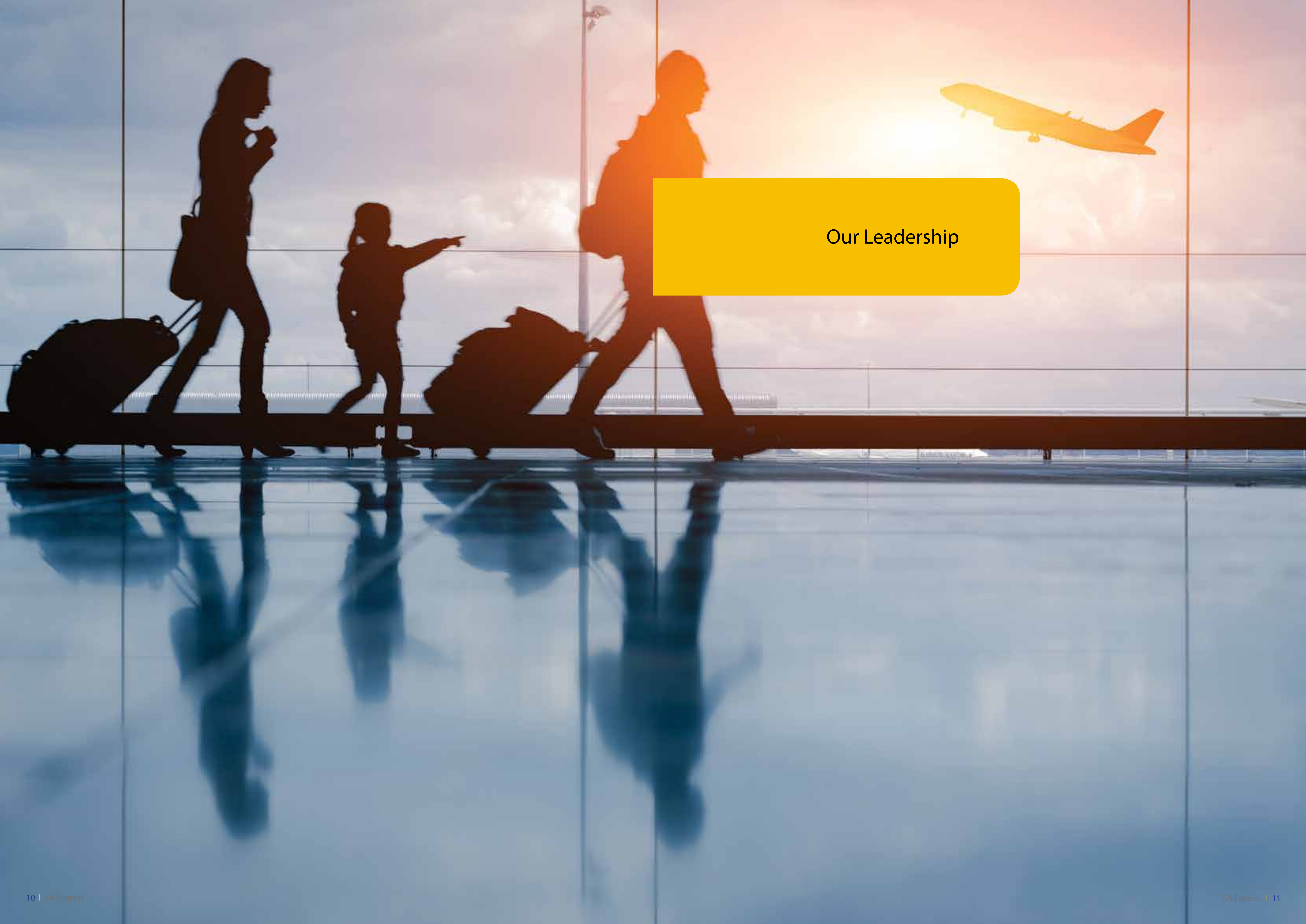


The operating profit has shown a tremendous improvement compared to last year. This is due to austerity measures implemented. The operating profit grew by 148% compared to last year.

Number of employees



The number of employees has decreased due to the austerity measures in place as well as the human capital initiatives to match the right people with the right skills to the right position.



Our Leadership

Our leadership

SHAREHOLDING

SA Express is 100% owned by the South African Government

BOARD MEMBERS

The Board, as appointed by the Minister of Public Enterprises, is guided by and complies with the provisions of: the Companies Act, the Protocol, the Founding Documents, the Significance and Materiality Framework, the Strategic Intent Statement and the Public Finance Management Act, as well as any other legislation, regulations, guidelines, instruction notes and/or directives issued by the National Treasury and/or the Shareholder representative as shall be considered by the Board.

Members of the SA Express Board are listed below

Profiles of Board Members

Mr G Mothema
Chairperson and
Independent Non-Executive Director

Qualifications
B Proc.

Experience
Corporate Governance, Board Experience, Former Company Secretariat Executive at SA Express and SAA, previously SA Post Office Chairperson, and with experience in Aviation and Commuter Transport sectors.

Mr V Xaba
Chief Executive Officer and
Executive Director

Qualifications
National Diploma: Chemical Engineering (Tshwane University of Technology)
Diploma: Project Management (Rosebank College)
Diploma: Advanced Project Management (Damelin College)
Statistical Process Control For Managers (Tshwane University of Technology)
B-TECH: Quality (Tshwane University of Technology)

Experience
During his 17 year tenure with Denel he has helped position Denel Aerostructures (SOC) Ltd as a leader in the African aerospace industry. Has a strong skills set comprising strategic management, continuous improvement strategies, operational excellence programmes, business development strategies, aerospace market intelligence and incubating new business models.

Mr M Shelley
Chief Financial Officer and
Executive Director

Qualifications
BCompt (Hons) (CTA) UNISA, CA(SA)

Accreditation
Registered Chartered Accountant and Auditor

Experience
10 years consulting in Finance, previously VicePresident - Finance at SAA (1998-2005). First to hold a seat on behalf of SAA at IATA in the Finance Committee and has held other Senior Management positions in other organisations.

Ms B Dibate
Non-Executive Director

Qualifications
BA Social Science, BA Honours in Clinical Psychology and MSc in Clinical Psychology

Membership
Chairperson of the Social and Ethics Committee, Member of the Audit and Risk Committee, Member of the Human Resources, Remuneration and Transformation Committee, Member of the Procurement Committee

Experience
Held various Executive positions, Former SA Express CEO, former Esselenpark Centre of Excellence CEO, Former Chairperson of Tourism Business Council of SA and Eastgate Airport. Board Member of the University of Pretoria, President of the Business Women Association.

Ms G Sibiya
Non-Executive Director

Qualifications
BCom, BAcc, Post Graduate Diploma in Accountancy CA(SA)

Accreditation
Registered Quality Assessor (IIASA)

Membership
Chairperson of Audit and Risk Committee, Member of Safety, Security, Health, Environment and Quality Committee, Member of Social and Ethic Committee

Membership: SAICA, IIASA and IODSA

Experience
Finance and Audit.

Ms N Nkabinde
Non-Executive Director

Qualifications
BCom (Accounting), Advanced, Executive Programme MBL, SBL (UNISA)

Membership
Member of the Audit and Risk Committee, Member of human resources, remuneration and transformation committee, Member of Safety, Security, Health, Environment and Quality Committee

Experience
Finance, Aviation, Strategy and Leadership Held executive positions at SAB, ESKOM, Uthingo (Pty) Ltd, Barclays International , SAA and Sebenza FS.

Mr T Abrahams
Non-Executive Director

Qualifications
MA in Sociology (Political Economy), BA Hons in Psychology, BA

Membership
Chairperson of the Safety, Security, Health, Environment and Quality Committee, Member of the Procurement Committee, Member of the Social and Ethics Committee

Experience
Aviation Safety and Security, Academia and Strategy.

Dr R Naithani
Non-Executive Director

Qualifications
PhD (Pharmaceutical Chemistry)
MBA (Stuart: Strategy and Marketing)

Membership
Chairperson of the Human Resources and Remuneration Committee, Member of the Safety, Security, Health, Environment and Quality Committee, Member of the Procurement Committee

Experience
Science Medicine and Academia. Administration, Human Resources, Academia, Policy design, strategy and marketing

Mr P Ramosebudi
Non-Executive Director

Qualifications
BSc in Physics and Chemistry, Certificate Programme in Mathematical Modelling of Derivatives (UNISA), MBA (UP) in Financial and Investment Management

Accreditation
MIFM (South African Institute of Financial Markets) Certified Financial Risk Management (FRM) from Global Ass. of Risk Professionals (GARP), USA

Membership
Chairperson of the Procurement Committee, Member of the Audit and Risk Committee, Member of the Social and Ethics Committee

Experience
Finance, Risk Management, Aviation, Freight and Rail, Academia, Stock Broking and Housing Infrastructure.

Our leadership continued

EXECUTIVE MANAGEMENT

The Executive Management team is comprised of seven (7) individuals, who all hold appropriate qualifications and experience. All members have extensive aviation business knowledge and skills set.

Profiles of members of the Executive Management

Mr V Xaba
Chief Executive Officer and Executive Director

Appointment date
10 April 2017

Qualifications
National Diploma: Chemical Engineering (Tshwane University of Technology)
Diploma: Project Management (Rosebank College)
Diploma: Advanced Project Management (Damelin College)
Statistical Process Control For Managers (Tshwane University of Technology)
B-TECH: Quality (Tshwane University of Technology)

During his 17 year tenure with Denel he has helped position Denel Aerostructures (SOC) Ltd as a leader in the African aerospace industry. Has a strong skills set comprising strategic management, continuous improvement strategies, operational excellence programmes, business development strategies, aerospace market intelligence and incubating new business models.

Mr I Ntshanga
Chief Executive Officer

Appointment date
19 January 2010

Resignation date
31 March 2017

Qualifications
BA Economics (Harvard), Global Executive Development and Board Leadership Programme (GIBS).

18 years Aviation experience has held senior leadership and positions in the private sector. Currently the Chairperson and Member of the Executive Committee of AASA, has served as the First Vice Chairperson of the Executive Committee of African Airlines Association for three years. He also holds Board Membership in other entities.

Mr M Shelley
Chief Financial Officer

Appointment date
22 May 2015

Qualifications
BCompt (Hons) (CTA) UNISA, CA(SA)

10 years consulting in finance, previously Vice President - Finance at South African Airways between 1998 and 2005. First to hold a seat on behalf of SAA at IATA in the Finance Committee and has held other Senior Management positions in other organisations.

Mr D Allanby
General Manager: Operations

Appointment date
1 April 2009

Qualifications
Qualified Pilot

Airlines' Compliance to Civil Aviation Legislation and IATA standard operating procedures. Flight deck and cabin crew administration including training. He has broad aviation experience: eight years as Chief Pilot of Gencor Aviation; eight years at SAA and other Senior Management positions in various entities. He is Principal Officer of the Pension and Provident Fund and lead negotiator in annual union salary reviews.

Mr B van Wyk
General Manager: Commercial

Appointment date
1 November 2013

Resignation date
30 September 2016

Qualifications
BCom Acc. (Hons), CTA from University of Natal

Accounting, Finance, Tax, Management Accounting, Strategy and Business Management, Sales and Marketing. He has held numerous Managerial positions in the private sector prior to joining SA Express.

Mr P Mashaba
General Manager:
Technical Maintenance and Engineering

Appointment date
1 December 2010

Resignation date
29 February 2016

Qualifications
A Masters Degree in Aviation Safety and Aircraft Airworthiness from ENAC and ENSICA University in France, and is currently completing a PhD in Management of Technology and Innovation.

Ensure the safety of the airline through compliance with Civil Aviation Authority (CAA) regulations and international standards set by IATA.

His 15 years experience in the aviation industry includes working at the SACAA to oversee safety of commercial aircraft operators. Responsible for preparing South Africa for state civil aviation safety audits conducted by the International Civil Aviation Organis ation (ICAO) and Federal Aviation Administration (FAA) in 2007.

Ms M (Chueu) Mochoele
General Manager: Legal, Risk and Compliance

Appointment date
20 January 2014

Qualifications
BProc., admitted Attorney of the High Court in Good Standing. Holds a Management Development Certificate from University of Pretoria and a certificate in Management of Aviation Quality and Service from IATA.

Previously worked at the SACAA as a Senior Legal Advisor, former Director of Safety and Security at the Department of Transport. She joined SA Express with her most recent assignment as Gautrain Management Agency as the Executive Manager Compli-ance. She has international law experience, representing South Africa on the ICAO Legal Committee, including various sub-groups and commissions.

Ms K Nkala
General Manager: Human Capital

Appointment date
1 November 2013

Qualifications
BSoc.Sc (Social Sciences), Honours in Industrial Relations, PostGrad in Personnel Management from University of Natal. AdvCert in Project Management.

Human Capital Management, including various specialisations in Learning and Development, Organisational Design and Development. She has held various managerial, positions in 14 years in the aviation industry.

Our leadership continued

CHAIRMAN'S REPORT

As another financial year comes to a close, I am pleased to report that we have continued to grow and make great strides in connecting smaller cities to economic hubs, both in South Africa and across Southern Africa.

As it stands, air transport to, from and within South Africa creates unparalled economic benefits for the African continent. According to IATA, the connections created between cities and markets are an important infrastructure asset that generates benefits by enabling foreign direct investment, business clusters, specialisation and other spill-over benefits that impact on an economy's productive capacity.

IATA reports that the aviation sector represents 2.1% of South Africa's GDP, which amounts to ZAR 50.9bn. There are currently more than 156 000 domestic flights, which denotes 17 million seats available to passengers annually, destines to 17 airports.

In the period under review, SA Express grew its route network to include flights between Johannesburg and Pilanesberg; Cape Town and Pilanesberg, as well as Johannesburg to Mahikeng.

THE AIRLINE INDUSTRY

The global aviation industry has its share of operating challenges. These include fluctuating exchange rates, volatile fuel prices and growing competition, which means that SA Express has had to be innovative in order to mitigate these challenges and to improve operational efficacy.

A consistent theme across the global airline industry is one of poor returns on investment and high barriers to entry, this despite the large capital investment costs requiredby the industry. Ours is an industry that is sensitive to dynamic changes in taxes, volatile operating costs and ever increasing regulations.

Our top priorities are to continuously improve on our customer experience, regulate costs and increase business efficacy. In this regard, we have successfully implemented austerity measures with a total saving of R330m year-to-date. We are firmly committed to the South African aviation industry and to working with Government and other relevant stakeholders to ensure:

- A safe, reliable, competitive airline;
- An integrated, sustainable regional airline connecting secondary and main airports; and
- Attracting, retaining and developing skills in key areas and contributing to the transformational goals of the country.

OVER 1.3 MILLION

PASSENGERS WERE CARRIED OVER THE COURSE OF THE YEAR BY SA EXPRESS AS WE OPERATED **IN EXCESS OF 3 000 FLIGHTS** MONTHLY.

OPERATIONS AND THE ROLE OF THE BOARD

The Board, in accordance with the terms of National Treasury regulations, submits quarterly reports on performance (including the LLTS implementation progress) against the Shareholder's Compact to the Shareholder, and represents SA Express annually in engaging with Parliament. Strategic issues that concern the airline's national development mandate as well as the aviation policy framework, as identified on the LTTS for a successful State-Owned airline and as designated in the Shareholder's Compact as a key strategic initiative, are regularly discussed during Board meetings. It is the Board's responsibility to convey the interests and concerns of the airline in this complicated arena.

PERFORMANCE ACCORDING TO OBJECTIVES

Financial performance

SA Express' mandate to its Shareholder runs deeper than sound financial and operational performance. We are required to build a stronger economy and a more equitable society while protecting our natural environment. However, among our strategic objectives are goals such as capital and financial efficiency and commercial and operational efficacy. Despite difficult economic conditions, we have been able to show a profit. We have successfully implemented a number of initiatives through our Cost Containment and Revenue Enhancement Programme of austerity measures that have shown encouraging results and are currently meeting the majority of our short to medium term goals.

When comparing our financial performance to the Key Performance Indicators (KPIs) as per the Shareholders Compact, the Company has not achieved its objectives of a R60m profit, but has achieved a net profit of R16.95m - a vast improvement on the R69.38

net loss of the 2014/2015 financial year. As the airline continues to employ the SAX 20/20 Vision and Austerity Measures Plan, it will continue to strive to achieve the financial stability and financial performance targets. We are proud to announce that while the Company has not achieved all its financial performance and sustainability indicators, our operational performance KPIs have all been achieved. This means that we have improved our operational efficiency and customer centricity.

COMPLIANCE AND GOVERNANCE

We are equally dedicated to ensuring that Corporate Governance within SA Express remains of the highest quality. Ongoing risk management is a priority for the Company and it is extensively monitored by the Audit and Risk Committee. Corporate Governance and risk management within the airline became even more significant in light of the April 29 2016 temporary suspension of SA Express' Airline Operator's Certificate (AOC) for 42 hours, by the South African Civil Aviation Authority (SA CAA). It is regrettable that discrepancies related to paperwork submitted resulted in our grounding and led to our impeccable 22-year safety record being called in to question.

As we release this year's financial report, the Executive Management team and Board of Directors continue to strengthen the internal control environment and adhere to the highest standards of corporate governance and financial reporting, while ensuring the sustainability of the business.

To this end, SA Express has been granted a guarantee amendment which affords the airline R 121million authorised to be utilised and the repayment period of five years has been extended to seven.

The audit report for the financial year 2015/16 was delayed as a result of the going concern assessment as well as the essential changes to the guarantee.

In line with the transformation goals of the Shareholder, our Broad-Based Black Economic Empowerment (B-BBEE) status is currently at level 5.

OUR PEOPLE

The aviation sector supports an estimated 227 000 jobs in South Africa and SA Express has been a proud partner in South Africa's growing democracy over the past 22 years. We have consistently focused on developing and nurturing people from within our own organisation and have introduced a number of human capital initiatives, among which is our 'Mentorship Programme' where junior staff are given the opportunity to shadow managers in other departments in order to expose them to the different areas of operations.

We aspire to develop a diverse and empowered workforce as well as to encourage the active participation of people living with disabilities, as well as women in the technical environment. These initiatives and programmes continue to be at the forefront of our human capital objectives.

SA Express, as a leader in transformation, exceeded the National Demographics targets and Industry targets in Employment Equity and we are proud to be the most transformed airline in the country. in January 2015, SA Express received a discretionary grant from the Transport Education and Training Authority (TETA) to finance ten Mach II cadets to study towards a B Com (Aviation) degree and ten unemployed learners on Air Transportation and Station Management training. The B Com (Aviation) learners are left with just three modules to complete their first year of study.

At SA Express we appreciate that our people and their dedication to going above and beyond in their day-to-day roles, is central to our success in delivering on our SAX 20/20 Vision.

Training and skills development is a major priority as it enables the Company to provide a quality service to our customers. During the period under review, we spent in excess of 5.1% of payroll in support of our training and skills development initiatives.

APPRECIATION

On behalf of the Board I would like to extend my sincere gratitude to the Management and staff of SA Express. Your professionalism, enthusiasm and commitment to this Company are what makes us great!

To my fellow Board Members, I would like to thank you for your time, guidance and wisdom. Your ongoing support and dedication have helped build a truly remarkable organisation.

To our many partners in the industry, I would be remiss if I did not acknowledge the vital role you have played in our ongoing success and growth.

G Mothema
Chairman

Our leadership continued

CHIEF EXECUTIVE NOTE

The 2015/16 financial year was an especially challenging year for the business. The South African aviation landscape was plagued by increasing cost pressures due to rising competition, lower margins, decreasing passenger numbers, a fluctuating exchange rate and volatile oil prices. Compounding these challenges is the airline's under-capitalised balance sheet, which impacted the financing models available to the airline.

The previous financial year (2014/15), saw SA Express implement the first year of the airline's Austerity Measures Strategy designed to maximise our potential for unearthing value from the business and generating sustainable profits.

The airline has already achieved significant progress since implementing austerity measures, which has seen a substantial improvement in the airline's financial performance for the 2015/16 financial year. The results of these initiatives include:

- Savings on fuel expenditure of 34% year on year.
- As a result of focused route and schedule optimisation, the airline reduced its flight operations associated costs such as those payable to ACSA and ATNS. The total year on year savings amount to 12% when compared to the previous financial year.
- Following the decision taken to insource certain aspects of catering, SA Express has managed to reduce catering and catering related expenditure by 48%.
- Having insourced passenger handling and with the new ground handling agreement, SA Express has managed to achieve a savings of 34% on these costs.
- Through the labour restructuring process undertaken by the airline, which included a labour freeze on non-essential posts and natural attrition, the airline managed to save 7% year on year on total labour costs.

COMPANY PERFORMANCE

Despite difficult local and global economic conditions and industry specific challenges, SA Express managed to generate a profit of R16m. This profit was earned despite numerous challenges such as currency fluctuations, rising fuel prices, competition from new entrants and a decline in passenger demand. SA Express has continued to show a sustainable turnaround, a trend we believe will continue for the foreseeable future. We owe our turnaround over the 2015/16 fiscal year, largely to the strategies and interventions implemented across all business units.

We are pleased with the Company's performance, but acknowledge that the airline's financial position remains a priority and our vigilance remains an essential tool to navigate our way to success.

Additionally, through hard work, dedication and determination, we have sustained our market share, local and regional, this is no small feat considering the current economic landscape.
We are pleased with the company's performance but we acknowledge that the airline's financial position remains a priority and our vigilance remains an essential tool to navigate our way to success.

ROUTE EXPANSION

During the 2015/16 fiscal year, SA Express continued to review new routes, and operations on existing routes were carefully monitored. As part of our mandate to promote frequency of services on lower-density routes, we are presently reviewing the possible introduction of additional city pairs, in both our domestic and regional routes. SA Express is committed to making air travel widely accessible to as many South Africans as possible by offering value for money fares. We believe that flying should be affordable and accessible to more South Africans.

THE AIRLINE INDUSTRY

Notwithstanding the low margins and high capital costs of the South African aviation industry, there has been an increase in new market entrants. The various competitors in the industry currently have bullish expansion plans, and have encroached upon previously dominant and exclusive routes.

We expect even more airlines to follow this trend. The information age has seen a shift in the way customers behave, in that the 'now generation' have access to information at their fingertips. This has resulted in SA Express developing a fully mobile accessible and responsive website. In keeping with our efforts to remain innovative and responsive to our customers' needs, we took note of the IATA study on trends transforming the travel distribution landscape. The study confirms that travel is the largest e-commerce category, led by ticket sales and more importantly, that passengers are more likely to own smartphones and mobile devices than the general population. In order to mitigate the challenges facing the aviation industry, our priorities at SA Express remain to improve on customer experience, control costs and improve business efficiency.

STRATEGIC PRIORITIES

As a SOC, SA Express enters into an annual Shareholder Compact with the Department of Public Enterprises. The Shareholder Compact, together with the SAX 20/20 Strategy, focused on the following strategic priorities:

- Consolidate and fortify our business model, which is predominately that of a regional carrier with a strong focus on business travel;
- Be a sustainable, well-managed and profitable regional airline;
- Provide consistent and efficient customer service;
- Foster performance excellence through the development of people, skills and jobs;
- Become a catalyst for key developmental State objectives, including the development of infrastructure, the facilitation of trade and the growth of the tourism industry; and
- To expand the airline's services throughout Africa.

SA Express has delivered against the majority of these priorities during the period under review and we will continue to pursue cost saving initiatives and ensure that the airline is prudent and sustainable in all its commercial endeavours.

CORPORATE STRATEGY

While celebrating past and current achievements, the Company must also look forward and analyse future opportunities and threats, as well as the continuous changes brought on by technology and socio-economic factors in the future and adapt accordingly. SA Express will continue to implement its SAX 20/20 Vision, the Board-approved strategy. Apart from adding new routes and reprioritising existing ones, we are investing in our main business tool, our aircraft.

The guiding principles for this exercise includes improvements in safety and reliability, deploying a fleet that is cost-effective, efficient and, most importantly as a global citizen, utilising aircraft that are environmentally friendly. This is the start of SA Express' investment for the next 20 years, with emphasis on re-fleeting with aircraft frames that utilize low emission and fuel-efficient engines.

DEVELOPMENTAL OBJECTIVES

As an SOC, SA Express plays a significant role in supporting the New Growth Path and the National Development Plan (NDP) in terms of development. Without a doubt, skills development plays a critical role for South Africa's economic growth and so, in line with the goals set out in the NDP, the Company is focused on skills development to ensure that employees are well equipped with the necessary skills to achieve the organisation's goals.

Our continued focus on employee development and training has seen a great number of employees undergoing training. Some of the courses include: Back to Basics, Finance for Non-financial Managers, Performance Management Masterclass and Aviation Fuel Management. Furthermore, within this financial year, partnerships have been formed with TETA, the Department of Public Enterprises and the Department of Transport in initiatives such as career exhibitions, aviation awareness and an active drive for to encourage South Africans to pursue careers in aviation. It is remarkable that this year, the Mach 1 Cadet Pilot training programme has absorbed ten (10) young people from previously disadvantaged backgrounds, eight (8) of which are female.

CORPORATE SOCIAL INVESTMENT

At SA Express, we recognise that we are but a small part of a greater community, and that our success is contingent on the success of the communities in which we operate. It is of utmost importance that we continue to support our communities with initiatives that change their lives in a positive manner. This year, SA Express partnered with Emila House for Disabled Children in Bloemfontein, as well as SAWIA Youth Camp, through an initiative that promotes the field of aviation among young women from previously disadvantaged backgrounds.

We are committed to improving our country and the lives of our fellow citizens. SA Express also actively encourages employees to participate in volunteer work and to be actively involved in key projects identified by the airline in efforts to improve the circumstances of South Africans at all levels.

CUSTOMER EXPERIENCE

A key differentiator for SA Express is that, as a Company, we put our customers at the heart of what we do and great customer experience is an integral part of our overall strategy and is central to the SA Express culture. To ensure that our customer's voices are heard, we have since introduced various channels of communication including certain of the social media platforms, and a dedicated email address for our customers to speak directly to me so that I am able to evaluate all the opportunities for continuous improvement and address their concerns in a timely manner.

Our leadership continued

CHIEF EXECUTIVE NOTE continued

We have an inherent ability to grow in areas that our competitors currently don't, and therefore we remain on track to fulfill our vision of being a sustainable, world-class regional airline with an extensive footprint in Africa.

At 88% SA Express has one of the highest targets for on-time performance, but we are on track to achieve our goal, as set out in the Shareholder's Compact. The airline will strive to maintain and, where possible, improve on this level of performance to ensure that customers' experiences are positive and to attract new customers.

CORPORATE GOVERNANCE

As SA Express, we aim to be a good corporate citizen and maintain the highest standards of integrity and ethics in dealings with all our stakeholders. We are dedicated to the principles of the Code of Corporate Practices and Conduct set out in the King Report of Governance (King III). The Company endeavours to ensure that it offers the best possible airline service and is regarded as the airline of choice for travellers within its operating environment.

The business is managed and controlled by implementing governance procedures and ensuring that risks are identified and managed effectively. Our proactive Audit and Risk Committee reviews the Risk Register on a regular basis, mapping out and executing strategies to mitigate risk in any and all areas of concern.

LOOKING AHEAD

SA Express continues to pursue its dual mandate and is looking forward to being a catalyst for key developmental objectives of the State. As the domestic market growth has reached a plateau, we should exercise caution regarding the strength of the domestic market, particularly in light of the relatively weak Gross Domestic Product growth forecasts. Although the aviation industry continues to face obstacles, I am confident in our team's ability to further improve our service offering, expanding our market share even further into the local market and the African continent.

APPRECIATION

I wish to express my sincere appreciation to the Executive Management team and their business unit heads, as well as every individual who works at and lives the SA Express values. Thank you for dedicating your time, energy and passion to making our combined vision a reality, for taking the brand promise to heart and ensuring that every day we are in the air, on time, safe and reliable. None of what we have achieved thus far, as an airline, would have been possible without the individual efforts of each and everyone that works here.

The supportive role of the Department of Public Enterprises and all our Government stakeholders, has enabled us to continuously pursue our developmental mandate. The continued success of our airline would not have been as evident without your unremitting support. Likewise I would like to thank our Board of Directors for their hard work, dedication and wisdom.

And in conclusion, to our valued customers, your sustained faith in SA Express and your loyalty are fundamental to our continued growth and we know that, without you, there would be no SA Express, and for that I humbly thank you.

Mr. V Xaba
Chief Executive Offcer

CHIEF FINANCIAL OFFICER'S STATEMENT

The objective of this section is to provide an insight into the financial performance for the year ended 31 March 2016. This report should be read in conjunction with the attached Annual Financial Statements.

FINANCIAL PERFORMANCE

Revenue

Despite the continuing challenging global economic conditions in the airline industry, South African Express Airways managed to minimize the topline negative impact to 7,8% (R203m) in revenue compared to 2015. This reduction was attributable to the decrease in average yield achieved. Average yield decreased by 13% year on year, whilst passenger numbers declined by 7% year on year. The average load factor for the year was 64% compared to last year's load factor of 62%. This was due primarily to the impact of the continued weak economic growth as well as, the impact of additional competition in an already overtraded domestic market. The outlook for the following year is expected to continue, with revised forecasts projecting average fares increasing by 3%. The impact of the weaker ZAR/USD exchange rate delivered positive impacts on foreign based sales.

Operating costs

The airline implemented a range of measures to return the airline to a viable and sustainable business during the year. These measures include the review of several costly maintenance agreements with offshore service providers, reviewing and optimising the operating schedule and exiting loss-making routes. The performance of the airline improved significantly from October 2014, following the implementation of these measures. Fuel costs have decreased based on the decline in oil prices, but these were largely offset by the weakening ZAR/USD exchange rate. Fuel volumes due to optimised flying saw fuel costs decrease as a result. SA Express, despite the age of its fleet, manages it fuel burn to below industry norms for comparative aircraft types and ranges flown. The airline has successfully appointed new ground handlers at significantly lower rates, and has commenced self handling at ORTIA, with improved service levels as well as lower costs.

Operating profit

Operating profit for 2016 was R269,55m compared to R175,84m in 2015 which represents a change of 148%.

Finance costs

The net finance costs increased to R40,1m compared to R30,1m in 2015 as a result of higher average borrowings compared to the prior year as well as the increase in rates.

Financial position

The statement of financial position remained weak as the company ended the year with a cash and cash equivalents of R57,1m when compared with a positive balance R23,9m in 2015, due to the ongoing settlement of outstanding creditors.

The accounting treatment for maintenance reserves is consistent with last year, and the company has obtained an updated independent technical opinion on the methodology used. This has been a point of disagreement with the auditors, and led to a qualification of the results in 2015.
Management is accounting for the treatment in line with the requirements of the International Accounting Standards, and stresses that the technical opinion received confirms this position. The autitors have accepted the new opinion obtained but a dispute still exists on the accuracy and classification of the capitalised maintenence reserves.

The qualication included in last year's Annual Financial Statements was limited to the carrying value of the opening balances at 2015.

The airline is still in a VDP process with the South African Revenue Services relating to

overpayments of tax in prior years. The asset has been derecognized in 2014, and once the process has been finalised, could yield a refund of R33,6m, which will be accounted for in the period in which finality is reached.

The impact of the weaker ZAR/USD exchange rate impacted negatively on USD based costs, including network cost and SAP transaction costs. Outstanding trade creditors have decreased by R61.2m, but there is substantial pressure on the company to address this issue with key suppliers.

The investment in inventory has increased by R43.7m, and trade debtors and other trade receivables has grown by R83.5m.

The investment in inventory has increased by R43.7m, and trade debtors and other trade receivables has grown by R83.5m.

The balance sheet indicates that the company is in need of urgent recapitalisation, by way of permanent equity funding, as the balance sheet cannot bear more debt in order to refleet. Short or long term debt funding will further hamper the profitability of the company.
The company has been granted an extension of the working capital and equity covenants guarantees, as well as additional working capital guarantees to ensure the airline meets the requirements of a going concern, as well as addressing its immediate cash flow needs. These guarantees will allow SAX to borrow funds in the open market, and have an amortization profile of seven years. During this time the airline, based on measures introduced, will return to profitability and become a net cash contributor.
The airline has successfully renewed the long term loan with Nedbank, amortising over 4 years and has obtained approvals from RMB for access to funding of R375m, amortising over four years.

Subsequent events

During the negotiation of loan terms with lenders, a portion of the guarantees issued in 2015 were deemed to be for insolvency purposes only, and not liquidity. The reinstatement of these guarantees has been negotiated, and the airline will be in a position to utilise these for loans to raise funding to satisfy working capital requirements. The airline is in negotiation with funders to adjust the loan tenure to match the guarantees issued, being seven years, from four years, which will assist with liquidity and stabilization of the airline.

The airline was grounded for 40 hours on the 1st of May 2016, due to documentation issues relating to reportable incidents. This had a profound effect on the airline, as the market perception was adversely affected. In addition the spares removal and replacement procedures were redesigned which led to delays in returning aircraft to service. This, together with major scheduled maintenance has severely hampered operations and profitability in the 2017 year.
The airline has also parted ways with the CEO, effective March 2017 after 13 years of service in the company.

Mr. Ntshanga, whose contract was due to expire in August 2017, left the employ of the airline after agreeing a separation agreement in March 2017. He has been replaced Mr. V Xaba, formerly Deputy CEO of Denel Aerostructures.

M. Shelley
Chief Financial Officer

Sustainability Report

Sustainability report

SA Express SOC Ltd is a State-Owned Company (SOC) which holds itself accountable not only to the South African Government as the sole Shareholder, but also to society at large for the long term sustainable value it creates for the environment, economy and society through its day-to-day operating activities.
In consultation with the Shareholder's Representative, the Department of Public Enterprise (DPE), SA Express adopted a sustainability reporting framework which has been incorporated into the overall business strategy.
SA Express' approach on environmental sustainability framework is categorically based on these three philosophies:

- Support a precautionary approach to environmental challenges;
- Undertake initiatives to promote greater environmental responsibility; and
- Encourage the development and diffusion of environmentally friendly technologies.

SUSTAINABILITY PERFORMANCE

The Sustainability Report illustrates a year-on-year comparison of applicable SA Express indicators. The movement column depicts either an increase or decrease in performance.

Sustainability Report 2015/16

The Sustainability Report illustrates a year-on-year comparison of performance.

Performance dimension

	2015/16	2014/15
Financial and Economic performance		
Revenue (R billion)	**2.39**	2.59
Operating profit margin (%)	**11**	7
Year end net cash (R million)	**(57.3)**	23.9
Value added to employees (Rands)	**0.732**	0.530
Value added to providers of finance (Rands)	**28.5**	22.1
Cargo as a % of turnover	**0.59**	0.61
Aircraft utilisation (average hours per day)	**7.57**	7.35
OTP (within 15 min of scheduled departure (%)	**87.46**	88
Passengers transported	**1.310**	1.409
Passenger revenue in (Rands)	**2.281**	2.498
Average revenue per passenger (Rands)	**1 741**	1 772
Passenger load factors (%)	**64**	62
Social Safety		
Fatalities	**0**	0
Number of serious incidents	**4**	16
Health		
Employees medically surveyed	**236**	463
Noise induced hearing loss	**0**	0
Employees		
Total employees	**1036**	1127
Expenditure on employee training (Rands)	**27.6**	29.4
Black employees attending Leadership Development Programme (%)	**72**	74
Female employees attending Leadership Development Programme (%)	**61**	52
Transformation and **B-BBEE**		
B-BBEE rating	**Level 5**	Level 5
Black employees (%)	**59**	68
Female employees (%)	**38**	38
Black employees in Management (%)	**64**	50
Female employees in Management (%)	**34**	26
Community		
Corporate Social Responsibility expenditure (Rands)	**488 066**	1.50
Environment		
Carbon footprint (Scope 1 and 2) Tons CO_2e	**181.02**	183.96
Carbon efficiency (emissions in grams/passenger kilometre)	**172.05**	165.5
ISO 9001 implementation	**Implemented**	in progress

KEY ENVIRONMENT SUSTAINABILITY

Key environment sustainability challenges

Promoting sustainable growth is one of the strategic focus areas of our Shareholder's Compact as is long term value creation. The challenges faced by SA Express remain unchanged, in comparison to previous prevailing trends and this has permeated in the business' strategies. The Company applies a consistent and concerted effort in improving its reaction to these challenges. The sustainability challenges are as follows:

Nature of business

An airline operation by its nature dictates that there will be greenhouse gas emissions due to the amount of fuel burnt per flight undertaken. This element represents 99% of SA Express' emissions and continues to take centre-stage. Moreover, the significant factor contributing to the greenhouse gas emissions, being the airline's predominant challenge, is that a large number of the Company's aircraft has aged. It is the airline's belief that modern aircraft will drive emissions down and would be more environmental friendly. A small but positive change has been reported, in the period under review, as compared to the 2014/15 financial year. Our carbon footprint has decreased from 183.96 to 181.02 (Scope 1 and 2) tons of carbon dioxide and our carbon efficiency by 1.1% (emissions in grams/passenger kilometre).

Economic climate

Due to the volatility of the Rand and USD/ZAR exchange rate, the benefit of decreased fuel prices are not realised and this cost is transferred to passengers. SA Express' emissions per gram, per passenger kilometre travelled are negatively affected by low load factors.

Climate change

Due to the Global Warming Phenomena, the average temperatures are considerably warmer which negatively impacts aircraft performance. This results in higher fuel consumption that increases carbon emissions. This factor continues to serve as a motivator for SA Express to improve its systems and modernise its fleet in order to minimise the effects suffered as a result of global warming.

Carbon tax

Although planned for implementation in 2015, the Carbon Tax law has been postponed. This, however, remains a concern for the organisation when considering the financial implications associated with the additional tax, as this will negatively impact on passenger numbers, as a result in negative knock-on effects.

KEY DEVELOPMENTS IN 2015/16

Climate change framework

Climate change framework discussions were held on 17 September 2015, and from these engagements SA Express has improved its outlook on environmental aspects. Considering the above challenges, and that the Company required heavy capital investment to improve emissions, the plan has since been reviewed. SA Express still aspires to a target of 34% emissions reduction by 2020. However, with further analysis, this target remains flexible. It should be noted that SA Express has thus far managed to reduce GHG emissions (greenhouse gas) by 15.5%. Therefore, the potential of reaching the desired target is high.

Electronic flight bag (EFB)

SA Express received its EFB approval on 27 August 2013 from the SACAA, and the Company has since equipped flight crews with an in-house developed EFB. In 2014, further engagements with the SACAA and additional trials confirmed the use of this system. In 2015 the Company enjoyed the full benefit of the system and is now utilising less paper in the aircraft cockpits. This project provides the necessary infrastructure aboard aircraft and on the crews' new tablets to digitalise all processes and with time, to introduce the fully paperless cockpit. SA Express is on track and pleased with the outcome of this seemingly easy innovative solution, which is contributing to a more environmentally friendly SA Express.

Sustainability performance versus Shareholder's Compact

This is a year-on-year comparison of SA Express' performance on selected indicators. The movement column depicts either an increase or decrease in performance.

	Performance		Movement
Performance dimension	2015/16	2014/15	
Social safety			
Fatalities	**0**	0	Constant
Number of serious incidents/accidents	**4**	9	Down
Health			
Employees medical costs (Rands)	**236 253**	420 117	Down
Noise induced hearing loss	**0**	0	Constant
Environmental			
Carbon footprint (Scope 1 and 2) tonnes CO_2e	**183 096**	183 026	Down (1.1%)
Carbon efficiency (emissions in grams/passenger kilometre)	**172.05**	165.5	Down

The airline continues to seek the best structural alignment in order to ensure that the optimal match between people, jobs and skills required. This strategy, together with a moratorium on all recruitment, ensured that structures are aligned, talent and skills are deployed efficiently and matched to facilitate optimisation. The Company's focus is to consolidate it's employee value proposition, ultimately ensuring robust employee engagement practices, and continued to concentrate on the following:

- Seeking to be the aviation employer of choice, the Company continues to grow the 'Best Company to Work For' brand through continued investment in initiatives that contribute towards the Company ensuring that it remains the best Company to work for;
- To recruit, train and appoint suitably qualified persons from the designated groups;
- To increase representation among and diversity of our workforce;
- To develop and retain for the airline; and
- To create a talent pipeline and succession plan for critical functional areas.

Focus on human capital

The developmental imperative in South Africa is to create and sustain jobs. The World Economic Forum ranks unemployment as the fifth highest global risk. South Africa's unemployment rate is currently at 25% - the eighth highest in the world according to the International Labour Organisation. As articulated in the NDP, a coordinated effort by Government, labour and private sector is required on a multitude of levels to address unemployment.

Employment

The SAX 20/20 Vision strategy presents both significant opportunities and challenges for job creation. Although the Company continues to focus on containing labour costs as part of improving operations, SA Express remains at the forefront of transforming the aviation industry through critical skills development and training.

The median age of the SA Express employee is 26 years and 15% of employees are between the ages of 26 and 30.

SA Express' most significant issues with respect to employment are:

- Creating a talent pipeline for black pilots and technicians for the aviation industry;
- Striking a good fit between the skill set and the right job for the right person;
- Keeping transformation on the agenda; and
- Ensuring compliance with all relevant legislation pertinent to employment.

Workforce profile

The staff complements as at 31 March 2016 was 1036. This is marked year-on-year decline over a three-year period, from 1188 to 1036. SA Express has implemented a number of strategies in order to contain labour costs as part of improving operations. These include a moratorium on recruitment and leveraging on natural attrition to reduce the staff complement. Tables and figures below provide the demographic details:

Total number of employees by department

	Female					Male					
Group	African	Coloured	Indian	White	Female total	African	Coloured	Indian	White	Male total	Grand total
Top Management	2				**2**	2			2	**4**	**6**
Senior Management	13			2	**15**	6			1	**7**	**22**
Middle Management	12	1	1	5	**19**	16	3		12	**31**	**50**
Pilots	10	1	1	15	**27**	18	1	7	136	**162**	**189**
Cabin	88	27	8	17	**140**	10	5		5	**20**	**160**
Technical	15		2	3	**20**	125	17	6	61	**209**	**229**
Staff	122	15	7	12	**156**	144	19	1	19	**183**	**339**
Apprentice	16				**16**	7	1	3		**11**	**27**
Cadet	3		1	1	**5**	6	2	1		**9**	**14**
Grand total	281	44	20	55	**400**	334	48	18	236	**636**	**1 036**

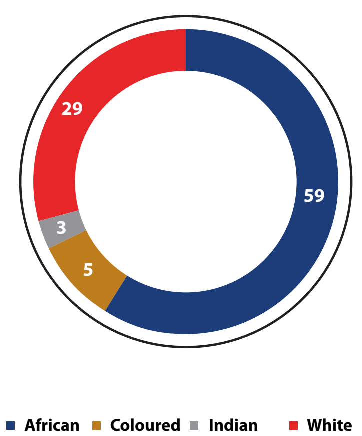
Total number of employees (including those with disabilities) in each occupation level

	Male				Female				Foreign nationals		Total
Occupational level	A	C	I	W	A	C	I	W	Male	Female	
Top Management	3	0	0	2	2	0	0	0	0	0	**7**
Senior manager	6	0	1	106	14	0	0	0	6	0	**133**
Professional	23	4	1	14	12	2	1	5	0	0	**62**
Skilled	136	19	11	114	71	12	9	21	0	0	**393**
Semi-skilled	89	14	1	13	135	29	9	26	0	0	**360**
Unskilled	40	4	0	3	8	0	0	0	0	0	**55**
Total permanent	297	41	14	252	242	43	19	58	0	0	**966**
Temporary employees	40	1	3	1	22	0	2	1	0	0	**70**
Grand total	337	42	17	253	264	43	21	59	0	0	**1 036**

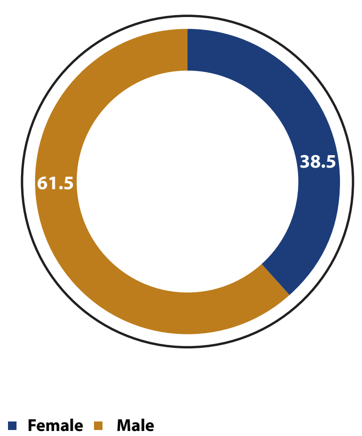
Total number of employees with disabilities only in each occupation levels

	Male				Female				Foreign nationals		Total
Occupational level	A	C	I	W	A	C	I	W	Male	Female	
Top Management	0	0	0	0	0	0	0	0	0	0	**0**
Senior manager	0	0	0	0	0	0	0	0	0	0	**1**
Professional	0	0	0	0	0	0	0	0	0	0	**0**
Skilled: technical and academically											
Qualified workers	1	0	0	2	0	0	0	0	0	0	**3**
Semi-skilled	3	0	0	0	2	0	0	0	0	0	**5**
Unskilled	0	0	0	0	0	0	0	0	0	0	**0**
Total employees	4	0	0	2	3	0	0	0	0	0	**9**

SA Express race split – March 2016 (%)



SA Express gender split – March 2016 (%)



We pride ourselves on being the most transformed airline in the country, having surpassed National Demographics targets and Industry targets in Employment Equity.

Typical of our industry, SA Express remains a male dominated environment; however we have endeavoured to maintain a balance between gender and racial demographics. This could only be achieved through arduous implementation of our Transformation Strategy and the Employment Equity Plan. Strategic Development Programmes that form our human resources pipeline, like the Cadet Pilot Scheme and the Aeronautical Technicians (Apprenticeship) Training Programme for Artisans, have remained instrumental in facilitating transformation in the pilots and artisan environmnets respectively

We have increased the number of females employed at SA Express, from 38% in the previous financial year to 38.5% in the period under review. The Company aims to meet the National Target. Our Cadet and Technical Apprentice Programmes have increased their female intake, during this reporting period, to 100% and 60% respectively. We successfully surpassed the national demographics with respect to the indian population, with SA Express achieving 3% in comparison to the National Statistics' 2.5%. The National Targets for the coloured population are at 8.9% while SA Express has achieved 9%. Due to the legacy of inequality of the industry, 71% of the staff complement are black (African, Indian and Coloured) which is below the National Target. SA Express falls short of the National Target, of 2% in the recruitment of people living with disabilities.

We have exceeded the industry targets in two critical pillars of B-BBEE, namely Employment Equity and Management Control. Currently 85.7% and 87.1% of our top and Senior Management, are black, surpassing the industry target. The Company's middle Management has successfully surpassed industry targets for black people and black females. Strides have been made in transforming the core areas of the business, namely: technicians and pilots. Within the technical environment, 60.4% are black. Pilots represent 18.5% of our staff complement, 10.5% of whom are black and 14.2% female, surpassing industry targets. Furthermore, our talent pool comprises 1.3% cadets in training at the Flight School. SA Express and TETA partnered to ensure that strategic initiatives, such as the Cadet Programme, remain vital in enabling transformation of pilots in the industry. SA Express has managed to provide a steady supply of pilots to airlines like Mango and SAA, through a resource strategy that emanates from the Cadet Pilot Training Programme, right through to the main pilot resource. During this reporting period, 20 black pilots were appointed into the Mango and SAA flight deck.

70%

OF EMPLOYEES REPRESENTED BY TRADE UNIONS OR COLLECTIVE BARGAINING.

Talent management

The key differentiator of talent at SA Express is that the Company has aligned its human capital strategy to the developmental objectives and goals of the National Development Plan. While learnership and skills programmes, translating into Aeronautical Technicians and Cadet Pilot Training Programmes, provide a transformation driven succession plan for the core skills of the business, the Company has drafted a succession plan for all Management and critical positions.

The airline invested in leadership competency based assessments that provided an objective approach to identifying successors for positions. This provides certainty and business continuity in cases where resources are required to fill these positions. Investing in suitably qualified people in this manner, is sure to provide a return on investment. The airline believes in developing its own people as far as possible, as evidenced in the fact that 85% of SA Express' Executive Management team was developed and placed through the implementation of the succession plan. There are justifiable instances where talent is sourced externally, however, the strategy of the Company is to grow and support talent within, as far as possible.

The airline successfully unveiled a Mentorship Programme aimed at exposing junior staff members to various aspects of the operation, with the guidance of a mentor. This is a skills transfer initiative that reaffirms the Company's commitment to its investment in the development of talent and leadership across the organisation, through the continuous education, skill upliftment, and requisite insight.

Recruitment and retention of skilled staff

At SA Express we believe in finding the 'right fit for the right job' ensuring that the Company is attracting and retaining the correct calibre of employee. It is through employing rigorous employment standards that the Company is able to deliver on its goal of becoming the employer of choice in the aviation industry. SA Express acknowledges that the retention of critical skills is imperative in order to maximise profitability. The lack of new talent entering the aviation skills pool results in the airline industry cannibalising itself in regard to skills. The Company's differentiator is the strong employee value proposition provided to our employees.

The shortage of aviation talent in the industry contributed to 14% of our staff exiting the airline during this reporting period, of which 23% were pilots. A similarly large number of our skilled technicians were recruited by Maintenance Repair Organisations (MROs) with similar aircraft. Due to globalisation, many of our pilots and aeronautical technicians were recruited overseas. To address the high staff turnover of pilots and technicians, the Cadet Pilot Programme and the Aeronautical Technicians Training Programmes are essential to the continued replenishment of skilled personnel for the airline, thus adapting a just in time approach to talent sourcing. SA Express' recruitment and selection practices are carried out in accordance with applicable labour legislation and are based on the principles of fairness, transparency and consistency.

Staff welfare

As it becomes increasingly difficult to maintain a work-life balance, SA Express employees are afforded access to the Independent Counseling Advisory Services (ICAS). ICAS aims to inform, empower and provide employees with the skills to take ownership of their wellbeing. Additionally, ICAS provides a 24-hour a day, 365 days a year personal support service for employees and their families to call for help during times of stress.

During the period under review, 54 employees made use of the face-to-face counselling services and a total of 156 counselling sessions took place, while 68 staff members made contact telephonically. Additionally, 16 SA Express employees utilised the legal advice services, 14 enquired about family care and 10 obtained financial advice and information.

A number of wellness strategies, focusing on awareness and empowering employees, such as AIDS, TB and cancer awareness were implemented. In addition to the implementation of various wellness strategies across the organisation wellness days were held for all employees enabling them to get health checks.

Employee medical costs have decreased from R420 117 to R236 250, indicating that interventions and tools given to employees have been successful. The number of serious incidents/accidents has shown an impressive decrease fom nine in the 2014/15 fiscal year to four in 2015/16, signifying that our Occupational Health and Safety initiatives were effectual and the number of fatalities remains unchanged at zero.

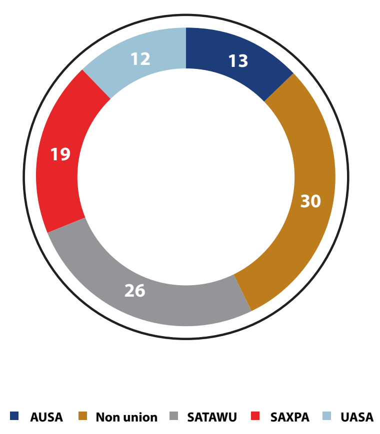
Labour relations

SA Express continues to strive to create sound labour relations and as a result regularly reviews its employment conditions and policies. The Company also regards it as imperative that employees are well versed on the labour policies adopted by the organisation and are aware of their benefits and rights. Such information is provided to employees during induction sessions and made available via the Company's intranet.

The percentage of employees represented by trade unions or collective bargaining is 70%.

The graph below depicts the union membership in the Company. The percentage split indicates that 29% of the emplyees are still not unionised with the exception of Management.

Union membership (%)



The flight, cabin and cockpit crews' unions, enjoy both organisational and collective bargaining rights as they have majority representation. It is notable that there has been a marked increase in the number of SATAWU members from 45% in 2014 to 73% in the period under review for Cabin Crew. Pilots are represented by SAXPA.

SA Express was not subject to any industrial action in the period under review. This period showcased the stable relationship the airline has with all its unions. Regular consultations between the Company and organised labour were instrumental in identifying initiatives for labour cost savings ensuring no retrenchments as aligned to the Shareholder's job and retention mandate. The implementation of the strategies to reduce labour costs yielded positive results, enabling the Company to reduce labour costs by 42% during the period.

Skills development

SA Express is committed to providing a quality air service, which means that skills development is a priority for the Company. During the year under review, the Company invested R27 633 893 (compared to R33 522 209 in 2014/15), or approximately 5.1% of payroll in support of its commitment to training and skills development.

Transformation

Transformation remains a concern for the South African aviation industry. In line with the Shareholder's B-BBEE and Employment Equity policies, SA Express continues to appoint, upskill, and retain suitably qualified persons from historically disadvantaged people. This is evident in our B-BBEE rating Level 5 and an increase of 14% in the number of black employees in management and 8% increase of female emplyees in management.

The Company is at the forefront of transforming aviation through critical skills development and training, with the Cadet Pilot Programme and Aeronautical Technicians Programme. Through the successful implementation of these programmes, the airline has managed to lead transformation in the industry by training in excess of 250 black pilots and over 300 black aeronautical technicians in the past ten years.

It is also worth noting that SA Express employs nine people with disabilities in various roles throughout the Company. The Industry target is 2% and SA Express has achieved 1.3% in the period under review, with the Company aspiring to employ more black employees, female employees and people with disabilities in key and strategic roles.

B-BBEE

As a SOC and corporate citizen, SA Express is mandated to contribute to the Shareholder's B-BBEE goals and objectives, the purpose of which is to redress the legacy of inequality. This is essentially a growth strategy, targeting South Africa's weakest point, inequality, and to ensure that our country's economy can meet the needs of all its economic citizens – the South African public and their enterprises – in a sustainable manner. According to the Department of Trade and Industry (DTI), societies characterised by entrenched gender inequality or racial or ethnically defined wealth disparities are not likely to be socially and politically stable, particularly as economic growth can easily exacerbate these inequalities. The Company strives to balance driving a transformation mandate while enabling the performance needs of the business. Skills development, preferential procurement and enterprise development initiatives, continue to be key focus areas for the airline's B-BBEE objectives.

B-BBEE is an important instrument aimed at broadening the economic base of the country, and through this, at stimulating further economic growth and creating employment. SA Express subscribes to the B-BBEE Codes of Good Practice, thereby encouraging the meaningful economic participation of historically disadvantaged people, and in particular black people, women, youth, people with disabilities and rural communities.

SA Express has progressed signicantly in transforming its compliance towards B-BBEE supplier base, with the actual spend on B-BBEE for 2015/16 amounting to R699 806 210. In terms of the DTI Codes of Good Practice, SA Express' B-BBEE spend in 2015/16 is as follows:

- Black-Owned enterprise - R132 732 142
- Black Woman-Owned - R49 026 603
- Qualifying small enterprises and exempted micro-enterprises - R149 129 546

SA Express has a B-BBEE rating of level 5 for 2015/16.

Preferential procurement

Preferential procurement is a vital component of the B-BBEE Act of 2003 South Africa's BEE strategy document reiterates that no economy can grow by excluding any of its people, and an economy that is not growing cannot integrate all its citizens in a meaning manner. SA Express is committed to the concept of preferential procurement and in order for the Company to achieve its developmental objectives through transformational procurement; it has identied the following solutions:

- Actively promote the increase on procurement spend on B-BBEE enterprises and SMMEs;
- Increase spend on black-owned, black women-owned and qualifying small enterprise or exempted microenterprises based on applicable B-BBEE Procurement Recognition levels;
- The allocation of minimum weightings for B-BBEE enterprises which will be updated regularly;
- Developing a database for B-BBEE enterprises which will be updated regularly;
- Demanding B-BBEE accreditation of suppliers; and
- Setting of B-BBEE development plans with suppliers where appropriate.

The above mentioned interventions and tools are essential to our transformational goals and as the Company relies on suppliers to deliver products and services in line with our high standards of quality and safety, it enters into service level agreements so as to ensure that these standards are met and maintained, in accordance with local and international laws. We are steadfast in the procurement of good quality products and services, reliability and stability and cost effectiveness. While we attempt to source products and services from South African suppliers, there are instances where aviation equipment and specialised products are sourced from foreign companies.

Enterprise development

The organisation has been active in ensuring that non-monetary support is extended to qualifying entities, aligned to the Aviation Sub-Sector codes, which encourages sector specific support, and this continues to be a focus area for the business. In future, an enterprise development road map will be established in order to address these shortcomings as well as allocating a budget for projects aligned to the aviation sector.

The following factors are primary to the ED strategy initiatives:

- Impact on transformation;
- Impact on economic growth; and
- Impact on skills transfer.

Socio-economic development

As part of our contribution to improving the lives of South African communities, the airline has identied strategic socioeconomic development initiatives that promote social inclusion and integration through education and youth empowerment initiatives. The focus is on women, the youth and people living with disabilities. A notable initiative was the donation of 16 wheelchairs to children in Richards Bay.

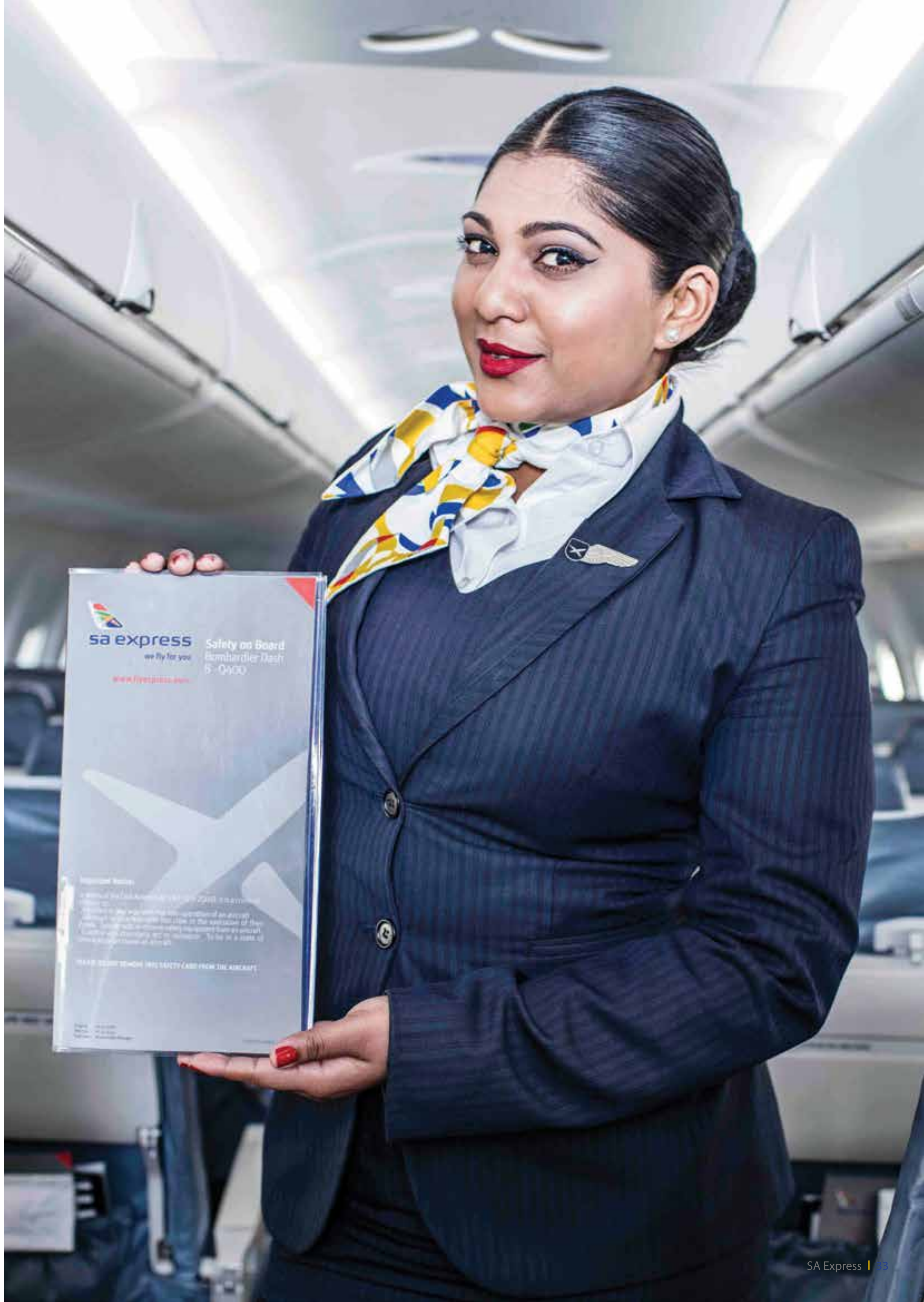
As a corporate citizen and through the B-BBEE Pillars, SA Express aims to:

- Contribute towards social upliftment in South Africa;
- Enhance progress to comply with enterprise development requirements of the B-BBEE Codes of Good Practice and government's overall empowerment drive;
- Aligning B-BBEE initiatives with those of the Shareholder Compact's Social and Economic Impact targets; and
- Drive superior compliance to demonstrate SA Express' commitment to B-BBEE.

Corporate social investment

Community upliftment, social development and cohesion are strategic imperatives that inform the airline's mission of improving the communities in the areas in which the airline operates. Fulfilling social responsibilities is an integral component in the manner that SA Express conducts its business.

Furthermore, it is the Company's role to raise the awareness of civil and commercial aviation as a career prospect among young people. SA Express' partnership with schools and communities fosters education, youth development and empowers women. The involvement of SA Express staff in CSI is a critical element in enabling the business, employees and communities to work together towards joint socio-economic interests. The aim is to create a deeper understanding of the numerous career opportunities in the aviation industry.



Internal Control and Risk

INTERNAL CONTROL AND RISK

Internal controls and risk

Taking calculated risks is an integral part of the development of any company. SA Express' Board of Directors is ultimately responsible for assessing the risk profile of the Company within the context of Company strategy and external factors such as market conditions, competitor positioning and technological developments, while ensuring that adequate processes are in place to manage these risks. SA Express Management is tasked with successfully exploiting business opportunities, while limiting possible business losses. In order to achieve this, SA Express operates a comprehensive integrated risk management system.

The Board is always aware of the dual mandate of the Company, and directs SA Express' risk exploitation within those parameters. The aim of this system is to enable the Company to identify risks in a proactive and dynamic way and to manage or mitigate these identified risks to an acceptable level, where possible. Internal control mechanisms exist throughout SA Express, providing Management with reasonable assurance of the Company's ability to achieve its objectives. These controls cover the effectiveness and efficiency of operations; the reliability of financial processes and reporting; the compliance with laws and regulations; and provide for the mitigation of errors and fraud risks.

Risk management process

The first step in the risk management process is to enable and channel the identification of the various material risks. SA Express has established a business risk assessment process which is to be undertaken by each business unit and corporate department. The process requires that all departments within the business unit carry out a risk scan in order to identify all significant risks (financial and non- financial) that might affect the ability of the business unit to meet its objectives as set out in the strategic plans. The process then requires that each of these risks be described in detail. Besides the assessment of potential impact and likelihood, the risk register also contains information on the status of any Management action or mitigation plan and the ownership thereof.

These risk registers are then fed back to the member of the Executive Committee responsible for that particular business area. A consolidated review takes place at the level of the Executive Committee, the outcome of which is presented to the Audit and Risk Committee (ARC) and to the Board of Directors. The ARC, on behalf of the Board of Directors, carries out an annual review of the Company's internal control and risk management systems and looks into specific aspects of internal control and risk management on an on-going basis.

Each business unit is responsible for the mitigation of its own risks. The Executive Committee intervenes in cases where managing a certain risk is beyond the capabilities of a particular business unit. The Executive Committee and the Chief Executive Officer are also responsible, in a broader context, for identifying and dealing with those risks that affect the organisation such as strategic positioning, funding and macroeconomic risks. A specific monitoring role is assumed by the SA Express Internal Audit Department in order to provide oversight for the risk management process, and this has led to improvements in how risk is managed within the Company.

Internal control system

SA Express adopted the Committee of Sponsoring Organisations of the Treadway Commission (COSO) Framework for its Enterprise Risk Management and has adapted its various controls constituent within its organisation and processes. 'The SA Express Way' and the 'Code of Conduct' are the cornerstones of the internal control environment, and together with the concept of management by objectives and through the setting of clear roles and responsibilities they establish the operating framework for the Company.

Specific internal control mechanisms have been developed by the various business units at their level of operations, while shared operational functions and the Legal, Risk and Compliance business unit provides guidance and set's controls for cross-organisational activities. These give rise to specific policies, procedures and charters covering all areas. SA Express has increased capacity in the Risk Management Department to monitor internal control requirements, with more emphasis on the mitigation of financial risks and to enhance the reliability of financial reporting.

The SA Express framework requires that all business units comply with a uniform set of internal controls. Within the internal control framework, specific attention is paid to the segregation of duties and the definition of clear roles and responsibilities. In addition, the Internal Audit Department reviews the compliance assessments, during its missions.

Risk categorisation

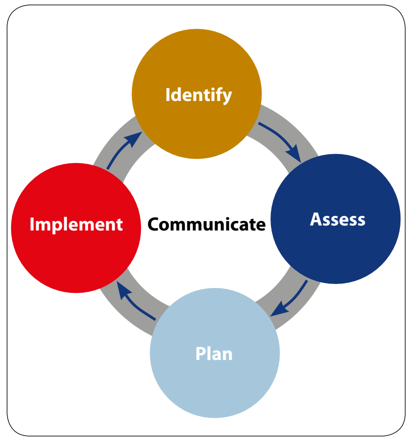
SA Express faces risks that in broad terms can be categorised as follows:

- Strategic: including risks related to macro-economic and financial conditions, technological changes, corporate reputation, political and legislative environment;
- Operational: including risks related to changing passenger numbers, production (safe operation), labour relations, human resources, IT infrastructure, occupational health and safety, emission control, impact of current or past activities on the environment, asset and data security and disaster recovery; and
- Financial: including risks related to treasury, tax, forecasting and budgeting, accuracy and timeliness of reporting, compliance with accounting standards, fuel price and currency fluctuation.

Most companies would normally expect to face a combination of the risks listed above. It is not the intention to provide exhaustive details on each risk posed to the Company in this report. However, the most noteworthy strategic and operational risks, either in their relevance to SA Express and its strategic goals or in the Company's way of dealing with them, have been highlighted below.

ERM process – in brief

SA Express utilises the standard identification-assessing-planning-implementing-communicating stepped process of managing risk. These have been presented in graphic view and briefly defined:



Risk profile

SA Express' approach for managing risk is underpinned by the Company's understanding of current risk exposures and how risks are changing over time. The following illustrates the nature of some of the Company's principal risks, although it does not represent an exhaustive list of the risks faced by the business.

Risk	Possible root causes	Controls	Intensity
Cash flow constraints	Inability to raise cash due to weak balance sheet Business inadequately capitalised Not being able to honour critical payments to suppliers Lack of capitalisation escalating costs exceeding revenue generated	Austerity measures implemented and closely monitored. Shareholder Guarantee – the Company has been granted a guarantee by the Shareholder. Stakeholder management – improved management relationship with Banks to keep them informed of progress and performance. Continued weekly, monthly, quarterly cash forecast in line with financial planning. Management accounts and variance analysis reported and monitored monthly. Have negotiated with some of the suppliers for relaxed payment terms. Payments to suppliers are prioritised on a monthly basis at EXCO level. Cash management make use of the dashboard to create awareness of the Company cash position.	
Increased number of delays and flight cancellations	Ageing fleet Cash constraints	Daily focus (delay) meetings to monitor reasons for delays and or cancellations. Introduced shift work at heavy maintenance in order to reduce the down time of aircraft at 'C Check'. Entered into a number of agreements for the supply of aircraft spares within three days from placement of order. Payments to suppliers are prioritised on a monthly basis to address operational critical suppliers in order to minimise the disruption to the operation.	
Foreign currency volatility negatively impacting cost of operations	Free market movements Changes to international commodity prices affect SAX mainly on the following areas, namely; Fuel, aircraft leases and aircraft	Approved Treasury Policy by the board is being implemented to reduce the impact of currency fluctuations. Foreign currency and hedging impact continuously monitored and reported at Board level.	
Overreliance on partner airline systems and services	Most systems outsourced	There is a commercial and associated agreement in place with SAA and these are continually reviewed. Monthly reconciliations. Monthly monitoring meetings between SA Express, SAA and Mango. SAX have implemented self handling where at most airports where SAA used to handle us.	
Loss of staff that possess key skills in key areas	Better opportunities Reduction of salary bill has had positive impact to the business but negative impact on certain individuals	There are different types of programmes in place i.e. skills development programmes in critical areas e.g. cadet, apprenticeship, learnerships and graduates programmes. Programme to retain top performers and key skills. Improvement of recruitment process to attract talent and high potential individuals. The Graduate Development Policy and Procedures and the Talent Management Policy and Procedures have been reviewed and have been approved by Management.	

High	
Medium	

SA Express ERM Goals

In order to improve and ensure that the entity's risks are properly managed, the Company has identified the following objectives, to be implemented in the short and medium-term:

Short-term goals

Short-term goal	Progress
Update governance documents	In progress.
Source/procure a risk management software	Even though this is not finalised, ERM processes have been revised and improved. Quality and Safety were prioritised while the Company uses a manual system in the interim.
Ensure that risks are reviewed periodically with the appropriate corporate governance functions	Goal reached during the year.
Training and awareness	Goal reached during the year, especially in regards to awareness, and we will continue to implement.

Medium-terms

Medium-term goal	Progress
Conduct a Business Impact Analysis and update the Business Continuity Programme accordingly	The Business Continuity Plan has been updated and the Company was presented with an opportunity to test it. Further development will be undertaken, with meticulous attention paid to impact analysis.
Develop a combined Assurance Reporting Framework	Work in progress – initial draft reviewed by the ARC, and implementation envisaged for the new financial year.
Develop and implement Risk Management Maturity Measurement Matrix	Work in progress.

Fraud Prevention Plan

in compliance with Section 29.1.1(e) of the Treasury Regulations prescribed under the Public Finance Management Act (Act 1 of 1999), SA Express has a Fraud-prevention Plan that effectively manages the fraud risk to which the company is exposed.

The Fraud Prevention Plan provides for the process in terms of which SA Express will mitigate, control and reduce the risk of fraud and corruption. The plan also provides for, among other things, the mechanics for the early detection of fraud and for the professional investigation of fraud offences, so as to minimise the extent of the negative effects this poses on the organisation and the South African economy at large.

SA Express commits itself to actively fighting fraud and corruption as well as other acts of dishonesty on a zero tolerance basis. As a result, the organisation accepts fraud and corruption as operational risks without condoning fraud.

SA Express' primary goal for the financial year has been to conduct the Ethics Hotline awareness campaign. The Company has also recently revised the Policy, designed to govern fraud prevention and whistleblowing. During the year, training and awareness through publication of articles in 'Expresso' (the Company's internal magazine) were carried out. Furthermore, the Company's website provides details of the Ethics Hotline, for anyone seeking to report a fraudulent activity. All these initiatives have provided sufficient awareness on fraud reporting and during the year under review. There were two reports made to the Ethics Hotline which were investigated, concluded and reported at the Social and Ethics Committee, as well as to the Board.

Ethics

SA Express' investment in ethics management is not only driven by a need to comply with legislation and codes but by the commitment to instil a culture of ethics throughout the Company and to proactively identify and address any fraud and corruption risks that may impact on the delivery of the SAX 20/20 vision strategy. The purpose of SA Express' Ethics Management Programme is thus:

Code of ethics

SA Express is committed to providing a working environment that is conducive to good business practice. The SA Express' Code of Ethics sets out the Company's values, ethics, objective and responsibilities. This Code is applicable to all employees at all levels. It does not derogate from other requirements, duties, obligations or standards that flow from any provision of a legal or contractual nature, or from the general employment relationship.

Furthermore, the Company has established a Fraud Prevention and Whistle Blowing Policy so as to foster a climate within SA Express where all employees and Stakeholders strive for the ultimate eradication of all types of fraud, corruption, theft and financial misconduct through the application of proactive and reactive means at their disposal. It also gives guidelines and directives on the reporting and handling of any incidents of fraud, corruption, theft and misconduct within SA Express.

Legal Compliance

SA Express has a Regulatory Universe which comprises 70 pieces of legislation, including among others, the South African Express Act, Companies Act, Public Finance Management Act and the National Treasury Regulations. These pieces of legislation provide for the Company's mandate and the regulation of financial management in all spheres of government to ensure that SA Express' revenue, expenditure, assets and liabilities are managed efficiently and effectively.

The Company's level of compliance is tested regularly throughout the year, by various assurance bodies and compliance is confirmed by the issuance of certificates such as the Air Operating Certificate (AOC), Aircraft Maintenance Organisation (AMO), Aviation Training Organisation (ATO), International Standards Organisation (ISO), IATA Operational Safety Audit (IOSA).

SA Express places a tremendous amount of value on compliance and is always exploring ways of enhancing its compliance system. In this regard, the Company has procured a compliance tool, which will allow the Company to track and ensure that all the compliance requirements are identified and implemented on time.

Aviation Specific Internal Controls

Safety Management system

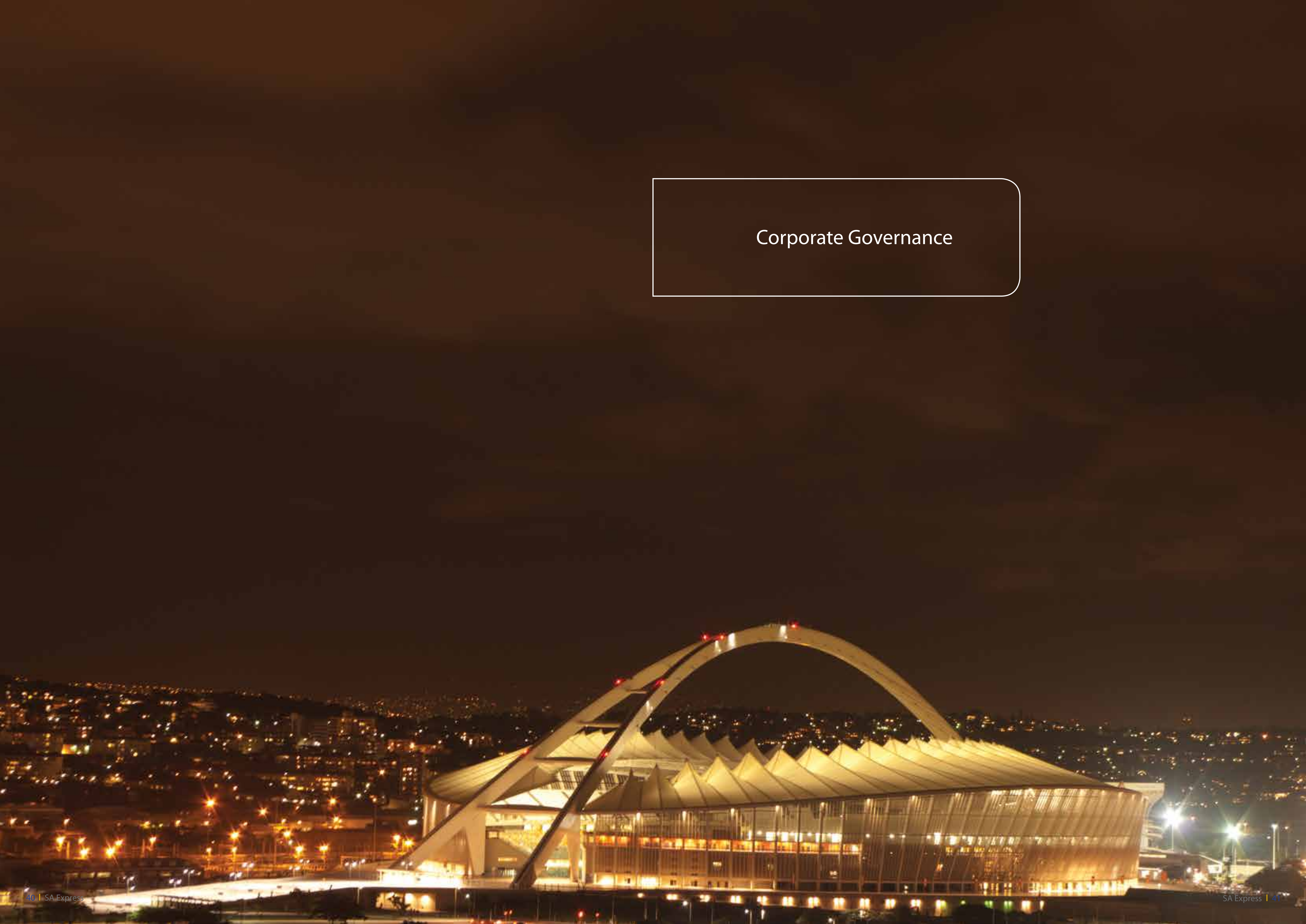
The Safety Management System is a systematic and comprehensive process for the proactive management of safety risks that integrates operations, technical services with quality, financial and human resource management. SA Express' core safety value is 'We never compromise on SAFETY, no matter what.' This is the way safety is perceived, valued and prioritised within the organisation.

In order to assess SA Express' safety performance, an IATA industry benchmark exercise is conducted on a quarterly basis, and the Company has always performed within the recommended standards, which is commendable taking into consideration the nature and complexity of an airline operation.

SA Express is, on a continuous basis, monitoring its systems to assure that any potential safety abnormalities are minimised. This simply means that regular integrated system reviews are conducted. Our focus is mainly on latent conditions and causal factors, which if identified and mitigated early, go a long way in avoiding any serious incidents and/or accidents. This is also achieved through our efficient safety reporting programme. To this end, SA Express has implemented a Flight Data Analysis Programme, which assists the Company in monitoring and tracking safety performance through rigorous analysis of data. Furthermore, the Company is in the process of implementing a safety reporting tool, which will enhance our safety performance and direct accountability, to a maturing safety culture.

Aviation Security

Living with the ever-present risk of security attacks as one of the significant survival threats that has transformed the way many airlines and airports need to operate, has resulted in the introduction of an Aviation Security Management System. It is appreciated that positive aviation security results can never be achieved in isolation without the value-add of other stakeholders. SA Express prides itself with the achievement of its mandated role to implement and promote a security programme that safeguards against the acts of unlawful interference on persons, aircraft and equipment, in conjunction with other stakeholders. The Company's compliance records, with no significant or major findings from both SACAA and IOSA, have proven that SA Express continues to meet the requirements of National Aviation Security Plan (NASP) and best industry practices.



Corporate Governance

SA Express was established in terms of the South African Express Act 34 of 2007 (the Founding Legislation) and incorporated as a SOC in terms of the Companies Act 71 of 2008 as amended.

THE SA EXPRESS BOARD IS COMMITTED TO MAINTAINING HIGH STANDARDS OF CORPORATE GOVERNANCE AS GOOD GOVERNANCE IS INTEGRAL TO A SUCCESSFUL ENTERPRISE AND CRITICAL TOWARDS BUSINESS INTEGRITY.

Governance informs SA Express' day-to-day business activities and is a requirement for the successful delivery of the Company's objectives. Governance provides our stakeholders with the assurance that the Company is well managed and functioning with integrity and accountability. In this regard, SA Express ascribes to the King Code of Corporate Governance for South Africa, 2009 (king III) and the Protocol on Corporate Governance in the Public Sector whilst upholding specific best practices such as accountability, transparency, fairness and responsibility.

Interaction between the Board and the Shareholder

In terms of its founding legislation, the Minister of Public Enterprises assumes and exercises all rights attaching to SA Express shares and interests; including the rights as Shareholder Representative on behalf of the Government of South Africa.

The Board regularly interacts with the Shareholder through the Chairperson of the Board, who is the point of contact regarding interactions with both the Shareholder and Parliament. The Chairperson and the CEO attend parliamentary sessions to update the Portfolio Committee on Public Enterprises on a number of strategic issues involving the Company and the Audited Annual Financial Statements.

In addition to regular interaction between the Chairperson and the Minister of Public Enterprises, the Board also reports to the Shareholder at the Annual General Meeting. The last Annual General Meeting took place on 10 September 2015

The Board of Directors

The SA Express Board is committed to maintaining high standards of corporate governance as good governance is integral to a successful enterprise and critical towards business integrity. The Board ultimately takes overall responsibility of directing the strategic objectives of the business.

Composition

The current Board, announced 22 May 2015, comprises of two Executive Directors, namely the Chief Executive Officer and Chief Financial Officer and seven Non-Executive Directors.

The Chairperson of the Board is Mr George Mothema and his role is separate from that of the CEO, as the Board believes that separation of powers and responsibilities ensures an appropriate balance of authority between the Board and Management.

The current Board consists of the following members:

Mr G Mothema	Non-Executive Director and Chairperson
Mr T Abrahams	Non-Executive Director
Ms B Dibate	Non-Executive Director
Ms N Nkabinde	Non-Executive Director
Dr R Naithani	Non-Executive Director
Mr P Ramosebudi	Non-Executive Director
Ms G Sibiya	Non-Executive Director
Mr I Ntshanga	Executive Director and CEO
Mr M Shelly	Executive Director and CFO
Dr B Samula	Was rotated on 22 may 2015
Ms K Nondumo	Was rotated on 22 may 2015
Ms N Gxumisa	Was rotated on 22 may 2015
Mr E Mabyana	Resigned on 29 June 2015

Role and function of the board

- Setting the strategic direction of the Company;
- Reviewing and monitoring the management and performance of the business by Management;
- Recommending the appointment of the external auditors to the Shareholder;
- Determining Board strategic policy decisions;
- Ensuring that the necessary financial and human resources are in place to enable the Company to meet its strategic objectives;
- Ensuring sustainability of the organisation to ensure that it is capable of fulling its commercial objectives and statutory obligations;
- Fulfillment of its fiduciary duty in accordance with the principles of good governance;
- Effective reporting and accountability to the Shareholder and other regulatory bodies;
- Exercising of due care, skill and good faith in the execution of its duties;
- Ensuring that effective audit, risk management and compliance systems are in place to protect the Company's assets;
- Delegating certain responsibilities to the Chief Executive Officer;
- Reviewing and monitoring the performance of the Chief Executive Officer and Chief Financial Officer;
- Approval of the annual budget and business plan for the Company;
- Approval, subject to Shareholder's consent, of all major transactions within the ambit of Section 54 of the Public Finance Management Act and the Signicant and Materiality Framework; and
- Consideration and approval of the Annual Financial Statements and Dividend policy.

Board meetings

The Board holds regular meetings that are scheduled in advance, in accordance with the Board's annual calendar, which sets out the agenda for discussion at each meeting. Resolutions of the Board were taken by way of Directors' written resolutions, in terms of the provisions of the Companies Act and the Memorandum of Incorporation, where necessary.

Such matters were deliberated by the Board prior to circulation of the respective written resolutions, including Management interviews. Management ensures that the Board is provided with all relevant information and facts to enable them to make appropriate and informed decisions. Minutes of the meetings were kept in the Minute Books for the relevant year and access to the said minutes was given to both Internal and External Auditors for auditing.

The following reflects the number of meetings and attendance of the Directors for the year under review:

Board meeting attendance

Director	22-Jun-15	30-Jul-15	21-Aug-15	28-Sep-15	26-Oct-15	12-Nov-15	25-Nov-15	15-Feb-16
G Mothema	P	P	P	A	P	P	P	P
T Abrahams	P	A	P	A	P	P	P	P
B Dibate	P	P	P	P	P	P	P	P
N Nkabinde	P	P	P	P	P	P	P	P
R Naithani	P	P	P	P	P	P	P	T
E Mabyana	P	R	R	R	R	R	R	R
P Ramosebudi	P	A	P	P	P	A	P	P
G Sibiya	P	P	P	A	A	P	P	P
I Ntshanga	P	P	P	P	P	P	P	P
M Shelley	P	P	P	P	P	P	P	P
C Erasmus (COSEC)	N/A	N/A	P	P	P	P	P	P

P *Present*
T *Teleconference*
A *Absent*
R *Resigned*
N/A *Not yet appointed*

Mr G. Mothema
Chairperson: SA Express Board of Directors.

Interaction between the Board and Management

Executive Management and the Board interact through various presentations at Board meetings and Non-Executive Directors have access to Executive Management and may meet with Executive Management in the absence of Executive Directors. Such meetings are facilitated through the office of the Company Secretary upon request.

Disclosure of Interest

All Directors must disclose their interest in other companies, either in the form of shares held, Directorship or business dealings. There were no declarations of interests registered in contracts held directly or indirectly with SA Express during the year under review. The Company Secretary is obliged to ensure that the Company does not enter into any contracts with any of the business interests of the Directors, without such information first being considered by the Board in order to establish the nature and extent of the conflict of interest.

Section 54 (2) (PFMA) Transations

The PFMA submissions made in the year under review were for a fleet renewal programme as part of the overall strategy to further the business turnaround objectives, the withdrawal of the Cape Town–Durban and Johannesburg–Windhoek routes and aircraft lease extensions.

Board Committees

In line with the requirements of the King Code III and the Protocol on Corporate Governance in the Public Sector, the following Committees duly assisted the Board in discharging its duties and responsibilities: Audit and Risk Committee; Human Resources, Remuneration and Transformation Committee; Safety, Security, Health, Environment and Quality Committee; Social and Ethics Committee; and a newly formed Procurement Committee.

All these Committees are chaired by Non-Executive Directors and these Committees were also assisted by the Company Secretary in the performance of their duties.

These Committees consist of:

Audit and Risk Committee:

- Ms G Sibiya (Chairperson)
- Ms B Dibate
- Ms N Nkabinde
- Mr P Ramosebudi

The Committee is satisfied that the members thereof have the requisite knowledge and experience as required as set out in Section 94(5) of the Companies Act 71, 2008; read with Regulation of the Companies regulations. The Committee held seven meetings during the 2016 financial year and the members of the Committee attended the meetings as follows:

Audit and risk meeting attendance

Director	14-Aug-15 Special	21-Aug-15 Special	23-Sep-15 Special	28-Sep-15 Special	26-Oct-15 Special	12-Nov-15	08-Feb-16	22-Feb-16
G Sibiya	P	P	A	A	A	P	P	P
B Dibate	P	P	P	P	C	P	P	P
N Nkabinde	P	P	P	P	P	P	P	P
P Ramosebudi	P	P	C	C	P	A	P	P
C Erasmus (COSEC)	P	P	P	P	P	P	P	P

P *Present*
A *Absent*
C *Acting Chair*

The following persons attended per invitation and attended the majority of the meetings by the Committee:
Mr I Ntshanga (Chief Executive Officer)
Mr M Shelley (Chief Financial Officer)
Mr S Struwig (Auditor General of South Africa – External Auditor)
Mr K Lekalakala (Internal Auditor)

Ms G Sibiya
Chairperson: Audit and Risk Committee.

Human Resources, Remuneration and Transformation Committee:

Dr R Naithani (Chairperson)
Ms B Dibate
Ms N Nkabinde

Register of meetings and attendance:

Human Resources, Remuneration and Transformation Committee

Director	18-Aug-15	23-Sep15	11-Nov-15	03-Feb-16
R Naithani	P	P	P	P
B Dibate	P	P	P	P
N Nkabinde	P	P	P	P
C Erasmus (COSEC)	P	P	P	P

P *Present*

The following persons attended per invitation and attended the majority of the meetings by the Committee:
Mr I Ntshanga (Chief Executive Officer)
Ms K Nkala (GM: Human Capital)

Dr R Naithani
Chairperson: Human Resources, Remuneration and Transformation Committee.

Safety, Security, Health, Environmental and Quality Committee:

- Mr T Abrahams (Chairperson)
- Ms N Nkabinde
- Dr R Naithani
- Ms G Sibiya

Register of meetings and attendance:

Safety, Security, Health, Environmental, Quality Committee

Director	23-Sep-16	11-Feb-16
T Abrahams	P	P
N Nkabinde	P	P
R Naithani	P	P
G Sibiya	A	P
C Erasmus (COSEC)	P	P

P *Present*
A *Absent*

The following persons attended per invitation and attended the majority of the meetings by the Committee:
Mr I Ntshanga (Chief Executive Officer)
Mr D Allanby (GM: Flight Operations and Technical)

Mr T Abrahams
Chairperson: Safety, Security, Health, Environmental and Quality Committee.

Social and Ethics Committee:

- Ms B Dibate (Chairperson)
- Mr T Abrahams
- Mr P Ramosebudi
- Ms G Sibiya

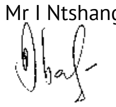
Register of meetings and attendance:

Social and Ethics Committee

Director	23-Sep-16	03-Feb-16
B Dibate	P	P
T Abrahams	P	P
P Ramosebudi	P	P
G Sibiya	A	P
R Naithani	I	
N Nkabinde	I	
C Erasmus (COSEC)	P	P

P *Present*
A *Absent*
I *Invitee*

The following person attended per invitation and attended the majority of the meetings by the Committee:
Mr I Ntshanga (Chief Executive Officer)



Ms B Dibate
Chairperson: Social and Ethics Committee.

Procurement Committee:

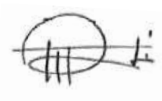
- Mr P Ramosebudi (Chairperson)
- Mr T Abrahams
- Ms B Dibate
- Dr R Naithani

Register of meetings and attendance:

Procurement Committee

Director	21-Aug-15 Special	23-Sep-15 Special	26-Oct-15 Special and combined	11-Feb-16
P Ramosebudi	P	P	P	P
T Abrahams	P	P	P	P
B Dibate	P	P	P	P
R Naithani	P	P	P	P
C Erasmus (COSEC)	P	P	P	P

P *Present*
A *Absent*



Mr P Ramosebudi
Chairperson: Procurement Committee

The following person attended per invitation and attended the majority of the meetings by the Committee:
Mr I Ntshanga (Chief Executive Officer)

Human Resources, Remuneration and Transformation Committee

The Committee comprises three Non-Executive Directors, responsible for the overall competitive remuneration policies, on behalf of the Board, the remuneration of Directors as well as the terms and conditions of employment of the Executive Directors. In determining the remuneration policies, comparative industry surveys are provided by the Company's human resources department to enable the Committee to take heed of issues such as market norms, skills retention and performance of the Company. The Committee operates with clear terms of reference and applies the SOC's Remuneration Guidelines, as developed by the Department of Public Enterprises.

The remuneration philosophy of SA Express is to attract, develop, and retain key individuals and reinforce superior performance in order to maximise profitability aligned with the strategic objectives of the business. The Committee believes that the incentive scheme plays a pivotal role in retention of staff as per the KPI.

The CEO is best placed, as the delegated Member of the Board, to execute the Board's strategic KPIs as agreed with the Shareholder.

Executive Directors do not have a fixed term of service and all Non-Executive Directors are subject to retirement by rotation and re-election by the Shareholder at least once every three years in accordance with the protocol on Corporate Governance in the Public Sector. Despite these, the Shareholder is entitled to appoint Directors at every Annual General Meeting (AGM).

The Committee discussed all aspects of remuneration of employees, including that of Executives. The remuneration of employees is, as far as possible, aligned to and influenced by the interests of the Shareholder, market indicators, performance of the Company and employees' overall contribution towards the growth of the Company.

Non-Executive Directors' remuneration was approved by the Shareholder at the Annual General Meeting on 10 September 2015, for the period under review. The Remuneration Policy is in line with the SOC remuneration guidelines as provided by the Department of Public Enterprises.

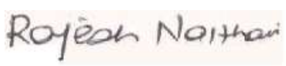
The remuneration of the Non-Executive Directors consists of an annual fee paid quarterly in arrears. Basic salaries of Executive Directors are set at competitive market rates in terms of the SOC's Remuneration Guidelines and are subject to annual review. The review is based on the performance of the Company in terms of the Shareholder's Compact.

Remuneration of Non-Executive Directors

Director	2016
G Mothema	796 928
T Abrahams	280 790
B Dibate	397 568
N Gxumisa (rotated)	41 635
E Mabyana (resigned)	62 521
R Naithani	252 976
N Nkabinde	276 116
K Nondumo (rotated)	31 445
P Ramosebudi	298 908
G Sibiya	311 469
B Ssamula (rotated)	89 250

Remuneration of Executive Management

	2016	2015	Comments
I Ntshanga	2 417 976	2 417 976	
D Allanby	1 776 159	1 776 158	
K Nkala	1 161 756	1 161 756	
P Mashaba	1 540 000	1 680 000	Resigned 14/12/2015
M Mochoele	1 250 000	1 250 000	
M Shelley	1 599 999	246 125	
B van Wyk	1 361 038	1 361 038	



Dr. R. Naithani
Chairperson: Human Resources, Remuneration and Transformation Committee.

Safety, Security, Health, Environment and Quality Committee

The Committee comprises four Non-Executive Directors.

The Executive Manager responsible for Safety, Security, Health and Environment attended all the meetings of the Committee and the Committee operated within its delegated terms of reference and reported all activities to the Board at every meeting.

The overall key responsibilities of the Committee are to:

- Ensure that issues pertaining to safety, health and environment are aligned to the overall business strategy of the Company and are geared towards compliance with international norms and practices;
- Consider and approve the corporate safety, health and environmental strategy and policies; monitor compliance with such strategy and policies;
- Consider and approve major safety, health and environmental projects;
- Ensure that its members are informed about any signicant impact on the Company in the safety, health and environmental field and how these are managed (process and activities);
- Review the structure, adequacy and efficacy of the Safety, Health and Environment Committee within the Company including review of any terms of reference for the same;
- Review the scope of and results of any safety, health and environment audit and the effectiveness of the Company's safety, health and environment policies and procedures and such audit's cost effectiveness and the independence and objectivity of the audit body;
- Consider the major findings, if any, of internal and external investigations and Management's response thereto and, where necessary make recommendations to the Board in respect of the same; and
- Deal with any other matters formally delegated by the Board to the Committee from time to time, including but not limited to matters relating to security and quality assurance.

The Committee was focused on monitoring the processes that were implemented in the previous year to ensure improvement in the quality of maintenance and reduction of incidents.

The Committee continues to uphold safety as SA Express' first priority.

T Abrahams
Chairperson: Safety, Security, Health, Environment and Quality Committee

Social and Ethics Committee

The Committee comprises four Non-Executive Directors and operates under the Terms of Reference approved by the Board which is reviewed annually.

The Government has introduced legislation to address compliance such as B-BBEE, Corporate Governance and Employment Equity, to assist in mitigating social and ethical matters in the workplace. Where there is limited or no legislation, there are international declarations and industry charters that guide the Committee.

SA Express supports the ten principles of the United Nations Global Compact and is committed to the New Growth Path. The Company is committed to make these part of the organisation's strategy, culture and day-to-day operations. SA Express is also committed to engaging in collaborative projects that advance the broader development goals of the United Nations. SA Express has committed to support public accountability and transparency.

The Committee continues to provide oversight as SA Express continues to embed legislation codes of best practice essential to the core business of the airline.

In situations where duplication in the oversight roles exist with other subcommittees, the Committee ensures that information and decision making is shared among the relevant sub-committees.

The Committee has monitored SA Express' activities, in regard to any relevant legislation, other legal requirements or prevailing codes of best practice, in regard to matters relating to social and economic development such as, but not limited to human rights, labour, the environment, and anti-corruption.

B Dibate
Chairperson: Social and Ethics Committee

Procurement Committee

The Committee was established in the year under review to assist the Board of Directors in discharging its duties relating to: the awarding of contracts and to authorising contract expenditure in accordance with established norms and legislation, delegation of authority approved by the Board. The Committee does not assume management or operational responsibility but has oversight over management implementation of its decisions and recommendations to the Board.

The Committee comprises four members.

The primary role of the Committee is to ensure the integrity of SA Express' tender processes and is the ultimate body responsible for the approval contracts.

The Committee's secondary key responsibilities are to:

- Consider and monitor availability of funds for projects when authorising contract expenditure;
- Monitor the management of risk affecting its areas of responsibilities;
- Make recommendations of a strategic nature to the Board in regard to awarding of contracts and monitor implementation by Management;
- Ensure compliance with all applicable laws and regulations and review the Terms of Reference annually; and
- Ensure that the awarding of contracts promotes B-BBEE within the industry and achieve the empowerment targets applicable in the aviation industry.

P Ramosebudi
Chairperson: Procurement Committee

Company Secretary's Compliance Statement

in terms of Section 88(2) (e) of the Companies Act No.71 of 2008, I certify that the Company has lodged with the Registrar of Companies all such returns as are required of a SOC in respect of the year ended 31 March 2016 and that to the best of my knowledge and belief, all such returns are true, correct and up to date.

M Gie
Company Secretary

Annexures

ANNEXURE A: STRATEGIC DELIVERABLES

Key performance area	1. SA Express sustainability framework				Assessment
	Target delivery timelines				
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
Description of deliverables	(April-Jun)	(Jul-Sep)	(Oct-Dec)	(Jan-Mar)	
1.1 Sustainability assessment and reporting					
1.1.1. Provide a sustainability reporting framework in line with the Global Reporting Initiative (GRI) guidelines for measuring and reporting the economic, environmental and social impacts and performance related to SA Express operational activities			31-Dec-15		Achieved
Key performance area	2. Austerity measures				
2.1 Labour restructuring					
2.1.1. Provide an action plan on the proposed labour restructuring activities to save R118 million as indicated in the Austerity Measures Plan		30-Sep-15			Achieved
2.1.2. Provide an internal audit report detailing a saving of R41 million from labour restructuring initiatives				31-Mar-16	Achieved
2.1.3. Provide a plan for the proposed restructuring of business units to achieve efficiencies, quantifying savings expected			30-Nov-15		Achieved
2.1.4. Provide a report on the outcome of the restructuring of business units to achieve efficiencies, quantifying savings expected			31-Dec-15		Achieved
2.2. Aircraft leases					
2.2.1. Signed new lease agreement that reduce operating lease commitment		30-Sep-15			Not achieved
2.2.2. Conclude renegotiations of covenants related to lease agreements to remove the requirement to maintain equity above R1 billion		30-Sep-15			Not achieved
2.3. Inventory					
2.3.1. Provide quarterly reports on the savings on the inventory initiative*		30-Oct-15	31-Jan-16	30-Apr-16	Achieved
2.4. Reporting					
2.4.1. Provide a comprehensive implementation plan for the austerity measures outlining the milestones and timelines for delivering the targeted savings and identifying the responsible individuals		30-Sep-15			Achieved
2.4.2. Provide a comprehensive quarterly progress report on the austerity measures and the savings achieved and mitigation plans to address any non-achievement in the given timelines*		30-Oct-15	31-Jan-16	30-Apr-16	Achieved

Key performance area	3. Financial sustainability				Assessment
	Target delivery timelines				
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
Description of deliverables	(April-Jun)	(Jul-Sep)	(Oct-Dec)	(Jan-Mar)	
3.1 Guarantee					
3.1.1. Repay R100 million of the R1.06 billion guaranteed facilities				31-Mar-16	Achieved
3.2. Creditors					
3.2.1. Provide a repayment plan for long outstanding (between 90 and 150 days) creditors. The guaranteed debt should only be used to settle long outstanding creditors		30-Sep-15			Achieved
3.2.2. Report quarterly on progress in repaying long outstanding creditors between 90 and 150 days		30-Sep-15	31-Dec-15	31-Mar-16	Achieved
3.3. Funding					
3.3.1. Provide a comprehensive funding plan for utilising the guarantee with concomitant contingency plans. These plans must give a clear indication of the timelines for all the required approvals to ensure that all required funding is secured timeously		30-Sep-15			Achieved
3.3.2. Detailed report identifying whether there is a need to hedge or not			15-Dec-15		Achieved
3.4. Cost containment					
3.4.1. Provide an approved spending per line item Cost Containment Plan – Provide motivation on the numbers, benchmarking and context behind the target			15-Dec-15		Achieved
3.4.2. Report quarterly on implementation of cost containment per line*		30-Sep-15	31-Jan-15	30-Apr-16	Achieved
3.5. Internal controls					
3.5.1. Provide plan to improve internal control processes and enhancement			31-Oct-15		Achieved
3.5.2. Report quarterly on progress on improving internal control processes		30-Sep-15	31-Oct-15	31-Mar-16	Achieved

ANNEXURE A: STRATEGIC DELIVERABLES (CONTINUED)

Key performance area	4. Express 2020 Vision				
	Target delivery timelines				
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
Description of deliverables	(April-Jun)	(Jul-Sep)	(Oct-Dec)	(Jan-Mar)	
4.1. Annexure to SA express 20/20 vision					
4.1.1. Provide an Annexure to the SA Express 20/20 Vision on material changes to the Strategy influenced by the economic climate and aviation environment with an updated implementation plan.			31-Dec-15		Achieved
4.2. Routine network					
4.2.1. Provide a detailed decision making matrix which includes processes for assessing and remedying the loss making route, and determines the introduction of new route or withdrawal of air services on an existing route			31-Dec-15		Achieved
4.3. Maintenance, repair and overhaul (MRO)					
4.3.1. Provide business case options for optimising MRO operations			31-Dec-15		Achieved
4.3.2. Provide a remedial plan for reducing the cost of sourcing of spares		30-Sep15			Achieved
4.4. Contract management					
4.4.1. Renegotiate and conclude service level agreements with suppliers to ensure service integrity and cost competitiveness		30-Sep15			Not achieved
4.5. Research and development excellence					
4.5.1. Review of the approved implementation plan and update the implementation plan with new initiatives while maintaining the agreed performance target			31-Dec-15		Not achieved
4.6. Cargo operations					
4.6.1. Provide a plan to integrate and support cargo operations in the same manner as passenger operations		30-Sep-15			Achieved
Key performance area	5. Human capital				
5.1. Performance agreements					
5.1.1. Translate targets in this Shareholder Compact and deliverables in the 20/20 Vision into performance agreements of management		30-Sep15			Achieved
5.1.2. Report of executives performance against targets and deliverables bi-annually*			15-Oct-15	15-Apr-16	Not achieved
5.2. Staffing plan					
5.2.1. Provide the revised staffing plan and the skill audit report of top management			30-Nov-15		Achieved
Key performance area	6. Business processes				
6.1. Internal business processes					
6.1.1. Provide a plan for improving internal business processes for internal communication and decision making, revenue management, flight operations, contract management and stakeholder engagement			30-Nov-15		Achieved
6.1.2. Report on progress on improving internal business processes		30-Sep15	31-Dec-15	31-Mar-15	Achieved

Key performance area	7. Commercial agreements				
	Target delivery timelines				
	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
Description of deliverables	(April-Jun)	(Jul-Sep)	(Oct-Dec)	(Jan-Mar)	
7.1 Conclusion of commercial agreement and associated agreements					
7.1.1. Conclusion of the main commercial agreement with SAA		31-Aug-15			Achieved
7.1.2. Conclusion of agreements associated to the commercial agreement with SAA			31-Oct-15		Not achieved
7.1.3. Submit the commercial agreement concluded with SAA			31-Oct-15		Achieved
7.1.4. Submit the agreements associated to the Commercial Agreement that have been concluded with SAA			31-Oct-15		Not achieved
7.1.5. Finalise and provide the Terms of Reference (TOR) of the joint formal committees overseeing the implementation of the commercial agreements			31-Oct-15		Achieved
7.2. Contracting and sharing of costs for shared services					
7.2.1. Finalise and provide the Terms of Reference (TOR) with SAA for the establishment of a committee structure for negotiating and contracting for a joint procurement of shared services			31-Oct-15		Achieved
7.2.2. Provide quarterly performance reports of the established committee structure for negotiating and contracting for a joint procurement of shared services		30-Sep-15	31-Dec-15	31-Mar-16	Achieved
Key performance area	8. Integrated route network structure				
8.1. Implementation of an Integrated Route Network Structure and Fleet Plan					
8.1.1. Finalise and provide the Terms of Reference (TOR) with SAA of the Formal Joint Committee overseeing the consolidated route network plan			31-Oct-15		Achieved
8.1.2. Establish the Routine development and Scheduling Committee (RDSC) with SAA for the implementation and management of the Integrated Route Network Plan		30-Sep-15			Achieved
8.1.3. Provide quarterly reports on the implementation and performance of an integrated route network plan and Fleet Deployment		30-Sep-15	29-Dec-15	31-Mar-16	Achieved
Key performance area	9. Governance				
9.1. Governance practices					
9.1.1. Provide audited interim results (six months)			30-Nov-15		Not achieved

ANNEXURE A: STRATEGIC DELIVERABLES (CONTINUED)

Key performance area	10. Policy and regulation				
	Target delivery timelines				
Description of deliverables	Quarter 1 (April-Jun)	Quarter 2 (Jul-Sep)	Quarter 3 (Oct-Dec)	Quarter 4 (Jan-Mar)	
10.1 Whole of State Aviation Policy					
10.1.1. Cooperation in the development of the Fly SA Policy	a	a	a	a	Achieved
10.1.2. Inputs on award of Bilateral Air Service Agreements (BASA)	a	a	a	a	Achieved
10.1.3. Inputs on South African Aviation Transformation Strategy	a	a	a	a	Achieved
10.1.4. Inputs on any other National Policy related to air transportation	a	a	a	a	Achieved
Key performance area	11. Competitive Supplier Development Programme (CSDP)				
11.1. Support for local spend					
11.1.1 Submit a plan to support local spend			31-Oct-15		Not achieved

* The "a" represents targets achieved

ANNEXURE B: FINANCIAL PERFORMANCE

Key Performance Area	Key Performance Indicator	Unit of Measure	2015/16 target	Quarter 1 (April-Jun)	Quarter 2 (Jul-Sep)	Quarter 3 (Oct-Dec)	Quarter 4 (Jan-Mar)	Actuals achieved 2015/16	Assessment
Achieve a sustainable, profitable operation in all market segments namely: domestic and regional markets. Achieve recurring sustainable earnings as follows									
	Net profit/ (loss) after tax	R'm	60.21	8.31	8.90	27.10	15.90	16.95	Not achieved
	EBITDA (% of total Revenue)	Percentage	10.24	9.34	15.81	10.50	5.31	9,7	Not achieved
	Cargo 1% of total revenue	Percentage	1.00	1.00	1.00	1.00	1.00	0,62	Not achieved
Financial Performance	RASK to CASK ratio	Number	1.04	1.04	1.04	1.04	1.04	1,37	Not achieved
	Net cash position	R'm	10.00	1.55	3.63	3.17	1.66	-57.7	Not achieved
	Gearing (debt/ total asset ratio)	Percentage	103	103	103	103	103	97	Achieved
Financial Sustainability	Gearing (debt/ equity ratio)	Percentage	-3503	-3503	-3503	-3503	-3503	-1053	Achieved

ANNEXURE C: OPERATIONAL PERFORMANCE

Key Performance Area	Key Performance Indicator	Unit of Measure	2015/16 target	Quarter 1 (April-Jun)	Quarter 2 (Jul-Sep)	Quarter 3 (Oct-Dec)	Quarter 4 (Jan-Mar)	Actuals achieved 2015/16	Assessment
To improve Operational Eciencies as follows and execute in a flawless manner									
	Daily Block Hours per Aircraft (weekdays)	hours	8	8	8	8	8	6,5	Not achieved
	Direct Operating Revenue per employee	R'm	2.2741	0.5580	0.6175	0.5727	0.5259	2.211	Achieved
Improve Operational Efficiency	Direct Operating Costper employee	R'm	2.0364	0.5059	0.5199	0.5126	0.4980	2.066	Not achieved
To deliver customer service in a consistent manner									
	On-time Performance (within 15 minutes of scheduled departure time)	Percentage	88	88	88	88	88	87.46	Not achieved
Customer Centricity	Bags mishandled per 10000 pax	Number	3	3	3	3	3	1	Achieved

ANNEXURE D: SOCIAL IMPACT

Key Performance Area	Key Performance indicator	unit of measure	2015/16 proposed target		Actuals achieved 2015/16	Assessment
Developmental Objectives	Improve Human Capital transformation on the following programmes and ensure skills development objectives are met as follows					
	Learners Intake		Target Number of new entrants in FY			
	Artisan trainees (provided funding is obtained)	Number	5		5	Achieved
	Cadet pilot trainees (provided funding is obtained)	Number	5		5	Achieved
	Semi-skilled and skilled workers learnerships	Number	0		0	Achieved
	Experiential learners/graduate trainees	Number	0		0	Achieved
	Training spend as a % of leviable amount	Percentage	5		5,7	Achieved
	Jobs created	Number	0		4	Achieved
	B-BBEE score level	Number	4		6	Not achieved

ANNEXURE E: ECONOMIC IMPACT

Key Performance Area	Key Performance indicator	unit of measure	2015/16 proposed target		Actuals achieved 2015/16	Assessment
Transformation Procurement	% total local spend	Percentage	60		35	Not achieved
	% total bbbee spend					
	% black owned entities	Percentage	40		15	Not achieved
	% youth owned					
	% people with disabilities					
	% Spend on black-owned QSE/EME	Percentage	40		10	Not achieved

ANNEXURE F: ENERGY EFFICIENCY

Key Performance Area	Key Performance indicator	unit of measure	2015/16 proposed target		Actuals achieved 2015/16	Assessment
Energy Efficiency	Reduction and offsetting of emissions	Grams, Tonnes and C02	168		186	Not achieved

SHC Targets	
Achieved - KPIs	10
Achieved - Deliverables	38
Total Achieved	48
Total Targets	70
Total % Achieved	**68.6%**

The 2015/16 Shareholder Compact agreed with the Shareholder constituted 70 key performance indicators, including quarterly targets. The focus of the Shareholder due to the airline's continued precarious financial position was on Financial Value Creation measures. It is important to note that SA Express managed to achieve 68.6% of the 70 indicators. The airline however failed to achieve the majority of the financial targets compacted, due to the escalating operating cost, increased competition and airline sector challenges such as the dollar-rand exchange fuctuations.

The Austerity Measures Plan implemented in September 2014 continues to reap positive benefits and have directly led to the net profit realised. As per the challenges experienced, the airline operating sector and the cost of training and development, SA Express achieved most of the developmental objectives indicators, especially since the Company was able to use the funds raised with TETA. The airline continuously seeks new partnerships to ensure the airline is able to train pilots and technicians at a sustainable rate. However, the airline is to improve the operational efficiencies and customer centricity, as these targets have not been achieved. The airline has a target of 88% On Time Performance: the airline achieved 87.46%. The target addressing energy efficiency indicator was not achieved. In addition, as referred earlier the RASK and CASK (including and excluding fuel costs), revenue per employee, Corporate Social Investment and the number of bags mishandled all achieved under strategic deliverables. SA Express made an operational profit in the amount of R230m, but due to operational and funding challenges, a net profit of R21m was reached, whilst a net profit target of R60m was set.

In addition, net profit after tax, CASK (total operating expenses leases plus depreciation): EBITDA. Passenger Load Factor, Daily Block Hours per Aircraft and OTP were not achieved. The airline is to focus on total B-BBEE spent as the entity failed in its target of services procured from black owned enterprises.

Annual Financial Statements

GENERAL INFORMATION

Country of incorporation and domicile	South Africa
Nature of business and principal activities	Aviation
Directors	G. Mothema I. Ntshanga B. Dibate M. Shelley T. Abrahams R. Naithani P. Ramosebudi G. Sibiya N. Nkabinde V. Xaba
Registered office	2nd Floor E Block Offices Airways Park 1 Jones Road Gauteng 1627
Business address	2nd Floor E Block Offices Airways Park 1 Jones Road Gauteng 1627
Postal address	P. O. Box 101 O.R. Tambo International Airport 1627
Holding company	Department of Public Enterprises on behalf of the South African Government incorporated in accordance with the Companies Act of the Republic of South Africa
Bankers	First National Bank a division of FirstRand Bank Limited Nedbank a division of Nedbank Group Limited
Auditors	Auditor General of South Africa
Secretary	M Gie
Company registration number	1990/007412/30
Tax reference number	9466416840
Preparer	The annual financial statements were internally compiled by: M Shelley Chief Financial Officer Chartered Accountant (S.A)

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The reports and statements set out below comprise the annual financial statements presented to the Shareholder:

Preparer

M Shelley
Chief Financial Officer
Chartered Accountant (S.A)

Published
6 May 2017

DIRECTORS' RESPONSIBILITIES AND APPROVAL

The directors are required in terms of the Companies Act 71 of 2008 to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is their responsibility to ensure that the annual financial statements fairly present the state of affairs of the company as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards, the Public Finance Management Act of 1999. The external auditors are engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with International Financial Reporting Standards, the Public Finance Management Act of 1999 and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the company and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the company and all employees are required to maintain the highest ethical standards in ensuring the company's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the company is on identifying, assessing, managing and monitoring all known forms of risk across the company. While operating risk cannot be fully eliminated, the company endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the company's cash flow forecast for the year to 31 March 2018 and, in light of this review and the current financial position, they are satisfied that the company has or had access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently auditing and reporting on the company's annual financial statements. The annual financial statements have been examined by the company's external auditors and their report is presented on pages 68 to 71.

The annual financial statements set out on pages 72 to 101**,** which have been prepared on the going concern basis, were approved by the board on 6 May 2017 and were signed on their behalf by:

G. Mothema

V. Xaba

AUDIT AND RISK COMMITTEE REPORT

The Audit and Risk Committee is pleased to present its report for the financial year ended 31 March 2016.

Audit and risk committee responsibilities

We report that we have adopted appropriate formal terms of reference in our charter, have conducted our affairs in compliance with the charter, and have discharged our responsibility as contained therein.

As stated above, the Audit and Risk Committee comprises four Non-Executive Directors all of whom possess the necessary degree of financial knowledge, skill and insight. During the year eight (8) meetings were held and attendance is as indicated above.

In the execution of its duties during the past financial year, the committee has:

- Reviewed the effectiveness of the internal control systems that management and the Board have established including the effectiveness of policies and procedures, the effectiveness of the information systems environment, the reliability and integrity of financial and operational information, the effectiveness of operations, safeguarding of assets and compliance with laws and regulations;
- Reviewed the independence, objectivity, performance and cost effectiveness of the external auditors;
- Reviewed the reliability, quality and accuracy of financial information and financial statements
- Reviewed the integrity of the Company's financial reporting process, both internal and external;
- Quarterly reviewed business and other risks and the impact of such on the Company;
- Reviewed and approved the External Auditor's strategy;
- Considered and reviewed quarterly management accounts;
- Reviewed and approved the Annual Financial Statements and the accompanying reports to the Shareholder
- Reviewed the annual report and financial statements for the year under review to ensure that they present a balanced understandable assessment of the position, performance and prospects of the Company
- Reviewed the internal audit activities, including the internal audit charter, independence, internal audit plan, coordination with external auditors, report on significant findings as well as management responses to internal audit findings and recommendations

Internal audit and effectiveness of internal control

The audit and risk committee is satisfied the internal audit function is operating effectively and that it has addressed the risks pertinent to the entity in its audits.

As much as there has been an improvement over the control environment, we believe that the system of internal controls over financial and risk management, was partially inadequate and ineffective for the period under review.

G Sibiya
Chairperson: Audit and Risk Committee

DIRECTORS' REPORT

The directors have pleasure in submitting their report on the annual financial statements of South African Express AirwaysSOC Limited for the year ended 31 March 2016.

1. Review of financial results and activities

The annual financial statements have been prepared in accordance with International Financial Reporting Standards and the requirements of the Companies Act 71 of 2008 and the Public Finance Management Act of 1999. The accounting policies have been applied consistently compared to the prior year.

Full details of the financial position, results of operations and cash flows of the company are set out in these annual financial statements.

2. Prior year adjustments

In the prior year, management and the auditors were in dispute around the classification of maintenance reserves , the dispute resulted in a qualification of trade and other receivables for the 2014/2015 year end. This was despite management providing the auditors with an independent opinion on what type of accounting policy should be adapted for the accounting of the maintenance reserves sourced from one of the "top four independent professional accounting firms".

During this financial year, management re-engaged with one of the top four independent professional accounting firms to provide an opinion on the correct accounting treatment of maintenance reserves. The opinion obtained in the current year reaffirmed the accounting policy and provided further clarification of how managements position on the classification of maintenance reserves should be assessed. The auditors have accepted the new opinion obtained but a dispute still exists on the accuracy and classification of the capitalised maintenance reserves included in the trade and other receivables balance.

Our accounting treatment has remained consistent throughout the dispute with the auditors.

3. Share capital

				Number of shares		
Authorised				2016	2015	2014
Ordinary shares				1 000	1 000	1 000
				Number of shares		
Issued	R2016	R2015	R2014	2016	2015	2014
Ordinary shares	R452	R452	R452	452	452	452

There have been no changes to the authorised or issued share capital during the year under review.

4. Dividends

The company's dividend policy is to consider an interim and a final dividend in respect of each financial year. At its discretion, the board may consider a special dividend, where appropriate. Depending on the perceived need to retain funds for expansion or operating purposes, the board may pass on the payment of dividends.

Given the current state of the global economic environment, the board believes that it would be more appropriate for the company to conserve cash and maintain adequate debt headroom to ensure that the company is best placed to withstand any prolonged adverse economic conditions. Therefore the board has resolved not to declare a dividend for the financial year ended 31 March 2016

5. Directorate

The directors in office at the date of this report are as follows:

Directors	Office	Designation	Changes
G. Mothema	Chairperson	Non-executive	
I. Ntshanga	Chief Executive Officer	Executive	Resigned 31 March 2017
B. Dibate		Non-executive	
B. Ssamula		Non-executive	Resigned 21 May 2015
E. Mabyana		Non-executive	Resigned 29 June 2015
G. Sibiya		Non-executive	Appointed 22 May 2015
K. Nondumo		Non-executive	Resigned 21 May 2015
M. Shelley	Chief Financial Officer	Executive	
N. Gxumisa		Non-executive	Resigned 21 May 2015
N. Nkabinde		Non-executive	Appointed 22 May 2015
P. Ramosebudi		Non-executive	Appointed 22 May 2015
R. Naithani		Non-executive	Appointed 22 May 2015
T. Abrahams		Non-executive	Appointed 22 May 2015
V. Xaba	Chief Executive Officer (Acting)	Executive	Appointed 10 April 2017

6. Directors' interests in contracts

During the financial year, no contracts were entered into which directors or officers of the company had an interest and which significantly affected the business of the company.

7. Borrowing powers

In terms of the Memorandum of Incorporation of the Company, the Directors may exercise all the powers of the Company to borrow money, as they consider appropriate, within the mandate of the Public Finance Management Act of 1999.

8. Events after the reporting period

The Airline's operating certificate was temporarily suspended by the South African Civil Aviation Authority on 30 April 2016 as it was deemed that the quality assurance systems were inadequate. The temporary suspension was lifted on 1 May 2016 after clarity discussions with the Civil Aviation Authority and the submission of all requested documentation to provide comfort that all systems were adequate and in place. Correction action has been implemented to ensure that this does not happen in future.

Mr Ntshanga resigned as Chief Executive Officer on 31 March 2017, Mr Xaba was appointed as acting Chief Executive Officer.

On 27 March 2017, the Company was given approval to utilise the R121 million perpetual guarantee and the repayment of the guarantee extended to the end of March 2023.

The directors are not aware of any other material event which occurred after the reporting date and up to the date of this report.

9. Going concern

The directors believe that the company has adequate financial resources to continue in operation for the foreseeable future and accordingly the annual financial statements have been prepared on a going concern basis. The directors have satisfied themselves that the company is in a sound financial position and that it has access to sufficient borrowing facilities to meet its foreseeable cash requirements. The directors are not aware of any new material changes that may adversely impact the company. The directors are also not aware of any material non-compliance with statutory or regulatory requirements or of any pending changes to legislation which may affect the company. We draw attention to the fact that at 31 March 2016, the company had accumulated losses of R (726 917 609).

Briefly, below are some of the factors that the Directors considered for the period March 2016 to March 2017 extended for the twelve months ended March 2018, to ensure that the going concern assumption is appropriate:
• The Company was granted an extension on the existing guarantee of R539 million, relating to convenant breaches and working capital as well as an additional guarantee of R567 million, for the further working capital and asset based finance facilities. The guarantee was reduces by R100 million in March 2016 in line with the conditions attached to the guarantee. The guarantee was reduced further by R58 million in February 2017. In March 2017, approval was obtained to utilise the R121 million perpetual guarantee. The amortisation period was also extended from five years to 7 years;
• Negotiations have been and continue to be held with funders;
• No legislative, regulatory or policy changes that negatively affect and impact the Company have been made;
• The Company has made significant cost savings and further cost containment measures are expected to be made in the forseeable future;
• No suppliers have withdrawn their support to the Company.
* The Company's liquidity requirement is assessed by assessing the cash required by the company against the cash and funding available. The Company will still have access to cash to be sufficiently liquid.
• The Company has positive equity indicating the Company is solvent. Positive equity is driven by the raising of long term funding of R121 million, profits for the year and the reduction of capital expenditure.

Further to the above points, the Company's going concern status is also informed by its strategy called SAX 20/20, the funding plan and the long-term turnaround strategy that has been implemented.
The ability of the company to continue as a going concern is dependent on a number of factors. The most significant of these is that the directors continue to procure funding for the ongoing operations for the company.

10. Auditors

Auditor General of South Africa continued in office as auditors for the company for 2016.

11. Secretary

The company secretary is Mrs M Gie.

Postal address
P.O. Box 101
O.R. Tambo International Airport
1627

Business address
2nd Floor
E Block Offices
Airways Park
1 Jones Road
Gauteng
1627

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON SOUTH AFRICAN EXPRESS AIRWAYS SOC LIMITED

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the South African Express Airways SOC Limited set out on pages 72 to 101, which comprise the statement of financial position as at 31 March 2016, the statement of profit or loss and other comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting authority's responsibility for the financial statements

2. The board of directors, which constitutes the accounting authority, is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Public Finance Management Act of South Africa, 1999 (Act No. 1 of 1999) (PFMA) and the Companies Act of South Africa, 2008 (Act No. 71 of 2008), and for such internal control as the accounting authority determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Property, plant and equipment

6. I was unable to obtain sufficient appropriate audit evidence to support the property, plant and equipment due to inadequate record keeping by the entity. I was also unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustment to the property, plant and equipment balances stated at R498 355 442 (2014: rotables balance accounted for as part of property, plant and equipment R278 332 278) and the resultant impact on depreciation stated at R115 997 774 in note 3 to the financial statements was necessary.

Inventories

7. I was unable to obtain sufficient appropriate audit evidence to support the inventory balance due to inadequate record keeping by the entity. I was also unable to confirm the balance by alternative means. Consequently, I was unable to determine whether any adjustment to the inventory balance stated at R172 309 376 (2014: R175 178 302) in note 6 to the financial statements was necessary.

Deferred tax asset

8. Due to the possible effects of the limitations as described in paragraphs 6 and 7 above, I was unable to obtain sufficient appropriate audit evidence to support the account balances and class of transactions considered in the computation of the deferred tax asset for the financial year ended 31 March 2016. Consequently, I was unable to determine whether any adjustment relating to the deferred tax asset stated at R183 932 639 (2015: R195 256 048) in note 5 to the financial statements was necessary.

Trade and other receivables

9. The entity did not appropriately classify the maintenance reserve receivable as required by IAS 1 Presentation of financial statements between non-current and current asset. Additionally, the entity did not appropriately consider the recoverability of the maintenance reserve receivable as required by IAS 36 Impairment of assets. Consequently trade receivable was overstated by R169 131 171 (2015: R127 090 151) and non-current portion of the maintenance reserve receivable was understated by R94 784 324 (2015: R133 913 429) and impairments of asset was understated by R15 951 167 (2015: (R6 823 278)). There was a resultant impact on the surplus for the period and on the accumulated surplus.

Sundry Income

10. I was unable to obtain sufficient appropriate audit evidence for the restatement of corresponding figures for sundry income in the financial statements. As described in note 17 and 32 to the financial statements the restatement was made to rectify prior years' misstatements, but the specific allocation to the period for which the restatement related to could not be determined by the entity due to inadequate record keeping. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment to the sundry income corresponding figure stated at R180 739 485 in the financial statements was necessary.

Irregular expenditure

11. Section 55(2) (b) (ii) of the PFMA requires the entity to disclose in note 38 of the financial statements particulars of all irregular expenditure that had occurred during the financial year. The entity did not have an adequate system for identifying and recognising all irregular expenditure and there were no satisfactory alternative procedures that I could perform to obtain reasonable assurance that all irregular expenditure had been properly recorded in note 38 to the financial statements. Consequently, I was unable to determine whether any adjustment was necessary to the irregular expenditure disclosure note relating to the current and prior financial year.

Qualified opinion

12. In my opinion, except for the effects of the matters described in the basis for qualified opinion paragraphs above, the financial statements present fairly, in all material respects, the financial position of the South African Express Airways SOC Limited as at 31 March 2016 and its financial performance and cash flows for the year then ended, in accordance with IFRS and the requirements of the PFMA and Companies Act of South Africa.

Emphasis of matters

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

Material uncertainty related to going concern

14. The accounting authority's report on page 66 -67 and note 34 to the financial statements indicates that the South African Express Airways SOC Limited was granted a revision of the terms of the existing government guarantee which includes access to an additional guarantee portion of a perpetual nature and extends the guarantee period to 31 March 2023. The guarantee was granted subject to certain conditions. As at the date of signing this report the entity is in the process of negotiating the terms of a loan against this additional guarantee portion and receipt of this loan from financial institutions. The ability of the entity to continue as a going concern is dependent on the entity successfully securing the loan.

Restatement of corresponding figures

15. As disclosed in note 32 to the financial statements, the corresponding figures for 31 March 2015 have been restated as a result of an error discovered during 31 March 2016 in the financial statements of the South African Express Airways SOC Limited at, and for the year ended, 31 March 2015. The restatements relates to non-current and current assets, current liabilities, revenue and expenses.

Additional matter

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

Other reports required by the Companies Act

17. As part of my audit of the financial statements for the year ended 31 March 2016, I have read the Directors' Report, the Audit Committee's Report and the Company Secretary's Certificate for the purpose of identifying whether there are material inconsistencies between these reports and the audited financial statements. These reports are the responsibility of the respective preparers. Based on reading these reports I have not identified material inconsistencies between the reports and the audited financial statements in respect of which I have expressed a qualified opinion. I have not audited the reports and accordingly do not express an opinion on them.

Report on other legal and regulatory requirements

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

Predetermined objectives

19. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected objectives presented in the annual performance report of the public entity for the year ended 31 March 2016:

- Financial Sustainability on page 53
- SA Express 20:20 Vision on page 54
- Operational Performance on page 57

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

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

REPORT OF THE AUDITOR-GENERAL TO PARLIAMENT ON SOUTH AFRICAN EXPRESS AIRWAYS SOC LIMITED

REPORT ON THE FINANCIAL STATEMENTS

22. The material findings in respect of the selected objectives are as follows:

Financial Sustainability

Usefulness of reported performance information

23. I did not identify any material findings on the usefulness of the reported performance information for the financial sustainability objective. Reliability of reported performance information

24. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. The reported achievements against planned indicators and targets of 22% were not reliable when compared to the evidence provided.

SAX 20:20 Vision

Usefulness of reported performance information

25. The FMPPI requires that performance indicators should be well defined by having clear definitions so that data can be collected consistently and is easy to understand and use. A total of 29% of indicators were not well defined.

Reliability of reported performance information

26. I did not identify any material findings on the reliability of the reported performance information for the strategic objective.

Operational excellence

Usefulness of reported performance information

27. I did not identify any material findings on the usefulness of the reported performance information for the strategic objective.

Reliability of reported performance information

28. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets. Adequate and reliable corroborating evidence could not be provided for the reported achievement against planned indicators and targets of 60%.

Additional matter

29. I draw attention to the following matters:

Achievement of planned targets

30. Refer to the annual performance report on page(s) 52 to 59 for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected objectives reported in paragraphs 24, 25 and 28 of this report.

Adjustment of material misstatements

31. I identified material misstatements in the annual performance report submitted for auditing on the reported performance information for financial sustainability, SAX 20:20 vision and Operational performance. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information.

Compliance with legislation

32. I performed procedures to obtain evidence that the public entity had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

Strategic planning and performance management

33. A corporate plan was not submitted within one month before start of financial year to the National Treasury as required by section 52(b) of the PFMA and Treasury Regulation 29.2.

34. Effective, efficient and transparent systems of risk management and internal controls with respect to performance information and management was not in place as required by section 51(1)(a)(i) of the PFMA.

Financial statements, performance and annual reports

35. The financial statements submitted for auditing were not prepared in accordance with the prescribed financial reporting framework as required by section 55(1)(b) of the Public Finance Management Act and section 29(1)(a) of the Companies Act. Material misstatements of non-current liabilities, current liabilities and disclosure notes identified by the auditors in the submitted financial statements were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving qualified audit opinion.

Procurement and contract management

36. Goods, works or service were not always procured through a procurement process which is fair, equitable, transparent and competitive as required by the PFMA section 51(1)(a)(iii).

37. Sufficient appropriate audit evidence could not always be obtained that goods, works and services were procured through a procurement process which is fair, equitable, transparent and competitive as required by the PFMA section 51(1)(a)(iii).

Expenditure management

38. Effective steps were not taken to prevent irregular expenditure as required by section 51(1)(b)(ii) of the PFMA . The full extent of the irregular expenditure could not be quantified as indicated in paragraph 11 above.

39. Effective steps were not taken to prevent fruitless and wasteful expenditure, amounting to R30 622 323 as disclosed in note 37 of the financial statements, as required by section 51(1)(b)(ii) of the PFMA. Internal control

40. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on non-compliance with legislation included in this report.

Leadership

41. Ongoing monitoring and supervision undertaken to enable management to determine whether internal controls over financial reporting are present and functioning were not adequate, which led to material adjustments to the annual financial statements, material findings with reported performance information and non-compliance with legislation. The accounting authority of the entity should set the right tone at the top that demands clean administration of its executive team and implementation of approved policies and procedures.

Financial and performance management

42. The information systems used for recording and processing of transactions were not effectively and efficiently used to produce reliable information. Management did not interrogate data received from these systems in order to ensure that it produces accurate and reliable information to support the financial statements and reported performance information. The audit team experienced difficulties (delays in submitting) during the audit due to poor recordkeeping in certain areas and the lack of supporting evidence for recorded balances that are reviewed by senior management.

Governance

43. Although adequate governance structures were in place throughout the period under review and action plans were followed up during governance meetings the effectiveness of these oversight processes did not yield the desired improvements. Material misstatements were identified in the financial statements, predetermined information and compliance with legislation which was not effectively identified and prevented by the governance structures of the entity.

Information Technology environment

44. The entity had significant control deficiencies surrounding development of governance structures and processes and controls over ICT systems which were attributed to key vacancies of the divisional manager responsible ICT and Information Security Officer (ISO) not filled during the 2015-16 financial year. The lack of define processes to manager the ICT environment and ensuring secure configuration of systems that have a financial impact or informed performance indicators resulted instances where informally adopted processes were not adequately and consistently applied.

Auditor-General

Pretoria
09 May 2017

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2016

Figures in Rand	Note(s)	2016	2015(Restated)	2014 (Restated)
Assets				
Non-Current Assets				
Property, plant and equipment	3	498 355 442	504 097 753	498 584 974
Intangible assets	4	-	-	397 150
Deferred tax	5	183 932 639	195 256 048	170 240 678
		682 288 081	699 353 801	669 222 802
Current Assets				
Inventories	6	172 309 376	128 511 547	175 178 302
Trade and other receivables	8	980 952 545	897 407 125	825 345 892
Other financial assets		-	-	75 112 192
Current tax receivable		-	-	75 410 097
Cash and cash equivalents	9	8 164 763	23 921 645	2 979 136
		1 161 426 684	1 049 840 317	1 154 025 619
Total Assets		1 843 714 765	1 749 194 118	1 823 248 421
Equity and Liabilities				
Equity				
Share capital	10	501 837 518	501 837 518	501 837 518
Reserves		356 954 972	356 954 972	356 954 972
Accumulated loss		(726 917 609)	(743 873 785)	(674 484 077)
		131 874 881	114 918 705	184 308 413
Liabilities				
Non-Current Liabilities				
Other financial liabilities	12	-	-	200 000 000
Current Liabilities				
Trade and other payables	15	728 758 610	803 346 810	807 875 797
Other financial liabilities	12	300 000 000	300 000 000	100 000 000
Provisions	13	349 277 420	296 469 289	254 763 621
Neutrality advance	14	268 459 314	234 459 314	177 266 915
Bank overdraft	9	65 344 540	-	99 033 675
		1 711 839 884	**1 634 275 413**	**1 438 940 008**
Total Liabilities		**1 711 839 884**	**1 634 275 413**	**1 638 940 008**
Total Equity and Liabilities		**1 843 714 765**	**1 749 194 118**	**1 823 248 421**

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Figures in Rand	Note(s)	2016	2015 (Restated)
Revenue	16	2 391 268 017	2 594 012 715
Other income	17	137 332 017	180 739 485
Operating expenses		(2 259 040 735)	(2 598 905 916)
Operating profit (loss)	18	**269 559 299**	**175 846 284**
Investment revenue	19	771 441	7 122 773
Depreciation and amortisation	3	(115 997 774)	(123 536 212)
Fair value adjustments	20	(36 463 576)	(10 359 711)
Impairment of assets	21	(46 230 082)	(124 335 483)
Proceeds on sale of assets	22	(3 258 838)	10 984 185
Finance costs	23	(40 100 885)	(30 126 914)
Profit (loss) before taxation		**28 279 585**	**(94 405 078)**
Taxation	24	(11 323 409)	25 015 370
Profit (loss) for the year		**16 956 176**	**(69 389 708)**
Other comprehensive income		-	-
Total comprehensive income (loss) for the year		**16 956 176**	**(69 389 708)**

STATEMENT OF CHANGES IN EQUITY

Figures in Rand	Share capital	Share premium	Total share capital	Shareholder loan	Accumulated loss	Total equity
Opening balance as previously reported	452	501 837 066	501 837 518	356 954 972	(670 598 440)	188 194 050
Adjustments						
Prior year adjustments	-	-	-	-	(3 885 637)	(3 885 637)
Balance at 01 April 2014 as restated	**452**	**501 837 066**	**501 837 518**	**356 954 972**	**(674 484 077)**	**184 308 413**
Loss for the year	-	-	-	-	(69 389 708)	(69 389 708)
Other comprehensive income	-	-	-	-	-	-
Total comprehensive Loss for the year	-	-	-	-	(69 389 708)	(69 389 708)
Balance as at 1 April 2015 restated	452	501 837 066	501 837 518	356 954 972	(688 924 468)	169 868 022
Opening balance as previously reported	452	501 837 066	501 837 518	356 954 972	(802 956 078)	55 836 412
Adjustments						
Prior year adjustments	-	-	-	-	114 031 610	114 031 610
Balance at 01 April 2015 as restated	**452**	**501 837 066**	**501 837 518**	**356 954 972**	**(743 873 785)**	**114 918 705**
Profit for the year	-	-	-	-	16 956 176	16 956 176
Other comprehensive income	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	**16 956 176**	**16 956 176**
Balance at 31 March 2016	**452**	**501 837 066**	**501 837 518**	**356 954 972**	**(726 917 609)**	**131 874 881**
Note(s)	10	10	10	11		

STATEMENT OF CASH FLOWS

Figures in Rand	Note(s)	2016	2015
Cash flows from operating activities			
Cash generated from operations	26	35 213 817	44 120 031
Interest income	19	771 441	7 122 773
Finance costs	23	(40 100 885)	(30 126 914)
Tax received	27	-	75 410 097
Net cash from operating activities		**(4 115 627)**	**96 525 987**
Cash flows from investing activities			
Purchase of property, plant and equipment	3	(114 344 633)	(110 642 124)
Sale of property, plant and equipment	3	3 358 838	1 787 730
Sale of financial assets		-	75 112 192
Net cash from investing activities		**(110 985 795)**	**(33 742 202)**
Cash flows from financing activities			
Movement in neutrality advance		34 000 000	57 192 399
Total cash movement for the year		**(81 101 422)**	**119 976 184**
Cash at the beginning of the year		23 921 645	(96 054 539)
Total cash at end of the year	9	**(57 179 777)**	**23 921 645**

ACCOUNTING POLICIES

1. Presentation of annual financial statements

The annual financial statements have been prepared in accordance with International Financial Reporting Standards, the Public Finance Management Act of 1999, and the Companies Act 71 of 2008. The annual financial statements have been prepared on the historical cost basis, and incorporate the principal accounting policies set out below. They are presented in South African Rands.

These accounting policies are consistent with the previous period.

The preparation of the financial statements in conformity with International Financial Reporting Standards requires the use of certain estimates that affect the reported amounts of assets and liabilities at the date of the financial statements as well as the reported amounts of revenues and expenses during the reporting period. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables, Held to maturity investments and Loans and receivables

The company assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in profit or loss, the company makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operating profit note.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 13 - Provisions.

Useful lives, depreciation method and residual values of property, aircraft and equipment

The Company assesses the useful lives, depreciation method and residual values of property, plant and equipment at each reporting date. The useful lives of other assets and the depreciation method remained unchanged as they were deemed to have remained appropriate.

The Company assess the useful lives and amortisation method of intangible assets at each reporting date. During the year under review the useful lives and amortisation method remained unchanged as they were deemed to be appropriate.

Maintenance reserves

Maintenance reserves paid to certain aircraft lessors in advance of the performance of major maintenance activities are recorded as a deposit, to the extent recoverable through future maintenance, and then recognized as maintenance expense when the underlying maintenance is performed. The recognition of the maintenance reserve asset and value thereof is subject to critical judgment by Management.

Taxation

Judgement is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The company recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the company to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the company to realise the net deferred tax assets recorded at the end of the reporting period could be impacted.

Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the company for similar financial instruments.

1.2 Property, plant and equipment

Property, plant and equipment are tangible

ACCOUNTING POLICIES (continued)

assets which the company holds for its own use or for rental to others and which are expected to be used for more than one year. An item of property, plant and equipment is recognised as an asset when it is probable that future economic benefits associated with the item will flow to the company, and the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost. Cost includes all of the expenditure which is directly attributable to the acquisition or construction of the asset, including the capitalisation of borrowing costs on qualifying assets and adjustments in respect of hedge accounting, where appropriate.

The initial estimate of the costs of dismantling and removing an item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the company is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Expenditure incurred subsequently for major services, additions to or replacements of parts of property, plant and equipment are capitalised if it is probable that future economic benefits associated with the expenditure will flow to the company and the cost can be measured reliably. Day to day servicing costs are included in profit or loss in the year in which they are incurred.

Property, plant and equipment is subsequently stated at cost less accumulated depreciation and any accumulated impairment losses, except for land which is stated at cost less any accumulated impairment losses.

When an item of property, plant and equipment is revalued, the gross carrying amount is adjusted consistently with the revaluation of the carrying amount. The accumulated depreciation at that date is adjusted to equal the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.
When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset.

Depreciation of an asset commences when the asset is available for use as intended by management. Depreciation is charged to write off the asset's carrying amount over its estimated useful life to its estimated residual value, using a method that best reflects the pattern in which the asset's economic benefits are consumed by the company. Leased assets are depreciated in a consistent manner over the shorter of their expected useful lives and the lease term. Depreciation is not charged to an asset if its estimated residual value exceeds or is equal to its carrying amount. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or derecognised.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Depreciation method	Average useful life
Land, buildings and structures	Straight line	4 - 20 years
Containers	Straight line	20 years
Plant and machinery	Straight line	5 years
Furniture and fixtures	Straight line	3 years
Motor vehicles		
• Technical	Straight line	10 years
• Non technical	Straight line	5 years
IT equipment	Straight line	3 years
Leasehold improvements		
(Limited to the shorter of the lease term or useful life of the component)		
• C Checks	Straight line	2 years
• Engine overhauls	Straight line	5 years
• Landing gears	Straight line	5 years
Aircraft	Straight line	
• Air frames	Straight line	20 years
• Interior seat	Straight line	8 years
• Engines	Straight line	20 years
• Engine overhauls	Straight line	5 years
• Rotables		
(limited to the shorter of the cycles or useful life)	Straight line	5 - 20 years
• C Checks	Straight line	2 years
• Landing gears	Straight line	10 years

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting year. If the expectations differ from previous estimates, the change is accounted for prospectively as a change in accounting estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each year is recognised in profit or loss unless it is included in the carrying amount of another asset.

Impairment tests are performed on property, plant and equipment when there is an indicator that they may be impaired. When the carrying amount of an item of property, plant and equipment is assessed to be higher than the estimated recoverable amount, an impairment loss is recognised immediately in profit or loss to bring the carrying amount in line with the recoverable amount.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its continued use or disposal. Any gain or loss arising from the derecognition of an item of property, plant and equipment is included in profit or loss when the item is derecognised. Any gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Capital work in progress consists of assets not yet ready for use and therefore not allocated to a specific asset category.

1.3 Intangible assets

An intangible asset is recognised when:
- it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity; and
- the cost of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed every period-end.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Trademarks - Design cost, purchased	5 years
Computer software, internally generated	3 years

ACCOUNTING POLICIES (continued)

1.4 Financial instruments

Classification

The company classifies financial assets and financial liabilities into the following categories:
- Financial assets at fair value through profit or loss - held for trading
- Loans and receivables

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through profit or loss, which shall not be classified out of the fair value through profit or loss category.

Initial recognition and measurement

Financial instruments are recognised initially when the company becomes a party to the contractual provisions of the instruments.

The company classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for equity investments for which a fair value is not determinable, which are measured at cost and are classified as available-for-sale financial assets. For financial instruments which are not at fair value through profit or loss, transaction costs are included in the initial measurement of the instrument.

Transaction costs on financial instruments at fair value through profit or loss are recognised in profit or loss.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the company has transferred substantially all risks and rewards of ownership.

Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the company establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Loans to shareholders, directors, managers and employees

These financial assets are classified as loans and receivables.

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss within operating expenses. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in profit or loss.

Trade and other receivables are classified as loans and receivables.

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the company's accounting policy for borrowing costs.

1.5 Tax

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction at the time of the transaction, affects neither accounting profit nor taxable profit (tax loss).

A deferred tax asset is recognised for the carry forward of unused tax losses and unused STC credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused STC credits can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Tax expenses

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:
- a transaction or event which is recognised, in the same or a different period, to other comprehensive income, or
- a business combination.

Current tax and deferred taxes are charged or credited to other comprehensive income if the tax relates to items that are credited or charged, in the same or a different period, to other comprehensive income.

Current tax and deferred taxes are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly in equity.

1.6 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases – lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. The discount rate used in calculating the present value of the minimum lease payments is the company's incremental borrowing rate. The lease payments are apportioned between the finance charge and reduction of the outstanding liability.The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate on the remaining balance of the liability.

Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset. This liability is not discounted.

Any contingent rents are expensed in the period they are incurred.

1.7 Inventories

Inventories consist of consumable spares in stockholding to support technical maintenance. Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the entity.

1.8 Non-current assets held for sale and disposal groups

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

Non-current assets held for sale (or disposal group) are measured at the lower of its carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in profit or loss.

1.9 Impairment of assets

The company assesses at each end of the reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the company estimates the recoverable amount of the asset.

Irrespective of whether there is any indication of impairment, the company also:
- tests intangible assets with an indefinite useful life or intangible assets not yet available for use for impairment annually by comparing its carrying amount with its recoverable amount. This impairment test is performed during the annual period and at the same time every period.
- tests goodwill acquired in a business combination for impairment annually.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit towhich the asset belongs is determined. The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its

ACCOUNTING POLICIES (continued)

recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in profit or loss. Any impairment loss of a revalued asset is treated as a revaluation decrease.

An entity assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation other than goodwill is recognised immediately in profit or loss. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

1.10 Share capital and equity

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities.

1.11 Employee benefits

Short-term employee benefits
The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of profit sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

1.12 Provisions and contingencies

Provisions are recognised when:
- the company has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement shall be recognised when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognised for the reimbursement shall not exceed the amount of the provision.

Provisions are not recognised for future operating losses.

If an entity has a contract that is onerous, the present obligation under the contract shall be recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the business or part of a business concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for terminating their services;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

After their initial recognition contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 29.

1.13 Revenue

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the end of the reporting period. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the company;
- the stage of completion of the transaction at the end of the reporting period can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue shall be recognised only to the extent of the expenses recognised that are recoverable.

Revenue is classified under these categories:
- Passenger revenue;
- Cargo revenue; and
- Voyager revenue.

Revenue is measured at the fair value of the consideration received or receivable and represents the amounts receivable for goods and services provided in the normal course of business, net of trade discounts and volume rebates, and value added tax.

Interest is recognised, in profit or loss, using the effective interest rate method.

1.14 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of that asset until such time as the asset is ready for its intended use. The amount of borrowing costs eligible for capitalisation is determined as follows:
- Actual borrowing costs on funds specifically borrowed for the purpose of obtaining a qualifying asset less any temporary investment of those borrowings.
- Weighted average of the borrowing costs applicable to the entity on funds generally borrowed for the purpose of obtaining a qualifying asset. The borrowing costs capitalised do not exceed the total borrowing costs incurred.

The capitalisation of borrowing costs commences when:
- expenditures for the asset have occurred;
- borrowing costs have been incurred, and
- activities that are necessary to prepare the asset for its intended use or sale are in progress.

Capitalisation is suspended during extended periods in which active development is interrupted.

Capitalisation ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

1.15 Translation of foreign currencies

Foreign currency transactions

A foreign currency transaction is recorded, on initial recognition in Rands, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction.

At the end of the reporting period:
- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from thoseat which they were translated on initial recognition during the period or in previous annual financial statements are recognised in profit or loss in the period in which they arise.

When a gain or loss on a non-monetary item is recognised to other comprehensive income and accumulated in equity, any exchange component of that gain or loss is recognised to other comprehensive income and accumulated in equity. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Cash flows arising from transactions in a foreign currency are recorded in Rands by applying to the foreign currency amount the exchange rate between the Rand and the foreign currency at the date of the cash flow.

1.16 Maintenance reserves impairment provision

Any non-refundable amounts that are not probable of being used to fund future maintenance expense are recognized as additional aircraft rental expense. In determining whether it is probable that maintenance deposits will be used to fund the cost of maintenance events, management considers the condition, including the airframe, the engines, the auxiliary power unit and the landing gear, of the related aircraft, the projected future usage of the aircraft during the term of the lease based on the Company's business and fleet plan, and the estimated cost of performing all required maintenance during the lease term. These estimates are based on the experience of the Company's maintenance personnel and industry available data, including historical fleet operating statistics reports published by the aircraft and engine manufacturers.

1.17 Maintenance plans (including power by the hour agreements)

The Company raises a provision for the restoration of leased aircraft in accordance with the lease contracts. The prepayment made at inception of the lease is recognised as an asset and is written off/wound down against the provision as maintenance of the relevant aircraft is incurred.

1.18 Irregular Expenditure

Irregular expenditure is incurred when the procurement processes are not adhered to in the procurement of goods and services. Section 1 of the Public Finance Management Act, as amended, defines irregular expenditure as expenditure, other than unauthorised expenditure, incurred in contravention of or that is not incurred in accordance with a requirement of any applicable legislation and defines fruitless and wasteful expenditure as expenditure was made in vain and would have been avoided had reasonable care been exercised.

All unauthorised, irregular, fruitless and wasteful expenditure is accounted for in profit/loss in the period in which they are identified.

1.19 Neutrality advance

The determination of the prepayment to South African Express Airways is adjusted quarterly to provide cash neutrality to both South African Airways and South African Express Airways, to compensate the Company for the loss of interest and cash flow impact caused by the delay in receiving revenue.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

2. New Standards and Interpretations

2.1 Standards and interpretations not yet effective

The company has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the company's accounting periods beginning on or after 01 April 2016 or later periods:

IFRS 9 Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurements of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a "fair value through other comprehensive income" (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the outstanding principal are generally measured at amortised cost at the end of subsequent reporting periods. Debt instruments that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on outstanding principal, are measured at FVTOCI. All other debt and equity investments are measured at fair value at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of the liability is presented in other comprehensive income, unless the recognition of the effect of the changes of the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Under IAS 39, the entire amount of the change in fair value of a financial liability designated as at fair value through profit or loss is presented in profit or loss.
- In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. It is therefore no longer necessary for a credit event to have occurred before credit losses are recognised.
- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been replaced with the principal of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The effective date of the standard is for years beginning on or after 01 January 2018. The effective date has not yet been established as the project is currently incomplete. The IASB has communicated that the effective date will not be before years beginning on or after 01 January 2018. IFRS 9 may be early adopted. If IFRS 9 is early adopted, the new hedging requirements may be excluded until the effective date. The company expects to adopt the standard for the first time in the first annual financial period after the effective date.

It is unlikely that the standard will have a material impact on the company's annual financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction contracts; IAS 18 Revenue; IFRIC 13 Customer Loyalty Programmes; IFRIC 15 Agreements for the construction of Real Estate; IFRIC 18 Transfers of Assets from Customers and SIC 31 Revenue - Barter Transactions Involving Advertising Services.

The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:

- Identify the contract(s) with a customer
- Identify the performance obligations in the contract
- Determine the transaction price
- Allocate the transaction price to the performance obligations in the contract
- Recognise revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 also includes extensive new disclosure requirements.
The effective date of the standard is for years beginning on or after 01 January 2017. The company expects to adopt the standard for the first time in the 2018 annual financial statements.
It is unlikely that the standard will have a material impact on the company's annual financial statements.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendment clarifies that a depreciation or amortisation method that is based on revenue that is generated by an activity that includes the use of the asset is not an appropriate method. This requirement can be rebutted for intangible assets in very specific circumstances as set out in the amendments to IAS 38.

The effective date of the amendment is for years beginning on or after 01 January 2016. The company expects to adopt the amendment for the first time in the 2017 annual financial statements.

It is unlikely that the amendment will have a material impact on the company's annual financial statements.

IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a lease, SIC-15 Operating leases - Incentives and SIC-27 Evaluating the substance of transactions involving the legal form of a lease.

The standard introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for leases with a term of more than 12 months, unless the underlying asset is of a low value. A lessee will be required to recognise the right-of-use asset and a lease liability representing its obligation to make lease payments. As a consequence, a lessee recognises depreciation of the right-of-use asset and interest on the lease liability. Cash repayments of the lease liability will be classified into a principal portion and interest portion and presented in the statement of cash flows applying IAS 7 Statement of Cash Flows.

A lessor will continue to classify its leases as operating and finance leases as per the requirements of IAS 17 which have been carried forward to the new standard and will account for the two types of leases differently.

The standard contains expanded disclosure requirements for lessees. Lessees will need to apply judgement in deciding upon the information to disclose to meet the objective of providing a basis for users of the financial statements to assess the effect that the leases have on the financial position, financial performance and cash flows of the lessee. The lessor will need to provide enhanced disclosure around the lessor's risk exposure, particularly to residual value risk.

The effective date of the standard is for years beginning on or after 01 January 2019.

The company expects to adopt the standard for the first time in the 2020 annual financial statements.

The impact of this standard is currently being assessed.

3. Property, plant and equipment

	2016			2015		
	Cost or revaluation	Accumulated depreciation	Carrying value	Cost or revaluation	Accumulated depreciation	Carrying value
Leasehold improvements - aircraft	226 218 774	(168 341 498)	57 877 276	186 559 618	(106 913 734)	79 645 884
Plant and machinery	33 329 390	(29 656 935)	3 672 455	33 160 265	(28 153 449)	5 006 816
Motor vehicles	3 031 733	(2 939 018)	92 715	3 595 252	(3 449 557)	145 695
Rotables	399 768 977	(131 184 922)	268 584 055	384 799 554	(114 697 631)	270 101 923
Land, building and structures	1 260 562	(808 598)	451 964	1 260 562	(772 228)	488 334
Aircraft	856 457 487	(742 899 428)	113 558 059	957 282 487	(809 743 820)	147 538 667
Containers	5 650	(5 391)	259	5 650	(5 109)	541
Capital work in progress	54 118 659	-	54 118 659	1 169 893	-	1 169 893
Total	**1 574 191 232**	**(1 075 835 790)**	**498 355 442**	**1 567 833 281**	**(1 063 735 528)**	**504 097 753**

	2014		
	Cost or revaluation	Accumulated depreciation	Carrying value
Leasehold improvements - aircraft	134 850 600	(39 305 227)	95 545 373
Plant and machinery	31 885 147	(26 748 066)	5 137 081
Motor vehicles	3 595 252	(3 393 223)	202 029
Rotables	364 621 490	(86 289 212)	278 332 278
Land, building and structures	1 257 245	(792 603)	464 642
Aircraft	936 671 623	(818 464 288)	118 207 335
Containers	5 650	(4 826)	824
Capital work in progress	695 412	-	695 412
Total	**1 473 582 419**	**(974 997 445)**	**498 584 974**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Disposals	Other changes, movements	Depreciation	Impairment loss	Total
Leasehold improvements - aircraft	79 645 884	39 659 156	-	-	(61 427 764)	-	57 877 276
Plant and machinery	5 006 816	169 124	-	-	(1 503 485)	-	3 672 455
Motor vehicles	145 695	-	-	-	(52 980)	-	92 715
Rotables	270 101 923	14 779 726	(3 358 838)	4 091 453	(17 030 209)	-	268 584 055
Land, building and structures	488 334	-	-	-	(36 370)	-	451 964
Aircraft	147 538 667	6 787 861	-	-	(35 946 683)	(4 821 786)	113 558 059
Containers	541	-	-	-	(282)	-	259
Capital work in progres	1 169 893	52 948 766	-	-	-	-	54 118 659
	504 097 753	**114 344 633**	**(3 358 838)**	**4 091 453**	**(115 997 773)**	**(4 821 786)**	**498 355 442**

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Disposals	Transfers	Other changes, movements	Depreciation	Total
Leasehold improvements - aircraft	95 545 373	52 904 168	-	(1 195 149)	(21 062 743)	(46 545 765)	79 645 884
Plant and machinery	5 137 081	913 180	-	361 938	-	(1 405 383)	5 006 816
Motor vehicles	202 029	-	-	-	-	(56 334)	145 695
Rotables	278 332 278	35 252 031	(1 787 730)	-	-	(41 694 656)	270 101 923
Land, building and structures	464 642	55 317	-	-	-	(31 624)	488 334
Aircraft	118 207 335	20 610 863	-	-	42 125 485	(33 405 016)	147 538 667
Containers	824	-	-	-	-	(282)	541
Capital work in progres	695 412	906 565	-	(432 084)	-	-	1 169 893
	498 584 974	**110 642 124**	**(1 787 730)**	**(1 265 295)**	**21 062 742**	**(123 139 060)**	**504 097 753**

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Disposals	Transfers	Other changes, movements	Depreciation	Total
Leasehold improvements - aircraft	38 599 435	94 411 613	(1 519 564)	(208 704)	-	(35 737 407)	95 545 373
Plant and machinery	2 541 721	3 661 053	-	208 704	-	(1 274 397)	5 137 081
Motor vehicles	355 331	-	-	-	-	(153 302)	202 029
Rotables	30 606 221	57 685 136	-	-	235 210 930	(45 170 009)	278 332 278
Land, building and structures	1 262 062	5 965	-	(728 000)	-	(75 385)	464 642
Aircraft	133 006 442	24 318 592	-	-	-	(39 117 699)	118 207 335
Containers	1 106	-	-	-	-	(282)	824
Capital work in progres	531 751	163 661	-	-	-	-	695 412
	206 904 069	**180 246 020**	**(1 519 564)**	**(728 000)**	**235 210 930**	**(121 528 481)**	**498 584 974**

Capital work in progress consists of assets not yet ready for use and therefore not allocated to a specific asset category. As at 31 March 2016, there were two engines which had not yet been allocated as well as airfreight which had not been allocated to specific assets.In the current year, an assessment of the useful lives of all the rotables were reassessed. Previously, the useful life of the majority of the rotables were assessed at 5 years, this has subsequently been assessed to be more in line with the actual useful life of the assets.

4. Intangible assets

	2016			2015		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Computer packages - internally generated	9 131 416	(9 131 416)	-	9 131 416	(9 131 416)	-
Uniform design - purchased	-	-	-	-	-	-
Total	**9 131 416**	**(9 131 416)**	**-**	**9 131 416**	**(9 131 416)**	**-**

	2014		
	Cost / Valuation	Accumulated amortisation	Carrying value
Computer packages - internally generated	9 131 416	(8 734 266)	397 150
Uniform design - purchased	850 000	(850 000)	-
Total	**9 981 416**	**(9 584 266)**	**397 150**

Reconciliation of intangible assets - 2016

	Opening balance	Total
Computer packages - internally generated	-	-

Reconciliation of intangible assets - 2015

	Opening balance	Amortisation	Total
Computer packages - internally generated	397 150	(397 150)	-

Reconciliation of intangible assets - 2014

	Opening balance	Additions	Transfers	Amortisation	Total
Computer packages - internally generated	762 826	68 104	1 832 286	(2 266 066)	397 150
Uniform design - purchased	325 833	-	-	(325 833)	-
	1 088 659	68 104	1 832 286	(2 591 899)	397 150

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

5. Deferred tax

Deferred tax liability

The deferred tax assets and the deferred tax liability relate to income tax in the same jurisdiction, and the law allows net settlement.

Therefore, they have been offset in the statement of financial position as follows:

	2016	2015	2014
Deferred tax asset	183 932 639	195 256 048	170 240 678

Reconciliation of deferred tax asset / (liability)

	2016	2015	2014
At beginning of year	195 256 048	170 240 678	159 122 113
Adjustment of deferred tax asset not previously raised	-	(1 259 269)	15 032 403
Taxable/(deductible) temporary difference movement on fixed assets	15 404 649	(2 933 510)	(72 442 134)
Originating temporary difference on accrual of interest on tax	-	2 677 830	(827 579)
(Originating)/Reversing difference on amounts received in advance	(4 480 000)	30 013 872	-
Originating temporary difference on assessed loss	(14 709 468)	18 912 153	72 704 864
Originating/(reversing) temporary difference on maintenance reserve	(14 742 685)	(27 078 961)	-
Taxable/(deductible) temporary difference on provisions	21 168 933	17 908 588	8 956 759
Taxable/(deductible) temporary difference on intangible assets	(39 200)	(661 543)	(468 908)
Taxable/(deductible) temporary difference on prepayments	(13 925 638)	(12 563 790)	(11 836 840)
	183 932 639	**195 256 048**	**170 240 678**

Recognition of deferred tax asset

An entity shall disclose the amount of a deferred tax asset and the nature of the evidence supporting its recognition, when:

- the utilisation of the deferred tax asset is dependent on future taxable profits in excess of the profits arising from the reversal of existing taxable temporary differences; and
- the entity has suffered a loss in either the current or preceding period in the tax jurisdiction to which the deferred tax asset relates. A deferred tax asset has been recognised in the current year as future taxable profits will be available against which the deferred tax asset will be utilised. This is based on forecasts prepared by Management, which show that the Company will make taxable profits in the future. Based on the Company's 20/20 Strategy, the funding plan and Whole of State Strategy, the Company will be making taxable income that will be utilised against the assessed loss.

6. Inventories

Reconciliation of intangible assets - 2015

	2016	2015	2014
Inventories	172 309 376	128 511 547	175 178 302
	172 309 376	**128 511 547**	**175 178 302**

In the prior year, an exercise was performed to correct the valuation issues surrounding inventories this resulted in an impairment of R63 039 872. This adjustment is reflected under impairment of assets. Inventories are shown at the valuation after taking into account the impairments. During the current year the impairment amounted to R596 575.

7. Loans to directors, managers and employees

The Company did not issue any loans to Directors, managers or employees.

8. Trade and other receivables

	2016	2015	2014
Aircraft restoration costs	337 188 596	287 860 031	254 763 621
Deposits	32 906 420	32 906 420	29 644 603
Employee costs in advance	3 575 114	5 582 310	6 179 110
Maintenance reserves	263 516 645	210 864 199	84 610 710
Provision: Maintenance reserves write-down	(92 190 189)	(76 950 770)	(47 407 855)
Prepayments	31 068 339	32 031 626	20 502 046
Trade receivables	404 887 620	401 445 908	457 665 830
Value added taxation	-	3 667 401	19 387 827
	980 952 545	**897 407 125**	**825 345 892**

Trade and other receivables pledged as security

The maximum exposure to credit risk at the reporting date is the fair value of each class of loan mentioned above. The Company does not hold any collateral as security.

Trade and other receivables past due but not impaired

The ageing of amounts past due but not impaired is as follows:

	2016	2015	2014
1 month past due	-	2 507 671	1 823 267
2 months past due	-	426 131	-
3 months past due	1 213 858	12 586 450	793 215

Trade and other receivables impaired

As of 31 March 2016, trade and other receivables of R 5 016 846 (2015: R 1 937 893 ; 2014: R 1 788 345) were impaired and provided for.

Prepayments

Prepayments for aircraft restoration costs relate to restoration costs for leased aircraft, these are paid to Pratt & Whitney Canada Corp, as per the contract with them, who will perform the maintenance as required.

	2016	2015	2014
Aircraft restoration costs	337 188 596	287 860 031	254 763 621
	337 188 596	**287 860 031**	**254 763 621**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

Maintenance reserves

Maintenance reserves are payments made to certain lessors in terms of the aircraft lease contract. The lessors are contractually obligated to reimburse the Company for the qualifying maintenance expenditure incurred on aircraft if the Company has a maintenance reserve credit. Maintenance reserves are recognised as an asset. The recoverability of the asset is assessed annually against the entity's ability to claim against future maintenance events. Where it is deemed that the entity will be unable to claim for a future maintenance event, the maintenance reserve payments are expensed accordingly. During the current year, after agreement of the accounting opinion with the auditors, maintenance reserves were confirmed directly with the lessor. The confirmation resulted in a write up of maintenance reserves of R77 787 361 in the prior year.

	2016	2015	2014
Opening balance - maintenance reserve asset	210 864 200	84 610 711	81 610 768
Claims paid by lessor	(20 956 789)	(1 579 650)	-
Restatement	-	(77 787 361)	-
Aircraft returned	(32 888 244)	-	(68 234 774)
Paid to lessors	106 497 478	205 620 499	71 234 717
Closing balance - maintenance reserve asset	263 516 645	210 864 200	84 610 711
Provision for maintenance reserve	(92 190 189)	(76 950 770)	(47 407 855)
	171 326 456	**133 913 429**	**37 202 856**

9. Cash and cash equivalents

Cash and cash equivalents consist of: Cash and cash equivalents consist of:

	2016	2015	2014
Cash on hand	73 332	72 934	73 017
Bank balances	8 091 431	23 848 711	2 906 119
Bank overdraft	(65 344 540)	-	(99 033 675)
	(57 179 777)	**23 921 645**	**(96 054 539)**
Current assets	8 164 763	23 921 645	2 979 136
Current liabilities	(65 344 540)	-	(99 033 675)
	(57 179 777)	**23 921 645**	**(96 054 539)**

	2016	2015	2014
The total amount of undrawn facilities available for future operating activities and commitments	58 760 990	92 101 400	20 444 825

The overdraft facility of R116 000 000 is secured by a guarantee from the Shareholder.

Facilities available with Nedbank Limited	
Letters of credit	20 000 000
Letters of guarantee	4 000 000
Term facility loan	300 000 000
	324 000 000

Facilities available with First National Bank Limited	
Direct working capital	116 000 000
Consulting ST	150 000
Consulting LT	39 850 000
Presettlement	10 000 000
Settlement	32 000 000
	198 000 000

10. Share capital

	2016	2015	2014
Authorised			
1000 Ordinary shares of R1 each	1 000	1 000	1 000
	1 000	**1 000**	**1 000**

	2016	2015	2014
Issued			
452 Ordinary shares of R1 each	452	452	452
Share premium	501 837 066	501 837 066	501 837 066
	501 837 518	**501 837 518**	**501 837 518**

11. Shareholder Loan

Capital reserves comprise of an interest free loan from the Shareholder (Department of Public Enterprises), where the Company has no contractual obligation to deliver cash or another financial asset to the Shareholder. The instrument will or may be settled in the issuer's own equity instrument, if ever called upon.

A perpetual guarantee of R121 000 000 has been received from the Shareholder to ensure that the Company remains solvent.

	2016	2015	2014
Shareholder loan - Department of Public Enterprises	356 954 972	356 954 972	356 954 972
	356 954 972	**356 954 972**	**356 954 972**

12. Other financial liabilities

	2016	2015	2014
Held at amortised cost			
Nedbank Limited The loan agreement expired on 31 March 2015. During the current financial year, extensions were granted on the loan on a bimonthly basis at rates agreed upon at the time of the extension.	300 000 000	300 000 000	300 000 000
	300 000 000	**300 000 000**	**300 000 000**
Non-current liabilities			
At amortised cost	-	-	200 000 000
Current liabilities			
At amortised cost	300 000 000	300 000 000	100 000 000
	300 000 000	**300 000 000**	**300 000 000**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

13. Provisions

Reconciliation of provisions - 2016

	Opening balance	Additions	Total
Aircraft restoration	296 469 289	52 808 131	349 277 420

Reconciliation of provisions - 2015

	Opening balance	Additions	Total
Aircraft restoration	254 763 621	41 705 668	296 469 289

Reconciliation of provisions - 2014

	Opening balance	Additions	Total
Aircraft restoration	159 319 046	95 444 575	254 763 621

The provision for aircraft restoration relates to estimated restoration costs that the Company is expected to carry out during the term of the lease contract and also at the end of the operating lease. The Company has entered into a contract with Pratt and Whitney, who will perform the required maintenance of the aircraft. There is no expected reimbursement in respect of this provision.

The costs during the term of the lease contract are dependant on flight hours which causes uncertainty as to the timing of the outflow.

14. Neutrality advance

The determination of the pre-payment to South African Express Airways is adjusted quarterly to provide cash neutrality to both South African Airways and South African Express Airways, to compensate the Company for the loss of interest and cash flow impact caused by the delay in receiving revenue.

Reconciliation of neutrality advance	2016	2015	2014
Opening balance	234 459 314	177 266 915	177 266 915
Received during the year	34 000 000	57 192 399	-
	268 459 314	**234 459 314**	**177 266 915**

At March 2016, an addition amount of R5 049 925 was due to South African Express Airways. This amount was received in May 2016.

15. Trade and other payables

	2016	2015	2014
Accrued expense - employee costs	8 045 726	9 542 589	9 293 105
Accrued expense - lease smoothing	82 394 751	76 775 282	54 676 679
Accrued interest	3 825 395	832 513	2 716 903
Accrued leave pay	14 469 266	14 842 168	14 352 272
Grants and subsidies	-	50 000 000	-
Passenger service charge	4 179 170	1 971 514	4 438 274
Trade payables	586 591 701	647 841 148	720 762 297
Value added taxation	28 726 697	-	-
Workmens compensation fund	525 904	1 541 596	1 636 267
	728 758 610	**803 346 810**	**807 875 797**

16. Revenue

	2016	2015
Cargo revenue	15 561 752	16 449 890
Passenger revenue	2 279 993 092	2 500 590 450
Release of unutilised air traffic liability to revenue	77 671 590	58 756 588
Voyager revenue	18 041 583	18 215 787
	2 391 268 017	**2 594 012 715**

17. Other income

	2016	2015
Insurance and other recoveries	21 569 409	3 814 701
Sundry income	115 762 608	176 924 784
	137 332 017	**180 739 485**

18. Operating profit (loss)

Operating profit (loss) for the year is stated after accounting for the following:

	2016	2015
Operating lease charges		
Premises		
→ Contractual amounts	13 904 555	13 263 437
Motor vehicles		
→ Contractual amounts	2 198 145	1 923 135
Equipment		
→ Contractual amounts	8 269 009	9 003 083
Aircraft		
→ Contractual amounts	365 265 984	336 344 097
	389 637 693	**360 533 752**
Employee costs	561 336 026	589 650 726
Commission paid	36 640 247	90 422 226
Consumables	35 995 477	62 793 402
Penalties	20 670 481	23 847 888
Insurance	21 203 409	16 767 911
Navigation, landing and parking	209 067 392	237 126 820
Network charges	136 192 484	124 427 489
Petrol and oil	400 989 787	603 029 757
Ground handling	80 461 308	121 526 896
Repairs and maintenance	208 508 222	205 845 835
Training	27 621 596	33 528 009
Voyager bonus miles	29 929 857	23 097 679

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

19. Investment revenue

	2016	2015
Interest revenue		
Bank	771 441	7 122 773
	771 441	**7 122 773**

Total interest income, calculated using the effective interest rate, on financial instruments not at fair value through profit or loss amounted to R 771 441 (2015: R 7 122 773).

20. Fair value adjustments

	2016	2015
Foreign exchange revaluations	(36 463 576)	(10 359 711)
	(36 463 576)	**(10 359 711)**

21. Impairment of assets

	2016	2015
Material impairment losses (recognised) reversed		
Property, plant and equipment	(4 821 786)	-
During May 2015, an aircraft was damaged. The aircraft has not flown since date of damage.		
Inventory write downs and opening balance adjustment	6 719 368	(62 163 942)
In the prior year an exercise was performed to correct the valuation issues surrounding inventories this resulted in a write down of R62 163 940.65.		
Provision for maintenance reserve	(15 239 420)	(62 171 541)
Possible impairment of maintenance reserves.		
Write down of maintenance reserves		
During the current year two of the leased aircraft were returned to the lessor, the maintenance reserves on these aircraft will be unrecoverable.	(32 888 244)	-
	(46 230 082)	**(124 335 483)**

22. Proceeds on sale of assets

2016	Net Book Value	Accounting profit/(loss)
Motor vehicles	-	100 000
Rotables	3 358 838	(3 358 838)
	3 358 838	**(3 258 838)**

2015	Net Book Value	Accounting profit/(loss)
Rotables	1 787 730	7 390 843
Consumables	-	3 593 342
	1 787 730	**10 984 185**

23. Finance costs

	2016	2015
Non-current borrowings	29 312 645	28 624 060
Interest paid on late payment	10 788 240	1 502 854
	40 100 885	**30 126 914**

Total interest expense, calculated using the effective interest rate, on financial instruments not at fair value through profit or loss amounted to R 40 100 885 (2015: R 30 126 914).

23. Taxation

Major components of the tax (income) expense

	2016	2015
Deferred		
Deferred taxation - current year	11 323 409	(25 015 370)
	11 323 409	**(25 015 370)**

Reconciliation of the tax expense

Reconciliation between applicable tax rate and average effective tax rate.

	2016	2015
Applicable tax rate	28.00 %	28.00 %
Permanent differences	9.69 %	0.35 %
Capital gains tax	- %	(0.52)%
Prior year over/under	- %	(1.33)%
	37.69 %	**26.50 %**

The estimated tax loss available for set off against future taxable income isR(783 477 478) (2015: R 796 462 196 ; 2014: R713 653 415).

25. Auditors remuneration

	2016	2015
External auditors	4 091 369	2 117 882
Internal auditors	1 277 196	1 239 410
	5 368 565	**3 357 292**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

26. Cash generated from operations

	2016	2015
(Loss) profit before taxation	28 279 585	(94 405 078)
Adjustments for:		
Depreciation and amortisation	115 997 774	123 536 212
Interest received - investment	(771 441)	(7 122 773)
Finance costs	40 100 885	30 126 914
Foreign exchange revaluation	11 151 359	7 547 308
Movements in provisions	52 808 131	41 705 668
Amorisation of training bonds	1 958 498	4 052 767
Non cash flow movement - transfer of property, plant and equipment	(4 091 453)	1 265 295
Impairment of property, plant and equipment	4 821 786	-
Non cash flow movement - maintenance reserves	48 127 664	62 171 542
Non cash movement - rotable and consumable valuation	(6 719 368)	62 163 941
Non cash flow movement - sundry income	-	(21 062 740)
Changes in working capital:	(37 078 461)	(15 497 186)
Inventories	(144 782 942)	(145 832 850)
Trade and other receivables	(74 588 200)	(4 528 989)
Trade and other payables	**35 213 817**	**44 120 031**

27. Tax refunded

	2016	2015
Balance at beginning of the year	-	75 410 097
	-	**75 410 097**

28. Commitments

Operating leases – as lessee (expense)

	2016	2015
Minimum lease payments due		
- within one year	260 495 358	282 785 726
- in second to fifth year inclusive	843 133 160	889 571 747
- later than five years	126 468 041	324 004 565
	1 230 096 559	**1 496 362 038**

South African Express Airways has entered into various lease agreements with third parties in respect of aircraft and premises for its day to day operations. The lease periods on aircraft range from three to five years and one to five years on buildings.

29. Contingencies

South African Express Airways (SOC) Limited has taken out the following guarantees with First National Bank in order to provide assurance should they default with regards to certain terms with the contracts signed:

	2016	2015
Airports Company of South Africa	110 822	110 822
Commissioner for Customs and Excise	275 000	275 000
Richards Bay Airport Company (Proprietary) Limited	2 320 360	1 700 516
Canadian Regional Aircraft Finance Transaction	13 232 128	10 870 720
Computershare	-	3 057 390
Lighthouse	7 088 640	5 823 600
Air Traffic Navigation Services Limited	9 950 000	9 950 000
Brit Air	-	18 926 700
Bombardier	22 152 000	18 198 750
SAN Parks	-	-
SAF CRJ-200LR	3 721 536	-
	58 850 486	**68 913 498**

South African Express Airways (SOC) Limited has taken out the following guarantees with Nedbank Limited in order to provide assurance should they default with regards to certain terms within the contracts signed:

	2016	2015
Q400 Leasing (SOC) Limited	20 000 000	20 000 000

30. Related parties

Relationships

• ***Holding company***
Department of Public Enterprises on behalf of the South African Government, incorporated in accordance with the Companies Act of the Republic of South Africa

• ***Significant third party***
South African Airways SOC Limited
Denel SOC Limited SAA Technical (Proprietary) Limited SAA Cargo (Proprietary) Limited Airchefs (Proprietary) Limited

• ***Members of key management***
- I Ntshanga
- M Shelley
- D Allanby
- K Nkala
- M Mochele
- P Mashaba (Resigned)
- B van Wyk

Nature of relationships

South African Airways (SOC) Limited and Denel (SOC) Limited are state owned companies and therefore have the same shareholders as South African Express Airways (SOC) Limited. South African Airways (SOC) Limited holds 100 % shareholding in Airchefs (Proprietary) Limited, SAA Cargo (Proprietary) Limited and SAA Technical (Proprietary) Limited.
Other related parties include other entities which are owned or operated by the Shareholder.

Terms of related party receivables

South African Airways SOC Limited

Payment in respect of flown revenue and relevant levies and taxes for the given month of operation shall be transferred by direct bank deposits on the 18th of each month following the month of operation, and if this falls over a weekend, the transfer is to take place on the following Monday.

South African Airways Cargo (Proprietary) Limited

Payment in respect of cargo revenue is due 30 days from date of invoice.

Terms of related party payables South African Airways SOC Limited - Fuel

Any amounts payable by South African Express to South African Airways SOC Limited shall be invoiced weekly covering all supplier invoices processed, and settlement shall be effected within 17 days from date of invoice delivery.

Airchefs (Proprietary) Limited

South African Express SOC Limited shall effect payment to Airchefs (Proprietary) Limited within 30 days after receipt of the original invoice and statement.

Denel SOC Limited

The capital sum shall bear interest at 8.5 % per annum, compounded monthly and calculated on the reducing balance outstanding from time to time. South African express airways SOC Limited shall pay the capital sum together with the interest accrued from time to time in six instalments.

South African Airways Cargo (Proprietary) Limited

Payment will be effected by South African Express to SAA Cargo, 30 days from the date of the original invoice and statement.
South African Airways Technical (Proprietary) Limited Payment will be effected by South African Express to SAA Technical, 30 days from the date of the original invoice and statement.

Key management

Key management includes the Executive Directors and the Executive management team. Refer to emoluments note

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

Related party balances

	2016	2015
Amounts included in Trade receivable (Trade Payable) regarding related parties		
South African Airways SOC Limited	269 745 285	274 699 850
South African Airways Cargo (Proprietary) Limited	1 325 788	1 575 198
South African Airways SOC Limited	(105 741 211)	(160 067 456)
South African Airways Technical (Proprietary) Limited	(14 640 425)	(10 894 308)
South African Airways Cargo (Proprietary) Limited	(265 989)	(105 082)
Airchefs (Proprietary) Limited	(2 944 057)	(17 439 341)
Denel SOC Limited	(582 727)	(1 037 416)
Other related parties	191 664 035	92 804 001
Neutrality advance owing (to)by related parties		
South African Airways SOC Limited	(268 459 314)	(234 459 314)

Related party transactions

	2016	2015
Purchases from (sales to) related parties		
South African Airways SOC Limited	(2 375 706 265)	(2 577 562 825)
South African Airways Cargo (Proprietary) Limited	(15 561 752)	(16 449 890)
Denel SOC Limited	3 471 111	2 855 481
Airchefs (Proprietary) Limited	14 170 096	47 199 702
South African Airways SOC Limited	777 833 837	321 390 073
South African Airways Cargo (Proprietary) Limited	1 614 806	716 610
South African Airways Technical (Proprietary) Limited	15 746 116	15 767 098
Other related parties	512 723 282	535 421 332

31. Directors' emoluments

Executive

2016

	Emoluments	Other benefits*	Pension paid or receivable	Total
I. Ntshanga	2 240 045	118 257	59 674	2 417 976
M. Shelley	1 427 157	135 919	36 923	1 599 999
	3 667 202	**254 176**	**96 597**	**4 017 975**

2015

	Emoluments	Other benefits*	Pension paid or receivable	Total
I. Ntshanga	2 243 619	113 908	60 449	2 417 976
Z. Ngwenya	1 011 510	-	-	1 011 510
M. Shelley	233 768	8 799	6 154	248 721
	3 488 897	**122 707**	**66 603**	**3 678 207**

Non-executive

2016

	Directors' fees	Total
G. Mothema	796 928	796 928
B. Dibate	397 568	397 568
B. Ssamula	89 250	89 250
E. Mabyana	62 521	62 521
G. Sibiya	311 469	311 469
K. Nondumo	31 445	31 445
N. Gxumisa	41 635	41 635
N. Nkabinde	276 116	276 116
P. Ramosebudi	298 908	298 908
R. Naithani	252 976	252 976
T. Abrahams	280 790	280 790
	2 839 606	**2 839 606**

2015

	Directors' fees	Total
G. Mothema	250 084	250 084
A. Mabizela	624 811	624 811
B. Dibate	326 545	326 545
B. Ssamula	342 688	342 688
E. Mabyana	250 084	250 084
G. Sibiya	262 312	262 312
K. Nondumo	326 545	326 545
N. Gxumisa	178 188	178 188
N. Mosimane	**2 561 257**	**2 561 257**

Executive management

2016

	Emoluments	Other benefits	Pension paid or receivable	Total
B. van Wyk	1 247 782	81 847	31 409	1 361 038
D. Allanby	1 581 382	112 800	81 977	1 776 159
K. Nkala	1 107 922	27 024	26 810	1 161 756
M. Mochele	1 103 315	88 993	57 692	1 250 000
P. Mashaba	1 396 718	72 205	71 077	1 540 000
	6 437 119	**382 869**	**268 965**	**7 088 953**

2015

	Emoluments	Other benefits	Pension paid or receivable	Total
B. van Wyk	1 257 812	71 817	31 409	1 361 038
D. Allanby	1 581 100	113 082	81 977	1 776 159
K. Nkala	1 107 923	27 023	26 810	1 161 756
M. Mochele	1 105 163	87 145	57 692	1 250 000
P. Mashaba	1 526 918	120 826	32 256	1 680 000
W. Hermanus	1 809 454	72 935	52 659	1 935 048
	8 388 370	**492 828**	**282 803**	**9 164 001**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

32. Prior period errors

During the current year, it was identified that the depreciation on a number of leased assets was incorrect. The depreciation was corrected to ensure that the asset will be fully depreciated on conclusion of the lease agreement.

An error was identified on the intergroup debtor account. This account is used as a clearing account and should be nil.

Sundry creditors has been corrected to ensure amounts have been allocated to the correct accounts. Amounts have been left in this account until they could be correctly allocated.

Prior period errors are a result of misstatements not picked up in the prior year, were identified in the current year. These errors relate to maintenance reserve assets. A number of issues were identified, firstly, there was a recovery of amounts previously provided for as doubtful and secondly, capitalisation of the reserves which were attached to an aircraft on receipt and subsequently paid to South African Express as the current lessee. Further adjustments were made to agree the maintenance account to confirmations obtained from the lessors as well to provide for the return of aircraft before maintenance can be conducted. Adjustments to the tax balance is as a result of these adjustments.

The correction of the error(s) results in adjustments as follows:

	2015
Statement of Financial Position	
Property, plant and equipment	7 552 773
Maintenance reserve asset	98 656 463
Provision: Maintenance reserves	(29 542 914)
Intergroup debtors	2 518 561
Opening retained earnings	3 885 637
Deferred tax	(26 370 825)
Sundry creditors	6 268 234
Profit or Loss	
Depreciation expense	9 624 332
Sundry income	(165 482 349)
Deferred taxation	26 370 825
Revenue	(2 518 561)
Impairment of assets	62 171 542
Commission paid	7 927 423
Repairs and maintenance	(1 061 141)

33. Risk management

Capital risk management

The company's objectives when managing capital are to safeguard the company's ability to continue as a going concern in order to provide returns for shareholder and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the company consists of debt, which includes the borrowings (excluding derivative financial liabilities)disclosed in notes 12 cash and cash equivalents disclosed in note 9, and equity as disclosed in the statement of financial position.

In order to maintain or adjust the capital structure, the company may adjust the amount of dividends paid to the shareholder, return capital to the shareholder, issue new shares or sell assets to reduce debt. Consistent with others in the industry, the company monitors capital on the basis of the gearing ratio.

This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the statement of financial position) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the statement of financial position plus net debt. There company has an obligation to maintain equity in excess of R1 billion as per the financial institution covenants (refer to the Directors report, going concern paragraph).

There have been no changes to what the entity manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

Financial risk management

The company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.
The company's current policy is to not hedge its financial risks. Risk management is carried out by a central treasury department (company treasury) under policies approved by the board. The board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments, and investment of excess liquidity.

Liquidity risk

The company's risk to liquidity is a result of the funds available to cover future commitments. The company manages liquidityrisk through an ongoing review of future commitments and credit facilities.

The table below analyses the company's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 31 March 2016

	Less than 1 year
Borrowings	300 000 000
Trade and other payables	728 758 610
Neutrality advance	268 459 314

At 31 March 2015

	Less than 1 year
Borrowings	300 000 000
Trade and other payables	803 346 810
Neutrality advance	234 459 314

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The company only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Foreign exchange risk

The company does not hedge foreign exchange fluctuations.

South African Express Airways SOC Limited has both revenue and expenditure that is foreign currency denominated and this provides a natural hedge. The currency received is kept as a CFC account until required for payment or when the exchange rate is beneficial to convert to Rand. A 10% imovement in the ZAR/USD exchange rate will have an impact of approximately R100 million on both revenue and costs.

Fuel cost is dollar driven and this risk is mitigated by the fact that the fuel levy is also linked to the dollar exchange rate.

SA Express does not hold foreign assets or liabilities, so the impact will be to the income statement only, as all expenses that relate to FMP's are translated at transaction date and reported in ZAR. Creditors for expenses are translated at spot on date of transaction, and if unpaid, revalued to closing rate at each month end.

Foreign currency exposure at the end of the reporting period

	2016	2015
Current assets		
Trade and other receivables	948 046 125	864 500 705
Cash on hand	8 164 763	23 921 645
Deposits	32 906 420	32 906 420
Liabilities		
Trade payables	728 758 610	803 346 810

Exchange rates used for conversion of foreign items were:

	2016	2015
USD at financial year end	14.7680	12.1325
USD - average for the financial year	13.48	11.07

The company reviews its foreign currency exposure, including commitments on an ongoing basis.

NOTES TO THE ANNUAL FINANCIAL STATEMENTS (continued)

34. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The directors believe that the company has adequate financial resources to continue in operation for the foreseeable future and accordingly the annual financial statements have been prepared on a going concern basis. The directors have satisfied themselves that the company is in a sound financial position and that it has access to sufficient borrowing facilities to meet its foreseeable cash requirements. The directors are not aware of any new material changes that may adversely impact the company. The directors are also not aware of any material non-compliance with statutory or regulatory requirements or of any pending changes to legislation which may affect the company. We draw attention to the fact that at 31 March 2016, the company had accumulated losses of R (726 917 609).

Briefly, below are some of the factors that the Directors considered for the period March 2016 to March 2017 extended for the twelve months ended March 2018, to ensure that the going concern assumption is appropriate:

- The Company was granted an extension on the existing guarantee of R539 million, relating to convenant breaches and working capital as well as an additional guarantee of R567 million, for the further working capital and asset based finance facilities. The guarantee was reduced by R100 million in March 2016 in line with the conditions attached to the guarantee The guarantee was reduced further by R58 million in Febraury 2017. In March 2017, approval was obtained to utilise the R121 million perpetual guarantee. The amortisation period was also extended from five years to 7 years;
- Negotiations have been and continue to be held with funders;
- No legislative, regulatory or policy changes that negatively affect and impact the Company have been made;
- The Company has made significant cost savings and further cost containment measures are expected to be made in the foreseeable future;
- No suppliers have withdrawn their support to the Company;
- The Company's liquidity requirement is assessed by assessing the cash required by the company against the cash and funding available. The Company will still have access to cash to be sufficiently liquid; and
- The Company has positive equity indicating the Company is solvent. Positive equity is driven by the raising of long term funding of R121 million, profits for the year and the reduction of capital expenditure.

Further to the above points, the Company's going concern status is also informed by its strategy called SAX 20/20, the funding plan and the long-term turnaround strategy that has been implemented.

The ability of the company to continue as a going concern is dependent on a number of factors. The most significant of these is that the directors continue to procure funding for the ongoing operations for the company.

35. Events after the reporting period

The Airline's operating certificate was temporarily suspended by the South African Civil Aviation Authority on 30 April 2016 as it was deemed that the quality assurance systems were inadequate. The temporary suspension was lifted on 1 May 2016 after clarity discussions with the Civil Aviation Authority and the submission of all requested documentation to provide comfort that all systems were adequate and in place. Corrective actions have been implemented to ensure that this will not happen in future.

Mr Ntshanga resigned as Chief Executive Officer on 31 March 2017, Mr Xaba was appointed as acting Chief Executive Officer. On 27 March 2017, the Company was given approval to utilise the R121 million perpetual guarantee and the repayment of the guarantee extended to the end of March 2023.

The Directors are not aware of any other material event which occurred after the reporting date and up to the end of this report.

36. Non consolidation of trusts

South African Express SOC Limited is a capital and income beneficiary of two special purpose vehicles.

SAX Partnership Trust: A resolution was passed in December 2014 to dissolve this trust. Documentation has been submitted to the Master of the High Court to inform them of this resolution. At the date of the resolution, the projected net asset value of the trust was paid to South African Express SOC Limited. The trust will remain dormant until confirmation of its dissolution has received from the Master of the High Court.

SAX Number 1 Trust: A resolution was passed in December 2014 to dissolve this trust. Documentation has been submitted to the Master of the High Court to inform them of this resolution. At the date of the resolution, the projected net asset value of the trust was RNil. The trust will remain dormant until confirmation of its dissolution has been received from the Master of the High Court.

37. Fruitless and wasteful expenditure

	2016	2015
Penalties for late payments	19 834 083	6 612 317
Interest on late payments	10 788 240	17 091 015
Amounts not recoverable	(30 622 323)	(23 703 332)
	-	-

Fruitless and wasteful expenditure for the year is not recoverable as they are due to interest and penalties on late payments, as a result of the cash flow problems experienced during the year.

38. Irregular expenditure

	2016	2015	2014
Total irregular	35 676 924	20 035 813	91 199 361
Condoned	-	(16 851 517)	-
Closing balance	35 676 924	3 184 296	91 199 361
Not recoverable	(362 299)	(3 184 296)	(449 104)
Condoned (30 May 2016)	(18 716 186)	-	(90 750 257)
	16 598 439	-	-

During the current year, the irregular expenditure for the 2013/2014 year end was reassessed for accuracy and completeness. The committee responsible for the review of these costs ensured that all these goods and services were received and had satisfactory explanations as to why they occurred, and that no fraudulent nor wasteful transactions were incurred in the above list.

Details of irregular expenditure condoned - Current year

Expired contracts

During the current year, expenses that were incurred on expired contracts were identified. This was as a result of ineffective contract management and the deficiencies are being dealt with to prevent further irregular expenditure. The irregular expenditure was been condoned by the appropriate authority. No disciplinary action has been taken as this was as a result of a control deficiency and cannot be traced to a specific individual. 7 062 464

Procurement procees not followed

During the current year, it was necessary to obtain short term leases for aircraft to met operating requirements. It was not possible to follow procument processes due to the timing constraints involved. The irregular expenditure was condoned by the appropriate authority after year end. No disciplinary action was taken as the cause of the irregular expenditure is not attributable to a specific individual 8 871 040

Deficiencies in procurement processes

During the year a number of expenses were identified were the procurement process was not followed in its entirity. The irregular expenditure was condoned by the appropriate authority after year end. No disciplinary action has been taken as the cause of the irregular expenditure is not attributable a specific individual. 2 791 895

Details of irregular expenditure not condoned and not recoverable - current year

Deficiencies in procurement process

During the year a number of expenses were identified where the procurement process was not followed in its entirity. No motivations or deviation requests were received for these items and could therefore not be condoned by the appropriate authority. Although the procurement process was not followed correctly, the expenditure was incurred for valid expenses and will therefore not be recovered from a specific individual. Appropriate disciplinary action will be taken to ensure the processes are followed in future. 362 299

Details of irregular expenditure still under investigation

During the year a number of expenses were identified were the procurement process was not followed in its entirity. Investigations are underway to identify the reasons for this irregular expenditure before it can be condoned by the appropriate authority. Once investigations are complete, appropriate action will be taken against the responsible individuals. 16 598 439

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